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This study guide is devoted to the explanation, justification, characterization of the complexity and significance within international finance, which they possess at the present stage of human development as well as it's main components and the basis of their researching.

The study guide can be used to study students of specialty 292 "International economic relations" (and other specialties in the field of knowledge 29 - International relations), as well as students studying in the specialties of such knowledge branches as: 05 - Social and behavioral sciences; 07 - Management and Administration; 28 - Public administration and administration of other specialties of the educational degree "bachelor" within all educational forms (full-time, part-time and distance learning). In addition, a tutorial can be useful for students of other specialities and practitioners, whose professional activity is related to international economic relations - to employees of banks, export-oriented enterprises as well as the relevant departments of the state and local authorities.

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Introduction

Humanity is confidently moving in the direction to globalize its life. Today, our communication is impossible without the development of the Internet and social networks, our professional activity is impossible without the development of interstate trade relations, the balanced development of society in all world's regions is impossible without investment and technology transfer processes. Our society has reached the point where we cannot ensure steady growth and quality development without creating strong interstate ties.

At the same time, it should be noted that in these processes there is one component, the significance of which is expressed in all, without exception, presented aspects and many others – financial relations.

If domestic finances are under the control of the state, regulatory institutions, financial intermediaries, and external factors influence the national economic system as a whole, then upon reaching the international level – the intricacies of relations between countries, their residents, the influence of international financial institutions, international organizations etc., bring the importance and complexity of finance to a new level - the level of international finance.

Among other advantages, the "International Finance" tutorial has the next one – it is adapted to the training of those students who are not native English speakers.

This work is a systematization of the knowledge within the "International Finance" subject field, is adaptation to the educational process for students, studied at English-speaking program of specialty 292 "International Economic Relations", as well as a brief guide to understand the fundamental aspects of international finance.

The author also advises students to contact other sources, links to which will be given below.

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development of amalgamated hromadas" (registration number 0117U003935).

Let this tutorial will become a reliable guide for students in the fascinating, extremely important and relevant world of international financial relations.

The main terms

International finances is defined as a relations set, on the creation and usage of funds, required for foreign economic activities by the state, companies and other entities of foreign economic relations.

International financial flows represent a set of financial transactions, the main object of which is the money capital.

World financial market is a system of relations, related to the supply and demand for financial assets, operating in the international sphere as means of payment, credit and investment resources.

The world monetary market is a relations system of demand and supply for financial resources, provided for the short term.

Account market, the main instruments in which include treasury and commercial bills and other short-term liabilities;

Interbank market, on which temporarily free money resources of credit institutions are attracted and placed in the form of interbank deposits for short terms (from 1,3,6 months up to 1-2 years).

Currency market that serves to the system of international settlements related to the payment of monetary obligations of businesses and individuals around the world.

World stock markets (capital market) – a long-term loans system on the international level, where financial resources are used by borrowers for investment.

International market of insurance capital is a special mechanism that provides the redistributive relations between subjects of international capital flows on a voluntary or compulsory contributions to target insurance funds, intended to cover risks and incurred as the results of operations in the international monetary and capital market.

The monetary system a form to organize and to regulate the currency relations, fixed in national legislation or international agreements.

National monetary system is a part of the financial system of the country, although it is relatively independent and goes beyond the national borders.

The world monetary system is a functional form of international currency relations, ie set of methods, tools and bodies (institutions) with which monetary payments within the world economy are made.

Currency is money unit of a country with an open economy, which is used to measure goods and services value.

National currency is a currency emitted by the national banking system and is used in foreign economic relations and international payments with other countries (however not all currencies could be used in international payments);

Foreign currency includes monetary units of foreign countries, as well as credit and payment instruments, denominated in foreign currency.

Collective (supranational) currency is a notional unit that:

a) has no material form (there are no coins, banknotes and bank accounts for the transactions);

b) has no its own (separate) valuation basis (its price and rate are calculated based on a basket of currencies of founding members);

c) has no final lender (bank institution that undertakes to support the exchange rate within certain limits by means of currency interventions);

d) operates on the basis of international agreements;

e) is not the subject to any national legislation.

Regional currency is an independent single currency within a particular integrational formation (euro within the European Monetary Union).

Eurocurrency is a currency placed in foreign banks located outside the country of this currency issuing (eurodollar etc.).

Reserve (key) currency is freely convertible currency, which is used to form the gold and currency reserves in banking systems of the most countries, ensuring the implementation of the international and national monetary policy and can be taken by IMF as loan repayment and interest payment (US dollar, Euro, British Pound, Japanese Yen, SDRs).

Currency convertibility is a currency ability to exchange currencies of other countries and international means of payment.

Currency exchange rate - is:

- quantity of units at one currency required to purchase another currency unit;
- market price of one currency expressed in another currency;
- set the price of currencies, interconnected by tripartite arbitration.

Tripartite arbitration is the operation, according to which two currencies are exchanged through the third one for additional profit, using the difference between the exchange rate and cross rate.

Cross rate is an exchange rate between two currencies (A and B) through a third currency (C). The cross-rate determined by converting of currency "A" initially in "C" currency, then currency "C" is converted in currency "B".

Quotation is determination of the exchange rate.

International financial market is a global system that serves for mobilization of free financial resources and provides them to borrowers from different countries, based on market competition.

Currency swap is a currency transaction under an agreement, which terms provide for the purchase (sale, exchange) of foreign currency with its reverse sale (purchase, exchange) for a certain date in the future, with fixing the conditions of these operations (rates, volumes, valuation dates, etc.) at the time, when the contract is concluded. This transaction is carried out on the second working day after the day of the contract conclusion.

Currency option is a contract that certifies the right for its buyer, but does not oblige him to buy or sell a standard amount of foreign currency at specified conditions in the future with the price fixed at the conclusion time of such a contract or at the time of buying. All this operations implement based on the decision of contractors.

Spot currency operation is the currency purchase and sale on the terms of its delivery within two business days from the date of agreement conclusion and at the rate fixed in the agreement.

Currency forward is a currency transaction under an agreement, terms of which require an execution of operation

for the currency supply under a forward contract later than the second business day after the day of the contract conclusion. Forward currency transactions are executed in a term not exceeding 365 calendar days.

Futures currency transactions are termed standardized operation on the exchanges that represent the currencies purchasing and selling. The seller accepts an obligation to sell and the buyer accepts an obligation to purchase a standard quantity of the specified currency for a certain date in the future (more than three workers days) at a rate predetermined at the conclusion of the transaction.

Fundamental analysis examines the movement of prices at the macroeconomic level. The main task of the fundamental analysis school is to shape and to predict new trends in the prices dynamics.

Market technical analysis - forecasting future changes in exchange rates based on past and current market conditions.

International credit market is a sphere of market financial relations, where the loan capital movement goes between participants by this market under accepted principles of international lending.

Eurocredit market is part of the global capital market, where banks carry out deposit and credit transactions in Eurocurrency.

International official assistance – relate to international out-of-market mechanism that promotes macroeconomic stabilization of the economy and sustainable production growth in countries, which go to the market economy.

1. INTERNATIONAL FINANCES, THEIR ESSENCE AND SIGNIFICANCE IN THE MODERN WORLD

International finances is defined as a relations set, on the creation and usage of funds, required for foreign economic activities by the state, companies and other entities of foreign economic relations.

In the context of international finances **the funds** should be understood not as **actually money**, but as **financial resources** that in the process of their own distribution and redistribution can **create added value** to their owners, i.e. grow in volume – creation of new revenue. In other words – the accumulation of capital.

Thus, international **finances can be considered as a tool** that provides value movement in monetary form between national economies and subjects of international financial relations and creates conditions for its accumulation and multiplication.

All this set of conditions, principles, factors and tools that exist or may exist in the process of moving the cost between states, is a feature of international finances. It distinguishes them from **ordinary financial relations** that exist within the country (Kozak Yu., 2014).

In this context it should be noted that the cash flows in the world economy is performed in **the following directions:**

- Relationships between entities in different countries;
- State relations with foreign governments and international organizations;
- State (and other participants of international financial relations) relations with international financial institutions.

There is a significant number of approaches **to classify the participants** in international financial relations. However, one of the most illustrative approach to their classification comes from **ownership character for specific participants:**

1. **State-owned entities:**

- Governments;
- Ministries, departments and government agencies;
- Central banks;
- State-owned enterprises;
- Interstate (international) financial institutions.

2. Participants of private property (residents and nonresidents):

- Enterprises, firms;
- TNC;
- Commercial banks and other financial and credit organizations;
- Individuals.

Taking into account this participations set in the international finances, it can be argued that in general, financial resources redistribution on a global scale provides **increasing of the competition** and more efficient using of production capacity and other resources to provide economic development and growth.

Therefore, in the international business while choosing the **alternative finance solutions one** cannot ignore the analysis of impact on the future costs and revenues value **of the following factors:**

- Time (terms of commercial agreements)
- Space (territorial remoteness)
- Uncertainty caused by the necessity to take into account:
- specific properties of local currencies,
- differences in interest rates,
- differences in inflation rates,
- different national business laws and political systems in each country.
- inability for direct impact on the environment (or its individual factors), in which the participants of international financial relations must operate and that has a decisive impact on its business activities.

This specific nature of international finances is revealed in this definition. **International Finances** reflect the economic combination of time and uncertainty regarding solutions that are situated at the interests intersection of several different countries, each of which has its own currency, its own laws of business and its political system.

International finances craete **one of the key subsystems** in the world economy, which makes a decisive influence on the national and global economy.

At the same time, international finances function **as a complete system**, **elements of which are:**

- World monetary system, which is characterized by such components as: national and reserve currencies; collective international currency; the conditions of mutual convertibility; exchange parity; exchange rate; national and international mechanisms for regulating exchange rates (Kozak Yu., 2014);
- International operations that provide intermediate serving for the movement of goods, factors of production, financial instruments and the payments balance, which displays all transactions related to international payments;
- International financial markets and trading mechanisms for specific financial instruments – currency, loans, securities;
- International taxation as a method to mobilize funds;
- International financial management of TNCs, the main place in which is given to international investment, risk management, transnational financing etc.

