National College of Ireland

Project Submission Sheet

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Date: 15th August 2025

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"Effect of Interest Rate Changes on Consumer Borrowing Behaviour in Ireland"

Submitted by Muhammad Waqas

MSC Entrepreneurship

Submitted to the National College of Ireland, August, 2025

Abstract

This study investigates the effects of interest rate changes on consumer borrowing behaviour in Ireland, focusing on credit demand, refinancing activity, macroeconomic determinants of interest rates, and the institutional role of the Central Bank of Ireland. Using thematic analysis supported by existing literature, the research confirms a clear negative relationship between interest rate hikes and credit demand. Higher interest rates increase borrowing costs, reduce affordability, and encourage consumers to delay new credit applications or shift toward refinancing as a risk management strategy.

The findings reveal that refinancing activity rises during periods of interest rate volatility, with many borrowers opting for fixed-rate agreements to stabilise repayment obligations. However, access to refinancing benefits is uneven, as lower-income households and those with smaller loans face significant barriers such as switching costs and administrative burdens.

Participants demonstrated strong awareness of key macroeconomic factors influencing interest rates, particularly inflation, which aligns with the Central Bank of Ireland's price stability mandate. Other significant drivers include global interest rate trends, currency stability, and international capital flows, reflecting the interconnected nature of Irish monetary policy within global financial markets.

The study also clarifies the dual governance role of Central Bank of Ireland under the Eurozone model: even though the European Central Bank dictates the macro-monetary policy, the national central bank implements these policies domestically, safeguards financial stability, and ensures consumer protection.

Overall, the research highlights that borrowing behaviour in Ireland is shaped by both current and expected interest rate changes, with long-term credit products being more sensitive to rate fluctuations. This discovery has implications for policy makers and financial institutions in designing strategies that promote credit market stability, support vulnerable borrowers, and balance inflation control with sustainable economic growth.

Submission of Thesis and Dissertation

National College of Ireland
Research Students Declaration Form
(Thesis/Author Declaration Form)

Name: _Muhammad Waqas____

Student Number: 23416971____

Degree for which thesis is submitted: MSc Entrepreneurship____________

Title of Thesis: Effect of Interest Rate Changes on Consumer Borrowing Behaviour in Ireland

Date: 15th August 2025

Material submitted for award

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B. I declare that all verbatim extracts contained in the thesis have been distinguished by quotation marks and the sources of information specifically acknowledged. ☐

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Table of Contents

1.0 Introduction

1.1 Background of topic

The borrowing behaviour of consumers in Ireland is shaped by multiple factors which include rate of inflation in the country, wage level, taxes, government policies, macroeconomics shocks, and expectations about future (Baptista, 2025). In the recent studies, the role of labour income uncertainty, influence of wealth, issues related to sustainability have been highlighted which directly impact the decision of consumers to borrow from banks in Ireland. The household spending in Ireland is financed by borrowing. In developed countries, people rely on credit facilities for services and nondurables (Kozlov, 2023).

In the past decade, the interest rates were low making it easy for Irish people to access the credit. This has influenced the consumption of household products substantially. Contrary to this, when the interest rates are higher people prefer to safe money rather than encouraging spending. Similarly, when the bank offers lower interest rates, people prefer to consume money rather than saving (Felici & Kenny, 2023). People find it easy to borrow money when the interest rate decrease. Similarly, when borrowing money is cheap, people are willing to finance their consumption activities by borrowing more money (KICONCO, 2021).

In the light of borrowing behaviour of consumers in the past, generally credit facilities were provided for large purchases like to buy a house or a car. However, this trend has also changed due to availability of credit facilities in different countries. Nowadays, people prefer to purchase money for education, medical expenses and vacation financing (Lukama, 2022). Thus, it can be said that credit has become central to the growth of economies nowadays, and it is expected that the role of credit will become undeniable in near future. The Bank of Ireland pays attention to this consumer borrowing behaviour while formulating the monetary policy and making adjustments to interest rates depending on the consumption patterns of consumers (Sisay, 2021).

In Ireland, Interest rates in the country are considered to be the key contributor to the growth of credit in the country. When government of the country is intended to foster the economic activities in the times of economic crisis, it substantially decreases the interest rates to stimulate credit consumption. This relationship between interest rates and credit consumption behaviour of Irish people has captured the attention of many economists in the past (Drehmann, 2019). This makes it important for economists and financial authorities in the country to deeply understand the connection between change in rates/spread and their effect on the borrowing behaviour of consumers in Ireland to efficiently implement changes in monetary policy. Very few empirical attempts have been made to understand this relation. While majority of the authors have agreed on an inverse relation between the two terms, this topic is still contradictory and none of the existing studies have generated any satisfactory results (Lukas, 2022).

1.2 Research aims and objectives:

- To investigate the influence that an increase in interest rates has on mortgage demand in Ireland.
- To test the impact of interest rates variations on consumer refinancing levels and taking up of new credit lines.
- To understand the relationship between fluctuations in interest rates and borrowing activities by consumers in Ireland.
- To study different economic variables which cause the interest rates changes in the Ireland
- To understand the role that is undertaken by Central Bank of Ireland in shaping policies related to interest rates in Ireland

1.3 Rationale

The spending habits of people in any country is strongly impacted by the ongoing economic conditions in that country. One of the most important factors which can impact the financial behaviour of consumers in a country is the interest rate (Noth, 2022). As the Bank of Ireland change the interest rates in the country, it does not only impact the decision of Irish people to spend or to safe money but instead, the financial state of businesses also change. The reason behind this change is because borrowing trends change due to interest rate variations. The rise in interest rate slows down the state of inflation in the country because the cost of borrowing increase which cause a shift in consumer behaviour to save and discourage spending (Khan, 2024). Alternatively, when the interest rate in the country decrease, the cost of borrowing is reduced due to which people are discouraged to save money and are more willing to spend. Thus, the process of accessing finance becomes more affordable for Irish people. This makes it important that Irish people have complete understanding about the fluctuations in interest rate and how these fluctuations can impact their borrowing decisions (Bohan, 2024). This study will play an important part in developing the Irish borrowing behaviour towards consumer financing and devise superior strategies to make wise investment decisions.

1.4 Organisation of study

Chapter 1 of this study is related to providing an overview about the research topic, the research aims and objectives, highlights the main research question and the sub-questions followed by the rationale for choosing this topic.

The chapter 2 discuss the findings from the existing literature providing information about the relevant research topics and theories of economics and finance which relate interest rate changes to consumer borrowing habits. This chapter compare and contrast the findings by different authors to draw conclusions from existing literature.

Chapter 3 has used the concept of Saunder's research onion to discuss the methodology adopted for this study. It provides details on research strategy, method of research, data collection and data analysis process followed by research limitations and the research ethics.

Chapter 4 is the findings chapter applying the concept of thematic analysis to present the themes derived from the collected information. Tables are used in this chapter to make the results readable and understandable.

The findings relating to the research objectives are reflected in the analysis and discussion, which is what chapter 5 highlights. It closes the gaps between the objectives that were set at the beginning and the information received based on the data analysis.

Chapter 6 can be characterized as a conclusion, as it presents the results of the study with suitable answers to research questions.

2.0 Literature Review

This chapter adopts the compare and contrast approach to understand what other economists and scholars have extracted from their studies regarding the influence of interest rate changes on borrowing behaviour of consumers in Ireland. This helps to summarise the findings of existing studies and identify the gap in existing literature that will be addressed by the findings of this study.

2.1 Circular Flow of economy

According to Caspi (2024), the concept of circular flow of economy forms the foundation of macroeconomics theory which illustrates how money and resources circulates between the different economic agents. The term economic agents in this theory address households, firms, government, the financial sector, and the foreign sector (Baptista, 2025). Rom (2024) has regarded Ireland as the small economy located in the Eurozone and demand that the circular flow model must take into account the distinct structural features such as foreign direct investment, export dependency, and European Union Regulatory Framework (Coskun, 2020).

While discussing the circular flow of economy in Ireland, Jonathan (2016) has discussed the two-sector model and proposed through his findings that in circular economy, households provide the factors of production to companies which provide income to labourers. Labourers tend to use their income to have goods and services supplying money to the firms. This forms the loop of monetary flow and income flow in the economy (Lusardi, 2017). However, in the context of Ireland, Agarwal (2020) has claimed that this model is not sufficient to understand the circular flow of economy in the country. The reason is the model is complex and does not cover all dimensions of Irish economy. This has also been supported by Driscoll (2023) who has stated that the operations of multinational corporations have a strong influence on the economic system of Ireland. This directly impacts the income generation as well as expenditure patterns in the country (Bohan, 2024).

Extending the findings of two sector model, Atkinson (2022) has discussed three sector model in relation to the Irish economy. The third element which has been entered in the two-sector model is the Irish government. The study of Auerbach (2022) has revealed that the government plays a vital role in stabilising the circular flow of Irish economy by injecting finances into economy through public services. At one end where the Irish government invest in infrastructure development, at the same time, they withdraw funds from the economy through taxation. Thus, the Irish government plays an important role in redistributing the income and maintaining macroeconomic stability in the country. According to a report by the Irish department of Finance (2024), most of the social funds in Ireland are redistributed to the European union facilitating departments such as health, education and unemployment benefits (Baker, 2024).

The three sector model to study the economic flow was extended with the addition of the financial sector labelling it as the four sector model. When the household and firms save money, they transfer it to financial institutions which lend that amount to businesses and other credit consumers (Belsky, 2022). The interest rates set by the central bank of a country, impact the borrowing, investment and saving decisions by local consumers. Thus, the policy set by the central bank has a strong influence on internal flow of income although the Irish government does not have any control on its own monetary policy (Noth, 2022).

Extending the four-sector model, the role of international firms is added to formulate the five-sector model of circular economy. The key sources of income in Ireland include exports from different sectors such as pharmaceuticals, and financial services sector. The report by Central Statistics Office (CSO) 2024 state that 100% of the gross domestic product value in Ireland depends on exports (Berger, 2021). Following the findings of this report, Bernanke (2025) has criticised that Irish economy is sensitive to demand fluctuations on international level and is strongly impacted by trade dynamics. While imports are equally important for Irish economy, when the economy is dependent on imports, this means that a significant portion of business spending is leaving the economy of the country (Bhutta, 2020).

