



# INTERNATIONAL BUSINESS ENVIRONMENT

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# FOREIGN EXCHANGE MARKET

## What is Foreign Exchange Market?

The foreign exchange market (also known as forex, FX or the currency market) is an over the counter (OTC) global marketplace that determines the exchange rate for currencies around the world. Participants are able to buy, sell, exchange and speculate on currencies. Foreign exchange markets are made up of banks, forex dealers, commercial companies, central banks, investment management firms, hedge funds, retail forex dealers and investors.



# CHARACTERISTICS

- Huge trading volume
- Geographical dispersion;
- Continuous operation: 24 hours a day except for weekends, i.e., Trading from 22:00 GMT on sunday (sydney) until 22:00 GMT friday (new york);
- Low margins of relative profit compared with other markets of fixed income
- Use of leverage to enhance profit and loss margins and with respect to account size.



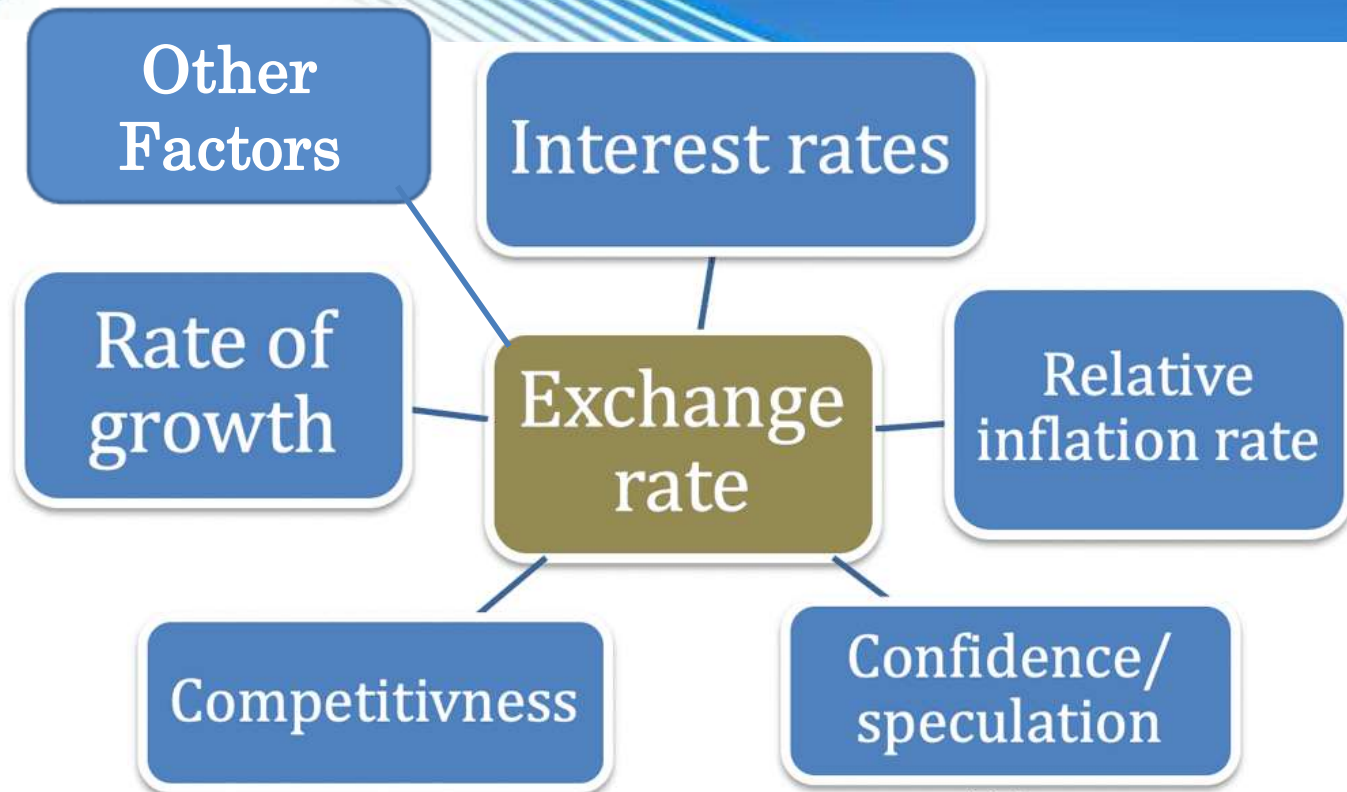


# MECHANISMS

- **Purchase and Sale Transactions**
- **Exchange Quotations**
- **Spot and Forward Transactions**
- **Forward Margin/Swap Points**
- **Direct Quotation**
- **Interpretation of Inter-Bank Quotations**
- **Ready Exchange Rates**
- **Basis for Merchant Rates**
- **Exchange Margin and Others.**



# FACTORS INFLUENCE EXCHANGE RATES





# FACTORS INFLUENCE EXCHANGE RATES

## 1. Inflation

If inflation in the UK is relatively lower than elsewhere, then UK exports will become more competitive, and there will be an increase in demand for Pound Sterling to buy UK goods.

