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INTERNATIONAL FINANCIAL RELATION\$





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**INTERNATIONAL
FINANCIAL RELATIONS**

Textbook

The second edition, supplemented and revised

Electronic edition

**Dnipro
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This textbook provides basic knowledge from the course "International Financial Relations", the purpose of which is to form in applicants a system of knowledge in the theory of international financial relations and skills to correctly interpret phenomena, main problems and processes occurring in the field of international financial relations, identify trends and develop practical recommendations for optimizing the actions of economic entities involved in these processes. The course includes two content modules: "International Financial Markets" and "International Settlements". The material is presented in the form of diagrams, drawings and supporting concepts, which simplifies the formation of basic knowledge, which is supplemented by independent study of the literature recommended by the teacher.

Intended for students of the specialty "International Economic Relations" and all those who are interested in issues of international financial relations.

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INTRODUCTION

International financial relations are an important part of the modern world. In one form or another, they are present in all economic relations that develop at the level of all groups of economic entities: from households to national economies. International financial organizations have become active players in the world economy. International financial flows determine not only the state of a country's foreign economic relations, but also the state of its domestic market, its stability and the standard of living of the population. Even cyclical crises in the world economy have become "financial and economic crises" today. Therefore, for the training of specialists in the field of international economic relations, it is extremely necessary to form the appropriate competencies and skills related to the functioning of international finance.

The purpose of studying the academic course "International Financial Relations" is to form in applicants a system of knowledge in the theory of international financial relations and skills to correctly interpret phenomena, main problems and processes occurring in the field of international financial relations, identify trends and develop practical recommendations for optimizing the actions of economic entities involved in these processes.

The objectives of the course are to form a system of knowledge about the transformation of the role of international financial relations in the context of globalization, the content, structure and principles of functioning of the main financial markets, as well as mastering the basic approaches to justifying various types of financial decisions on the management of international monetary and financial flows.

During the study of the discipline, both ***general competencies*** (the ability to think abstractly, analyze and synthesize; skills in using information and communication technologies; the ability to learn and be modernly trained; the

ability to make informed decisions; the ability to work in a team; interpersonal communication skills; appreciation and respect for diversity and multiculturalism), and **special ones** (understanding the general patterns of the functioning of international financial relations; the ability to work in different linguistic, cultural and legal contexts; the ability to collect and analyze the source data necessary for assessing international monetary and financial flows; mastery of analytical work methods related to the financial aspects of the activities of professional participants in international markets; the ability to conduct research using international databases on the problems of international economic activity; the ability to evaluate and make decisions regarding international monetary and financial flows) are formed.

The course "International Financial Relations" includes **two content modules: "International Financial Markets" and "International Settlements"**.

The first content module reveals the essence of international financial relations, analyzes in detail the currency market, the functioning of the international banking system and the problems of the international credit market. Special attention is paid to the participation of Ukraine in international financial markets.

The second content module is devoted to the study of international settlement systems. In particular, the subject of study is the organization of international settlements, the formation and assessment of the balance of payments and the international investment position. Taking into account the current state of the Ukrainian economy and its future aspirations, the problems of international debt and currency regulation in the European Union are specially studied.

The proposed textbook includes methodological materials for each course topic. They consist of a list of basic questions that reveal the content of the topic, a brief description of each question and a list of problem situations, the analysis of which will allow you to check your own knowledge and the

degree of assimilation of the material. The course content is revealed through the use of tables, diagrams, and figures that clearly demonstrate relationships and interdependencies and provide an opportunity to better understand complex international relations.

Of course, it should be understood that the textbook can provide only basic knowledge. To achieve a professional level in the field of international financial relations, systematic study of additional literature and constant attention to new processes occurring in this area of the world economy are required.

This edition is an English-language version of the textbook, which was published several years ago¹. It has been supplemented with new material taking into account current trends in the development of international financial relations and new geostrategic realities.

The authors are grateful to all those who contributed to the writing and preparation for printing of this textbook.

¹ Задоя А.О. Міжнародні фінансові відносини: Навчальний посібник [Електронне видання]. Дніпро: Університет імені Альфреда Нобеля, 2022. – 161 с.

Content module 1. INTERNATIONAL FINANCIAL MARKETS

Chapter 1

The essence of international financial relations. Financial markets

Questions that reveal the content of the topic

- 1.1. Basic concepts and structure of international financial relations
- 1.2. Segments and types of the international financial market
- 1.3. Participants and institutional entities of international financial relations
- 1.4. Financial assets and financial instruments
- 1.5. Financial market models

1.1. Basic concepts and structure of international financial relations

First, remember *whether you have ever had to participate in financial relations at all and in what capacity?*

Quite often we do not even think about what processes we become a participant in. For example, almost everyone has once bought or sold foreign currency, bought some goods abroad through an online store, simply paid with a credit card when their own funds had already run out, etc. If we analyze the above situations, it is easy to see that in these cases we take part in a wide variety of financial relations: the foreign exchange market, international and domestic lending, paying taxes... We are here sellers and buyers, creditors and borrowers, taxpayers and recipients of transfer payments... Therefore, before considering international financial relations, it is worth remembering how finance differs from just money, and financial relations from commodity-monetary relations.

By general definition, finance is a system of relations related to the formation and use of funds for the purposes of reproduction.

Finance is a type of monetary relationship

Monetary relationship

Commodity-money relations involve the counter-movement of goods and money

Financial relations do not involve the reciprocal movement of goods and money, but only reflect the movement of money

Important! In international relations, even from a purely physical point of view, it is impossible for the exchange of goods and money to coincide in time. Therefore, all international commodity-money relations contain elements of financial relations!

International finance is an economic category that reflects the exchange and redistribution relations of **national and supranational entities of the world economy** regarding the movement of value between countries and in the process of formation and use of centralized monetary funds

The object of international finance is cash flows and related financial relations on the world market

The subjects of international financial relations are:

- individuals and legal entities;
- governments;
- international organizations and financial institutions;
- banks and other credit and financial institutions - intermediaries in the international financial market

Subjects of international finance from the perspective of a particular state are divided into **residents and non-residents**

The material carrier of international financial relations is currency and financial flows.

Main directions of currency and financial flows in the system of international financial relations

1. **Between exporters and importers** regarding payments for goods, granting and repayment of credit obligations
2. **Between exporters, importers and banks** regarding the receipt and repayment of loans, opening and servicing foreign exchange accounts, providing guarantees by insurance organizations regarding risk insurance and other financial and credit institutions.
3. Between **exporters, importers, banks and international financial institutions** regarding obtaining loans, subsidies, etc.
4. **Between exporters, importers, banks, international financial institutions and individuals** regarding wages, international transfers, payment for goods and services, and execution of insurance contracts.

5. **Between exporters, importers, banks, international financial institutions, individuals and a foreign state** regarding the payment of taxes and the fulfillment of certain obligations arising from the rules of state regulation of international financial relations.

6. **Between individuals** regarding the implementation of various international bank, postal and cash money transfers

7. **Between governments of different countries** regarding the payment (receipt) of contributions and reparations, granting and repayment of

8. **Between governments of different countries and international organizations and financial institutions** regarding monetary contributions to these organizations, receipt of loans, subsidies, etc.

9. **Between supranational entities of international finance** (international organizations and financial institutions)

Classification of currency and financial flows

I. By type of economic interaction of non-residents

1. **Foreign trade.** Flows generated by trade in export and import goods, services, factors of production and other current transactions

2. **Capital.** Flows arising from the credit and investment activities of international finance entities

3. **Speculative.** Such flows arise from currency transactions and have no connection with production.

4. **Balancing.** Flows that mediate the activities of one state in balancing external payments and settlements with other countries

II. By the form of international financial resources

1. Financial flows in the form of **official international financial assistance**. Interstate loans and grants. Loans and grants from international organizations
2. Financial flows in the global financial market in the form of **securities and bank loans**
3. Financial flows in the form of **official and private gold and foreign exchange reserves**

III. By the sign of time

1. **International capital market** flows (medium- and long-term credit resources and securities)
2. **Foreign exchange market** flows (short-term capital) that arise when carrying out transactions with so-called "hot money" - purposeful speculative transactions on the money market in order to obtain maximum profit.

IV. By type of economic activity

1. Payment flows for goods

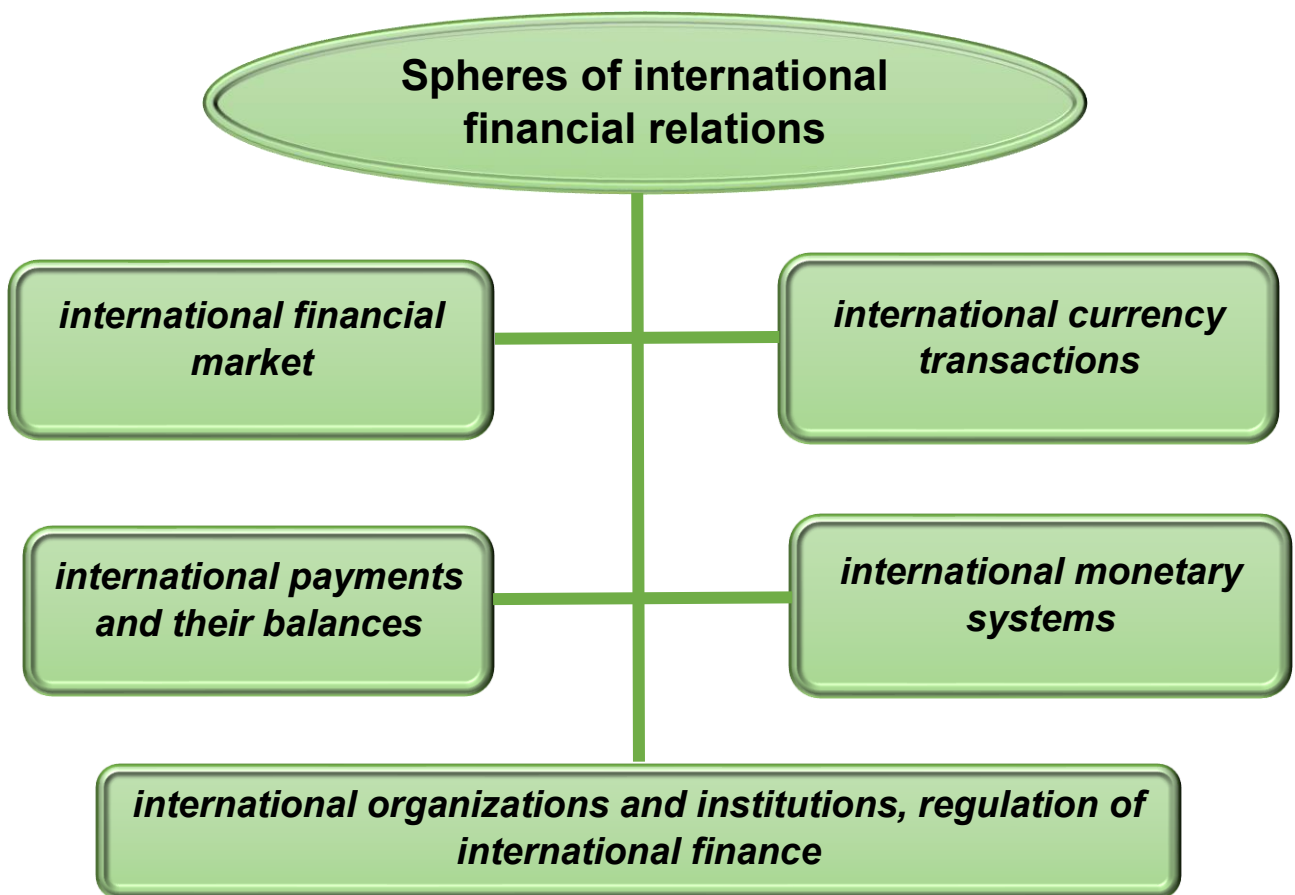
2. Service payment flows

3. Current and capital transfers in cash

4. Credit resources

5. Direct and portfolio investment

6. Reserve asset flows



The financial market is a special sector of the economy formed by **specialized financial institutions**, where relationships are formed between various participants, the subject of which are **financial assets, financial instruments, as well as related financial services**.

Financial market actors:
buyers, sellers, financial intermediaries, regulators

Financial market objects: financial assets; financial instruments, financial services

Content of the relationship:
circulation of money and other financial assets separated from the material basis

Questions for reflection: An investor who has a certain amount of money has decided to purchase shares of a foreign company that interests him? What international financial market actors will be involved here?

Functions of the financial market

1. **Pricing** in relation to financial assets, financial instruments and financial services
2. Market **intermediation** function
3. **Optimization** of transaction costs
4. **Transformation** of savings of economic entities from an unproductive form into a productive one
5. **Redistribution** of accumulated free capital between its end users
6. Ensuring the **most efficient use** of free capital
7. **Hedging of risks** on assets and operations for its participants

Important! On the one hand, unlike direct interaction between sellers and buyers, the participation of intermediaries further complicates market procedures, and also leads to an increase in transaction costs.

On the other hand, the participation of intermediaries leads to optimization of time costs, reduction of risks, etc.

1.2. Segments and types of the international financial market

Classification of international financial markets

1. By type of current assets

Credit market. It is a segment in which the object of purchase and sale is free credit resources and their financial instruments.

Securities market. It is a segment in which the object of purchase and sale is all types of securities issued by public and private entities, including the state, municipalities, enterprises and financial institutions, as well as financial services related to securities and derivative financial instruments.

Foreign exchange market. This is a segment in which the object of purchase and sale is foreign currency and financial instruments that service transactions with it.

Investment metals market. The object of purchase and sale on this market is various types of precious metals.

Insurance market. It is a segment in which the object of purchase and sale is insurance protection in the form of various insurance products.

Collective investment market. The object of purchase and sale is various securities, the issuers of which are collective investment institutions.

2. By the period of existence and terms of circulation of financial instruments

Money market. It is a market for cash and non-cash funds, as well as financial instruments with a maturity of up to one year.

Capital market. By analogy with the reverse, it is a market for cash and non-cash funds, as well as financial instruments with a maturity of more than one year.

That part of the securities market whose instruments belong to the capital market is called **the international stock market**.

3. By the degree of organization of the financial market

Organized market. Trading on this market is conducted by a trade organizer specially created for these purposes on a permanent basis, according to rules strictly established by this organizer, between specially selected (usually licensed) participants.

Unorganized market. A market where financial instruments and services are bought and sold, transactions for which are not registered in the trading system.

4. By the criterion of terms of implementation of agreements

Spot market. A market with immediate execution of transactions, i.e. concluded transactions are executed either on the day of the transaction or within several days, but not more than five.

Futures market. It is characterized by the fact that the fulfillment of obligations under transactions is delayed by more than 5 days from the date of their **conclusion**.

5. By the criterion of the stage of circulation of financial instruments

Primary market. In this market, the process of alienating securities to their first buyers takes place, which is called the placement of securities.

Secondary market. This is where the process of securities circulation takes place, which involves the alienation of securities from their first owners to second and subsequent owners.

1.3. Participants and institutional entities of international financial relations

Participants in international financial relations are represented by a large group of entities operating in this area and realizing their investment, credit, commercial and insurance interests. They can be divided into ***sellers and buyers of financial assets and financial instruments, financial intermediaries and regulatory, control and supervisory authorities.***

First group: Sellers and buyers of financial assets and financial instruments

<i>In the credit market segment</i>	- creditors
	- borrowers
<i>In the securities market segment</i>	- issuers
	- investors
<i>In the collective investment market segment</i>	- collective investors
<i>In the foreign exchange market</i>	- sellers and buyers of currency
<i>In the insurance market</i>	- insurers: 1) insurance companies and open-type companies; 2) captive insurance companies and companies (subsidiaries within a holding or financial and industrial group); 3) risk reinsurance companies
	- clients
<i>In the investment metals market</i>	- sellers and buyers of this category of metals. Sellers can be a set of various participants, including the state, which sells part of its gold reserves, or banks, which sell part of their gold holdings, as well as legal entities and individuals

Second group: financial intermediaries

Financial intermediaries provide services in the financial market.

Some institutional financial intermediaries act not only as providers of financial services - they can also be sellers and buyers of financial assets and financial instruments.



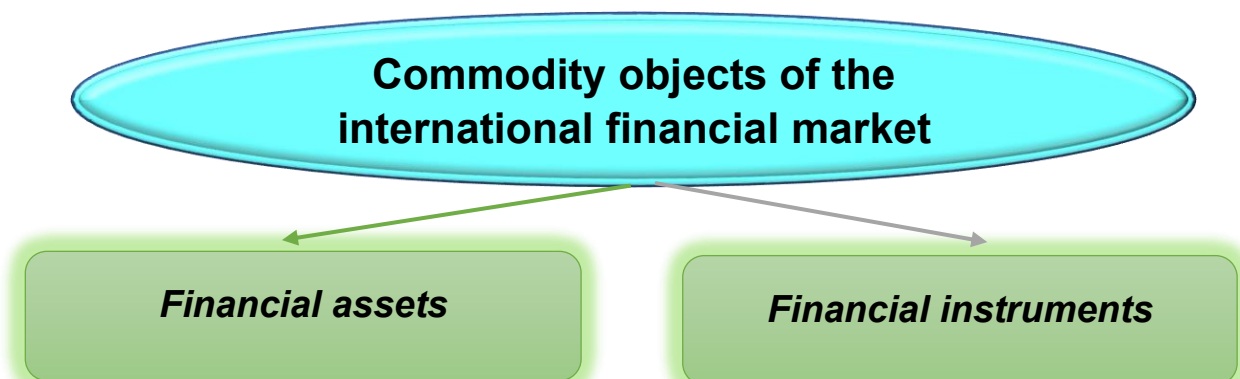
On the credit market:	- commercial and investment banks
	- financial companies
On the securities market:	- operational intermediaries (brokers, dealers and trustees)
	- servicing intermediaries (exchanges, trade organizers, clearing organizations, registrars and depositories)
On the foreign exchange market and the investment metals market:	- - dealer (direct transactions between seller and buyer are prohibited)
On the insurance market:	- insurance brokers
	- insurance agents

Third group: regulatory, control and supervisory authorities

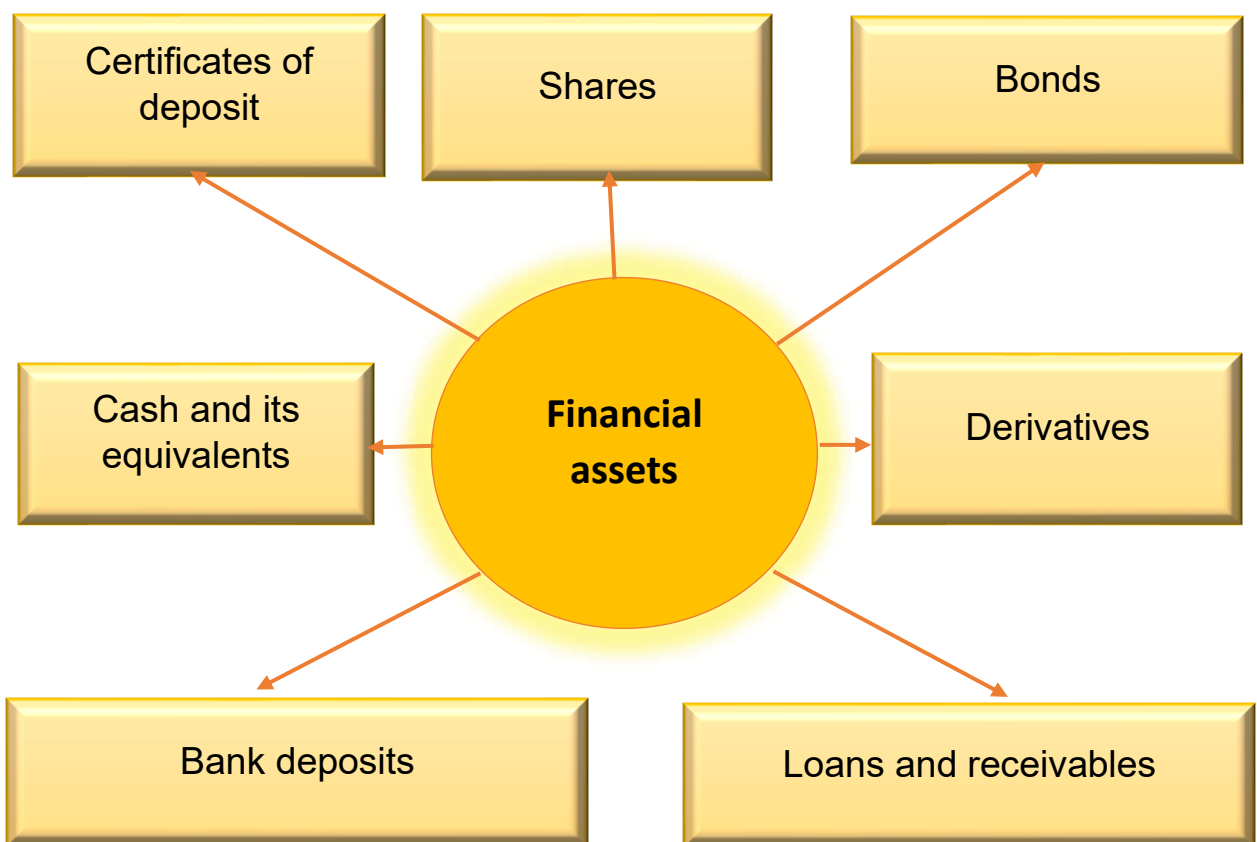
This group of participants includes various state structures, including the central bank, the ministry of finance, antimonopoly authorities, as well as institutional regulatory structures represented by **self-regulatory organizations** of financial market participants. **International and supranational organizations** are also involved in regulation, control and supervision.



1.4. Financial assets and financial instruments



A financial asset is a non-physical asset whose value derives from a contractual claim, such as bank deposits, bonds, and shares in companies. Financial assets are usually more liquid than other tangible assets, such as goods or real estate. A financial asset is used to transfer financial resources from those who have a surplus (investors) to those who need them.



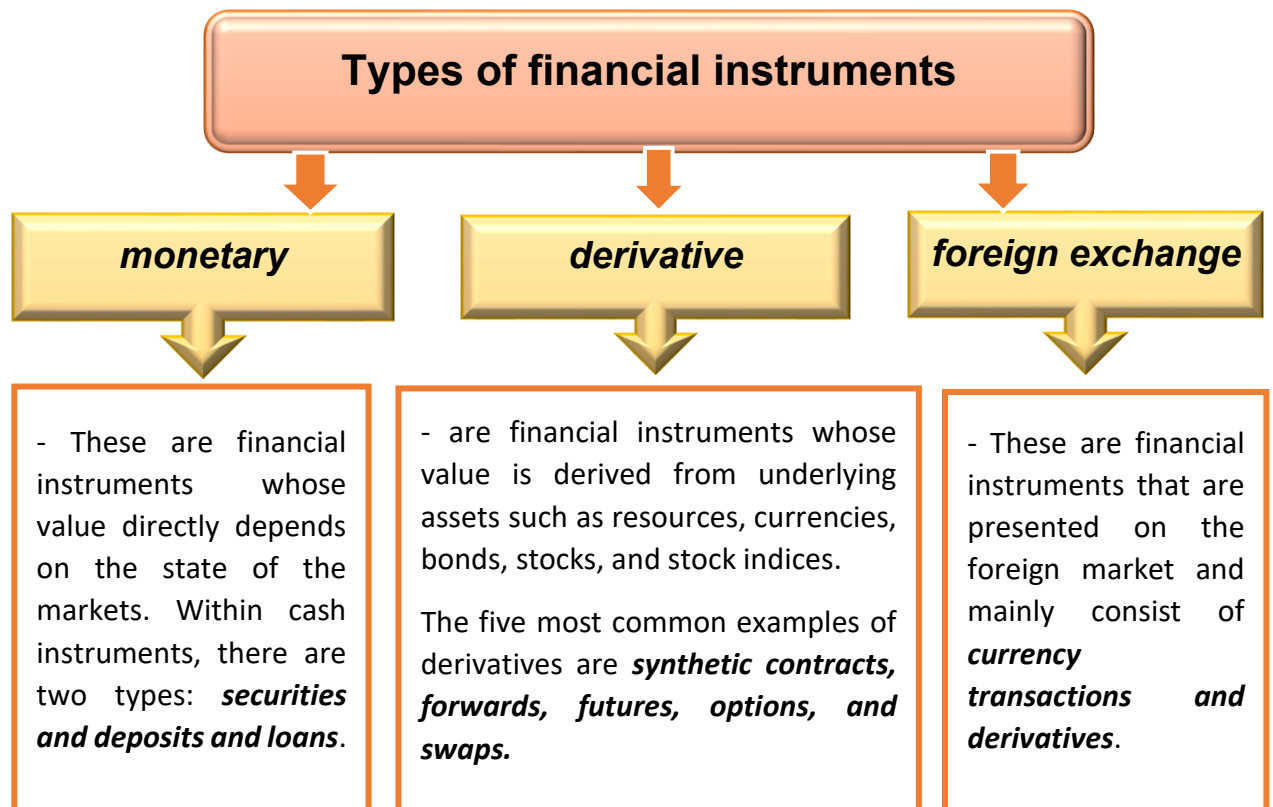
Important! The value of these assets is determined by supply and demand in the market.

The value of financial assets can change significantly, especially in the case of investing in stocks.

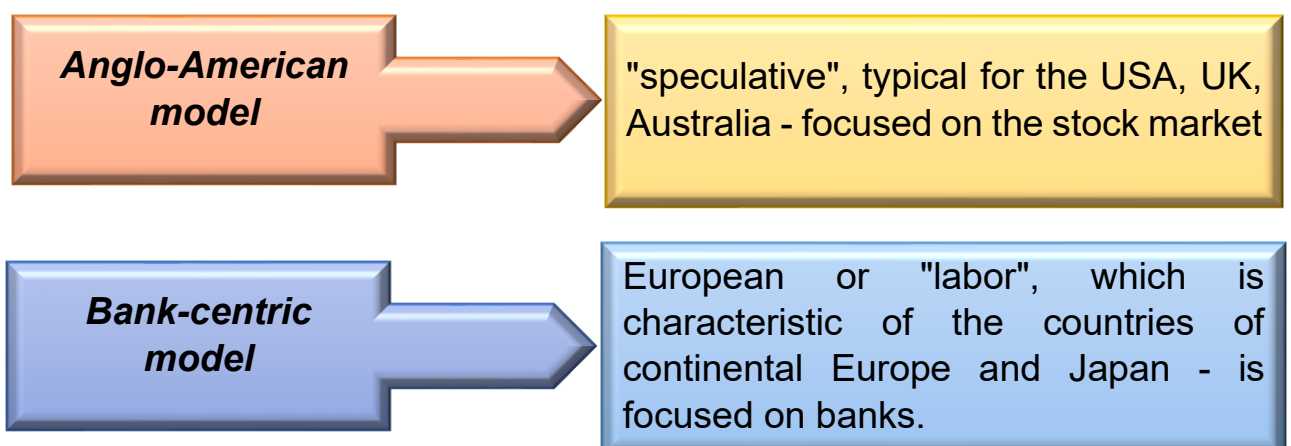
Each financial asset has different risks and returns for its buyer.

Financial instruments are monetary contracts between parties. They can be created, traded, modified, and settled.

Financial assets can be described as contracts that give rise to financial assets in one entity and financial liabilities in another entity.



1.5. Financial market models



Anglo-American model

- key segment - securities market

- the source of borrowed funds for economic entities is resources raised on the stock market as a result of the placement of corporate bonds among investors.

- the stock market is distant from banks.

- savings holders, both legal entities and individuals, invest through financial intermediaries

- creates competitive conditions for those who want to obtain capital, primarily long-term, and maximize the use of savings as investments

- For such a market, there is a need for a high level of legislative protection of the interests of small investors and the presence of a significant number of highly qualified specialists in the field of securities transactions

Bank-centric model

- the main financial intermediary is the banking system and, accordingly, the predominant source of borrowed funds for economic entities is bank loans

- banking institutions store the bulk of savings created in the economy in the form of deposits of legal entities and individuals

- legal entities and individuals do not personally invest, but actually entrust banking institutions with making decisions about investing funds

- Banks not only provide credit, but are also the main buyers of corporate stocks and bonds. They own and control the trading of stocks, and they dominate the capital markets.

Структура фінансових продуктів на таких ринках
більш консервативна

Important! Recently, trends towards the merger of the two types of financial markets have become increasingly clear. In general, changes taking place in the legislation on the stock market of continental European countries are, in one way or another, bringing it closer to the Anglo-Saxon model.

Tasks for control and self-control of knowledge

I. Questions for reflection and discussion

1. What is the cause of the "financialization" of modern international economic relations and what are its consequences?
2. What are the gains and losses of working through an intermediary in the international financial market for an investor?
3. Why can stocks or bonds, under certain conditions, be both financial assets and financial instruments? Give examples of such situations.
4. To which of these financial market models would you attribute the financial market of our country and why?

II. Find the only correct answer among the suggested ones

1. The financial market as a system of economic relations is:

- a) the totality of demand and supply for financial resources, i.e. money, currency, stocks, bonds and other securities;
- b) a network of special (banking and financial) institutions that ensures the interaction of demand and supply for money as a specific commodity, their mutual balancing;
- c) the totality of economic relations regarding the distribution of financial resources, the purchase and sale of temporarily free funds and other financial instruments;
- d) the totality of sellers and buyers of the market.

2. By the period of circulation of financial assets, the financial market is divided into:

- a) the money market and the capital market;
- b) the currency market and the financial services market;
- c) the stock market and the over-the-counter market;
- d) the gold market and the insurance market.

3. The subjects of the financial market include:

- a) issuers, investors;
- b) the population, foreign market participants;
- c) financial intermediaries, the state;
- d) all answers are correct.

4. Investors in the financial market are:

- a) individuals, the state;
- b) legal entities, the state;
- c) individuals and legal entities;
- d) individuals, legal entities, the state.

5. The US financial market is characterized by the following model:

- a) "speculative", focused on the stock market;
- b) bank-centric, focused on the banking system;
- c) mixed, equally uses the capabilities of both the stock market and the banking system;
- d) convergent, as it combines the advantages of two models.

6. The relative advantage of the financial system focused on the stock market is due to the fact that:

- a) this model is inherent in highly developed countries;
- b) the determining factor for investors is the reliability and authority of the issuer and the investment profitability offered to them;
- c) known and reliable intermediaries operate in the market.

7. The functions of the financial market do not include:

- a) optimization of transaction costs;
- b) redistribution of state budget funds;
- c) ensuring the most efficient use of free capital;
- d) hedging of risks in the assets and operations of its participants.

8. When classifying markets by types of circulating assets, the following are not distinguished:

- a) credit market;
- b) securities market;
- c) foreign exchange market;
- d) fixed capital market.

The world currency market and its structure

Questions that reveal the content of the topic

2.1. World monetary system: basic concepts

2.2. Exchange rates

2.3. The concept of the foreign exchange market. Currency quotation. Cross rates

2.4. Characteristics of the spot market. Types of forward foreign exchange transactions

2.1. World monetary system: basic concepts

The world monetary system (WMS) is a form of organization of international monetary relations, fixed by interstate agreements, which has developed historically.

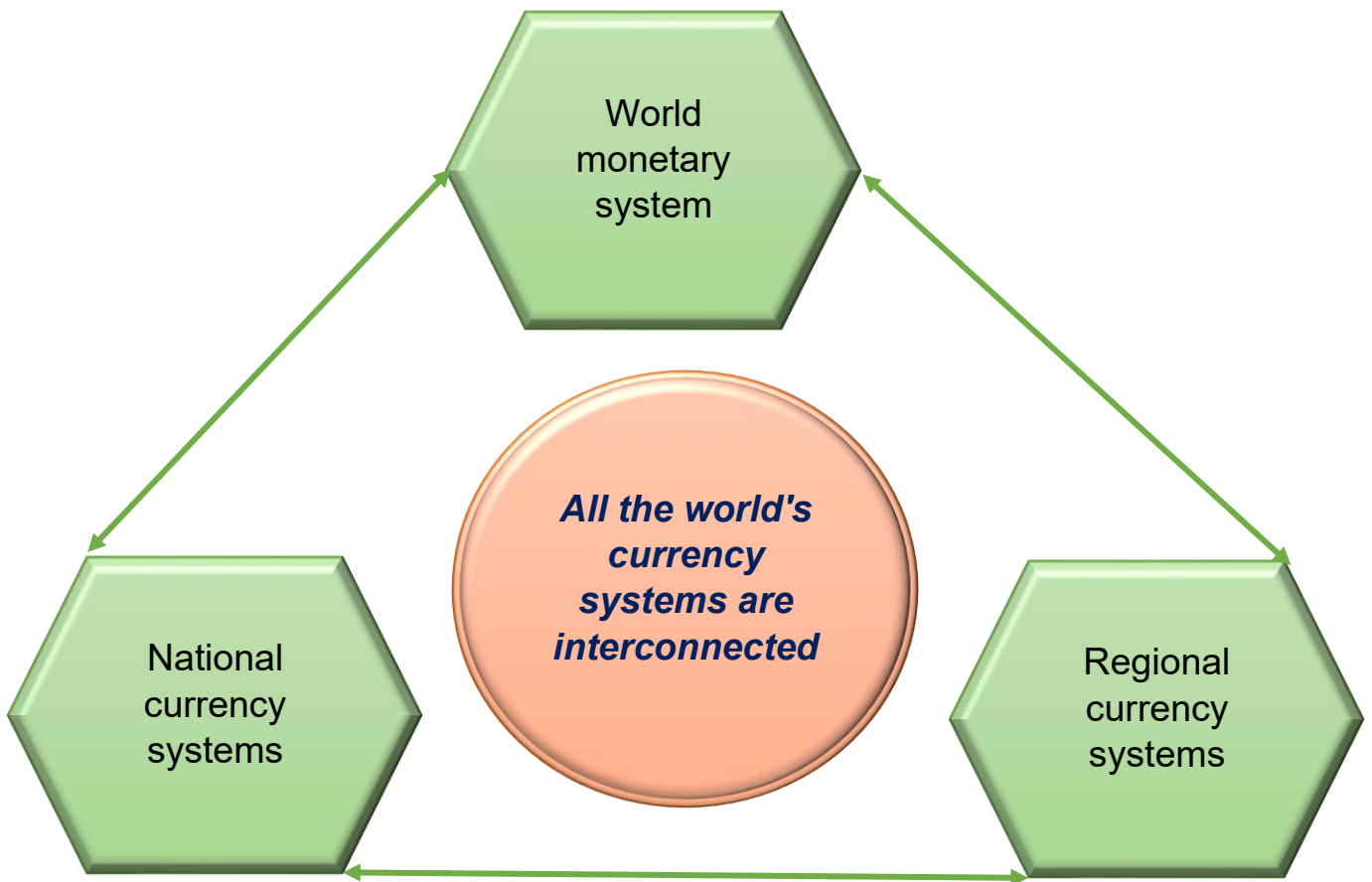
WMS is a set of methods, instruments and intergovernmental bodies through which payment and settlement turnover is carried out within the framework of the world economy.