Deaton (2019) has claimed that while discussing the circular flow of economy in Ireland, one cannot ignore the role played by the multinational companies. Since these businesses significantly contribute to the economic success in the country, much of the income is not retained in the country on domestic scale. Thus, a gap is formed between gross domestic product (GDP) and gross national income. To reflect the economic activity in a better way, the Central Bank of Ireland has introduced this as a key metric (Cloyne, 2021).

To sum this up, the circular flow of economy is the most appropriate model as agreed upon by economics and scholars to study the economy of any country like Ireland. However, it is important to understand the role of foreign companies in the country and how they influence the foreign transactions to make the results more reliable These dynamics can help to make the circular flow of economy unique as well as complex within the European context (Agarwal, 2020).

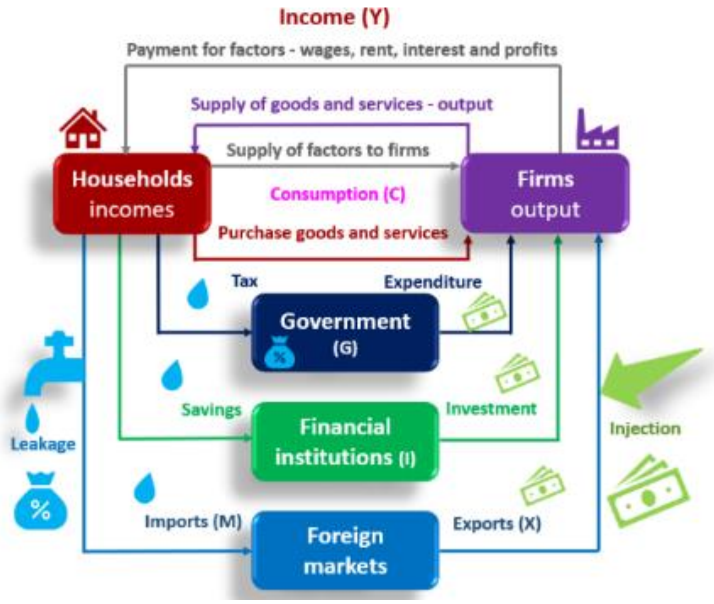

Figure 1: Circular flow of economy model (Atkinson, 2022)

2.2 Definition of interest rates by the Bank of Ireland

The monetary and financial system in Ireland is based on the concept of interest rates. Th overall economic activity in the country is strongly influenced by the clauses of the monetary and fiscal policy formed by the Central Bank of Ireland. The Central Bank of Ireland plays a crucial role in providing interest rate products and explanation of these products aligned with monetary policy set by the Central Bank of Europe (Auerbach, 2022).

The Bank of Ireland has provided multiple definitions of interest rates which are tailored according to consumer behaviour, operational transparency, and dynamics of the financial markets. Although the official policy rates are set by the Central Bank of Europe in International markets, the multiple definitions of interest rates as accounted by the Bank of Ireland incorporates the role played by Ireland in the Eurozone (Khan, 2024).

Claessens (2022) has discussed the definition of interest rate in operational context mentioning that the cost of borrowing money or lending/deposit rates which can be either fixed or variable or the return paid by banks on the deposited amount is regarded as the interest rate by the Central Bank of Ireland. According to official customer resources by Bank of Ireland, when the interest rate remains unchanged for a long period of time over specified loan terms, it is regarded as fixed interest rate. However, when the interest rate change over time according to the market fluctuations, it is regarded as variable interest rates (Fisher, 2023).

In Ireland, the financing products are defined depending upon the variable interest rates. Interestingly, Gertler (2024) has claimed that Ireland does not have any national monetary authority which can regulate the interest rates in the country. The Bank of Ireland regulate its interest rates according to the rates set by the broader Eurozone monetary framework. Since the major part of Irish economy is dependent on external capital, it has to capitalise its financing decisions following the rules adopted by the Central Bank of Europe (Jappelli, 2024).

Other parameters which are considered in defining interest rates by the Central Bank of Ireland include Annual Percentage Rate (APR) and Annual Equivalent Rate (AER). Baptista (2025) has regarded the annual percentage rate as the true cost of borrowing over the year which include nominal interest rate as well as fees and other charges. In contrast to this, annual equivalent rate reflects the effective annual return on savings including the compounding rate. Since these definitions are aligned with European Consumer Credit Directive standards, it makes it difficult for consumers to compare different financial products and make decisions (Lusardi, 2017).

According to Edwin (2023), interest rates not only play an important role in stabilising the economy but instead, the Irish government use interest rate to manage inflation and investment flow in the economy. Central banks stimulate the demand of financial assets in the country by adjusting the interest rates to counter act opposed to the banks in other countries. Author has discussed this in the Irish context mentioning that the Bank of Ireland, though indirectly governed by the central banks in other mandates, governs the pricing of loans, mortgage and other deposit products in the country (Rom, 2024).

Auerbach (2022) has discussed how fluctuations in interest rates can impact the consumption of household products and affordability for local residents in the country. Thus, it can be said that the way Bank of Ireland communicates these interest rate structures is important not only operationally but also from economic perspective (Atkinson, 2022).

To conclude, it can be said that scholars have not agreed on a single definition of interest rate in Irish context. However, all scholars have agreed that the definition of interest rate in Ireland is connected to the clauses defined by the Central Bank of Europe. Thus, before opting for any kind of loan, consumers in Ireland must consider the interest rate fluctuations accommodated by the Central Bank of Europe.

The table shows the summary of different types of interest rates as defined by Bank of Ireland under the mandate of Bank of Europe.

Term	Definition
Fixed Interest Rate	An interest rate that remains unchanged for the agreed duration of a loan or deposit.
Variable Interest Rate	An interest rate that can fluctuate throughout the agreed term, influenced by market conditions.
Annual Percentage Rate (APR)	The total yearly cost of a loan, which includes both the interest rate and any additional fees.
Annual Equivalent Rate (AER)	The annualized rate of return on a savings account, which accounts for the impact of compounding interest.
ECB Main Refinancing Rate	The interest rate at which the European Central Bank lends money to commercial banks.

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Table 1: Summary of definitions of interest rates by different authors (made by author)

2.3 Effect of interest rates on consumer demand for credit facilities

The findings of Johnson (2020) have revealed that the demand for credit facilities shape the consumer behaviour in terms of getting personal loan, mortgage facilities and overdrafts. The existing literature by Kiyotaki (2021) has clearly acknowledged the importance of interest rate variations in influencing the consumer abilities to borrow which impact the economic growth of the country. However, Saikalyan (2023) has discussed the classical theory of economics to highlight the effect of interest rates on consumer demand for credit facilities. In the context of this theory, when the interest rates decrease borrowing becomes cheaper. This encourages the household to take more credit from the bank. As the result of increase in borrowing, the consumer spending also becomes high specifically on housing facilities and durable goods. Alternatively, when the interest rates are higher, the cost of credit increases the consumers tend to reduce borrowing which surpass the market demand. Hence this can be said that an inverse relationship exists between interest rate fluctuations and consumption behaviour of consumers in the economy (Saikalyan, 2023).

To further elaborate the relationship between the interest rate variations and consumer demand for credit facilities, Lacour-Little & Capone (2022) has mentioned in his study that the consumer credit demand is also influenced by the cost of funds and consumer expectations with the central bank of the country. The monetary policy regulates the demand of consumer credit facilities in the country by making adjustments to interest rates. Highlighting the financial global crisis of 2008, Lusardi & Mitchell (2023) has stated that household debt has increased due to lower interest rate during this period. Also, the mortgage lending has been higher in UK and Ireland during these crisis situations. Specific to Ireland, Muellbauer (2025) has mentioned that the mortgage credit forms an important part of household debt in the country. The culture of home ownership is quite high in Ireland has increased the demand of credit facilities in the country. However, when the interest rates have spiked, banks observe a clear decline in mortgage approvals (Melnikovas, 2018).

Author has mentioned in his study that those consumers are more sensitive to interest rate changes who have low income or weak credit history. The reason is it raise affordability concerns for them due to which they avoid availing credit during the time period when the interest rates are higher (Parker, 2022). In contrast to these consumers, those people who have stronger credit profile and are financial stable can still avail the credit facility at the higher interest rate. However, the important criteria here as justified by Peters (2024) is that the expected return on investment must justify the cost of buying the credit.

Discussing another important variable which can impact the demand of credit in the country, Rom, (2024) has presented an argument that customer expectations from the benefit that they can get from the credit also influence its demand. If the customer forecasts that in future the interest rates will increase, he prefers to borrow credit at the present. However, if the economic uncertainty in the country is high such as during pandemic period when the lower interest rate has not even stimulated the demand of credit in the country (Sisay, 2021).

Agarwal (2020) has summed up his findings saying that the relationship between interest rates and credit demand is mediated by financial regulations and banking standards set by the Central bank of a country. Sometimes, the central bank of the country may implement such policies which makes it hard for consumers to get access to the credit facilities despite that interest rate levels are higher or lower. After the financial crisis of 2008, such policies and instruments have played an important role in stabilising the country's economy (Gertler, 2024).

Thus, arguments exist in literature regarding the relationship between interest rates and consumer demands for credit. Most of the economists have agreed on an inverse relationship between these variables where the borrowing characteristics of the borrower, economic expectations and regulatory framework strongly influence the decision of consumers to avail the credit facility from the local banks in the country (Lusardi, 2017). This relationship has been summarised in figure 2.

