

<https://blog.en.erste-am.com/what-is-the-key-interest-rate/>

## What is the key interest rate?

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The key interest rate has a significant influence on how much interest you receive on your savings account or how much you have to pay when you take out a loan. The key interest rate of the European Central Bank (ECB) is currently 4.50% – but this could change at the ECB's interest rate meetings in Frankfurt in the coming months.

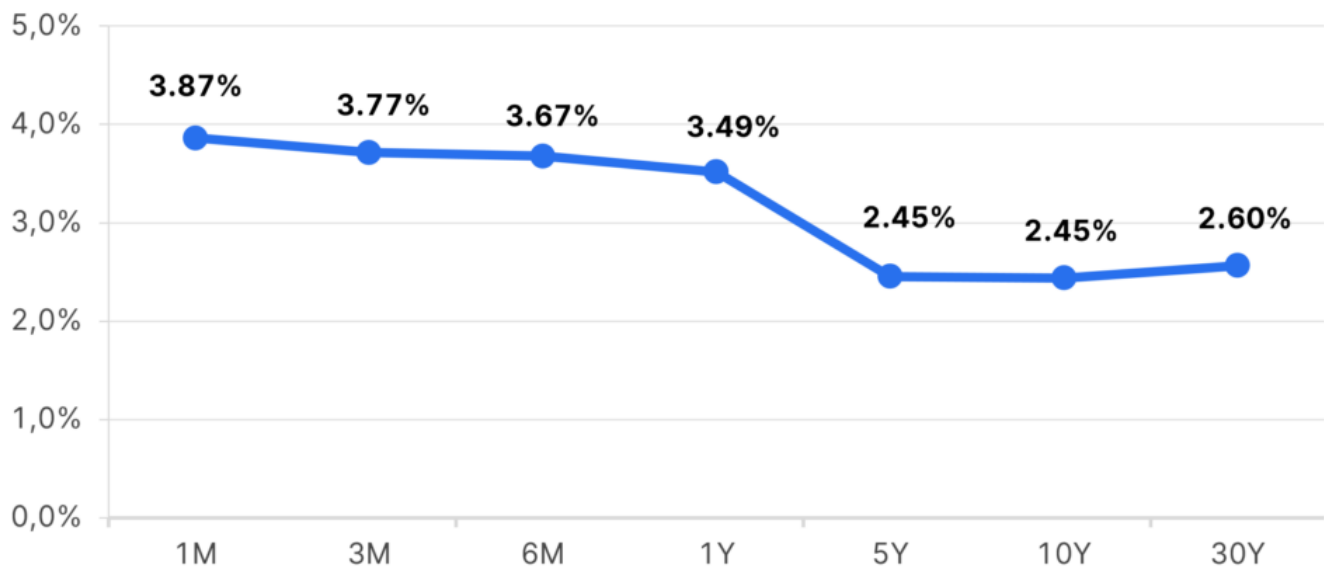
The market is expecting key interest rates to be lowered this year after inflationary pressure has gradually eased in recent months. In this article, we discuss the role of the key interest rate and which interest rates are relevant.

### What role does the ECB's key interest rate play?

Key interest rates particularly influence the interest rate landscape at the short end, the so-called money market, and therefore maturities of up to a maximum of one year. This means that the central banks control the interest rate level at the short end with their interest rate policy. For example, the [yield](#) curve of German government bonds, which had been yielding negative returns for a long time, turned positive as a result of the most recent interest rate hikes by the central bank.

### Yield curve German government bonds

as of 11.04.2024



Source: LSEG Datastream

Interest rates (also known as "yields") for long maturities are calculated on the capital market. When calculating "yields", the current daily prices of government bonds, for example, and the interest payments on these bonds ("coupons") are taken into account. This is why the interest payments ("coupons") on bonds differ from the yields, as the prices and therefore the yields of bonds change daily, even by the second, in line with the new interest rate expectations of market participants.

Market participants analyze which interest rate decisions can be expected from the central bank and act accordingly. They are mainly guided by inflation trends and the economic picture. In recent years, central banks themselves have also acted as market participants in longer-term bonds by buying government and corporate bonds. This is part of the monetary policy instruments that a central bank has at its disposal.

So, what is THE key interest rate?

Strictly speaking, there are several key ECB interest rates. As a rule, the key interest rate is the interest rate at which commercial banks can borrow money from the ECB. This interest rate is also known as the main refinancing rate.

The Oesterreichische Nationalbank defines the key interest rate as follows: Short-term interest rate whose change influences other interest rates. The key interest rate is primarily defined as interest rates that can be set by a central bank as part of its monetary policy measures.

What are the European Central Bank's interest rates?

