We predict that the European interest rate will **remain the same until the end of 2018.** Throughout the past three years the interest rate has remained low. In 2017 and 2016 it has been 0.00% and in 2015 and 2014 it was 0.05%. Interest rate is the proportion of a loan that is charged as interest to the borrower, typically expressed as an annual percentage of the loan outstanding. We are going to discuss why we think the interest will remain the same, comparing interest rates with other governments, the key economic indicators available, economic and monetary conditions in the euro area, inflation outlook, the effects and risks of a rise in inflation in medium term, quantitative easing and the things that affect interest rates.

Our sustainable sources explained that there was considerable interest in the ECB Council meeting early last June to see the impact on its policy stance of a marked pick-up in the pace of growth in the eurozone and as expected, the ECB key interest rates remained unchanged at –0.4% for the deposit rate and 0% for the refi rate. There was no change either to its asset purchase or quantitative easing (QE) programme. However, there were some changes to the meeting statement that indicate that the ECB has rowed back somewhat on its easing bias. The meeting statement no longer refers to the possibility that interest rates could be lowered further, instead, Mario Draghi, president of the European Central Bank said that it expects rates to remain at present levels for an extended period of time.

In terms of rate expectations, markets do not see three-month eurozone interest rates turning positive until early 2020 and still being below 1% in 2023. Thus, while growth may be picking up, continuing weak inflationary pressures mean that eurozone interest rates are expected to remain very low for a prolonged period of time. The euro zone economy has been on its best run since the global financial crisis nearly a decade ago but the ECB was expected to take a more cautious stance as the inflation rebound has yet to show a convincing upward trend.

Many people think that the interest rate in 2018 will change due to Brexit, however our view is different. If Brexit was to effect the ECB's interest rate, it would only hit us in 2019, due to the fact that the UK is leaving on the 29th of March 2019 and how it would take a while for it to affect us. This is why the 2018's interest rate won't be affected by Brexit. However, when the UK does leave the European Union, the interest rate will increase and there will be a number of effects on us such as services, education, trade, production, goods and travelling. One main consequence is the EU's economy. Money is potentially a major source of future tension in Europe. Britain's departure from the EU leaves a 10 billion euro a year hole in EU finances which risks further undermining the cohesion of the EU. Rich countries like Germany, France and the Netherlands are already balking at the prospect of paying more to poorer member states who joined after 2004, but who rely on EU handouts funds to help them with richer economies and stimulate investment-led growth.

While initial drops in the value of sterling has created sudden opportunities for procuring goods and services from the UK, in the longer term, organisations could seek to limit their exposure to future tariffs imposed on UK imports. In addition, EU organisations may reassess what they source from the UK, ensuring supplies which would attract high tariffs, such as agricultural products, are avoided – giving Ireland an advantage as a potential source in the post-Brexit European marketplace.

At the moment, the European Union's Interest rate is 0.000%. This is proficient as other countries in the world have a somewhat high interest rate. Research has shown that America's interest rate is 1.5%, Australia's is the same, but Asia's is exceedingly high with 1.75%. European countries interest rates on the other hand are low. Ireland ties with Germany at 0.00%. The country remains shrouded in political uncertainty amid strong economic growth. A detailed analysis released on 23 November 2017 showed that the economy performed robustly in the third quarter on the back of strong foreign demand; the domestic economy. England is 0.5% and France is near with 0.67%.

Inflation forecast is measured in terms of the consumer price index (CPI) or harmonised index of consumer prices (HICP) for euro area countries, the euro area aggregate and the United Kingdom. Inflation measures the general rise or fall in prices in the purchasing value of money. It is defined as the change in the prices of a basket of goods and services that are typically purchased by households. Despite the ECB upgrading its growth forecasts, they downgraded its inflation outlook for the next three years. The ECB noted that recent data confirm a stronger momentum in the economy. President Draghi continued to emphasise that underlying inflation remains subdued and, thus, a very substantial degree of monetary accommodation will be required for some time. The **advantages of inflation** are:

- Deflation is very harmful-When prices are falling, people are reluctant to spend money because they feel goods will be cheaper in the future; therefore they keep delaying purchases.Deflation also increases the real value of debt
- Moderate inflation enables adjustment of wages
- Inflation enables adjustment of relative prices
- Inflation can boost growth

Nonetheless, there are many **disadvantages of inflation** such as:

- Erodes purchasing power
- Causes more inflation
- Raises the cost of borrowing
- Reduces employment and growth
- Weakens currency
- Money loses value
- Transfers money from savers and investors to debtors

Additionally there is high and low inflation. A lower inflation rate means prices rise more slowly, this is known as disinflation. **A fall in the inflation rate** could cause various **benefits** for the economy:

- Goods of that country becoming more internationally competitive increasing exports and growth
- Increase rates of return for savers
- Improved confidence, encouraging firms to invest and boost long-term economic growth.
- Increased disposable incomes (if nominal wage growth is constant)

However there are **negative results of low inflation** in the Eurozone. Low inflation leads to lower nominal GDP growth and lower tax revenues. The problem is that this low inflation is entrenched and so we are likely to see this leading to wage freezes. Low inflation doesn't help consumers if wages are not growing. The bigger problem of low inflation is that it is increasing EU wide debt burdens.

