

# **INFLUENCE OF CURRENCY FLUCTUATION FOR BUSINESS ON BELARUS COUNTRY EXAMPLE**

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## **Abstract**

*Currency fluctuations play huge role on business in countries and they have correlation with inflation and governmental debt. Belarus is country in center of Europe, but still has its own currency. Therefore it is useful to know how their currency can change and what are reasons for that.*

## **Introduction**

Topic of this work is "Influence of currency fluctuation for business on Belarus country example". Choice of Belarus country was motivated by great example of exchange rate rises and falls. For company which operates outside their country there is possibility to face foreign currency in business environment.

Author for this work set up following tasks:

- Review literature about currency fluctuation and reasons of this phenomena
- Review Belarus currency changes for past few years
- Analyze main factors which influenced changes
- Make conclusions
- Give recommendations regarding issue

In Belarus currency is Belarusian Ruble or BYR with nominal units starting from 50 up to 200 000.

For company currency fluctuation can reflect in sales decrease if product becomes too expensive if price is set up from price in international currencies such as USD or EUR. Or for company sales of product will bring no profit or even losses due to rapid changes in exchange rate.

Aside from factors such as interest rates and inflation, the exchange rate is one of the most important determinants of a country's relative level of economic health. Exchange rates play a

vital role in a country's level of trade, which is critical to most every free market economy in the world. For this reason, exchange rates are among the most watched analyzed and governmentally manipulated economic measures. But exchange rates matter on a smaller scale as well: they impact the real return of an investor's portfolio. (Bergen)

Topic is up to date and taking into account currency rate changes of EUR, USD, RUB during year 2015 this topic will be often discussed, this work is introduction to meaning of currency fluctuation and its influence on country, in this case Belarus, but in overall perspective this work will give insight as well.

## **Review literature about currency fluctuation and reasons**

A currency has value, or worth, in relation to other currencies, and those values change constantly.

For example, if demand for a particular currency is high because investors want to invest in that country's stock market or buy exports, the price of its currency will increase. Just the opposite will happen if that country suffers an economic slowdown, or investors lose confidence in its markets.

While some currencies fluctuate freely against each other, such as the Japanese yen and the US dollar, others are tied. They may be pegged to the value of another currency, such as the US dollar or the euro, or to a basket of currencies (Farlex, 2009). Belarusian ruble is pegged to USD and RUR.

Currency fluctuation can be caused by inflation.

As a general rule, a country with a consistently lower inflation rate exhibits a rising currency value, as its purchasing power increases relative to other currencies. When the price level rises, each unit of currency buys fewer goods and services. Consequently, inflation reflects a reduction in the purchasing power per unit of money – a loss of real value in the medium of exchange and unit of account within the economy (Paul H. Walgenbach, Norman E. Dittrich and Ernest I. Hanson, 1973, p. 429).

Differentials in Interest Rates is second reason for fluctuation

Interest rates, inflation and exchange rates are all highly correlated. By manipulating interest rates, central banks exert influence over both inflation and exchange rates, and changing interest rates impact inflation and currency values. Higher interest rates offer lenders in an economy a higher return relative to other countries. Therefore, higher interest rates attract foreign capital and cause the exchange rate to rise.

Public Debt

Countries will engage in large-scale deficit financing to pay for public sector projects and governmental funding. While such activity stimulates the domestic economy, nations with large public deficits and debts are less attractive to foreign investors. The reason? A large debt encourages inflation, and if inflation is high, the debt will be serviced and ultimately paid off with cheaper real dollars in the future. (Bergen)

The exchange rate of the currency in which a portfolio holds the bulk of its investments determines that portfolio's real return. A declining exchange rate obviously decreases the purchasing power of income and capital gains derived from any returns. (Bergen)

On every country currency fluctuation can reflect differently and it might have positive side as well as negative influence.

### **Review Belarus currency changes from 2008**

As Belarusian currency is tied to foreign euro and Russian ruble any changes in their purchasing power or any other currency fluctuation influencing power, Belarusian ruble reflects those changes on its price.

Starting from year 2008 for Belarusian currency there were 4 pitfalls which changed value of Belarusian ruble.

## USD per 1 BYR

27 Jan 2008 00:00 UTC - 25 Mar 2015 15:23 UTC  
BYR/USD close:0.00007 low:0.00006 high:0.00048



Figure 1 USD per 1 BYR (<http://www.xe.com/>)

Price of currency from 27 January 2008 till 25 March 2015 has fallen down from 0.00048 to 0.00007. If in beginning of year 2008, 1 USD price was cost 2067.69, but for March 25th year 2015 1 USD was equal 15629.88 BYR. For business in Belarus reflection of financial changes in world do not appear slowly as in most countries, for currency there is dramatic pitfalls which reflect on companies as bucket of cold water. For companies it is almost impossible to prepare to face it. First dramatic change was on year 2009 from 5 to 6th of January from 2200.10 to 2655.50, as we can see it happened in very short time period, companies were forced to face this changes.

