

Perpetual knowledge bank series: **Basis Point**

By Perpetual Asset Management

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Basis points, sometimes called bps or 'bips', are a unit of measurement used in finance, usually to describe small but significant percentage changes.

The term is commonly employed to describe changes in interest rates but can also be used when referring to changes in equity indices, fixed-income security yields or the cost of mutual funds. A basis point is a hundredth of a percentage point or 0.01%. For example, if the cash rate moves from 0.35% to 0.85%, then it has moved by 0.5% or 50 basis points.

The main reasons investors and financial services professionals use basis points or bips to communicate is to avoid ambiguity when a rate difference is less than one percent, but the amount still has material importance. For example, when discussing an interest rate that has increased from 10% to 11%, some may say there has been a 1% increase. However, it would also be correct to say that the base interest rate of 10% has increased by a further 10%. Using basis points eliminates this confusion by stating that there is an increase in the interest rate of 100 basis points.

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