

Falling Rates

Part I of *How Low Interest Rates Change the World*

By Jesper Rangvid

The first part of my new book, [How Low Interest Rates Change the World](#), examines the unprecedented decline in interest rates from 1980 to 2020, placing it within a historical context. I highlight how this period marked the most significant 40-year decline in nominal interest rates over the past seven centuries—driven by reductions in both inflation and real interest rates.

Part I of [How Low Interest Rates Change the World](#) comprises two chapters. In the first, I explore the historical trends of nominal interest rates, while the second focuses on real interest rates and inflation, which together drive nominal rates. My aim in Part I is to document *how* interest rates have evolved over time, rather than to explain *why* they have behaved as they did. The causes behind the decline in rates from 1980 to 2020 are the subject of Part III of the book.

By setting the scene in Part I, readers will gain an understanding of historical interest rate movements before delving into their consequences and underlying causes in subsequent parts of the book.

Nominal interest rates

As I mentioned in my previous post, one of the key motivations for writing this book was the persistent decline in interest rates over four decades, from 1980 to 2020—a trend illustrated in Figure 1 of that post ([link](#)).

Chapter 1 of the book documents how this decline in rates was both unprecedented and unique. Analysing interest rate movements over the past 700 years, I show that while interest rates have generally trended downward, the drop from 1980 to 2020 was truly remarkable, as illustrated in Figure 1.

Figure 1. *Changes in nominal global yields over subsequent 40-year periods, 1313-2023.*

Source: Bank of England/Schmelzing (2020) and J. Rangvid.

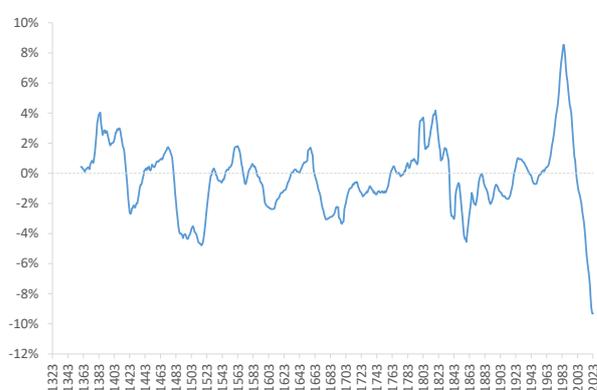


Figure 1 depicts the evolution of changes in global yields over successive 40-year periods spanning the past seven centuries. Global yields are measured as the average yield on government bonds from seven major economies.

Most observations in Figure 1 are negative, indicating that interest rates have generally declined over the past seven centuries. However, the most striking feature of the figure is the final data point, which shows that global yields fell by nearly ten percentage points between 1980 and 2020—clearly the largest 40-year decline in recorded history. Never, in the past 700 years, have interest rates fallen so much over a 40-year period. This fall was truly remarkable and something worth studying deeper, as the book does. Moreover, by 2020, global interest rates had

reached historically low levels, with many countries experiencing negative rates.

Chapter 1 documents how this decline in interest rates from 1980 to 2020 was reflected across different types of rates, including long- and short-term interest rates, government and corporate bond yields, and central bank policy rates. In short, the decline in rates over this period was not only substantial but also unparalleled in history.

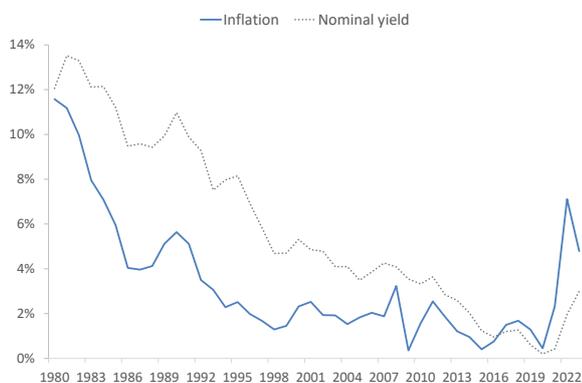
Inflation

In Chapter 2, I examine the fundamental drivers of nominal interest rates: real interest rates and inflation. As in Chapter 1, my focus here is to document the key trends before turning in Part III to the underlying reasons for the sustained decline in both real interest rates and inflation from 1980 to 2020.

Figure 2 shows that global inflation fell throughout the 1980s and 1990s and remained low—around two percent—during the 2000s and 2010s. The prolonged decline in inflation from 1980 to 2020 was a key factor in driving nominal interest rates lower.

Figure 2. Inflation rates and yields on long-term government bonds, 1980-2023. Average across 17 advanced economies.

Data source: OECD and J. Rangvid.



A key conclusion from Chapter 2 is that while inflation remained low from 2000 to 2020, it was not historically low. In fact, before the First World War and during the interwar period, prices frequently declined, meaning deflation was common.