The main functions of international finance are:

- **Distribution function**, essence of which is that the mechanism of international finances makes monetary distribution and redistribution of the world product. Due to the existence of international finances, monetary funds are generated, distributed and used; besides these different needs of the world economy are provided. Distribution function designed to promote sustainable and efficient organization of global production and development in all sectors in the global economy with the goal to meet fully the international community needs;
- **Controlling function,** in general its essence is to control the production and distribution of global social product in monetary form by accounting and analyzing of its movement. The result of this function is the decision-making on international finances and strategic development of current international financial policy;
- **Regulatory function** is associated with the intervention of international monetary and financial organizations in the process of reproduction using finances (Mozghovyi O., 2015);
- **Stabilizing function** is to create a global economic system in a stable environment for economic and social relations.

International financial transactions are carried out in the international financial markets and represent activity on the tasks to organize and to manage money relations, resulting in the formation and use of the funds within the global financial environment.

The financial transactions objects are various financial assets, national and foreign currency, securities, real estate, precious metals.

The main international financial transactions are:

- operations for money transfer;
- equity operations;
- investment and speculation;
- insurance operations.

International transactions in modern terms are developed dynamically, transforming the financial system and deepening the links between the financial systems in different countries.

The competence of the International Finances include:

- Analysis of the financial sector on a global scale;
- Determining the interaction of financial transactions on a global level and consideration of international financial transactions as a continuous process with constant change;
- Development of new financial instruments that affect the regional financial system and facilitate their integration;
- Analysis of financial activities at different levels: national, regional, global.

International finances contribute to the internationalization of the social and economic system and financial relations on accumulation, distribution, redistribution and use of international financial resources and international financial flows.

The international financial relations impact on the development of world economic relations is made through internationalization:

- all structural links at trade relations;
- system of currency and credit relations;
- sales mechanism of securities and investments.

On this basis, the **international exchange proportion** is formed, ie internal unity of the world market components and

the single system of international monetary and credit relations are achived.

In the global economy there is **continuing transfusion** of money capital from one country to another. It creates **the world's financial flows**.

International financial flows represent a set of financial transactions, the main object of which is the money capital.

These **streams** serve for international trade in goods, services and capital redistribution between countries.

Providing international redistribution of the financial resources, **financial flows contribute** to the expansion of possible foreign exchange transactions list, foreign investment, enhance operations with securities and other financial instruments.

The **financial flows movement** is determined by the relationship between economic entities of different countries, between state, foreign governments and international organizations.

This movement mechanism is established on the basis of international agreements as well as the economic laws influence(Makarenko M., D`iakonova I., 2013).

The main types of international financial flows **can be classified** according to the following criteria: economic activity in accordance with the structure of the payments balance; economic relations between residents; the term of financial transactions; ownership for sources of financial flows.

Types of international financial flows:

1. **Economic activity in the structure of payments:**

- payments for goods and services;
- non-residents salary;
- investment income;
- current transfers;
- capital transfers;
- direct and portfolio investment;
- flow reserve assets.

2. **Economic relations between non-residents:**

- foreign trade;
- capital (investment and lending activities);
- speculative;

- balancing (for balancing external payments and payments of)

3. Functional:

- business;
- loan.

4. The terms to fulfill the financial operations:

- short-term;
- medium-term;
- long-term.

5. Ownership regarding sources of financial flows:

- private, oriented both to private and to the public sector;
- government, oriented both to private and to the public sector;

The main channels for financial flows movement are:

- monetary and settlement services to purchase and to sell the goods and services;
- foreign investments in the fixed and working capital;
- transactions with securities and various financial instruments;
- currency transactions;
- assistance to developing countries and state contributions to international organizations.

The amount and direction of financial flows depend on various factors including:

- the global economy state. The economic **falls** in the industrial developed countries tend to cause a decline in the rate of growth in world trade and **vice versa**. Thus, the countries economic development in recent years, especially in developing countries, has led to an annual global GDP growth, the volume of world trade;
- trade barriers reduction;
- different rates of economic development (synchrony or asynchrony in the economies between major countries);
- restructuring of the economy in various countries;
- differential gap of inflation and interest rates;
- faster tempos for international capital flows growth compared to international trade. This affects the size of the international financial markets;

- transition of industrial countries from labour-intensive to knowledge-intensive production;
- increased diversification of multinational corporations, including international investments in joint ventures;
- increase of the payment balances deficit due to the imbalance of international payments.

International financial flows are directed to those areas and regions of the world where they are in greatest demand and where they can provide the most profit.

The movement of financial flows (in monetary form, in the form of various financial and credit instruments) are going through banks, specialized financial institutions, stock exchanges, which form the global financial market.

Financial flows reach enormous sizes. By some estimates, the daily financial transactions volume worldwide exceeding in 50 times the operations of world trade.

The world financial market in the broadest sense is considered to be the system of market relations that ensure the international financial flows passage.

World financial market (WFM) is a system of relations, related to the supply and demand for financial assets, operating in the international sphere as means of payment, credit and investment resources.

World financial market (WFM) is an institutional mechanism of inter-state movement and redistribution of the capital, that is suitable for use outside the cell of its accumulation and origin, herewith: the market supply and demand; regulatory actions from: states, international monetary and financial centers, have significant affect on its migration;

World financial market (WFM) is a global integrated system of national and regional financial markets, including a set of market forms for financial assets trading, combined by operations harmonization; joint operation conditions and patterns of evolution (Onyshchenko V., 2016).

The main WFM purpose is to accumulate, distribute and redistribute of financial resources through intermediaries.

WFM main function is to provide international liquidity (the ability to attracte a sufficient number of funds in various forms on favorable terms at supranational level).

Other WFM functions:

1. Mediation is to organize various forms of interaction between lenders and borrowers globally.

2. Redistributive is to transfer temporarily free financial resources through an extensive market infrastructure from those sectors of the international economy, where they are relatively redundant and/or counterproductive in those sectors, where they are needed.

3. Pricing is to define the sale/purchase price for various financial assets and loan money, based on the interaction of supply and demand.

4. Regulatory:

- to balance global investment and global savings;
- to redistribute the foreign investments between countries and industries. It largely determines the structure of the modern international economy and the relationship among separate members of the global economy;
- to export/import capital as an instrument of regulation for payments balance and exchange rate adjustment;
- to support the stability of national, regional and global currency systems.

5. Informational is to spread the information via price signals and to aggregate stock indices. Based on this information, economic participators define their behavior in the short and long periods.

Participants in WFM:

- **primary lenders or investors** are individuals and legal entities, governmental, intergovernmental and supranational institutions with excess of liquid assets;
- **issuers and borrowers** are individuals and legal entities, governmental, intergovernmental and supranational institutions with deficit of financial resources;
- **specialized financial intermediaries** are commercial banks, investment companies, trust, pension and investment funds, savings and loan associations etc.;
- **hedgers** are insurers the risks, related to foreign exchange, credit operations and securities transactions;
- **regulators and control authorities.**

Operations on the world financial markets are divided **into three groups** - credit, investment and insurance.

Accordingly, the entire financial market consists of **three parts:**

- **Global credit markets** - where financial resources are moving on the principles of repayment, urgency, serviceability and security;
- **Global equity market** - on which financial obligations are bought and sold;
- **International market of insurance capital.**

The criterion for their division **is an acting type of financial obligations or instruments that are used at the market.** For example, if free trade is not possible, then one is dealing with the credit market. Where the liability or tools are bought and sold, buyers and sellers are the participants in the securities market etc.

Basic types of world financial markets are distinguished:

1. **The world monetary market** is a relations system of demand and supply for financial resources, provided for the short term. Money market, in turn, consists of:

- **Account market**, the main instruments in which include treasury and commercial bills and other short-term liabilities;
- **Interbank market,** on which temporarily free money resources of credit institutions are attracted and placed in the form of interbank deposits for short terms (from 1,3,6 months up to 1-2 years);
- **Currency market** that serves to the system of international settlements related to the payment of monetary obligations of businesses and individuals around the world.

2. **World stock markets (capital market)** – a long-term loans system on the international level, where financial resources are used by borrowers for investment. **The stock market, in turn, consists of:**

- **Market** for medium- and long-term loans;
- **Stock market** - the investment sector of the international financial market, the scope of supranational securities.

3. **International market of insurance capital** is a special mechanism that provides the redistributive relations between subjects of international capital flows on a voluntary or

compulsory contributions to target insurance funds, intended to cover risks and incurred as the results of operations in the international monetary and capital market.

Appointment of international financial markets is that with their mediation it is possible to make efficient allocation of the available amount of free capital between final users (investors). Financial markets forms exactly the mechanism that involves agreements for those participants **who offer financial resources and those who need them.**

In order to increase the efficiency for the distribution of free cash flow, **financial institutions** exist - they are intermediaries between lenders and final borrowers. They (institutions) on a professional basis offer services to combine the supply and demand for financial resources between companies, citizens, governments and operate in a certain legal and fiscal space.

The current world financial market is characterized by:

- a significant amount of financial resources and operations, carried out around the clock in the majority;
- gradual cancellation of restrictions on financial flows across national borders, such as capital controls and limiting circulation of foreign currencies;
- high level of information technology use that reduce transaction costs between countries;
- usage of various financial instruments;
- high capital mobility gradually leads to the increasing interdependence of national economies, weakened the national policies autonomy, despite the floating exchange rates existence.

Today, international **capital flows 5 times exceed the international flows of goods and services.**

2. CURRENCY AND WORLD MONETARY SYSTEM

The monetary system a form to organize and to regulate the currency relations, fixed in national legislation or international agreements. **There are** national, global, international (regional) monetary systems.

Historically, the first monetary system **was national**, which is submitted in national legislation with the norms of international law.

National monetary system is a part of the financial system of the country, although it is relatively independent and goes beyond the national borders. Its features are determined by the development degree and the state of the economy and foreign economic relations with entire countries.

National monetary system is inextricably linked to the **world monetary system,** the form of international currency relations, that is fixed by international agreements (Kozak Yu., 2014).

The world monetary system was established in the mid-19th century.

The character of the operation and stability in the world monetary system depend on:

- degree of conformity regarding its functioning principles with the structure of the world economy;
- balance of power and interests among the leading countries.

In situation, when these conditions are violated, **periodic crisis** of the world monetary system may take place, which is completed or with its deep restructuring or with creation of a new monetary system.

The world monetary system is a functional form of international currency relations, ie set of methods, tools and bodies (institutions) with which monetary payments within the world economy are made.

The world monetary system is a set of currencies, rules and regulations for their use and mutual exchange, applying payment instruments and monetary relations, associated with the currency usage for international, inter-regional (eg, EU and USA) payments.

These payments are not possible without an **established exchange relations system** that serve for different types of economic activity (foreign trade, capital transfers, loans, scientific exchange, tourism and others.), related to the world money functioning.

