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UK may take out 100-year loans

Press Association, Monday March 12 2012



UK news

Chancellor George Osborne will use next week's Budget to launch a consultation on plans to issue "super-long" gilts which do not have to be paid off for many decades - or even perpetual gilts, on which the capital is never repaid, but interest continues to be charged for ever.

The move would mean that children not yet born will continue to pay interest throughout their lives on debts racked up during the financial crisis of 2008/09.

But the Chancellor believes it will benefit future generations by "locking in" low interest rates on a proportion of the UK's national debt, reducing refinancing costs and insulating Britain from some of the risk of future market instability.

Britain last issued perpetual gilts at the end of the First World War, rolling over some of the war debt incurred during hostilities. These debts - as well as some issued to pay for the 18th century South Sea Bubble - are still held by the Treasury, but inflation has reduced them to negligible significance over the decades.

The UK already issues long-term bonds of up to 50 years - double the length of those of many other European states. The option of loans with an even longer maturity is attractive to the Treasury because Britain's "safe haven" status during the current financial turmoil has brought gilt yields down as low as 2%, making borrowing cheaper than it has been for more than a century.

A Treasury source said: "This is about locking in for the future the tangible benefits of the safe haven status we have today. The prize is lower debt interest payments for taxpayers for decades to come. It is a chance for our great-grandchildren to pay less than they could otherwise have expected to because of this Government's fiscal credibility."

The independent Office for Budget Responsibility is expected to release figures next week indicating that a rise of just 1% in gilt yields would increase the burden on the taxpayer of financing the UK's debt by a total of £20 billion over the years to 2016/17.

The super-long gilt plan is an unexpected feature of a March 21 Budget whose final details are still being thrashed out by the Conservative and Liberal Democrat sides of the coalition.

After making good progress at a meeting on Monday, the "Quad" of Mr Osborne, David Cameron, Deputy Prime Minister Nick Clegg and Treasury Chief Secretary Danny Alexander, are expected to gather again to finalise plans after the Prime Minister returns from the USA on Friday. The Chancellor is flying home early from the States on Thursday to continue work on the Budget.

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