The ECB is persistently lowering interest rates to stabilise the Eurozone Economy. Has it worked?

What are interest rates?

- An interest rate is the proportion of a loan that is charged as interest to the borrower, typically expressed as an annual percentage of the loan outstanding.
- The bank collects interest from borrowers and give a portion of it back to savers
- The portion of interest rates that the bank keeps for themselves is used to cover their costs to finance their own expansion and for profit.

Interest Rates

- Interest rates are not set by the Irish Central Bank but are set by the European Central Bank
- They are used as economic instruments to alter economic conditions. Depending on whether these are low or high they force consumers either to save or spend
- This graph is a perfect indicator to show just how dramatically interest rates have decreased in the last few years.

Why use interest rates as a tool to stabilise the economy?

- They are used as an economic tool to stabilise the economy as they can adjust the amount of money circulating in the economy.
- They can also alter other aspects of the mechanics of the economy such as inflation.
- They can act as emergency procedure in order to try to prevent recessions occurring in countries.

Advantages of low interest rates

- Cheaper borrowing costs. Lower interest rates make the cost of borrowing cheaper. It will encourage consumers and firms to take out loans to finance greater spending and investment. As more companies and consumers are spending this leads to the increase of economic growth .
- Lower mortgage interest payments. A fall in interest rates will reduce the monthly cost of mortgage repayments. This will leave householders with more disposable

income and should cause a rise in consumer spending, which again leads to an increase of economic growth and may increase inflation.
- This also causes an increase in the standard of living.
  source : Irish Times

What is economic growth?

- Economic growth is an increase in the amount of goods and services produced per head of the population over a period of time.
- In 2019 the economy grew by 4.9%
- Forcasted at 3.4% in 2020

Why does the ECB want to promote economic growth in the first place?

- Both the ECB and the governments want to promote economic growth as it increases tax revenue, earning the government more money which in return offers them the opportunity to increase spending on increasing the standard of living as a result of investing in public services.
- Promoting economic growth also ties into the eighth global sustainable development goal- decent work and economic growth.

Disadvantages of low interest rates

- Mortgage rates in Ireland are the highest in Europe, fluctuating between a rate of 2.64% and 3.51%. source: Central Bank of Ireland.
- The zero-interest rate policy set by the European Central Bank (ECB) is having a destructive effect on pensions, savings and investments.
- Due to low interest rates in Ireland we are suffering from a booming economy which is evoking a housing crisis and causing our health system to have many problems. May cause increase in inflation source : cso

What is inflation?

- Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time.
- Often expressed as a percentage, inflation indicates a decrease in the purchasing power of a nation's currency.
- It should remain at around 2% but its currently languishing around 1% Source: RTE news

What does inflation do?

- Think of inflation like a thermometer for the economy. When its high, there's probably too much spending going on and things are getting out of control.
- When it's too low, it's a sign that people aren't spending very much at all. Worse, it might discourage companies from building from building new factories or developing new products because the future doesn't look great.

Prices remain low as inflation stagnates

- In the year to November the rate of inflation in Ireland remained low at 1% with goods prices declining by 1.7% in the year to November 2019. Services saw inflation of 3% for the year to the end of November, this was driven mainly by bars and restaurants, utility bills and household rents. The continued trend of low prices in the retail sector further highlights the ongoing and consistent discounting which is now a hallmark of the trade, underlining the highly competitive nature of the sector.

The Irish situation.

- At the moment the interest rates in Ireland are 0.03% this is all in an effort to improve the value of the euro.
- These rates have been enforced by the ECB in efforts of increasing the retail sales
- Which seems to be working in ireland at the minute
- The graph results show the retail sales from march 2018 to march 2019

Why are the interest rates in Ireland so low?

- Ireland has the lowest interest rates in the European Union, why is this so ?
- Currently the ECB has cut the interest rates down to an astounding 0% this is due to Germany falling under economic struggles and a prominent threat of recession looming. Everything has been put on the line in order to save Germany from its economic doom as a result of the massive role it has in the global economy because, simply, if Germany goes down, we all go down with it.

Advantages of low interest rates in Ireland

- Investments- low interest rates have encouraged an increase of foreign direct Invesment into our country. This is excellent in promoting Ireland's economic growth. FDI has increased by €19.7bn in the last quarter of 2018 alone according to the CSO.
- There has also been an increase in enterprise births since borrowing interest rates hit rock bottom. This allows entrepreneurs to take out loans at an extremely low interest rate in order to set up new businesses. This in turn will lead to many benefits to the economy such as an increase in economic growth. Source : cso

Disadvantages of low interest rates in ireland

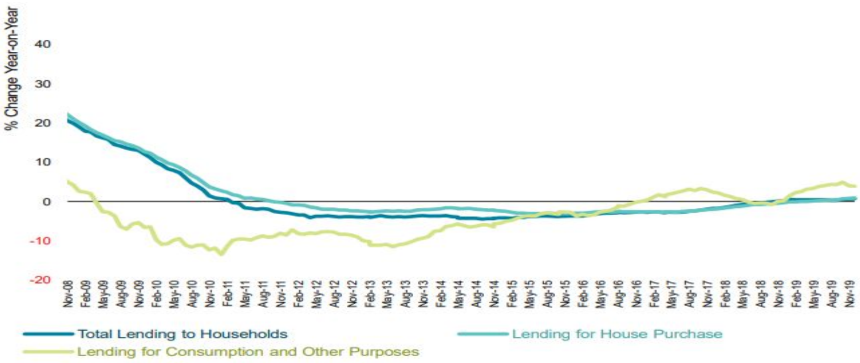
- Pensions- people investing in pensions are facing the same problems as investors, where should they put their money to get the best return for the future? As it stands pensioners may become the new poor in Ireland.
- Deposits- at the moment banks do not want deposits they want people to take out loans. They already have too much money in circulation and do not have anywhere profitable to put their money into. The ECB are also pushing consumers into borrowing money and spending money throughout the economy by lowering the interest rates. This is bad news for savers as they will not get as much returns on their

savings as they did in the past, if anything savers are losing money due to bank fees! Source:irish times

How interest rates affect the housing market.

- As a result of low interest rates there has been a significant increase in the number of people taking out mortgages. As seen from chart 1 and chart 5 from the Central Bank of Ireland.

Chart 1: Lending to Irish Resident Households



Conclusion

- So are low interest rates actually stabilising the economy?
- Low interest rates are causing retail sales to increase in the economy therefore is encouraging spending in the eurozone which increases economic growth.
- Europe is much more attractive now to FDI as the interest rates are so low this will act as a stabilising factor for the economy as it contributes to economic growth.

- But not all impacts of lower interest rates are positive when the interest rates drop as we see from the housing crisis in Ireland there can be massive negatives for the public. An increase in demand for houses caused by low interest rates has contributed to the housing crisis which is only getting worse.
- This increase in house prices has caused an increase in inflation which in turn is decreasing the standard of living. This does not aid economic stability.

Notes:

- The students included a bibliography of sources which has not been included here.
- The layout of this report has been altered from the original.