The main objectives of WMS include:

- to regulate international payments and foreign exchange markets;
- to mediate payments mediation for export/import of goods, services, capital and other forms of international economic activity;
- to create favorable conditions for the development of world production;
- to increase international specialization and international industrial cooperation.

The world monetary system pursues **global world economic goals** and has a special **mechanism of functioning and regulation**. It is closely linked to the **national monetary system**. This communication is carried out in the international currency regulation and coordination of the monetary policies among leading countries.

But the interconnection of national and world currency system **does not mean their identity** as their task, conditions for the operation and regulation, the impact on the economy of individual countries and the world economy are different.

Elements of the global system:

- Reserve currencies, international currency payment units;
- The degree of currencies mutual convertibility;
- Unified mode for currency parities;
- Regulation of exchange rate regimes;
- Interstate regulation of foreign exchange restrictions;
- Interstate regulation of the international monetary liquidity;
- Harmonization of international rules for the credit outstanding usage;
- Unification for the main forms of international payments;
- The regime for the world currency markets and gold markets;
- International organizations and engaged in interstate currency regulation.

National monetary system is based on the national currency (the currency of the country), and **world monetary system** - on one or more reserve currencies or foreign-exchange reserve assets (Eg Special Drawing Rights - SDR).

The currency is any asset that is able to provide the function of money in the international payments (Mehlaperidze A., 2013).

In a narrow sense it is available money supply, which passes from one party of international economic transactions to another in forms accepted for international payments.

Currency is money unit of a country with an open economy, which is used to measure goods and services value.

Currency provides communication and interaction between national and world economy.

Currency or world monetary material **can be classified** according to certain features and identifies the main relevant categories (Kozak Yu., 2014):

1. **On the scale:**

- **national currency** is a currency emitted by the national banking system and is used in foreign economic relations and international payments with other countries (however not all currencies could be used in international payments);
- **foreign currency** includes monetary units of foreign countries, as well as credit and payment instruments, denominated in foreign currency;
- **collective (supranational) currency** is a notional unit that:

f) has no material form (there are no coins, banknotes and bank accounts for the transactions);

g) has no its own (separate) valuation basis (its price and rate are calculated based on a basket of currencies of founding members);

h) has no final lender (bank institution that undertakes to support the exchange rate within certain limits by means of currency interventions);

i) operates on the basis of international agreements;

j) is not the subject to any national legislation.

- **regional currency** is a independent single currency within a particular integrational formation (euro within the European Monetary Union);
- **eurocurrency** is a currency placed in foreign banks located outside the country of this currency issuing (eurodollar etc.). The prefix **"euro"** does not mean that the currency is listed in Europe, the Europeans are its owners or that it is located in a European bank. It only shows that the territorial location of the

bank that accepts attachments does not coincide with the territory where the currency is issued and is legal tender.

2. **Functional role:**

- **currency rates (currency exchange)** includes the currency in which the price of goods is expressed in foreign contract or the amount set by international loan (usually freely convertible currency);
- **currency of payment** is currency, in which is performed the actual payment for goods in foreign trade transactions or settlement of international credit (can perform any currency agreed between contractors);
- **loan currency** is the currency in which the export credits are granted;
- **currency clearing** is used in the implementation of international agreements on non-cash payments for goods, services, and various types of securities based on **mutual netting** for claims and liabilities (clearing);
- **bill currency** is the currency, in which the bill is opened.

3. **The usage character in currency transactions:**

- precious metals (except jewelry) - gold, silver, platinum, palladium;
- natural precious stones;
- money as legal tender (cash) or deposits of any country that can serve as the international medium of exchange or payment;
- payment documents, which are expressed in a particular national currency and are used in international payments (checks, bills, certificates, letters of credit, collections etc.);
- stock values are expressed in a particular national currency and are used in international operations (stocks, bonds).

4. **External (material) form:**

- metal currency assets (monetary gold);
- non-metallic foreign currency (paper, credit).

5. **The degree of stability on its own denomination and exchange rate in other currencies:**

- strong or hard currency;
- weak or soft currency.

6. **The ability to reserve (savings):**

- **reserve (key) currency** is freely convertible currency, which is used to form the gold and currency reserves in banking systems of the most countries, ensuring the implementation of the international and national monetary policy and can be taken by IMF as loan repayment and interest payment (US dollar, Euro, British Pound, Japanese Yen, SDRs);
- **ordinary currency.**

A country, of which currency is reserve (key), has significant benefits, advantages in global markets, including the ability to make payments on its external obligations in own currency; cover balance of payments deficit in the national currency by automatically obtaining foreign loans.

The currency may be determined as reserve if the country of its origin has **ensured fulfilment of certain requirements:**

- currency must be freely convertible and quite stable;
- country must have a strong network of financial institutions (including abroad); organized large market capital; currency market; free gold market;
- release the currency in international circulation by public institutions (central banks) and international financial-credit institutions (IMF, IBRD, etc.);
- must operate a legal regime for functioning and use national currency in the particular country and the world markets;
- country must occupy a strong position in global production of the world markets have significant reserves.
- origin country for reserve currency should fulfill certain obligations to other states, including: overcoming or reducing deficits; to provide the policy of balancing external commitments and official foreign exchange reserves; to maintain the stability of the currency; do not go to currency and trade restrictions (Gandolfo G., 2016).

Currency in the process of international financial transactions has a number of important features such it represents:

- tool for servicing in the international economic relations, international payment and as purchasing agent;
- international measure of value for goods and services etc.;
- the measure value, valuables of national currencies.

An important currency feature is **the degree of its convertibility,** ability of national currency to free unlimited exchange for foreign currency and usage in transactions with real and financial assets.

Currency convertibility is a currency ability to exchange currencies of other countries and international means of payment.

The degree of convertibility is inversely proportional to **the volume and stiffness** of currency restrictions practiced in the country. On this basis, currency may be free convertible, partially convertible and non-convertible:

- **freely convertible currency** is the currency, used by residents and non-residents in all types of operations in the absence of any legislative restrictions on foreign exchange transactions and which can be sold at major currency markets;
- **partially convertible currency** is the currency of countries, where there are restrictions and/or special agreement procedures in exchange currencies on certain types of transactions, subjects in foreign exchange transactions or zones;
- **non-convertible currency** is the currency, which is used in the monetary turnover within a country and cannot be exchanged for other foreign currencies.

The **currency restrictions** are considered as any act from official authorities that can directly lead to a narrowing of the opportunities, increasing the expenses or appearance of undue delay in the foreign exchange and payments implementation in accordance with international agreements.

The main principles of foreign exchange restrictions include:

- centralization of foreign exchange transactions in central and authorized banks;
- licensing of currency operations;
- partial or complete blocking of foreign currency accounts;
- limited convertibility of currencies.

Since each country uses **currency** that is different from the currency of other countries in its turnover, all international operations - commercial, credit and others. Involving the exchange of two currencies. In international operations, the

flow of goods, services and capital in one direction involves the movement of currency funds to the opposite direction.

Currencies tend to exchange not just to each other directly but **in a certain ratio**, determined by their relative value - **the exchange rate.**

Currency exchange rate - is:

- quantity of units at one currency required to purchase another currency unit;
- market price of one currency expressed in another currency;
- set the price of currencies, interconnected by tripartite arbitration.

Main features of currency exchange rate is:

- tool of internationalization the financial relations, the formation of the global monetary system;
- facilitates comparison of the price structures in individual countries, conditions and results in productivity, wages, economic growth rates;
- tool to redistribute national product between countries engaged in foreign economic relations;
- tool to promote sustainable development and unification of financial markets.

Determination of the exchange rate called **quotation.** There are two methods of quotation for foreign currency to the national – **direct and indirect** (reverse).

- **At the direct quotation** the exchange rate of foreign currency is expressed in national currency (1 USD = 27.19 UAH). (Quotation that shows how many national currency is contained in one USD).
- **At the indirect quotation** the exchange rate of national currency expressed in foreign currency (1 UAH = 0,03 USD) (Quotation that shows how many dollars contained in the unit of national currency).

During exchange quotation **the base currency and the currency of quotation** is established:

- **Base currency** is the currency, against which other currencies are quoted, ie currency, with which certain currency is compared;

- **Currency of quotation** is a currency that is quoted to the base, ie currency, exchange rate of which is determined.

Generally, all currencies (except the British pound sterling and a basket of currencies) owe to be compared **with US dollar. US dollar usage** as the base currency reflects its role as a generally accepted unit of payment.

Types of exchange rates (Mozghovyi O., 2015).

To assess the rates of economic growth **several types of exchange rates** are used:

1. The nominal exchange rate. This is the exchange rate between two currencies, ie the relative price of two currencies (the exchange offer of one currency to another). For example, the nominal exchange rate of the dollar to the pound is $ 2.00. / 1 pound.

The nominal exchange rate determination **matches with the general definition of the exchange rate** and is set at the currency market. It is used in currency contracts. It is the simplest and most basic definition of the exchange rate. However, for long-term predicting it is not convenient, because the cost of foreign and local currency changes simultaneously with the change in the general price level in the country.

2. The real exchange rate. It is the nominal exchange rate adjusted for the relative price level in the own country and the country, which currency is quoted to national currency. The real exchange rate is a comparison of the purchasing power between two currencies.

For its calculation, this formula is used:

$$S_r = S_n \frac{P^1}{P}, \quad (1)$$

where S_r – real exchange rate; S_n – nominal exchange rate; P'– price index in another country; P - price index in basic country.

The index of the real exchange rate **shows its change, adjusted to inflation** in both countries. If the rate of inflation in the basic country is higher than the rate in the other country, the real rate is higher than the nominal.

3. The nominal effective exchange rate. It is calculated as the ratio between national currencies and the currencies of other countries, weighted in accordance with the share of these countries in the currency operations in national economy.

4. The real effective exchange rate. It is the nominal effective exchange rate adjusted to the change in the price level or other indicators of production costs, which shows the real exchange rate dynamics in the country to the currencies of countries - major trade partners.

Cross rate

Each currency has more than one exchange rates – **as much as the quantity of foreign currencies**. Exchange rates have different numerical expression but they are linked and represent the system of prices, interconnected with the tripartite arbitration.

Tripartite arbitration is the operation, according to which two currencies are exchanged through the third one for additional profit, using the difference between the exchange rate and cross rate.

Cross rate is an exchange rate between two currencies (A and B) through a third currency (C). The cross-rate determined by converting of currency "A" initially in "C" currency, then currency "C" is converted in currency "B".

