

# Interest rates and the Monetary Policy Committee (MPC)



The Bank of England's MPC meets each month to set interest rates to hit the Government's **2% inflation target**. The MPC is made up of nine experts. Five are senior Bank of England staff and four are external members appointed by the Chancellor. Each has a vote to decide what interest rate to set.

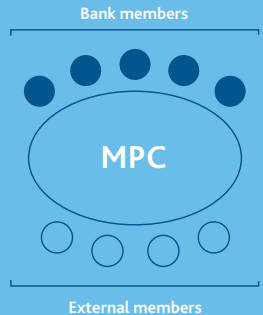


It takes about two years for a change in interest rates to have its full effect on inflation. So the MPC sets interest rates based on its **forecast for inflation** two to three years ahead.

2%



If inflation looks set to go above target, the MPC will probably **increase interest rates**.



People will tend to **spend less** and save a bit more, putting downward pressure on inflation.



If inflation looks likely to fall below target, the MPC will probably **cut interest rates** to stimulate spending and inflation.