The world monetary system was formed ***by the middle of the 19th century.***

The nature of the functioning and stability of the world monetary system depend on the degree of compliance of its principles with the structure of the world economy, the balance of power and the interests of the leading countries.

In the event of a change in these conditions, a periodic crisis of the world monetary system occurs, which ends with its collapse and the creation of a new monetary system

The modern world monetary system is created and operates on the basis of international law and aims to prevent currency crises and provide assistance in the event of their occurrence.



Basic elements of national and world monetary systems

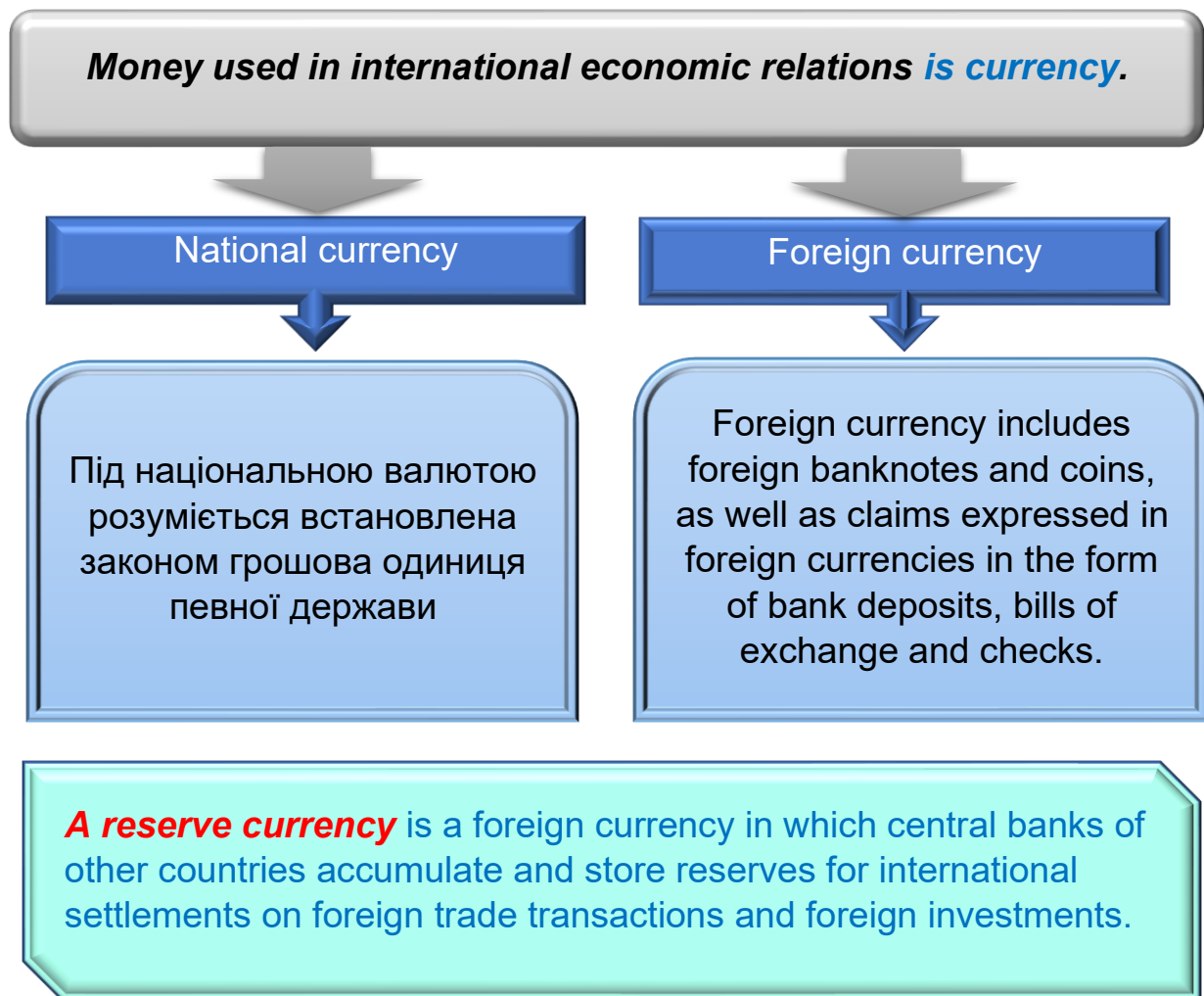
National currency systems	World monetary system
National currency	Reserve currencies, international currency units of account
Conditions for convertibility of the national currency	Conditions for mutual currency convertibility
National currency parity	Unified regime of currency parities
National currency exchange rate regime	Regulation of exchange rate regimes
Presence or absence of currency restrictions, currency control	Interstate regulation of currency restrictions

National regulation of a country's international currency liquidity	Interstate regulation of international currency liquidity
Regulation of the use of international credit instruments	Unification of rules for the use of international credit instruments
Regulation of international payments of the country	Unification of the main forms of international settlements
Regime of the national currency market and the gold market	Regime of global currency and gold markets
National authorities that regulate and manage a country's currency relations	International organizations that carry out interstate currency regulation

Structural elements of the world monetary system



World money commodity



The structure of world foreign exchange reserves (1 quarter of 2025) (<https://data.imf.org/regular.aspx?key=41175>)

Reserve currency	Reserves in foreign currency	
	Billion USD	%
Total Foreign Exchange Reserves	12,538	100
Allocated Reserves	11,640	92.83
Claims in U.S. dollars	6,720	53.60
Claims in euro	2,335	18.62
Claims in Japanese yen	599	4.77
Claims in pounds sterling	604	4.82
Claims in Canadian dollars	306	2.44
Claims in Australian dollars	235	1.87
Claims in Chinese renminbi	246	1.96
Claims in Swiss francs	21	0.16

Classifier of foreign currencies and banking metals

(<https://zakon.rada.gov.ua/laws/show/v0521500-98#Text>)

1. Convertible currencies widely used for making payments for international transactions, currencies of European Union member states and banking metals (group 1)

No	Currency name	Currency code	
		numeric	alphabetical
1	Australian dollar	036	AUD
2	Bulgarian lev	975	BGN
3	won	410	KRW
4	Hong Kong dollar	344	HKD
5	Danish krone	208	DKK
6	US dollar	840	USD
7	zloty	985	PLN
8	euro	978	EUR
9	yen	392	JPY
10	Canadian dollar	124	CAD
11	kuna	191	HRK
12	Mexican peso	484	MXN
13	New Zealand dollar	554	NZD
14	Israeli new shekel	376	ILS
15	Norwegian krone	578	NOK
16	Singapore dollar	702	SGD
17	rand	710	ZAR
18	Romanian leu	946	RON
19	forint	348	HUF
20	pound sterling	826	GBP
21	Czech koruna	203	CZK
22	Swedish krona	752	SEK
23	Swiss franc	756	CHF
24	Renminbi yuan	156	CNY
25	SDR (special drawing rights)	960	XDR
26	gold	959	XAU
27	palladium	964	XPD
28	platinum	962	XPT
29	silver	961	XAG

2. Convertible currencies that are not widely used for making payments for international transactions (group 2) (excerpt)

No	Currency name	Currency code	
		numeric	alphabetical
1	2	3	4
1	Azerbaijani manat	944	AZN
2	Algerian dinar	012	DZD
3	Argentine peso	032	ARS
11	Belarusian ruble	933	BYN
14	Brazilian real	986	BRL
17	Armenian dram	051	AMD
24	Denar	807	MKD
26	UAE dirham	784	AED
32	Egyptian pound	818	EGP
37	Indian rupee	356	INR
51	Lari	981	GEL
62	Malaysian ringgit	458	MYR
63	Moroccan dirham	504	MAD
64	Mozambican metical	943	MZN
65	Moldovan leu	498	MDL
70	Pakistani rupee	586	PKR
76	Russian ruble	643	RUB
80	Saudi riyal	682	SAR
81	Seychellois rupee	690	SCR
82	Serbian dinar	941	RSD
84	Somali som	417	KGS
86	Sudanese pound	938	SDG
87	Surinamese dollar	968	SRD
88	East Caribbean dollar	951	XCD
91	Tanzanian shilling	834	TZS
92	Tugrik	496	MNT
93	Tunisian dinar	788	TND
94	Turkish lira	949	TRY
95	Tenge	398	KZT
98	Uzbek sum	860	UZS
104	Chilean peso	152	CLP
105	Jamaican dollar	388	JMD

3. Non-convertible currencies (group 3)

No	Currency name	Currency code	
		numeric	alphabetical
1	2	3	4
1	afghani	971	AFN
2	bermudian dollar	060	BMD
3	burundian franc	108	BIF
4	gibraltar pound	292	GIP
5	dobra	930	STN
6	cayman islands dollar	136	KYD
7	ethiopian birr	230	ETB
8	iraqi dinar	368	IQD
9	kwanza	973	AOA
10	convertible peso	931	CUC
11	convertible mark	977	BAM
12	cuban peso	192	CUP
13	kyat	104	MMK
14	liberian dollar	430	LRD
15	naira	566	NGN
16	nakfa	232	ERN
17	ngultrum	064	BTN
18	netherlands antillean guilder	532	ANG
19	pataka	446	MOP
20	south sudan pound	728	SSP
21	rufiyaa	462	MVR
22	syrian pound	760	SYP
23	somali shilling	706	SOS
24	turkmen new manat	934	TMT
25	cpf franc	953	XPF
26	st helena pound	654	SHP
27	falkland islands pound	238	FKP

In addition to national currencies, international currency units — **SDR** and **euro** — are used in international settlements.

Special Drawing Rights, SDR

are non-cash money in the form of entries in a country's special account at the IMF

The value of SDR is calculated on the basis of a standard "basket" that includes the main world currencies

Composition of the SDR basket (price of 1 SDR) for 2016-2020 and 2021-2025

U.S. dollars	– 41.73%	(43.31)
Euro	- 30.93%	(29.31)
Chinese renminbi	– 10.92%	(12.28)
Japanese yen	- 8.33%	(7.59)
Pounds sterling	– 8.09%	(7.44)

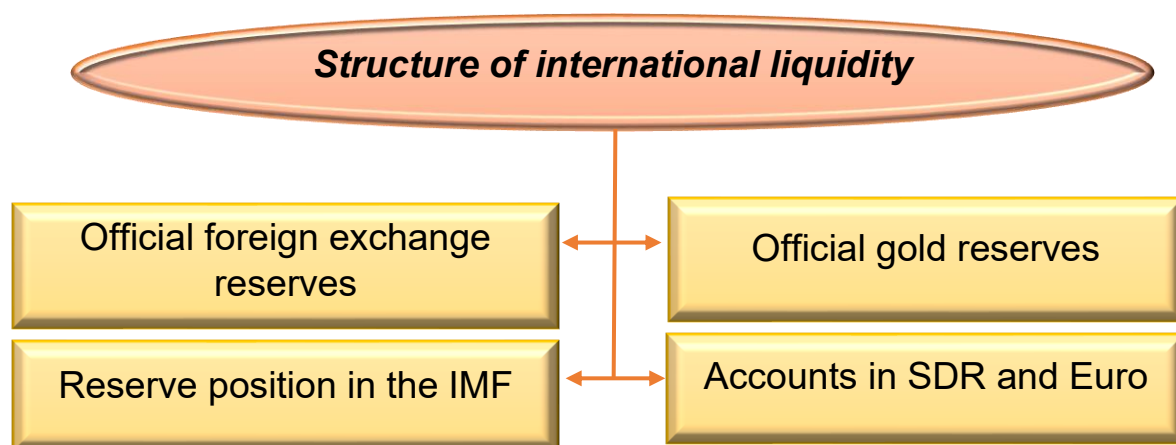
The value of the SDR in US dollars is determined daily based on spot exchange rates observed around noon London time and is posted on the IMF website.

In March 2021, the Executive Board postponed the next review of the SDR basket until July 31, 2022, effectively resetting the five-year SDR review cycle.

The new basket entered into force on August 1, 2022.

International currency liquidity

International currency liquidity is the ability of a country to ensure the timely repayment of its international obligations.



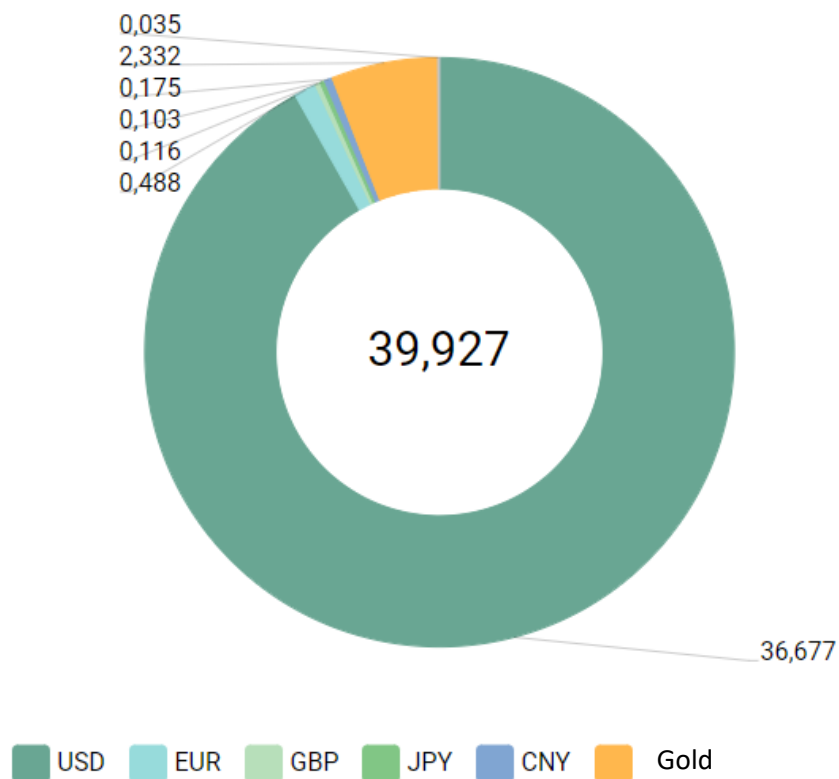
Official international reserves of Ukraine as of September 30, 2025 (million USD) (<https://index.minfin.com.ua/ua/finance/assets/2025/>)

1.	In foreign currency	42,711.30	91.58%
	a. Securities	24,919.99	53.43%
	b. Currency and deposits	17,791.99	38.15%
2.	Reserve position in the IMF	0.33	0.00%
3.	SDR	551.40	1.18%
4.	Monetary gold	3,375.08	7.24%
5.	Others		
Reserve assets (total)		46,638.11	100%

The main guideline for investors is not so much the size of reserves, but their ratio to the volume of future imports.

The critical value is considered to be the mark of three months

Structure of international reserves by currency (billion USD as of 1.12.2024)



<https://bank.gov.ua/ua/markets/international-reserves-allinfo/currency-structure>

2.2. Currency rates

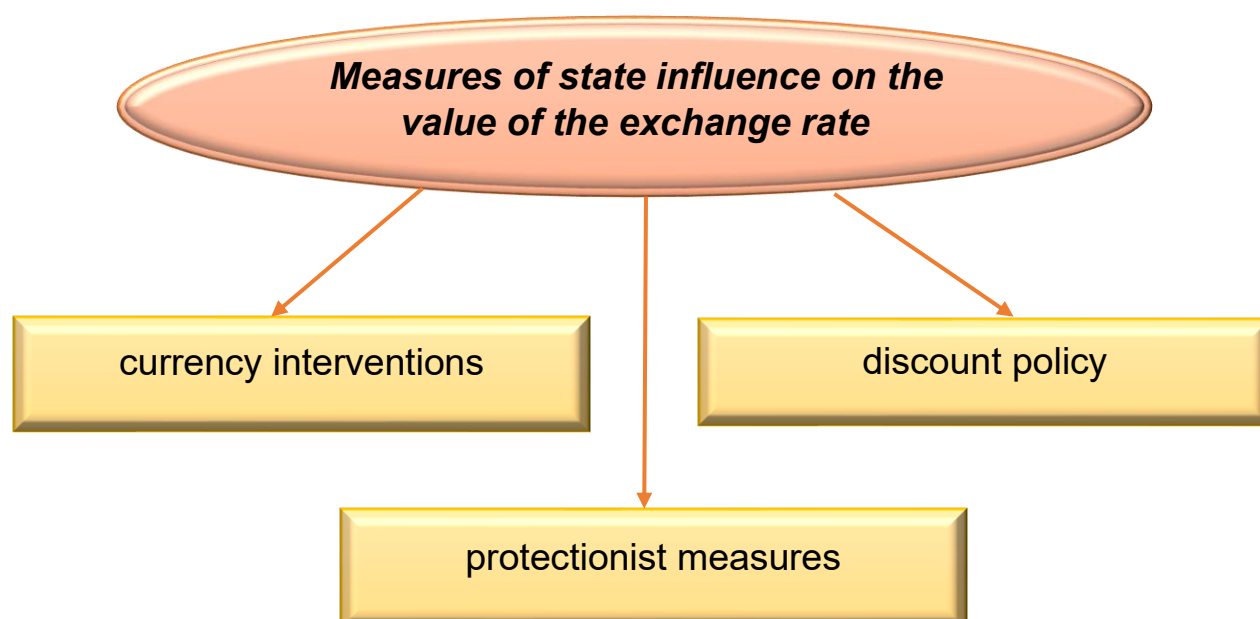
An exchange rate is the value of one country's currency expressed in terms of another country's currency.

An exchange rate is necessary for:

- 1) mutual exchange of currencies in trade in goods, services, and in the movement of capital and credit;
- 2) comparison of prices in world and national markets, as well as value indicators of different countries expressed in national or foreign currencies;
- 3) periodic revaluation of foreign currency accounts of firms and banks.

Системи валютних курсів

Free ("clean") floating	In the system of free floating, the exchange rate is formed under the influence of market demand and supply
Guided floating	In the system of guided floating, in addition to supply and demand, the value of the exchange rate is strongly influenced by the central banks of countries, as well as various temporary market changes
Fixed rates	An example of a fixed exchange rate system is the Bretton Woods Currency System 1944-1971 pp.
Target areas	The system of target zones develops the idea of fixed exchange rates. Its example is the fixation of the Russian ruble against the US dollar in the corridor of 5.6-6.2 rubles for 1 US dollar (in pre-crisis times - before the default in August 1998).
Hybrid exchange rate system	An example of a hybrid system of exchange rates is the modern currency system, in which there are countries with free floating exchange rates, stability zones, etc.



The purpose of foreign exchange interventions is to change the level of the relevant exchange rate, the balance of assets and liabilities in different currencies, or the expectations of participants in the foreign exchange

In order to increase the rate of the national currency, the central bank must sell foreign currencies, buying the national one

In order to reduce the rate of the national currency, the central bank sells the national currency and buys foreign currency. This leads to an increase in the rate of foreign currency and a decrease in the rate of the national currency.

Discount policy is a change of the discount rate by the central bank, in particular for the purpose of regulating the value of the exchange rate by acting on the cost of credit in the domestic market and thus on the international movement of capital. In recent decades, its importance for regulating the exchange rate has gradually decreased.

Protectionist measures are measures aimed at protecting one's own economy, in this case the national currency.

These include, first of all, **currency restrictions**:

- currency blockade;
- ban on free purchase and sale of foreign currency;
- regulation of international payments, movement of capital, repatriation of profit, movement of gold and securities;
- concentration in the hands of the state of foreign currency and other currency values

Compulsory sale of foreign exchange earnings

Until March 1, 2019, all foreign economic entities of Ukraine were obliged to sell at least 50% of their foreign exchange earnings on the interbank currency exchange (1 group of currencies);

From March 1, 2019, the sales rate is reduced to 30%.

As of June 20, 2019, mandatory sales have been cancelled.

Questions for reflection: According to the National Bank of Ukraine, both during the relevant rule and after its cancellation, foreign exchange entities sold more than 90% of foreign exchange earnings on the currency exchange.

WHY do you think?

Classification of exchange rate types

1. Method of fixation	Floating Fixed Mixed
2. Method of calculation	Parity Actual
3. Type of operations	Urgent operations Swap agreements Spot agreements
4. Installation method	Official Unofficial
5. Relation to purchasing power parity of currencies	OVERRATED Understated Parity
6. Attitudes towards the participants of the operation	Purchase rate Sales rate Average course
7. Adjusted for inflation	Real Nominal
8. According to the method of sale	Current sales rate Course of non-cash sales Wholesale exchange rate Banknote

Purchasing power parity (parity rate)

Purchasing power parity refers to a fictitious exchange rate between two or more currencies, calculated based on their purchasing power relative to a certain set of goods and services. It is calculated as the ratio of the value of a certain "basket" of goods in different countries.



Comparing the market (official) exchange rate of a national currency and its purchasing power parity allows us to talk about **overvalued and undervalued currencies**.

Incomes calculated using purchasing power parity more accurately characterize the ratio of living standards in different countries.

In July 2024, the authoritative edition of The Economist published updated data of the Big Mac Index, according to which the hryvnia is significantly undervalued against the US dollar.

In Ukraine, the price of one Big Mac is **UAH 118**, while in the United States this popular burger costs **\$5.69**. The actual exchange rate of **UAH 41.05/\$** undervalues the hryvnia by almost two times.

According to purchasing power parity, the real exchange rate of the hryvnia should be around **UAH 20.74/\$**.

<https://www.economist.com/big-mac-index>

Important! The undervalued exchange rate is used as a tool for currency dumping!

Case. According to the International Monetary Fund, GDP per capita of Ukraine in 2023, calculated according to purchasing power parity, was \$15,460, while calculated according to the current exchange rate - \$5,660.

Determine the parity rate of the dollar and the degree of its overvaluation, if the official rate was UAH 41 /USD.

2.3. The concept of the currency market. Currency quotation. Cross course

The foreign exchange market in the broadest sense is the sphere of economic relations, which are manifested in the implementation of operations on the purchase and sale of foreign currency and foreign currency securities, as well as operations on the investment of currency capital.

It is on the foreign exchange market that the interests of sellers and buyers of currency values are coordinated.

Currency markets provide:

- timely implementation of international settlements;
- exchange rate regulation;
- diversification of currency reserves;
- currency risk insurance;
- profit of foreign exchange market participants in the form of a difference in exchange rates;
- carrying out a currency policy aimed at state regulation of the national economy and a coordinated policy within the framework of the world economy.

Participants of currency markets are:

banks

currency exchanges

brokerage firms

foreign trade and production companies

international monetary and credit and financial organizations

Fixing the rate of the national currency unit in a foreign currency at a certain moment *is called a currency quotation*

Direct quotation

Indirect quotation

The rate of valued currency A (for example, the US dollar) to the quoted currency B (for example, hryvnias) is expressed as the value of a unit of currency A in units of currency B (in this case, the number of hryvnias for one dollar USA).

1 US dollar = 41.5 UAH

When determining the ratio of foreign and national currencies with a direct quotation of a foreign currency, the **value of its unit is expressed in units of the national currency.**

The quote rate of currency A to the quoted currency B is expressed as the value of a unit of currency B in units of currency A.

When determining the ratio of foreign and national currencies for indirect quotation of foreign currency, the value of a unit of national currency is expressed in units of foreign currency.

UAH 10 = \$ 0.23 USA

Base currency

Quote currency

1 EUR = 1,15 USD

Currency position of the bank

Regular foreign exchange operations assume that part of the bank's funds are spent on the purchase of one currency for the simultaneous sale of another. There is a change in the ratio of the bank's assets and liabilities for each foreign currency, which determines *its currency position*.

A foreign currency position **is considered closed** if the amount of currency purchased for its own account is equal to the amount sold, that is, the requirements and obligations coincide.

In the event of a discrepancy between the bank's requirements and obligations for a specific currency, the currency position **is considered open**. In turn, an open currency position can be: **long**, when the amount of purchased currency is greater than the amount sold, i.e. the requirements for the purchased currency exceed the obligations for the sold currency; **short** - if more currency is sold than bought, i.e. liabilities for the sold currency exceed requirements for the purchased currency.

Bid - is the base currency's purchase rate (quote currency's selling rate) by the market maker

Offer (ask) - is the selling rate of the base currency (the buying rate of the quotation currency) by the market maker

EUR/USD - 1.1755 (bid) / 1.1760 (offer)

EUR/USD - 1.1755 (bid) / 60

Seller's rate (offer rate) - the rate at which the bank sells currency. **Bid rate** - the rate at which the resident bank buys foreign currency for the national currency.

It is important to remember: in a quote, the bid side is always smaller than the offer side.

There are always two types of participants in the market - **market-makers and market-takers**, or, as they are also called, **market-users**.

A market maker is an active market participant who connects buyers and sellers, sets exchange rates and dictates its terms.

A market taker is a passive market participant who requests quotes and has a weak influence on the market situation, his activity depends on market makers.

The difference between the right and left sides of the quotation is called **the spread or margin** (bid-offer spread - in the UK, bidask spread - in the USA).

To determine the relative value of the margin, it is usually determined as a percentage of the offer price

Case

	КУПІВЛЯ		ПРОДАЖ
ДОЛАР США	2400	USD	2420
ЄВРО	2630	EUR	2655
РОСІЙСЬКИЙ РУБЛЬ	3075	RUB	383
АВСТРАЛІЙСЬКИЙ ДОЛАР	1540	AUD	1650

Calculate the relative margin for each currency shown in the picture.

Which of the exchange operations is the most profitable for a market maker?

The cross rate of currencies is a secondary indicator. It is calculated through the main exchange rates against the dollar.

The cross rate of the British pound to the Japanese yen is calculated based on the current exchange rates of the British pound and the yen against the dollar.

There are three ways to calculate cross rates, depending on whether the currencies are quoted directly or indirectly against the dollar:

- **two direct quotations,**
- **direct and indirect quotations,**
- **two indirect quotations..**

1. Cross-rate calculation for currencies directly quoted to the US dollar (the dollar is the quotation base for both currencies)

Rule:

to obtain the bid side of the cross rate, you should divide the bid side of the currency rate, which acts as the quotation currency in the cross rate, into the offer side of the currency rate, which serves as the quotation base in the cross rate;

to obtain the offer side of the cross rate, divide the offer side of the currency rate, which acts as the quotation currency in the cross rate, into the bid side of the currency rate, which serves as the quotation base in the cross rate.

$$\text{Bid cross course} = \frac{\text{bid of the currency rate, acting in the cross - course currency quotes}}{\text{offer of the currency rate, which serves as the quotation base in the cross - rate}}$$

$$\text{Offer cross course} = \frac{\text{offer of the currency rate that acts as the quotation currency in the cross - rate}}{\text{bid of the currency rate, which serves as the quotation base in the cross - rate}}$$

2. Cross-rate calculation for currencies directly and indirectly quoted to the US dollar, where the dollar is the quotation base for one of the currencies.



Rule:

to obtain the left side of the bid cross rate, you should multiply the bid sides of the rates of these currencies;

to obtain the right side of the offer, the offer sides of the exchange rates of these currencies should be multiplied.

$$\text{Offer cross rate} = (\text{offer currency A}) \times (\text{offer currency B})$$

$$\text{Bid cross rate} = (\text{bid currency A}) \times (\text{bid currency B})$$

3. Cross rate calculation for currencies indirectly quoted to the US dollar where the dollar is the quote currency for both currencies



Rule:

to obtain the bid side of the cross rate, you should divide the bid side of the base currency rate to the offer side of the quote currency rate;

to obtain the offer side of the cross rate, divide the offer side of the base currency rate into the bid side of the quote currency rate.

$$\text{Bid cross course} = \frac{\text{bid of the currency rate acting as the base currency in the cross - rate}}{\text{offer of the currency rate that serves as the quotation currency in the cross - rate}}$$

$$\text{Offer cross course} = \frac{\text{offer of the currency rate acting as the base currency in the cross - rate}}{\text{bid of the currency rate that serves as the quotation currency in the cross - rate}}$$

Case



You need to calculate the USD/PLN cross rate

2.4. Characteristics of the market of transactions on "spot" terms. Types of term currency operations

The exchange rate of sale or purchase, which is used for currency transactions without any prior agreement for future conversion (purchase/sale) *is called the spot rate.*

This is the base rate for cross rates, forward rates, and futures rates, because when the spot rate changes, the quote for derivative contracts changes.

The dynamics of the exchange rate of one or another national currency is evaluated precisely through the spot rate.

Settlement times at the spot rate, as a rule, do not exceed two days. However, in some cases they can reach 5 days (taking into account bank holidays for each of the currencies involved in the transaction).

Swap rate

The swap rate is the cost of the simultaneous purchase and sale of foreign currency by banks, provided that they are settled on different days.

The parties to swap transactions are usually banks. Swaps are usually **used to improve the condition of assets and reduce risks**. The main purpose of the exchange is to increase the term of open positions on the subject of conversion

The execution date of a near-term contract is called **the value date**.

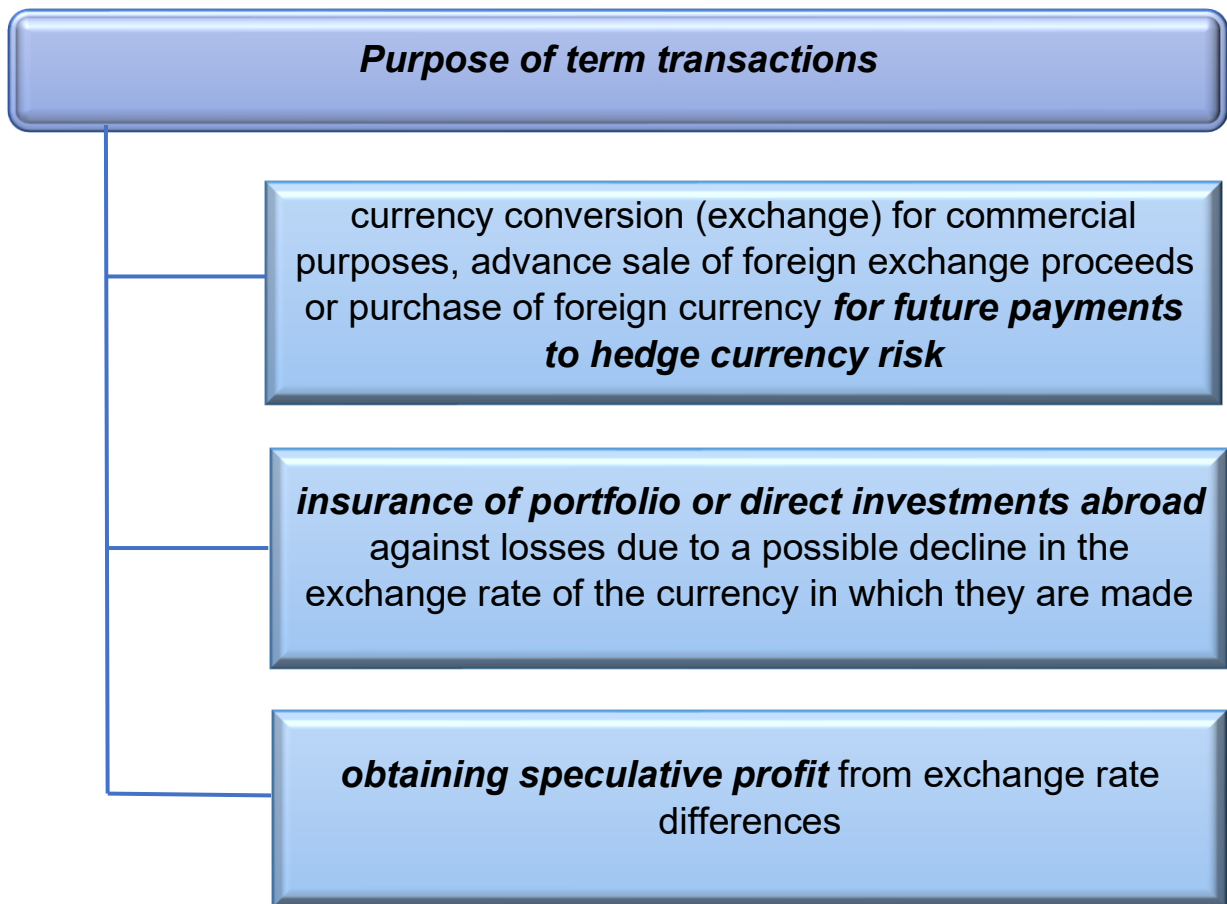
The execution date of the more distant reverse transaction is called **the swap expiration date**.

Swap type	Currency exchange rate for:	
	the value date.	the swap expiration date
Standard swaps	<i>spot</i>	<i>forward</i>
Short one-day swaps	<i>spot</i>	<i>spot</i>
Forward swaps	<i>forward</i>	<i>forward</i>

Forward currency transactions (forwards, futures) are currency transactions in which the parties agree on the delivery of a specified amount of foreign currency after a certain period of time after the conclusion of the agreement at the exchange rate fixed at the time of its conclusion.

Peculiarities of time transactions

1. There is a time interval between the moment of conclusion and execution of the transaction.
2. The exchange rate for a forward exchange transaction is fixed at the time of conclusion of the agreement, although it is executed after a certain period.



