# Finance (Basic)

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## International Finance

.. is a field of Finance, which deals with special problems that arise from financial and trading relations between nations.

The system of financial relationships, which occur through the international movement of cash funds.

# Balance of Payment

Displays accounting operations, which record all financial transactions between a country and the rest of the world.

## Structure of the BP

#### I. Current Account

- Trade Balance
  - I. Merchandise Exports and Imports
- b. Services
  - I. Shipment
  - II. Travel
  - III. Other Services
- c. Income
- d. Transfers

#### II. Capital Account

#### III. Financial Account

- a. Direct Investment
- Portfolio Investment
- c. Financial Derivatives
- d. Other Investment

#### IV. Errors and Omissions

## V. Total Change in Reserves

# Foreign Exchange Rate

..represents a rate at which one currency is exchanged for another currency.

## **Quotations**

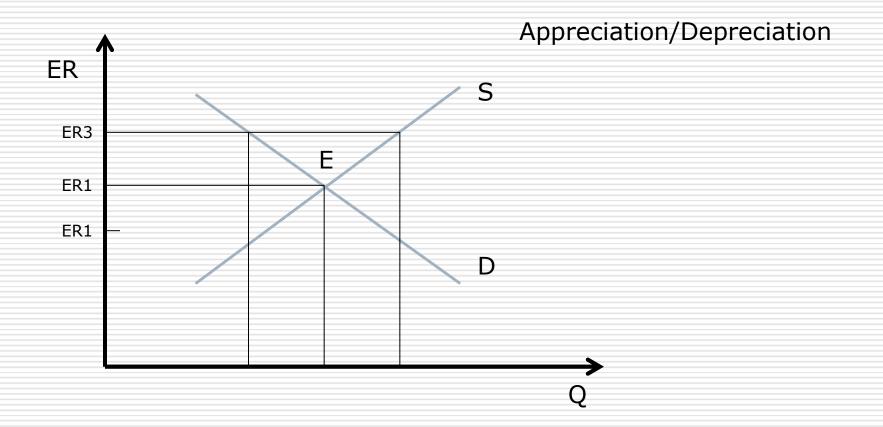
- ■Base currency
- **□**Quote currency
- □*Direct/Indirect*

CZK/EUR

# FX Regime

- ☐ Floating/Dirty Float(USD, EUR, £)
- Pegged Float
- Fixed Exchange Rate

## Relation between BoP and FX



# Interest Rate Parity, PPP



\$ 0.92

 $\Pi = 4.5\%$ 



CZK 18.90

 $\Pi = 1.2\%$ 



# International Monetary System

.. is a set of rules, conventions and institutions whose main aim is to facilitate international trade, cross border investment and flow of capital between countries.

# The Bretton Woods System

- 1944 Bretton Woods, New Hamshire
- New system of rules, regulations, and procedures for the major economies of the world.
- USD reserve currency of the world.
- 1971 the demise of BW.
- 1976 world currencies to floating.

# International Monetary and Financial Institutions

## **Bank for International Settlement**

- 1930, Basel
- Intergovernmental organizations of CBs
- Central Bank for CBs/58 members
- Purpose is to serve international monetary cooperation/CBs cooperation.

# International Monetary Fund

- An international organization, 1944
- Washington D.C./182 members.
- Monitor economic and financial developments.
- Lends funds to countries with balance of payment difficulties.
- Provide technical assistance for countries.

## The World Bank

- Was created at the end of WW II
- Loans to developing countries.
- •The main aim is to reduce poverty.

## World Bank Group

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

# Thank you for your attention