

## 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; 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 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% ( $(9/90) \times 100$ ).

Long-term interest rates, 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. Interest rates refer to government borrowing and the risk factor is assumed to be very low. To an important extent the interest rates are driven by expected inflation rates.

### Overview

Long-term interest 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 2014. For example, in 2014 long-term interest rates in the euro area fell to a low of 2.3%, while both Japan and Switzerland saw their long-term interest rates fall below 1%, (0.5% and 0.7% respectively).

From the end of the nineties to the start of the global financial crisis, the spread for 10-year bonds of European countries, *vis-a-vis* German bonds was small (around 0.1%). After 2008, in Greece, Ireland and Portugal spreads rose to 21.0 (2012), 7.0 (2011) and 9.1 (2012) respectively. The spreads also increased for Italy and Spain but to a lesser extent.

In 2014 there were only three OECD countries with long-term interest rates above 6%, namely Greece (6.9%), Iceland (6.4%) and Mexico (6.0%). Non-member countries for which data is available recorded higher rates e.g. 8.5% in Russia and 8.3% in South Africa.

### Comparability

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

### Sources

- OECD (2015), *Main Economic Indicators*, OECD Publishing.

### Further information

#### Analytical publications

- OECD (2015), *OECD Economic Outlook*, OECD Publishing.
- OECD (2014), *OECD Journal: Financial Market Trends*, OECD Publishing.
- OECD (2014), *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](http://www.oecd.org/std/mei).



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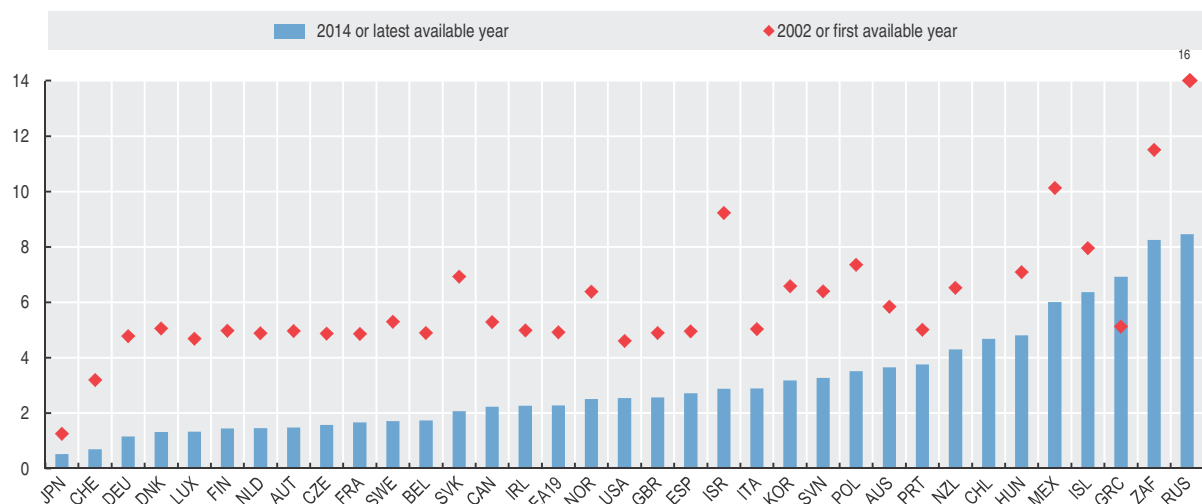
Percentage

