Flash Economics

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Is a global bond crisis on the horizon?

Long-term interest rates are on an upward trend in all major OECD countries. Looking at their evolution from early January 2026 to the present, the 10-year interest rate has risen:

- From 4.17% to 4.55% in the United States;
- From 4.38% to 4.90% in the United Kingdom;
- From 2.83% to 2.95% in Germany;
- From 3.52% to 3.63% in France;
- From 3.25% to 3.37% in Spain;
- From 3.45% to 3.66% in Italy;
- From 2.09% to 2.70% in Japan.

The rise in long-term interest rates is due to:

- The deterioration in public finances, with public deficits widening as a result of increased military spending and weak growth;
- Rising inflation expectations, both in the short and long term;
- And, in some countries, political uncertainty.

There are two risks. The first risk is that of an unstable trend in public debt ratios being triggered, with long-term nominal interest rates gradually exceeding real growth. This is currently the case only in France and Italy. Another risk is giving in to the temptation to finance the public deficit through the issuance of short-term Treasury bills, which would make the interest burden on public debt highly sensitive to movements in the central bank's interest rates.

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Rising long-term interest rates

Long-term interest rates have been rising since the start of 2026 in all major OECD countries (**Charts 1A/B/C** show 10-year interest rates, while **Charts 2A/B/C** show 30-year interest rates).

Chart 1A
Interest rate on 10-year government bonds (as %)

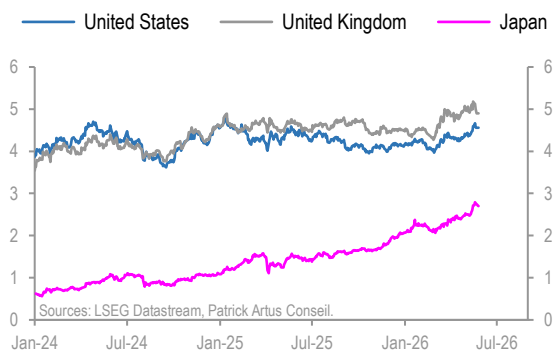


Chart 1B
Interest rate on 10-year government bonds (as %)

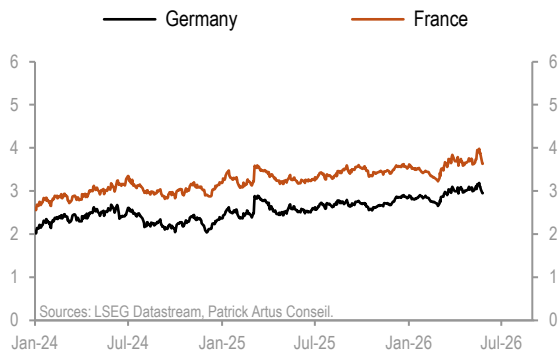


Chart 1C
Interest rate on 10-year government bonds (as %)

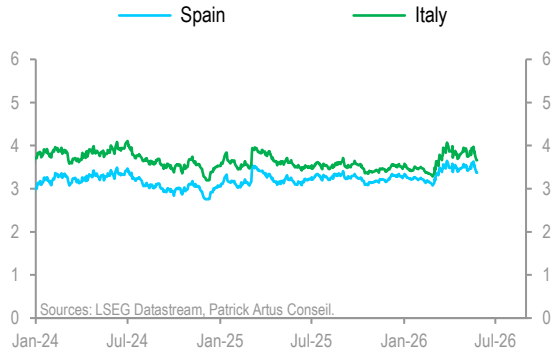


Chart 2A
Interest rate on 30-year government bonds (as %)

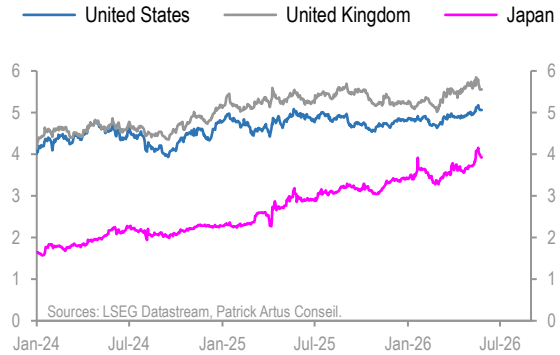


Chart 2B
Interest rate on 30-year government bonds (as %)