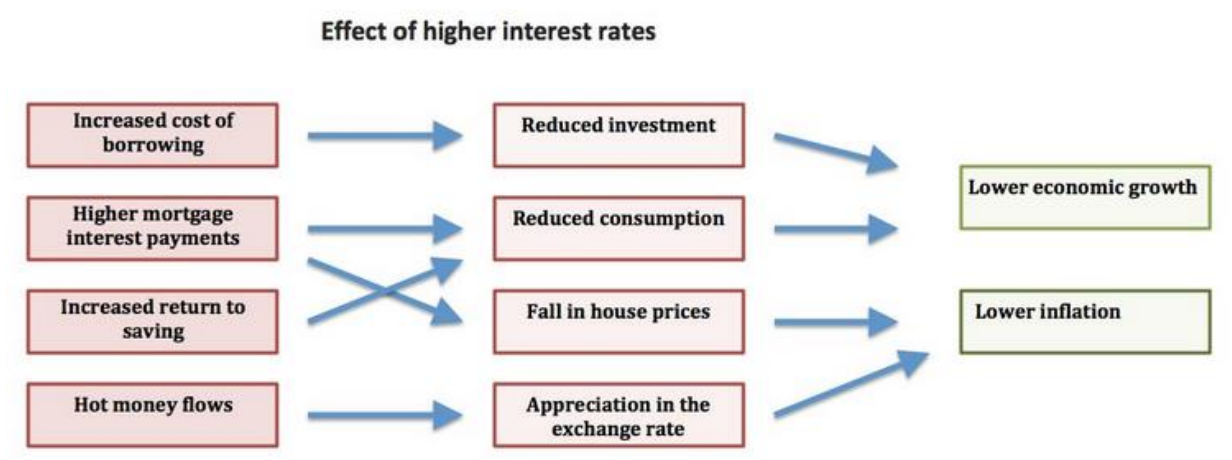
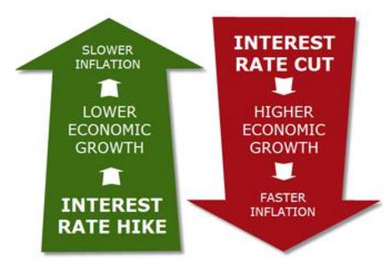


Figure 2: Relationship between interest rate variations and economic growth of a country (Lusardi, 2017)

2.4 Economic factors impacting interest rate fluctuations

In existing literature, a range of economic variables have been discussed by scholars and economists which directly or indirectly impact the interest rate fluctuations in the country. Arguments exist among scholars regarding direct or indirect linkage between these variables and interest rates (Lacour-Little & Capone, 2022). The fluctuations in interest rate can cause shift in borrowing, lending, investment and consumption patterns of credit consumers in the country, In the context of economic theory and empirical studies conducted, the multiple economic variables which can influence the interest rate fluctuations in the country include inflation, economic growth, monetary policy, exchange rates, and government fiscal position (Kiyotaki, 2021).



2.4.1 Inflation

According to Handriyani (2023), nominal interest rate has less influence on economic activity in a country as compared to fixed interest rates. When the rate of inflation in the country increase, the lenders demand higher returns on invested amount to preserve the value of their returns. The monetary policy of Eurozone countries including Ireland is designed by the Central Bank of Europe. During the period of high inflation, the bank increases the interest rates to curb spending and increasing price pressure. This behaviour has been evident in recent years (2020 to 2023) to overcome the post pandemic inflationary surges in these regions (Nishanth, 2024).

2.4.2 Economic Growth

The economic growth of a country also plays an important role in causing interest rate movement in the country. When the GDP of the country rise, the demand for credit facilities increases because business activities are surged. This causes an increase in consumer spending creating an upward pressure on interest rate movements. Contrary to this, during the period of economic recession, the government decrease the interest rate to promote economic activity in the country (Bosworth, 2024).

2.4.3 Monetary Policy

Monetary policy serves as the direct tool influencing interest rates in the country. The short-term market rates are defined by the Central Bank of Europe in compliance with refinancing rate, and marginal lending rate. Other factors that impact the monetary policy include inflation forecasts, employment trends, and overall economic stability. In Ireland, the domestic interest rates are set to that limit that they can immediately respond to Central Bank policy regarding the business lending rates implemented in the country (Atkinson, 2022).

2.4.4 Exchange rate

This economic variable has an evident contribution in open economies. The import prices in the country are decreased when the value of local currency is appreciated. This reduce the inflationary pressure in the economy and alternatively the interest rates are decreased (Agarwal, 2020). Similarly, when the value of foreign currency is depreciated, inflation increases which promote interest rates in the country. Since the Irish economy heavily relies on imports related to energy and consumer goods, currency movement can influence the interest rate values to greater extent to impact the domestic price level in the country (Sisay, 2021).

2.4.5 Government Fiscal Position

When the public debt levels in the country are high, interest rates are higher because the government compete with the private lending companies to acquire more finances. Secondly, under such circumstances, lenders demand premium return for the high risk they perceive in the investment. Since in Ireland, the period of high public debt persists, fiscal policy set by the government emphasise on the stability of interest rates in the country (Baptista, 2025).

2.5 Role of monetary policy

Gertler (2024) has defined monetary policy as the instrument used by the government of the country to stabilise prices and influence the aggregate demand criteria set by the government of the country. The transmission mechanism followed in the monetary policy help to determine how bank policy rate can induce changes in the market rate; bank lending rates and causes a shift in firm behaviour. This shift in borrowing behaviour of consumers can be attributed to different channels including interest rate channel (cost of credit), bank lending conditions and future rates and income prospects (Caspi, 2024).

The empirical study conducted by Lacour-Little & Capone (2022) has revealed that the borrowing cost for household is altered by changes in mortgage rates and consumer loan rates. The Central Bank of Europe itself acknowledges that its policy stance is directly dependent on affordability of mortgage payments and housing affordability by local consumers of the state. The heterogeneity in types of contracts impacts the distributional income in interest payments and consumption patterns of consumers (Jarrow, 2022).

Sisay (2021) has promoted that Ireland is known as the short open economy which is governed by the policies set by the Central Bank of Europe, domestic short-term rates are set by the European Central Bank but the consumer borrowing behaviour is mediated by Irish banking sector. However, opposing the findings of Atkinson (2022), Baker (2024) has stated that the banking sector in Ireland deals with setting prices, market structure and borrower contract mix. According to the recent research conducted by the Central Bank of Ireland, the new mortgage rate in Ireland is slower compared to some euro-area peers in the country.

According to Rom (2024) the Irish borrower's community is highly vulnerable to interest rate shocks. When the policy rates are increased, mortgage payments are also raised which can put individuals with low income into distress. Similarly, this concept has been covered by Noth (2022) who has stated that individuals with high leveraged households also encounter challenges. The Central Bank of Ireland promote scenario modelling and conclude that as the result of monetary tightening, the household may have to bear welfare consequences (Agarwal, 2020).

The heterogeneity in consumer borrowing behaviour has also been discussed by Atkinson (2022). He has claimed that those household individuals can quickly reduce the spending when the interest rates rise while the household individuals who have fixed their amount for longer period of time face delayed effects but they may experience higher impacts on refinancing (Baker, 2024). Extending upon this study, Muellbauer (2025) has mentioned that credit demand itself is price elastic. Therefore, even if the Central Bank of Ireland ease the credit criteria, since the demand for consumer credit will remain low because the borrowing costs are higher even if the economic uncertainty persists in the country. Hence it can be said that the price effect and consumer expectations effect both can operate together.

2.6 Theoretical framework

To understand the impact of interest rate changes on consumer borrowing behaviour, scholars have used the combination of classical consumption theories with models of credit market risk, and models of behavioural economics. The different theories covering the impact of interest rate changes on credit consumption behaviour of consumers in Ireland are discussed below.

2.6.1 Classical Theory of interest rates

Classical economists like Ricardo and Mill asserted that the decision on setting interest rates is based mainly on two elements i.e. on the amount of available savings and the amount of investment capital required in the economy. In this model, interest rates are considered as the price that balances the interests of the savers and borrowers. With low rates, the cost incurred in borrowing is reduced and thus the consumers see it fit to borrow through banks. Conversely, the increased interest rates increase the opportunity cost of borrowing, so consumers delay making their purchases (Saikalyan, 2023). However, this theory has been criticised by Parker (2022) claiming that it considers the perfect market which actually do not exist. This has been agreed upon by Belsky (2022) who has mentioned in this study that this theory does not consider behavioural and monetary factors due to which economists cannot rely on the results of this theory.

2.6.2 Keynesian theory of interest rates

This theory, also known as liquidity preference theory was proposed by John Maynard Keynes, who has established the link between interest rate and supply and demand of money in an economy. Soti (2020) has discussed the general consumer behaviour stating that consumers hold money for transactions and when the interest rates are high, they prefer to make investment to overcome the opportunity cost of holding that money. Contrary to this, when the interest rates decline, people hold more cash and wait for spikes to make investment decisions (Mfon, 2025). Extending the findings of this Melnikovas (2018), Baptista (2025) has mentioned in his study that financing seems attractive to investors when the interest rates are low. This increases the demand of consumer credit in the country. While when the interest rates are high, borrowing activities are discouraged in the country. Thus, this theory highlights the role of monetary policy in regulating the supply of money which influences the buying behaviour of consumers (Lukama, 2022).

2.6.3 Fisher's Theory of Interest rates

This theory was proposed by Irving Fisher who has covered the concept of real interest rate and nominal interest rate. This theory is directed to differentiate these two types of interest rates. The borrowing decisions of consumers are based on real rate because this rate reflects the true cost of borrowing. When the real rate is low, consumers are encouraged are borrow more and vice versa (Mfon, 2025).

2.6.4 Credit Rationing Theories

According to Sisay (2021) this theory challenged the Fishers theory proposing that banks propose asymmetric information to consumers encouraging banks to ration credit rather than rising the interest rates for consumers. However, Nishanth (2024) has criticised this theory stating that from the perspective of consumers, the borrowing mechanism is not based on pricing factor only. Consumers equally value access to credit resources and perceived risk in the investment. If the bank as restricted the lending standards and the interest rates are lower, this can still encourage investors to hold on their money (Lusardi & Mitchell, 2023).