Second pitfall was at second quarter of year 2011 on 24 may when price 3155.00 jumped to 4930.00 in only one day. Afterwards in country there was deficit of foreign currency, for business it was hard to pay for imported goods or raw materials, because payments were done with USD or EUR, currencies which were hard to get in country. After deficit there was silence before storm from 4th October same year until 27 October, price was same 5743.00, this time companies got 23 days to prepare and forecast next dramatic jump of currency value. On October 28 price was 8500.00 and currency again started to fluctuate.

Latest rapid changes in currency happened on 8 January 2015, from price 11049 per USD to 13758 per USD. In period of following 12 days price rise up to 15108 BYR for USD.

All these changes of currency reflect on business environment for country.

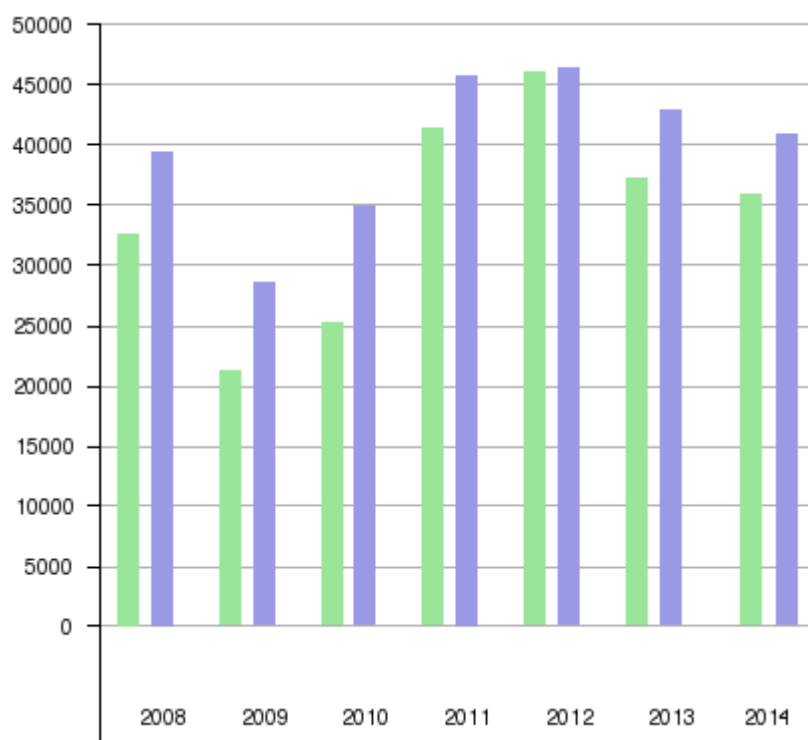


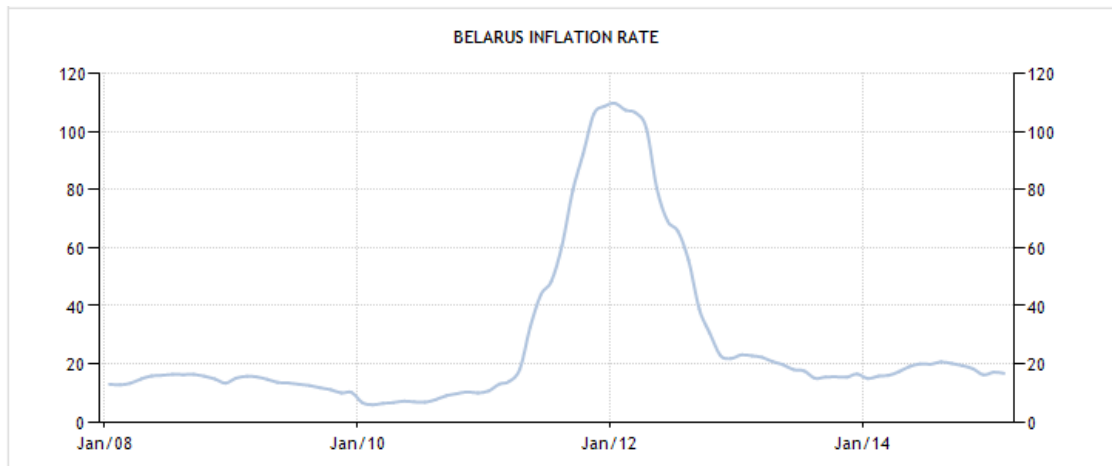
Figure 2 Performance of export and import during the period from 2008 to 2014 Belarus in USD (Беларусь)

In figure it is possible to see **Export** and **Import** amount in millions USD. Comparing with rapid currency fluctuations reflection on countries import reflected most in year 2009. From 2012 there is correlation in declaim of countries GDP as well as in cost of BYR comparing to USD. For business that operates with companies in Belarus it is important to be ready to face declaim of purchasing power in long term scale after currency price fall. Previous year GDP and Currency rate scales can be used as guidelines for companies which are willing to start exporting to Belarus their goods, because it might be that country might not have funds to pay for these goods as well as for customers there might be no purchasing power of these goods.

