

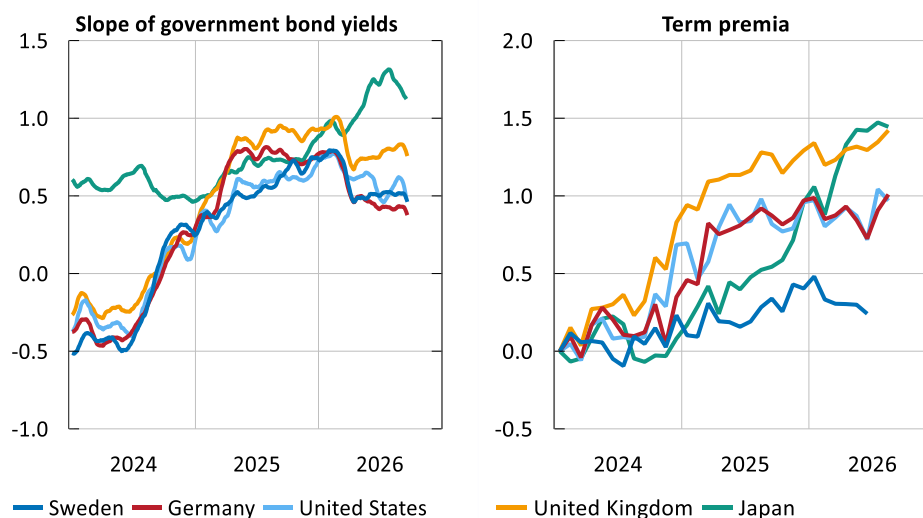
ANALYSIS – Factors behind the recent rise in long-term interest rates

Long-term interest rates have been rising markedly both in Sweden and abroad since the beginning of 2025. The rise initially took place against a backdrop of increased uncertainty and a greater supply of government bonds. However, in 2026, expectations of higher short-term interest rates became more significant, as inflation was expected to rise and economic data came in stronger than expected. Higher long-term interest rates tend to tighten financial conditions, as they increase borrowing costs and reduce asset valuations.

Since 2025, the Swedish ten-year government bond yield has risen by around 0.7 percentage points. In the United States, the United Kingdom, Germany and Japan, ten-year government bond yields have risen by between just over 0.4 and 1.8 percentage points. Long-term interest rates rose in 2025 despite the Riksbank and several other central banks cutting their policy rates, making yield curves considerably steeper (see Figure 26).

Figure 26. Slope of government bond curves and term premia

Percentage points



Note. The difference between the yields on 10-year and 2-year government bonds. One-month moving average (left). The development of the term premium for 10-year government bond yields since 2024, estimated according to Adrian, Crump and Moench (2013), 'Pricing the Term Structure with Linear Regressions', Journal of Financial Economics, 110 (right).

Sources: Bloomberg Finance LP, Macrobond Financial AB and the Riksbank.

A long-term interest rate reflects both the shorter-term interest rates that market participants expect over the bond's maturity and the additional compensation that investors require for holding a long-term bond, the so-called term premia.

Expectations regarding the development of short-term interest rates change when economic agents expect monetary policy to change, for example due to new information about inflation or the real economy. Term premia compensate investors for the risks associated with holding long-term bonds. They vary over time and depend, among other things, on the degree of uncertainty surrounding the outlook, as well as on supply and demand conditions for long-term bonds.¹³

According to model estimates, long-term interest rates in Sweden were driven up mainly by higher term premia in 2025, and continued to rise in 2026 as short-term interest rates were expected to increase.

The rise in term premia during 2025 was a global phenomenon.¹⁴ The upturn was driven by an increased supply of government bonds and greater uncertainty surrounding the outlook for inflation and growth in several countries. The shifts in US trade and economic policy, as well as increased geopolitical risks probably contributed to the uncertainty. At the same time, private investors increased their holdings of government bonds. This was because central banks continued to normalise their balance sheets, whilst several countries increased their government borrowing (see Figure 27).¹⁵

In 2026, market participants revised their expectations of future policy rates in several economies. At the end of February 2026, war broke out in the Middle East, causing major shocks to energy supply and drove up both energy prices and inflation expectations. The upward pressure on interest rates was reinforced by stronger-than-expected economic data in several countries. In Sweden, for example, growth in the second quarter was higher than the Riksbank had forecast in June.