A forward currency contract is a basic agreement between two parties to sell and buy a currency. The contract obliges one party to sell within a specified period and the other to buy. **The exchange rate is fixed at the time of conclusion of the forward contract.**

Forward contracts are classified as **unconditional contracts**, that is, they must be performed exactly as stipulated in the contract.

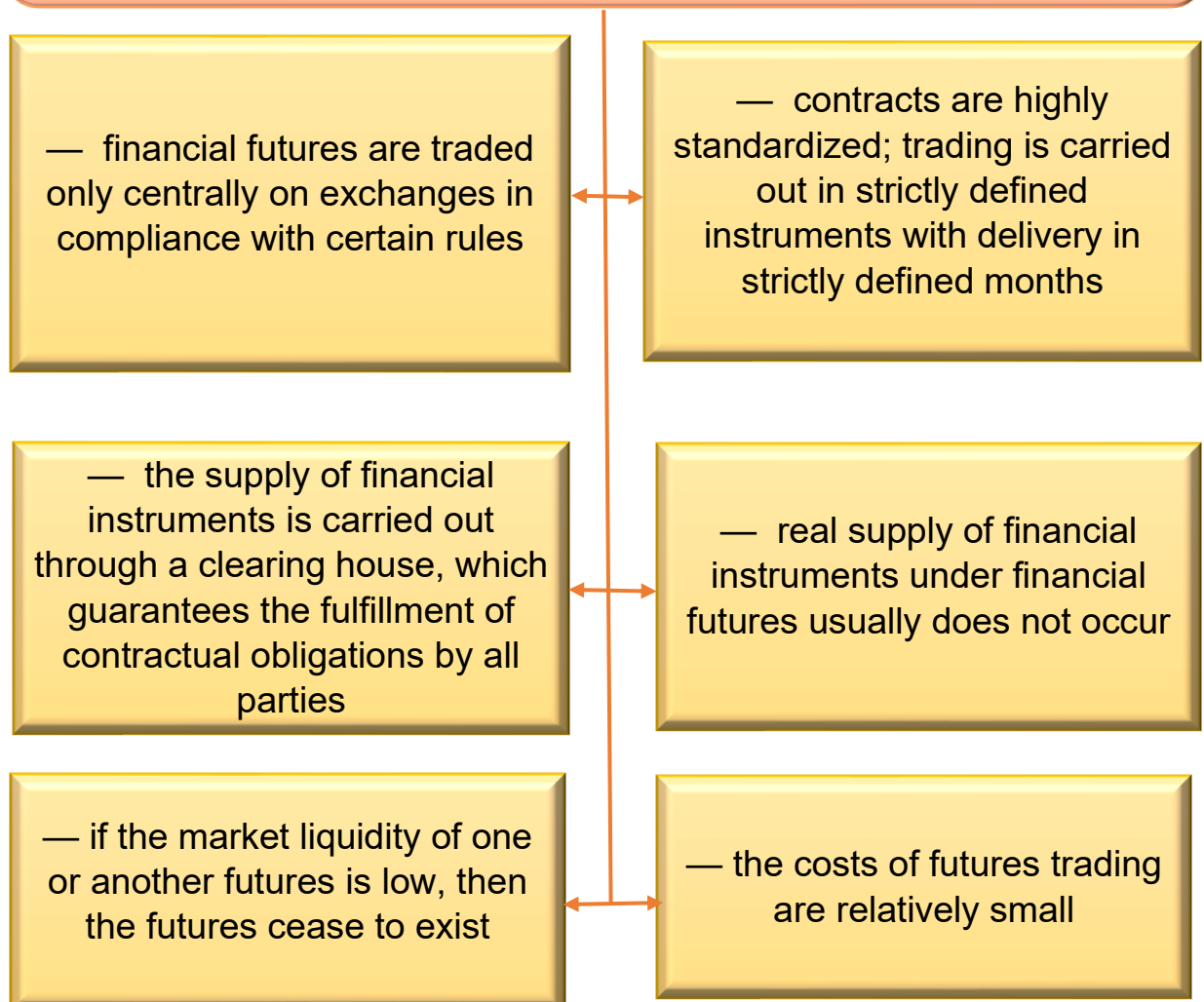
Since forward contracts reflect the specifics of each transaction and **cannot be standardized**, they **are not an exchange-traded product**, but are traded on the so-called “street market”.

Forward transactions are usually concluded for a period of 1 week to 6 months. Longer-term transactions are too risky and do not meet the main function of the contract – risk insurance.

Example

A manufacturing company intends to purchase equipment abroad for \$100,000 in March 2026. To this end, it expects to accumulate the necessary amount of money in hryvnia by that time. However, the company fears that the exchange rate may change unexpectedly. Therefore, in January 2026, it enters into a forward contract with a bank to purchase \$100,000 at a rate of UAH 42.75 per \$1. This contract guarantees that, regardless of the spot rate that will actually occur in March, the bank will sell the company dollars at the contract price. On the other hand, the bank receives a guarantee that the company will buy the currency at this rate, even if the actual rate decreases.

Financial futures is an agreement to buy or sell a financial instrument at a pre-agreed price within a certain month in the future (on a certain day of this month).



The effectiveness of the futures operation is determined by the margin, which is specified after the working session for each operation.

$$M=pK(U-C)$$

where M is the margin (positive or negative);

$p = 1$ when selling; $p = -1$ when buying currency;

K — number of contracts (units of goods in contracts);

U — exchange rate on the day of conclusion of the agreement;

C is the quotation rate of the currency of the current working session (on the day of execution of the operation)

Case

Calculate the margin of the seller of 100 dollar futures at \$50,000 each, if the contract had a price of 0.83 USD/Euro, and at the time of execution of the contract the exchange rate was 1.23 Euro/USD.

Option transactions

A currency option is a contract that gives one party the right (but not the obligation) to buy or sell a certain amount of foreign currency at a fixed price (called the strike price, or exercise price) during a certain period, while the other party at a cash the premium is obliged, if necessary, to ensure the realization of this right, being ready to sell or buy foreign currency at a certain contractual price.

a call option for purchase

a put option for sale

The purpose of purchasing an option can be both to make a profit and to insure currency risks.

The buyer of a call option has the right, but not the obligation, to buy the currency within a specified period at a fixed price.

The seller of a call option is obligated to sell a certain amount of currency at a fixed price if the option is exercised, i.e. unless the buyer waives his right.

The buyer of a put option has the right, but not the obligation, to sell the investment instrument within a certain period at a fixed price.

The seller of the put option is obliged to buy a certain amount of currency at the base price in case of exercise of the option.

In order for the obligating party to the option contract to fulfill it, the entitled party ***pays a cash premium***.

The premium is the price of the option contract. The buyer's losses and his/her risk are limited by the size of the premium, and the seller's risk is reduced by the amount of the received premium.

Tasks for control and self-control of knowledge

I. Questions for reflection and discussion

1. Why do different countries use a different set of foreign currencies as reserve currencies? What does this set depend on?
2. Sometimes the deliberate underestimation of the national currency is called "currency dumping". Explain how it works and who it harms.
3. What factors affect the margin size in foreign exchange transactions? Should the central bank regulate the maximum margin size?
4. Give several examples of banks needing to enter into swap agreements. What could be the gain for the participants in this transaction?

II. Find the only correct answer among the suggested ones.

1. The gold standard system provided for:

- a) the use of the dollar as the sole world settlement currency;
- b) fixing the gold content of national currencies and their ability to be freely exchanged for gold;
- c) the introduction of the SDR for international settlements;
- d) all of the above are correct.

2. The gold exchange system was introduced at:

- a) the Paris International Conference;
- b) the Bretton Woods International Conference;
- c) the Genoa International Conference;
- d) the Jamaica International Conference.

3. The Jamaican currency system provided for:

- a) a ban on free (private) acquisition of gold;
- b) the complete demonetization of gold in the sphere of currency relations;
- c) the preservation of full convertibility into gold only for the US dollar;
- d) the introduction of restrictions on the deviation of the exchange rate of national currencies against the US dollar.

4. Reserve currency is:

- a) a special fund created by the state in case of unforeseen situations;
- b) a foreign currency that replaces the national currency in circulation during periods of deep economic crises;
- c) a foreign currency in which the central banks of other countries accumulate and store reserves for international settlements on foreign trade transactions and foreign investments;
- d) insurance funds created by entities engaged in foreign economic activity to minimize currency risks.

5. Special Drawing Rights (SDRs) are:

- a) preferential conditions under which loans are provided to the poorest countries;
- b) non-cash money in the form of entries in a country's special account with the IMF;
- c) a special status of a country that has fulfilled all the requirements of the International Monetary Fund;
- d) special lending conditions that are used only in relations with the World Bank.

6. The “basket” for determining the SDR exchange rate does not include:

- a) the US dollar;
- b) the British pound;
- c) the Swiss franc;
- d) the Chinese yuan;
- e) the Japanese yen.

7. The critical value of the indicator of official gold and foreign exchange reserves is their ability to cover the need to pay for planned imports within:

- a) two months;
- b) one quarter;
- c) half a year;
- d) a year.

8. Measures of state influence on the exchange rate do not include:

- a) currency interventions;
- b) discount policy;
- c) protectionist measures;
- d) there is no correct answer.

9. Discount policy is:

- a) the sale by the central bank of government bonds at a discount (below nominal value);
- b) a change in the discount rate by the central bank, in particular in order to regulate the exchange rate;
- c) discounting of future income;
- d) accounting by commercial banks of securities below their nominal value.

10. If over a certain period of time a bank has bought more foreign currency than it has sold, then such a bank's currency position is called:

- a) a long-closed position;
- b) a short-closed position;
- c) a long open position;
- d) a short open position.

11. Bid is the rate of:

- a) buying the base currency;
- b) selling the base currency;
- c) buying the quote currency;
- d) there is no correct answer.

12. Spread or margin is:

- a) the excess of demand for a currency over its supply;
- b) the difference between the right and left sides of the currency quote;
- c) the return on the foreign exchange from currency transactions;
- d) the difference between the market rate of the currency and its official rate.

III. Solve the cases:

1. You need to calculate the cross rate of the Polish zloty to the Russian ruble (PLN/RUB), if you know the following:

$$\text{USD/PLN} = 3.786/94;$$

$$\text{USD/RUB} = 68.516/30.$$

2. The average monthly volume of Ukrainian imports in 2019 is 6.1 billion dollars. Ukraine's gold and foreign exchange reserves amounted to 22 billion dollars. Does their volume comply with the IMF recommendations? Give a detailed answer.

3. Calculate the margin of the exchange transaction (in percent) if the seller's rate is 1.1356 USD per 1 euro, and the buyer's rate is 1.1214 USD per 1 euro.

5. Calculate the margin of the seller of 100 dollar futures at \$50,000 each, if the contract fixed the price at 0.83 USD/Euro, and at the time of execution of the transaction the rate was 1.23 Euro/USD.

6. The broker accepted an order from the client to conclude a futures contract to buy 50,000 USD at a price of 25.50 UAH per dollar. On the day of execution, the futures were closed at a quoted rate of 25.75 UAH per dollar. Determine the profit (loss) of the buyer of the futures.

7. The dollar rate at the time of the transaction is 24.50 UAH. A player counting on the dollar rate to rise buys an option to buy 50,000 USD at a fixed price of 25.20 UAH, paying a premium of 5,000 UAH.

It is necessary to determine the results of the transaction if the dollar exchange rate after the expiration of the option will be: a) 25.10 UAH; b) 25.30 UAH; c) 25.50 UAH.

International banking

Questions that reveal the content of the topic

- 3.1. Types of banks and banking systems
- 3.2. International regulation of banking activity
- 3.3. International banks and financial institutions

3.1. Types of banks and banking systems

A bank (banco - bench, table) is a financial and credit institution that conducts various types of transactions with money and securities.

The bank is an intermediary between clients who feel a shortage of capital and clients with a surplus of capital.

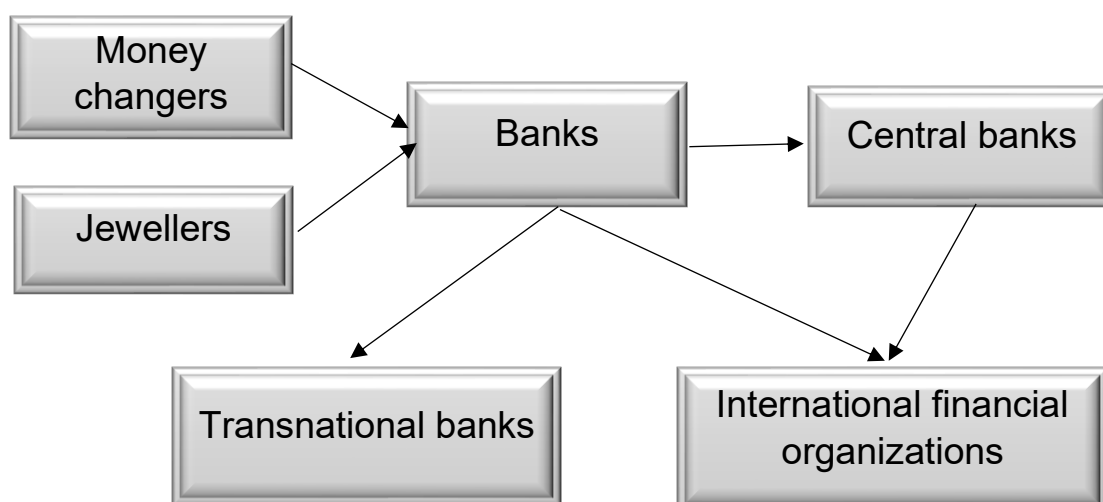
Partial bank reserve: a small stock of funds is kept for safekeeping, and the rest is issued for profit.



The main functions of banks in the international financial system

- accumulation of temporarily free funds	- granting loans
- making international payments	- carrying out currency exchange transactions
- identification of unscrupulous payers and borrowers	- providing certain guarantees in making international payments

Origin of banks



Bank of Amsterdam, First Central Bank, 1609

The oldest operating banks:

before 1600 p.	17th cen.	18th cen.	19th cen.
2	7	17	78



Banca Monte dei Paschi di Siena, 1472, Italia



The bank was founded on February 27, 1472 by the General Council of the Republic of Siena to issue loans at low interest rates to poor residents.

<http://www.grushevskogo5.com/top-5/5-naystarishikh-bankiv-svitu/>



Berenberg Bank, 1590, Germany

The bank was founded in Hamburg by the Berenberg brothers Hans and Paul, who had come from Antwerp, Belgium. They were later joined by John Gossler. The company initially imported and exported cloth, but quickly expanded into other goods.

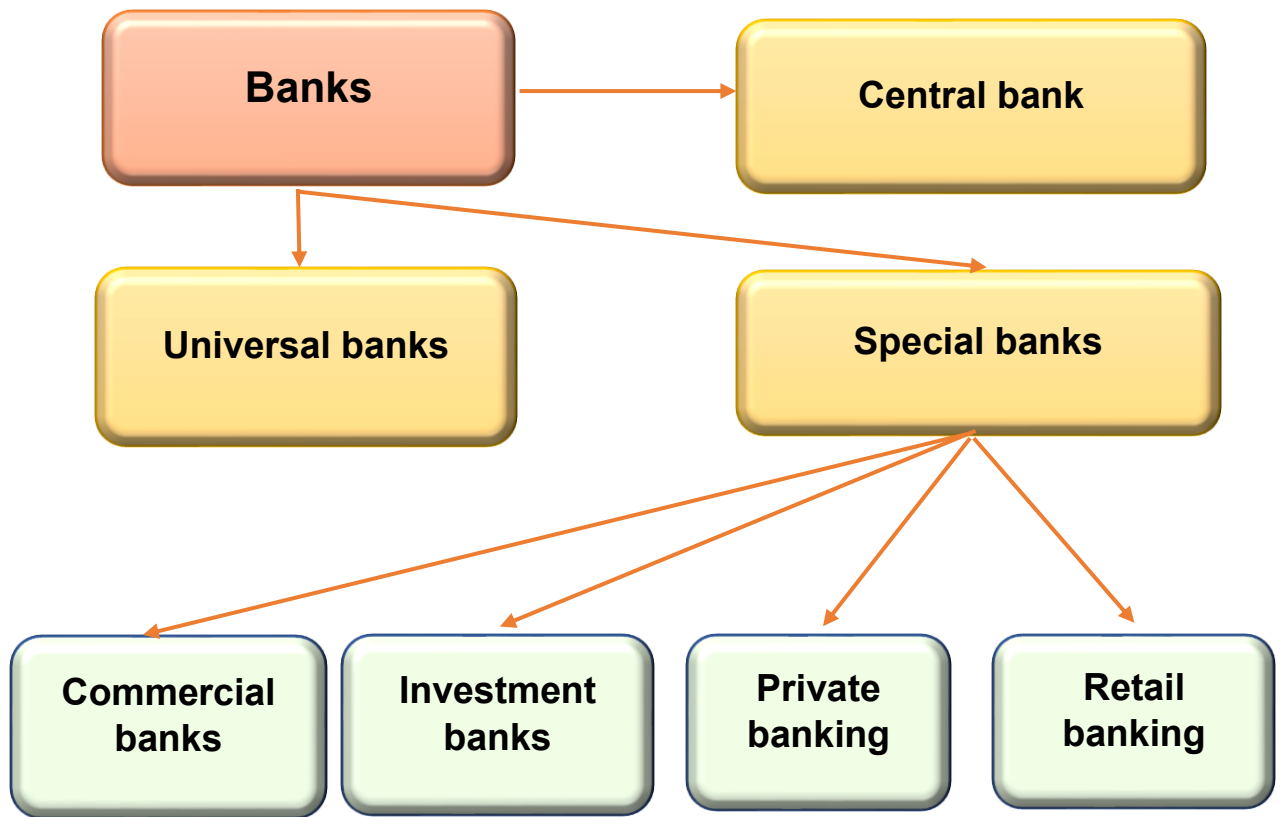
<http://www.grushevskogo5.com/top-5/5-naystarishikh-bankiv-svitu/>

Top banks in the world in 2025

<https://www.forbesindia.com/article/explainers/the-10-largest-banks-in-the-world/86967/1>

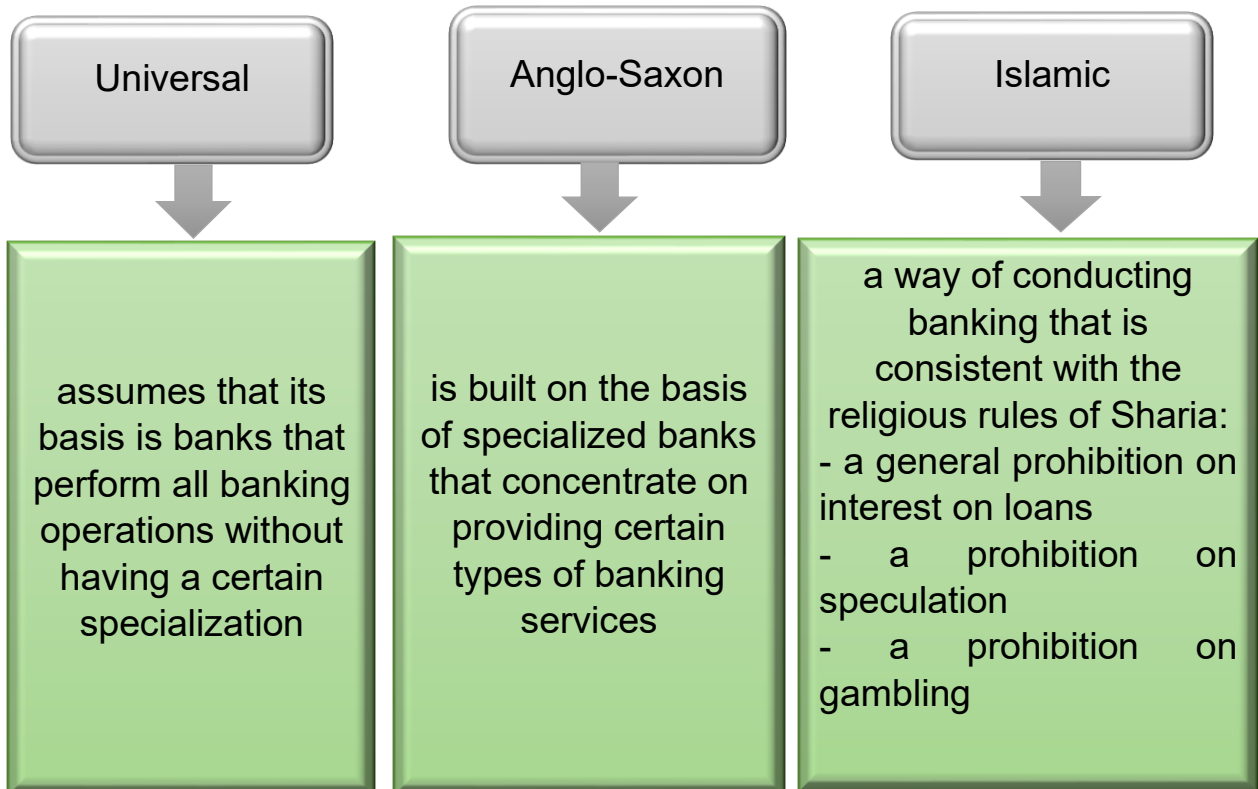
Rank & Bank	Headquarters	Market Cap
#1 JPMorgan Chase	New York, USA	\$675.68 billion
#2 Bank of America	North Carolina, USA	\$339.83 billion
#3 Industrial and Commercial Bank of China Limited (ICBC)	Beijing, China	\$307.53 billion
#4 Agricultural Bank of China	Beijing, China	\$241.64 billion
#5 Wells Fargo	California, USA	\$233.69 billion
#6 Morgan Stanley	New York, USA	\$201.02 billion
#7 Bank of China	Beijing, China	\$196.28 billion
#8 China Construction Bank	Beijing, China	\$195.41 billion
#9 Goldman Sachs	New York, USA	\$180.48 billion
#10 HSBC	London, England	\$176.62 billion

Banking system structure



1. ***Commercial bank*** - a bank that accepts deposits, provides business loans and basic investment products
2. ***Investment bank*** assists clients in raising capital, acting as an agent in the issuance of securities, but does not attract deposits
3. ***Private banking*** - a bank provides a range of financial services to individuals who invest significant assets
4. ***Retail bank*** carries out transactions directly with consumers, and not with corporations or other banks (deposits, money transfers, mortgages, consumer loans, debit and credit cards)

Types of banking systems



3.2. International regulation of banking activity



Bank for International Settlements (BIS) 1930

<https://www.bis.org/>



Founders: 7 countries (Belgium, United Kingdom, Germany, Italy, France, Japan and Switzerland).

Currently 59 national central banks plus the ECB

Functions of BIS

1. Promotion of cooperation between Central Banks
2. Simplification of international financial settlements
3. Center for economic and monetary research

Structures of the Bank for International Settlements

Basel Committee on Banking Supervision, BCBS

<https://www.bis.org/bcbs/index.htm?m=3%7C14>

Founded by the Heads of the Central Banks of the G10 countries (10 (initially) states that signed the General Loan Agreement in Paris in 1962) in 1974. Now there are 27 countries, including the BRICS countries (*Ukraine is not a member*)

The main tasks of the Committee are the implementation of uniform standards in the field of banking regulation

Basic documents of the Basel Committee

Basic principles of effective supervision (1997 - 2006)

Basel I (1988) - capital and assets of banks for regulatory purposes should be divided into several categories depending on the degree of risk.

Basel II (2004), entered into force in Japan in 2007, in the EU - in 2008, in the USA - in 2009) - a mechanism for calculating the minimum level of capital adequacy (the ratio of total capital to assets should not be below 8%) supplemented by a supervision system and interaction between banks and supervisory bodies, as well as the information disclosure system.

Basel III (2010), implemented from 2013-2019

Developed in response to the 2008 financial crisis.

Goal: improving the quality of risk management in banks

Increasing the level of Tier 1 capital adequacy to 6%

Reducing the number of financial instruments that are considered capital

Creation of additional anti-crisis reserves

They cease to be mere recommendations to individual countries and turn into firm requirements

Short-term liabilities (up to 30 days) must be covered by liquid assets at 100%

Committee on Payments and Markets Infrastructures, CPMI

<https://www.bis.org/cpmi/charter.htm>

Established in 1990 as a standing committee by the G10 central bank governors.

Members: since 2009 - 23 central banks plus the ECB and the FRB of New York

Meetings: 3 times a year Report: report of the Chairman of the Committee the Global Economy Meeting (GEM)

Main areas of activity:

- monitoring and analysing developments to help identify risks to the safety and effectiveness of arrangements within its mandate, as well as risks arising from deficiencies in the functioning of the global financial system;

- sharing experiences related to arrangements within its mandate, the exercise of supervisory functions and the provision of services to central banks with a view to promoting a common understanding and the development of policy advice or common policies for central banks;

- establishing and promoting global standards and recommendations on the regulation, supervision and practice of arrangements within its mandate, including guidance on their interpretation and implementation, where appropriate;

- monitoring the implementation of CPMI standards and recommendations to ensure timely, consistent and effective implementation;

- supporting joint supervision and cross-border information exchange, including crisis communication and contingency planning for cross-border crisis management;

- maintaining relations with non-CPMI member central banks to exchange experiences and views and to promote the implementation of CPMI standards and recommendations outside the jurisdictions of CPMI members, directly or through the support of regional bodies where appropriate; and

- coordinating and cooperating with other standard-setters in the financial sector, central bank authorities and international financial institutions.

Committee on the Global Financial System, CGFS

<https://www.bis.org/cgfs/index.htm?m=3%7C15>

The CGFS, formerly known as the Standing Committee on Eurocurrency, was established in 1971 with the mandate to oversee international banking markets. Its initial focus was on the monetary policy implications of the rapid growth of offshore deposit and credit markets, but attention has increasingly shifted to financial stability issues and broader issues related to structural changes in the financial system. Reflecting this change in focus, on 8 February 1999 the G10 decided to rename the Committee and revise its mandate. As of January 2010, the Chairman of the CGFS reports to the Global Economic Forum, a group of 31 central bank governors.

The Global Economy Meeting (GEM)

https://www.bis.org/about/bimonthly_meetings.htm

It consists of the central bank governors of the 30 BIS member countries, in the main countries with developed and market economies (4/5 of the world's GDP), plus the European Central Bank and the Federal Reserve Bank of New York. The governors of another 22 central banks attend meetings as observers

Meetings are held every 2 months

Purpose:

- monitor and assess risks and opportunities in the world economy and the global financial system;
- provide guidance to the three central bank committees in Basel: the Committee on the Global Financial System, the Committee on Payments and Market Infrastructures and the Committee on Markets

Chairman: appointed by the Board of Directors of the BIS

This is an international body that monitors and makes recommendations on the global financial system.

The FSB, working through its members, seeks to strengthen financial systems and enhance the stability of international financial markets.

Policies developed to implement this agenda are implemented by jurisdictions and national authorities.

Purpose: identification of weak points in the field of global financial stability, development and application of regulatory and supervisory policy in this area.

It unites: the Central Bank, ministries of finance and regulatory financial bodies of 24 countries, as well as the IMF, the European Commission, the World Bank, the ECB, the OECD and the BIS. Through 6 regional groups, contacts with 63 other countries.

Meetings: 2 times a year.

Decision: Consensus.



Klaas Knot, Chair of the FSB, President, De Nederlandsche Bank

One of the directions of the FSB's activity was the compilation and regular updating of the lists of system-forming banks and insurance companies, which are subject to increased requirements for stability and reliability, as well as strengthened measures of supervision of their activities are applied.

Ukraine is not a member of the FSB



G20 or Group of Twenty
<https://www.g20.org/about-the-g20.html>

The G20 is an international forum that brings together the world's largest economies. Its members account for over 80% of global GDP, 75% of world trade, and 60% of the planet's population.

The Forum has met annually since 1999 and has included an annual summit since 2008, attended by the heads of state and government of the respective countries. In addition to the summit, ministerial meetings, Sherpa meetings (responsible for negotiating and reaching consensus between leaders), working groups and special events are organized throughout the year

	G20	
<p>Objective: To bring together systemically important industrialized countries to discuss key issues of the global economy</p>	<p>EU Australia Argentina Brazil Great Britain India Indonesia Italy Canada China</p>	<p>South Korea Mexico Germany South Africa Russia Saudi Arabia USA Turkey France Japan</p>

The G20 is not a permanent institution with a headquarters, offices, or staff. Instead, its leadership rotates on an annual basis among its members, its decisions are made by consensus, and implementation of its agenda depends on the political will of the individual states.

This code is intended for **unique identification of legal entities** participating in financial transactions

The LEI code database is an international "directory" that significantly increases **transparency in the global financial market.**

Using an LEI provides the opportunity:

- identify a legal entity when making a transaction
- check the status of the counterparty when carrying out operations
- ensure transparency of information
- minimize the likelihood of errors when making transactions
- simplify the procedure for reporting to market regulators

On January 3, 2018, all legal entities that carry out transactions with financial instruments traded on EU stock exchanges **must obtain an LEI code.**

Commercial organizations that are entitled to provide investment services (for example, banks) must indicate in their reports to supervisory authorities the LEI code of their legal entity clients who have entered into transactions with securities

The Regulatory Oversight Committee (ROC) is a group of over 65 financial market regulators and other government agencies and 19 observers from over 50 countries.

It promotes the broad public interest by improving the quality of data used in financial reporting, improving the ability to monitor financial risks, and reducing regulatory reporting costs by harmonizing these standards across jurisdictions.

The ROC was established in 2012 to coordinate and oversee the global legal entity identification framework, the Global LEI System (GLEIS). In October 2020, the ROC expanded its mandate to become the International Governing Body (IGB) for the globally harmonized Unique Transaction Identifier (UTI), Unique Product Identifier (UPI) and Critical Data Elements (CDE) for derivatives transactions. As the IGB for the UTI, UPI and CDE, the ROC is the overseer of the designated UPI service provider, the Derivatives Service Bureau (DSB).

3.3. International banks and financial institutions



***International Monetary Fund,
IMF***

<https://www.imf.org/en/About>



***Managing director
Kristalina Georgieva***

The main functions of the IMF

- International cooperation in monetary policy
- Expansion of world trade
- Stabilization of monetary exchange rates
- Consulting debtor countries
- Development of international financial statistics standards
- Collection and publication of international financial statistics
- Lending

IMF loans

The economic policy program underlying the arrangement is developed by the country in consultation with the IMF and, in most cases, is issued to the Fund's Executive Board in a "**Letter of Intent.**"

Once the Board approves the arrangement, IMF resources are usually released in tranches in stages as the program is implemented.

Key facts about the International Monetary Fund

1944	Year the IMF was founded
190	Number of member countries
150	Number of nationalities represented among full-time staff
24	Composition of the Executive Board, which represents 190 member countries
\$1 трлн.	Total amount of loans the IMF can provide to its members
0%	Interest rate at which the poorest countries are loaned



International Association of Insurance Supervisors, IAIS

Established in 1994

Objective: To promote effective supervision in the insurance industry in order to develop and support fair, safe and stable insurance markets

Headquarters: Basel, BIS

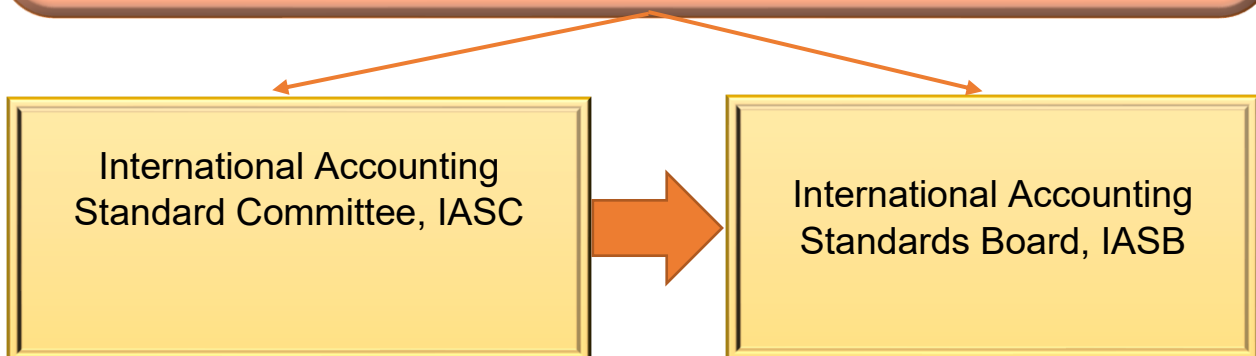
Secretary-General: Jonathan Dixon

Members: Insurance regulators and supervisors from over 140 countries. Ukraine does not participate.

Latest report: <https://www.iaisweb.org/page/about-the-iais/annual-report>



The International Financial Reporting Standards Foundation is a not-for-profit accounting organization. Its primary objectives include the *development and promotion of International Financial Reporting Standards* (IFRSs) through the International Accounting Standards Board (IASB), which it oversees.



The Committee was established in 1973 by professional accounting organizations of several countries as an independent body. In 2001, the International Accounting Standards Committee was renamed the International Accounting Standards Board (IASB). In connection with the new conditions, a new Charter was adopted. The most important innovation was the change in the objectives of the Board, which began to include the development of a single system of high-quality standards and the harmonization of accounting systems in different countries of the world. The new objectives are more focused on ensuring the practical application of international accounting standards and their convergence with national accounting systems



Established in 1989 by the decision of the G-7 countries

Goal: to develop global standards in the field of combating money laundering and terrorist financing

Headquarters: Paris, OECD Secretariat

Members: 34 countries plus the European Commission and the Council of the Gulf States;

8 associated regional organizations, including MONEYVAL at the Council of Europe, which includes Ukraine

Plenary meetings are held 3 times a year

Tasks for control and self-control of knowledge

I. Questions for reflection and discussion

1. What is the appeal of the Muslim banking model? Why do you think it is spreading not only in Muslim countries?

2. How have the goals and objectives of the G20 group transformed over time? Are the most influential countries in the world really represented there? Perhaps, in your opinion, this composition should be expanded? What criteria did you propose to form this association?