It is determined by the formula:

$$\frac{A}{C} \times \frac{C}{B} = \frac{A}{B}, \quad (2)$$

Arbitrageur's actions provide additional offer of certain currencies and some additional demand for anther. Competition among arbitrageurs leads to **the fact that profit from arbitrage is so small that the actual exchange rate and cross-rate are equal.** At the same time, it creates the mechanism, which equates demand and supply at currency at foreign exchange markets.

Consequently, the **export** always increases a country's currency value in the measurement of the other countries' currencies, on the other hand, **import** reduces the value of the

currency, regardless where export goes and from which countries import comes (Roy M., 2016).

The above method of calculation used to **calculate the average cross rate**, but in practice, any courses are listed by banks in the form of two-way quotes: **buyers' course (bid) and sellers' course (offer).**

Thus, cross rates form a **secondary indicator.** It is calculated through the main exchange rates against the dollar (Figure 1).

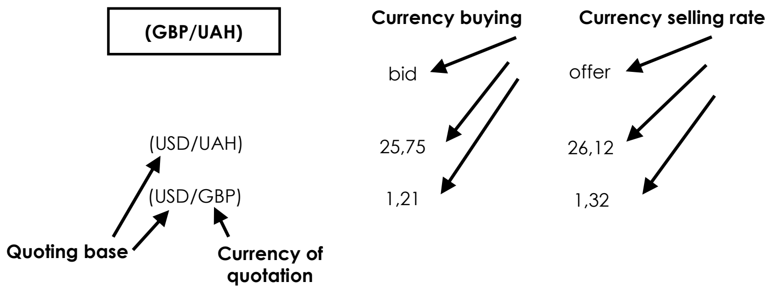

Figure 1. The structure of the cross-rate

To determine the **bid and offer** sides in cross rates on interbank transactions the following rules should be applied:

1. For currencies with direct quotation to the US dollar (the dollar is the base currency for both):

- in order to receive the left side (bid) in cross rate, it is necessary to divide the **bid** dollar exchange rate of currency, which acts in cross rate **as currency of quotation** on the **offer** dollar exchange rate of currency, which is the **quoting base** in the cross rate;
- in order to receive the right side (offer) in cross rate, it is necessary to divide the **offer** dollar exchange rate of currency, which acts in cross rate **as currency of quotation** on the **bid** dollar exchange rate of currency, which is the **quoting base** in the cross rate;

2. For currencies with indirect quotation to the US dollar (the dollar is the currency of quotation for both):

- in order to receive the left side (bid) in cross rate, it is necessary to divide the **bid** dollar exchange rate of currency, which acts in cross rate **as quoting base** on the **offer** dollar exchange rate of currency, which is the **currency of quotation** in the cross rate;
- in order to receive the right side (offer) in cross rate, it is necessary to divide the **offer** dollar exchange rate of currency, which acts in cross rate as **quoting base** on the **bid** dollar exchange rate of currency, which is **currency of quotation** in the cross rate;

3. For rates with direct and indirect quotations:

- in order to receive the left side **(bid)** in cross rate, the **bid** dollar exchange rates of both currencies should be multiplied;
- in order to receive the right side **(offer)** in cross rate, the **offer** dollar exchange rates of both currencies should be multiplied;

In the international practice, the following basic exchange rate regimes are used: **fixed, floating (flexible) and compromise.**

Regime with fixed exchange rates is a system in which the exchange rate is fixed and its changes under the influence of fluctuations in supply and demand are eliminated with state stabilization measures.

The classic form of the fixed-rate regime is "gold standard" currency system, where each country sets the gold content of its currency. Exchange rates present the fixed ratio of gold content in currencies.

Fixed exchange rate can be implemented in various ways:

- fixation of the national currency rate to exchange rate of the most powerful currencies, which are used in international payments;
- using of the foreign currencies as legal tender in home country;
- fixation the national currency rate to exchange rate of currencies in other countries - major trade partners;
- fixation the rate of national currency to collective currency units, such as SDR.

The advantages of the fixed exchange rates are that the stable exchange rate:

- provides companies with a reliable basis for planning and efficient pricing;
- restricts domestic monetary policy;
- has a positive impact on underdeveloped financial markets and financial instruments.

The disadvantages of the fixed exchange rates:

- if it is trustless, it can be subjected to speculative influences, which can lead to rejection of the fixed exchange rate at all in the future;
- there is no reliable way to determine whether the chosen course is optimal and stable or not;
- fixed rate implies that the central bank should be prepared to conduct foreign currency intervention for its support.

Flexible or freely floating exchange rates form a regime, in which exchange rates are determined freely play of supply and demand. Currency market is balanced by using the price, i.e. the course mechanism.

The advantage of floating exchange rates can be considered:

- due to free fluctuations in supply and demand for currency, it is automatically adjusted, so eventually eliminated any unbalanced payments;
- speculators are not able to profit at the expense of the central bank;
- there is no need to carry out the foreign currency interventions (with the relative stability of the currency).

The disadvantages are that:

- markets do not always work with a perfect effectiveness and there is a risk that the exchange rate will be at unforeseen level for a long time;
- uncertainty of future exchange rate could create difficulties for the company in planning and pricing;
- possibility to implement the independent internal monetary policy may be affected (for example, if the government does not have the resources to counteract the decrease in the exchange rate, it can cause inflation, fiscal and monetary policy) (Shkolnyk I., 2015).

Compromise exchange rates form a regime, according to which elements of fixation and free floating exchange rates are combined and regulation in currency market partly determined by fluctuating the exchange rates themselves.

It may be:

- maintaining of a fixed exchange rate by minor changes in monetary policy, in case of failure - by the currency devaluation and the establishment of new official fixed exchange rate;
- adjustable currency fluctuations, when the authorities change the exchange rate gradually until the goals will not be achieved.

3. INTERNATIONAL FINANCIAL MARKET AND ITS STRUCTURE. CURRENCY MARKET

The process of the international movement for goods, services, capital, industrial and scientific-technical cooperation, labour migration, tourism **cause the needs in money and obligations** for\between participants in the international economic relations.

Financial market as an economic category, expresses the economic relations between its members in the formation **of supply and demand** on the financial assets sale.

Economic relations and relationships that occur at the financial market are determined by:

- objective economic laws;
- financial policy of the state;
- real economy needs in financial resources.

At the financial market **the laws of supply and demand** operate, marginal utility and competition that have the influence on real functional possibility of all economic participants in accordance with market conditions.

In addition, there is the **social definition of quality and prices for financial assets**, provided equivalent exchange on specific commodity – **money is provided.**

According to the above, the main **difference of financial market** from others is that goods at these markets **are the financial assets.**

Most of countries to ensure their sustainable social and economic development cannot always rely solely on their own resources. In modern terms internationalization and globalization of the world economy there is an objective necessity and a real opportunity to attract foreign capital into the economy of any country through **international financial markets.**

International financial market is a global system that serves for mobilization of free financial resources and provides them to borrowers from different countries, based on market competition.

Nowadays, this market is increasing to **extraordinary** scale and is gradually turned into one of the most powerful sources for financial resources that can be used in the national economies development and often is the determining factor in the development of the world economy.

The process to mobilize the financial resources and to bring them to the consumer includes the **capital accumulation and providing** it into a loan.

The main function of the international financial market is to enable rapid attracting of the financial funds in various forms at the supranational level on favourable terms. It greatly expands the economic capabilities of each country and promotes their economic development and growth.

In addition, financial markets perform the **following functions:**

- **provision of investment processes.** It consists on creation of such conditions at the financial market, which can attract (to concentrate) financial resources, which are necessary for economic development and identifies the most effective spheres and areas for investment flows from the position of ensuring a high return level on capital;
- **channeling funds from lenders to borrowers.** Thus, financial markets contribute to higher productivity and efficiency of the global economy;
- **provision of international liquidity**, ie the possibility for certain countries to attract sufficient financial resources in various forms on favourable terms. This fundraising in international financial markets significantly expands financial opportunities of each country and facilitates alignment of

economic development and creation of conditions for improvement of social welfare;

- **formation of the market prices for certain types of financial assets**, taking into account the market conditions.

In accordance with it, **the main purpose of the international financial market** is to ensure the redistribution of accumulated and available financial resources between countries for the sustainable economic development in the world economy and the receipt of the certain income from these operations.

International financial market mechanism provides detection the value and structure of demand for certain financial assets and timely satisfaction by them within all consumers' categories, who temporarily require to attract capital from external sources.

International financial market has developed the **practice of price (currency) insurance** and appropriate system of **special tools** that helps to reduce the risk for buyers and sellers in operations with financial assets to a minimum. In addition, financial market **gave a powerful impetus** to the development of other insurance types and innovation in the financial sector.

From an institutional point of view, international financial market is a combination of participants in financial and credit operations that stimulate the capital movement (financial flows) in international economic relations.

The participants of the international financial markets are:

- central banks of particular countries;
- commercial banks, especially multinational banks;
- stock (currency) exchange and other financial institutions, including insurance companies and brokerage firms;
- international financial centers.

Consequently, the **international financial market** with inherent system of financial, credit institutions and their infrastructure is the environment in which financial resources are concentrated and allocated between the individual countries.

Nowadays international financial market **operates continuously**, it is an effective tool to manage international financial flows.

International (global) financial market is divided into **centralized and decentralized:**

- **centralized financial market** is presented by Currency Exchange (it is also called the exchange market);
- **at the decentralized market,** world trade is completely decentralized and carried out mainly through Dealing System, international telecommunication systems, telephone.

International financial market is divided into the following segments:

- currency market;
- credit market;
- securities market.

Due to the fact that loans and investments are decided to divide by the period of implementation for property rights **into short** (to one year) and **long-term**, such segments as **monetary market** and **capital market** appear.

Successful development of **currency relations** in the world is possible under the special market, where participants can freely buy and sell currency.

Without such economic opportunity, counterparties actually cannot realize international financial relations - will not have foreign currency to make its **external obligations**, cannot transform the foreign exchange earnings in national money units to meet their **internal obligations** (Mozghovyi O., 2015).

The market, at which it is possible to ensure the implementation of these commitments is called the **international currency market.**

International foreign exchange market is the **largest financial market** in the world and plays an important role in provision of interaction between the components on the global financial market.

Foreign exchange market - a system of currency and institutional relations, related to conversion operations, international payments, provision of foreign currency lending according to certain conditions.

The main product at this market is a foreign currency in various forms: foreign currency deposits, any financial requirements indicated in foreign currency.