During year 2011 Belarus left several well-known companies such as „PepsiCo holding” and only in January 2015 they contracted to import their main soft drinks 7up, Mirinda and Pepsi according to Reuters. „Lukoil” moved their eastern-Europe headquarter to Ukraine and left in Belarus only their local operating offices. These are most known examples. Even when GDP of country was recovering and increasing for companies it was high risk to stay in market due to unpredictable currency changes, and during 2011 country „Belarus which devalued its currency by 36% in May, is considering another forced devaluation of up to 15% to lower its exchange rate and stem a balance-of-payments crisis.” According to Bloomberg.

Main business partner of Belarus is Russia where major part of good are exported and imported. Due to trade union between these countries there are no charges on exchanging goods. (Luzgina, 2012)

Next overview object is inflation of Belarus currency to establish it’s relativeness to currency fluctuations in country.



**Figure 3 Inflation rate of Belarus (TRADING ECONOMICS)**

The inflation rate in Belarus was recorded at 16.70 percent in February of 2015. Inflation Rate in Belarus averaged 281.43 percent from 1992 until 2015, reaching an all-time high of 2795.63 percent in August of 1994 and a record low of 5.85 percent in February of 2010. Inflation Rate in Belarus is reported by the National Statistical Committee of the Republic of Belarus. From figure 3 we can see one of reasons of currency changes in 2011, inflation increased by 100% what reflected on market.

Public debt of country or government debt is one of factors which also influence currency fluctuations.



**Figure 4 Belarus public debt 2008-2014 ([www.tradingeconomics.com](http://www.tradingeconomics.com))**

Generally, Government debt as a percent of GDP is used by investors to measure a country's ability to make future payments on its debt, thus affecting the country's borrowing costs and government bond yields. We can see that after the fall of the currency in 2008, public debt started to increase until 2012. Due to high governmental debt, there was no trust in the currency and investors were careful. But these steps were necessary for the country to recover its inner economy. After stabilization of the inner economy, public debt started to decrease and the currency rate stabilized together with the inflation rate.

From the figures above, we can see that Belarus is a country that is used to rapid changes in its economy, which challenges any business to operate on its territory. Companies not always can prepare for upcoming changes, because they happen in one day in the case of Belarus.

On business currency fluctuation has huge impact due to factors which determines these currency fluctuation processes such as inflation, public debt, interest rates and other factors. In case of Belarus reflection on business occurs often not by time but immediately, because of these rapid currency fluctuations for companies in Belarus.

Results of these changes not always reflect on GDP of country as we can see on Figure 2. For determination opportunity of doing business on territory of Belarus and correlation currency fluctuation with GDP has no precise interaction to use as guideline for upcoming fluctuations.

Correlation of inflation rate, public debt regarding fluctuations are more direct as we can see on Figure 1, Figure 3, Figure 4 from data we can see most precise example is year 2011-2012 when inflation had rapid growth and governmental debt increased more than twice. With currency fluctuations of Belarusian Ruble in recent time inflation rate did not changed rapidly. At present currency is becoming stable; inflation is declining which creates positive environment of business.

While exchange rates are determined by numerous complex factors that often leave even the most experienced economists flummoxed, investors should still have some understanding of how currency values and exchange rates play an important role in the rate of return on their investments.

## **Conclusions**

1. Currency fluctuations in Belarus appear rapidly as we can see in Figure 1.
2. Warn for business in Belarus can be stop of currency changes for some time as it was 4th October year until 27 October 2011.
3. Exchange rates are determined by numerous complex factors which require deep research.
4. High inflation rate can lead to bad environment for business, this environment can cause abandon of companies out of countries as it happened with “PepsiCo holding”
5. Increasing governmental debt of country can be as indicator that currency of country might face pitfall, but this is not guarantee for upcoming changes in price of currency.
6. Belarus is strongly tied to foreign currencies therefore rapid changes can be related to fall of currency as we can see in beginning 2015 RUB course reflected on Belorussian ruble course.



## **Recommendations**

1. One of ways to secure stability of company in Belarus is to keep currency not in BYR that is one of ways to avoid unexpected fall of funds.
2. For companies it is important to monitor financial market of BYR, USD and RUB to predict upcoming changes with different factors, such as in case if currency stubborn.
3. Belarus is country where good financial analyst is advantage for company's safe operation in market.
4. Dependence of Belarussian Ruble to foreign currencies can be benefit and at the same time problem for companies
5. Increasing governmental debt might push back investors, but there can be opportunities of ventures which will pay back in several years.

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