

LONG-TERM INTEREST RATES

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

Definition

These interest rates refer to government bonds with a residual maturity of about ten years. They are not the interest rates at which the loans were issued, but the interest rates implied by the prices at which the bonds are traded on financial markets. For example if a bond was initially bought for 100 with an interest rate of 9%, but the bond is now trading at 90, the interest rate has risen to 10% ($(9/90) \times 100$).

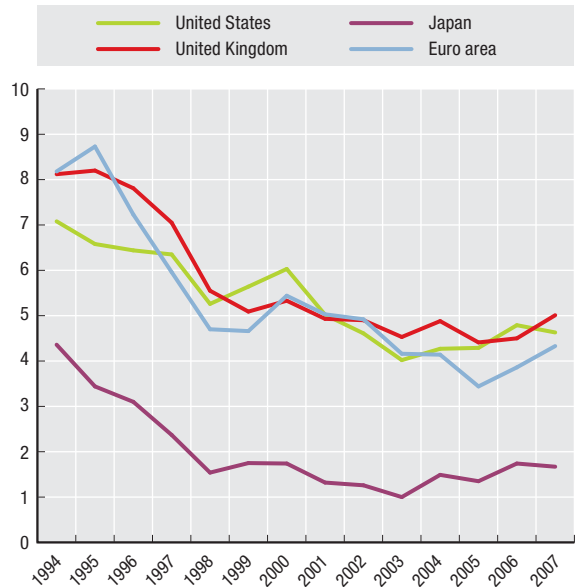
Comparability

The rates shown are, where possible, averages of daily rates. They are in all cases interest rates on bonds whose capital repayment is guaranteed by governments.

Comparability is considered to be high.

Evolution of long-term interest rates

Percentage



StatLink <http://dx.doi.org/10.1787/536121526500>

Long-term trends

Interest rates are 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 very low. To an important extent the interest rates in this table are driven by the expected rates of inflation.

From 1994 long-term interest rates have been falling steadily in most member countries until 2005, but have started to rise in 2006-2007. For the 21 member countries in the table for which data are available for the full period from 1994 to 2007, long-term interest rates averaged 8.0% in 1994 but only 4.6% by 2006. For many countries the long-term interest rates recorded in 2005 were historically low.

The most striking feature of the table is the reduction in the variance of interest rates among countries. The convergence of long-term interest rates is mostly explained by the increasing integration of financial markets – one aspect of globalisation – and was particularly pronounced among members of the Euro area. Japan and Switzerland are exceptions; their interest rates have remained low but are not converging to the OECD average.

Source

- OECD (2008), *Main Economic Indicators*, OECD, Paris.

Further information

Analytical publications

- OECD (2008), *Financial Market Trends*, series, OECD, Paris.
- OECD (2008), *OECD Economic Outlook, June No. 83 – Vol. 2008/1*, OECD, Paris.