3. Analyze the changes that have occurred over the past 10 years in the list of the largest banks in the world. What do these changes indicate? Can they not give rise to new contradictions in the global banking system?

4. Basel Committees at the BIS. Why do you think Ukraine has not officially become a member of the Bank for International Settlements?

II. Find the only correct answer among the suggested ones.

1. ***Among the main types of banking systems, the following are not distinguished:***

- a) the Islamic model;
- b) the Anglo-Saxon model;
- c) the German model;
- d) the universal model.

2. The functions of the Bank for International Settlements do not include:

- a) promoting cooperation between central banks;
- b) simplifying international financial settlements;
- c) acting as a center for economic and monetary research;
- d) providing loans to the central banks of the participating countries in order to stabilize their financial situation.

3. The Bank for International Settlements was established in:

- a) 1928;
- b) 1930;
- c) 1944;
- d) 1976.

4. The headquarters of the Bank for International Settlements is located in:

- a) Zurich;
- b) Basel;
- c) Hanover;
- d) Lyon.

5. The main task of the Basel Committee on Banking Supervision is:

- a) establishing direct contacts between commercial banks of different countries to simplify international payments;
- b) implementing uniform standards in the field of banking regulation;
- c) carrying out international financial monitoring;
- d) coordinating the efforts of national banks in the fight against money laundering.

6. The Financial Stability Board:

- a) provides loans to central banks to stabilize exchange rates;
- b) develops recommendations to the governments of member countries on stabilizing economic growth rates;
- c) compiles and regularly updates lists of systemically important banks and insurance companies;
- d) all of the above are correct.

7. The G20 was created as:

- a) a summit of heads of state;
- b) an international meeting of finance ministers and central bank governors;
- c) an international meeting of foreign ministers;
- d) systematic meetings of ministers responsible for foreign trade.

8. Stand-by loans are provided by:

- a) the World Bank;
- b) the International Monetary Fund;
- c) the International Bank for Reconstruction and Development;
- d) the International Finance Corporation.

9. **Stand-by loans are provided for the purpose of:**

- a) assisting countries in overcoming short-term balance of payments problems;
- b) stabilizing the economic growth rate of the borrowing country;
- c) restoring the country's international solvency after declaring default;
- d) all of the above are true.

10. **The International Association of Deposit Insurers aims to:**

- a) provide services in the insurance of international payments;
- b) insuring the risks of participants in foreign economic activity;
- c) international cooperation and conducting research and recommendations on issues related to deposit insurance systems;
- d) reinsurance of international risks.

III. Solve the case:

1. An investor has two possible options for investing funds in the amount of \$50,000:

1) Investing in a 6-month dollar deposit at a rate of 4% per annum.

2) Investing in a 6-month hryvnia deposit at 12% per annum (the spot rate on the date of investment is 25.00 UAH per dollar. It is expected to increase to 26.00 UAH.).

It is necessary to evaluate the advantages and disadvantages of each option.

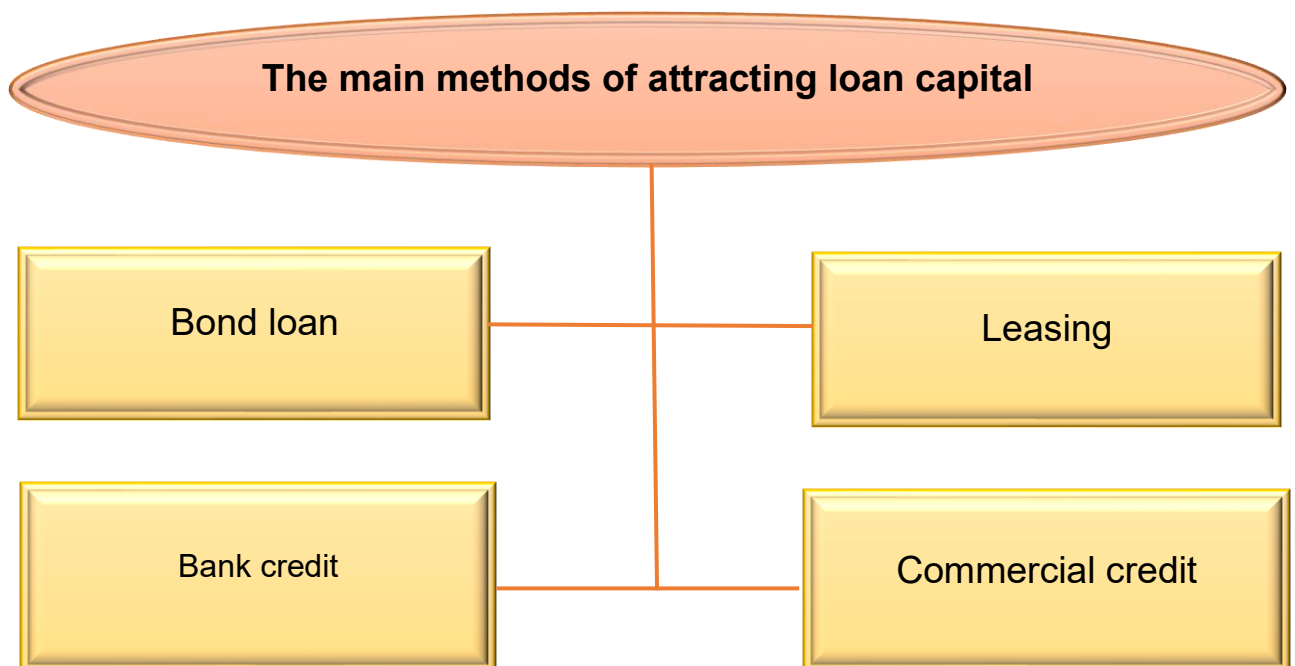
International credit market

Questions that reveal the content of the topic

- 4.1. International credit market and forms of international credit
- 4.2. Syndicated lending and popular types of international loans
- 4.3. Main interest rates of the international credit market

4.1. International credit market and forms of international credit

International credit is the movement of loan capital associated with the provision of **currency and commodity assets** by some subjects of the world economic system to others on terms of payment, duration, and return.



Forms of international credit

According to the terms

- Short-term loans (up to 1 year)
- Medium-term (from 1 to 5 years)
- Long-term loans (more than 5 years)

By appointment

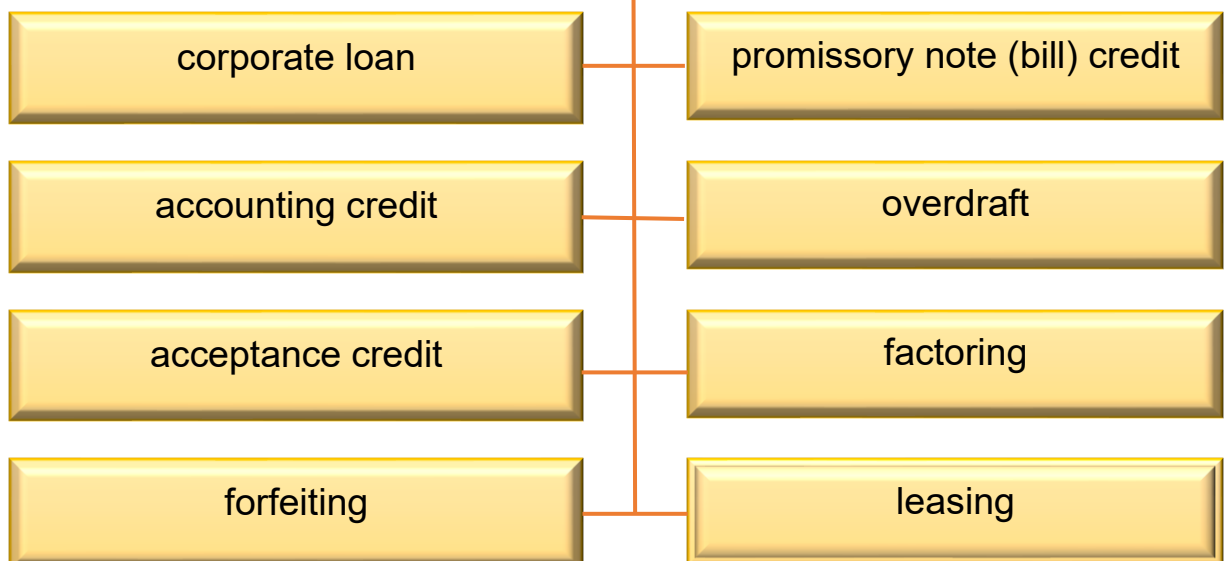
- Commercial loans
- Financial loans
- Mixed loans

Commercial credit – provided in commodity form by the supplier to the buyer

Financial loans are provided in monetary form by specialized institutions

Mixed loans (company-bank) - can combine monetary and commodity forms

The main types of commercial credit



Corporate loan is a loan provided by an exporter of one country to an importer of another country in the form of deferred payment for delivered goods or services.

Terms of corporate loans are determined by the state of world markets, the type of goods and are 8-10 years.

The expansion of the export of machinery and equipment caused a tendency to extend the term of corporate loans

In this case, importers' ability to maneuver in the markets of the products they need is limited, since they are forced to turn only to exporters who agree to provide corporate loans, although their products do not always meet the needs of the importer.

Corporate loans are associated with certain risks for exporting firms (the importer may delay payment or not pay at all), as well as with additional costs (payment of interest to banks in case of covering the need for money at the expense of bank loans)

The essence of **promissory credit** is that the exporter, after concluding an agreement on the sale of goods, issues a bill of exchange (draft) to the importer, who agrees to pay the bill within a specified period (**accepts the draft**) after receiving the relevant commodity documents (bill of lading, insurance policy, quality certificate and etc.).

An accounting credit arises when a bank performs the transaction of accounting for bills of exchange, i.e. purchases a bill of exchange from its holder before maturity. In this case, the bank **purchases bills** of exchange at a **discount** (below the amount that will be paid upon maturity of the bill of exchange). The bank's remuneration as a percentage of the amount paid when it purchases a bill of exchange is called the **discount rate**.

An overdraft is crediting by a bank to a client's current account for the payment of settlement documents in the event of a lack or absence of funds on the current account of the client-borrower. An overdraft differs from a regular loan in that all amounts received on the client's account are directed to pay off the debt.

Acceptance credit is very similar to a bill of exchange credit, since the exporter also issues a bill of exchange (draft), but it is accepted not by the importer, but by the bank. The actual creditor is the exporter. The bank guarantees the repayment of the bill of exchange when the relevant event occurs.

As a rule, banks accept bills of exchange of **their country's exporters**. In this case, this loan is simply called **acceptance**.

If the bill of exchange is accepted by **the bank of the importing country**, then such a loan is called an **acceptance-reimbursement**

Factoring involves the exporter transferring to the bank (or a special factoring company) the right to receive a debt from the importer. As a result, the exporter receives from the bank an amount less than the amount of the debt, and now has no claims against the importer. After the debt is repaid by the importer, the difference between the amount received by the bank and paid to the exporter will be the bank's income. This is the bank's remuneration for providing credit and assuming the risk

Forfeiting is similar to an accounting credit. But unlike the accounting transaction of bills of exchange, in which the responsibility for the repayment of the bill lies not only with its issuer, but also with each previous holder through a special signature on the bill (endorsement), with forfeiting the buyer of the bill assumes all the risk of non-payment and cannot make claims against the previous owner (without the right of recourse).

Leasing is a type of loan in the form of equipment that gives the right to the lessee to operate the equipment and its subsequent redemption. The lessee pays interest on the loan and depreciation charges that compensate for the wear and tear of the equipment

If the equipment is leased for a term that is close to or equal to the depreciation period, then such a lease **is called a financial lease.**

If the lease term and the depreciation term differ significantly, then such a lease **is called an operating lease.** At the end of its term, the equipment is either returned or bought back.

Forms of international credit by source

Official credits include bilateral intergovernmental credits (mainly intergovernmental loans granted most often by industrialized countries to developing countries and closely related to various national, regional and international aid programs)

Private loans are loans provided by participants in foreign economic operations, banks, etc., i.e. non-public economic entities

Mixed loans. In this case, both private entities and the state, as well as various international financial organizations, participate in lending.

Forms of international credit by purpose

Productive loans are provided for the development of the economy of the borrowing country and are used to purchase equipment, technologies, and carry out other foreign trade operations.

Unproductive loans are used to finance the maintenance of the administrative apparatus, the army, servicing previously obtained loans, and other unproductive expenses.

Forms of international credit by loan currency

international loans in the currency of the debtor

international loans in the currency of the creditor country

international loans in foreign currency in the currency of a third country

international loans in international currency units of account (SDRs)

Forms of international secured credit

Secured loans are provided against collateral, which can be goods, various commercial documents, securities, bills of exchange, real estate and jewelry. Sometimes part of the country's official gold reserves is used.

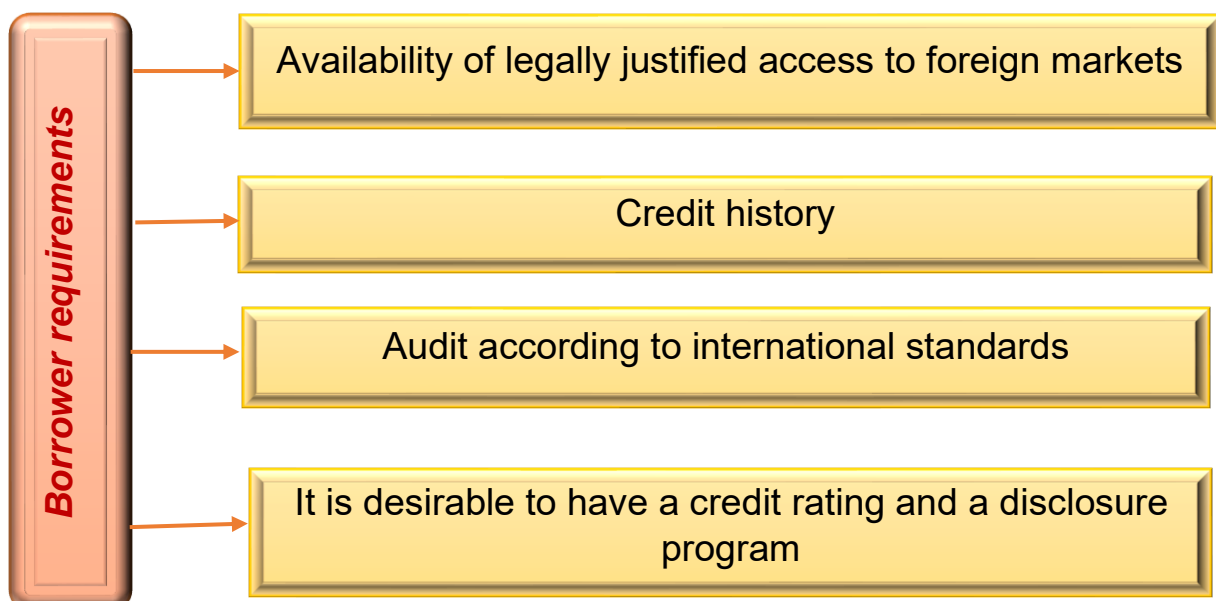
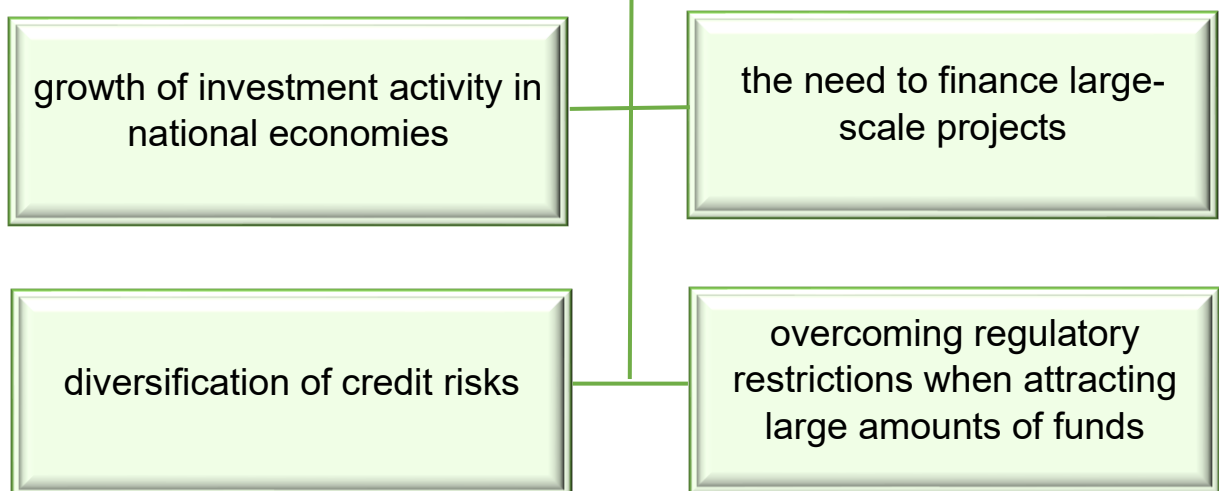
Blank loans are provided under the debtor's obligation to repay it within a set period and are drawn up in the form of a promissory note. This form of loan also includes **overdraft and overdraft**.

4.2. Syndicated lending and other popular types of international loans

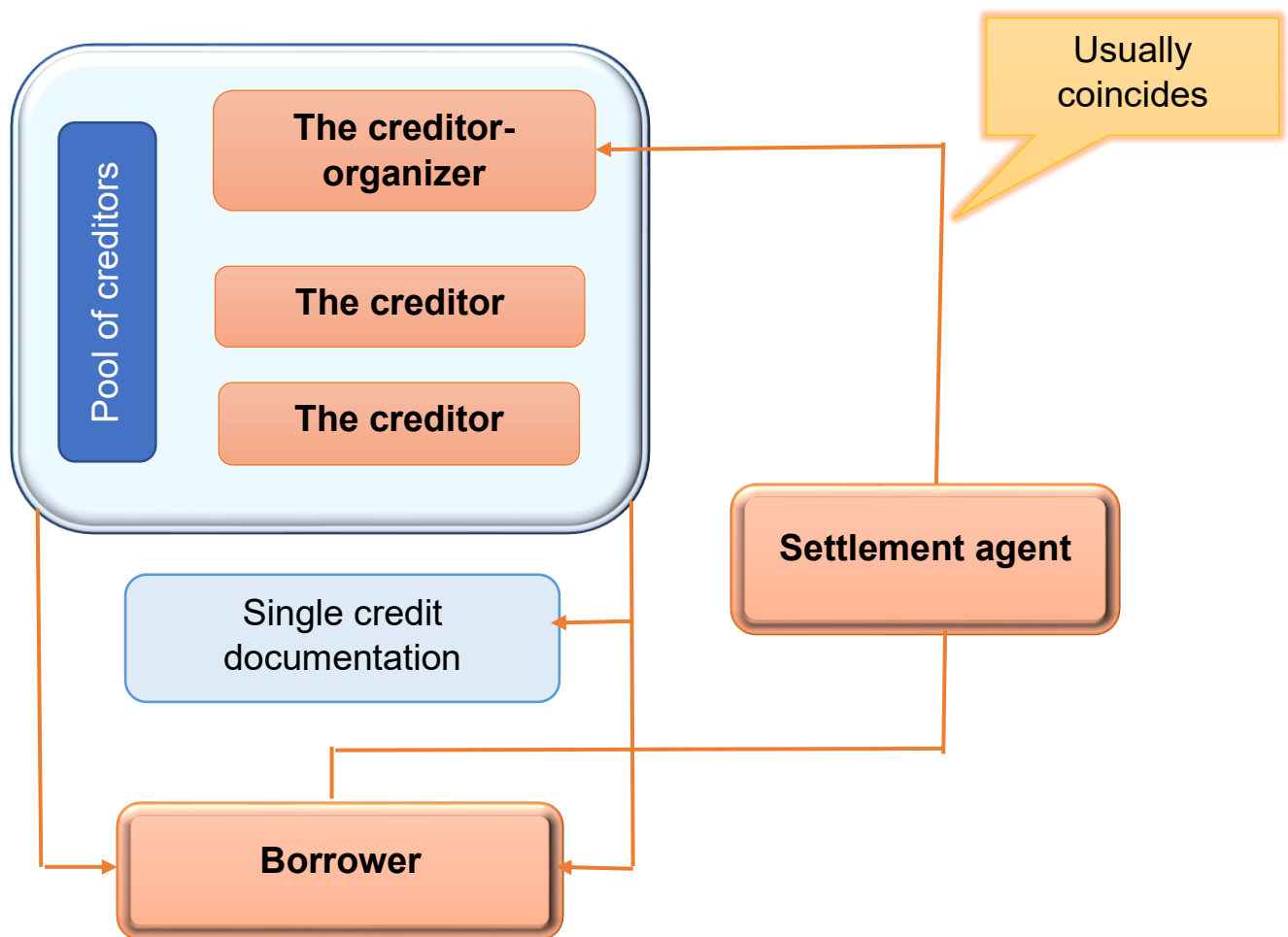
Syndicated loans are loans granted by two or more creditors, i.e. syndicates (consortia) of banks to one borrower

A banking syndicate (consortium) is a temporary combination of credit resources of several banks to implement a specific credit project.

The need for syndicated loans is due to:



Syndicated loan organization scheme



Syndication procedure

1. Selection of the syndicate organizer. At this stage, the borrower finds a bank that can take on the formation of the syndicate. He sends the appropriate letters of offer (seeking bid) to international banks, where he describes the content of the need for a syndicated loan. **As a rule, banks that already have experience in syndication are approached**

2. Syndicate formation. The syndicate organizing bank sends a special memorandum (offering circular) to potential participants, which describes the conditions of participation in the syndicate and fixes the deadline for confirming participation in it. The process of forming a syndicate ends when the consent of a sufficient number of participants is received. Traditionally, the procedure takes from several weeks to three months

3. General syndication. The essence of this stage is the preparation and signing of the final loan agreement (general syndication). It prescribes the terms of the loan and the amount of commissions paid by the borrower, which are distributed as follows:

- **management commissions, paid to the syndicate organizer;**
- **participation commissions, distributed among the syndicate banks;**
- **loan servicing commissions, interest on the loan, received by the syndicate members**

4. Lending. The borrower receives a loan through the syndicate's organizing bank. Depending on the terms of the agreement, the loan may be provided in one lump sum or in installments.

5. Loan repayment. As with obtaining a loan, its repayment is carried out through the organizing bank. In some cases, a special settlement agent may be involved. After the borrower fulfills all obligations to the lender and signs the final reconciliation report, **the syndicate ceases to exist.**

Other popular international loans

Investment bank loans

- provided to the borrower by one creditor bank
- require a business plan and a feasibility study of the project
- issued for a term that does not exceed the payback period of the project itself
- are targeted in nature
- require the transfer of the borrower's assets as collateral

Bridge loans for the future IPO

It is an alternative for investment loans if the company has announced its intention to go on an IPO (Initial public offering), but the date of the planned placement is planned for a later period than the period of implementation of the current investment program

ECA financing

An export credit agency is a public or private institution that supports national exports

The most famous private export credit agencies are **Euler Hermes (Germany)**, **COFACE (France)**, **Atradius (Holland)**.

Private export credit agencies also work in **Portugal, Lithuania, Greece, Austria and Argentina**.

Well-known state export credit agencies are **Eximbank (USA)**, **NEXI (Japan)**, **ECGD (UK)**. Mixed ownership is provided by **SBCE (Brazil)**, **CESCE (Spain)**, **SEK (Sweden)**, **ECGE (Egypt)**.

Functions of ECA

provision of state guarantees for export credits

insurance of export credits and agreements against political and other types of risks

organizational and informational and analytical support of export operations

According to the Law of Ukraine "On ensuring large-scale export expansion of Ukrainian producers through insurance, guaranteeing and reducing the cost of export crediting" (2016), the Private Joint-Stock Company "Export Credit Agency" was created, 50% of the shares plus 1 in which belong to the state (<https://eca.gov.ua/>)

The presentation of the ECA's activities can be found at this link: https://eca.gov.ua/wp-content/uploads/2019/10/prezentacziya_eka.pdf

4.3. Main interest rates of the international credit market

London Interbank Offered Rate, LIBOR or ICE LIBOR

LIBOR served as the universally recognized key base interest rate that indicated the cost of borrowing between banks. The exchange rate was calculated and published daily by the Intercontinental Exchange (ICE).

However, due to scandals and manipulation of LIBOR rates, it was decided to replace it with national benchmark rates in certain jurisdictions, e.g.

- ***SOFR*** (Secured Overnight Financing Rate) for the US dollar
- ***SONIA*** (Sterling Overnight Index Average) for the British pound.

MIBOR (Mumbai Interbank Offered Rate) fixed in India
SORA (Singapore Overnight Rate Average) fixed in Singapore
HIBOR (Hong Kong Interbank Offered Rate) fixed in Hong Kong

European Interbank Offered Rate, EURIBOR, 1999



Average interest rate on interbank loans in euros and \$ (since June 2011). The calculation of the rate goes from 1 week to 12 months.

The calculation and publication of the rate is carried out by Reuters every day at 11:00 CET on the basis of data provided by 39 banks (3 outside the EU) with a first-class rating

Eonia (Euro Over Index Average) is the average overnight base rate at which European banks lend to each other in euros. Eonia is the interest rate for overnight loans between European banks and is considered the interbank rate. Eonia is the average overnight rate of 28 of the most well-known banks, called the panel banks.

Eonia (Euro Over Index) is no longer calculated. As of January 3, 2022, the EONIA calculation has been completely discontinued.

It was replaced by a new rate - **€STR (Euro Short-Term Rate)**, which is calculated and published by the European Central Bank (ECB).

The change came as part of a global benchmark rate reform, as the EONIA did not meet current regulatory standards of transparency and reliability. To ensure a smooth transition, the €STR was initially used together with the EONIA, but from 2022 the **€STR officially becomes the single key short-term rate in the** European money market.

Tasks for control and self-control of knowledge

I. Questions for reflection and discussion

1. The issue of Ukraine's cooperation with the IMF is constantly on the agenda. In your opinion, why is it so important to support this cooperation, since the amount of loans that Ukraine receives from the IMF is not significant and covers only a small part of the need for external borrowing? And why do problems constantly arise with new borrowing?

2. Why is there a need for syndicated lending? In your opinion, which countries more often use syndicated lending as borrowers - developed or developing? Provide appropriate arguments.

3. Why are the main interest rates of the international credit market necessary at all, since when concluding a credit agreement, the parties each time agree on a specific credit rate? How are these rates used in the practice of international lending?

II. Find the only correct answer among the suggested ones.

1. The basic principles of international lending do not include the principle of:

- a) payment;
- b) maturity;
- c) security;
- d) there is no correct answer.

2. Commercial credit:

- a) is a credit provided by the supplier of products to its buyer in kind;
- b) is a credit provided for the purpose of obtaining commercial benefit;
- c) is the provision of equipment for temporary use for profit;
- d) is a special type of credit provided by commercial banks for conducting international trade activities.

3. An overdraft differs from a regular credit in that:

- a) it is issued in kind;
- b) it is issued in cash;
- c) the entire amount received by the borrower's account is repaid;
- d) it is provided for a clearly defined period.

4. Financial leasing provides for:

- a) financing by the lessor of current equipment repairs;

- b) transfer of equipment for a period equal to or close to the depreciation period;
- c) transfer of equipment for a period not exceeding half the depreciation period;
- d) there is no correct answer.

5. Blank loans:

- a) are provided against the collateral of property and are drawn up on special standard forms;
- b) are provided only by special investment banks;
- c) are provided under the debtor's obligation to repay it within the established period and are drawn up as a solo promissory note with one signature - the borrower;
- d) are provided under the guarantee of another credit institution.

6. Syndicated loans are provided:

- a) by two or more creditors;
- b) to enterprises registered in the organizational and legal form of a syndicate;
- c) as collateral for equity securities;
- d) in the currency of the borrowing country.

7. The need for syndicated loans is caused by:

- a) growth in investment activity in national economies;
- b) the need to finance large-scale projects;
- c) diversification of credit risks;
- d) all of the above are correct.

8. Investment bank loans:

- a) are issued for a period not exceeding the payback period of the investment project;
- b) are issued only by investment banks;
- c) are issued for a period of at least 5 years;
- d) necessarily provide for parity participation in financing the project by the bank and the borrower.

9. The main functions of export credit agencies are:

- a) providing state guarantees for export credits;
- b) insuring export credits and transactions against political and other types of risks;
- c) organizational and informational and analytical support for export operations;
- d) all of the above are correct.

10. Which of the following statements is incorrect:

- a) LIBOR - determined in London;
- b) SORA - determined in Singapore;
- c) MIBOR - determined in Munich;
- d) HIBOR – determined in Hong Kong.

III. Solve the cases:

1. A debt obligation (bill of exchange) with a face value of 400 thousand dollars provides for the accrual of 20% per annum to the nominal value and is subject to repayment in 90 days. The owner of the bill of exchange transferred it to receive funds from the bank 45 days before the maturity date at an interest rate of 12% per annum.

Determine the amount received by the owner of the bill of exchange and the amount of the bank's discount.

2. The state placed foreign loan bonds in the amount of 500 million dollars on the Euromarket at 6.875 percent per annum, for a term of 5 years. When calculating, assume that all interest payments will be made on time. It is necessary to calculate:

- 1. The amount of interest payments in dollars per year and in total.
- 2. Payment schedule by year.

Content module 2. INTERNATIONAL SETTLEMENT

Chapter 5

International settlements and their organizational principles

Questions that reveal the content of the topic

- 5.1. The concept of international settlements and their organizational principles
- 5.2. Currency and financial and payment terms of international operations
- 5.3. Types, kinds and forms of international settlements
- 5.4. Currency clearings and their forms.

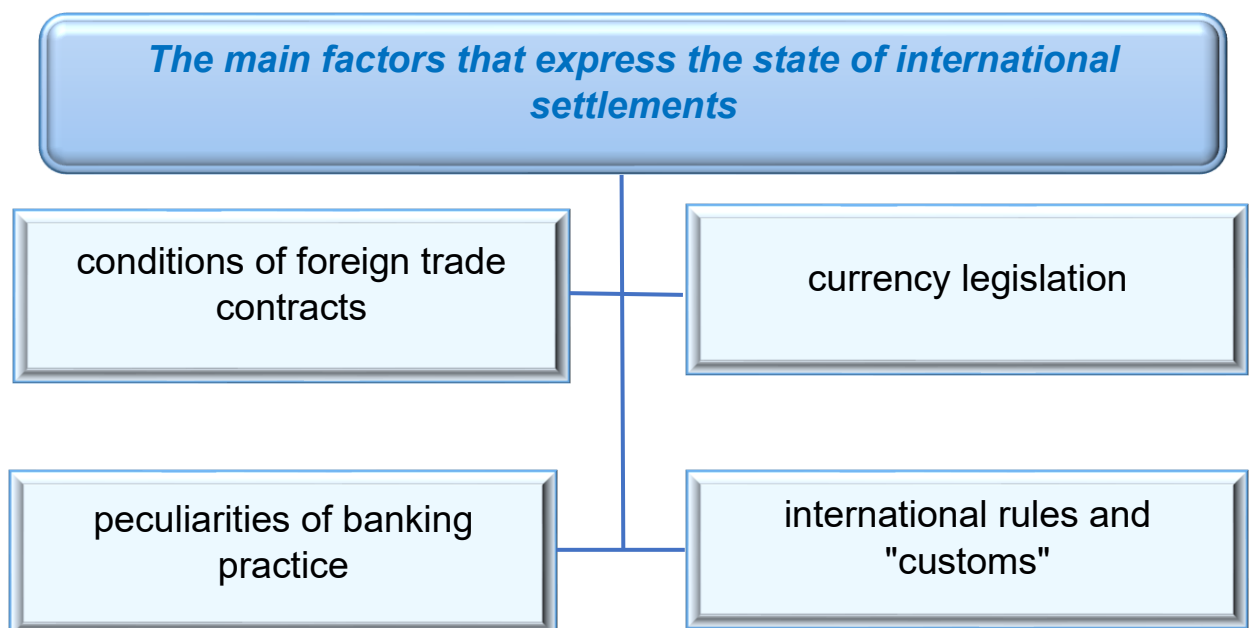
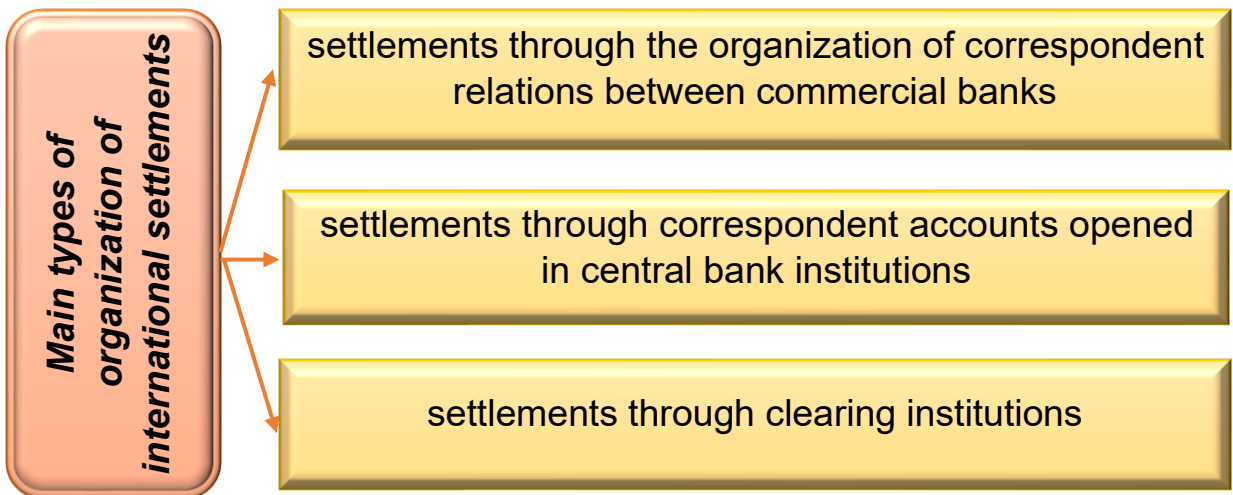
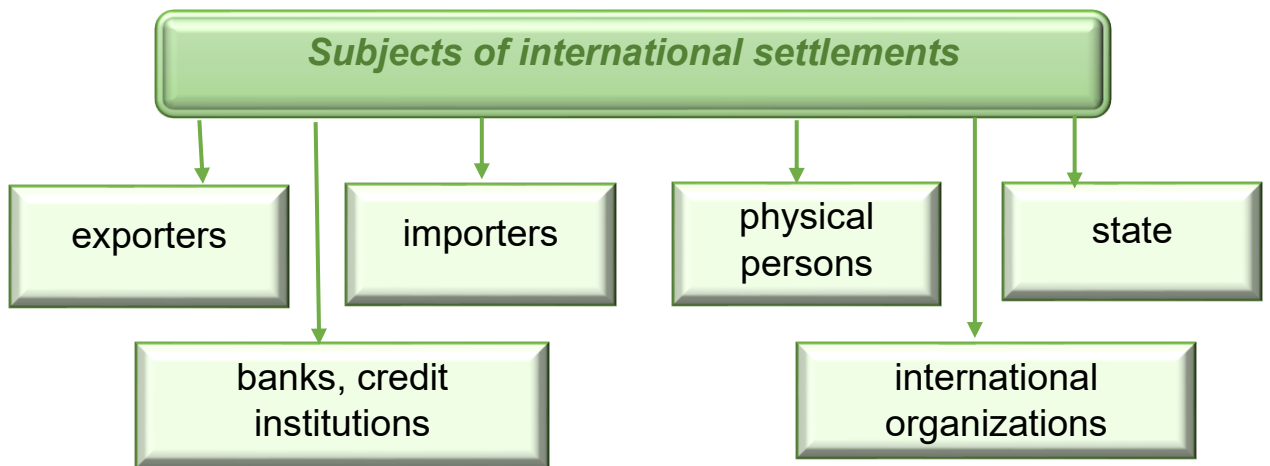
5.1. The concept of international settlements and their organizational principles

International settlements are a system of mechanisms for the realization of monetary claims and obligations arising between various subjects in the field of international economic relations

- the need for international settlements is due to international trade, capital export, migration processes, etc.