## 2. Interest rate

If UK interest rates rise relative to elsewhere, it will become more attractive to deposit money in the UK.

## 3. Change in competitiveness

If British goods become more attractive and competitive this will also cause the value of the exchange rate to rise.





# FACTORS INFLUENCE EXCHANGE RATES

## **4. Speculation**

If speculators believe the sterling will rise in the future, they will demand more now to be able to make a profit. This increase in demand will cause the value to rise.

## **5. Relative strength of other currencies**

In 2010 and 2011, the value of the Japanese Yen and Swiss Franc rose because markets were worried about all the other major economies – US and EU. Therefore, despite low-interest rates and low growth in Japan, the Yen kept appreciating.



# FACTORS INFLUENCE EXCHANGE RATES

## 6. OTHER FACTORS

### (i). Balance of payments

A deficit on the current account means that the value of imports (of goods and services) is greater than the value of exports. If this is financed by a surplus on the financial/capital account, then this is OK. But a country which struggles to attract enough capital inflows to finance a current account deficit will see a depreciation in the currency.

### (ii). Government debt

Under some circumstances, the value of government debt can influence the exchange rate. If markets fear a government may default on its debt, then investors will sell their bonds causing a fall in the value of the exchange rate.





# FACTORS INFLUENCE EXCHANGE RATES

## **(iii). Government intervention**

Some governments attempt to influence the value of their currency. For example, China has sought to keep its currency undervalued to make Chinese exports more competitive. They can do this by buying US dollar assets which increases the value of the US dollar to Chinese Yuan.

## **(iv). Economic growth/recession**

A recession may cause a depreciation in the exchange rate because during a recession interest rates usually fall. However, there is no hard and fast rule



# EURO CURRENCY & EURO MARKET

Euro currency is currency deposited by national governments or corporations, outside of its home market. Commonly it is currency held in banks located outside of the country which issues the currency

The term Euro market can refer to either the financial market for euro currencies or the single market for goods and services trade between EU members.



# FEATURES OF THE EURO-CURRENCY MARKET

- Wholesale Market
- Inter-Bank Transactions
- Highly Competitive Market
- Distinct from Domestic Money Market:
- Greater Extent of Risk





# OFFSHORE FINANCIAL CENTERS


## **What Is Offshore?**

The term offshore refers to a location outside of one's national boundaries, whether or not that location is land- or water-based. The term may be used to describe foreign banks, corporations, investments, and deposits.

## **Offshore Financial Centers (OFCs)**

### **Definition**

An Offshore Financial Center, otherwise known as an OFC, is defined as a country or jurisdiction that makes available financial services to non residents with the purpose of not disturbing the size or financing of its domestic economy. These financial centers are generally used as holding companies to achieve tax avoidance. Too often, they are used illegally for tax evasion.



# TYPES OF OFFSHORE FINANCIAL CENTRES

## **Base Havens**

Traditional offshore centres with nil or very low tax on corporate or business income and few or no treaties

## **Treaty Havens**

Traditional offshore centres with reasonable domestic tax rates but with special tax regimes that allow the use of their treaty network for offshore activities,

## **Special Concession Havens**

Non-traditional offshore (e.g. onshore) centres with special incentives or benefits that may be exploited for a particular international transaction or activity to gain a tax or non-tax advantage for offshore activities, often with the help of tax treaties



# INTERNATIONAL FINANCIAL INSTITUTION

An **international financial institution** (IFI)

IFI is a financial institution that has been established (or chartered) by more than one country, and hence is subject to international law. Its owners or shareholders are generally national governments, although other international institutions and other organizations occasionally figure as shareholders. The most prominent IFIs are creations of multiple nations, although some bilateral financial institutions (created by two countries) exist and are technically IFIs





# WHAT ARE INTERNATIONAL FINANCIAL INSTITUTIONS (IFI'S)?

## **World Bank Group (WBG):**

- International Bank for Reconstruction and Development (IBRD)
- International Development Association (IDA)
- International Finance Corporation (IFC)
- Multilateral Investment Guarantee Agency (MIGA)
- International Centre for Settlement of Investment Disputes (ICSID)

## **International Monetary Fund (IMF)**

## **Regional development banks, such as:**

- African Development Bank (AFDB)
- Asian Development Bank (ADB)



# FEATURES OF THE EURO-CURRENCY MARKET

- Inter-American Development Bank (IADB)
- Bank of the South
- European Bank for Reconstruction and Development (EBRD)

**Other regional financial institutions e.g. European Investment Bank (EIB)**

**Export Credit Agencies of individual country governments, such as:**

- US Export Import Bank (EXIM)
- Japan External Trade Organization
- Hermes Kreditversicherungs (Germany)



## OBJECTIVES OF IFI'S

- To reduce global poverty and improve people's living conditions and standards;
- To support sustainable economic, social and institutional development; and
- To promote regional cooperation and integration





# WORLD BANK GROUP

The term "World Bank" generally refers to just the IBRD and IDA. The World Bank's activities are focused on developing countries, in fields such as human development, agriculture and rural development, environmental protection, infrastructure, and governance.