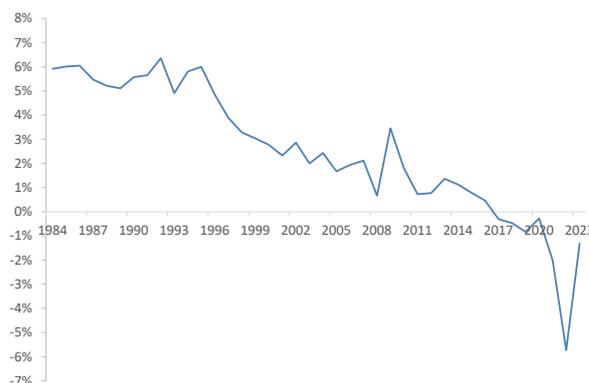
This highlights an important point: while nominal interest rates reached unprecedented lows before the pandemic—including, for the first time, negative interest rates—inflation, though subdued, was not at historically low levels. This suggests that another factor contributed to exceptionally low nominal interest rates. That factor was persistently low real interest rates.

Real interest rates

Real interest rates—nominal interest rates adjusted for inflation—also declined steadily from 1980 to 2020, as illustrated in Figure 3.

Figure 3. Real yields on long-term government bonds, 1984-2023. Difference between median nominal yields and median inflation across 17 advanced economies.

Data source: OECD and J. Rangvid.



Global real interest rates—the average across 17 advanced economies—stood at around six percent in the early 1980s. From there, they began a steady, four-decade decline, eventually turning negative before the

pandemic. The post-pandemic surge in inflation pushed real interest rates even lower, but this was only temporary.

Just as inflation was low but not historically low before the pandemic, real interest rates, despite being low, were not at their lowest point in history. At several earlier periods, real interest rates were even lower. For instance, the inflation spikes during the First and Second World Wars, as well as the high inflation of the 1970s, resulted in real interest rates that were as low as—or even lower than—those seen in 2020.

This is illustrated in Figure 4, which charts the development in global real interest rates over the past seven centuries.

Figure 4. Global real yields, 1323-2023. Seven year rolling average.

Data source: Bank of England/ Schmelzing (2020) and J. Rangvid.

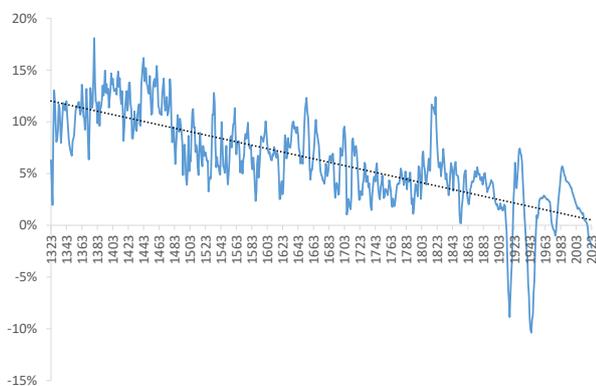


Figure 4 highlights at least four important insights:

- First, real interest rates have followed a persistent downward trend for the past seven centuries.
- Second, despite this long-term decline, real interest rates have been highly volatile, fluctuating significantly around the negative trend.

- Third, real interest rates were exceptionally low during the First and Second World Wars, primarily due to high inflation during those periods.
- Fourth, the past four decades stand out as unusual, as the decline in real interest rates from 1980 to 2020 was both steady and pronounced, with far less volatility compared to earlier historical periods.

Chapter 2 delves deeper into the long-term dynamics of price levels, inflation, and real interest rates, exploring periods of hyperinflation and examining inflation trends over the past seven centuries.

Conclusion

This post has provided a glimpse into Part I of [How Low Interest Rates Change the World](#). Naturally, this can only be a very brief overview—you'll need to read the book to fully explore its insights.

The key conclusion of Part I is that nominal interest rates experienced a dramatic decline from 1980 to 2020—the largest four-decade drop in recorded history—eventually turning negative in many countries, an unprecedented phenomenon.

Both real interest rates and inflation fell over this period, dragging down nominal interest rates. However, unlike nominal interest rates, neither real interest rates nor inflation reached historically low levels before the pandemic. This suggests that the exceptionally low nominal interest rates before 2020 were not the result of record-low real interest rates or inflation, but rather that both were low simultaneously.

Earlier in history, when real interest rates were low, it was often due to high inflation—

meaning nominal interest rates remained high. What made the 1980–2020 period unique was that both real interest rates and inflation fell persistently over four decades, driving nominal interest rates to historic lows.

In the next part, Part II, of the book, I explore how the prolonged decline in interest rates from 1980 to 2020 contributed to the emergence of five global megatrends.