- international settlements are mainly carried out in non-cash form by means of appropriate entries on bank accounts in authorized banks

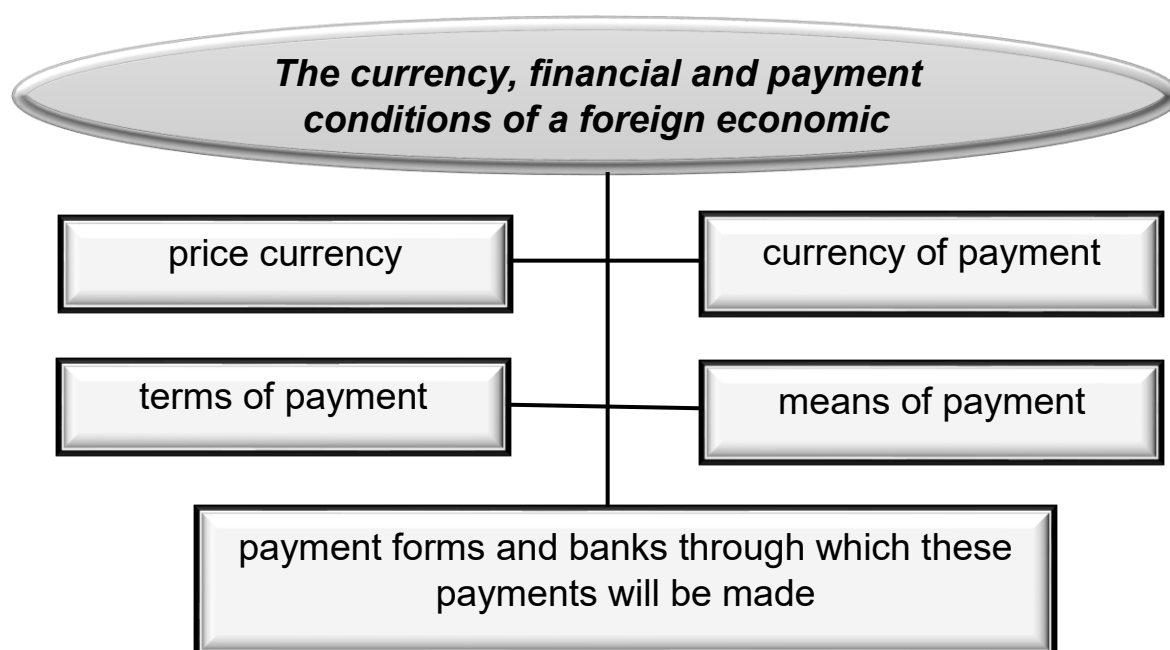
- they are usually directly related to currency exchange



5.2. Currency and financial and payment terms of international operations

«Foreign economic agreement (contract) - a materially formalized agreement between two or more subjects of foreign economic activity and their foreign counterparties, and aimed at establishing, changing or terminating their mutual rights and obligations in foreign economic activity»

Regulations on the form of foreign economic agreements (contracts)
(<https://zakon.rada.gov.ua/laws/show/z0833-01#Text>)



Price currency – the currency in which the value of the goods is recorded. It can be the currency of the exporting country, the currency of the importing country, the currency of a third country, or an international unit of account (for example, the SDR).

The payment currency is the currency in which the payment for the goods is made. It can be the currency of the exporting country, the currency of the importing country, or the currency of a third country. If the payment currency does not coincide with the price currency, the contract specifies the exchange rate at which the price currency must be converted into the payment currency.

The contract establishes the terms of the recalculation, in particular:

the rate of a certain type of payment instrument – a telegraphic transfer for payments without drafts or bills of exchange for settlements related to credit

the time of adjustment (e.g., the day before or on the day of payment) in a particular currency market (seller, buyer, or third country)

the rate at which the conversion is made: usually the average rate, sometimes the seller's or buyer's rate at the opening, closing of the foreign exchange market, or the average rate of the day

Important! Different price currency and payment currency is one of the simple methods of hedging currency risk

Payment methods determine the ratio of the time of payment for the product and its actual delivery.

The main payment methods are:

- cash payment;
- advance payment
- credit payment
- a loan with an option, i.e. the right to choose a cash payment

Cash payment implies full payment for the goods before the goods or the goods management documents are transferred to the buyer's disposal or at the time of this transfer.

Cash payment may be in the form **of a check, transfer, letter of credit or collection.**

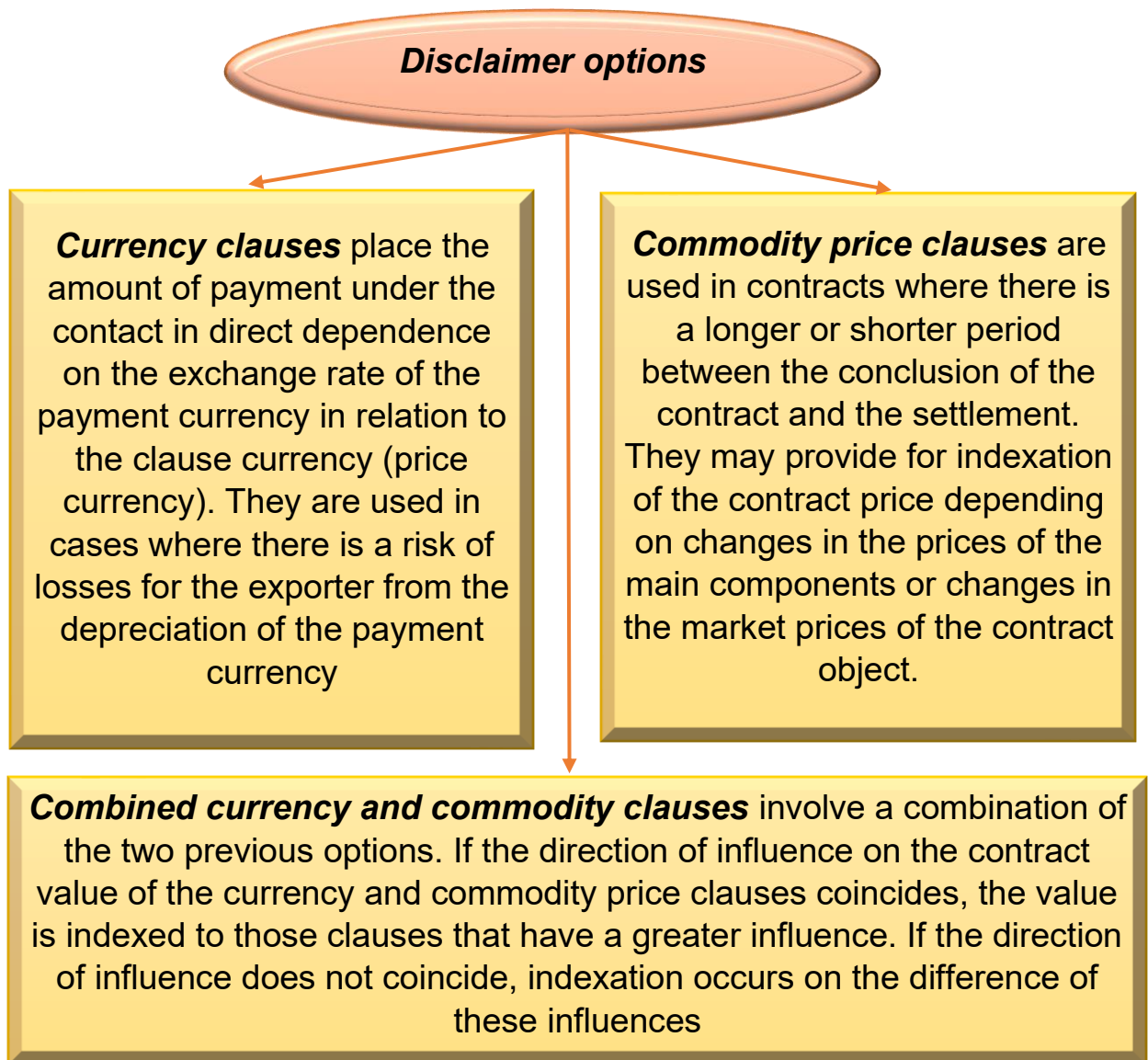
Advance payment is made in advance, before the delivery of goods or services to the importer. In this case, the importer essentially credits the exporter. In world practice, this method of payment is used when supplying expensive equipment, precious metals or weapons. **Partial advance payment can be used in combination with cash payments**

In the case of credit settlement, the exporter receives a reward after the importer receives the goods or services. In this case, the exporter credits the importer. Crediting can occur with or without bank credit (commercial credit)

A credit with an option gives the importer the right to make a choice: to receive a payment deferral but lose the discount, or to refuse credit and make a cash payment at reduced prices

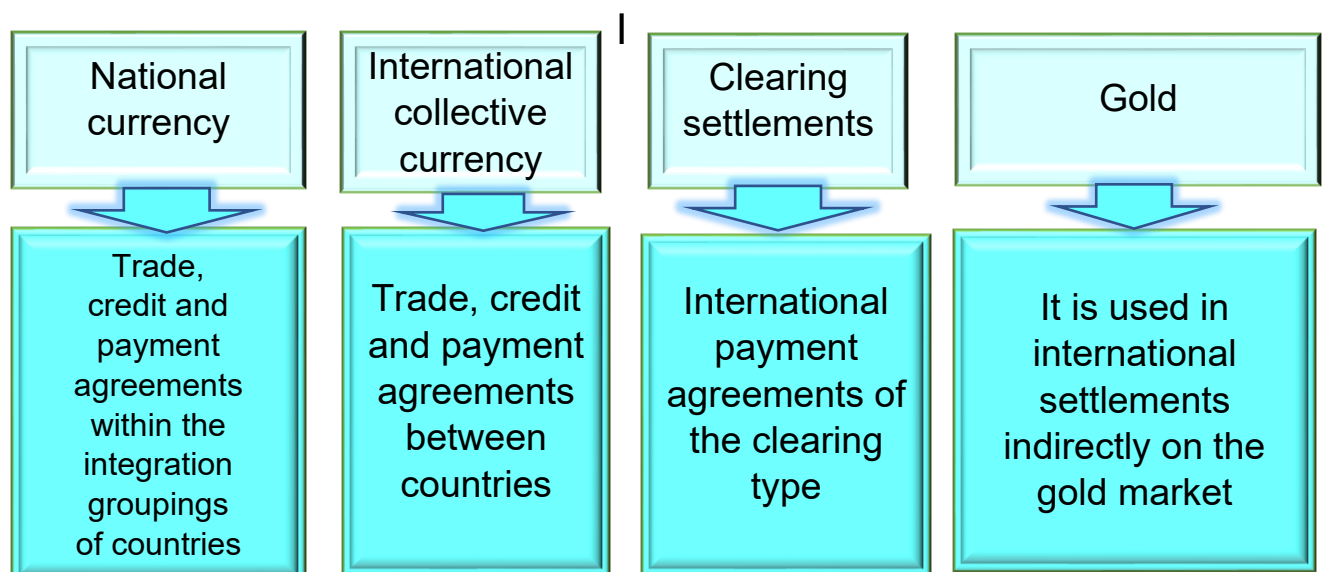
Provisions are used to insure currency risks

This is part of the contractual agreement, which may change depending on the occurrence of events described in the contract and related to the state of exchange rates or other risk factors.

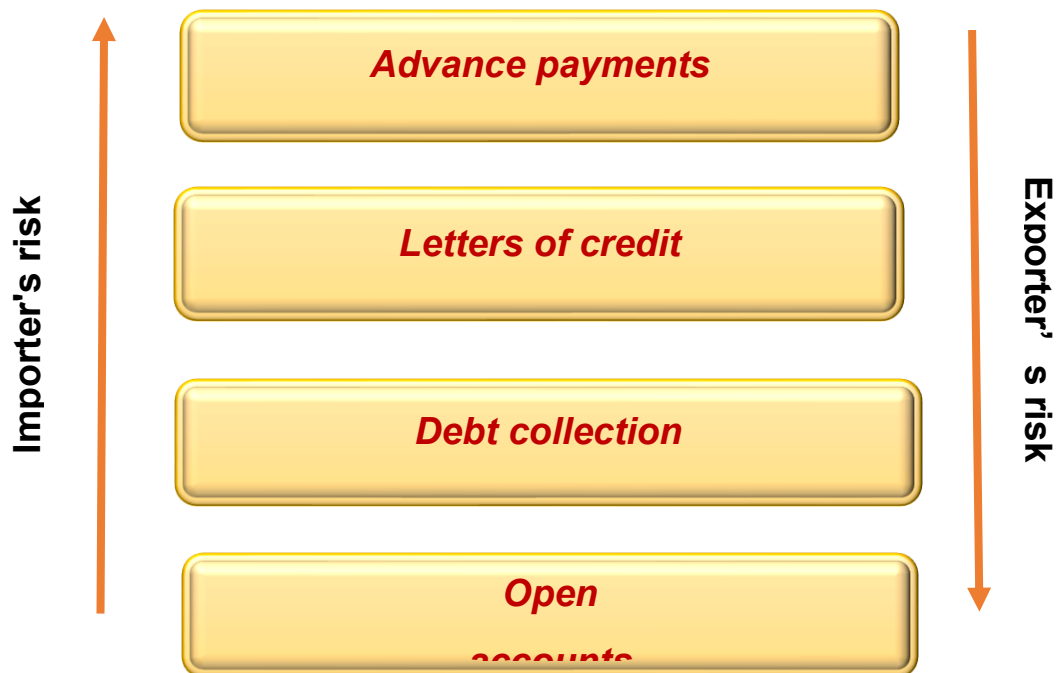


5.3. Types, kinds and forms of international settlements

Types of international settlement



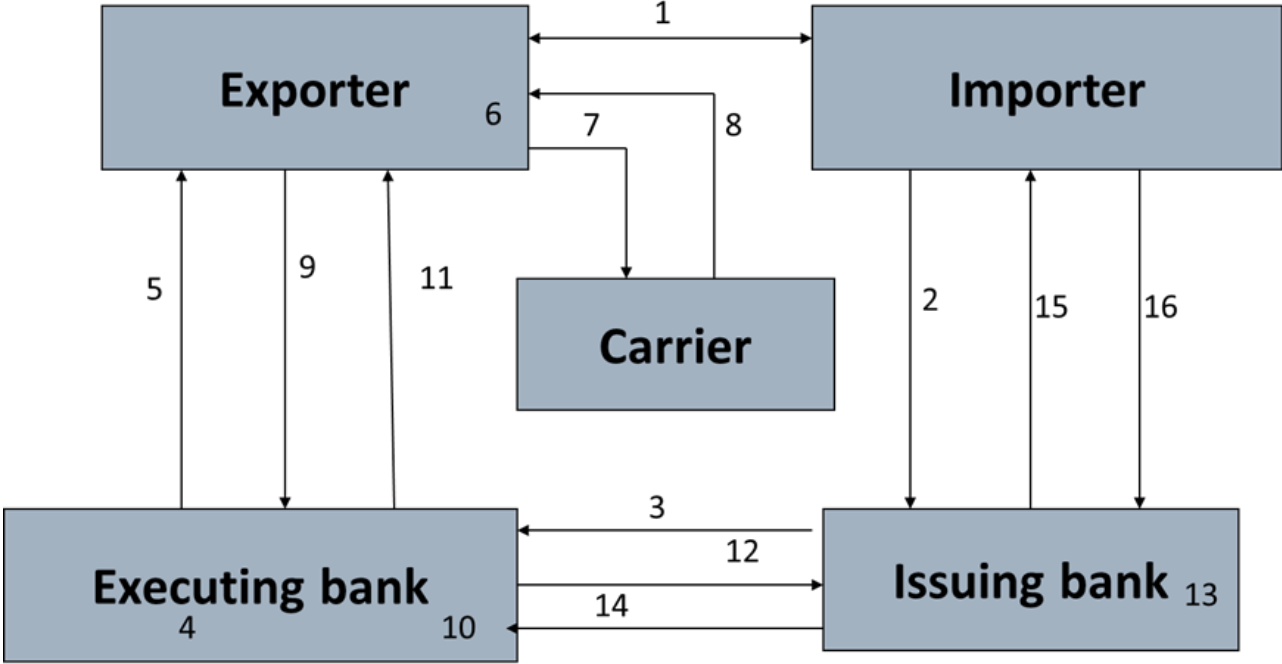
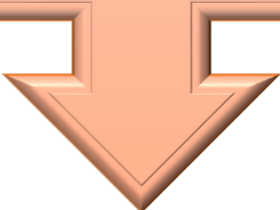
<i>Kinds of international payments depend on:</i>	
<i>Specifics of the subject</i>	- between specific counterparties
	- between banks
	- between the bank and the counterparty
	- between the state and the bank
	- between states
<i>Object</i>	- trade operations
	- investment operations
	- non-commercial operations
<i>Terms of settlement</i>	- cash
	- with the provision of credit
<i>Forms of international settlements</i>	- 100% advance or advance payments
	- letter of credit
	- collection
	- bank transfer
	- bank draft (promissory notes)
	- bank check
	- open bank account
	- consignment



Advance payments involve the importer paying the cost of the goods at the time of submitting an application for purchase. The most risky form of payment for the importer. Most often used in conditions of distrust of the importer's solvency. Not a common form of payment in modern world trade

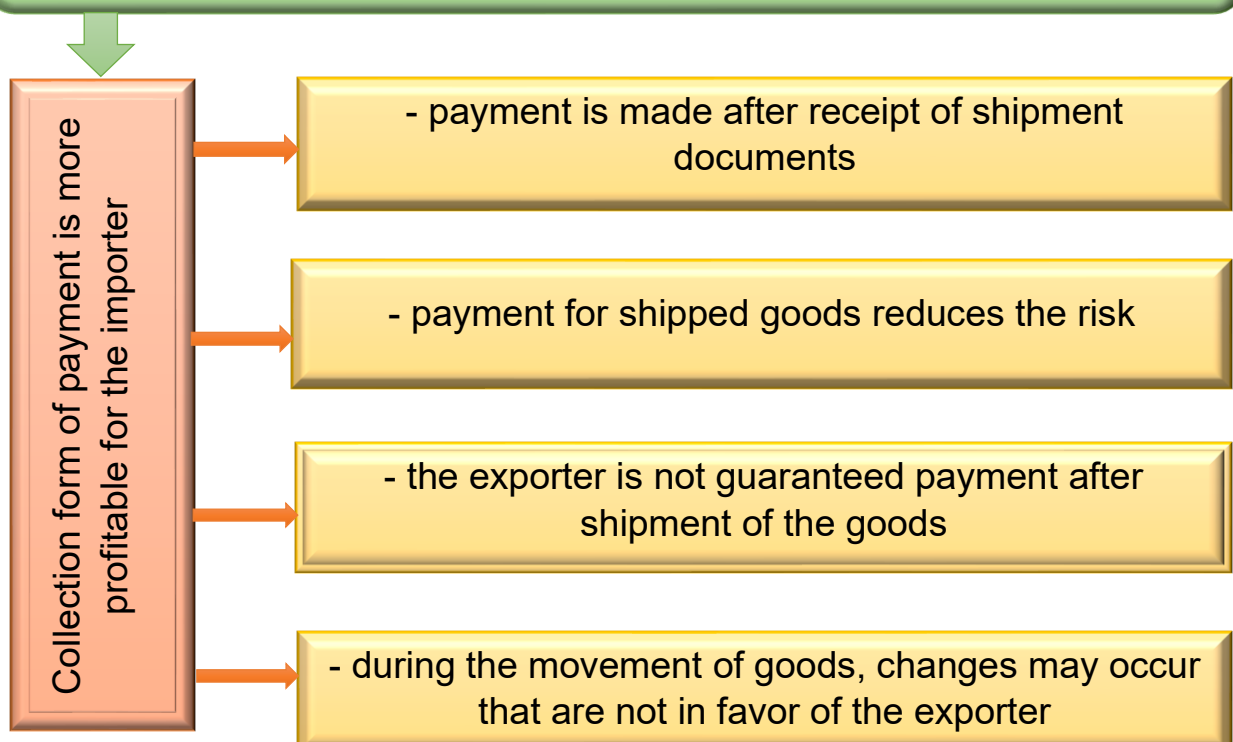
A letter of credit provides that the bank, at the request of the importer, will make payment for the delivery of goods after receiving shipping documents or pay bills issued to it by the exporter. A letter of credit solves the problem of mutual distrust between the exporter and the importer and reduces their risks.

Scheme of the letter of credit:



1. Signing a foreign economic contract, which provides for the use of a letter of credit form of payments
2. The importer submits an application to his bank for opening a letter of credit
3. Opening of letter of credit
4. Verification of the letter of credit by the exporter's bank
5. Notification of the beneficiary about the opening of the letter of credit
6. Verification of compliance of the terms of the letter of credit with the terms of the foreign economic agreement
7. Shipment of goods to the carrier
8. Obtaining transport documents from the carrier
9. Submission of the documents specified in the letter of credit to the certifying bank
10. Verification of compliance of documents with the terms of the letter of credit
11. Payment by letter of credit to the beneficiary's account
12. Forwarding of documents to the issuing bank
13. Verification of compliance of documents with the terms of the letter of credit
14. Transfer of compensation under the letter of credit to the issuing bank
15. Transfer of documents to the applicant of the letter of credit
16. Transfer to the issuing bank the amount of the payment under the letter of credit and the amount of the commission for opening the letter of credit

Collection is a form of payment in which the exporter's bank, on his behalf, receives payment from the importer for the shipped goods or services and credits the funds to the exporter's account.



A bank transfer is used when the importer intends to transfer a certain amount of money to fulfill a transaction with the exporter using the banking system. In practice, this will take the form of an order to the exporter's bank from the importer's bank to pay the exporter a certain amount of money at the expense of the importer, indicating the method of reimbursement of the amount paid.

Today, bank transfers are mainly carried out through the SWIFT electronic transfer system.

Society for Worldwide Interbank Financial Telecommunications (SWIFT) - an international interbank system for transferring information and making payments.

This system allows financial institutions around the world to send and receive information about financial transactions in a safe, standardized and reliable form

<https://www.swift.com/about-us>

A bank promissory note {draft} is a security that certifies the unconditional monetary obligation of the debtor (drawer) to pay a certain amount of money to the owner of the promissory note (promissory note holder) after the due date.

A bank draft can be: simple; transferable

As a rule, banks have correspondent accounts in foreign banks. This makes it possible to use bank checks. A bank check is a monetary document of a prescribed form, which contains an order from the bank to the correspondent bank to transfer a certain amount from its current account to the holder of the check.

The form of payment "**open bank account**" is used when selling on credit terms agreed between the exporter and the importer. This form is quite beneficial for the importer, since he gets the opportunity to receive the goods and sell them before the payment deadline.

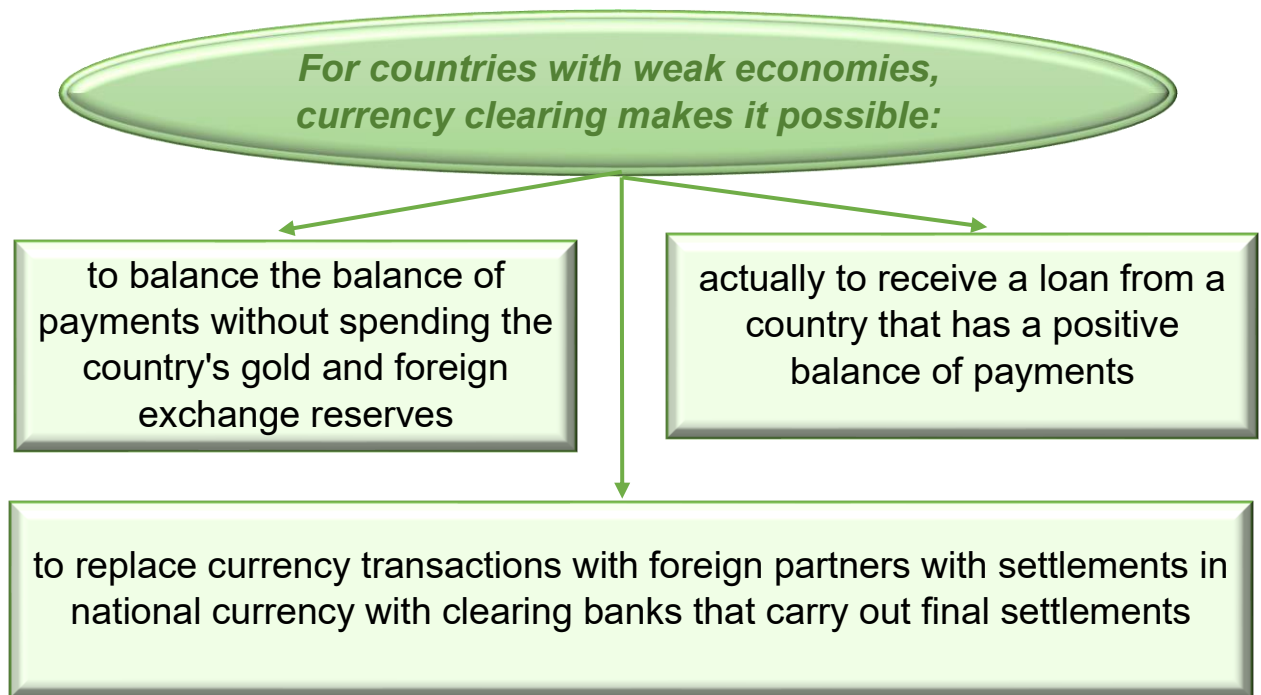
Most often used in relations between the main company and its foreign branches or separate structural units. It assumes a high level of trust in the importer and a high level of risk for the exporter

Consignment implies that the supplier (exporter) supplies the products to the importer and remains its owner throughout the entire period of sale. Settlements are made either in parts or in full, but only for the products actually sold. Like the previous form of settlement, it is most often used in the relationship between the main company and its foreign branches..

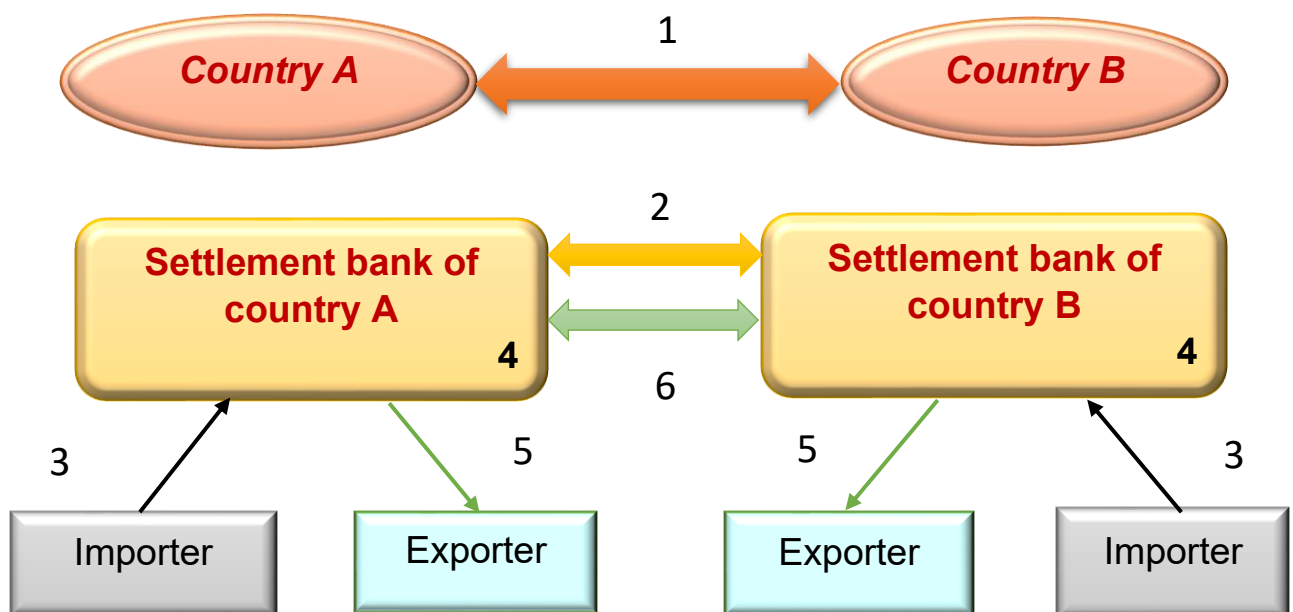
5.4. Currency clearings and their forms

Currency clearing is an international agreement that provides for the mutual offsetting of international currency claims and obligations. In essence, this excludes international currency transfers (each party executes the other's orders at the expense of its own currency reserves, and after a certain period, payments are matched and the balance of payments is calculated).

Important! Unlike domestic interbank clearing, which is voluntary, currency clearing is a mandatory procedure if the countries sign a relevant agreement.



Currency clearing mechanism



- 1. Conclusion of a currency clearing agreement between countries**
- 2. Mutual opening of correspondent accounts by settlement banks in the national currency of the partner country**
- 3. Fulfillment of the importer's obligations by transferring funds to the settlement bank in the national currency**
- 4. Crediting funds to the correspondent account of the partner bank**

5. Payment of funds to exporters that belong to them in local currency

6. Balancing the balance on clearing accounts

Tasks for control and self-control of knowledge

I. Questions for reflection and discussion

1. Why do the price currency and the payment currency often differ in foreign trade transactions? Who is more interested in such a difference - the exporter or the importer?

2. What factors determine the choice of the form of international payments?

3. What are the gains and losses of the importer and exporter when using a letter of credit?

4. How can currency risks be insured in international contracts?

5. Why do you think currency clearing is not as widespread today as it was a few decades ago?

II. Find the only correct answer among the suggested ones.

1. International settlements can be carried out through:

- a) correspondent accounts opened in central bank institutions;
- b) clearing institutions;
- c) correspondent accounts opened by commercial banks with each other;
- d) all of the above are correct.

2. Commodity and price clauses in an international contract include:

- a) clauses regarding changes in the exchange rate of the contract currency;
- b) clauses regarding changes in the payment currency;
- c) clauses regarding variable (sliding) prices, when the price increases subject to an increase in price-forming components;
- d) clauses regarding changes in the product range due to force majeure.

3. The most risky form of international settlements for an importer is considered to be:

- a) letter of credit;
- b) advance payment;
- c) open account;
- d) collection.

4. The riskiest form of international payments for the exporter is considered to be:

- a) letter of credit;
- b) advance payment;
- c) open account;
- d) collection.

5. A revolving letter of credit:

- a) allows you to reduce the time for making a payment;
- b) allows you to pay for the delivery of goods in parts with the corresponding parts of the payment;
- c) opens up opportunities for reinsurance of the timeliness of payment with the importer's bank;
- d) all of the above are correct.

6. The collection form of payment is more profitable for the importer than for the exporter, since:

- a) payment is made after receiving shipping documents;
- b) payment for the shipped goods reduces risk;
- c) the exporter is not guaranteed payment after the goods are shipped;
- d) all of the above are correct.

7. The Society for Worldwide Interbank Financial Telecommunications (SWIFT) officially began operating in:

- a) 1965
- b) 1973
- c) 1977
- d) 1993

8. A consignment agreement provides for:

- a) the exporter to retain ownership of the goods until the importer sells the goods and settles with the exporter;
- b) the exporter can receive an advance payment before the goods are shipped;
- c) the importer's obligation to pay for the goods immediately after receiving confirmation of their shipment by the exporter;
- d) the exporter's obligation to ship the goods within two business days of receiving payment from the importer.

9. Currency clearing is:

- a) the coincidence of the market exchange rate of a currency with its purchasing power parity;
- b) an agreement between the governments of two or more countries on the mandatory mutual offsetting of international claims and obligations;

c) an agreement on the possibility of repaying a foreign currency loan by deliveries of products manufactured on equipment purchased at the expense of loan funds;

d) there is no correct answer.

