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 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).

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.

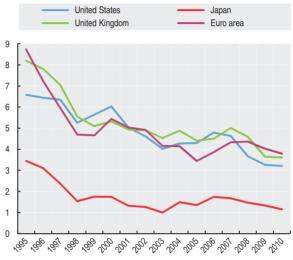
Long-term interest rates are mainly determined by three factors: the price that lenders charge for postponing consumption; the risk that the borrower may not repay the capital; and the fall in the real value of the capital that the lender expects to occur because of inflation during the lifetime of the 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.

Evolution of long-term interest rates

Percentage



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Overview

From the mid-1990s until the mid-2000s long-term interest rates fell steadily in most OECD countries. For many countries, these long-term interest rates reached an historical low level in 2005. However, the financial bubble and resulting financial crisis saw long-term interest rates rise and peak between 2007 and 2009 for a large number of countries. Since then, long-term interest rates have continued to decline in Germany, the United States and the United Kingdom but increased sharply in Greece, Ireland, Portugal, Spain and with Greece now having the highest long-term interest rate amongst OECD countries for 2010.

One of the most striking features of recent trends is the reduction in the variance of interest rates among OECD countries. This convergence of long-term interest rates mainly reflects 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 to this pattern, as their long-term interest rates have remained low and steady throughout the period, rather than converging towards the levels prevailing in most other OECD countries. The recent financial crisis and ongoing financial difficulties now experienced by some OECD countries may mean this convergence trend may not continue.

Sources

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Further information Analytical publications

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Websites

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

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LONG-TERM INTEREST RATES

Long-term interest rates

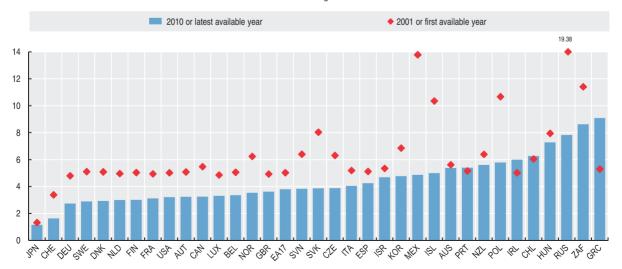
ъ	_		_				_
P	P	rc	P	n	$rac{1}{2}$	1a	Р

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Australia	6.95	5.49	6.01	6.31	5.62	5.84	5.37	5.59	5.34	5.59	5.99	5.82	5.04	5.37
Austria	5.68	4.71	4.68	5.56	5.08	4.97	4.15	4.15	3.39	3.80	4.30	4.36	3.94	3.23
Belgium	5.59	4.70	4.71	5.57	5.06	4.89	4.15	4.06	3.37	3.81	4.33	4.40	3.82	3.35
Canada	6.14	5.28	5.54	5.93	5.48	5.30	4.80	4.58	4.07	4.21	4.27	3.60	3.23	3.24
Chile									6.05		6.09	7.07	5.71	6.27
Czech Republic					6.31	4.88	4.12	4.82	3.54	3.80	4.30	4.63	4.84	3.88
Denmark	6.26	5.04	4.92	5.66	5.09	5.06	4.31	4.30	3.40	3.81	4.29	4.28	3.59	2.93
Finland	5.96	4.79	4.72	5.48	5.04	4.98	4.14	4.11	3.35	3.78	4.29	4.29	3.74	3.01
France	5.58	4.64	4.61	5.39	4.94	4.86	4.13	4.10	3.41	3.80	4.30	4.23	3.65	3.12
Germany	5.66	4.58	4.50	5.27	4.80	4.78	4.07	4.04	3.35	3.76	4.22	3.98	3.22	2.74
Greece		8.48	6.31	6.11	5.30	5.12	4.27	4.26	3.59	4.07	4.50	4.80	5.17	9.09
Hungary				8.55	7.95	7.09	6.77	8.29	6.60	7.12	6.74	8.24	9.12	7.28
Iceland	8.71	7.66	8.47	11.20	10.36	7.96	6.65	7.49	7.73	9.33	9.85	11.07	8.04	5.00
Ireland	6.26	4.75	4.77	5.48	5.02	4.99	4.13	4.06	3.32	3.79	4.33	4.55	5.23	5.99
Israel	4.07	4.93	5.20	5.48		5.35		7.56	6.36	6.31	5.55	5.92	5.06	4.68
Italy	6.86	4.88	4.73	5.58	5.19	5.03	4.30	4.26	3.56	4.05	4.49	4.68	4.31	4.04
Japan	2.37	1.54	1.75	1.74	1.32	1.26	1.00	1.49	1.35	1.74	1.67	1.47	1.33	1.15
Korea					6.86	6.59	5.05	4.73	4.95	5.15	5.35	5.57	5.17	4.77
Luxembourg	5.60	4.73	4.67	5.52	4.86	4.68	3.32	2.84	2.41	3.30				
Mexico	22.45	-	24.13	16.94	13.79	8.54	7.37	7.74	9.28	7.51	7.60	8.09	5.83	4.86
Netherlands	5.58	4.63	4.63	5.41	4.96	4.89	4.12	4.10	3.37	3.78	4.29	4.23	3.69	2.99
New Zealand	7.19	6.29	6.41	6.85	6.39	6.53	5.87	6.07	5.88	5.78	6.26	6.08	5.46	5.60
Norway	5.89	5.40	5.50	6.22	6.24	6.38	5.05	4.37	3.75	4.08	4.77	4.46	4.00	3.53
Poland					10.68	7.36	5.78	6.90	5.22	5.23	5.48	6.07	6.12	5.78
Portugal	6.36	4.88	4.78	5.60	5.16	5.01	4.18	4.14	3.44	3.91	4.42	4.52	4.21	5.40
Slovak Republic					8.04	6.94	4.99	5.03	3.52	4.41	4.49	4.72	4.71	3.87
Slovenia							6.40	4.68	3.81	3.85	4.53	4.61	4.38	3.83
Spain	6.40	4.83	4.73	5.53	5.12	4.96	4.13	4.10	3.39	3.78	4.31	4.36	3.97	4.25
Sweden	6.61	4.99	4.98	5.37	5.11	5.30	4.64	4.43	3.38	3.70	4.17	3.89	3.25	2.89
Switzerland	3.36	3.04	3.04	3.93	3.38	3.20	2.66	2.74	2.10	2.52	2.93	2.90	2.20	1.63
United Kingdom	7.05	5.55	5.09	5.33	4.93	4.90	4.53	4.88	4.41	4.50	5.01	4.59	3.65	3.61
United States	6.35	5.26	5.64	6.03	5.02	4.61	4.02	4.27	4.29	4.79	4.63	3.67	3.26	3.21
Euro area	5.96	4.70	4.66	5.44	5.03	4.92	4.16	4.14	3.44	3.86	4.33	4.36	4.03	3.79
Russian Federation			87.38	35.16	19.38	15.82	9.12	8.29	8.11	6.98	6.72	7.52	9.87	7.83
South Africa	14.70	15.12	14.90	13.79	11.41	11.50	9.62	9.53	8.07	7.94	7.99	9.10	8.70	8.62

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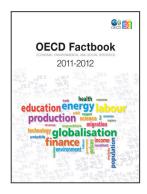
Long-term interest rates

Percentage



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