

Some of the Roles the Official Bank Interest Rates Play

The average person regards bank interest rates as a vehicle for making money cheaper when they go down, and making money more expensive when they go up.

People are mostly concerned about how much more or how much less they will have to find to for their mortgage and automobile payments, etc.

However, there are other roles the official bank interest rates play.

When a country increases its official bank rate, those with money on deposit earn more cash for it. It does not mean only the locals, but overseas investors start placing their money into that country as well. For that to happen, they are obliged to purchase the currency in question, which requires selling a currency they hold. It also means that those who were thinking about selling their domestic currency before the rate increase, may well change their mind since they would now hope to be able to earn more money by staying put.

Thus, a scenario might develop creating more buyers than sellers, prompting the currency to appreciate.

However, there are two sides to that, because the speculators might figure it may not be prudent to invest money into the country just because its interest rate was raised. They may interpret that situation in a different way, and have their own ideas about the position of that particular currency. Therefore, the currency which anyway might not have been the flavour of the month, can become the recipient of a rather negative sentiment, and consequently even start depreciating.

Every country needs to trade, and goods have to be manufactured and exported to earn foreign money. Of course to make things, you have to buy raw materials to make them. If your currency is weak, the raw material will become expensive since the foreign currency has to be bought to get that material. However, if your currency is too strong, the goods will be expensive to export.

Finding the right balance and not overshooting one way or the other takes time and particularly if a series of other factors keep coming into the equation, thus causing all sorts of volatility. As can be imagined, not many businesses are keen to see going on for too long.

The central banks purchase and sell currencies in order to keep things in some sort of shape they would like to see. These kind of treatments and interventions can push the value of the currency up or down for a certain limited time.

Being able to understand the full role of the official bank interest rates and the reasons for their introduction, can be of value for both the foreign currency and property investors.

If playing these markets, remember that to make a profit it is important to use the best tools for the job. In the case of foreign currency needs, the various companies that provide really excellent service offering cheaper rates than the high street banks do, can be found with ease on the internet. By phoning around, one can soon discover the best currency rates going.

In the case of property, approaching the realtors is cheapest in the long run. They know their business well, and will not get involved with properties which have minus points attached to them without letting you know all about it. Having lots of good properties on the market, they do not wish to get involved with problematic ones. Knowing what is good and what is not so good is worth plenty, particularly these days.

In conclusion and for your information, here are some official bank interest rates of the more important areas of the currency world:

Australia AUD 6.75 per cent, last change 6 Nov 07
The Reserve Bank of Australia next meeting 7 Feb 08

Canada CAD 4.25 per cent, last change 4 Nov 07
Bank of Canada next meeting 22 Jan 08

European Union EUR 4 per cent, last change 6 June 07
European Central Bank next meeting 10 Jan 08

Japan JPY 0.50 per cent, last change 21 Feb 07

Bank of Japan next meeting 22 Jan 08

New Zealand NZD 8.25 per cent, last change 26 Jul 07

Reserve Bank of New Zealand next meeting 23 Jan 08

Switzerland CHF 2.75 per cent, last change 14 Sep 07

Swiss National Bank next meeting 13 Mar 08

United Kingdom GBP 5.50 per cent, last change 6 Dec 07

Bank of England next meeting 10 Jan 08

USA USD 4.25 per cent, last change 11 Dec 07

Federal Reserve next meeting 30 Jan 08

About the Author

Paul Dubsy is director of [Foreign Currency Exchange Services Ltd](http://www.fxarticles.info). The company is focused on being able to offer really friendly currency exchange rates. We believe we are the only Foreign Currency Exchange company which offers special rates to Senior Citizens.

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