It is concerned with assisting its member countries to achieve sustained economic growth. It functions as an intermediary for the transfer of financial resources from the more developed to the less developed countries.



## ROLE OF WORLD BANK

- Fights poverty by offering developmental assistance to Middle income and low income countries.
- Give loans and offers advice and training in both the Private and public sectors.
- Aims to eliminate poverty by helping people Help themselves.
- The world bank group created a new \$1.2 billion rapid Financing facility- the global food response program (Gfrp)- in may 2008 to speed assistance to the neediest Countries. Gfrp has approved and begun disbursing \$200 Million in 21 countries.




## IBRD


- The International Bank for Reconstruction and Development was established in 1945.
- It had 184 members.
- The IBRD is an international organization whose original mission was to finance reconstruction of nations devastated by World War II.
- Now, its mission has expanded to fight poverty by means of financing states.
- Cumulative lending: \$394 billion
- Fiscal 2004 lending: \$11 billion for 87 new operations in 33 countries





- The International Development Association was established in September 24, 1960.
- 165 Members is the part of the World Bank that helps the world's poorest countries.
- IDA is responsible for providing long-term, interest-free loans to the world's 80 poorest countries, 39 of which are in Africa.
- Fiscal 2004 commitments: \$9 billion for 158 new operations in 62 countries

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- The Multilateral Investment Guarantee Agency was established in 1988.
  - It had 165 members.
  - Cumulative guarantees issued:  
\$13.5 billion (Amounts include funds leveraged through the cooperative Underwriting Program).
  - Fiscal 2004 guarantees issued: \$1.1 billion

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- It was established in 1956.
  - It had 176 members.
  - Committed portfolio: \$23.5 billion (includes \$5.5 billion in syndicated loans).
  - It promotes sustainable private sector investment in developing countries as a way to reduce poverty and improve people's lives.
  - Fiscal 2004 commitments: \$4.8 billion for 217 projects in 65 countries.



- The International Centre for Settlement of Investment Disputes was established in 1966.
- It had 143 members.
- Total cases registered: 159
- It provides facilities for the conciliation and arbitration of investment disputes between member countries and individual investors.
- Fiscal 2004 cases registered: 30



The International Monetary Fund was created in 1944, with a goal to stabilize exchange rates and supervise the reconstruction of the world's international payment system.

- Promote international monetary cooperation.
- Shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.
- Facilitate the expansion and balanced growth of international trade.
- Promote Exchange stability and maintain orderly exchange arrangements among members.
- Assist in establishing a multilateral system of payments. The IMF provides financial assistance to members to help them to correct balance of payments problems in a manner that promotes sustained growth.



The Inter-American Development Bank was founded in 1959. The IDB has 48 member countries, including 26 Latin American and Caribbean borrowing members. The bank supports efforts by Latin America and the Caribbean countries to reduce Poverty and Inequality and is the largest source of development financing in this area, besides loans, grants are provided as well as technical assistance and do research. The IDB has a strong commitment to achieve measurable results, increased integrity, transparency and accountability.





## Role of AFDB

1. Using its lending operations, regional initiatives, research and knowledge dissemination activities, institutes, and programs, the IDB helps to foster sustainable economic and social development in Latin America and the Caribbean.

2- Through its financing, the Bank prioritizes poverty reduction and social equity, environmentally sustainable growth, modernization of the state, and regional integration.

3- IDB has the following main areas of action:

- Reducing poverty and social inequalities;
- Addressing the needs of small and vulnerable countries;
- Fostering development through the private sector;
- Addressing climate change, renewable energy and environmental sustainability; and
- Promoting regional cooperation and integration.



It was established to facilitate economic development of countries in Asia.

**GOALS:**

- Promoting economic growth
- Reducing poverty
- Developing human resources
- Improving the status of women
- Protecting the environment

**Spectrum of activities in sectors**

- Agriculture and natural resources
- Transport and communications
- Energy
- Industry and non-fuel minerals
- Finance
- Social infrastructure





IADB

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EBRD provide project financing for banks, industries and businesses, both new ventures and investments in existing companies. We also work with publicly owned companies. Founded in 1991

- 1- Financial institution investing in public and private sectors
- 2- Multinational shareholding: 60 countries, EIB and EU
- 3- Operates in 27 countries of Central and Eastern Europe and the former Soviet Union)
- 4- Institution with broader mandate: foster transition to market economy



**THANK YOU**