Since the Monetary Policy Report in June, long-term interest rates have continued to rise globally. In addition to stronger-than-expected economic data, the upturn has probably also been driven by concern for the fiscal policy outlook and the large financing needs for borrowing and investment in the AI sector in the United States. In August, the 30-year US government bond yield reached its highest level since 2007, having risen by just over 0.4 percentage points since June. This occurred despite the

¹³ Neither the term premium nor the expected short-term interest rate component can be observed, both must be estimated, and such estimates are model-dependent. They should be interpreted with some caution, even though they are a useful indication of the relative importance of the factors driving long-term interest rates. See the Article "Perspectives on monetary policy expectations and forward rates" in *Monetary Policy Report*, February 2013, Sveriges Riksbank.

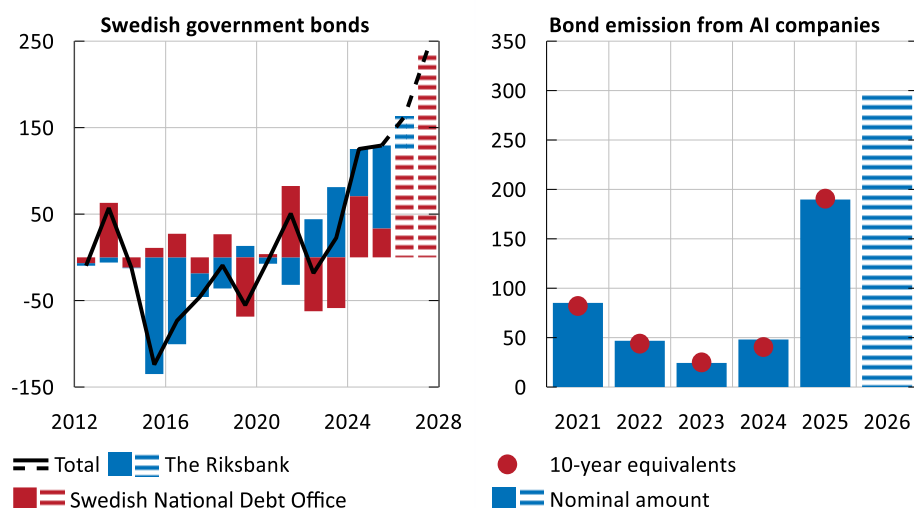
¹⁴ A common factor based on the term premia in the United States, Germany, the United Kingdom and Japan explains approximately 75 per cent of the daily variation in the Swedish term premium since 2010, which is consistent with a BIS study that found substantial international spillovers from shocks in the US term premium to long-term interest rates. See J. Kearns, A. Schrimpf och F. D. Xia (2018), "Explaining Monetary Spillovers: The Matrix Reloaded", BIS Working Papers nr 757, Bank for International Settlements, and A. Mehrotra, R. Moessner och C. Shu (2019), "Interest Rate Spillovers from the United States: Expectations, Term Premia and Macro-Financial Vulnerabilities", BIS Working Papers nr 814, Bank for International Settlements

¹⁵ Fiscal policy developments generally pointed towards an increase in the supply of debt securities. Germany established a EUR 500 billion infrastructure fund in 2025; US tax legislation that came into force in the same year led to higher projected deficits and increased federal borrowing; the United Kingdom was already facing an unusually large issue of government bonds; and Sweden increased its defence spending and its borrowing requirements.

US Treasury relying extensively on short-term government securities, while issuance of longer-term bonds remained largely unchanged.

