

Interest Rates over the Long Term

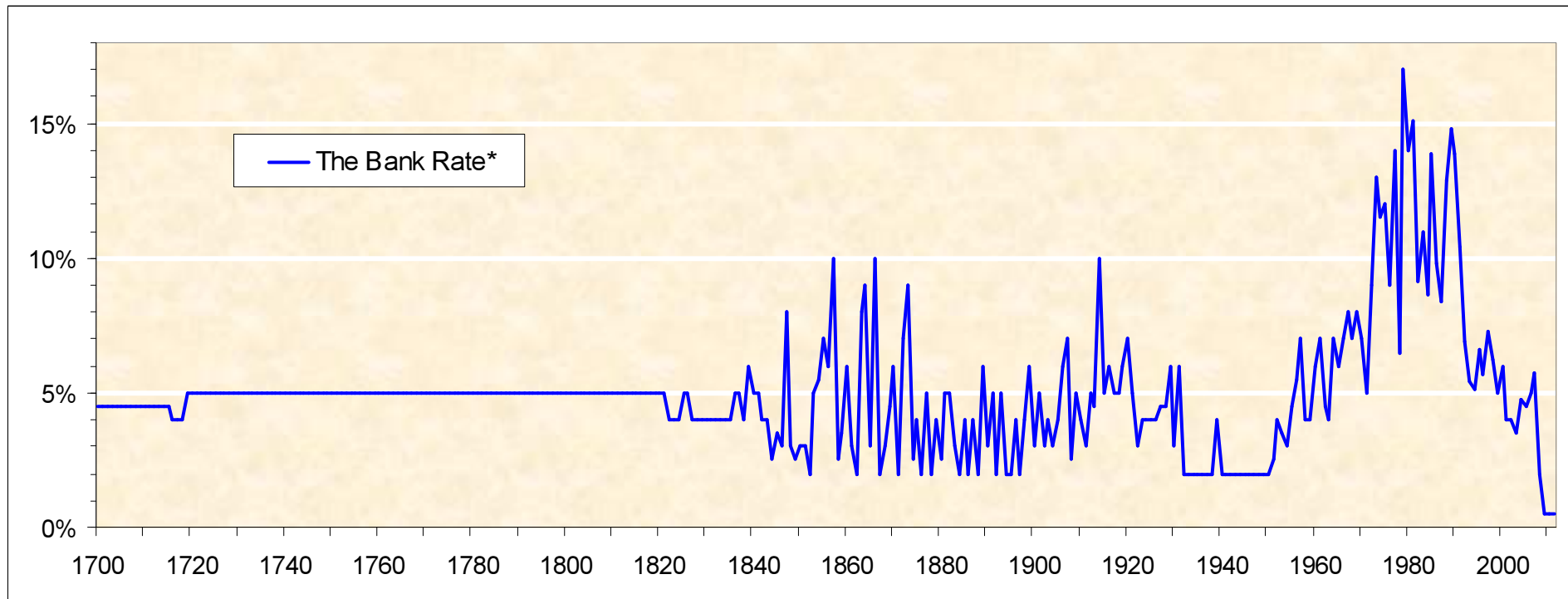
We quite often refer to 'historical lows' for the base rate so I thought I should put this into context and show the history. The Bank of England has many good statistics on its web site which enables one to piece together a rate history going back to 1694, when the Bank was founded as the Government's banker and manager of its debts.

The Monetary Policy Committee of the Bank, chaired by the Governor, meets each month to set the official Bank Rate paid on commercial bank reserves (otherwise known as the 'Base Rate', which the commercial banks use as the basis for many of their loans). Over the years the Bank Rate has had various names (Minimum Lending Rate, Repo Rate etc.); the chart brings them all together to show a history of rate changes from 1700 to the present day.

It appears that the eighteenth century bankers may have got the level right: the average (mean) of the whole three hundred and eleven year period works out at 5% (as do the median and the mode). Excluding that one hundred year period when the rate was set at 5%, the post 1820 average still comes to 5%, though the median and mode both drop to 4%.

The chart illustrates well quite how far rates have fallen over the last thirty years from the (high inflation) peaks in the 1970s and 1980s. Bank Rate has indeed never been as low as it is today, not just over the last century but also over the 18th and 19th centuries. Previously the 'floor' level for rates had always been 2%.

The Bank Rate 1700 - 2011



**Variously the Bank Rate, Minimum Lending Rate, Minimum Band 1 Dealing Rate, Repo Rate and Official Bank Rate.*

Source: The Bank of England, Church House