

LONG-TERM INTEREST RATES

Long-term interest rates are one of the determinants of business investment. Low long-term interest rates encourage investment in new equipment and high interest rates discourage it. Investment is, in turn, a major source of economic growth.

Definition

Long-term interest rates as measured here refer to government bonds with a residual maturity of about ten

Overview

During the seventies and early eighties, high inflation rates saw long-term interest rates reach very high records. These rates peaked in 1981 for most OECD countries (for example, French government bonds reached 16.3%) but since then, rates have consistently and gradually decreased to hit historic low levels in 2012. German government bonds bottomed at 1.5% in 2012 with the United States' and the United Kingdom's 10-year bond rates recording 1.9% and 1.8%, respectively, for 2012. To be precise, in between 1981 and 2012 there were some moderate increases, as before the German reunification in 1989-1990 or before the Asian financial crisis in 1997-98, or even before the 2007 global financial crisis. However, these moderate changes in momentum do not dampen the overall general downward trend that long-term bond yields have displayed since 1981.

From the end of the nineties to the 2007 global financial crisis, using German government bonds as the benchmark, the spread for 10-years bonds of European countries was small (around 0.1%). However after 2008, and as Greece, Ireland and Portugal were hard hit by the financial crisis, these countries saw their debt not being considered as secure as German debt, and as a consequence their long-term interest rates rose to face the risk of default. The spread increased also for Italy and Spain but to a lesser extent.

Irish bond yields surged to 10.85% in mid-2011, but have decreased since this date. On 29 November 2010, the Irish government received a financial assistance package from the European Central Bank and the IMF to help its economy. In July 2011, the European Central Bank agreed to cut the interest rate and to extend the maturity on EU official loans to Ireland, helping Ireland to reduce its debt and improve its financial sustainability.

Japan and Switzerland remain the OECD countries with the lowest long-term interest rates, and both countries have seen their rates fall below 1% in 2012, with Switzerland recording a long-term interest rate of 0.65% and Japan not far above at 0.84% for the 2012 year.

years. They are not the interest rates at which the loans were issued, but the interest rates implied by the prices at which these government bonds are traded on financial markets. For example if a bond was initially bought at a price of 100 with an interest rate of 9%, but it is now trading at a price 90, the interest rate shown here will be 10% ($(9/90) \times 100$).

The long-term interest rates shown are, where possible, averages of daily rates. In all cases, they refer to bonds whose capital repayment is guaranteed by governments.

Long-term interest rates are mainly determined by three factors: the price that lenders charge for postponing consumption; the risk that the borrower may not repay the capital; and the fall in the real value of the capital that the lender expects to occur because of inflation during the lifetime of the loan. The interest rates shown here refer to government borrowing and the risk factor is assumed to be very low. To an important extent the interest rates in this table are driven by expected inflation rates.

Comparability

Comparability of these data is considered to be high. There may be differences, however, in the size of these government bonds outstanding, and in the extent to which these rates are representatives of financial conditions in various countries.

Sources

- OECD (2013), *Main Economic Indicators*, OECD Publishing.

Further information

Analytical publications

- OECD (2013), *OECD Economic Outlook*, OECD Publishing.
- OECD (2013), *OECD Journal: Financial Market Trends*, OECD Publishing.
- OECD (2013), *OECD Sovereign Borrowing Outlook*, OECD Publishing.
- OECD (2008), *Understanding Economic Statistics: An OECD Perspective*, OECD Publishing.

Methodological publications

- OECD (1998), *Main Economic Indicators – Sources and Methods: Interest Rates and Share Price Indices*, OECD Publishing.

Websites

- Main Economic Indicators, www.oecd.org/std/mei.



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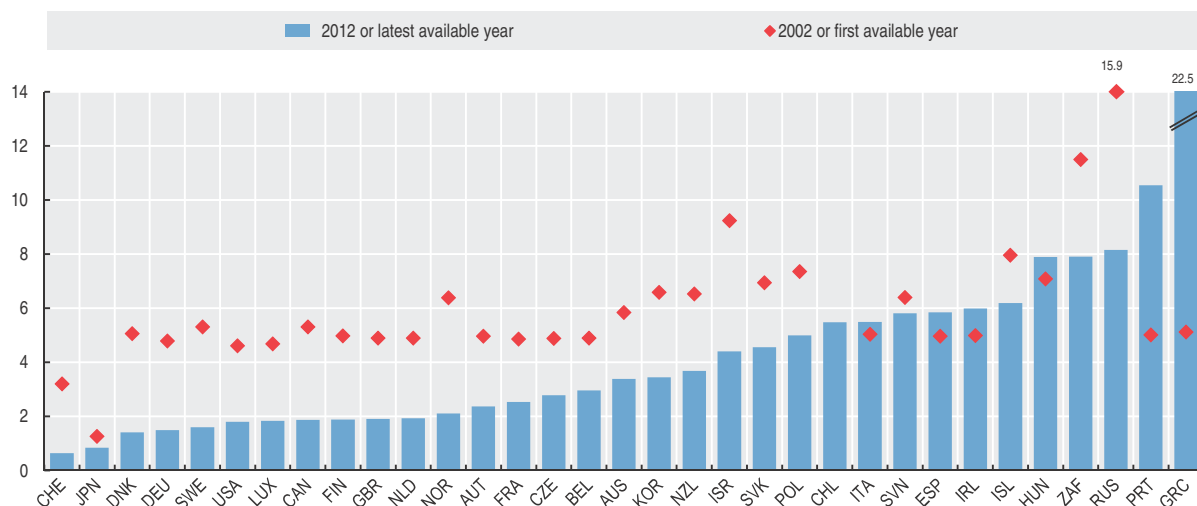
Percentage