Figure 27. Supply of bonds in Sweden and the United States

SEK billions, annual change (left) and USD billions, new issuances (right)



Note. Change in the supply of nominal government bonds, calculated as the net change in outstanding stock and in the Riksbank's holdings (with the sign reversed), including official forecasts from the respective institutions (left). USD bonds in a basket comprising AI-related companies, according to the Dallas Fed Economics report, 'How AI Debt Financing Impacts Duration Supply and Interest Rates', by De Vere et al. (2026). A forecast is reported for the full year 2026 (right).

Sources: Federal Reserve Bank of Dallas, Macrobond Financial AB and the Riksbank.

The rapid expansion of debt-financed investment in AI is leading to a significant increase of long-term corporate bonds issuance. In the first half of 2026, issuance by US non-financial companies was approximately 70 per cent higher than in the same period last year. Borrowers in the technology and AI sectors now account for almost 40 per cent of US bond issuances with an investment-grade rating and maturities of more than ten years.¹⁶ According to a study, this AI-related issuance could affect market interest rates by roughly as much as an additional USD 360 billion worth of 10-year government bonds issuances in 2026 (see Figure 27).¹⁷ Furthermore, AI-related borrowing has increasingly been undertaken in currencies other than the US dollar, contributing to the increase in the global supply of long-term bonds.¹⁸ It is difficult to quantify the impact of this additional bond issuance on government bond yields. However, this development is also relevant for Sweden, as long-term interest rates tend to move together across countries.

¹⁶ See Federal Reserve Board (2026), "New Security Issues, U.S. Corporations", and J. Cortese et al. (2026), "2026 Mid-Year Credit Outlook", Apollo Global Management.

¹⁷ This corresponds to roughly one-eighth of the total supply at that maturity. See H. De Vere, S. Ramaswamy and S. Searls (2026), "How AI debt financing impacts duration supply and interest rates", Federal Reserve Bank of Dallas.

¹⁸ See Y. Bahceli (2026), "AI debt sales reshape global corporate bond markets", Reuters, 1 June. Issues denominated in currencies other than the US dollar are estimated to account for around 30 per cent of hyperscalers' bond issues in 2026.

Higher long-term interest rates can affect the Swedish economy through several channels

The recent rise in long-term interest rates is affecting the Swedish economy, despite the short interest-rate fixation periods on household and corporate debt.¹⁹ Many Swedish borrowers have short interest-rate fixation periods, so changes in long-term interest rates may have a smaller direct effect on their interest expenses than changes in short-term interest rates. Households and companies should, nevertheless, expect higher borrowing costs in the future if long-term interest rates rise as a result of expectations about higher future short-term interest rates.

Long-term interest rates also affect the economy through other channels. Higher interest rates can tighten financial conditions by reducing the valuations of equities, real estate and other long-term assets, as future income has a lower present value when the interest rate used to value it rises. A higher cost of capital may also reduce firms' incentive to invest. For firms, higher interest rates raise the return required for an investment to be profitable, which means that fewer investment projects are undertaken.

Lower asset values and tighter financing conditions may dampen demand and economic activity. However, it is difficult to determine in advance how significant the macroeconomic effects will be. Empirical estimates show that movements in longer-term interest rates have a somewhat smaller effect on unemployment, inflation and the exchange rate than movements in shorter-term interest rates.²⁰

¹⁹ Around 95 per cent of the monetary financial institutions' lending to Swedish households has a remaining interest-rate fixation of less than two years and around 80 per cent of mortgages that are newly taken out or renegotiated have a three-month interest rate. See "Higher interest-rate sensitivity in the Swedish economy" in Monetary Policy Report, September 2022 and "The impact of monetary policy on interest-sensitive sectors in a European perspective", *Monetary Policy Report*, September 2023, Sveriges Riksbank.

²⁰ The empirical estimates are based on a proxy SVAR model estimated using Swedish monthly data for the period 2010–2026, including unemployment, KPIF inflation, the KIX exchange rate and Swedish swap rates at various maturities. Shocks are identified using external variables from a daily financial Bayesian VAR model (Akkaya, Brès and Canova, forthcoming working paper, Sveriges Riksbank).