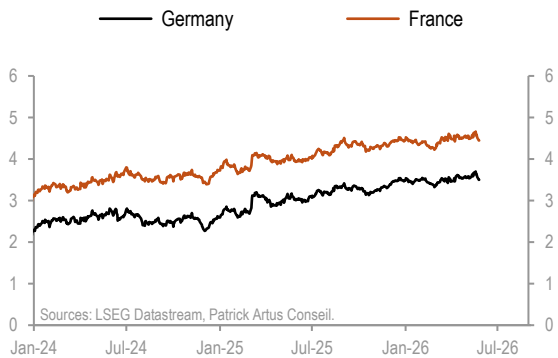
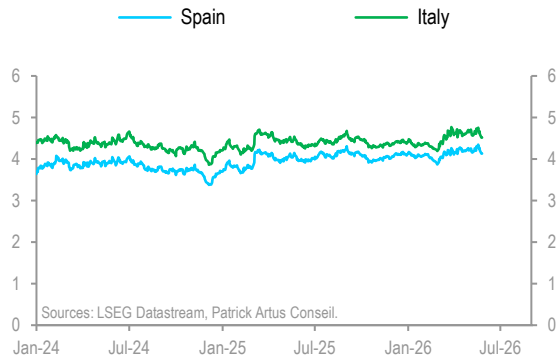


Chart 2C
Interest rate on 30-year government bonds (as %)



Why are long-term interest rates rising?

There are three main reasons for the rise in long-term interest rates.

1. Deterioration in public finances

In 2026, budget deficits will remain high in all major OECD countries, due to:

- **Rising military spending** (United States, Germany, France, Japan);
- **Slowing growth** caused by the war in the Middle East;
- **In the United States, the cancellation of some tariffs** by the Supreme Court and subsequently by the Court of International Trade.

In 2025, of the seven countries reviewed, the only ones without a **primary budget deficit** are Spain and Italy (**Charts 3A/B/C**).

Chart 3A
Primary fiscal surplus or deficit (as % of nominal GDP)

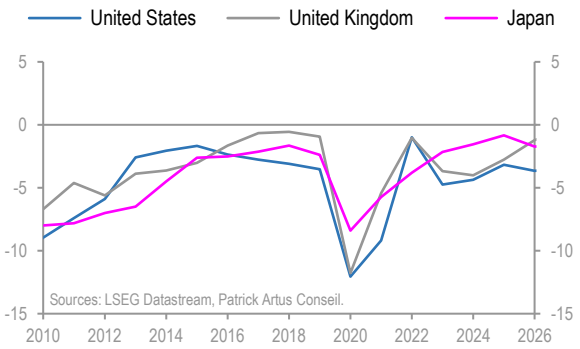


Chart 3B
Primary fiscal surplus or deficit (as % of nominal GDP)

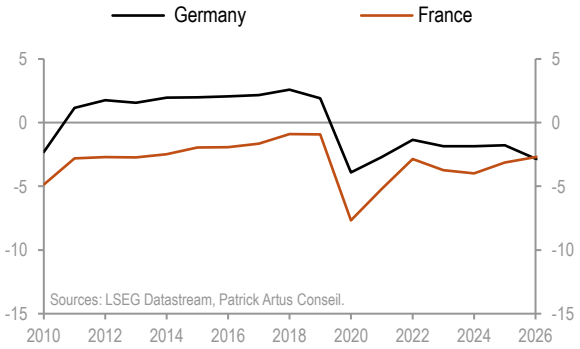
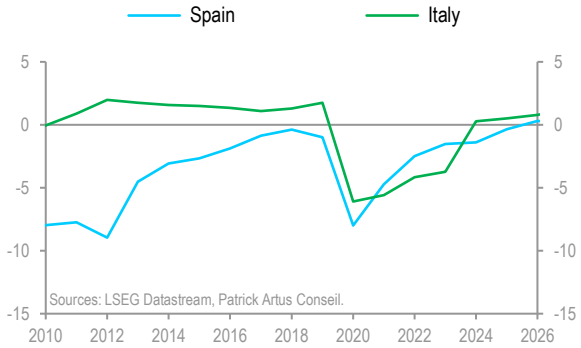


Chart 3C
Primary fiscal surplus or deficit (as % of nominal GDP)



For 2026, the public deficit will be particularly high in the United States, Germany, France and Japan. In Germany and Japan, for 2026, rising military spending and investment in infrastructure will have a notably strong impact on the public deficit.

