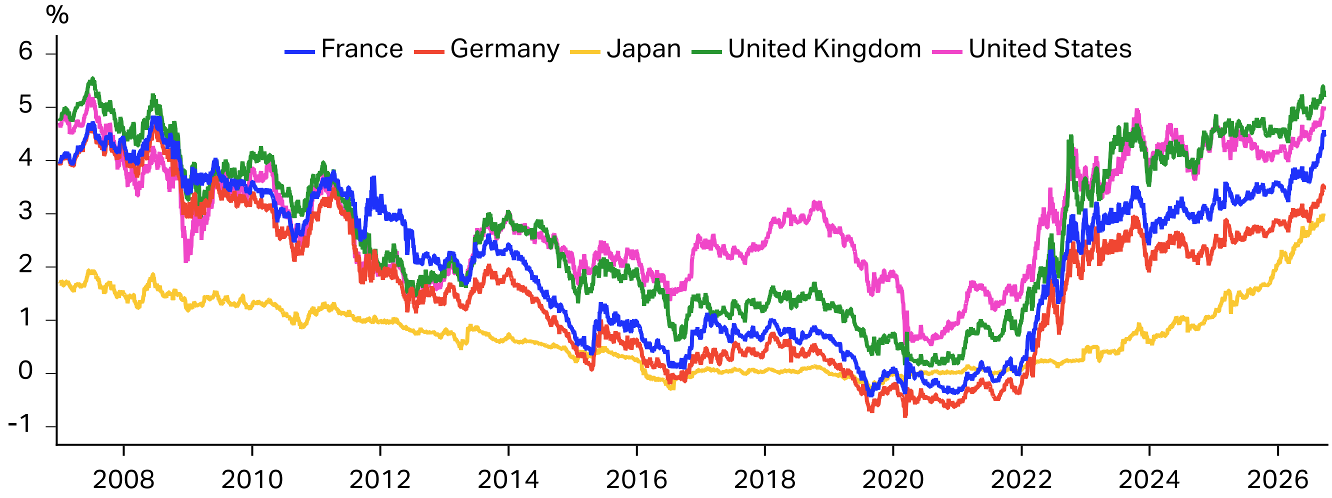
Chart of the Week

25 September 2026

A New Era of Higher Interest Rates – Another Headwind

10-year yield on government bonds, %



Source: IATA Sustainability and Economics, Macrobond

- The US Federal Reserve raised its policy rate by 25 basis points on 16 September – the first increase since 2023. This move followed that of the European Central Bank on 10 September and preceded the Bank of Japan which lifted its policy rate to the highest level since the mid-1990s on 18 September.
- Policy rates transmit across the maturity spectrum of market interest rates in a dynamic fashion, influenced by many factors, including inflation expectations, debt levels, demand for capital, and how these evolve across countries. With the energy crisis ongoing, inflation expectations have been revised up over the near term (explaining the central banks' moves). Global debt levels are at all-time highs at approximately USD 353 trillion in the first quarter of 2026, according to the IIF. Government borrowing is the main reason for the increase and most notably so in the US and China. The US government debt has surpassed USD 40 trillion, and the Congressional Budget Office expects a deficit of USD 1.9 trillion this year alone.
- The AI-related investment boom is creating a powerful increase in global demand for capital and competes with governments for this capital. This adds further upward pressure on long-term interest rates. Moreover, the lure of other safe-haven assets improves in this context, and central banks have been gradually increasing their gold holdings and reducing the share of USD assets in their reserves.
- Higher interest rates will weigh on economic activity in general. It will also make it more expensive to roll over maturing debt and to service that debt. While it is difficult to ascertain a single airline industry average debt maturity, a reasonable rule of thumb would put the weighted-average maturity of airline debt in the 6-to-8-year range - the industry's debt profile is therefore longer-dated than in many non-capital-intensive sectors. The average maturity can be higher for airlines with large amounts of aircraft financing and lower for carriers that relied heavily on shorter-term pandemic-era borrowing. Sustained increases in long-term yields will also raise aircraft financing costs, lease rates, refinancing expenses, and other charges. A new era of higher interest rates would spell a significant headwind for airlines' fleet renewal and travel demand.

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