CURRENCY: HOW MUCH IS IT WORTH?

The value of a country's currency is an indicator as to how that country's economy is perceived by the rest of the world.

Put simply it is the principle of supply and demand. The stronger the currency is the more that currency is in demand. Thus, if a currency is in demand it means that people require that currency for many reasons including facilitation of their investments within that country. But does this also mean the stronger the currency the stronger the country's economy is? As with everything in economics, the answer is never clear cut as one question leads to another.

Looking back at history there have been periods of economic growth in countries when their currency has been devalued. Does this then mean that the devaluation in sterling since the referendum will lead to another economic boom in the UK economy?

To answer this question consideration needs to be given to the structure of the UK economy and how strong it is in services and how much weaker it is in manufacturing, borne out by the fact that there is a current account surplus in one and a deficit in the other.

When looking at a current account deficit this is the difference between the exports and imports. Thus, in reality this is how much the UK owes to the rest of the world because it is not producing sufficient goods and services to trade in order to meet its own demand for goods from other countries.

The lower value of sterling will make cheaper UK exports but you still have to take your goods to market in order to sell them and if nobody knows your goods are for sale it does not matter how cheap they are nobody is going to buy them. So even if you do get to market there will be a time lag between the intention of investing within a country and reaping the benefits of the same notwithstanding that there will be a lower cost of production and labour. Will this investment into the UK lead to better productivity something which the UK has suffered from?

London has long been a world financial centre, does this mean that with Brexit the UK will no longer be the spearhead for foreign investors when looking to find a foothold within Europe, whether in respect of services and or manufacturing? Global banks have already started to move operations to Paris, Frankfurt, Amsterdam because there may be knock on costs to importing UK products and services through tariffs. But the know how surrounding financial services which has been built up in London is not easily going to be replicated abroad.

I have talked about the value of sterling, current account deficits and what you cannot forget is a country's credit rating, as this effects the ability for a country to borrow in order to fund its current account deficit.

An obvious point is that whenever a currency falls it does make imports more expensive.

Colin Rodrigues, of corporate law firm Hawkins Hatton, explains the value of currency

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