2.6.5 Loanable Funds Theory

This theory corelates to classical theory and propose that monetary factors are equally important in defining the investment dynamics. In the context of this theory, Soti (2020) has proposed that the availability of credit plays an important role in determining interest rates. However, opposing this statement, Kozlov (2023) has suggested that in the light of consumer borrowing behaviour, when the supply of loanable funds is higher, interest rates are low and this stimulates the consumer behaviour to demand more credit.

The table 2 below summarises these theories and criticism against each theory.

Theory	Key Assumptions	Mechanism of Interest Rate Determination	Limitations
Classical Theory	Perfect capital markets; savings = investment	Interest rate adjusts to balance supply of savings and demand for investment funds	Ignores financial market frictions and behavioural factors
Keynes' Liquidity Preference Theory	Money held for transactions, precaution, speculation	Interest rate determined by demand and supply of money in money markets	Focuses mainly on monetary factors, less on structural credit constraints
Loanable Funds Theory	Savings and investment decisions influenced by monetary and real factors	Credit availability and saving-investment balance determine rates	Assumes smooth pass-through from rates to credit availability
Fisher's Theory of Interest	Inflation expectations affect real cost of borrowing	Real interest rate = nominal rate – expected inflation	Assumes rational inflation expectations; ignores credit rationing
Credit Rationing Theory (Stiglitz & Weiss)	Information asymmetry between borrowers and lenders	Lenders may restrict credit supply instead of raising rates to limit risk	Emphasises access over price; does not model rate changes directly

Table 2: Summary of theories on interest rate determination (made by author)

2.7 Consumer Financing trends in Ireland

Considering the recent literature by OECD (2022) to understand the trends in consumer financing in Ireland, it has been made clear that after the financial crisis of 2008, the consumer credit facilities in Ireland has expanded from 2010 to 2020. This renewed expansion in consumer credit facilities in the country has resulted into improved labour market conditions, rising consumer confidence in borrowing facilities and secured personal lending proposed by lenders in the country (Atkinson, 2022). However, Baptista (2025) has criticised this mentioning in his study that growth is not a uniform mechanism and credit expansion in Ireland has been concentrated into some specific categories such as personal loans for home improvements, vehicle finance and discretionary spending. This trend is more popular among younger and middle-income groups in the country (Saikalyan, 2023).

Sisay (2021) has thrown light on the household financing in Ireland and suggested that mortgages remain an important component of household financing in Ireland. Paying attention to this statement, Soti (2020) has suggested that the types of mortgage contract have a strong influence on fluctuations in interest rates in the country. When the financial market crash, most of the borrowers are insulated from the short-term policy moves and the popularity of fixed interest rates is increased. However, Auerbach (2022) has focused on affordability pressure mentioning that when the property prices are raised, the value of mortgage rates is also increased. This specifically applies to the first-time buyers which impacts the demand of consumer credit in the country. The literature by Baker (2024) has elaborated that both supply and demand variables in the country impact the consumer finance When the monetary policy is tightened, borrowing costs are raised and this reduce the demand for new credit facilities. Thus, it can be said that the conditions set by the Central Bank of Europe are sensitive to domestic credit conditioning and cross border capital flow (Agarwal, 2020).

2.8 Summary

To summarise the findings of this literature, Ireland has moved from post crisis situation to renewed expansion of the credit facilities in Ireland. Recovery in the growth of credit has been the most noticeable shift in Irish economy after the financial crisis of 2008 (Auerbach, 2022). In 2012, the household borrowing has again begun to expand which is particularly evident from the amount of personal loans and home improvement borrowing facilities. Following the data from the Central Bank of Ireland, this growth is concentrated among the younger generation to middle income household individuals in the country (Belsky, 2022). This reflects the improved employment conditions and rising consumer confidence in the home financing in the country. Another important theme which is prominent in literature is the affordability pressure. Fluctuations in interest rates in Ireland create affordability pressure among the people of different income groups in the country. Most of the household income is concentrated to the mortgage services. Scholars have also argued about the role of different economic theories and contribution of monetary policy in regulating the interest rate changes in the country (Peters, 2024). The role of policy and regulations in stabilising the interest rates cannot be denied. In providing excessive credit growth and mitigating systematic risks, financial institutions in Ireland must use up to data to derive refinancing behaviour of consumers (Rom, 2024).

2.9 Gap in literature

In existing literature, most scholars have provided a broader view considering the data from the Central Bank of Europe and Ireland. But this lacks the granularity to capture more detailed information about the refinancing patterns of consumers and their behavioural responses to interest rate changes in the country. Although majority of the literature has acknowledged the role of non-banking lenders and digital credit products, there is lack of information about the direct relation between new credit channels and traditional borrowing patterns followed by Irish consumers (Baker, 2024). Current literature has addressed that the borrower sensitivity to interest rates varies by income, age and equity position of consumers but it has failed to highlight how changes in the credit markets impact different socio-economic groups in the society particularly the household financing groups (Atkinson, 2022). This study will therefore focus to highlight the direct relation between interest rate variations and consumer borrowing behaviour in the context of multiple direct and indirect factors which can impact the consumption patterns of Irish consumers. This study will take into account the psychological and behavioural dimensions which can shape the borrowing behaviour of Irish consumers.

3.0 Research questions

Based on the literature review and to address a gap in existing research, this study will explore the following research questions:

Main Research Question:

- How do changes in interest rates affect the borrowing behaviour of Irish consumers?

Sub-questions:

- What is the relationship between rising interest rates and credit demand in Ireland?
- How do interest rate changes (both increases and decreases) influence consumer demand for refinancing and new credit?
- What is the role of monetary policy in regulating Irish interest rates?

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4.0 Methodology

A research methodology is the structured approach that outlines the specific steps taken to achieve research objectives. To plan out research activities, Saunder's Research Onion model is widely used by researchers. In the light of this model, it is important for a researcher to choose a suitable research methodology to find appropriate answers to the research questions (Mohajan, 2017). This model covers different aspects of the research plan including the reliability and validity of the data sources used. The researchers following this model sets a pre-defined criteria to choose the right research method. Thus, this model help researchers to make appropriate decisions about the research process (Askarzai & Unhelkar, 2020). Figure below represents the six layers of this model.

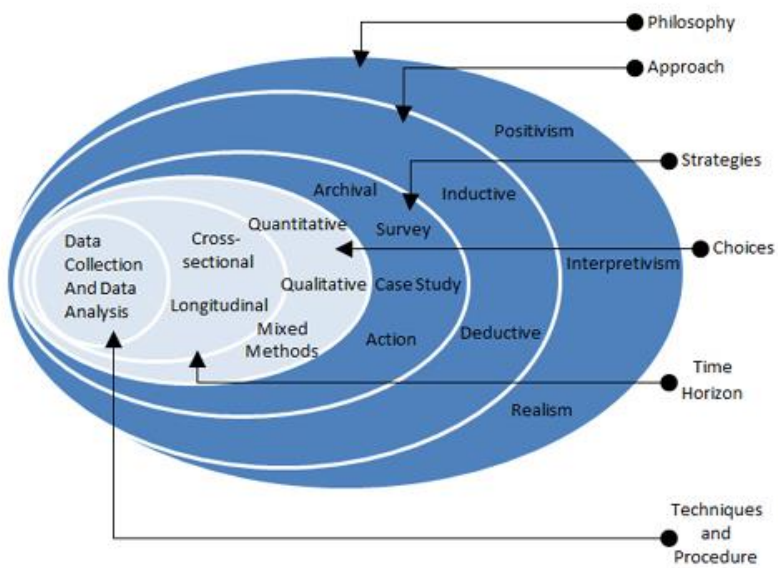

Figure 3: Layers of Saunder's Research Onion

Patel & Patel (2019)

4.1 Research Philosophy

A research philosophy is a belief about the way data should be gathered, analysed, and used. It's an overarching worldview or framework that guides how a researcher approaches their work. Examples include positivism and interpretivism. The process of collecting and analysing data to support research objectives is part of the research methodology, not the philosophy. The four most common types of research philosophies which are used by researchers include pragmatism, positivism, realism and interpretivism (Patel & Patel, 2019). These are shown in figure 4.

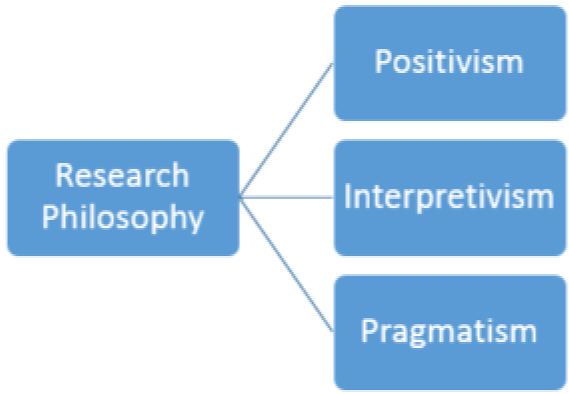

Figure 4: Research philosophies (Askarzai & Unhelkar, 2020)

4.1.1 Interpretivism Research Philosophy

When the researcher is aimed at observing the surroundings and relate the research objectives to the phenomenon taking place in nature, he is actually following the interpretivism research philosophy (Askarzai & Unhelkar, 2020).

4.1.2 Positivism Research Philosophy

When the researcher is focused on objective perspective of the research topic instead of valuing his own opinions and relating the findings of his study to the objective figures and facts, it is regarded as the positivism research philosophy (Askarzai & Unhelkar, 2020).

4.1.3 Realism Research Philosophy

When the researcher adopts the approach covering the parameters of both positivism and interpretivism research philosophies, he is following the realism research philosophy. In the context of this philosophy, the research develops perceptions about the research topic to consider it from the humanistic perspective (Askarzai & Unhelkar, 2020).

4.1.4 Chosen Research Philosophy

For completing this study, positivism research philosophy has been selected because the study aims to understand the credit borrowing behaviour of Irish people due to fluctuating interest rates. Since this philosophy covers the quantitative data as well as theoretical aspects of the topic, it meets the criteria for the required philosophy for this study. Thus, adopting this philosophy will provide access to wider data sources and highlights the importance of using scientific methods, empirical observations and objective knowledge in concluding the collected data.