ECB interest rate	Explanation	Current level (as of 11 April 2024)
Deposit rate	Interest rate at which commercial banks can <b>deposit</b> their money with the ECB at very short notice (overnight)	4.00%
<b>Main refinancing rate</b> (key interest rate)	Interest rate at which commercial banks can borrow money from the ECB for one week	4.50%
Marginal rate	Interest rate at which commercial banks can <b>borrow</b> money from the ECB at short notice ("overnight")	4.75%

Source: Oesterreichische Nationalbank ([www.oenb.at](http://www.oenb.at))

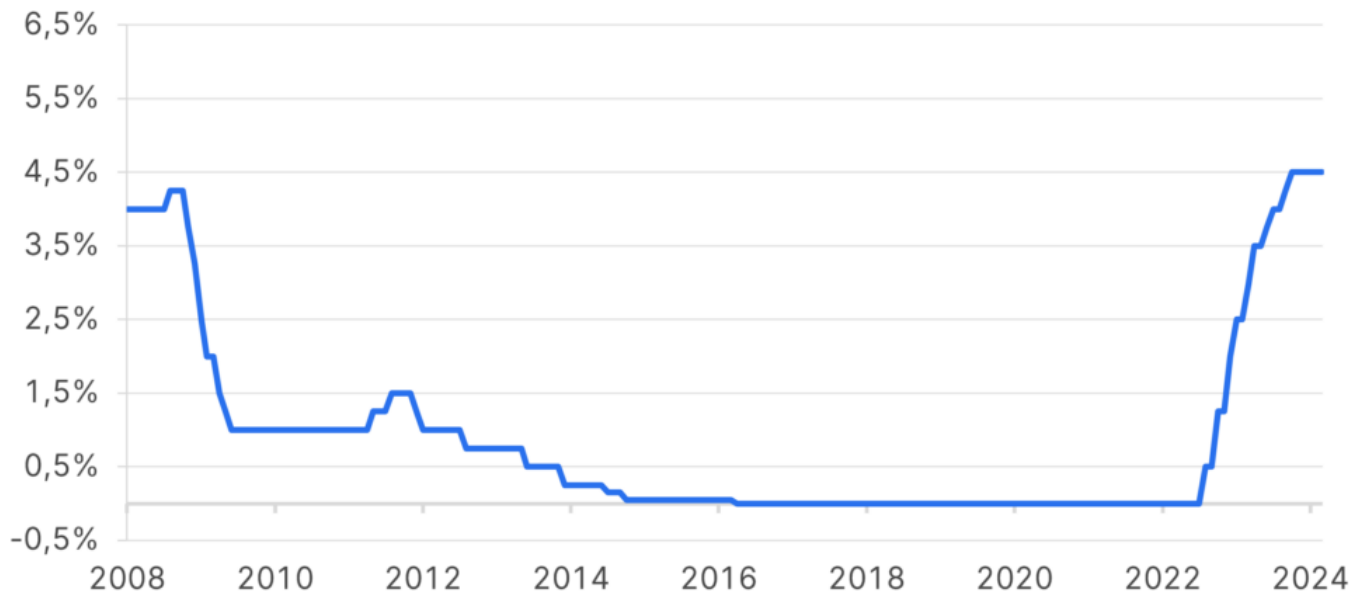
How does the key interest rate affect savings account interest rates?

If the central bank raises the key interest rate, the interest rate on money that is newly saved, such as on a savings account, normally also increases. The key interest rate thus influences savings account interest rates.

Background

The key interest rate affects the so-called deposit rate. At this interest rate, banking institutions can deposit funds with the central bank at very short notice (overnight). Savers can orientate themselves on this deposit rate, which is significantly lower than the key interest rate, or main financing rate.

Key interest rate of the ECB  
Development since 2008 / Data as of 11.04.2024



Source: LSEG Datastream

What drives the level of interest rates on savings books?

The basis is the deposit interest rate set by the European Central Bank for commercial banks. In addition, the savings account interest rate depends on whether a commitment period has

been agreed or the amount can be withdrawn daily. The creditworthiness of the bank, the customers and the competition also play a role.



### Worth knowing

There can be no negative interest rates on savings books. However, this is no longer an issue anyway, now that the ECB has raised interest rates. There is also a protective shield for savings books: the deposit guarantee scheme protects the savers. Savings and current account deposits are protected for up to EUR 100,000 per customer and bank.

### How does the key interest rate affect the interest rate on loans?

The key interest rate affects the interest rate on loans via the refinancing rate if you have taken out a variable-rate loan. A variable-rate loan is based on the interest rates at the short end, for example the three-month money market rate. This money market rate fluctuates around the key interest rate, or refinancing rate. If you have a fixed-rate loan, the key interest rate does not affect it.

### Conclusion

**The most important key interest rate of the European Central Bank is the main refinancing rate. If this rate rises, it means that credit institutions are incurring higher costs for borrowing money from the central bank. Credit institutions take interest rates and their changes into account when concluding new contracts. Due to competition, banks react to different degrees and at different speeds. For savers, rising key interest rates mean that they can expect a higher interest rate for new funds.**

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Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company's product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds at Pioneer Investments Austria in Vienna.

His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

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