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Australia	6.31	5.62	5.84	5.37	5.59	5.34	5.59	5.99	5.82	5.04	5.37	4.88	3.38
Austria	5.56	5.08	4.97	4.15	4.15	3.39	3.80	4.30	4.36	3.94	3.23	3.32	2.37
Belgium	5.57	5.06	4.89	4.15	4.06	3.37	3.81	4.33	4.40	3.82	3.35	4.18	2.96
Canada	5.95	5.47	5.31	4.81	4.59	4.08	4.21	4.27	3.63	3.22	3.25	2.81	1.87
Chile	..	..	..	..	..	6.05	6.16	6.16	7.07	5.71	6.27	6.03	5.48
Czech Republic	..	6.31	4.88	4.12	4.82	3.54	3.80	4.30	4.63	4.84	3.88	3.71	2.78
Denmark	5.66	5.09	5.06	4.31	4.30	3.40	3.81	4.29	4.28	3.59	2.93	2.73	1.40
Estonia	..	..	..	..	..	..	..	..	..	..	..	..	..
Finland	5.48	5.04	4.98	4.14	4.11	3.35	3.78	4.29	4.29	3.74	3.01	3.01	1.88
France	5.39	4.94	4.86	4.13	4.10	3.41	3.80	4.30	4.23	3.65	3.12	3.32	2.54
Germany	5.26	4.80	4.78	4.07	4.04	3.35	3.76	4.22	3.98	3.22	2.74	2.61	1.50
Greece	6.11	5.30	5.12	4.27	4.26	3.59	4.07	4.50	4.80	5.17	9.09	15.75	22.50
Hungary	8.55	7.95	7.09	6.77	8.29	6.60	7.12	6.74	8.24	9.12	7.28	7.64	7.89
Iceland	11.20	10.36	7.96	6.65	7.49	8.64	8.83	9.42	11.07	8.26	6.09	5.98	6.19
Ireland	5.48	5.02	4.99	4.13	4.06	3.32	3.79	4.33	4.55	5.23	5.99	5.98	5.99
Israel	5.48	6.43	9.23	8.88	7.56	6.36	6.31	5.55	5.92	5.06	4.68	4.98	4.40
Italy	5.58	5.19	5.03	4.30	4.26	3.56	4.05	4.49	4.68	4.31	4.04	5.42	5.49
Japan	1.74	1.32	1.26	1.00	1.49	1.35	1.74	1.67	1.47	1.33	1.15	1.10	0.84
Korea	..	6.86	6.59	5.05	4.73	4.95	5.15	5.35	5.57	5.17	4.77	4.20	3.45
Luxembourg	5.52	4.86	4.68	3.32	2.84	2.41	3.30	..	..	..	..	2.92	1.83
Mexico	..	..	10.13	8.98	9.54	9.42	8.39	7.77	..	..	..	..	..
Netherlands	5.40	4.96	4.89	4.12	4.10	3.37	3.78	4.29	4.23	3.69	2.99	2.99	1.93
New Zealand	6.85	6.39	6.53	5.87	6.07	5.88	5.78	6.26	6.08	5.46	5.60	4.94	3.69
Norway	6.22	6.24	6.38	5.05	4.37	3.75	4.08	4.77	4.46	4.00	3.53	3.14	2.10
Poland	..	10.68	7.36	5.78	6.90	5.22	5.23	5.48	6.07	6.12	5.78	5.96	5.00
Portugal	5.60	5.16	5.01	4.18	4.14	3.44	3.91	4.42	4.52	4.21	5.40	10.24	10.55
Slovak Republic	..	8.04	6.94	4.99	5.03	3.52	4.41	4.49	4.72	4.71	3.87	4.42	4.55
Slovenia	..	..	..	6.40	4.68	3.81	3.85	4.53	4.61	4.38	3.83	4.97	5.81
Spain	5.53	5.12	4.96	4.13	4.10	3.39	3.78	4.31	4.36	3.97	4.25	5.44	5.85
Sweden	5.37	5.11	5.30	4.64	4.43	3.38	3.70	4.17	3.89	3.25	2.89	2.61	1.59
Switzerland	3.93	3.38	3.20	2.66	2.74	2.10	2.52	2.93	2.90	2.20	1.63	1.47	0.65
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..
United Kingdom	5.33	4.93	4.89	4.53	4.88	4.41	4.50	5.01	4.59	3.65	3.61	3.12	1.91
United States	6.03	5.02	4.61	4.02	4.27	4.29	4.79	4.63	3.67	3.26	3.21	2.79	1.80
Euro area	5.44	5.03	4.92	4.16	4.14	3.44	3.86	4.33	4.36	4.03	3.79	4.31	3.05
Brazil	..	..	..	..	..	..	..	..	..	..	..	..	..
China	..	..	..	..	..	..	..	..	..	..	..	..	..
India	..	..	..	..	..	..	..	..	..	..	..	..	..
Indonesia	..	..	..	..	..	..	..	..	..	..	..	..	..
Russian Federation	35.16	19.38	15.82	9.12	8.29	8.11	6.98	6.72	7.52	9.87	7.83	8.06	8.15
South Africa	13.79	11.41	11.50	9.62	9.53	8.07	7.94	7.99	9.10	8.70	8.62	8.52	7.90

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Percentage



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