Medical Xpress

Interest rate hikes pose mental health threat to people in debt

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Credit: University of Nottingham

Interest rate hikes by central banks can impact on the mental health of people in debt, according to a new study by experts from the Universities of Stirling and Nottingham.

Central banks around the world use interest rates to control how much people and businesses spend or invest, in order to maintain a low-inflation, stable economy.

However, research published in the Journal of Affective Disordersshows that changing interest rates to meet economic objectives can have consequences for mental health.

Increased likelihood of mental health difficulty

Researchers from the universities of Stirling and Nottingham conducted a study involving more than 15,000 people in the UK. They found that when interest rates increased, those who were heavily indebted experienced an increased likelihood of mental health difficulty. They did not find any effect on savers.

Lead researcher Dr. Christopher Boyce, a behavioural scientist at Stirling Management School, said their research – which is the first to explore whether central bank interest rate changes directly influence mental health – has important implications for economic and social policy.

"Central banks have the task of maintaining economic stability, but it is important for central bankers to recognise that by manipulating economy-wide interest rates, there are likely to be serious consequences for some people's mental health," he said.

The researchers found that for each 1% increase in interest rates, there was a 2.6% increase in the incidence of mental health issues experienced by those heavily in debt. UK-wide, researchers estimated each percentage point increase would result in 20,000 additional cases of mental health difficulty – at an overall cost to society of £156 million.

More support

They called for more support for those in debt and for banks to consider the impact of their decisions.

Professor Eamonn Ferguson from the School of Psychology led the study in Nottingham and said:"Our results show, for the first time, that central bank interest rate rises can have consequences for mental health. Mental health is increasingly being seen as an important marker of a countries development, and itself contributes to productivity and growth.

Thus central banks should consider how negative effects on mental health, which may have arisen from their policies, may in turn affect the economy."

Important policy implications

"Our research has potentially important policy implications," continues Dr. Boyce. "Whilst it is important to avoid high unemployment and instability – which in themselves can be detrimental to mental health – central bankers need to understand that the tools they use to maintain economic stability can also have direct consequences to mental health.

"Low interest rates encourage the uptake of debt, potentially creating unsustainable debt levels and putting many at risk when there are future interest rate rises. When this happens, we need to ensure those in debt receive adequate support.

"One way to improve the economy, as others have argued, while at the same time reducing the mental health risk for individuals, would be to give people money in the form of a debt jubilee."

Provided by University of Nottingham

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