The positive aspects of this research philosophy lie in reliability and generalisability of information. The data collected following this research philosophy reflects the same patterns of information. This philosophy uses systematic, structured methods (experiments, surveys, statistical analysis) that are widely accepted in academic and professional settings. It becomes easy to establish the cause-and-effect relationship between different variables. However, this philosophy has negativities such that it ignores the human behaviour and other contextual factors which cannot be easily quantified.

4.2 Research Approach

Unlike research philosophy, a research approach outlines the specific steps involved in analysing the gathered data. The main distinction between the two is in their focus: research philosophy is concerned with the broader interpretation and underlying worldview of the study, while the research approach emphasizes the process and methods used to carry out the research. The researcher can adopt three types of research approaches which include inductive research approach, deductive research approach and abductive research approach (Sakyi & Musona, 2020).

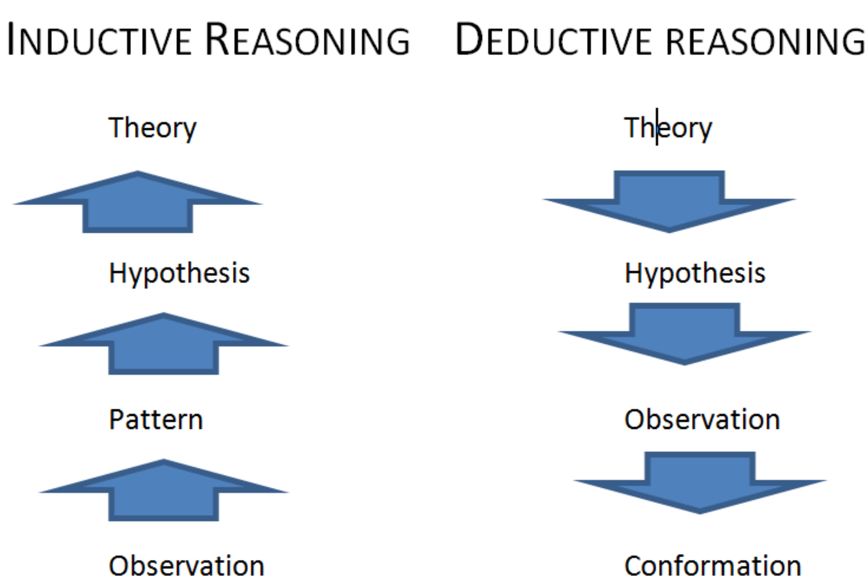

Figure 5: Research Approaches (Sakyi & Musona, 2020)

4.2.1 Inductive Research Approach

When the researcher uses different techniques to find answers to the research questions, he is following the inductive research approach (Sakyi & Musona, 2020).

4.2.2. Deductive Research Approach

When a researcher formulates a hypothesis and evaluates it in relation to the established aims and objectives, they are applying a deductive research approach. This approach proves the research hypothesis as true or false (Sakyi & Musona, 2020).

4.2.3 Abductive Research Approach

The researcher aims to find answers to the research questions and support the research hypothesis through relevant facts and figures; he is following the abductive research approach (Sakyi & Musona, 2020).

4.2.4 Chosen research approach

following the abductive research approach, research questions are first developed and then answered by analysing information. The entire discussion in this study uses economic and financial theories and facts to support the research aims and objectives. This makes abductive research approach most suitable for this study as compared to other research approaches.

This research approach has been prioritised over the other research approaches due to the benefits and disadvantages it possesses. The greatest advantage of using this research approach over the other approaches is that it produces reliable results and the initial stages of the research process are clearly defined. It involves structured and clear protocols for completing the research process while confirming the existing theories and frameworks as either true or false in the context of this study. But this research approach also has certain limitations such as biasness or assumptions can impact the research findings. It can hinder the creativity of researchers to collect statistical information and perform analysis.

4.3 Research Strategy

Another key layer within the research onion framework is the research strategy. Similar to the research approach and research philosophy, selecting the right strategy is crucial, as it determines the overall process for conducting the study. A research strategy essentially outlines the method through which the investigation is carried out. According to Mohajan (2017), researchers typically choose from three main strategies: qualitative, quantitative, or a mixed-method approach.

For the purposes of this study, a quantitative research strategy was adopted. This approach allowed the findings to be presented and supported through numerical evidence, statistics, and measurable data. However, when the qualitative research strategy is adopted, theories and framework form the main component of the research process to study the research objectives (Mohajan, 2017).

By using the quantitative approach, the statistics about the consumer credit behaviour have been collected to understand how interest rate variations can impact their borrowing decisions. The research process has been facilitated by applying the findings to the larger population size (Mohajan, 2017). However, this strategy also has some disadvantages such as collecting data from respondents can be difficult. Getting access to the employees of Irish banks can be a time-consuming process and they may not be willing to spare time for the interviews. The respondents may have low response rate which can impact the end results of this study. The collected information may not be able to handle complex issues and this method can be costly which can complicate the study (Askarzai & Unhelkar, 2020).

4.4 Data collection:

There are four types of data a researcher might encounter: observational, experimental, derived, and descriptive. Descriptive data is used to summarize the main characteristics of a dataset, such as data patterns and basic views of the data. In contrast, observational data is collected from naturally occurring events or phenomena without any manipulation. Finally, derived data is created from an existing or "base" dataset. When the researcher himself gathers the data and explain the differences between original and derived data based on data variables, it is called experimental data (Askarzai & Unhelkar, 2020).

As this research relates to understanding the behaviour of Irish consumers towards credit consumption and how this behaviour is altered by changes in interest rates, most part of the data used in this study is derived in nature. Theories and frameworks form the descriptive data while the literature review has been conducted to understand the point of view of other authors regarding the impact of interest rate changes on credit consumption behaviour of Irish people. Thus, the findings from literature review helps to derive further information from the already existing data set.

Primary data for this study has been collected by conducting interviews with ten employees from banks in Ireland. Zoom software has been used for conducting these interviews and transcript has been generated using automated Google tools. Thematic analysis is then applied to this data to analyse the information. Therefore, it can be said that the data used for this study is derived from the interviews and findings of existing literature. In contrast to primary data, the existing literature has been studied using peer reviewed journal articles from the field of economics and finance. The exclusion and inclusion criterion for the articles is decided based on their year of publication. The information within this time period is then used to deduce results using the compare and contrast approach.

4.5 Data analysis

Researchers must employ suitable methods to analyse the data they've gathered. Data analysis reveals insights from information collected from various sources. There are many techniques available for researchers to interpret their findings. For this study, we used thematic analysis to examine the data. Following this method, patterns of information are deduced using the concept of themes and codes (Sakyi & Musona, 2020). This method helps to identify, analyse and interpret the patterns of data in the given information set. Based on six stages, thematic analysis involve familiarization with the data, coding, theme development, reviewing themes, defining themes, and reporting the findings. However, this data analysis technique has the disadvantage that it can be a time-consuming process and can oversimplify the data (Mohajan, 2017).

4.6 Ethical considerations

It's essential for researchers to ensure their work is conducted ethically and that all processes adhere to ethical principles. Unethical practices can cast doubt on a researcher's credibility and compromise the reliability of their findings. Therefore, maintaining ethical standards throughout the entire research process is crucial.

In this study, for instance, we collected secondary information exclusively from peer-reviewed articles in reputable journals. Any biased information was omitted. During the interviews, we obtained the informed consent of all participants, ensuring no one was coerced into taking part. Finally, all collected data is stored securely and is used only for the purposes of this study. We did not collect any personal information about the participants.

4.7 Research Limitations

In completing this study, the limited time is the main hinderance which has limited the outcome of this study. Considering the nature of the research topic, the topic is quite vast and require ample amount of time to find participants, approach them and conduct interviews. Studying the existing literature is another time-consuming activity which has restricted the outcomes of this study. Extended reading could not be performed which turns out to be a main hinderance in deducing better results from this study.

5.0 Findings and Analysis

Thematic analysis is the method of analysing the collected data by identifying the patterns of information. It is the most widely used approach to make sense of information collected from sources like interviews, surveys, focused group studies etc. The main goal of implementing this method is to understand the recurring themes and patterns in the data set to make more reliable and better conclusions (Melnikovas, 2018). The six stages which forms the thematic analysis process are discussed in detail below.

5.1 Familiarisation of data

The researchers read and reread the data transcripts to get himself familiar with the content.

5.2 Coding

Coding is the process of breaking down data into smaller segments blending the meaningful information into different codes.

5.3 Theme recognition

Based on patterns of data and relationship between different data patterns which are identified, themes are defined by grouping codes into broader themes.

5.4 Theme review

Themes are merged or splitted based on their relevance and coherence.

5.5 Theme definition and naming

Themes are given the descriptive names and a clear definition.

5.6 Reporting

Final themes and their description are presented in the form of a narrative report which is easy to understand.

Following the series of steps as described above, following themes are formed from the interview transcripts conducted with the employees of different banks in Ireland. Each of the participant has shared his own perspective about the interest rate changes and its impact on the borrowing behaviour of consumers in Ireland. The interview questions and the transcripts are attached in appendix 1 and appendix 2 respectively.

Theme 1: Perception of Current Interest Rate Trends

All participants have considered the year 2025 as the base year to forecast the ongoing interest rate trends in Ireland. The responses of all participants have revealed that the interest rate in Ireland is expected to decline in the year 2025. This perception is directly related to stable economic growth forecasts in Ireland and rate of inflation predicted by the Bank of Ireland. Some of the participants have highlighted that as the result of these interest rate forecasts, the Irish currency will be valued and market conditions will become more stable over time. These changes are extended beyond the consumer borrowing behaviour. This has been quoted by the two interviewees as below.

- **Ahmed:** "Ireland has been experiencing… a decline in interest rates… because of the stable economic growth."
- **Sarah:** "Downward trend… tied to steady economic growth forecasts."

