

# Benchmark Factsheet



## Bank of England Bank Rate

**This document must be read in conjunction with the respective *Product Summary***

### What is the Bank of England Bank Rate?

Bank Rate, also known as “Base Rate”, determines the interest rate that the Bank of England (BoE) will pay to commercial banks that hold money with it. This then influences the rate that banks in the UK apply to borrowing or savings. Generally, when Bank Rate changes UK banks also change their interest rates, but other things can affect interest rates on savings and borrowings. Consequently interest rates can change for other reasons and may not change by the same amount as the change in Bank Rate.

### How is Bank Rate set and governed?

The BoE Monetary Policy Committee (MPC) sets the Bank Rate. The MPC ensures action is taken that enables the Bank of England to meet the target that the Government sets to keep the inflation rate low and stable.

### When does the Bank Rate change?

The MPC meets to decide on the Bank Rate a minimum of 8 times a year. It may decide not to change the Bank Rate. Its decision is dependent on a number of factors such as inflation targets, bank lending, consumer credit figures and unemployment levels. Further information about the MPC is available at:

- [The MPC and the Bank's Sterling Monetary Framework](#)

Whilst the Bank Rate does not change often, it is still a daily rate and interest payments that refer to it are calculated on a daily basis.

### Features to consider

Interest is typically payable for periods longer than overnight (e.g. monthly, quarterly), so interest normally accrues daily at the prevailing rate during the interest period, with any changes in Bank Rate taking effect the same day.

Bank Rate does not tend to change frequently, so the same rate can apply across the whole calculation period.

As the MPC can set a new level for Bank Rate at any time, the interest amount will not be known until the end of the relevant interest period.

**Please note: The effective interest rate for a period will not be known at the start of that period.**

#### **It is important for all parties to a transaction to understand:**

- **How changes to Bank Rate are dealt with; when a rate change takes effect and how the interest is calculated when Bank Rate changes during an interest period.**
- **When the interest for an interest period is known.**

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