(# Episode 5)

Broadcasting from PACT, this is Radio Accountant episode number 5. I am Roy.

K: and I am Kash. Hello.

Happy new Persian year everybody. We wish you the best of luck in this year.

K: In today's episode, we are going to speak about a very hot topic. Something that made the new year come with a major economic shock for us. You can guess what I mean.

I promise everyone knows that we mean the 'currency exchange rate boom' or a very sudden increase in foreign currency exchange rates.

K: Have you ever wondered about the reasons behind such inconsistencies or changes? If yes, stay tuned for your answer.

There are 6 basic reasons that affect foreign exchange rates:

Reason number 1:

Exchange rates are affected by supply and demand

Supply and demand is the most basic factor affecting exchange rates. It's relatively easy to understand, but not always easy to predict. In simple terms, when there's an excessive supply of something the value attached to it decreases. When investors sell their currency, for example dollars, for different reasons, the market value goes down. On the other hand, an increase in demand raises value. When people line up to buy the currency, it increases its value. This is what we saw happen these few weeks.

Reason number 2:

Inflation Rates

Changes in market inflation cause changes in currency exchange rates. A country with a lower inflation rate will see a rise in the value of its currency. The prices of goods and services increase at a slower rate where the inflation is low. Increases in interest rates cause a country's currency to increase in value because higher interest rates provide higher rates to lenders, so it attracts more foreign capital, which causes a rise in exchange rates

Reason number 3:

Country's Current Account / Balance of Payments

A country's current account shows balance of trade and earnings on foreign investment. It consists of total number of transactions including its exports, imports, debt, etc. A shortage in current account due to spending more of its currency on importing products than it is earning through sale of exports causes depreciation. Balance of payments changes exchange rate of its domestic currency.

PACT
PACT English Department

Reason number 4:

Government Debt

Government debt is public debt or national debt owed by the central government. A country with government debt is less likely to get foreign capital. This leads to inflation. Foreign investors will sell their bonds in the open market if the market predicts government debt within a certain country. As a result, a decrease in the value of its exchange rate will follow.

Reason number 5:

Political Stability & Performance

A country's political state and economic performance can affect its currency. A country with less risk for political turmoil is more attractive to foreign investors. Increase in foreign capital, in turn, leads to an appreciation in the value of its domestic currency. A country with strong financial and trade policy does not give any room for uncertainty in value of its currency. But, a country at risk of political confusions may see a depreciation in exchange rates.

Reason number 6:

Recession

When a country experiences a recession, its interest rates are likely to fall. It decreases its chances to attract foreign capital. As a result, its currency becomes weak in comparison to that of other countries, therefore this lowers the exchange rate.

K: Of course there are many other factors affecting these rates. Share with us what you think is causing the sudden increase in exchange rates in our country. Send us your feedback to @pactir.

Now let's review the new words in this episode:

Currency: the system or type of money that a country uses. For example, dollar, euro or pound.

supply and demand: the relationship between the amount of goods for sale and the amount of goods that people want to buy, especially the way it influences prices

capital: money or property, especially when it is used to start a business or to produce more wealth

investment: the use of money to get a profit or to make a business activity successful, or the money that is used

transaction: a business deal or action, such as buying or selling something

depreciation: a reduction in the value or price of something

political turmoil: a state of confusion or anxiety in politics

Recession: a difficult time when there is less trade, business activity etc. in a country than usual

K: Lets finish today's episode with some good news. Starting from this year we have launched our online ACCA courses.

Don't forget to follow us on Instagram. The address is pact.ir . And join us on telegram by @PACT_English .

K: This is the end of another episode of Radio accountant coming to you from PACT (the Professional Accountants Center for Training).

Bye!