This simply suggest that Irish consumers possess knowledge about the macroeconomic conditions of the country and how it can influence the interest rate policy set by the Central Bank of Ireland. The inflation targets set by the Irish government are aligned with the monetary policy objectives set by the Central bank which indicates that the professionals working in the banking industry are well informed about the interest rate variations based on their personal experience as well as by policy mechanisms implemented in the country. Hence this proves that the perceptions about the interest rate fluctuations directly impacts their decision to get credit facilities from the bank. These perceptions are grounded in observed financial realities such as reduction in mortgage rate and awareness about the economic disclosure. A direct link exists between interest rate variations and stable economic growth of the country which can better accommodate the lending conditions in the country.

Theme 2: Interest Rates as a Key Driver of Borrowing Decisions

- There were no disagreements by the respondents over the fact that interest rates influence the consumer borrowing decisions in Ireland quite considerably. When the interest rates are low, it will encourage people to borrow money at Irish banks in addition to other financial establishments. Conversely, an increase in rates discourages the consumers willing to get a credit, since the accrued interest payments will increase the overall debt load to the debtors.

- **Ahmed:** "Lower interest rates reduce the overall cost of borrowing… encourage consumers to take on debt."
- **David:** "Lower interest rates… repayments are more manageable… higher rates… delay taking on debt."

This dynamic relationship in interest rate variations & consumer buying behaviour has been shaped by a range of factors, one of which is affordability. Five out of ten interviewees have agreed that consumers determine the loan feasibility by considering the size of monthly repayments while two participants have claimed that affordable working conditions encourage consumers to take risk and acquire the loan facility in Ireland. Thus, it interprets that interest rate is not the only financial variable which can shape the credit consumption behaviour of Irish consumers. But instead, they prefer to practical affordability measures to consider the loan facility. These findings are aligned with the literature by Mfon (2025) who has proved in his research that interest rate is the critical factor to shape the credit consumption behaviour of Irish consumers but at the same time, one cannot neglect the contribution of other economic and financial variables.

Theme 3: Borrowing Preferences – Low vs. High Rates

On additional to interest rate, participants have highlighted a range of different factors which shape their decisions regarding the consumption of credit facilities from Irish banks in UK. One of those factors as discussed in the interviews is the choice of the bank from which the Irish people prefer to avail the credit facility. Although the standard interest rate in all banks is same as decided by Central Bank of Ireland but the differences could exist in services provided by the bank such as some banks in Ireland offer additional benefits to their customers and their repayment schedule is more flexible than the other banks. Repayment terms, penalty structure, additional charges and quality of services provided by the bank collectively help Irish consumers to decide which bank to choose to avail the lending facility.

- **Ahmed:** "Flexibility of loan terms… fees, penalties… quality of customer service… responsiveness."
- **Sarah:** "Flexibility… penalties… good service quality during loan application."

Considering it to be a multidimensional process for making decision, interest rates are the primary determinant influencing the decision of consumers whether to get loan from a particular bank or not. Most of the respondents have agreed to this point that they prefer to borrow from the banks when the interest rates are low. This does not only reduce the overall repayment cost but instead allow consumers to make flexible payment schedule and long-term financial commitments seems more affordable to them.

- **David:** “Most prefer to borrow when rates are low… repayments don’t strain finances.”
- **Sarah:** “Most people prefer borrowing when rates are low… repayments more manageable.”

Another participant Ahmed has quoted his personal example and mentioned that he was planning to get credit from the bank and delayed the mortgage until the interest rates become suitable. This reflects that monitoring the interest rates are important for consumers and they play an active role in shaping the consumers decisions to purchase from a particular bank.

The ongoing interest rates also influence the short term and long-term borrowing decisions of Irish people as agreed upon by seven out of ten participants during the interviews. When the interest rates are low, Irish people find it appealing to get the facility for their immediate needs like car loans, home improvements while when the interest rates are high, they are encouraged to save for future.

- **Ahmed:** “Lower rates make borrowing cheaper… for immediate needs or personal expenses… high rates… people stay away.”
- **Anas:** “Lower rates… encourage… for immediate needs or investments… higher rates deter borrowing.”

This means that the borrowing timeframe revolves around the interest rate sensitivity reflecting the substitute effects between borrowing and saving decisions of consumers. When the borrowing cost is high, savings become relatively more attractive to consumers and vice versa.

Theme 4: Influence of Economic Indicators

There are wider evidences that economic indicators underpin the Central Bank policies to cause a shift in interest rate variables. Although there are a range of economic indicators available, unemployment and inflation are the primarily focussed economic variables which are highlighted by participants to directly influence the interest rate volatility in the country.

Ahmed: "When inflation increases, interest rates often go up… if unemployment rises… central banks lower rates."

Daniel: "Inflation and job market data are key… higher inflation → higher rates… unemployment → lower rates."

According to another participant named Anas, inflation and unemployment cannot be framed as explanatory variables for shaping the interest rate behaviour but instead these variables also relate to personal financial planning process of candidates emphasising to stay informed with the decisions. However, he has highlighted that it is equally important for consumers seeking financial loan facility to remain aware of the fluctuations in rate of inflation and its impact on interest rate changes to make better choices and invest wisely.

Theme 5: Future Interest Rate Expectations

Since the participants have professional working experience, they were able to make predictions about the future interest rate expectations and provide guidance to consumers regarding the financing decisions. Five out of ten participants have predicted that in future the interest rate will decline considering the ongoing economic conditions in the country. The performance of Irish economy in the last six months have helped these individuals to think about the future of interest rates in Ireland.

- **Anas:** "Ireland's interest rates will decrease further… dependent on ECB policy and Irish economy."

Expectations about the future interest rate directly feed the borrowing intentions of Irish people planning their debt intake depending upon the economic forecast. This behaviour is aligned with the adaptive expectations theory discussed in economics. Based on these forecasts and existing market conditions, all participants have stated that they are allowed to advice their customers about the investment decisions. Eight out of ten participants agreed that they adopt more strategic approach to guide the investment decisions of Irish people while two disagreed to this and they mentioned that we do not prefer to give any advice to customers. Some of the different strategies that participants have highlighted to guide the investment decisions of their customers include consider fixed versus variable rate loans, explore refinancing, monitor market trends, compare offers, and negotiate terms.

Lucas: "Assess… fixed or variable rates… refinancing… market movements… compare offers… negotiate better terms."

Thus, this theme reflects that the advice given by professionals in the Irish banking industry reflects the principles of informed decision making while emphasising on market awareness and ability to adapt their borrowing strategies to the changing market conditions.

The table below summarise the results of thematic analysis.

Theme	**Codes**	**Supporting Quotations**	**Core Meaning**
1. Perception of Current Interest Rate Trends	Decline in rates; Stable economic growth; Inflation near target; Impact on markets	**Ahmed:** "Ireland has been experiencing… a decline in interest rates… because of the stable economic growth. **"Anas:** "Ireland is experiencing a decline… due to stable economic growth forecast. **"David:** "Decrease in interest rates… from consistent economic growth projections. **"Sarah:** "Downward trend… tied to steady economic growth forecasts."	2025 seen as a period of falling interest rates, linked to stable growth and inflation control, with possible currency/market effects.
2. Interest Rates as Key Driver of Borrowing Decisions	Lower rates encourage borrowing; Higher rates discourage; Lower monthly repayments; Cost of borrowing	**Ahmed:** "Lower interest rates reduce the overall cost of borrowing… encourage consumers to take on debt. **Anas:** "Lower interest rates encourage borrowing… higher rates discourage. **"David:** "Lower interest rates… repayments are more manageable… higher rates… delay taking on debt. **"Sarah:** "When rates are lower, people are more inclined to take out loans… higher rates… discourage individuals."	Interest rates directly shape borrowing behaviour by altering loan affordability and repayment burden.
3. Borrowing Preferences – Low vs. High Rates	Prefer to borrow when rates are low; Lower cost of borrowing; Affordable repayments	**Ahmed:** "People… prefer to borrow money when… rates are low… lower cost can encourage mortgages, personal loans. **"David:** "Most prefer to borrow when rates are low… repayments don't strain finances. **"Sarah:** "Most people prefer borrowing when rates are low… repayments more manageable."	Consumers overwhelmingly choose to borrow during low-interest periods due to reduced loan costs.

4. Influence of Economic Indicators	Inflation ↑ → rates ↑; Unemployment ↑ → rates ↓; Central bank policy; Economic activity	**Ahmed:** "When inflation rises… banks increase their interest rates… higher unemployment… leads to lower economic activity. **Anas:** "Stay informed about… inflation rates, employment data, central bank policies… these factors… influence interest rates. **"David:** "When inflation increases, interest rates often go up… if unemployment rises… central banks lower rates. **"Sarah:** "Inflation and job market data are key… higher inflation → higher rates… unemployment → lower rates."	Macroeconomic indicators are seen as direct drivers of interest rate changes via policy adjustments.
5. Future Interest Rate Expectations	Rates will decrease further; Dependent on ECB policy; Economic performance matters	**Anas:** "Ireland's interest rates will decrease further… dependent on ECB policy and Irish economy." **David:** "Rates might drop further… depends on ECB policies and Irish economy performance." **Sarah:** "Ireland might see further reductions… depends on ECB and economy."	Many anticipate further declines in rates, contingent on European and national economic conditions.

Table 3: Summary of thematic analysis

To summarise the results of thematic analysis, it can be said that high level of consensus exists among participants regarding the critical role of interest rates in shaping the borrowing behaviour of consumers. The expectations of decline in interest rates considering the economic performance in 2025 seems to provide favourable conditions for borrowers in the country because consumers prefer to get finances only when the interest rates are low. However, the decision to borrow from the bank does not depend on interest rates volatility alone. Instead, there are a range of other variables which have shaped the consumer decisions to borrow from the bank. These include bank service quality, loan flexibility, and broader macroeconomic indicators.

The findings from interviews suggest that Irish consumers are both proactive and reactive in devising their borrowing strategies. This means that in Ireland, high ratio of financially literate consumer base exist which regard interest rates as both the personal finance and address the broader economic issues.