2. Rising inflation expectations

Inflation expectations, as measured by inflation swaps in financial markets, are rising, for short-term and long-term inflation expectations alike, due to the impact of rising energy prices and the prices of energy-intensive goods (notably plastics and fertilisers) This rise is modest in the case of 10-year inflation swaps (**Charts 4A/B**).

Chart 4A
5-year inflation swaps (as %)

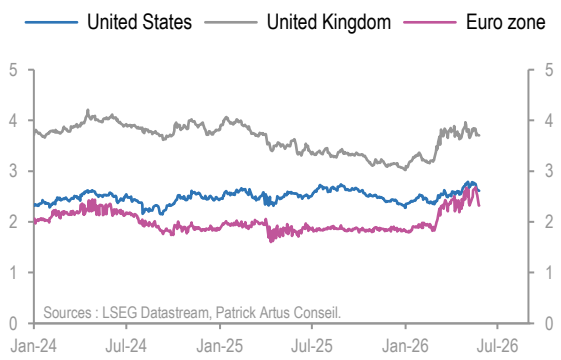
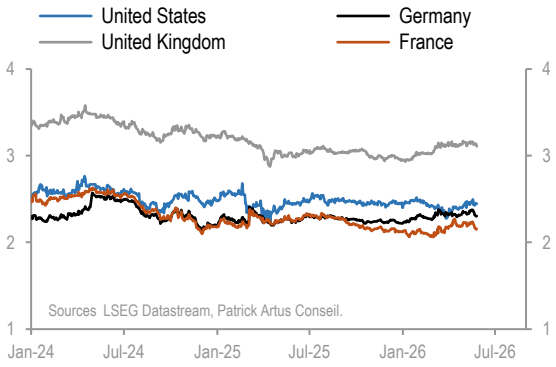


Chart 4B
5-year inflation swap rate 5 years forward



It is likely that if the war in the Middle East comes to an end, inflation expectations will backtrack.

3. Increased political risk

Political uncertainty relates to:

- The outcome of the mid-term elections in the United States;
- The outcome of the upcoming general elections in the United Kingdom (where Reform UK is leading in the polls), in France (where the National Rally is leading in the polls), and in Germany (where the AfD is leading in the polls).

Political uncertainty implies uncertainty regarding key economic policies (fiscal policy, immigration policy) and is off-putting for investors in government debt.

The risk of a continued rise in public debt ratios

The public debt ratio rises:

- If there is a primary public deficit;
- And **if the long-term nominal interest rate is higher than nominal growth**.

When the long-term nominal interest rate is higher than nominal growth, there must be a **primary surplus** to stabilise the public debt ratio (a surplus equal to the product of the public debt ratio and the difference between the interest rate and growth).

Charts 5A/B/C show **GDP growth in value terms**.

Chart 5A
GDP growth (Y/Y as %)

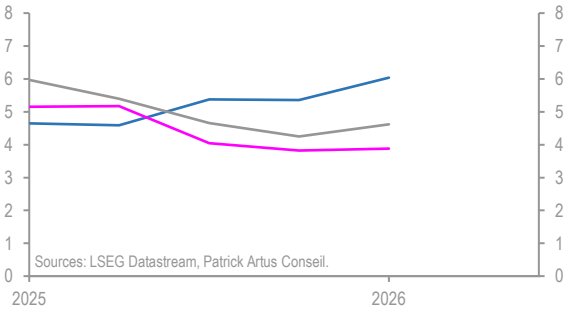


Chart 5B
GDP growth (Y/Y as %)