Supply and demand at the currency market have **next features** the main object and instrument of sale at this market are **money units** from different countries (currency). Therefore,

the **demand** for foreign currency is also the **supply** of the national currency and the **supply** for foreign currency is a **demand** for the national currency at the same time.

However, at the national currency markets scale, the **demand** for foreign currency is the **desire to buy** its certain amount and **supply** is the proposal of foreign currency, a **desire to sell** its certain amount.

The **price** ta the foreign exchange market is the **exchange rate**. It is the price of the certain currency in the currency units of another country.

Due to its economic content, the **international exchange market** is a sector of the international financial markets, at which supply and demand for a specific product as currency are balanced.

The feature of this market is that:

- it is intangible;
- it has no a specific location, no center;
- its mechanism – exchanging procedures, that provide conversion of one currency to the other currency;
- it is the interbank market;
- it creates the possibility for currency trading at 24 hours in online mode;
- it is one of the most liquid markets due the possibility to work on it with different currencies;
- through modern trends in telecommunications and information is the global market.

Foreign exchange market has following functions:

- to ensure implementation of international payments;
- to insure currency risk;
- to provide loans in foreign currency;
- to diversificate foreign exchange reserves by banks, states;
- to obtain speculative profits by market participants;
- impact on government regulation of the national economy and monetary policy and its coordination at the world economy level.

Main participants at the international currency market are:

- commercial banks;
- corporations engaged in international trade;

- non-banking financial institutions (asset management firms, insurance companies);
- central banks.

However, the central element of the international foreign exchange market are **commercial (business) banks**, as most currency transactions involve the exchange by bank deposits, denominated in different currencies.

The desire to get profit from currency operations are **common** to **all participant** at exchange market. However, some of them receive income (or loss) immediately after transaction completion, **such as speculators**; others participants obtained their income later, after further business transactions, paid by using the currency that was previously bought at the market, **such as entrepreneurs**.

In this context, it should be noticed that transactions with **interbank currency demand deposits** dominate at the currency market.

Since the main and most active participants at the foreign exchange market are commercial banks, the market for deposit transactions in foreign currency is called the **interbank exchange market**.

Bank deals with placement of available **monetary balances** and **funds attracted in foreign currency** to maintain short-term liquidity and to make an additional profit.

International currency market consists of many **national foreign exchange markets.** Operations carried on **it three levels:**

1) **level:** retail. Operations at a national market where a bank-dealer interacts directly with customers;
2) **level:** interbank wholesale trade. Operations at a national market, when there is interacting of two banks-dealers through currency broker.
3) **level** of international trade. Transactions between two or more national markets where dealers are banks from different countries and they interact with each other. Such transactions often involve arbitrage operations on two or three markets.

Depending on the organization level, currency market can be differentiated into: exchange (organized) and **over the counter** (unorganized) currency markets:

- **exchange market is** organized as currency exchange;

- **over the counter (interbank)** - banks, financial institutions, enterprises and organizations.

Functions of the exchange market are:

- to implement the monetary policy, aimed at ensuring the regulation of the national economy and expansion of foreign economic relations;
- to ensure implementation of international payments and, thus, yo stimulate external trade operations;
- to identify and to create demand and supply in currency;
- to adjust exchange rates;
- to diversificate foreign exchange reserves;
- to hedge currency risks;
- to earn additional profits from operations on currency trading and sell the currency values etc.

At the currency markets **current agreements are** concluded as well as **term agreements**. Taking in account the scale, an exchange market **is relatively small**, as it primarily functions as national foreign exchange market (fits about 10% of all currency transactions).

Activities at interbank market **directly related to currency transactions.** It established **inter-bank exchange rates**, ie rates that banks set to each other. Interbank "wholesale" rates are always **lower** than "retail" rates for customers. Transactions at the interbank market make about 90% of the turnover in foreign currency.

The currency market has its **powerful infrastructure and well-developed system of advanced communications**, providing timely communication between all market participants, not only within countries but also all over the world (Kozak Yu., 2014).

At the operations with foreign currencies **any two currencies** may participate, but most interbank exchange operations are in US dollar, which is considered as key currency. An important role in the international currency market also play Euro, Japanese yen, Swiss franc, British pound sterling. The demand for these currencies exists there **every second**, unlike other currencies.

International currency market operates an **extremely high money supply**, the annual turnover is estimated at hundreds of trillion USD, and daily - more than $5 trillion. Regarding regional

distribution of foreign exchange transactions, it is worth noting that the Asian market accounts for about 20% of all transactions, 40% - on the European and 40% - in the US market

Currency transaction is a transaction that involves the ownership transfer for currency values, using the currency values as means of payment in international turnover; import, export, transfer and forwarding in the country and abroad of currency values.

In the narrow sense currency transactions are considered as a form of banking activity, related to selling of the foreign currency.

One can distinguish:

- **current foreign exchange transactions** (transfers in foreign currency, receiving and granting financial loans for a period not exceeding 180 days, transfer of the interest, dividends and other income on deposits, investments, etc.);
- **foreign exchange transactions involving the movement of capital** (direct and portfolio investment, purchase securities, provide and receive of financial credit for over 180 days, etc.).

In accordance with another approach, transactions at the foreign exchange market (foreign exchange transactions) are **adopted to classify** by the following criteria:

1. **Conversion operations:**

- agreement with immediate delivery, "today" transaction type, "tomorrow" transaction type, "spot" transaction type;
- term agreements: forward, futures, option;
- "swap" transaction type;
- arbitrage: spatial arbitrage, time arbitrage, conversion arbitrage.

Currency swap is a currency transaction under an agreement, which terms provide for the purchase (sale, exchange) of foreign currency with its reverse sale (purchase, exchange) for a certain date in the future, with fixing the conditions of these operations (rates, volumes, valuation dates, etc.) at the time, when the contract is concluded. This transaction is carried out on the second working day after the day of the contract conclusion.

Currency option is a contract that certifies the right for its buyer, but does not oblige him to buy or sell a standard amount

of foreign currency at specified conditions in the future with the price fixed at the conclusion time of such a contract or at the time of buying. All this operations implement based on the decision of contractors.

Spot currency operation is the currency purchase and sale on the terms of its delivery within two business days from the date of agreement conclusion and at the rate fixed in the agreement.

Currency forward is a currency transaction under an agreement, terms of which require an execution of operation for the currency supply under a forward contract later than the second business day after the day of the contract conclusion. Forward currency transactions are executed in a term not exceeding 365 calendar days.

Futures currency transactions are termed standardized operation on the exchanges that represent the currencies purchasing and selling. The seller accepts an obligation to sell and the buyer accepts an obligation to purchase a standard quantity of the specified currency for a certain date in the future (more than three workers days) at a rate predetermined at the conclusion of the transaction (Gandolfo G., 2016).

Currency arbitration is a special type of currency transactions, main purpose of which is to achieve profits and to avoid possible foreign exchange losses through the use of favourable conditions at currency markets. The basic principle of currency arbitration is to buy a currency cheaper and sell more expensive.

2. Correspondent relations with foreign banks:

- to establish the direct correspondent relations with foreign banks;
- to open the bank accounts individually for international settlements with foreign banks;
- to agree on the procedure and conditions of banking transactions in international accounts;
- to implement of international bank transactions with foreign banks through correspondent accounts.

3. Opening and maintaining of foreign currency accounts:

- to open foreign exchange accounts for legal entities (residents and non-residents) and individuals;

- to charge the interest on the account balance;
- overdrafts (for special customers by the bank's management decisions). **Overdraft** is a form of short-term lending that can be given by the bank to pay for payment documents per its client in the absence or insufficiency in the his/her current account an available financial resources;
- to provide extracts to the extent of the operation;
- to make an archive from account at certain period of time;
- operations on clients' order with their financial resources in foreign currency accounts (payment submitted documents, purchasing and selling foreign currency at the expense of clients);
- write-off of amounts stipulated by law;
- to control of export-import operations.

4. Non-trade transactions:

- purchase and sale of foreign currency and payment documents in foreign currency;
- collection of foreign currency and payment documents in foreign currency;
- issuing and servicing of customers' credit cards;
- purchase (payment) of traveler's checks of foreign banks (very limited operation nowadays);
- payment for monetary letter of credit and nomination the similar letters of credit;
- organization and order of operations in exchange offices.

5. Operations on attraction and placement of foreign currency funds (Onyshchenko V., 2016)**:**

- credit;
- deposit operations;
- operations with securities;
- leasing;
- forfaiting. **Forfaiting** is specific form of lending foreign operations linked with buying by commercial bank (forfeiter) debentures from exporter, accepted by the importer, ie exporter assigns his/her claims for importers to the bank;
- factoring. **Factoring** is the purchase of rights to collect debts, to resell the goods and services and then receive payments on them.

6. **International payments:**
- international bank transfer;
- advance;
- confirmed irrevocable letter of credit;
- open a bank account;
- consignment - commission form the sale of goods.

7. **Other operations:**
- trust operations;
- consulting and information operations;
- common activity;
- insurance operations;
- management of financial resources and other property;
- agreement on assignment of the claim;
- operations with monetary metals.

Foreign currency transactions are carried out in order to:

- sell foreign currency or, alternatively, to buy the foreign currency to pay for imports, the repayment of foreign currency loans and interest thereon etc (Makarenko M., D`iakonova I., 2013).
- prevent possible losses related to unfavorable changes in exchange rates (hedges);
- get speculative profit on the difference in exchange rates.

Over the past three decades Forex market is gradually **developed into the largest financial** market in the world, the daily turnover is from 1 to 3 trillion US dollars.

The main currencies at this market are the US dollar (USD), the single European currency Euro (EUR), Japanese Yen (JPY), Swiss franc (CHF) and British Pound (GPB).

The main market players are:
- banks;
- multinational corporations and export-import firms,
- various funds;
- individual investors.

Today, millions of traders around the world conduct trading at the Forex market, **hoping to get profit** due to currency fluctuations.

Operations at the foreign exchange market are one of the main income sources for banks and financial institutions worldwide. For example, **80%** total profits of the largest Swiss

bank Union Bank of Switzerland (UBS) comes from conversion operations with currency and only **20%** of all profits made income from loans and securities trading.

Today's Forex market is a global telecommunication network of banks and other financial institutions that do not have any fixed trading place and time restrictions - trading starts on Monday morning in New Zealand and closes on Friday evening in the US.

