

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 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.

Overview

From the mid-1990s until the mid-2000s long-term interest rates fell steadily in most OECD countries, and for many countries these long-term interest rates reached a low point 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. For just over half the of the OECD countries, long-term interest rates in 2011 are now below the low recorded in 2005. However, those OECD countries experiencing ongoing financial difficulties, namely Greece, Ireland, Italy, Portugal and Spain have seen their long-term rates at levels in the last few years in excess of the levels seen over a decade ago in these countries.

There is a divergence in long-term interest rates appearing in 2011 between European and non-European countries, and in particular those countries in the euro zone. While long-term interest rates for the major non-European countries have remained steady or fallen in recent years, this is not the case for a number of European countries and particularly those in the euro area which have seen their long-term interest rates rise.

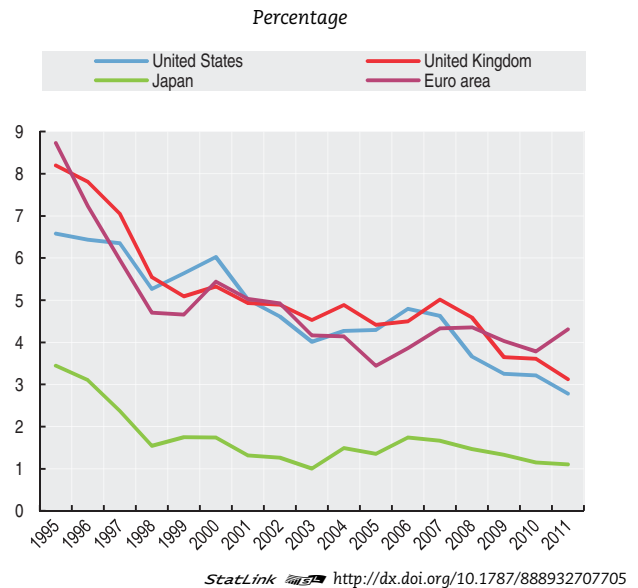
Japan and Switzerland remain the OECD countries with the lowest long-term interest rates, and both countries have seen their rates fall over the last four to five years with Japan recording a long-term interest rate of 1.10% in 2011 and Switzerland not far above at 1.47%.

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



Sources

- OECD (2012), *Main Economic Indicators*, OECD Publishing.

Further information

Analytical publications

- OECD (2012), *OECD Economic Outlook*, OECD Publishing.
- OECD (2012), *OECD Journal: Financial Market Trends*, 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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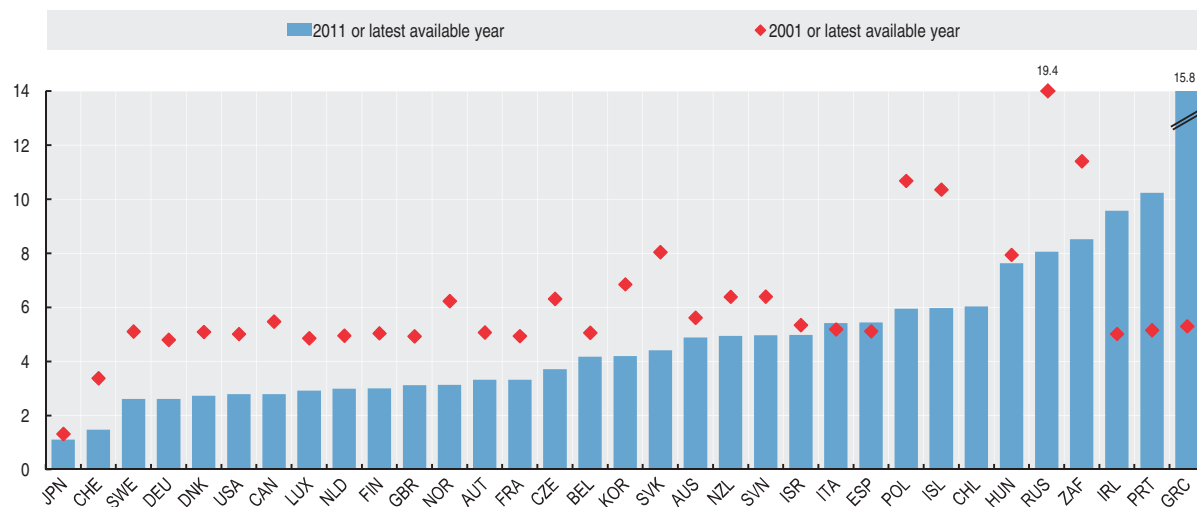
Percentage