6.0 Discussion

This chapter discuss the findings of the study and relate these findings to the research objectives stated at the beginning of this dissertation. It thus helps to link objectives and find answers to the research questions

Mentioned below are the research objectives which have been defined at the beginning of this research study

- **To understand the relation between the credit demand and interest rate hikes in the Ireland (Theme 1 and theme 2)**

The findings of this study are aligned with the findings of existing literature representing a negative relationship between the credit demand and interest rate hikes in Ireland. The interview participants have reported that they prefer to delay their investment decision when the interest rates are high because it increase their cost of borrowing (Atkinson, 2022). Rather than initiating new borrowing activities, they prefer to focus on refinancing. This gives rise to two broad channels in literature which include mechanical affordability channel (higher rates → higher monthly repayments → lower demand) and an expectations channel (higher rates → uncertainty about prices and future rates → postponement of buying) (Baker, 2024). Furthermore, the literature has suggested that heterogenous impact exists among different demographic groups in the country which reflect different behaviour. This causes a compositional shift in the market activity. While the literature by Sai Kalyan (2023) has suggested that affordability is the important criteria that shape the consumer decisions, the findings from the interviews (theme 1) relates with this statement. Participants have claimed that minor hike in interest rates can reduce the borrowing capacity of consumers and their affordability. This has been supported with the official data from the Central Bank of Ireland summarising that the median interest rate on bank-held finances increased markedly during 2022–2024. While the participants have claimed that the maximum loan amount fall when the interest rates are high, it has reduced the loan amounts for which borrowers can qualify under the loan to income policy (Driscoll, 2023).

Furthermore, the findings of literature suggest that consumers prefer to adopt wait and see approach which is driven by the higher expectation rates and constant fluctuations in interest rate hikes. To overcome the negative outcomes of interest rate hikes, consumers prefer to switch to fixed interest rates rather than settling terms on variable interest rates (Berger, 2021). This point has been augmented in the findings of this study stating that both lenders and borrowers must settle on borrowing terms and conditions. This could include the repayment terms, loan payment terms and other such clauses providing security to both parties (Atkinson, 2022). However, literature by Lukas (2022) has claimed that this does not apply to fixed interest rates and while using the fixed interest rate, both bank and the borrower must agree on a specific payment rate and time period.

Thus, to conclude the results of findings and literature review, it can be said that higher interest rate decreases the demand of credit financing in the country while simultaneously shifting the market activity towards refinancing and fixed rate protection (Baptista, 2025). Comparing the results of this study to the results of literature review, the industry statistics have given a robust explanation of how interest rate hikes can change the demand of consumer credit in Ireland causing a shift in consumer borrowing behaviour (Bohan, 2024).

- **To study the impacts of interest rates on the consumer refinancing and new credit lines (Theme 1 and theme 3)**

  The results of literature review have revealed that interest rate charges are the most powerful tools which impact the consumer borrowing behaviour directly. When the consumer credit market is regulated by Loan-to-Income (LTI) and Loan-to-Value (LTV) rules, the effects of rate shifts in interest rate fluctuations in Ireland can change the way consumers perceive the credit facilities (Drehmann, 2019). The results of this study have supported the statement that interest rate volatility is impacted by refinancing activity in the country. When the Central Bank of Ireland rise the interest rates, the borrowers secure their repayment stability by switching to fixed interest rate (Cloyne, 2021).

  The corelation has been found between the findings of this study and the existing literature. The literature proves that when the uncertainty is high, risk averse borrowers tend to lock the interest rates to minimise exposure to risk. However, this study suggests that this behaviour is not universal. Switching costs, early repayment penalties, and administrative burdens impact the smaller loan holders which results into uneven distribution of refinancing for Irish consumers (Edwin, 2023).

  An opposite consumer behaviour has been highlighted in this study (theme 1 and 3). When the demand of credit declines, the demand for refinancing activities may increase which can change the market composition rather than only impacting the volume of lending. The Contrary to this, literature by Jonathan (2016) suggests that lenders in Ireland equally face challenges as the borrowers in the country. Due to this the borrowers do not solely rely on realised rate changes but also by expected future rate changes (Muellbauer, 2025).

The thematic findings suggest that disproportionate benefit is provided to higher income groups in Ireland in terms of refinancing opportunities and those consumers with larger loans prefer potential savings to justify their switching costs (Agarwal, 2020). The same point has been discussed in literature by Sisay (2021) who conclude that consumers with lower income or small amount of account balances are unable to take action against the credit amount and are forced to pay the demanded interest rate. Hence this group of consumers is mostly impacted by the interest rate fluctuations in the country. This can be related to findings in Theme 1 where the concept of affordability has been discussed. This clearly indicate that the findings of this study are correct in relation to the existing literature (Lukama, 2022).

- **To study different economic variables which cause the interest rates changes in the Ireland (Theme 4)**

From the results of thematic analysis, it has become clear that Irish credit consumers and professionals in the banking industry has coherent understanding of multiple economic variables which directly influence the interest rate changes in the country. These findings are aligned with the monetary policy framework established by the Central Bank of Europe which governs the banking regulations for the countries in the Eurozone region (Rom, 2024).

According to the findings of literature review, interest rate adjustments in Ireland are highly impacted by rate of inflation. The participants have also regarded inflation as the main contributor sharing the credit consumer behaviour in the Ireland. When the consumer prices increase, the interest rates are shifted to upward mechanism (Peters, 2024). This corelates to the mandate provided by the Central Bank of Ireland regarding the price stability in the country. The same point of view has been proposed in the economic theory which propose that when the country is going through the inflationary pressure, the central bank is forced to increase the nominal interest rates to anchor the inflation expectations of the credit consumers in the country (Atkinson, 2022).

The thematic evidences (theme 4) suggests that the professionals in banking industry understand this intuitive behaviour translating how inflation impacts the high borrowing cost of credit consumers by tightening the monetary policy. This relates to the existing economic conditions in Ireland where inflation rates have surged due to global supply shocks in the country and volatility in energy prices (Baker, 2024).

Furthermore, the literature has also highlighted the role of global economic conditions and currency stability in Ireland which again relates to the findings in Theme 4 from this study. The professionals have agreed to the statement that Irish interest rates do not operate in isolation but instead they are adjusted according to the global interest rates (Baptista, 2025). Variations in global interest rates impact the flow of capital and the import prices leading to currency fluctuations and influencing the central bank decisions to change the clauses of monetary policy. Thus, the literature and the results of thematic analysis have shown interconnectedness of Irish monetary conditions within global financial markets (Drehmann, 2019).

Overall, the thematic analysis reflects a clear consumer understanding of the economic variables affecting interest rates. It highlights how inflation, central bank policy, housing market conditions, global economic forces, and labour market dynamics interplay to shape the monetary environment in Ireland (Auerbach, 2022). These insights not only confirm the relevance of core macroeconomic indicators emphasized in monetary economics but also reveal the tangible impacts perceived by borrowers. This critical discussion underscores the importance of clear communication from policymakers to help consumers navigate the complex determinants of interest rate changes, enhancing financial literacy and informed borrowing decisions in Ireland's evolving economic landscape (Baptista, 2025).

- **To understand the role played by Central Bank of Ireland in shaping policies related to interest rates in Ireland (Theme 5)**

While the results of thematic analysis have revealed that professionals in Irish banking industry and credit consumers clearly understand the role of Central Bank policies in shaping the interest rates in the country, the literature has focused on the influence of Central Bank of Europe to determine the monetary policy and interest rate levels in the country. This perception relations to the economic theory as discussed under the theoretical framework section in chapter 2. The central bank plays an important role in currency unions and helps to equally divide the monetary sovereignty (Agarwal, 2020).

From the theoretical perspective, the Central Bank of Europe plays the role of a national component which governs the Euro ecosystem. All the banks and financial institutions in the Eurozone countries are governed by Central Bank of Europe and national central banks of the country. The Central Bank of Europe sets the key policies related to interest rates it impacts the borrowing costs across all the Eurozone areas. This duality has been reflected in the results of thematic analysis (theme 5) while the participants have agreed to that major rate setting decisions are made by the national banks, but the Central Bank of Europe is the main governing body (Gertler, 2024).

The results of interviews have demonstrated that the national bank acts as the executor while the originator of the monetary policy is the central bank. As Ireland has adopted the position in the Eurozone, the principle of centralised monetary policy in the currency union are still adopted. The understanding of participants is aligned with the economic theory that while national central banks can influence regulation and macroeconomic monitoring, ultimate monetary policy control rests with the central bank (Jonathan, 2016).

To conclude this discussion, the participants possess a clear understanding that the Central Bank of Ireland regulate its functions with the Central Bank of Europe within the broader Euro system framework. The monetary policy decisions are regulated by the Central Bank of Europe while they maintain an important role in consumer protection. This dual role has been supported in literature mentioning that the Central Bank of Europe governs the interest rates to achieve price stability in the Euro Zone region (Noth, 2022). The Central Bank of Ireland implement these policies and ensure that the financial system is sound enough to shape the monetary environment in Ireland. It directly impacts the borrowing costs and economic activity in the country. Thus, the research findings have emphasized the importance of clear communication and effective regulatory oversight by the Central Bank of Ireland to complement Central Bank of Europe policy actions and foster financial stability in Ireland (Nishanth, 2024).

- **How interest rate changes can impact the borrowing behaviour of Irish consumers?**

The borrowing behaviour of Irish consumers is largely shaped by the interest rate changes in the country. The borrowing behaviour can account for credit decisions related to mortgages, personal loans and other credit facilities that Irish consumers can opt for**.** The results of thematic analysis have clearly elaborated that when the interest rates are low, Irish people tend to shift their behaviour to borrow more from banks (Agarwal, 2020). Contrary to this, when the interest rates are high, borrowing is generally discouraged by Irish people due to high cost of borrowing. It can increase the repayment cost. In the light of economic theory, interest rates are the representative of cost of borrowing money from financial institutions. When the interest rates are low, the overall cost of loans is reduced which makes the monthly payments affordable for consumers. It encourages the credit consumers in the country to demand for credit because individuals feel more confident in taking debt for investment purpose (Baptista, 2025). The same has been reflected in the results of interviews that credit consumers are motivated to take personal loan when the interest rates seem favourable to them. However, in the case when the interest rates increase, it becomes difficult for Irish people to get loan because borrowing becomes expensive due to higher repayments. This encourages consumers to postpone their borrowing decisions. The same behaviour has been discussed in the substitute economic theory according to which consumers substitute borrowing with savings when credit costs rise (Berger, 2021) The same has been supported by the results of thematic analysis. Variations in interest rates also impact the decision to borrow for long term or short term. Lower interest rates provide advantage not only in terms of borrowing but also by enabling consumers to finance their immediate needs as well as fulfil the long-term commitments like mortgages. Therefore, to conclude, it can be said that interest rate variations play an important role in shaping the borrowing behaviour of Irish people and it is equally important to understand this relationship for policymakers and financial institutions in the country so that they can effectively manage the credit growth and economic stability in Ireland (Caspi, 2024).

