Base rate: all you need to know

You have more than likely heard the term 'base rate' banded around in the news over the last few months, but what does it actually mean? Why does one rate have such an impact on so many mortgage products nationwide and why has the base rate risen? We take a look at all you need to know about the base rate and how it can affect you.

The Bank of England base rate is the interest rate set by the UK's central bank, meaning that it is the interest rate that high street banks and other lenders are charged to borrow money. This subsequently has a direct impact on how much consumers and businesses pay for taking out loans or receive for depositing cash into savings accounts.

The base rate is often determined by the state of the economy. The Bank of England's Monetary Policy Committee (MPC) meets on a regular basis to agree on what rate to set roughly every 6 weeks. The MPC decide on the base rate in order to help maintain affordable prices, keep companies afloat and maintain a good level of job retention.

Following the pandemic, many industries have experienced shortages in materials and goods. This causes businesses to raise their prices – meaning everyday items increase in price. This is called inflation – and the MPC's job is to try and keep inflation at around 2%. With the current rate of inflation above 5%, the base rate is now being risen in a bid to slow inflation as it offers more benefits when it comes to saving money and therefore discourages consumers to spend as much – slowly helping to remedy supply issues by reducing demand.

How does it impact you?

The base rate is the main factor behind what high street lenders charge their customers for most loans such as credit cards and mortgages, so you can expect any non-fixed repayments to rise with the base rate. However, nearly three quarters of the UK's population have fixed rate mortgages – so repayments will remain the same until the end of the current term. It does however mean that you can expect to receive better interest rates on your savings and everyday items could start to come down in price.

After more than a decade of low interest rates, it's hard to say exactly how an increased base rate will impact people specifically – especially given all the uncertainty surrounding the situation in Ukraine. The rise in the base rate is to try and combat the increased supply issue of oil given the sanctions against Russia as well as an attempt to ease the cost-of-living crisis we were already facing. With the base rate still currently below 1%, it may be advisable to assess your mortgage situation soon – before it potentially rises further.

If you'd like to discuss the options available to you, contact your adviser today.