10. The goals of foreign exchange clearing are not:

a) equalizing the balance of payments without spending gold and foreign exchange reserves;

b) obtaining a preferential loan from a counterparty that has an active balance of payments;

c) replenishing state budget revenues due to the difference in exchange rates;

d) there is no correct answer.

Balance of Payments (BoP) and International Investment Position (IIP)

Questions that reveal the content of the topic

6.1. Categories of balance of payments and categories of international investment positions.

6.2. Factors affecting the balance of payments and the main methods of regulating the balance of payments.

6.3. Balance of payments of Ukraine.

6.1. Categories of balance of payments and categories of international investment positions

The study of international settlements of countries has a rather long history. It began with the concept of "balance of trade", which was introduced into scientific circulation and practical use by representatives of mercantilism. It is believed that the first to do this was the English mercantilist **Edward Misselden**, who in his book "The Circle of Commerce; or, The Balance of Trade", first published in 1623, not only gave his definition of the balance of trade, but also made an attempt to calculate it for England in 1621.



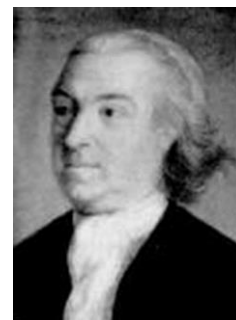
The theory of the balance of trade was further developed in the work of **Thomas Mun** (1571-1641) "England's Treasure by Forraign Trade, or The Ballance of Our Forraign Trade Is the Rule of Our Treasure ", which was first published in 1664.

He approaches the assessment of the movement of money (in particular, silver) across the border from the perspective of the final result

He introduces the concept of "general trade balance", which describes relations not with one country, but with the outside world as a whole.

Already in the middle of the 18th century, the export of capital begins to play a certain role in international relations. And although its specific weight compared to foreign trade remains insignificant, researchers are trying to introduce it into economic analysis. A new concept appears - **the balance of payments**, which, unlike the trade balance, also takes into account other channels of inflow and outflow of money from the country

It is generally accepted that the term balance of payments was first proposed by **J. Stewart** (1712-1780) in his work "**An Inquiry into the Principles of Political Economy**" (1767). He was the first to point out and examine in detail the relationship between foreign trade and the movement of capital.



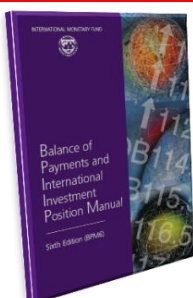
The definition of the balance of payments at that time can be formulated **as the totality of payments received from abroad and made in favor of other countries over a certain period of time (or on a certain date)**

In 1928, the League of Nations, together with the International Chamber of Commerce, introduced a new balance of payments scheme, which saw a departure from its simplistic interpretation as only the movement of international payments.

After World War II, the function of forming the methodology for calculating the balance of payments was transferred to the International Monetary Fund. Already in 1948, it issued methodological recommendations called the "**Balance of Payment Manual**". Four more editions were published under this name (1950, 1961, 1977, 1993). The document that is in force today was adopted in 2009 and has a slightly different name: "**Balance of payments and international investment position manual**" (BPM6).

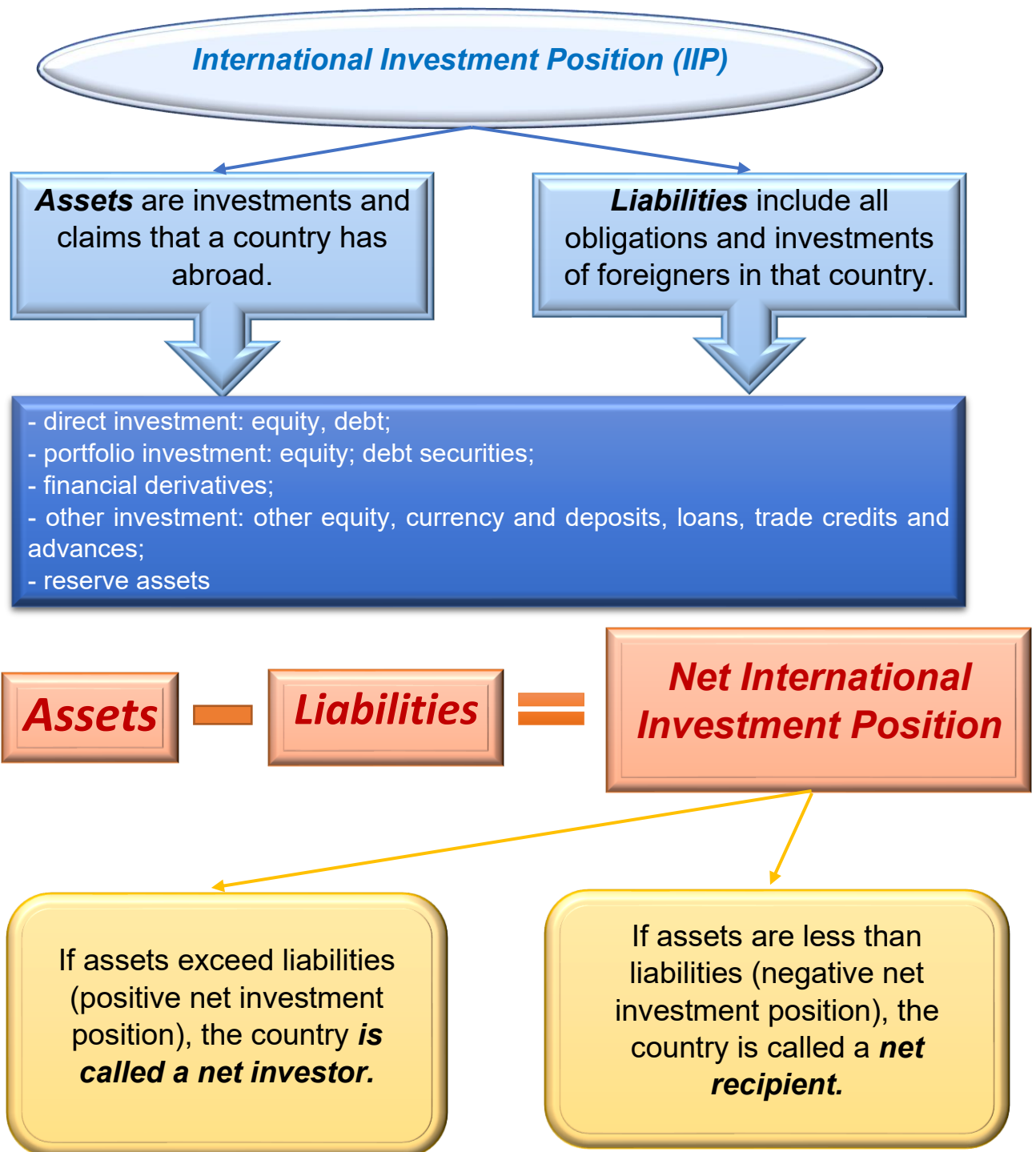
Similarities and differences between the balance of payments and the international investment position of a country

Balance of payments	International investment position
<p>- "is a statistical report that summarizes transactions between residents and non-residents during a certain period. It consists of the goods and services account, the primary income account, the secondary income account, the capital account, and the financial account. In the double-entry accounting system that underlies the balance of payments, each transaction is recorded as consisting of two entries, and the sum of the credit entries and the sum of the debit entries are the same"*</p>	<p>- "this is a statistical report that shows at a given point in time the value of: the financial assets of residents of an economy that are claims on non-residents or are gold bullion held as reserve assets; and the liabilities of residents of an economy to non-residents. The difference between assets and liabilities is the net position in the IIP and represents a net claim or net liability on the rest of the world"*</p>
<p>- contains information on foreign direct investment, foreign portfolio investment, other investments and reserve assets</p>	
<p>- shows how indicators have changed over a certain period;</p>	<p>- shows what the value of the indicators is on a certain date. Comparison with the value of the indicator on the previous date allows you to calculate its change;</p>
<p>- reflects the change in the indicator only as a result of operating activities;</p>	<p>- takes into account changes not only as a result of operating activities, but also under the influence of changes in exchange rates, capital revaluation and other factors;</p>
<p>- contains information about current operations and capital movements.</p>	<p>- does not contain information on current operations and capital movements.</p>



* *Balance of payments and international investment position manual.*
 —Washington, D.C.: International Monetary Fund, 2009. - 371 p.

Important! The most complete, objective and up-to-date information on the balance of payments and international investment positions of countries around the world is disclosed in IMF publications.



Grouping of EU countries by the share of the net international investment position in the country's GDP*

Hyperactive recipients ($< -100\%$)	Active recipients ($-60\% - -100\%$)	Moderate recipients ($-20\% - -60\%$)
Greece, Ireland, Cyprus	Portugal, Slovakia, Spain	Croatia, France, Latvia, Poland, Romania, Hungary
Balanced position ($-20\% - +20\%$)		
Bulgaria, the Czech Republic, Estonia, Finland, Lithuania, Slovenia, Italy		
Moderate investors ($20\% - 60\%$)	Active investors ($60\% - 100\%$)	Hyperactive investors $>100\%$
Austria, Belgium, Denmark, Luxembourg, Malta, Sweden	Germany, the Netherlands	

* Calculated by: International Monetary Fund. Available at: <https://data.imf.org/regular.aspx?key=61545851>

Balance of Payments, BoP



Entries in the balance of payments are recorded using the double-entry bookkeeping principle: for each transaction, you will have opposing entries (debit and credit) that have the same value.



Credit (CR):

- export of goods and services,
- accounts receivable,
- decrease in assets or increase in liabilities



Debit (DR):

- import of goods and services,
- income payable,
- increase in assets or decrease in liabilities

How are certain situations reflected in the balance of payments?:

Situation 1. A Ukrainian company sold goods worth \$100,000 to a Polish partner

Reflection:

CR: export – \$100,000

DR: increase in financial assets (currency) – \$100,000

Situation 2. The bank sold bonds to a non-resident for \$70 million.

Reflection:

CR: increase in liabilities – \$70 million.

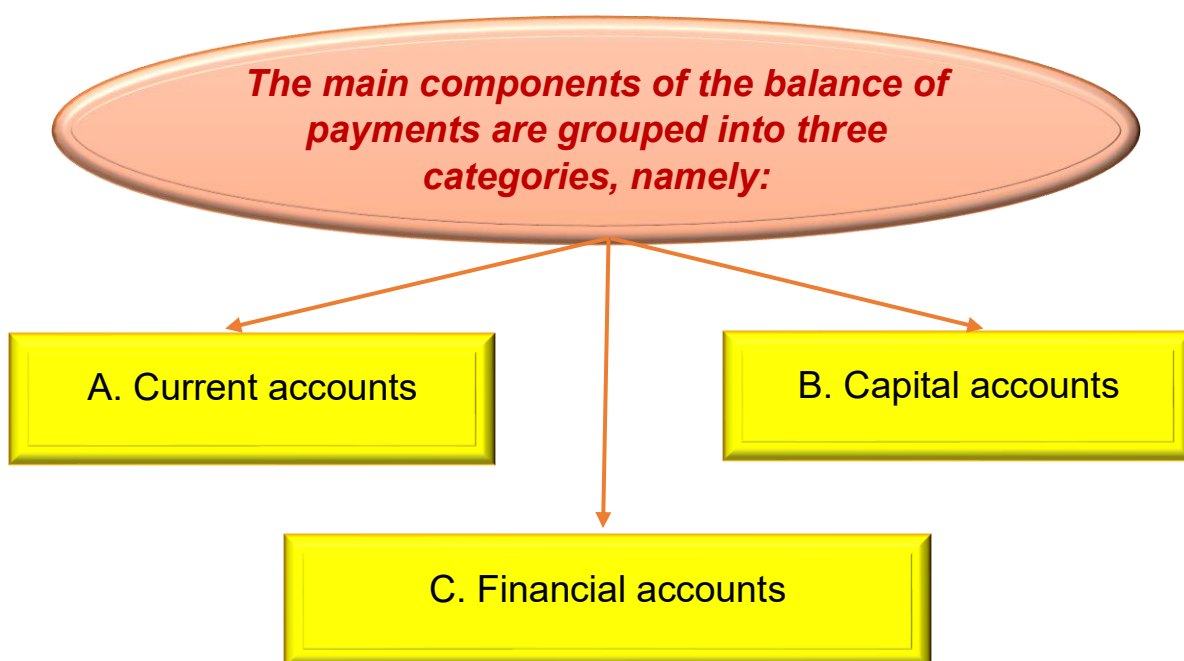
DR: increase in financial assets (currency) – \$70 million.

Situation 3. The National Bank of Ukraine has repaid foreign loan bonds for 20 million euros

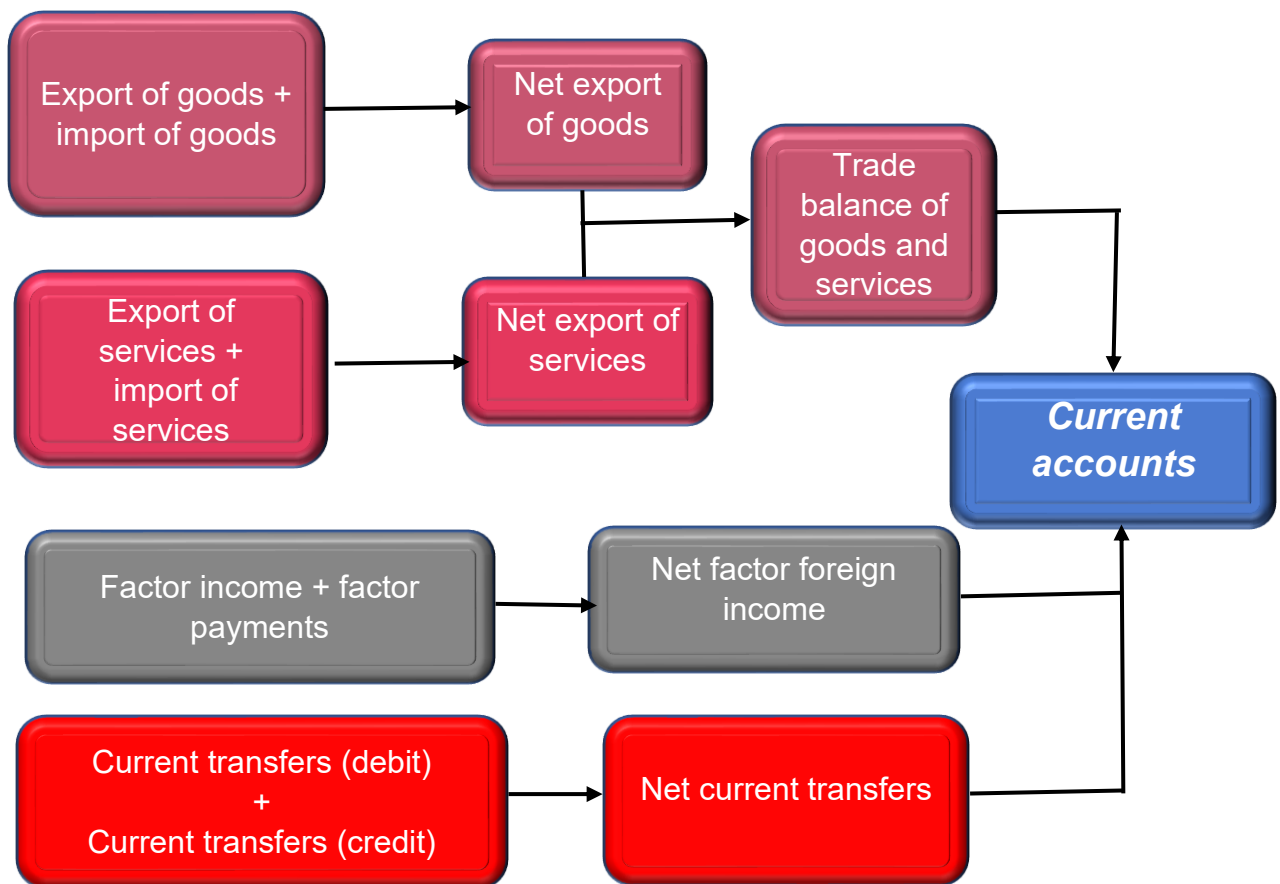
Reflection:

CR: decrease in assets – 20 million euros

DR: decrease in liabilities – 20 million euros



Structure of current accounts



Primary income is income received from the use of factors of production: land (rent), labor (wages), capital (dividends).

The balance of primary income is the difference between foreign payments to domestic residents and domestic payments to non-residents.

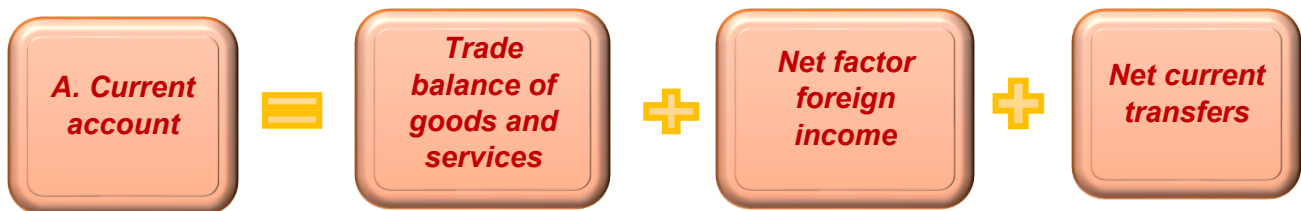


Types of primary income:

- (a) compensation of employees (wages and social contributions of employers);
- (c) dividends;
- (c) reinvested earnings;
- (d) interest;
- (f) rent;
- (g) taxes and subsidies on products and production

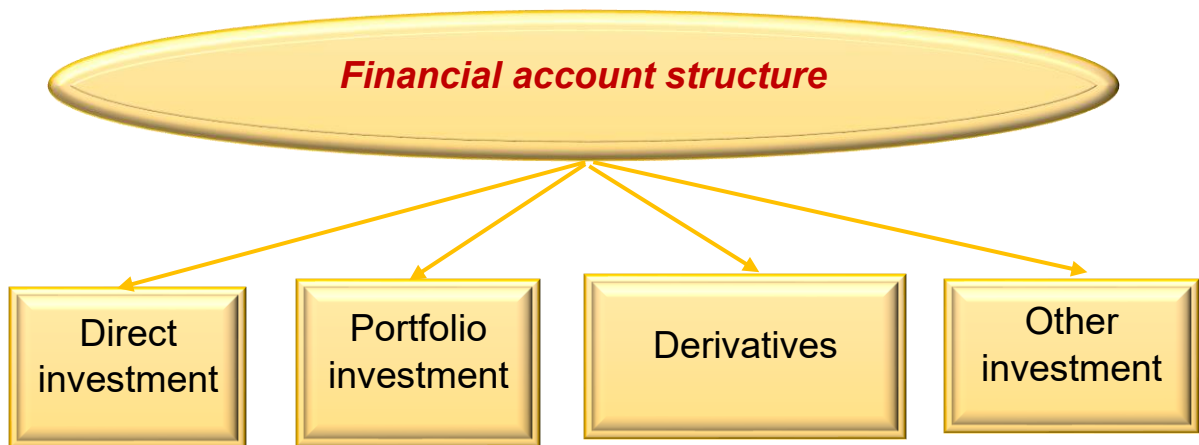
Current transfers consist of all transfers that are not capital transfers. Current transfers occur when a resident simply lends currency to a non-resident without receiving anything in return. Usually, such transfers are made in the form of donations, grants or official assistance.

The main form of secondary income coming to Ukraine is **remittances from migrant workers**.



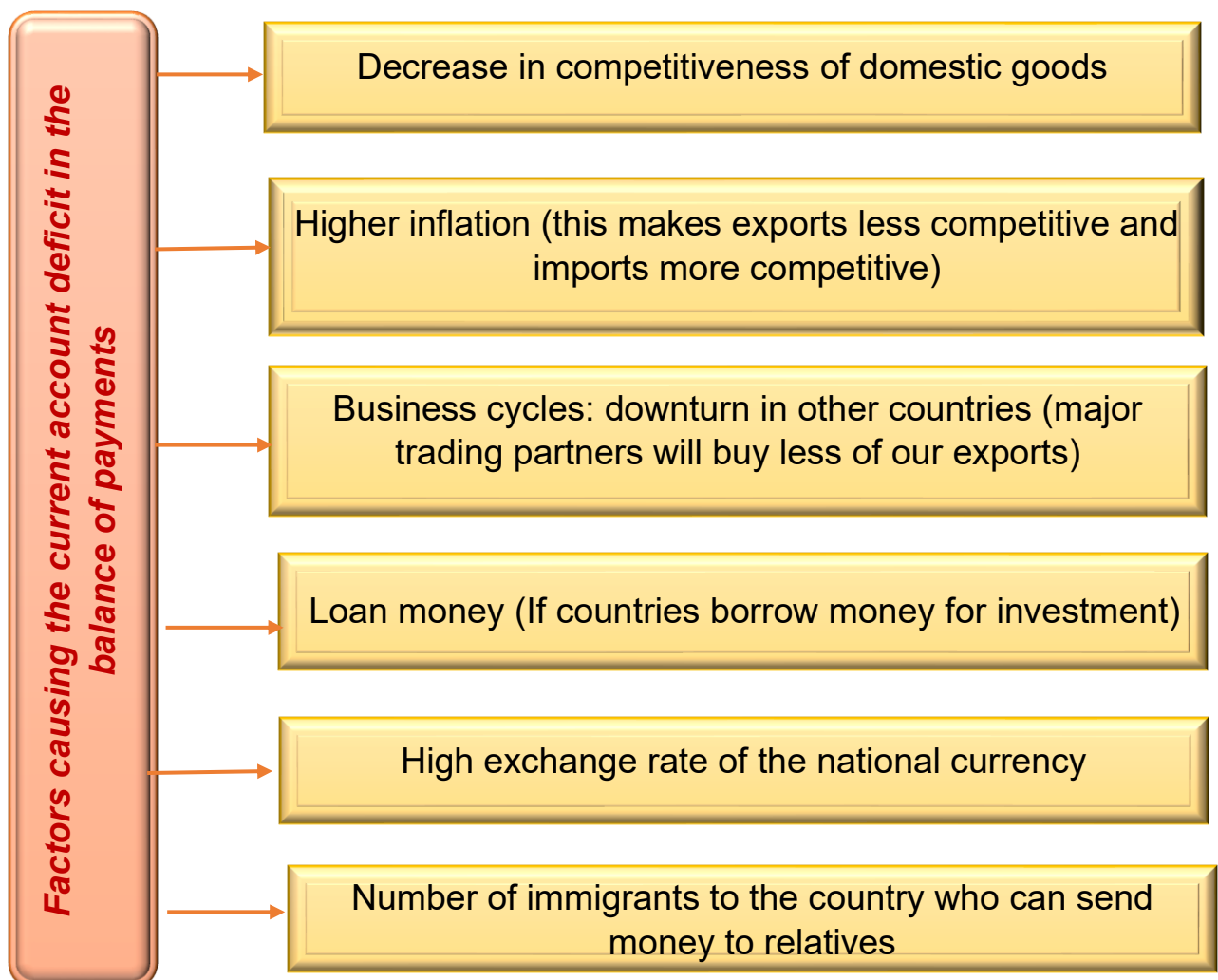
B. The capital account includes capital transfers to and from receipts and payments, disposals and acquisitions of non-produced non-financial assets.

C. The financial account records transactions involving financial assets and liabilities between residents and non-residents. A surplus in the financial account means that money is flowing into the country. A deficit in the capital account means that money is flowing out of the country, but it also suggests that the nation is increasing its claims on foreign assets.



$$D \text{ (consolidated balance sheet)} = A+B-C$$

6.2. Factors affecting the balance of payments and the main methods of regulating the balance of payments



State regulation of the BoP deficit

1. Deflationary policy. Policies aimed at reducing domestic demand and limiting fiscal activity are mainly for civilian purposes, freezing prices and wages

2. Devaluation is the devaluation of the national currency aimed at increasing exports and curbing imports. Devaluation may give a country a temporary advantage, but in many cases it does not address the causes of the deficit

3. Exchange restrictions. Blocking foreign currency receipts of exporters, licensing the sale of foreign currency to importers, concentration of foreign currency operations in authorized banks solve the problem of balance of payments deficit by limiting the export of capital and encouraging its receipt, curbing imports

4. Budget subsidies to exporters, protectionist increases in import duties

A balance of payments crisis occurs when a nation is unable to pay for its major imports and/or service its debt. The crisis is accompanied by a **sharp depreciation of the national currency.**

6.3. Balance of payments of Ukraine

The balance of payments of Ukraine reflects all transactions carried out by individuals, enterprises and the state with foreign partners, which reflects the inflow of foreign currency into the country and its outflow outside Ukraine.

Export and import of goods (billion dollars)

Year	Export	Import	Balance
2009	37.1	42.2	-5.3
2010	47.3	56.9	-9.6
2011	62.4	80.4	-18.0
2012	64.4	86.3	-21.8
2013	59.1	81.2	-22.1
2014	50.5	57.7	-7.1
2015	35.4	38.9	-3.5
2016	33.6	40.5	-6.9
2017	39.7	49.4	-9.7
2018	43.3	56.1	-12.7
2019	46.1	60.4	-14.3
2020	45.1	51.9	-6.8
2021	63.1	69.8	-6.7
2022	40.9	55.6	-14.7
2023	34.7	63.8	-29.1
2024	39.3	72.3	-33.0

<https://bank.gov.ua/ua/statistic/sector-external/data-sector-external>

1. In recent years, foreign currency expenditure on imports of goods has always exceeded its receipts from exports, and therefore the balance of foreign trade in goods was negative.

2. The largest negative balance was on the eve of economic crises (2008; 2012-2013). The full-scale war of Russia against Ukraine had an extremely negative impact on the balance of foreign trade in goods.

3. There are significant fluctuations in the volume of exports and imports of goods, which indicates the absence of stable markets and the significant dependence of foreign trade results on the situation in world markets

Export and import of services (billion dollars)

Year	Export	Import	Balance
2009	14.9	11.6	3.3
2010	18.3	12.7	5.6
2011	21.1	13.4	7.7
2012	22.1	14.6	7.5
2013	22.6	16.1	6.5
2014	14.8	12.4	2.4
2015	12.4	11.3	1.1
2016	12.4	12.0	0.4
2017	14.2	12.1	2.1
2018	15.8	14.4	1.4
2019	17.5	15.7	1.8
2020	15.6	11.2	4.4
2021	18.4	14.4	4.0
2022	16.6	27.7	-11.1
2023	16.6	25.3	-8.7
2024	17.3	22.3	-5.6

<https://bank.gov.ua/ua/statistic/sector-external/data-sector-external>

1. For almost the entire period under review, the volume of exports of services remained relatively stable. Some growth in export volumes was observed in 2011-2013 due to the increase in the supply of Russian gas to Europe through the Ukrainian gas transportation system.

2. The balance of international trade in services was positive in all years, although in some years there was a threat of it reaching zero.

3. For the first time, the balance of trade in services became negative after the full-scale invasion of Russia. According to forecasts, the situation will worsen even more after the cessation of transportation of Russian gas to Europe from January 1, 2025.

Balance of primary and secondary income in the balance of payments of Ukraine (millions of dollars)

	2020	2021	2022	2023	2024
Primary income balance	3 549	-5 855	8 483	5 070	83
Incoming	12 178	13 996	13 149	12 316	9 157
Payments	8 629	19 829	4 664	7 246	9 074
Labor remuneration (balance)	11 717	13 568	12 826	11 108	7 726
Incoming	11 738	13 591	12 842	11 126	7 744
Payments	21	23	16	18	18
Investment income (balance sheet)	-8 168	-19 401	-4 341	-6 257	-7 922
Incoming	440	405	307	971	1 134
Payments	8 608	19 806	4 648	9 228	9 056
Secondary income balance	4 096	4 622	25 228	23 245	23 388
Incoming	5 674	6 827	28 284	24 245	24 367
Payments	1 578	2 256	3 056	1 117	979

<https://index.minfin.com.ua/ua/economy/balance/>

The balance of primary income is positive, with the exception of 2021. This is mainly achieved due to wages received by Ukrainians abroad. At the same time, there is a significant disproportion between income payments to foreign investors and income received by residents from investing abroad. Therefore, the balance of investment income has a persistent negative value. This is a consequence of the fact that Ukraine is a net recipient of foreign investment, while Ukrainian investment abroad is negligible.

The balance of secondary income has a stable positive value. The inflow of transfers to Ukraine is growing at a higher rate than the disbursements, and therefore this component of the balance of payments has a tendency to grow. In recent years, this is a consequence of the large-scale financial assistance provided to Ukraine by its foreign partners.

Current account (billions of dollars)

Year	Balance of foreign trade in goods and services	Primary income balance	Secondary income balance	Current account
2020	-2.4	3.5	4.1	5.2
2021	-2.7	-5.8	4.6	-3.9
2022	-25.7	8.5	25.2	8.0
2023	-37.9	5.1	23.2	-9.6
2024	-38.6	0.1	23.4	-15.1

The capital account for most years does not exceed \$50 million, and therefore, when rounded to the tenth of a billion dollars, it generally takes on a zero value.

Financial account (millions of dollars)

	2020	2021	2022	2023	2024
Financial account balance	3 274	-4 354	11 059	-18 870	-10 023
Direct investment	117	-7 518	-187	-4 443	-3 713
Portfolio investment	829	-1 024	2 026	2 733	6 627
Other investment	2 750	5 844	8 931	-15 592	-12 656
Errors and omissions	751	1 826	-242	1 568	338

<https://index.minfin.com.ua/ua/economy/balance/>

Important! The positive value of both the financial account as a whole and its individual components shows that the ratio of foreign assets of Ukrainian residents compared to their liabilities to non-residents changed in favor of assets. The negative value indicates the opposite trend.

The period under study was difficult for Ukraine. The largest outflow of currency on the financial account was observed during the COVID-19 pandemic (2020) and in the first year of the full-scale war (2022). During these years, the inflow of foreign direct investment practically stopped. Other investments abroad also increased significantly.

The situation changed in 2023. The inflow of foreign direct investment resumed (mainly in the development of the military-industrial complex). Significant funds also came from other investments. The trend continued in subsequent years.

Consolidated balance of payments of Ukraine

	A	B	C	A+B-C
2009	-1.7	0.6	12.6	-13.7
2010	-3.0	0.2	-7.9	5
2011	-10.2	0.1	-7.7	-2.5
2012	-14.3	0	-10.1	-4.2
2013	-16.5	0	-18.6	2.0
2014	-4.6	0.4	9.1	-13.3
2015	1.6	0.5	1.2	0.8
2016	-1.3	0	-2.6	1.3
2017	-8.6	0	-5.0	2.6
2018	-4.4	0	-7.2	2.9
2019	-4.1	0	-10.1	6.0
2020	5.3	0	3.3	2.0
2021	-3.9	0	-4.4	0.5
2022	8.6	0.2	11.1	-3.9
2023	-9.5	0.1	-18.9	9.5
2024	-15.1	5.1	-10,0	0.0

<https://index.minfin.com.ua/ua/economy/balance/>

Despite the fact that for the pre-war 6 years it was possible to end the financial year with a positive balance of payments, Ukraine has a number of problems:

1. **Lack of stability** in the balance of payments and significant fluctuations in individual years (from 9.5 billion dollars in 2023 to -13.7 in 2009)

2. **Constantly negative balance on the current account** (especially foreign trade in goods). Without solving this problem, it is impossible to solve the issue of normalizing the balance of payments.

3. **The main factor that allows you to reduce the balance to a positive balance is the financial account.** In recent years, portfolio and other investments have prevailed in it (the share of direct investments is low). This makes the situation with the balance of payments of Ukraine dependent on external factors (mainly borrowing).

Tasks for control and self-control of knowledge

I. Questions for reflection and discussion

1. Using data from the International Monetary Fund website (<https://data.imf.org/regular.aspx?key=61545851>):

- find the countries of the world that are: a) the largest net investors; b) the largest net recipients. Does the international investment position of a country directly depend on its level of development;

- choose 2-3 European countries and compare the structure of their balance of payments with the corresponding indicators of Ukraine. What do the differences you find indicate?

2. What are the differences between the international investment position of a country and its balance of payments? What do the net investment position and balance of payments indicate? Will these indicators always have the same signs?

3. What role do current transfers play in the formation of Ukraine's balance of payments? Which is more important - to have a positive balance of the current account or the financial account in the balance of payments?

4. Which instrument of state regulation of the balance of payments deficit is the most effective: deflationary policy, devaluation of the national currency, or currency restrictions, and why?

II. Find the only correct answer among the suggested ones.

1. The term "balance of payments" was first used by:

- a) T. Mun;
- b) A. Smith;
- c) D. Stewart;
- d) D. Ricardo.

2. The following types of balances of international settlements do not include:

- a) foreign trade balance;
- b) international investment position;
- c) balance of payments.

3. A statistical report reflecting the value and structure of a country's external financial assets and liabilities at a certain point in time is:

- a) balance of payments;
- b) balance of accounts;
- c) international investment position;
- d) foreign trade balance.

4. International investment position data do not include the following category:

- a) direct investment;
- b) reserve assets;
- c) private investment;
- d) portfolio investment.

5. The net position in the international investment position is:

- a) the value of assets reduced by the value of liabilities;
- b) the difference between direct and portfolio investments;
- c) the difference between the amount of liabilities and the amount of assets;
- d) the sum of assets and liabilities.

6. The main components of the balance of payments do not include:

- a) the current account;
- b) the capital account;
- c) the financial account;
- d) the credit account.

7. The credit of the balance of payments does not reflect:

- a) exports of goods and services;

- b) accounts receivable,
- c) an increase in assets;
- d) a decrease in assets.

8. The debit of the balance of payments reflects:

- a) a decrease in assets;
- b) a decrease in liabilities;
- c) exports of services;
- d) an increase in liabilities.

9. The country sold goods to a non-resident for \$200,000. Which of the entries in the balance of payments is correct?

- a) credit: a decrease in liabilities;
- b) debit: an increase in liabilities;
- c) credit: decrease in financial assets; d) debit: increase in financial assets.

