

# DANMARKS NATIONALBANK

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BANKING AND MORTGAGE LENDING, INTERESTS, JUNE 2018

## History of bank lending and deposit rates

Since the second half of the 19th century, the average bank deposit and lending rates have varied considerably. However, common for both rates is that they peaked in 1980 at 12 and 20 per cent, respectively. Today, the two interest rates are at a record-low level at close to 0 and 3.5 per cent, respectively.

It is no coincidence that both lending and deposit rates were highest in 1980 and lowest in 2018. The two rates largely reflect the same economic development, which means that the difference, i.e. the interest margin, has only had minor fluctuations.

The record-high interest rates in the early 1980s should be seen in the light of the economic situation in Denmark at the time. Denmark had a persistent trade deficit on the current account balance. This

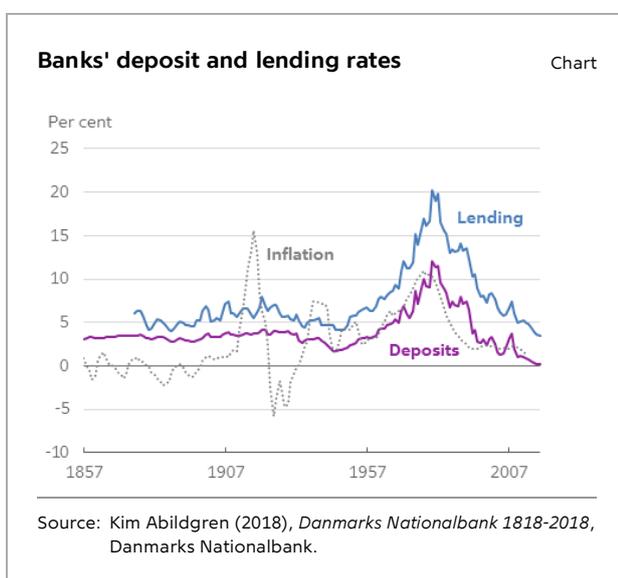
deficit led to multiple devaluations of the Danish krone against the German deutschmark through the 1970s and early 1980s. This policy contributed to high inflation, reaching over 10 per cent annually, while additional expectations of rising inflation increased the interest rates.

In 1980, annual interests on a loan of kr. 100,000 amounted on the average to kr. 20,000. Today, annual interests would be kr. 3,500 for the same loan. Taking inflation in 1980 into account, the real interest rate was somewhat lower, although still higher than today. Also, tax relief on interests was somewhat higher than it is today.

The declining interest rates in the years following 1980 were due to the establishment of the fixed exchange rate regime in 1982 along with stability-rewarding economic policies, which made it possible to reduce inflation.

The recent interest rate development is mainly due to the European Central Bank's easing monetary policy interest rates and purchasing government bonds, among other things, in order to stimulate the European economy following the financial crisis. The developments in ECB's monetary policy interest rates are ultimately reflected in Danish banks' interest rates.

The present low interest rates are in fact so low that just over half of Danish companies' deposits earn a negative interest rate.



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