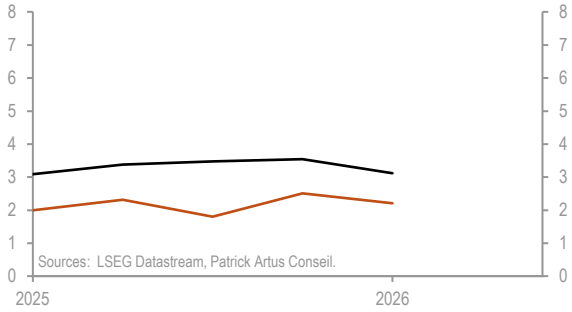
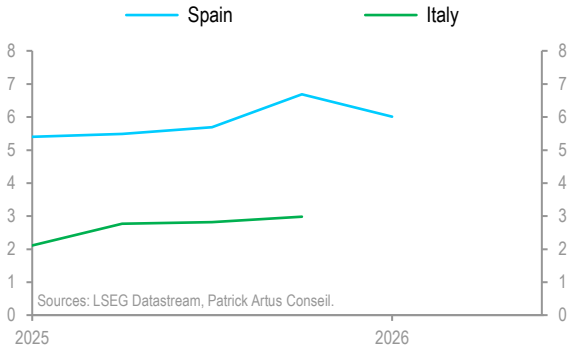


Chart 5C
GDP growth (Y/Y as %)



Today, the 10-year nominal interest rate exceeds nominal growth only in France and Italy.

Charts 6A/B and **Table 1** show the **average maturity of public debt**.

Chart 6A
Average residual maturity of public debt (in years))

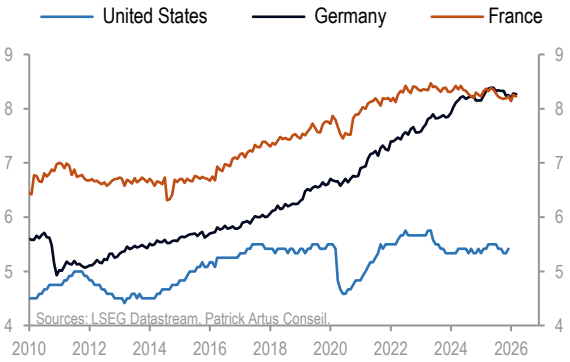


Chart 6B
Average residual maturity of public debt (in years))

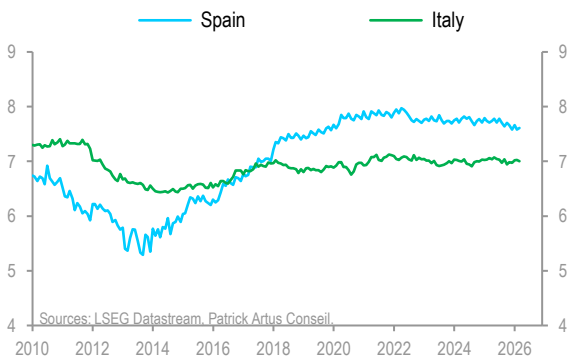


Table 1: Average residual maturity of public debt (in years)

Country	Average residual maturity
United Kingdom (2025)	11.9
Japan (2024)	9.6

Sources: Ministry of Finance Japan, DMO United Kingdom

Two countries stand out:

- **The United Kingdom, with a very long average maturity public debt**, consistent with the investment needs of pension funds;
- **The United States, with a short average maturity public debt**, resulting from the significant reliance on Treasury bills (T-Bills).

It should also be noted that **Japan** has significantly increased its issuance of short-term debt in recent times.

Summary: a clear danger

Long-term interest rates have been rising in OECD countries, stemming from high public deficits, elevated inflation expectations and political uncertainty. Resulting from this high level of long-term rates is that they have now exceeded nominal growth rates in France and Italy, but not in other countries.

There are therefore two risks:

- The first is that of an **acceleration in the accumulation of public debt**;
- The second is that of a **shortening of the maturities of Treasury issues**, in order to reduce the interest burden on the debt, since short-term interest rates are lower than long-term interest rates across the board. The risk stems from the fact that, with short-dated public debt, interest payments rise very rapidly if the economic situation necessitates interest rate hikes by the central bank. Furthermore, this situation may negatively alter the **central bank's credibility** if investors anticipate that it will be reluctant to raise interest rates, given the impact on the public debt burden, even though the economic situation would warrant such a move.

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