III. Solve the case:

Country A has developed the following relations with the outside world over the year:

Indicator	Volume
Export of goods	2 380
Export of services	690
Import of goods	2 690
Import of services	350
Factor income paid to non-residents	87
Funds transferred from abroad	442
Cost of real estate purchased abroad	37
Total amount of investments made abroad during the year	1 320
Funds transferred by residents abroad	256
Cost of real estate purchased by non-residents in country A	65
Factor income received by residents abroad	98
Total amount of investments received from abroad	2 444

Calculate:

- a) the balance of the main items of the balance of payments;
- b) the total balance of payments;
- c) how will the country's official gold and foreign exchange reserves change based on the results of this year?

Chapter 7

Foreign debt in the system of international financial relations

Questions that reveal the content of the topic

7.1.

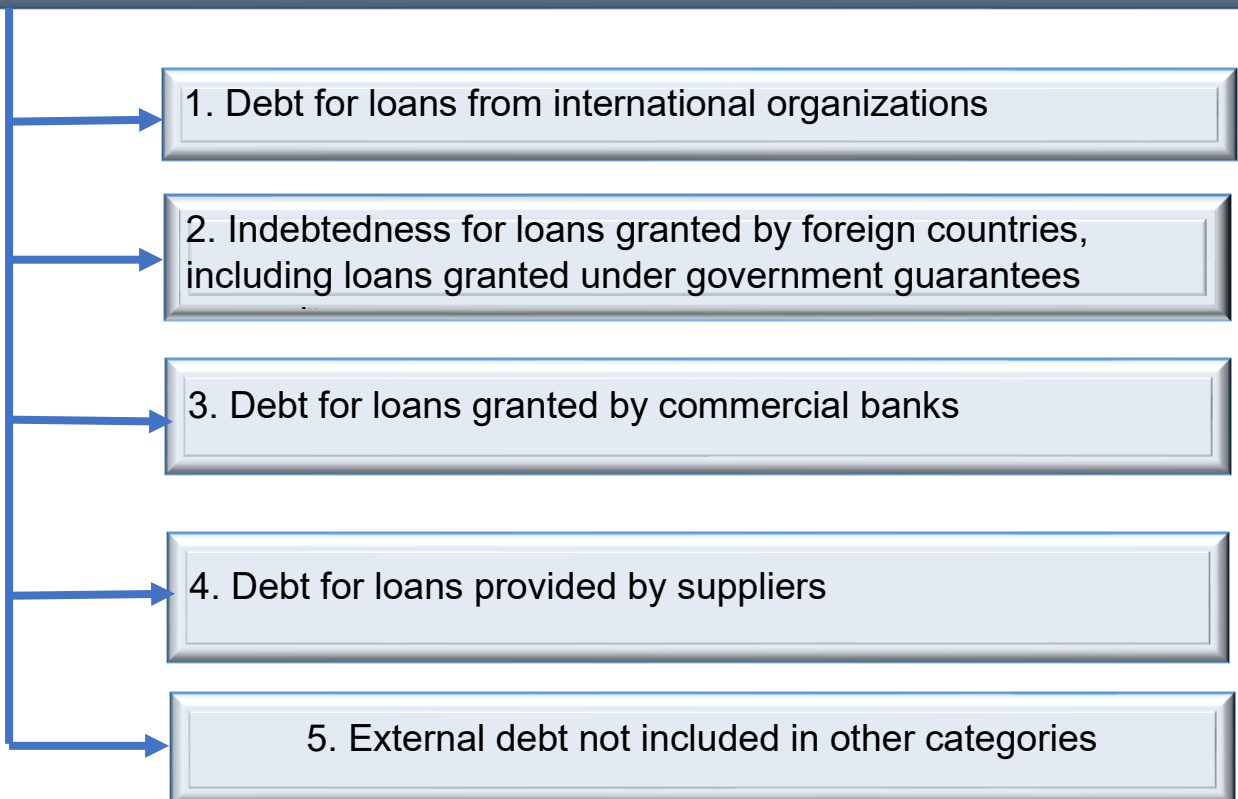
7.2. Indicators of foreign debt

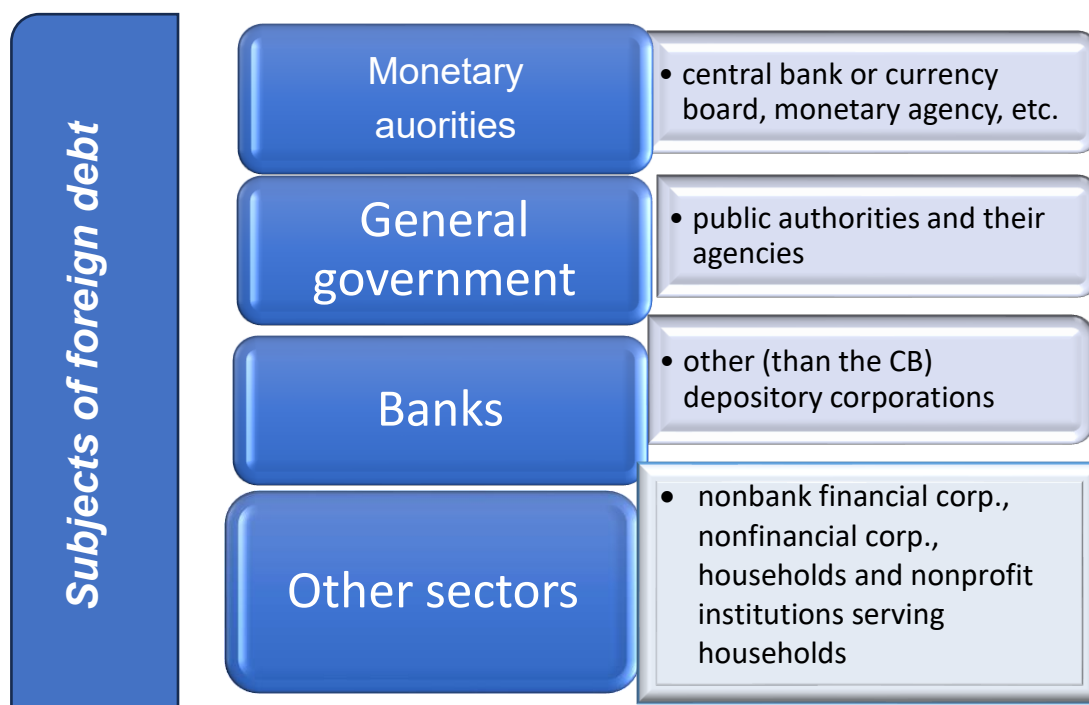
7.3. Settlement of foreign debt and the role of international financial organizations

7.1. The concept of external debt and its structure

External debt is the total monetary obligations of the public and private sectors (residents) that are subject to repayment to external creditors (non-residents) on a certain date, both current and overdue (disbursed and outstanding debt (DOD)).

Classification of external debt by types of creditors





Sovereign debt is external debt issued or guaranteed by the government of a sovereign state



Public External Debt



Publicly Guaranteed External Debt

Public external debt is the debt of the public sector of the economy



The public sector includes the general government, monetary authorities, and those entities in the banking and other sectors that are public corporations



A public corporation (government-owned corporation) is defined as a corporation that is subject to control by government units, with control over a corporation defined as the ability to determine general corporate policy by choosing appropriate directors, if necessary

Publicly guaranteed private sector external debt is defined as the external debt liabilities of the private sector, the servicing of which is contractually guaranteed by a public entity resident in the same economy as the debtor



External debt of the private sector that is not contractually guaranteed by the public sector resident in the same economy is classified as **nonguaranteed private sector external debt**.

International money flows:

Debt creating flows are the international movement of loan capital that leads to an increase or decrease in the external debt of individual countries.

Non-debt creating flows – flows invested in the property of enterprises and these flows do not lead to the creation of external debt of the country

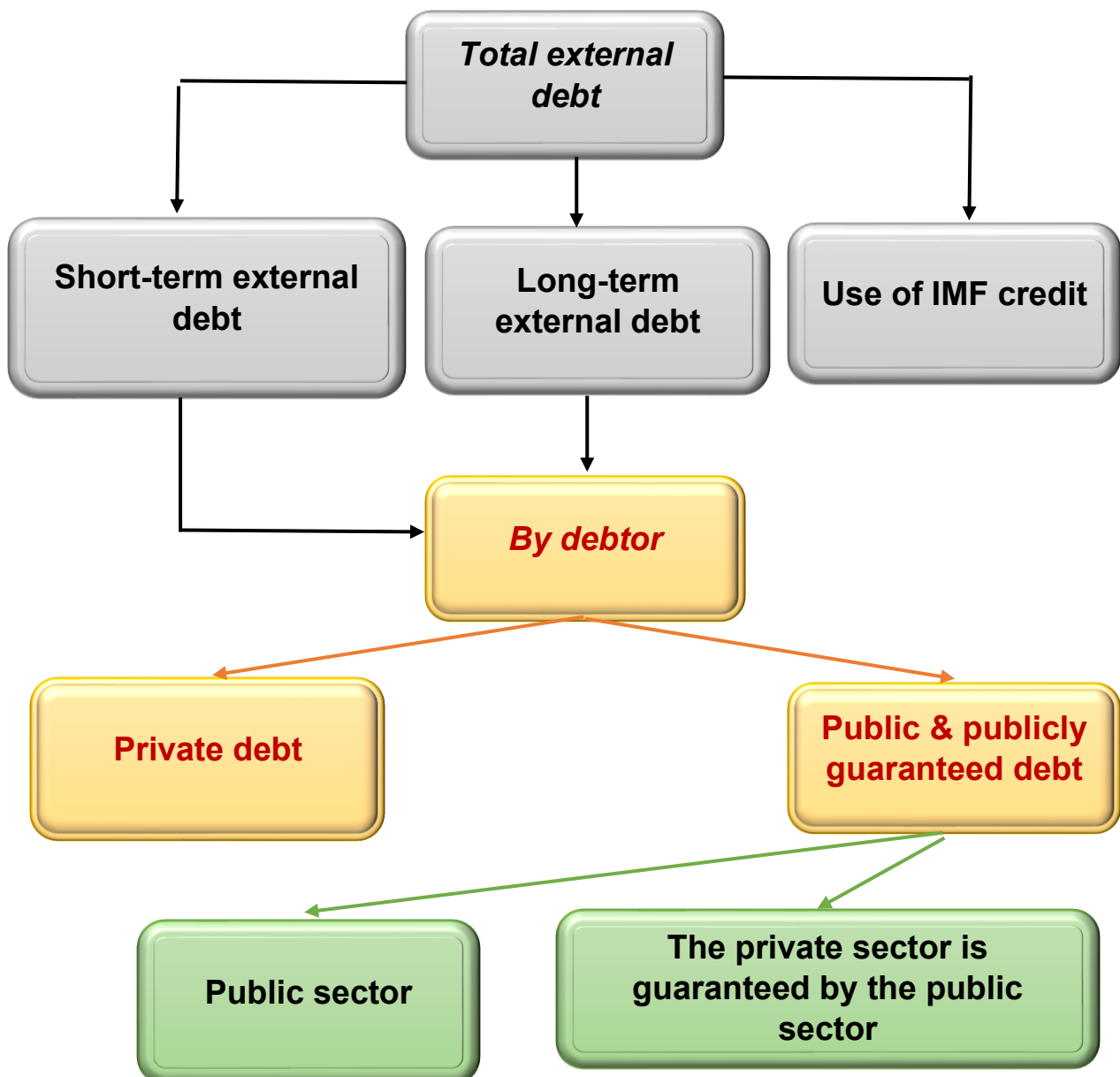
Short-term external debt is defined as debt that has an original maturity of one year or less

Long-term external debt is debt that has an original or extended maturity of more than one year

The World Bank Group annually publishes the International Debt Statistics report, which contains both aggregated information and detailed statistics for each country.

<https://openknowledge.worldbank.org/bitstream/handle/10986/36289/9781464818004.pdf>

External debt and its components (World Bank's Debtor Reporting System (DRS))



International Debt Statistics provides comprehensive stock and flow data for 123 low- and middle-income countries reporting to the World Bank's Debtor Reporting System (DRS), as well as a brief overview of key elements that influence debt and financial flows.

<https://openknowledge.worldbank.org/bitstream/handle/10986/36289/9781464818004.pdf>

7.2. Indicators of foreign debt

The total amount of debt

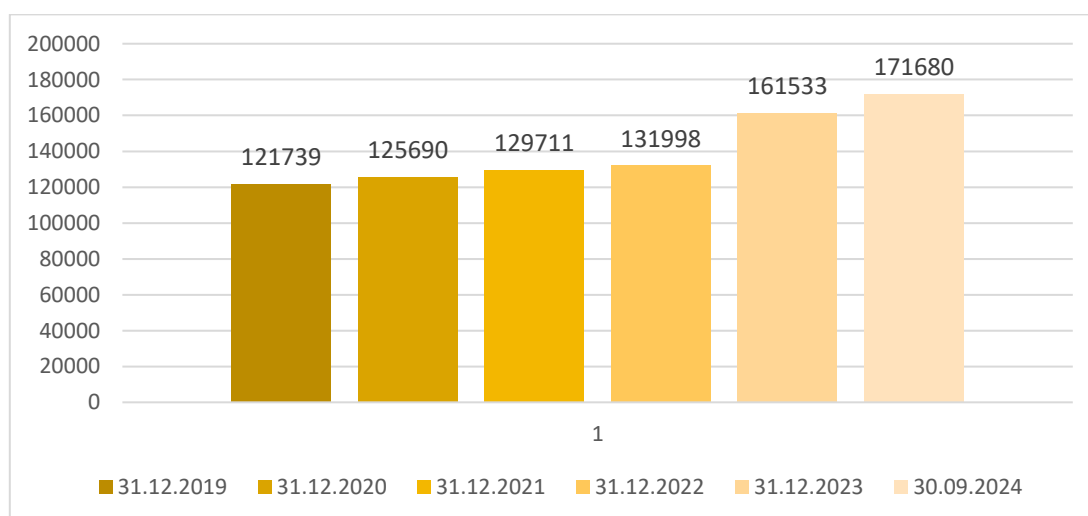
“International Debt Report 2024: Low- and middle-income countries’ debt stock increased by US\$205.9 billion in 2023”

“External debt of low- and middle-income countries (LMICs) touched a record US\$8.8 trillion in 2023, while debt servicing costs for LMICs also reached an all-time high”.

According to IDR 2024, LMICs accumulated significant debt during the pandemic years, driven by the need to scale up health services and provide economic relief amid sharp declines in economic activity and government revenues. This trend persisted in 2023 as countries continued to navigate the post-pandemic recovery and address mounting development challenges.

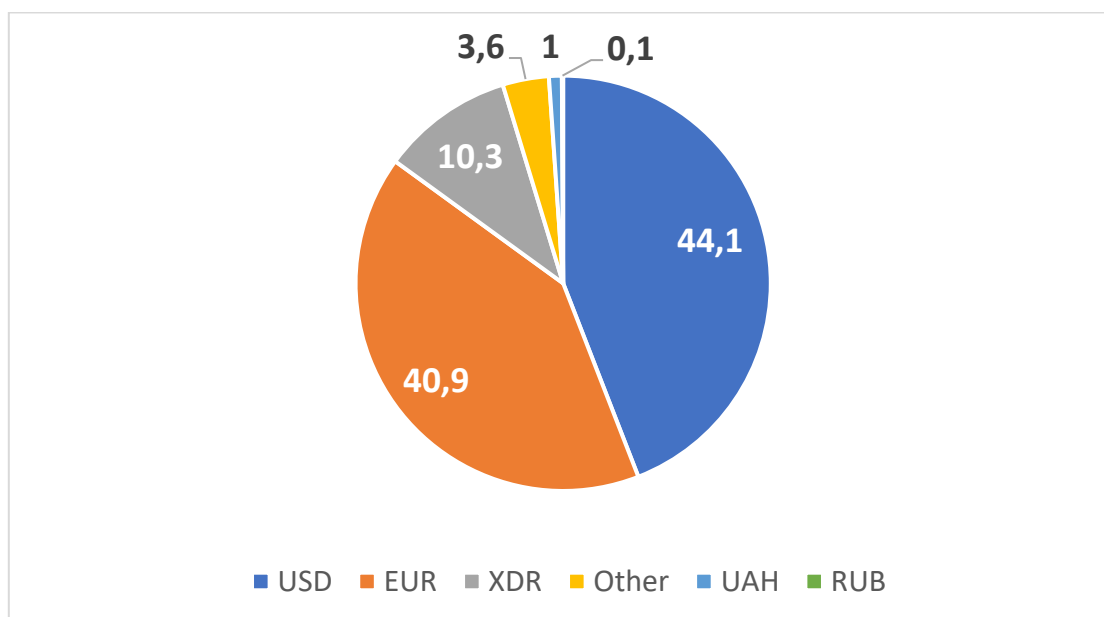
<https://blogs.worldbank.org/en/opendata/international-debt-report-2024--low--and-middle-income-countries>

Ukraine's gross external debt (million USD)



<https://bank.gov.ua/ua/statistic/sector-external/data-sector-external#3>

Currency structure of Ukraine's external debt as of 09.30.2024



<https://bank.gov.ua/ua/statistic/sector-external/data-sector-external#3>

Ukraine's gross external debt (GED) has been steadily growing over the past 20 years. The only exceptions were 2014-2016, when it decreased slightly. The growth accelerated significantly during.

Ukraine's external debt is almost 95% denominated in foreign currency. The largest share is held by the US dollar (44.1%), the euro (40.97%) and the SDR (10.3%). Such a structure significantly increases the riskiness of international debt, since its repayment requires finding sources of foreign currency.

The main sources of foreign debt growth:

1) current account deficit that cannot be financed by capital inflows that do not create external debt;

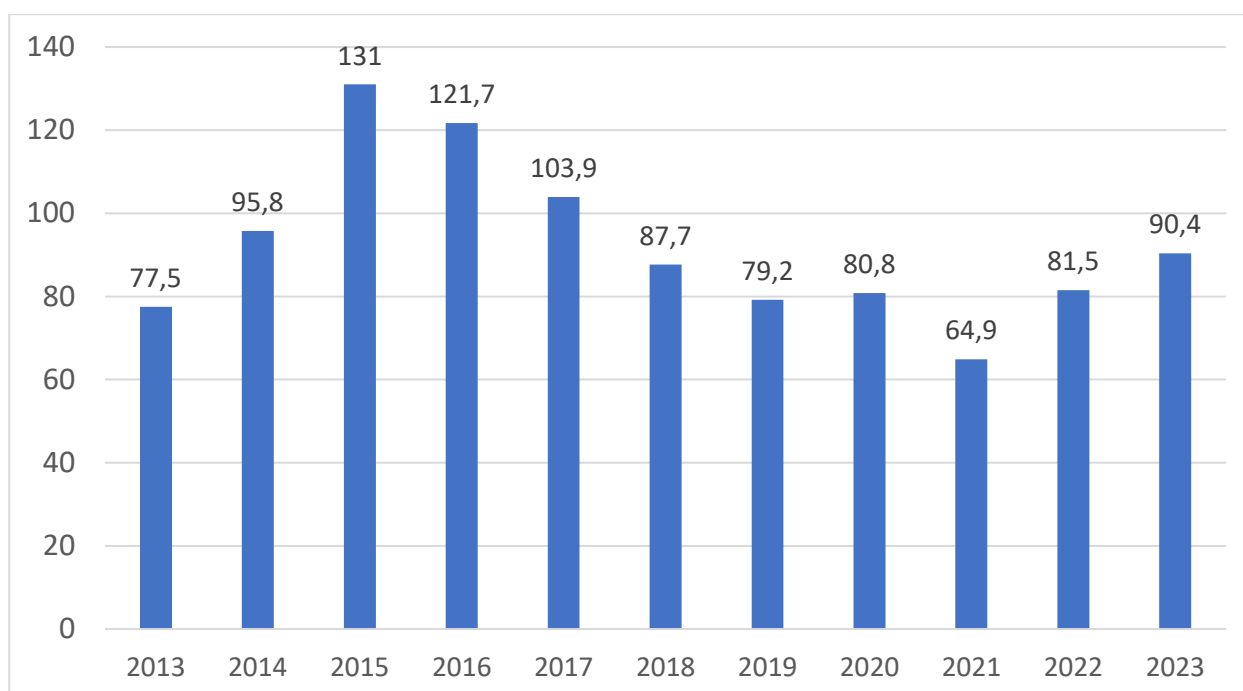
2) loans to increase official state reserves (a combination of gross foreign assets of Central Banks and liquid currency reserves of the government, which can be used to make external payments and at the same time act as a basis for ensuring the currency stability of the state);

3) the flight of private capital abroad (which is reflected in the "net omissions and errors" account).

Relative debt ratios

A) The ratio of public debt to the country's GDP

Public debt of Ukraine as a percentage of GDP



<https://index.minfin.com.ua/ua/finance/debtgov/>

There are no strict standards for the safe level of the ratio of external debt to the country's GDP. However, most agree that such a safety margin is 60%. It is believed that for developed countries this figure may be higher, and for developing countries - lower. Ukraine was close to this figure on the eve of a full-scale war. However, with the beginning of the war, external borrowings have increased significantly and may pose a threat to the country's economic stability.

B) Ratio of public debt to the state budget

The situation is considered not threatening when the state debt does not exceed the amount of state budget revenues. For Ukraine, this indicator is extremely negative: the state debt is more than twice as high as the state budget revenues. And this indicator continues to grow.

C) Expenses for serving the state god

Traditionally, the situation is considered stable when the **cost of servicing the public debt does not exceed 5% of the state budget**. For Ukraine, achieving this normative value is not yet realistic, since the actual figure is 2-3 times higher.

There is no absolute rule for determining what level of public debt is too high. A country's external debt is considered sustainable if **the country is able to make debt payments without resorting to rollovers, negotiating debt relief, or accumulating arrears**.

Excessive debt can create problems, the highest form of which is **default**.

Default is a state in credit relations that occurs when the borrower does not pay his debts or payments, violates payment obligations to the lender, is unable to make timely payments on debt obligations or fulfill other terms of the loan agreement.



Sovereign default

is the inability or refusal of the government of a sovereign state to pay its debt in full.

The consequences of a complete default are:

- world isolation of the country;
- seizure of foreign assets of the country;
- the impossibility of carrying out additional borrowings from the world market of loan capital;
- imposition of quotas and restrictions on trade with this country or on investment in this country;
- refusal to grant loans, etc.

Examples of sovereign defaults

1987	Republic of Korea
1994	Mexico
1998	Russian Federation
2001	Argentina
2003	Uruguay
2014	Argentina
2015	Greece

7.3. Settlement of foreign debt and the role of international financial organizations

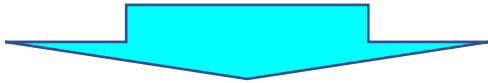
Варіанти управління борговим тягарем для розв'язання проблеми заборгованості

Debt management options to solve the debt problem

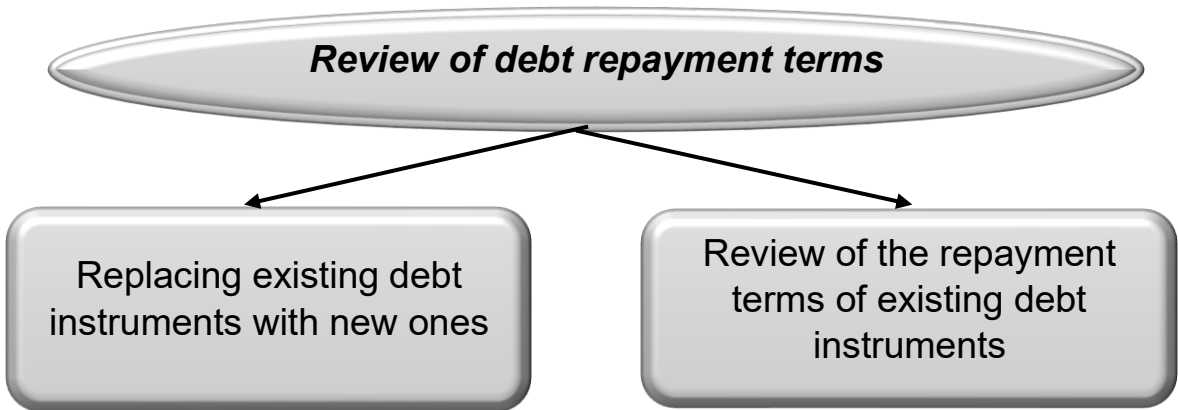
Partial debt relief, which may be accompanied by a partial loss of political autonomy and access to debt markets

Debt Reorganization - defined as a bilateral agreement involving a creditor and a debtor that changes the terms set for debt servicing

Types of Debt Reorganization



	<i>Debt rescheduling</i>
	<i>Debt forgiveness</i>
	<i>Debt conversion</i>
	<i>Debt buybacks</i>



For example, the public sector may convert various export credit obligations into a single loan. Refinancing may involve exchanging one type of debt instrument, such as a loan, for another, such as a bond.

Debt forgiveness

It is defined as the voluntary cancellation of all or part of a debt obligation within a contractual arrangement between a creditor in one economy and a debtor in another economy.

Debt forgiveness does not arise from the cancellation of future interest payments

the debt reorganization effectively changes the contractual rate of interest it is classified as debt restructuring

In 2015, Ukraine and the committee of creditors headed by the Franklin Templeton Foundation agreed to reduce our country's external public debt by \$3.8 billion. Payment of another \$15.5 billion was postponed to 2019–2027.

The largest debt forgiven by external creditors (100 billion euros!) was Greece's debt to European banks (2011).

In 2014, Russia forgave Cuba a debt in the amount of \$32 billion.

<https://focus.ua/economics/336606>

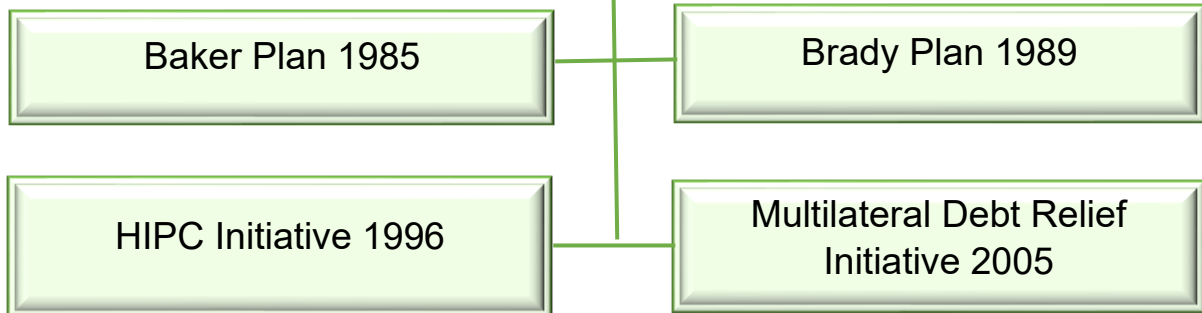
Debt conversion

This is the conversion of external debt into long-term foreign investment by providing the debtor country with property in exchange for its external debt. Creditors have the opportunity to exchange debt obligations for blocks of shares owned by the state or other objects of its property (usually at a significant discount)

Debt buyback is the repurchase by a debtor of its own debt, either at a discount price or at par value. The main reasons for Debt buybacks:

- to reduce one's debt service;
- to reduce one's exposure to a given currency;
- to develop one's domestic bond market or increase its liquidity, by swapping external debt for domestic debt.

The most famous international programs to reduce the pressure of external debts



James Baker
US Secretary of the Treasury,
Secretary of State (1989- 1992)

The 15 largest middle-income debtor countries (Baker 15) must undertake structural reforms to be eligible for debt relief and enhanced World Bank financial support plus long-term commercial bank loans. A typical example is Mexico, which received \$12.5 billion in new loans in 1986-87 and a 7-year debt moratorium, which was then repaid over 20 years.

The main idea of the plan is to convert bank loans, mainly from Latin American countries, into new bonds guaranteed by the US, IMF and World Bank at a discount of 30-50%.

Brady bonds (totaling over 160 billion USD) were issued by Argentina, Brazil, Bulgaria, Costa Rica, Dominican Republic, Ecuador, Ivory Coast, Jordan, Nigeria, Panama, Peru, Philippines, Poland, Russia, Uruguay, Venezuela and Vietnam



Nicholas Brady US Secretary of the Treasury under Presidents Reagan and George Bush

The Brady Plan was very successful in several important ways

First, it allowed the participating countries to agree on a significant reduction in the overall level of indebtedness and debt.

Second, it has succeeded in diversifying sovereign risk away from the portfolios of commercial banks in much of the financial and investment community.

Third, it urged many developing countries to adopt and implement ambitious economic reform programs.

Fourth, the Brady Plan allowed many developing countries to regain access to international capital markets for their financing needs

Heavily indebted poor countries (HIPC) Initiative (1996)

- **Started by** IMF & World Bank in 1996
- **39 countries** (33 of which are in Sub-Saharan Africa) as being potentially eligible to receive debt relief
- **Debt relief** is linked to progress implementing the country's Poverty Reduction Strategy (PRS)
- **Funding** (US\$76 billion): 45% IMF, World Bank & 55% creditor countries

To be considered for HIPC Initiative assistance, a country must fulfill the following four conditions:

- be eligible to borrow from the World Bank's International Development Agency

- face an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms

- have IMF (World Bank) supported programs

- have developed a Poverty Reduction Strategy Paper (PRSP).

Results of the HIPC Initiative:

- 35 countries received full debt relief from the IMF and other creditors;
- social spending increased in participating countries;
- external debt service costs decreased from 4% to 2% of GDP;
- public debt management improved

Multilateral Debt Relief Initiative, MDRI

- Launched by the G7 countries in 2005;
- provides for the full cancellation of debts on loans from the IMF, the World Bank and the African Development Bank and the provision of non-repayable financial assistance from special IMF trust funds (to date, the initiative covers 22 countries)

**There are two International Creditors Clubs
in the world:**



Paris Club



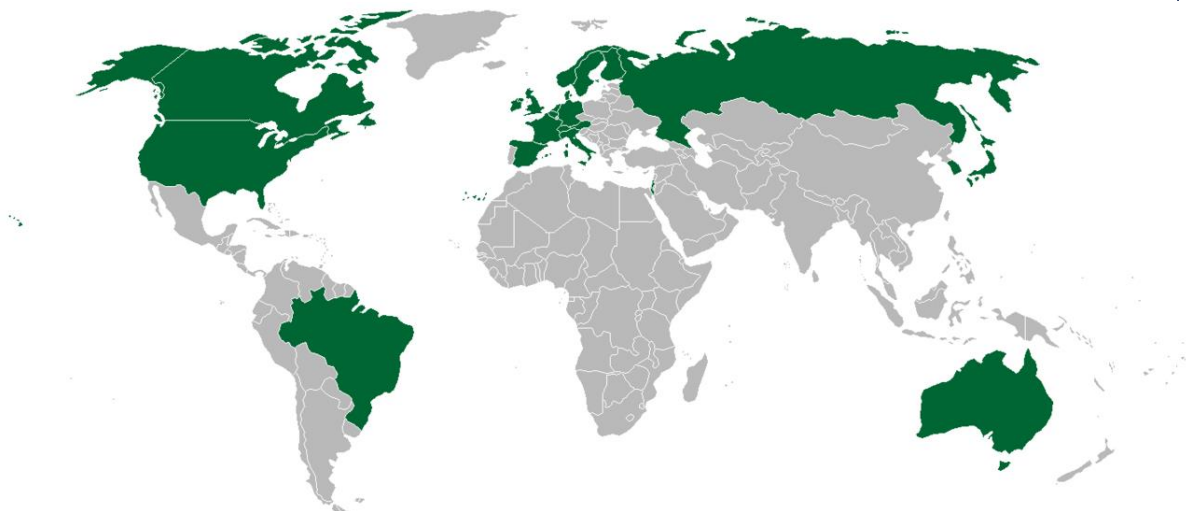
London Club



Paris Club, founded in 1956
Secrétariat du Club de Paris
Direction générale du Trésor



The headquarters are located in the Treasury of the French Ministry of Economy and Finance. <http://www.clubdeparis.org>



Permanent members of the Paris Club (22 states):

Australia, Austria, Belgium, Brazil, United Kingdom, Germany, United States, Denmark, Israel, Ireland, Iceland, Spain, Italy, Canada, Netherlands, Norway, Russia, South Korea, Finland, France, Switzerland, Sweden, Japan

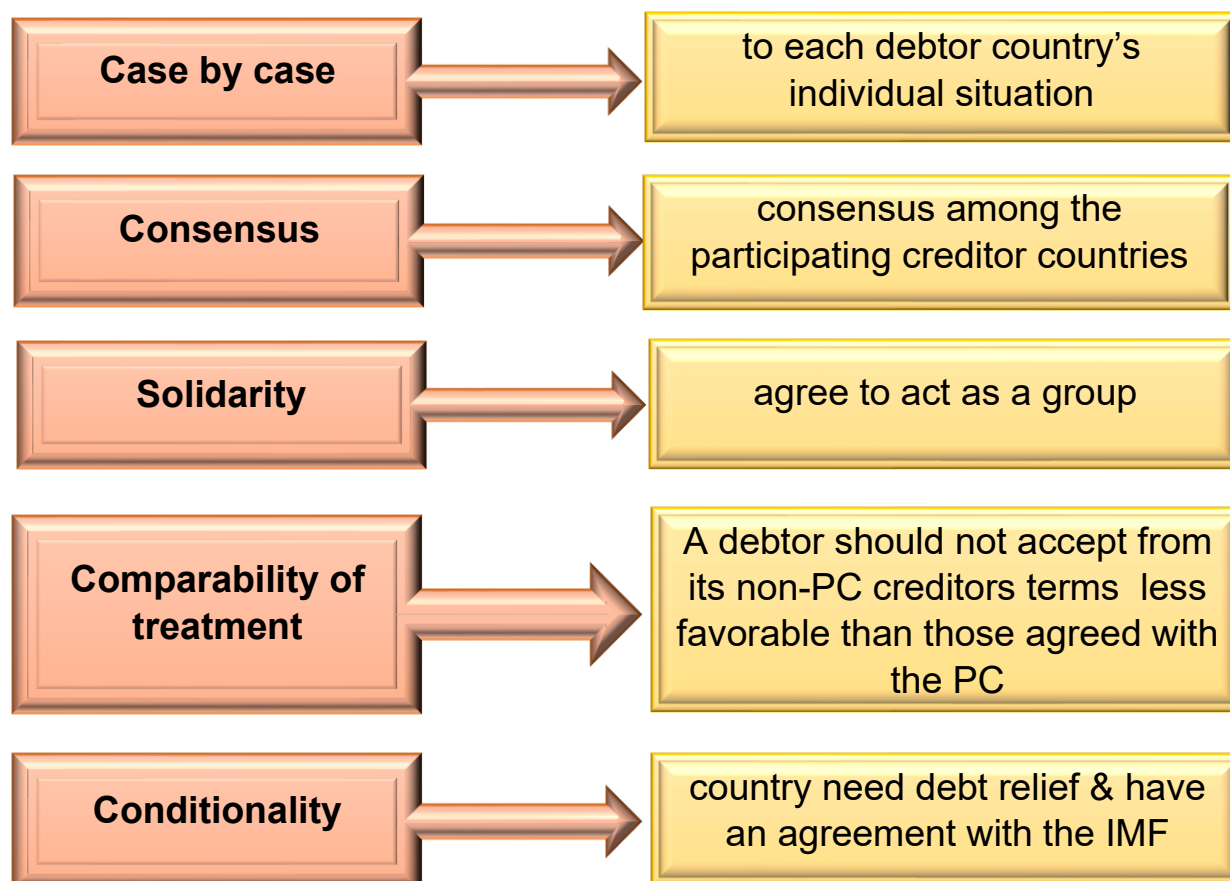
Associate members (13 countries) can actively participate as creditors in some Paris Club agreements. With the participation of representatives of the negotiating parties, the invited creditors agree to adhere to the Paris Club principles.