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	6.01	6.31	5.62	5.84	5.37	5.59	5.34	5.59	5.99	5.82	5.04	5.37	4.88
Austria	4.68	5.56	5.08	4.97	4.15	4.15	3.39	3.80	4.30	4.36	3.94	3.23	3.32
Belgium	4.71	5.57	5.06	4.89	4.15	4.06	3.37	3.81	4.33	4.40	3.82	3.35	4.18
Canada	5.54	5.93	5.48	5.30	4.80	4.58	4.07	4.21	4.27	3.60	3.23	3.24	2.79
Chile	..	..	..	..	..	..	6.05	6.16	6.09	7.07	5.71	6.27	6.03
Czech Republic	..	..	6.31	4.88	4.12	4.82	3.54	3.80	4.30	4.63	4.84	3.88	3.71
Denmark	4.92	5.66	5.09	5.06	4.31	4.30	3.40	3.81	4.29	4.28	3.59	2.93	2.73
Estonia	..	..	..	..	..	..	..	..	..	..	..	..	..
Finland	4.72	5.48	5.04	4.98	4.14	4.11	3.35	3.78	4.29	4.29	3.74	3.01	3.01
France	4.61	5.39	4.94	4.86	4.13	4.10	3.41	3.80	4.30	4.23	3.65	3.12	3.32
Germany	4.50	5.27	4.80	4.78	4.07	4.04	3.35	3.76	4.22	3.98	3.22	2.74	2.61
Greece	6.31	6.11	5.30	5.12	4.27	4.26	3.59	4.07	4.50	4.80	5.17	9.09	15.75
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
Iceland	8.47	11.20	10.36	7.96	6.65	7.49	8.64	8.83	9.42	11.07	8.26	6.09	5.98
Ireland	4.77	5.48	5.02	4.99	4.13	4.06	3.32	3.79	4.33	4.55	5.23	5.99	9.58
Israel	5.20	5.48	..	5.35	..	7.56	6.36	6.31	5.55	5.92	5.06	4.68	4.98
Italy	4.73	5.58	5.19	5.03	4.30	4.26	3.56	4.05	4.49	4.68	4.31	4.04	5.42
Japan	1.75	1.74	1.32	1.26	1.00	1.49	1.35	1.74	1.67	1.47	1.33	1.15	1.10
Korea	..	..	6.86	6.59	5.05	4.73	4.95	5.15	5.35	5.57	5.17	4.77	4.20
Luxembourg	4.67	5.52	4.86	4.68	3.32	2.84	2.41	3.30	..	..	..	..	2.92
Mexico	24.13	16.94	..	10.13	8.98	9.54	9.42	8.39	7.77	..	..	..	..
Netherlands	4.63	5.40	4.96	4.89	4.12	4.10	3.37	3.78	4.29	4.23	3.69	2.99	2.99
New Zealand	6.41	6.85	6.39	6.53	5.87	6.07	5.88	5.78	6.26	6.08	5.46	5.60	4.94
Norway	5.50	6.22	6.24	6.38	5.05	4.37	3.75	4.08	4.77	4.46	4.00	3.53	3.14
Poland	..	..	10.68	7.36	5.78	6.90	5.22	5.23	5.48	6.07	6.12	5.78	5.96
Portugal	4.78	5.60	5.16	5.01	4.18	4.14	3.44	3.91	4.42	4.52	4.21	5.40	10.24
Slovak Republic	..	..	8.04	6.94	4.99	5.03	3.52	4.41	4.49	4.72	4.71	3.87	4.42
Slovenia	..	..	..	..	6.40	4.68	3.81	3.85	4.53	4.61	4.38	3.83	4.97
Spain	4.73	5.53	5.12	4.96	4.13	4.10	3.39	3.78	4.31	4.36	3.97	4.25	5.44
Sweden	4.98	5.37	5.11	5.30	4.64	4.43	3.38	3.70	4.17	3.89	3.25	2.89	2.61
Switzerland	3.04	3.93	3.38	3.20	2.66	2.74	2.10	2.52	2.93	2.90	2.20	1.63	1.47
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..
United Kingdom	5.09	5.33	4.93	4.90	4.53	4.88	4.41	4.50	5.01	4.59	3.65	3.61	3.12
United States	5.64	6.03	5.02	4.61	4.02	4.27	4.29	4.79	4.63	3.67	3.26	3.21	2.79
Euro area	4.66	5.44	5.03	4.92	4.16	4.14	3.44	3.86	4.33	4.36	4.03	3.79	4.31
Brazil	..	..	..	..	..	..	..	..	..	..	..	..	..
China	..	..	..	..	..	..	..	..	..	..	..	..	..
India	..	..	..	..	..	..	..	..	..	..	..	..	..
Indonesia	..	..	..	..	..	..	..	..	..	..	..	..	..
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	8.06
South Africa	14.90	13.79	11.41	11.50	9.62	9.53	8.07	7.94	7.99	9.10	8.70	8.62	8.52

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Percentage



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