Methodological publications

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



Long-term interest rates

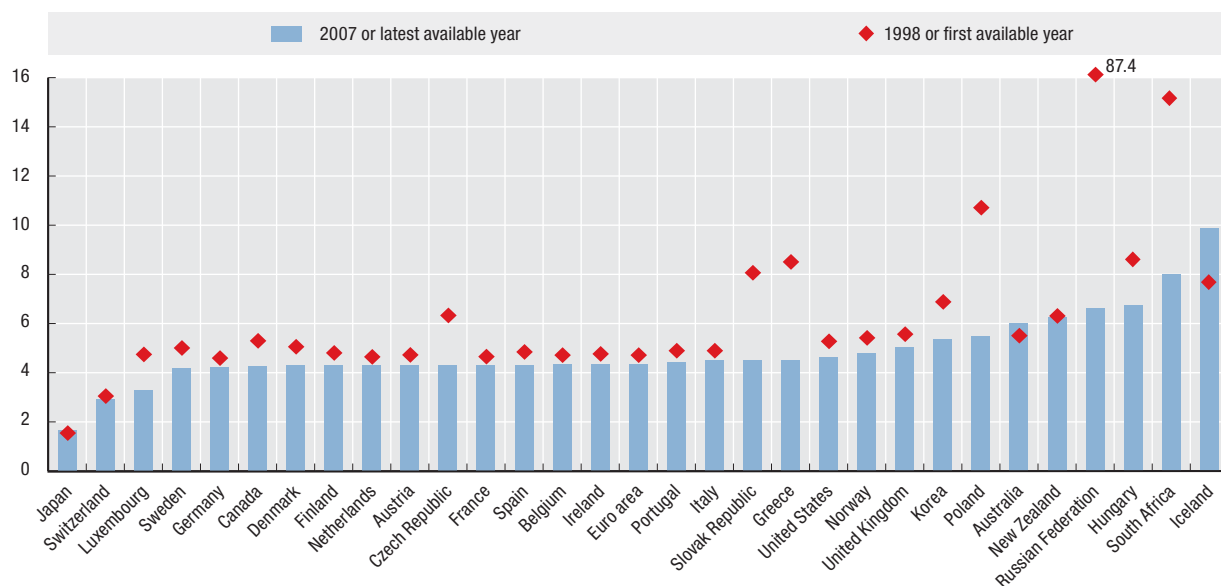
Percentage

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Australia	8.89	9.21	8.21	6.95	5.49	6.01	6.31	5.62	5.84	5.37	5.59	5.34	5.59	6.00
Austria	7.03	7.13	6.32	5.68	4.71	4.68	5.56	5.08	4.97	4.15	4.15	3.39	3.80	4.30
Belgium	7.70	7.38	6.30	5.59	4.70	4.71	5.57	5.06	4.89	4.15	4.06	3.37	3.81	4.33
Canada	8.36	8.16	7.24	6.14	5.28	5.54	5.93	5.48	5.30	4.80	4.58	4.07	4.21	4.27
Czech Republic	..	..	..	..	..	..	..	6.31	4.88	4.12	4.82	3.54	3.80	4.30
Denmark	7.83	8.27	7.19	6.26	5.04	4.92	5.66	5.09	5.06	4.31	4.30	3.40	3.81	4.29
Finland	9.04	8.79	7.08	5.96	4.79	4.72	5.48	5.04	4.98	4.14	4.11	3.35	3.78	4.29
France	7.22	7.54	6.31	5.58	4.64	4.61	5.39	4.94	4.86	4.13	4.10	3.41	3.80	4.30
Germany	6.88	6.86	6.23	5.66	4.58	4.50	5.27	4.80	4.78	4.07	4.04	3.35	3.76	4.22
Greece	..	..	..	..	8.48	6.31	6.11	5.30	5.12	4.27	4.26	3.59	4.07	4.50
Hungary	..	..	..	..	..	..	8.55	7.95	7.09	6.77	8.29	6.60	7.12	6.74
Iceland	6.98	9.65	9.24	8.71	7.66	8.47	11.20	10.36	7.96	6.65	7.49	7.73	9.33	9.85
Ireland	8.04	8.23	7.25	6.26	4.75	4.77	5.48	5.02	4.99	4.13	4.06	3.32	3.79	4.33
Italy	10.52	12.21	9.40	6.86	4.88	4.73	5.58	5.19	5.03	4.30	4.26	3.56	4.05	4.49
Japan	4.36	3.44	3.10	2.37	1.54	1.75	1.74	1.32	1.26	1.00	1.49	1.35	1.74	1.67
Korea	..	..	..	..	..	..	..	6.86	6.59	5.05	4.73	4.95	5.15	5.35
Luxembourg	7.15	7.23	6.30	5.60	4.73	4.67	5.52	4.86	4.68	3.32	2.84	2.41	3.30	..
Netherlands	6.87	6.90	6.15	5.58	4.63	4.63	5.41	4.96	4.89	4.12	4.10	3.37	3.78	4.29
New Zealand	7.63	7.78	7.89	7.19	6.29	6.41	6.85	6.39	6.53	5.87	6.07	5.88	5.78	6.26
Norway	7.43	7.43	6.77	5.89	5.40	5.50	6.22	6.24	6.38	5.05	4.37	3.75	4.08	4.77
Poland	..	..	..	..	..	..	..	10.68	7.36	5.78	6.90	5.22	5.23	5.48
Portugal	10.48	11.47	8.56	6.36	4.88	4.78	5.60	5.16	5.01	4.18	4.14	3.44	3.91	4.42
Slovak Republic	..	..	..	..	..	..	..	8.04	6.94	4.99	5.03	3.52	4.41	4.49
Spain	10.00	11.27	8.74	6.40	4.83	4.73	5.53	5.12	4.96	4.13	4.10	3.39	3.78	4.31
Sweden	9.50	10.24	8.03	6.61	4.99	4.98	5.37	5.11	5.30	4.64	4.43	3.38	3.70	4.17
Switzerland	4.96	4.52	4.00	3.36	3.04	3.04	3.93	3.38	3.20	2.66	2.74	2.10	2.52	2.93
United Kingdom	8.12	8.20	7.81	7.05	5.55	5.09	5.33	4.93	4.90	4.53	4.88	4.41	4.50	5.01
United States	7.08	6.58	6.44	6.35	5.26	5.64	6.03	5.02	4.61	4.02	4.27	4.29	4.79	4.63
Euro area	8.18	8.73	7.23	5.96	4.70	4.66	5.44	5.03	4.92	4.16	4.14	3.44	3.86	4.33
Russian Federation	..	..	..	..	..	87.38	35.16	19.38	15.82	8.90	7.79	7.76	6.83	6.61
South Africa	14.83	16.11	15.48	14.70	15.12	14.90	13.79	11.41	11.50	9.62	9.53	8.07	7.94	7.99

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Long-term interest rates

Percentage



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