The main advantages of the Forex market (according to opinion of Forex market):

- **liquidity.** The Forex market operates with enormous monetary resources and gives full freedom to trading virtually by any size at a price that exists at the certain moment.
- **existence of leverage.** That is, the ability to conduct transactions with large amounts of foreign exchange resources, without having them.
- **over clock access.** The ability to trade 24 hours a day.
- **globality and ubiquity.** Conducting the trading accessible from anywhere in the world where it is possible to connect to the Internet.
- **no direct commission.**

However, some of these benefits exist due to **some hidden moments**, including:

- First, individual investors (as opposed to institutional) **operating on completely different amount of information** and through physical inability to process huge data amounts for effective forecasting, often lose money;
- Second, leverage is actually **a form of credit.** Therefore, losing at the Forex market with using the leverage lead to the need for its return (Mehlaperidze A., 2013).
- Third, the fee for exchange transactions is actually absent. However, you must **pay considerable funds for education, training, courses,** without which the game on such exchange is not possible. Therefore, direct fees reimbursed from other sources.

4 FUNDAMENTAL AND TECHNICAL ANALYSIS OF THE INTERNATIONAL CURRENCY MARKET

Fundamental analysis examines the movement of prices at the macroeconomic level. The main task of the fundamental analysis school is to shape and to predict new trends in the prices dynamics.

That is the main purpose of the **fundamental analysis** is to analyze and to predict the basic factors and their impact on the trend for price dynamics.

Strategic investors, who provide **long-term investment,** always focus attention on the fundamental analysis.

Fundamental factors are key macroeconomic indicators of the national economy, existing in the medium term and that can have an influence or already have an impact on the foreign exchange market and the level of the exchange rate (Shkolnyk I., 2015).

In fact, this data of **macroeconomic statistics are** published by **national statistical agencies** (eg, the State Statistics Committee of Ukraine) or **international financial institutions** (IMF, World Bank and its structural units). In addition, certain information can be obtained from the releases that are published by **international rating agencies** (Standard & Poor's (S & P), Moody's, and Fitch Group).

Informational agencies offer fresh insights **at the time of publication**. Information for currency traders usually goes **by days of the week**. In the breakdown by days of the week next information is given:

- weighted average predicts of economists and research centres on the expected indicators of national statistics;
- time of their publication
- previous values of such parameters.

Dealers and banks' analytical departments carefully analysed this data and according to their conclusions, **scenario for exchange rate fluctuations** and **changes** in arbitrage operations tactics are formed.

Arbitrage forms a currency transactions, essence of which is in the simultaneous opening of the similar (or different) in terms opposite currency positions at one or more interrelated financial

markets in order to obtain a guaranteed profit from the difference in quotations.

Foreign exchange position is the ratio of bank claims and liabilities in each foreign currency and in each bank metal. In their equality, currency position is considered as **closed**, while inequality - as **open**.

Typically, at the world currency markets, where approximately **80% of arbitrage transactions is** conducted with **the US dollar**, the greatest impact has data about the US economy **that contribute to the increase or decrease of the dollar rate against other currencies.**

There are **two temporal aspects** of the impact on the exchange rate from fundamental factors:

1. The long-term impact. It is a specified set of fundamental factors determining the state of the national economy and therefore the exchange rate trend for months and years. This medium-term rate prediction, used to open the strategic positions.

Example

Long-term negative US trade balance with Japan causes a steady decline of the dollar rate to the Japanese yen.

For analysis the medium - and long-term effects statistical indicators are always taken into account for **the period more than a month** (quarter, year);

2. Short Term. The published statistical indicator has the impact on the exchange rate, acting within hours or sometimes minutes.

Example

The publication of data about reducing the US trade deficit with Japan over the past quarter may lead to some increase in the dollar rate against the yen for several **hours**.

In order to analyse the short-term impact statistical indicators are always taken into account in a short period (week or month).

Bank's foreign exchange dealers make decisions to buy or sell currencies **after messages about the meaning of individual economic indicator.** Their decision influences the correct amount **of bank's profit or loss** of certain foreign exchange operations.

Since bank dealers know the previous prediction of economic indicators in the first second after publication, they compare the prediction and the actual value. In case, when the **predicted and actual values coincided**, significant movement of the exchange rate doesn't usually **occur.**

At the same time, it is considered that the market has **agreed to this indicator value in advance** and the movement of the course took place earlier. The character of the exchange rate reaction to the published indicators' value is determined by market share, which **has already discounted** to the value of this indicator.

Discounting determines the cash flow value by bringing the value of all payments to a certain point of time (Mehlaperidze A., 2013).

Example

There was a prediction on the sharp drop in growth of gross national product (GNP) in the US from 1.2% to 0.4% in just one quarter. Despite the fact that it is only a prediction, a significant number of dealers obviously will advance to sell dollars, leading to the depreciation of the dollar.

If the dealers concentrate **significant amounts of dollars** in themselves**,** at the time, when this data will be published, the market reaction will depend on the specific **GDP value. If:**

- GDP growth is 0.4%, the rate of exchange practically will not change;
- real value exceeds expected GDP growth, for example, 0.9%, the dollar rate may increase, but not significantly;
- real GDP growth constitutes just 0.1%, which is lower than expected, will lead to decrease the dollar rate;
- GDP growth is extremely high, that was not expected at the market. Market will change the assessment of current

economic situation and the exchange rate for dollar will rise significantly.

The main macroeconomic indicators, which are accepted to use during the fundamental analysis of the **currency market include:**

1. **Gross Domestic Product (GDP)** is a general economic statistical indicator that reflects the total value of goods and services produced within a country at market prices.
2. **Gross National Product (GNP)** is the total value of final goods and services created by national capital both in the country and abroad during the year. It is one of the most important economic indicators - so-called the indicator that estimates the efficiency of the economy (Mozghovyi O., 2015).
3. **Industrial production.** The Index of industrial production is a total volume of manufactured products in the industry. From a fundamental point of view it is a very important economic indicator, which reflects increasing strengthening of the economy and therefore of the currency.

Dealers use this indicator as a potential trading signal.

4. **Industrial orders (factory orders)** is an indicator that shows the total number of orders for industrial production for goods on durable and temporary usage. Goods for temporary using include food, clothing and items, intended for maintenance of durable goods.

It has a limited impact on the decisions made by traders at the foreign exchange market.

5. **Data on construction (Construction Data)**. Extremely relevant indicator for the US currency market. This indicator shows the construction trend in the US economy and is included in the calculation of gross domestic product in the US.

It includes three main components:

- the number of new buildings under construction and building permits;
- sales of new and existing buildings for one family;
- construction costs.

Indicators of the construction is **cyclical and fairly sensitive** to interest rates and the rate of personal income.

Example

Construction of new homes in the US at the range between 1.5 and 2 million units per year, reflects the strengthening of the national economy. However, the number of built houses about 1 million units per year reflects the downturn in the economy. Accordingly, it has the effect to the changes in dynamics of exchange rate.

6. **Balance of Payments** is the ratio of monetary payments coming into the country from abroad and all its payments abroad for a certain period (year, quarter, month).

The balance of payments consists of:

- trade balance (or trade gap) is the revenue ratio from exports and imports of goods for a certain time period;
- balance of capital movements (capital payments gap).

With a positive trade balance, exporters, obtaining from their export operations certain amount of foreign currency, sell it in exchange for the national currency, contributing to the growth of its rate. This situation is typical for Japan and Germany, for the countries with traditionally positive trade balance.

With a negative trade balance there is the excess of imports over exports for goods and services. In this situation, importers have to sell the national currency in the exchange for foreign currency to purchase foreign goods, that leads to a reduction of the national currency rate.

7. **Personal incomes.** Typically, for traders at the interbank market, this indicator is not a big deal. However, if the citizens' income in the country is rapidly declining - a decrease in the exchange rate of the national currency takes place.

8. **Inflation.** It is devaluation of money, due to its release into turnover in amounts, exceeding the trading needs, accompanied by rising prices for goods and services.

Government policies aimed at regulating monetary turnover, reducing the amount of money in circulation, called **anti-inflation policy.** It can prevent a significant increase in inflation and is performed at progressive inflationary situation.

The root cause of inflation is the **imbalance** between the monetary supply and commodity coverage. This problem may occur because of a sharp decline in production and be based

on the attempt from the state to pay its debts with the help of additional issue.

Inflation expectations hinder investments, resumption of production.

Inflationary process covers not only the scope of commodity prices; it is reflected in higher prices of foreign exchange, growth of bank interest rates and securities value.

Considering the **negative factor of high inflation**, which is expressed primarily in the fact that **high interest rates** (which are usually satellites to high inflation), lead to reduce production efficiency and to determine the redistribution of capital **from the real economy to service sphere and intermediaries** (commercial and financial credit organization).

Notably, the **complete absence of inflation or even deflation** (reverse inflation process, which is to decrease the prices) leads to stagnation in trade (the demand for goods which prices are not rising or even falling, in fact is insignificant), which certainly also has the negative impact on the production and state of the economy (Gandolfo G., 2016).

The most optimal inflation value is predicted inflation because in situation with stably high efficiency in real sector, there are opportunities to save profitable business for intermediaries (speculators) too, especially for financial and credit organizations.

The inflation rate or devaluation of the national currency, measured in the prices growth rate. **There are two indicators in this case:**

Producer Price Index (PPI), reflects average change in the prices of local producers on wholesale shipments for manufactured goods. Data are analyzed by major sectors of the economy: mining, manufacturing industries and agriculture.

The composition of the index is formed on the basis of the following percentage for major product groups: food - 24%, fuel - 7%, transport - 7%, clothing - 7% etc (while imports of goods and services not included).

The index is published **monthly.**

Consumer Price Index (CPI), reflects the average change in retail prices for a fixed market basket of goods and services. **This**

basket contains a set of products, clothing, fuel, transport and medical services that citizens consume in a day.

Average basket as a percentage consists of: housing costs - 38%, food - 19%, oil - 8%, transport services - 7% etc.

The index is published **monthly.**

9. **The unemployment rate (Unemployment Rate).** The number of unemployed people in relation to the total working population is expressed as a percentage. The increase of this index leads to a the currency weakening.

This indicator is important for traders, because it describes the "health" of the economy, the cyclical nature of its development.

High unemployment increases social tension, reduces the "middle class" number and reduce the net weight of real incomes.

On the other hand, **the sharp decrease in unemployment** is a negative factor, as it increases the cost of labour employed workers, leading to increased costs and, consequently, to a decrease in enterprises profit and, as a result, **negative impact on the currency market.**

Unemployment rates is published **monthly.**

10.**Interest rates.** The interest rates are based on the discount rate, which is a set by the central bank of the country.