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Australia	5.84	5.37	5.59	5.34	5.59	5.99	5.82	5.04	5.37	4.88	3.38	3.70	3.66
Austria	4.96	4.14	4.13	3.39	3.80	4.30	4.36	3.94	3.23	3.32	2.37	2.01	1.49
Belgium	4.89	4.15	4.06	3.37	3.81	4.33	4.40	3.82	3.35	4.18	2.96	2.37	1.74
Canada	5.29	4.81	4.58	4.07	4.21	4.27	3.61	3.23	3.24	2.78	1.87	2.26	2.23
Chile	..	..	..	6.05	6.16	6.09	7.10	5.71	6.27	6.03	5.47	5.35	4.69
Czech Republic	4.88	4.12	4.82	3.54	3.80	4.30	4.63	4.84	3.88	3.71	2.78	2.11	1.58
Denmark	5.06	4.31	4.30	3.40	3.81	4.29	4.28	3.59	2.93	2.73	1.40	1.75	1.33
Estonia	..	..	..	..	..	..	..	..	..	..	..	..	..
Finland	4.98	4.14	4.11	3.35	3.78	4.29	4.29	3.74	3.01	3.01	1.88	1.86	1.45
France	4.86	4.13	4.10	3.41	3.80	4.30	4.23	3.65	3.12	3.32	2.54	2.20	1.67
Germany	4.78	4.07	4.04	3.35	3.76	4.22	3.98	3.22	2.74	2.61	1.50	1.57	1.16
Greece	5.12	4.27	4.26	3.59	4.07	4.50	4.80	5.17	9.09	15.75	22.50	10.05	6.93
Hungary	7.09	6.77	8.29	6.60	7.12	6.74	8.24	9.12	7.28	7.64	7.89	5.92	4.81
Iceland	7.96	6.65	7.49	8.64	8.83	9.42	11.07	8.26	6.09	5.98	6.19	5.79	6.37
Ireland	4.99	4.13	4.06	3.32	3.79	4.33	4.55	5.23	5.99	9.58	5.99	3.83	2.26
Israel	9.23	8.88	7.56	6.36	6.31	5.55	5.92	5.06	4.68	4.98	4.40	3.80	2.89
Italy	5.03	4.30	4.26	3.56	4.05	4.49	4.68	4.31	4.04	5.42	5.49	4.32	2.89
Japan	1.26	1.00	1.49	1.35	1.74	1.67	1.47	1.33	1.15	1.10	0.84	0.69	0.52
Korea	6.59	5.05	4.73	4.95	5.15	5.35	5.57	5.17	4.77	4.20	3.45	3.28	3.19
Luxembourg	4.68	3.32	2.84	2.41	3.30	..	..	..	2.95	2.92	1.83	1.83	1.34
Mexico	10.13	8.98	9.54	9.42	8.39	7.79	8.31	7.96	6.90	6.67	5.60	5.68	6.01
Netherlands	4.89	4.12	4.10	3.37	3.78	4.29	4.23	3.69	2.99	2.99	1.93	1.96	1.45
New Zealand	6.53	5.87	6.07	5.88	5.78	6.27	6.08	5.46	5.60	4.95	3.69	4.09	4.30
Norway	6.38	5.05	4.37	3.75	4.08	4.77	4.46	4.00	3.53	3.14	2.10	2.58	2.52
Poland	7.36	5.78	6.90	5.22	5.23	5.48	6.07	6.12	5.78	5.96	5.00	4.03	3.52
Portugal	5.01	4.18	4.14	3.44	3.91	4.42	4.52	4.21	5.40	10.24	10.55	6.29	3.75
Slovak Republic	6.94	4.99	5.03	3.52	4.41	4.49	4.72	4.71	3.87	4.42	4.55	3.19	2.07
Slovenia	..	6.40	4.68	3.81	3.85	4.53	4.61	4.38	3.83	4.97	5.81	5.81	3.27
Spain	4.96	4.12	4.10	3.39	3.78	4.31	4.36	3.97	4.25	5.44	5.85	4.56	2.72
Sweden	5.30	4.64	4.43	3.38	3.70	4.17	3.89	3.25	2.89	2.61	1.59	2.12	1.72
Switzerland	3.20	2.66	2.74	2.10	2.52	2.93	2.90	2.20	1.63	1.47	0.65	0.95	0.69
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..
United Kingdom	4.89	4.53	4.88	4.41	4.50	5.01	4.59	3.65	3.62	3.14	1.92	2.39	2.57
United States	4.61	4.02	4.27	4.29	4.79	4.63	3.67	3.26	3.21	2.79	1.80	2.35	2.54
Euro area	4.92	4.16	4.14	3.44	3.86	4.33	4.36	4.03	3.78	4.31	3.05	3.01	2.28
Brazil	..	..	..	..	..	..	..	..	..	..	..	..	..
China	..	..	..	..	..	..	..	..	..	..	..	..	..
India	..	..	..	..	..	..	..	..	..	..	..	..	..
Indonesia	..	..	..	..	..	..	..	..	..	..	..	..	..
Russian Federation	15.82	9.12	8.29	8.11	6.98	6.72	7.52	9.87	7.83	8.06	8.15	7.33	8.46
South Africa	11.50	9.62	9.53	8.07	7.94	7.99	9.10	8.70	8.62	8.52	7.90	7.72	8.25

1 2 <http://dx.doi.org/10.1787/888933336351>

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Percentage



1 2 <http://dx.doi.org/10.1787/888933335187>



**From:**  
**OECD Factbook 2015-2016**  
Economic, Environmental and Social Statistics

**Access the complete publication at:**  
<https://doi.org/10.1787/factbook-2015-en>

**Please cite this chapter as:**

OECD (2016), "Long-term interest rates", in *OECD Factbook 2015-2016: Economic, Environmental and Social Statistics*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/factbook-2015-36-en>

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