

## **Pounds and Pence, who controls the value of our money?**

[Music]

So you know quite a bit about money and prices now, but don't you ever look at your cash and wonder where it comes from?

Well it comes from the Bank of England, no ordinary bank - you can't open a savings account and there's no cash points.

The Bank of England is like the bank of banks, it controls the printing and issuing of banknotes. They also lend money to high street banks across the United Kingdom and when they do, they charge them interest. The top people at the Bank of England decide how much interest to charge.

That's really important because the interest rate the Bank of England charges the banks, would affect the interest rate the banks charge customers. Like you and me.

Remember how the interest rate affects how people spend, high interest rates people save more and spend less. Borrowing money becomes expensive and they get more interest on their savings. Low interest rates, people spend more. Saving doesn't pay so well and borrowing is cheaper. So by changing the interest rate, the Bank of England can have an effect on how much people spend across the UK.

And because what people spend affects prices, the Bank of England can use interest rates to stop prices rising too much and control inflation.

Think of it like a computer game where the Bank of England has the controls. The aim of the game to control inflation, if inflation goes too high or too low its game over. The Bank controls inflation by gradually raising and lowering interest rates, as they watch what people are doing with their money. Put interest rates up to reduce the amount people spend and cool down inflation, put rates down to get people spending a bit more. People at the Bank work hard to keep inflation low.

So whether we borrow, spend or save money, it can have a huge effect on prices, inflation and everything that happens around us. And it is up to the Bank of England to ensure things don't get out of hand.

The Bank of England's museum tracks the history of the Bank from when it was founded in 1694. You can see how money has developed through the ages and examples of ways banknotes are printed.

[Music ends]