The discount rate is one of monetary instruments with which the National Bank of Ukraine sets to banks and other participants as the monetary market the benchmark on the value of attracted and placed funds in the certain period.

The discount rate is the basic interest rate to other interest rates.

A high discount rate leads to a rise in credit value and, consequently, to economic stagnation. Typically interest rate increase is a consequence of high inflation or one of the anti-inflation measures; in the short and medium term interest rate increase can have a stabilizing effect on the exchange rate.

High interest rates are not favourable for the population and the real sector.

Underpriced discount rate results in reduction of money value, capital outflow from the country and currency depreciation.

Low interest rates are the result of downturn in the country.

The effective discount rate has to ensure the stability of the currency and, at the same time stimulates macroeconomic growth in the country.

Also for fundamental analysis it is necessary to determine **relationship and interdependence of different countries to each other.**

Most countries can be divided into **four main areas:**

- dollar zone, led by the United States;
- sterling zone (countries - former colonies of the British Empire)
- yen zone, led by Japan (Asia)
- euro-zone (previously - the Deutschmark zone), led by Germany (Western, Central, Eastern part of Europe).

Combining countries by the principle of leading currency helps to consider a country as a part of a particular system, when some problems in one country can have an impact on other economies (Mehlaperidze A., 2013).

Consolidating the above information concerning factors which affect the exchange rate and add some extra ones, you can submit information such as the following (Table 1).

However, this table shows **idealized situation** somehow**.**

There are exceptions, the force of the impact may not be strong or even cause the opposite situation, so the practice to predict the exchange rate often uses **technical analysis.**

Apart from fundamental analysis of the currency market, that is uses as the analysed material of the macroeconomic indicators, the trading practice uses **technical analysis.**

However, taking into account the significant number of factors that can affect **the exchange rate dynamics**, determination of the accurate prediction of the currency trend behaviour of is practically not possible. But, implementation of the graphical analysis using various technical tools, traders can get the most **accurate currency predictions.**

Market technical analysis - forecasting future changes in exchange rates based on past and current market conditions.

With data on how quotes were changed in the past, the investor tries to interpret this signals and tries to predict the **future market price dynamics.**

The subject of technical analysis is the studying of the exchange information dynamics presented in graphs of prices for previous periods to predict the future rate fluctuations.

Every trader uses different types of technical analysis. Even conservative traders, focusing primarily on fundamental analysis, using price charts before opening or closing position because it enables to determine the most **favourable entry points on the currency market and exit from it.**

Table 1. An impact of certain macroeconomic factors on the exchange rate (ER) dynamics

№	Factor of fundamental analysis	The impact of the exchange rate
1.	Inflation: - Increasing rates - Slowdown	**- Depreciation - Strengthening of the ER**
2.	Balance of payments: - Active - Passive	**- Strengthening of the ER - Depreciation**
3.	Interest rate: - Increase - Lowering	**- Strengthening of the ER - Depreciation**
4.	The difference in interest rates at various national financial markets	**- Multidirectional results**
5.	Gross domestic product (GDP): - Growth (growth) - Reduction	**- Strengthening of the ER - Depreciation**
6.	Money supply: - Growth - Compression	**- Depreciation - Strengthening of the ER**
7.	Unemployment: - Growth - Reduction	**- Depreciation - Strengthening of the ER**
8.	Dimensions retail sales: - Increase - Reduction	**- Strengthening of the ER - Depreciation**
9.	Rising personal income	**- Strengthening of the ER**
10.	Rising inventories	**- Depreciation**
11.	The fall in productivity in the economy	**- Depreciation**

Charts show the price movement in the past, it is reflect the market situation. Owing to it, the investor can decide in which time most beneficial to purchase or to sell the foreign currency.

However, the currency market analysis by technical methods **does not exclude fundamental research.** Successful traders usually combine technical and fundamental analysis.

They argue that **all fundamental data are already reflected in the price,** as prices are "filled" with all the fundamental information, the graphic model is able to predict future price movement.

The basis of technical analysis includes the following statement:

- Everything is included in the price: all information is reflected in the market price and directly or indirectly affect its change;
- prices move by trends, price movements are not random - they are predictable.
- history is repeated the same information is reflected in the price in different periods reiterates its movement in the future.

Technical analysis of the market by mathematical methods uses special tools - **indicators and oscillators.**

Based on mathematical calculations, they can help to find out **when to start a trade and when to leave the market.**

Most of the indicators and oscillators **has already built into the trading software** and created a fairly accurate signals, thus, the trader does not need to know every aspect and technology for their calculation.

Technical analysis offers **two methods** for charts analysis in currency market - **graphical and analytical** (Kozak Yu., 2014)**.**

Graphical method of technical analysis is based on analyzing the price graphs to predict changes course.

Basic types price graphs:

1. **Linear** is used at short time intervals up to several minutes.
2. **Histogram** (exchange schedule, schedule segments, bars) is used at intervals over 5 minutes. It shows the power of "bulls" (maximum price) and "bears" (the minimum price).
3. **Japanese candles** is used instead of histogram. If the candle body is white, prices are rising for the day, when black then are falling

When analysing the price **charts are builds:**

- **support line** (a line connecting the minimum price);
- **resistance line** (line connecting the price highs);
- **trend line** (the line that describes the direction of price movement).

Prediction of market price movements is accomplished **by analysing graphs and identifying shapes formed by the schedule of prices.**

There are **two types of these figures:**

- **fracture trend figures** (figures of rotation) that predict change in the existing market trend under certain conditions;
- **figures of the trend continuation**, which indicate the continuation of the current trends in the market prices.

Some of these **figures:**

1. **Figures of rotation:**

- **“Head\shoulders"** is the figure, reflects a current trend, which has ability to gradually slowing its movement and change to the opposite situation.
- **The reverse figure "Head \ shoulders"** is the inverse situation to the previous model.
- **V-similar model** is the fracture – V-shaped dynamics, occurs very rapidly.
- **"Double bottom"**. The formation begins when the price goes one more time to the horizontal line of support.
- **"Double top"** is a mirror-shaped model to the previous one.

2. **Figures of the trend continuation:**

- **"Triangles".** Is a configuration of market situation includes of two onward sloping levels.
- **"Rectangles".** Prices fluctuate between two parallel lines. They are usually horizontal. However some of them may be inclined.
- **"Pennant"** is triangle-shaped figure. Represents a small "triangle".

The main tools in analytical methods of technical analysis are indicators that can be divided into **five groups:**

- **trend indicators** is used to measure its strength and duration. This group of indicators include simple moving average, weighted and exponential moving averages, etc;

- **variability indicators is** used to measure fluctuations in the price for base currency. These indicators are especially important when trend is changing. They include the standard deviation, Bollinger band and Chaikin indicator;
- **indicators of moment** show the rate of change in prices over time (moment, indicator of the relative strength, trade channel indicator etc.). These indicators are used to predict the end of the trend;
- **cycle indicators are** designed to identify cyclical components and to determine their length (Fibonacci time zone, wave indicator, etc.);
- **indicators of market force** are used to determine the strength of the current trend (volume of transactions, the number of open positions), which often used as the supporting indicators.

The basic methods of technical analysis is **quite well developed** and widely used in the practice of trading.

There are a significant number of **computer programs**, which facilitate the operation with these indicators.

However, **using too many indicators** leads to delay a decision on the purchase of the currency or to sale it and, thus, to unnecessary losses.

Therefore it is advisable to use **small number of indicators** and to identify market trends at an early stage in their origin and formation.

5. INTERNATIONAL CREDIT MARKET

International credit market is a sphere of market financial relations, where the loan capital movement goes between participants by this market under accepted principles of international lending.

The structure of the international credit market includes: **international debt securities market**; **international market of bank loans** and its special segment – **Euromarket.**

The international debt securities market is a part of capital market, where emission, purchase and sale for securities take place.

International market of bank credit is a market of individualized, non-standardized obligations.

It is also provided to allocate: **market for short-term loan capital** (monetary market) and the **market for medium- and long-term capital** (capital market). However, the practice shows that such structuring is **highly conditional**, since the transformation of one capital form to another is a continuous process (1(Kozak Yu., 2014).

Key members of the international credit market:

- international financial organizations: World Bank, IMF;
- corporate borrowers;
- banks and other financial and credit intermediaries;
- governments.

International credit is the loan capital movement in international economic relations, connected with the provision of foreign exchange and commodity resources, based on repayment, urgency and interest payment principles.

In another approach, **international credit** includes the economic relations that arise between lenders and borrowers from different countries on the granting, use and repayment of the loan.

Taking part in the capital circulation in all its stages, **international credit mediates its transition from one to another**: from monetary sphere to production then in the commodity and again in monetary.

Thus, the international credit market **provides the movement of monetary capital and forms of its supply and demand.**

International credit is considered **as a special kind of international trade**. This trade is not just the simple exchange of one commodity to another – it is actually exchanging of today's goods for goods in the future.

Sometimes this exchange is called **intertemporal trade.**

The main sources of international credit:

- monetary savings of the state;
- personal savings sector;
- corporate capital (in monetary form), temporarily released from business turnover.

Basic principles of international lending are basic rules for the banks and borrowers that are arise in the process of credit relations:

- returning;
- urgency;
- paying;
- material security;
- targeted character.

Peculiarities of these principles:

1. **The principle of return** - obligatory refund;
2. **The principle of urgency** means that the borrower must return loan to the bank in terms established by loan agreement;
3. **The principle of targeted lending** is the definition of specific credit facilities to help the bank to make more informed decisions about the possibility and validity for loans. It serves in some way as a guarantee of their return.
4. **The principle of security** (guarantee of loans repayment) is aims to protect the bank interests and to avoid losses from non-repayment of debt due to the borrower's insolvency;
5. **The principle of payment** means that a fee (percentage) has to be paid for financial resources provision at the specified period.

Each borrower creates its own **priorities to these principles** in the provision of credit - there are various strategic alternatives. Nevertheless, the simplest principle for making the evaluation of the borrower is usually accepted to use **the rule of "5 C's», that includes such factors:**

1. **Character** When lenders evaluate character, they look at stability — for example, how long the company has been registrated at current address, how long it has been provided current activity and whether it has a good record of paying for its obligations on time and in full. The lender may consider the experience of the management and track their reputation in certain business sphere or industry to evaluate how company is trustworthy to repay;
2. **Capacity,** refers to considering the other debts and expenses, made by company determining its ability to repay the loan. Creditors evaluate company's debt-to-income ratio, that is, how much it owe in comparison to how much it earns.