Observers (IMF, OECD, World Bank, etc.) may be present at the negotiations, but do not participate in them and do not sign the agreement that formalizes the outcome of the negotiations.

The club brings together governments of creditor countries. The main members of the Paris Club are developed countries - members of the OECD. The chairman of the Paris Club is traditionally a high-ranking official of the French Ministry of Finance, and its secretariat is located in the French Treasury. One of the main conditions for the Paris Club of creditors to make a decision on debt restructuring is the presence of an appropriate program that has the support of the International Monetary Fund and demonstrates the need to reduce the debt burden.

The Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries.

Five key principles by which the Paris Club operates



General results of the work of the Paris Club

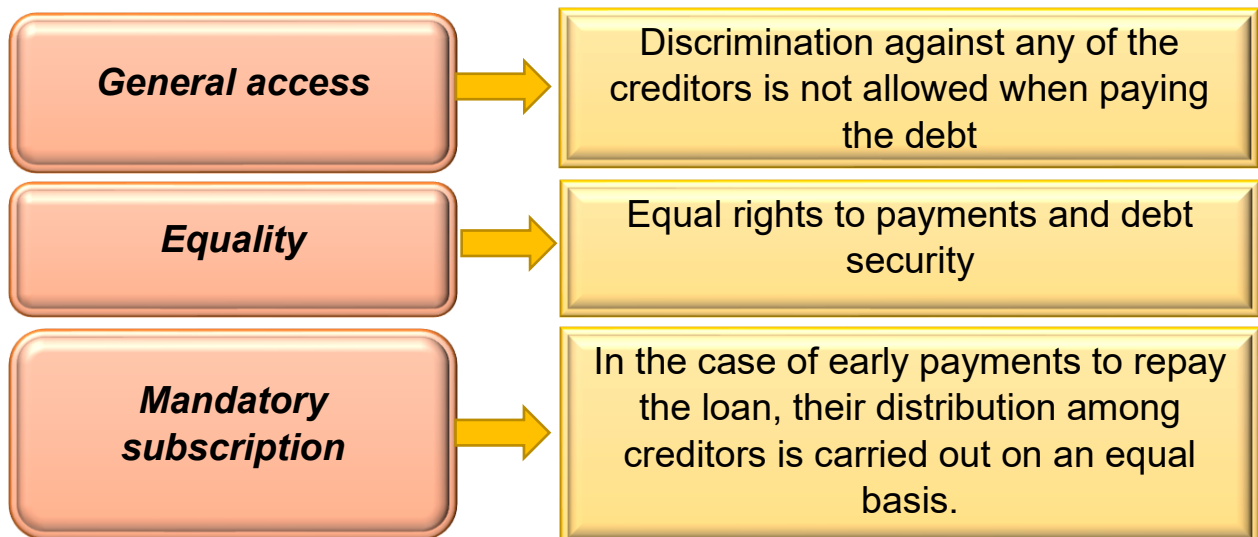
Total number of procedures	422
Total number of countries that signed the Paris Club agreement	88
Total amount of debt processed	USD 553 billion
Number of countries that used the "Classical Conditions"	59
Number of countries that used the "Houston Conditions"	21
Number of countries that used the "Naples Conditions"	36
Number of countries that used the "Cologne Conditions"	33

<http://www.clubdeparis.org/sections/donnees-chiffrees/chiffres-cles>

The London Club (founded in 1970) is an informal international organization that brings together banks that have made loans to governments of individual countries or to individual legal entities of these countries if they experience difficulties in repaying them.

The London Club is neither a London-based organization (most meetings are held in New York) nor a well-organized club (it has no official office and no permanent staff).

Principles of the London Club



Stages of debt restructuring by the London Club

1. The debtor announces a moratorium on payments and draws up an information memorandum.
2. Creditors form a Banking Advisory Committee.
3. Selection of external financial advisers, lawyers and legal consultants.
4. Meetings to study the state of the debtor's indebtedness
5. Coordination of basic conditions.
6. Documentation of the debt revision agreement.
7. Signing of legal documents by all parties

Tasks for control and self-control of knowledge

I. Questions for reflection and discussion

1. In what cases does the state assume guarantees for the repayment of external debts by private entities? Give the following examples from the activities of Ukrainian governments. In your opinion, are there any threats of corruption here?

2. Can private external debt pose threats to the country? In what ways can its size affect the country's economic situation?

3. Why can't there be universal criteria for a safe level of external debt for all countries? What determines a country's resilience to the threats of excessive debt?

4. Why do international financial organizations, creditor countries, and banks that provided international loans often review the terms of debt repayment in favor of the debtor, and sometimes even forgive the debt? Is this purely charitable activity or is there a certain economic calculation in this?

5. Analyze Ukraine's practice of restructuring its external debts? What are the pros and cons of the restructuring programs that are in effect today?

II. Find the only correct answer among the suggested ones.

1. External debt obligations of the private sector, the servicing of which is guaranteed by a state body of the same country as the debtor, are:

- a) external public debt;
- b) state-guaranteed external debt;
- c) private external debt;
- d) there is no correct answer.

2. The main sources of external debt growth are:

- a) current account deficit;
- b) borrowing to increase official state reserves;
- c) private capital flight abroad;
- d) all of the above are correct.

3. The normative value of the ratio of public debt to the state budget is:

- a) 40-60%; b) 100%; c) 150%; d) 200%.

4. The normative value of the ratio of public debt servicing expenses to total state budget expenditures is:

- a) 3.5%; b) 5%; c) 7%; d) 12%.

5. Technical default is:

- a) violation by the debtor of the established terms of debt payment due to technical reasons;
- b) recognition by the debtor of his bankruptcy;
- c) failure by the borrower to fulfill additional terms of the loan agreement;
- d) refusal by the debtor to fulfill his obligations at all.

6. Sovereign default is:

- a) inability or refusal of the government of an independent state to pay its debt in full;
- b) loss of sovereignty by the state due to refusal to repay debts;
- c) inability of an economic entity independent of the state to fulfill its credit obligations;
- d) recognition by a credit institution of its bankruptcy.

7. Types of external debt reorganization do not include:

- a) debt forgiveness;
- b) change in the terms of debt repayment;
- c) refusal of the debtor to fulfill its obligations;
- d) debt redemption.

8. The Paris Club does not consider:

- a) government loans;
- b) commercial bank loans;
- c) export credits;
- d) official development assistance.

9. The key principles of the Paris Club include:

- a) an individual approach to each debtor;
- b) consensus between creditor countries;
- c) the debtor country must have an agreement with the IMF;
- d) all of the above are correct.

Financial and monetary policy of the European monetary union

Questions that reveal the content of the topic

8.1. Monetary and financial integration in Europe: historical, economic and institutional foundations

8.2. Criteria of monetary and financial integration and convergence

8.3. Institutional mechanisms of monetary policy of the European Union

8.1. Monetary and financial integration in Europe: historical, economic and institutional foundations

In the middle of the 19th century - the first half of the 20th century in Europe there were two classical types of currency unions

1. Currency unions that arose as a result of the political unification of individual small sovereign states, cantons, provinces, principalities, and free Hanseatic cities into a national state and delegation to it of powers to conduct a unified monetary policy.

Features:

- complete rejection of regional monetary sovereignty (the restoration of the latter means the end of political unification and the disintegration of national statehood);
- delegation of sovereign powers of the institution that arose as a result of political unification;
- centralized decision-making (and not by individual members of the union) on leaving or joining the currency union.

Examples

Swiss Confederation (1861 – 1926);
Kingdom of Italy (1861 – 1926)
German Reich (1871 - 1909)

2. Currency unions that arose as a result of the centralization of the monetary policy of independent national states

Features:

- relinquishment of monetary independence of a voluntary nature (not fixed in interstate acts);
- monetary sovereignty could be restored at any time at the request of a member of the monetary union;
- each member of the union had the right to enter or leave the monetary union, as well as to violate the obligations established by the agreement.

Examples

German-Austrian Monetary Union (1857 – 1867);
Latin Coin Union (1865 - 1927);
Scandinavian Monetary Union (1872 – 1931).

The main stages of European currency integration

1st stage (1947-1950)

Initially, currency agreements between the countries of Western Europe were concluded mainly on a bilateral basis. On the basis of these agreements, the following were carried out::

- mutual regulation of payment balances;
 - non-cash payments;
- mandatory settlement of mutual claims and obligations;
 - preferential lending.

2nd stage (1950-1958)

It begins with the signing of the European Payments Union by Belgium, Germany, Italy, Luxembourg, the Netherlands and France.

The European Payments Union aimed to eliminate currency restrictions in multilateral trade between the member states.

In 1958, 14 Western European states declared their currencies freely convertible, thus achieving the goal of the European Payments Union. It was replaced by the European Monetary Agreement in 1955, which came into effect in 1958.

3rd stage (1958-1970)

The European Economic Community, established in 1957 by the EEC (Treaty of Rome), established in 1958 a **Monetary Committee** whose functions were to provide recommendations and prepare meetings of the Council of Ministers of Economy and Finance of the EEC, as well as to facilitate the coordination and analysis of the monetary policies of the member states.

In 1964, the Committee of Governors of Central Banks was established

4th stage (1970-1987)

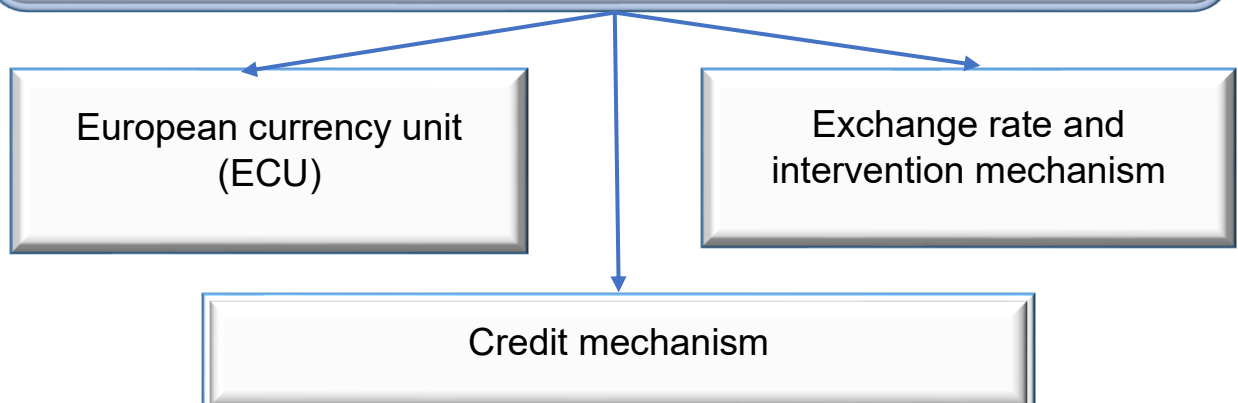
Main events:

- - Development of the "Werner Plan" (1970), which envisaged the creation of the **European Economic and Monetary Union** in the next fifteen years (it could not be implemented due to significant differences in the views of the leading European countries regarding the goals of the monetary strategy and the unwillingness of the countries to give up national sovereignty)

- - The introduction of the "**currency snake**", i.e. a mechanism that limited the fluctuations of the market rates of the currencies of the Community countries among themselves to 2.25%. When the change in the rate of a given currency against the currencies of other member states exceeded the permissible limit, the central banks had to intervene in the foreign exchange markets to return the rate to its previous position

- - The creation in 1973 of the **European Monetary Cooperation Fund** (EMCF), the purpose of which was to provide national central banks with loans for interventions, as well as to coordinate the policies pursued by the central banks of the member states

- - The establishment of the European Monetary System, which has been in operation since 1979. It was aimed at unifying the currencies of the member states of the Common Market (EEC) into a common currency. Key elements of the **European Monetary System**:



ECU was only a unit of account, it had no material form (banknotes, coins). The ECU was a basket consisting of the currencies of the member states of the Community.

The exchange rate and intervention mechanism was applied by the country's central bank if the exchange rate of its currency deviated by more than 2.25% from the established exchange rates against other currencies of the EEA member states (for weak currencies, the deviation limit was 6%).

If there was not enough money for such intervention, these banks used mutual credit assistance. The European Monetary Cooperation Fund performed the same function as during the operation of the "currency snake", that is, it provided loans to the central banks of the countries belonging to the EMU.

5th stage (1987-1998)

This stage began with the signing in 1986 of the Single European Act (entered into force on July 1, 1987), which reformed the Treaty of Rome in two main directions:

- the formation of a broad institutional and organizational structure;
- the completion of the liberalization of capital movements and the creation of a common market

On November 1, 1993, the ***Maastricht Treaty*** came into force, which provided for the creation of the ***European Economic and Monetary Union*** from January 1, 1999, the central element of which is the ***European Monetary Union*** (EMU).

In 1994, the European Monetary Institute was created, which became the predecessor of the **European Central Bank**.

In December 1995, in Madrid, at a conference of the European Council of Heads of State and Government, the name of the new European currency - **the euro** - was finally approved and a scenario for its introduction was developed.

6th stage (1999 – to current)

The **European Monetary Union** came into operation on January 1, 1999.

As a result, the exchange rates of the EMU member countries are fixed to each other and the conversion rates of national currencies into the single European currency - **the euro** - are established.

Characteristic features of this stage:

- the development and implementation of monetary policy is transferred to the competence of the **European System of Central Banks** (ESCB);
- the ESCB consists of the European Central Bank and the national banks of the EMU countries;
- from January 1, 1999, a common European currency, the euro, was introduced **into non-cash circulation**;
- with the introduction of the **cash euro** from January 1, 2002, 12 sovereign EU states finally abandoned their national currencies in favor of the single European currency

The Eurozone is a monetary union (EMU) operating within the European Union. It currently unites 20 European Union countries, the official currency of which is the euro.

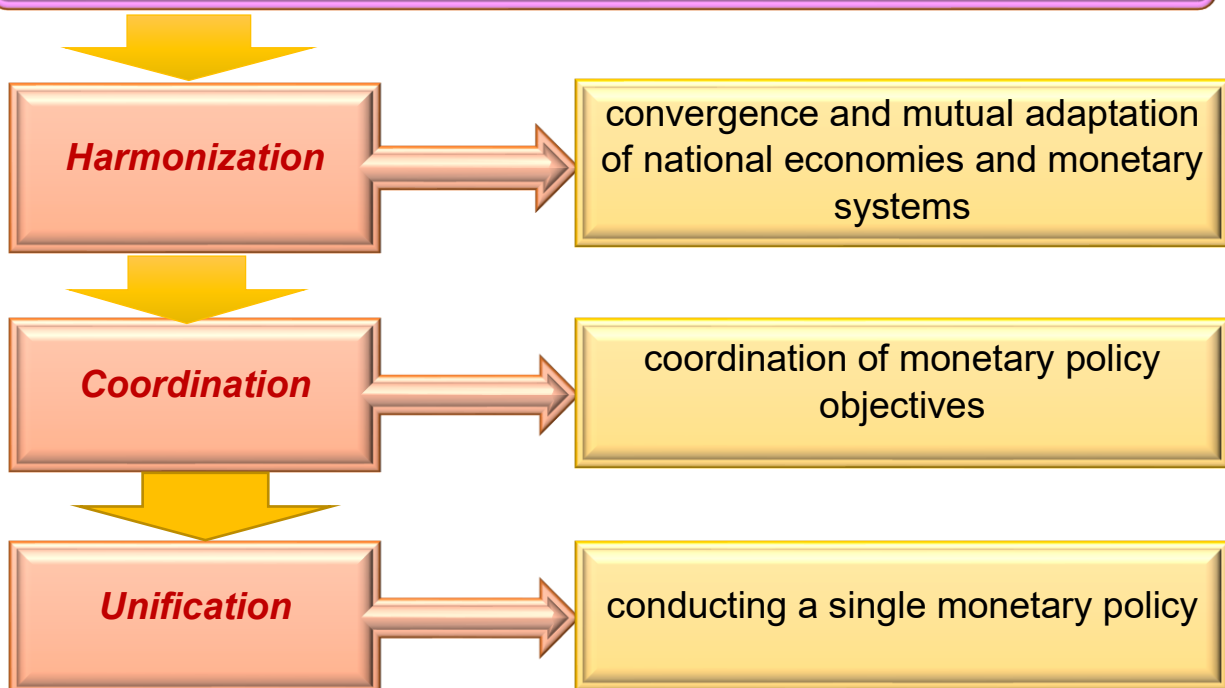
European Union countries that do not use the euro

	Poland		Rumania
	Hungary		Czech Republic
	Denmark		Sweden
	Bulgaria		

8.2. Criteria of monetary and financial integration and convergence

Currency integration is a set of currency and credit regulation methods aimed at a gradual transition to a higher degree of integration.

Stages of development of currency relations



The transition to each subsequent stage of integration is accompanied by the formation of a supranational mechanism for currency regulation, the creation of an institutional infrastructure - **interstate monetary and credit and financial organizations.**

The consequence of monetary integration is the creation of a monetary union - an agreement between two or more sovereign countries that have a common currency or mutually decide to peg their exchange rates to the same base currency in order to keep the value of their money the same.

Variants of a monetary union:

Currency exchange rate union – an agreement between participating countries to permanently fix their exchange rates in the absence of exchange rate fluctuations

Full financial integration – the elimination of any obstacles to the movement of financial capital between members of the monetary union

The introduction of a single currency is a logical consequence of monetary integration

The main features of full financial integration are:

capital mobility - the ability for national investors to place their assets abroad and the absence of any restrictions that would impede the movement of capital

interchangeability of financial assets - the ability for investors to exchange national assets for foreign ones and vice versa; full interchangeability leads to equalization of returns on financial assets

The main prerequisite for joining the EMU is that countries meet certain stabilization requirements.

These requirements correspond to the philosophy of the ***Maastricht Treaty*** and involve compliance with the so-called ***macroeconomic criteria for monetary and financial convergence***

1) ***achieving an appropriate level of price stability, which implies price stability and average inflation rates.*** The inflation rate in a potential EMU member country should not exceed by more than 1.5% the average inflation rate in the three EU countries with the lowest inflation rates

2) ***prevention of excessive budget deficit, which involves establishing its maximum allowable size.*** The ratio of the country's budget deficit should not exceed 3% of GDP

3) ***ensuring long-term financial stability,*** which is regulated by limiting the level of public debt.
The ratio of public debt to GDP should not exceed 60%

4) ***unification of long-term interest rates.*** The long-term nominal interest rate (for example, on long-term government bonds) should not exceed by more than 2% the average rate of the three countries where it is the lowest;

5) ***compliance for at least the last two years with the range of exchange rate fluctuations*** within the limits set by the Exchange Rate Mechanism without currency devaluation against the currencies of other members.
The deviation of the exchange rate of the national currency should not exceed the limit values set by the Exchange Rate Mechanism of the EU member states (the aforementioned range is 15%).

8.3. Institutional mechanisms of European monetary policy union

Monetary policy is one of the types of stabilization or countercyclical policy (along with fiscal, foreign trade, structural currency and others) aimed at smoothing economic fluctuations.

The goal of the state's stabilization monetary policy is to ensure:

full employment of resources

price level stability

balance of payments equilibrium

The functions of conducting monetary policy within the eurozone are entrusted to the **European System of Central Banks** (Eurosystem), which includes:

European Central Bank

National central banks of the countries that have introduced the euro into circulation

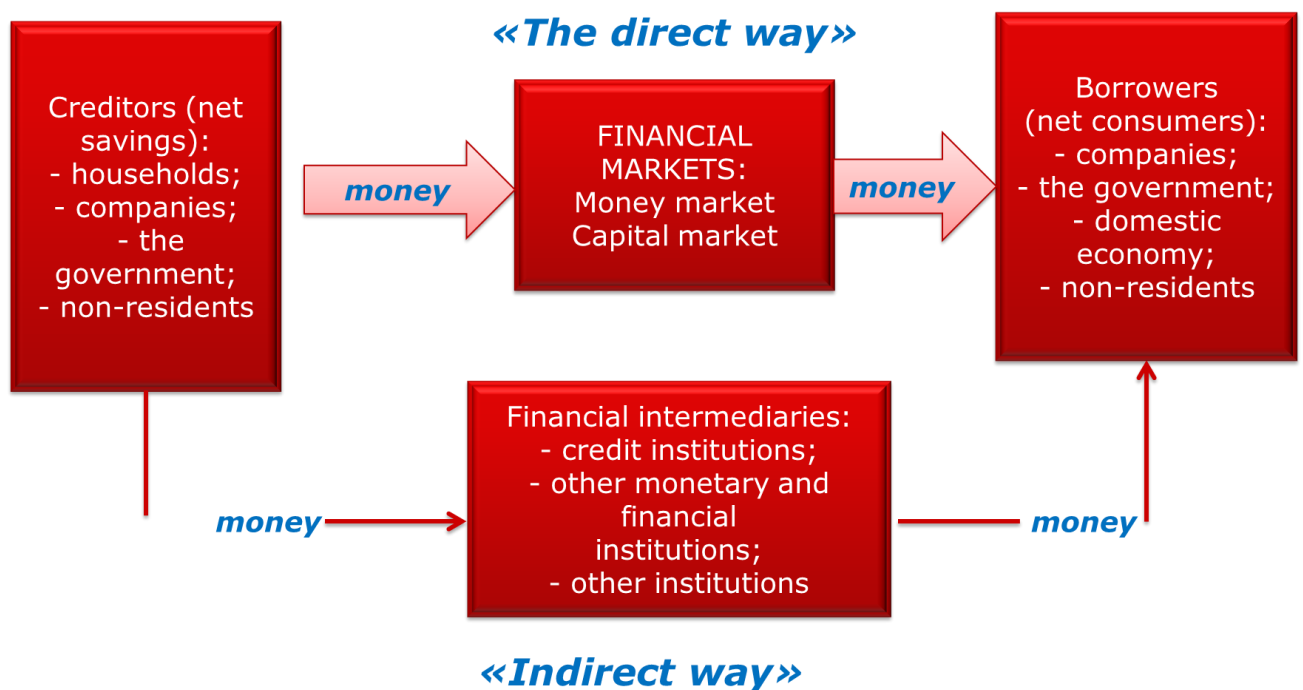
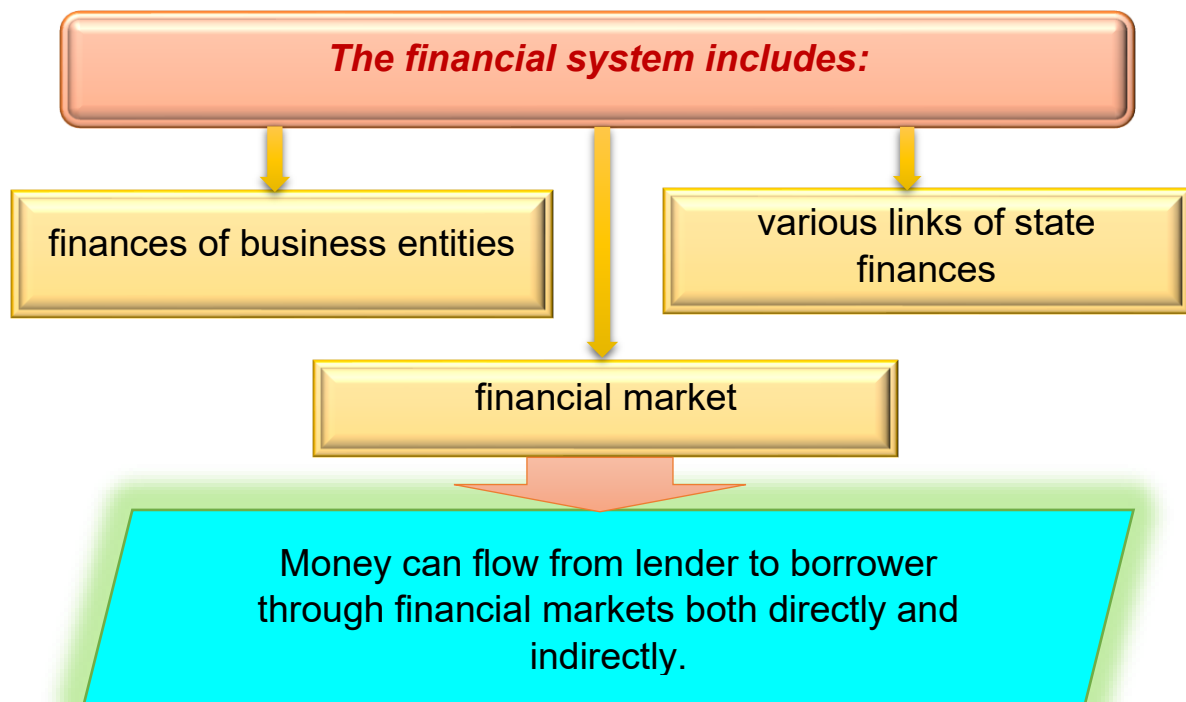
The Eurosystem has the following main tasks:

- formulating and implementing monetary policy in the Eurozone;
- conducting foreign exchange operations;
- ensuring and managing sufficient foreign exchange reserves of the Member States;
- promoting the smooth functioning of payment systems

Governing bodies of the European Central Bank

Name	Composition	Functions
Board of Governors	the highest governing body, which consists of members of the Executive Board and the presidents of the central banks of the EMU countries	<ul style="list-style-type: none"> * taking decisions necessary to ensure the performance of the tasks assigned to the Eurosystem; * formulating monetary policy in the Eurozone. Formulating monetary policy for the Eurozone includes taking decisions concerning <ul style="list-style-type: none"> - intermediate monetary policy objectives, - key interest rates, - creation of reserves in the Eurosystem
Executive Board	consists of a president, vice president and 4 other members	<ul style="list-style-type: none"> * implements monetary policy in accordance with the directives and decisions of the Governing Council, for which purpose it shall give the necessary instructions to the NCBs in the euro area; * is responsible for the current affairs of the ECB; * assumes the powers delegated to it by the Governing Council
Extended Executive Board	created to regulate relations with EU members that, for various reasons, do not participate in EMU; it includes: the President and Vice-President of the ECB, as well as the presidents of all central banks of the EU countries	<ul style="list-style-type: none"> * coordinating monetary policy (of the Member States which have not yet adopted the euro) with a view to ensuring price stability; * collecting statistical information; * carrying out preparatory work for the establishment of fixed exchange rates for the currencies of the Member States which have not adopted the euro

8.4. Financial system and financial policy of the EU



Monetary aggregates of the Eurosystem

M1 – amount of currency in circulation and overnight deposits

M2 – this is the amount of M1, deposits with an agreed maturity of up to two years and deposits redeemable at notice of up to three months

M3 – this is the sum of M2, repo transactions, money market fund shares/units, and debt securities with maturities of up to two years

	Obligation	M1	M2	M3
1	Currency in circulation	X	X	X
2	Overnight deposits	X	X	X
3	Time deposits with a repayment term of up to two years		X	X
4	Refundable deposits with less than 3 months' notice		X	X
5	Repo agreements			X
6	Shares/Share in money market funds			X
7	Debt securities with a maturity of up to two years			X

https://www.ecb.europa.eu/stats/money_credit_banking/monetary_aggregates/html/index.en.html

Tasks for control and self-control of knowledge

I. Questions for reflection and discussion

1. Why and at what stage of historical development does the need for the creation of currency unions arise? What benefits do participants in such unions receive and what possible threats do they face?

2. Some European Union countries do not introduce the euro into circulation. Why is this happening? Because of their non-compliance with the criteria set for Eurozone participants, or because of a conscious reluctance to abandon their own currency?

3. What advantages and threats would Poland, for example, have if it joined the Eurozone?

4. Analyze which of the Macroeconomic Criteria for Monetary and Financial Convergence does Ukraine meet? Is it worth focusing on these criteria in its activities even if the country does not intend to join the Eurozone?

II. Find the only correct answer among the suggested ones

1. The European Union was established on the basis of the Maastricht Treaty, which was signed in:

a) 1948; b) 1965; c) 1992; d) 1993

2. The European Monetary Union was established in:

a) 1993; b) 1999; c) 2001; d) 2004

3. The main tasks of the European Central Bank do not include:

a) development and implementation of monetary policy;

b) storage and management of official foreign exchange reserves of EMU members;

b) provision of loans to national central banks to stabilize balances of payments;

d) promotion of the smooth functioning of the payment system.

4. Which list includes EU countries that do not use the euro as their own currency:

a) France, Cyprus;

b) Slovakia, Slovenia;

c) Sweden, Belgium;

d) Estonia, Lithuania.

5. An agreement between member countries to permanently fix their exchange rates in the absence of exchange rate fluctuations is:

- a) monetary integration;
- b) monetary cooperation;
- c) exchange rate union;
- d) single currency market.

6. Measures that provide for the introduction of a monetary union include:

- a) coordination of monetary policy in member countries;
- b) introduction of a single currency;
- c) creation of a central bank;
- d) all of the above are correct.

7. Macroeconomic criteria for monetary and financial convergence do not include:

- a) achieving an appropriate level of price stability;
- b) achieving a given rate of economic growth;
- c) unification of long-term interest rates;
- d) preventing excessive budget deficits.

8. The highest governing body of the ECB is:

- a) the Executive Board;
- b) the Governing Council;
- c) the Enlarged Council;
- d) the General Meeting of the Founders.

9. The functions of the Enlarged Council of the ECB include:

- a) carrying out preparatory work on establishing fixed exchange rates for the currencies of the member states that have not adopted the euro;
- b) implementing credit and financial policy in the Eurozone;
- c) formulating intermediate and strategic objectives of credit and monetary policy;
- d) all of the above are correct.

10. According to the criterion of “achieving an appropriate level of price stability”, the inflation rate in a potential EMU member state should not:

- a) exceed by more than 1.5% the average inflation rate in the three EU countries with the lowest inflation rates;
- b) be lower than the average rate for EU countries;
- c) not exceed the average inflation rate for the EU by more than 2%;
- d) not exceed 4% for the last 3 years.

RECOMMENDED LITERATURE

Compulsory reading

1. Keith Pilbeam (2023). International Finance. Bloomsbury Publishing, 568 p.
2. Menzie D. Chinn, Douglas A. Irwin (2025). International Finance. Cambridge University Press. 234 p. <https://doi.org/10.1017/9781009407847>
3. Tien Van Nguyen (2023). Fundamentals of International Finance: Textbook. Peter Lang Group AG, 2023. – 644 p. <https://doi.org/10.3726/b19527>

Recommended reading

1. Zadoia A., Mahdich A., Zadoia O., Zadoia Yu. (2025). Scenarios of transformation of the banking system under the influence of innovations: Ukrainian specificity. Academy Review, No.1(62). P.107-121. <https://doi.org/10.32342/3041-2137-2025-1-62-8>
2. Pierre-Hugues Verdier (2025). International Finance and the Return of Geopolitics. American Journal of International Law, Volume 119, Issue 2, April 2025, pp. 229 – 278. <https://doi.org/10.1017/ajil.2025.8>
3. Alami, I., Alves, C., Bonizzi, B., Kaltenbrunner, A., Koddenbrock, K., Kvangraven, I., & Powell, J. (2022). International financial subordination: a critical research agenda. Review of International Political Economy, 30(4), 1360–1386. <https://doi.org/10.1080/09692290.2022.2098359>
4. Schindler, S., Alami, I., DiCarlo, J., Jepson, N., Rolf, S., Bayırbağ, M. K., ... Zhao, Y. (2023). The Second Cold War: US-China Competition for Centrality in Infrastructure, Digital, Production, and Finance Networks. Geopolitics, 29(4), 1083–1120. <https://doi.org/10.1080/14650045.2023.2253432>
5. Reforms to the International Financial Architecture | Our Common Agenda Policy Brief 6. Available at: <https://www.diplomacy.edu/resource/reforms-to-the-international-financial-architecture-our-common-agenda-policy-brief-6/>

Information resources in Internet

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<http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?page=6>
4. National Bank of Ukraine. Available at:
bank.gov.ua/control/uk/publish/category?cat_id=5802143
5. Minfin. Available at:
<http://index.minfin.com.ua/bank/stat/count.php>
6. International Monetary Fund. Available at:
<https://www.imf.org/external/index.htm>
7. Statista. The Statistics Portal. Available at:
<https://www.statista.com/markets/>

Навчальне видання

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