- **What is the relationship between interest rate hikes and credit demand in Ireland?**

An inverse relationship has been established between interest rate hikes and demand of credit facility by Irish people. Higher interest rates increase the borrowing costs resulting to a tangible reduction in the demand of loans and refinancing activities in the country. These results support the classical theory of economics which posit that the demand for credit is negatively influenced by the price factor. When the interest rates are high, the monthly repayments increase particularly for variable rate mortgages. This limits the abilities of household to take risk and delay the long-term purchases. This influences the major financial commitments and mirrors the substitute effect in the consumer theory (Baptista, 2025).

It is evident from the results of thematic analysis that the demand of loans/credit in Ireland is not sensitive to current interest rate but also future expectations about the interest rates in the country. However, it is evident from the results of analysis that differences exist in types of credit such as the demand of mortgage credit is higher and is more sensitive to interest rate than the short-term consumer credit. While some participants have viewed home loans as the long-term commitment which could significantly impact the minor changes in interest rates (Lusardi, 2017).

To sum up this discussion, the credit demand is supressed by hikes in interest rate. This particularly applies to long term loans like mortgage demand impacting the cost of borrowing and anticipatory consumer behaviour. It is important for policymakers and lenders to recognise the importance of interest rate variations (Mfon, 2025).

The role of monetary policy in regulating interest rates in Ireland

The applicability of the monetary policy of Ireland lies within the wider context of the Euro zone whereby rates that are benchmark are overall by the European Central Bank (ECB) on all the member countries. The Central Bank of Ireland has the mandate of implementing the policies that are laid by ECB. This is in tandem with the economics theory of interest rates that states that the monetary policy mainly influences interest rates by using the policy rate channel. The ECB determines three important rates namely, main refinancing operations (MRO) rate, marginal lending facility rate and the deposit facility rate. Any change on any of these rates has a direct implication on short-term borrowing rate (Baker, 2024).

Relating these ideas back to the results of the thematic analysis, it is noticeable that both practitioners and Irish consumers have a good grasp of the way the ECB makes the decisions and affects the lending situation in the field of domestic economy. Thus, the ECB is involved in leading the interest rate changes, whereas the Central Bank of Ireland has a role of carrying out these policies on the national level. This aligns with the economic principle of monetary policy centralisation in a currency union (De Grauwe, 2012), where national central banks maintain operational and supervisory roles rather than full monetary sovereignty (Auerbach, 2022).

7.0 Conclusion

This paper assessed the impact of interest rate fluctuations on consumer borrowing in Ireland, their credit demand, refinancing and macroeconomics developments, and the institutional aspect of the Central Bank of Ireland. The findings based on the thematic analysis and available literature give us a holistic picture of the effect that monetary policy decisions have on the households and lending environment in Ireland.

One such uniformity was observed across all the objectives of the research: in the case of interest rate increase, it was found that the credit demand decreased. When the cost of borrowing increases, the affordability reduces hence less loan applications especially in long-term financial commitments like mortgages. This supports established economic theory and aligns with empirical evidence from the Central Bank of Ireland. Even small increases in rates can significantly constrain borrowing capacity under Loan-to-Income regulations, prompting consumers to delay investment decisions or shift toward refinancing as a protective strategy (Atkinson, 2022).

The study also found that refinancing activity is highly responsive to interest rate volatility, with many borrowers particularly those holding larger loans switching to fixed rates to stabilise repayment obligations (Lusardi & Mitchell, 2023). However, these opportunities are not equally accessible. Lower-income households and those with smaller loan balances face switching costs, administrative burdens, and early repayment penalties that often prevent them from securing better terms. This creates an uneven distribution of benefits from refinancing, which has important implications for both market equity and financial inclusion (Belsky, 2022).

Regarding the macroeconomic drivers of interest rates, participants demonstrated strong awareness of key influencing factors, notably inflation, which was consistently identified as the primary determinant of rate adjustments. This aligns with the mandate of the Central Bank of Ireland to maintain price stability and with wider monetary policy frameworks within the Eurozone. Other identified drivers included global interest rate movements, currency stability, and international capital flows reinforcing the fact that Irish interest rates are deeply interconnected with global economic conditions (Rom, 2024).

The research also clarifies the role of the Central Bank of Ireland within the Eurozone monetary structure. While the Central Bank holds ultimate authority over policy rate setting, the Central Bank of Ireland plays a critical role in implementing these policies domestically, monitoring the financial system, and protecting consumers. This dual governance structure underscores the balance between centralised policy control and national operational responsibility (Baptista, 2025). From a behavioural standpoint, the findings highlight that borrowing decisions are influenced by both current and expected interest rates. Low rates encourage greater borrowing and investment confidence, while high rates drive a shift toward savings or delay in major financial commitments. Long-term credit products remain more sensitive to rate changes than short-term loans, reflecting the higher risk and cost implications over extended repayment periods (Nishanth, 2024).

In conclusion, the study demonstrates that interest rate fluctuations significantly shape consumer borrowing patterns, refinancing trends, and overall credit market activity in Ireland. These effects are mediated by affordability constraints, market expectations, and macroeconomic conditions, all operating within the Eurozone's centralised monetary policy framework (Parker, 2022). Policymakers and financial institutions must recognise these dynamics when designing strategies to maintain credit market stability, protect vulnerable borrowers, and ensure that monetary policy adjustments achieve their intended economic outcomes without disproportionately disadvantaging certain consumer groups. The insights gained from this research contribute to a more nuanced understanding of how interest rate policies translate into tangible household financial behaviours in Ireland's evolving economic landscape (Mfon, 2025).

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9.0 Appendices

9.1 Appendix 1: Interview Questions

1. Can you please tell me about your understanding of interest rate changes in the present economic environment?
2. What role do you think interest rates play in influencing consumer borrowing decisions?
3. What factors do you think can influence the consumers decisions to borrow from this bank?
4. What do you think, do people prefer to borrow money when the interest rates are low or when the interest rates are high? Why?
5. How do you incorporate interest rate fluctuations in your financial planning?
6. What do you think how interest rates can impact long term and short-term borrowing decisions of consumers?
7. What are your expectations regarding future interest rate changes, and how do you think these expectations will affect the borrowing behaviour of consumers?
8. Do you think economic factors like inflation, employment rates can impact the interest rate changes? If yes then how?
9. What advice will you will to customers considering borrowing in a changing interest rate environment?

9.2 Appendix 2: Initial coding

Theme 1: Perception of Current Interest Rate Trends

- **Shared View**: All interviewees believe that as of 2025, Ireland is experiencing **declining interest rates**.
- **Attributed Causes**:
    - Stable economic growth forecasts (Ahmed, Anas, David, Sarah).
    - Inflation moving towards target levels.
- **Broader Effects Mentioned**:
    - Reduced borrowing costs.
    - Influence on consumer spending habits.
    - Potential impact on national currency and financial markets (Anas, David, Sarah).

Theme 2: Interest Rates as a Key Driver of Borrowing Decisions

- **Consensus**: Interest rates are a **primary factor** in whether consumers decide to borrow.
- **Patterns**:
    - **Low interest rates** → Encourage borrowing (mortgages, personal loans, investments).
    - **High interest rates** → Discourage borrowing due to higher repayment costs.
- **Direct Consumer Impact**:
    - Lower cost of borrowing = lower monthly repayments (Ahmed, Anas).
    - Affordability makes loans more attractive (David, Sarah).

Theme 3: Factors Influencing Bank Choice

- **Repeated Factors Across Interviews**:
    - **Loan Flexibility**: Repayment periods, fees, early repayment penalties.
    - **Customer Service Quality**: Responsiveness and support during and after the loan process.
- **Implication**: Consumers value not just the interest rate, but also the **experience and terms** offered by banks.

Theme 4: Borrowing Preferences — Low vs. High Rates

- **Unanimous Agreement**: Consumers **prefer to borrow when rates are low**.
- **Reasoning**:
    - Lower total loan cost.
    - More manageable repayments.
    - Greater confidence in taking on debt (Ahmed even linked it to personal borrowing decisions).

Theme 5: Impact on Short-Term vs. Long-Term Borrowing

- **Shared Understanding**:
    - **Low rates** → Encourage both short-term (personal expenses, car loans) and long-term borrowing (mortgages).

    - **High rates** → Consumers delay or avoid borrowing, shift towards saving.
- **Framing**:
    - Decisions are often **situational** — linked to immediate needs vs. planned investments.

Theme 6: Influence of Economic Indicators

- **Key Indicators Identified**:
    - Inflation: Higher inflation → Higher rates to control spending.
    - Employment: Higher unemployment → Lower rates to stimulate activity.
- **Direct Link**: All agreed that macroeconomic data directly influences interest rate movements via central bank policy.

Theme 7: Future Interest Rate Expectations

- **Forecasts**:
    - Most participants expect **further rate reductions** in the near future.
    - Conditional on **ECB policy** and Ireland's economic performance.
- **Anticipated Impact**: Potential increase in borrowing if rates continue to drop.

Theme 8: Advice to Consumers

- **Common Advice Elements**:
    - Don't focus solely on the current interest rate.
    - Consider fixed vs. variable rate options.
    - Explore refinancing opportunities.
    - Stay informed on market trends.
    - Compare offers from multiple lenders.
    - Negotiate loan terms.