Non-standard monetary policy or unconventional monetary policy, are tools employed by a central bank or other monetary authority that fall out of the scope of traditional measures. Non-standard measures include quantitative easing (QE), credit easing, direct asset stabilization of non-governmental securities, and negative interest rates. Many of these policy tools had not been tested in practice until the 2008 financial crisis and the resulting Great Recession.
In contrast, monetary policy tools used by central banks include open market operations to buy and sell government securities, setting the overnight target interest rate, setting bank reserve requirements, and signaling intentions to the public.

The main reason to having a higher inflation rate would be to prioritise economic growth and help reduce unemployment. Higher inflation would also help to contain and reduce government debt to GDP-without excessive austerity. Many governments believe that persistently **high inflation** can have **damaging** economic and social consequences. A number of examples include:

- Income redistribution
- Falling real incomes
- Negative real incomes
- Cost of borrowing
- Risks of wage inflation
- Business competitiveness
- Business uncertainty

Many things will influence the interest rate in 2018. Five of these are **unemployment**, **taxation**, **inflation**, **government spending** and the **exchange rate**. These are all key factors in the changing of the exchange rate because all of them have a huge impact in the fluctuation of the interest rate.

Unemployment is the state of not having a job. Unemployment plays a big part in the interest rate because when people are not working it means that there is less money going into the economy as a whole thus influencing the interest rate.

Inflation is a general rise and fall in prices in the purchasing value of money. Inflation changes the interest rate because to control high inflation, the interest must be raised, which makes borrowing money more expensive. As a result of this there is a decline in the amount of people borrowing money, which means there is less money in circulation. A high inflation can influence the interest rate for a number of years as when there is a high inflation this creates a demand for goods and services. On the other hand a low inflation does the opposite. When there is low inflation the interest rate must lower to control the inflation.

Taxation is the process by which the government finances their expenditures through imposing charges on citizens or companies. Tax impacts the interest rates, an example of this is how tax cuts have supply side effects on the economy (which increases the supply of goods in the economy and so reduces inflationary pressures) and additionally when tax reform lowers interest rates.

The exchange rate is the value of one currency for the purpose of conversion to another. There are five facts that influence exchange rates such as 1. Differentials in Inflation 2. Differentials in Interest Rates 3. Current-Account Deficits 4. Public Debt 5. Terms of Trade. Exchange rates do not impact the changing of the interest rate, however, the interest rates affect the exchange rates. An example of this is, if interest rates go up, the foreign exchange rate tends to improve. Conversely, if interest rates go down, it causes a currency to weaken.

Government spending or expenditure includes all government consumption, investment, and transfer payments. Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. These two policies are used in various combinations to direct a country's economic goals. Government spending through borrowing can greatly affect the exchange rate for the reason that if an increase in government spending and/or a decrease in tax revenues leads to a deficit that is financed by increased borrowing, then the borrowing can increase interest rates, leading to a reduction in private investment. Borrowing also takes place to finance the deficit caused due to a over expenditure of government funds. However banks have a finite amount of money which they can lend. If the government decides to borrow some of this money the total amount of loanable the banks have gets reduced, so for this reduced balance, banks must charge higher interest rates.

All of these factors I have talked through will have an effect on the interest rate this year. If any of these influences change, it is an **indicator** that the ECB's interest rate will increase or decrease.

Based on our assessment of the European interest rate, comparing interest rates with other governments, the key economic indicators, economic and monetary conditions in the euro area's, inflation outlook, the effects and risks of a rise in inflation in medium term, quantitative easing and the things that affect interest rates, we believe that the European Central Bank's interest rate for 2018 will remain the same at 0% until quarter four. We predict, with the help of our thorough research, and the European governing council itself, that the key ECB interest rates are to remain at their present levels for an extended period of time, and even past the horizon of the net asset purchases, removing a long-standing reference to lower rates. In the last quarter of 2018 or early 2019 we predict that the ECB interest rate will be increased as the rate of European inflation heads towards the ECB target rate of 2%.