The lower ratio is the more confident creditors will be in the company's capacity to repay the resource that were already borrowed;

3. **Capital** refers to company's net worth – the value of assets minus its liabilities. In simple terms, how much company owns (for example, cars, real estate, cash, investments, equipment) minus how much it owe;

4. **Collateral** refers to any asset of a borrower (for example, a home) that a lender has a right to take ownership of and use to pay the debt if the borrower is unable to make the loan payments, as agreed in credit contract;

Some lenders may require **a guarantee in addition to collateral**. A guarantee means that another person signs a document promising to repay the loan if borrower cannot.

5. **Conditions.** Lenders consider a number of outside circumstances that may affect the borrower's financial situation and ability to repay, for example what is happening in the local economy. If the credit amount is quite significant, the lender may evaluate the financial health of the borrower's industry, their local market, and competition.

Sometimes these factors can be widened **also by others** (Onyshchenko V., 2016).

Basic functions of international credit are such that it:

- ensures the redistribution of material and financial resources;
- allows better use of the financial and material resources;
- promotes the accumulation of material and financial resources for their rational use in the future;
- expedites the sale of goods, expanding the international trade boundaries;
- ensures ownership of the most important competition methods at the world market;
- assists programs of economic restructuring in certain countries;
- reducing the solvency of borrowers countries and increase their level of debt to creditors.

Types of the international credit:

1. By the lending terms:

- Supershort - credit given for up to one month;

- Short-term - up to 1 year;
- Medium – from 1 to 5 years (in some cases - up to 7 years);
- Long-term - over 5 years (in some cases - more than 7 years).

2. By the character of collateral:

- **Secured international credit** is a capital, which is provided under collateral of inventories and commercial documentation. **Provision forms are:** products; letters of credit; bill of exchange or promissory notes guaranteed by third parties; guarantees of industrial and trading companies, banks etc;
- **Blank international credit** is a capital that granted without any collateral guaranties and commercial documents. There are no provision and it is provided under the obligation, made by importer to repay the loan at a certain time or upon the occurrence of certain conditions. It is given primarily to customers, who have a long lasting business relationship with the bank and have high solvency (Makarenko M., D`iakonova I., 2013).

3. By the credit facility:

- **International commercial loans** is the primary form of credit, also called **corporate credit** - a loan provided by the enterprise (company) – the exporter in one country to the importer located in another country in the form of deferred payment for sold goods. Used in international trade, but has limited use for mutual deliveries by investment goods used for modernization, renovation, upgrade technological structure of production;
- **International financial loan** is a lending in the monetary and currency form. It may be provided in the currency of the creditor's or debtor's countries as well as in the third currency or multiple currencies if the loan is located in several countries.

4. By the participants of loaning:

- **Private international loans** are material and monetary means provided by private firms or banks and separated according to this approach to corporate and banking.
- **Government (intergovernmental)** are given by government credit facilities under more favourable terms than private, in particular, they can be interest-free for a period of

several decades. Participation of state capital enables lower cost loans and extend its life.

- **International organizations loans** are mainly provided by the International Monetary Fund, the World Bank, EBRD, regional development banks and other financial institutions.
- **Mixed international loans** are loans, which involve private enterprises, companies and relevant government agencies.

5. By the designated purpose:

- **Related international credit** is strictly targeted, which is fixed in the loan agreement or contract. This loan is **divided into:**
- **international commercial loan**, granted to purchase goods or to pay for services;
- **international investment loan**, granted to purpose to construct the specific objects or to upgrade existing industrial complexes**.**
- **International financial loan** is capital that has no strict purpose and is used at the discretion of the borrower for any purpose;
- **International credit for securities** is any kind of international credit, when banks act as intermediaries between borrowers and direct lenders – investors, that placed their money in securities.

6. By the area of use:

- **Production,** intended for development of the economy that receives them: to purchase industrial equipment, materials, licenses, "know-how", payments for production services; ensuring internal trading and other business needs;
- **Non-productive,** used to finance the state apparatus, the army, weapons procurement, repayment of external debt on previously obtained loans etc (Makarenko M., D`iakonova I., 2013).

7. By the terms of use:

- **Single,** they are provided in a certain amount and are repayed at the relevant time;
- **Renewed** - credit limit is defined and the total term for its use, simultaneously already repaid loan part is automatically renewed.

8. By way of redemption:

- **Proportional** - loan repayment is made in equal installments over a certain period;
- **Progressive** - repayments gradually grow;
- **One-time** - repayment of the loan is in a certain period.

9. By the form of implementation:

- **Monetary** - loan transferred to the importer's account;
- **Acceptance** - a loan given by the exporter or importer through transferring to the bank their bills offered for a particular bank.

10. By providing form:

- **Commodity international credit,** granted in the form of goods;
- **Foreign currency international credit,** granted in free converted currency.

11. Lending to foreign trade include:

- Loans for **export**;
- Loans for **imports.**

Risks in international lending

International lending is inextricably linked with **risk**, the nature, force and impact of which on the lending process itself is difficult to predict.

Risk is a conscious possibility of unexpected losses in profit, property, money due to random changes in economic conditions, adverse circumstances (probability, uncertainty).

In the process of credit operations, lenders always deal with various **risks types,** including:

- **Credit risk** is a risk of failure to pay by the borrower the basic debt and interest on the loan;
- **Currency risk** is a the risk that parties my get from the credit agreement as a result of the exchange rate fluctuations;
- **Transfer risk** - risk of inability to transfer funds to the creditor's country because of foreign exchange restrictions in the borrowing country;
- **Market risk** arises from unexpected changes in interest rates;
- **Political risk,** is the possibility of losses (earnings have shortfall) due to possible changes in the political course of the government, amended legislation etc;

- **Liquidity risk** is an existing or potential risk to earnings and capital arising due to the inability of the bank to meet its obligations without incurring unacceptable losses;
- **The risk of the crisis** - possibility of a financial crisis; debt crisis; negative business expectations; the possibility of a chain reaction (Mozghovyi O., 2015).

Also, as the potential **risks may be considered:**

- risk that the price for goods may be changed after the contract conclusion;
- refusal to accept the goods by importer, especially in the collection form of payments;
- errors in the documents or in paying for goods;
- misuse or theft of currency funds;
- changes in interest rates;
- inflation.

In modern conditions, the following techniques to minimize and transfer risk in international lending **are:**

- to select loans and to structure them;
- to diversify credit investments - the distribution of loans between different creditors, in different countries and in different currencies;
- to assess the creditworthiness of the borrower;
- requirement for quality and adequate provision of loans;
- operativeness in collecting a debt - taking urgent measures for debt recovery in the event of the borrower's financial problems;
- to lend by syndicate of bank, which lets to diversify risk between the parties depending on the loan participation;
- to use guarantees (grated by government or the first-class bank);
- to insure international credit (mainly for medium and long-term export credits) - lender property insurance in the certain high-risky international credit operations in specialized insurance organizations - mainly in the state-owned;
- to hedge it is a method to mitigate risk, which consists in identification of the hedged item and in the selection of an adequate hedge instrument. It consists in compensation for losses on the hedged item from the profits of hedge instrument, arising under the same conditions or events;

- to use loans with a floating rate - loans that vary depending on the market rate to which they are attached.

Features of the Eurocredit markets functioning

Eurocredit market is part of the global capital market, where banks carry out deposit and credit transactions in Eurocurrency.

Today, Eurocredit market is an important **source of loan funds**. Banks provide short-, medium- and long-term loans in Eurocurrency. Functioning of Eurocurrencies as the international credit market contributes for creation of more efficient and capacious credit mechanism.

Eurocurrency (from the position of international credit market) is a term deposit, which is allocated in a bank that is situated outside the country, where the currency is issued (Kozak Yu., 2014).

Factors, contributing to the rapid development of the Eurocredit market:

- **lack of government regulation.** Activities as Eurocurrency market is not a subject to state control or rules and restrictions, governing their activities as the national capital market. It is what makes Eurocurrency operations more profitable, compared to credit transactions in national currencies;
- **bank's exemption from the necessity** to reserve the certain part of credit resources in central bank, if they are involved with the Eurocredit market;
- **deposits in Eurocurrency are exempted from national taxes;**
- **difference in interest rates, compared to the national market.** Through the significant amount of transactions, the absence of restrictive regulations and additional costs, rates on deposits in Eurocurrencies are higher as well as credit rates in Eurocurrencies are lower. This situation exists because deposits in eurocurrencies are free from the mandatory reserves, which commercial banks are required to have on non-interest account at the central bank and from income tax on the interest.

Commercial banks evidently do not have these preferences **of the national capital market.**

Specific features of the Eurocredit market:

- minimal government regulation and incentives for non-resident members to act of the market;
- wholesale market, where large amounts operate mainly in interbank transactions (4/5 of the market);
- deposits are generally with some terms or in the form of savings;
- wide banking network that promotes international operations;
- large number of financial instruments that provide freedom of choice to borrowers and lenders;
- internal political stability to ensure operations continuity;
- availability of skilled labour and communications to achieve effective operation in the international banking community;
- set of rules to be followed to ensure minimum national and domestic regulation and lack of market disturbances;
- lack of international regulation at Euromarkets.

Participants of the Eurocredit market:

- international financial institutions;
- central and commercial banks;
- governments and government agencies;
- non-banking institutions (brokerage firms, insurance companies, business corporations, wealthy citizens).

Syndicated loans are loans, granted by a group of banks under a single credit agreement that lets to distribute the whole loan amount between participants as well as risks associated with its granting.

Syndicated loans can solve the contradiction between the borrower needs in significant credit and inability to provide it by individual bank due to:

- limited resources;
- inconsistencies between turnover terms bank's resources with the period required for lending;
- availability of bank restrictions in risk on investments per one borrower.

The syndicated loan is used mainly **for long-term lending.**

The objects for syndicated lending are needs **of investment nature:**

- modernization and technical re-equipment;

- construction of the new venture;
- development and production of raw materials, precious metals;
- internal scientific and technical developments;
- implementation of measures in the environment, energy sphere etc.

In the implementation of syndicated loans the basic role is assigned to the bank-organizer (agent bank), which is the centre unit of borrower lending.

Usually it is reliable and stable bank with a rather large liability. It has experience in large-scale operations. Except it, there must be extensive ties with qualified personnel and high reputation in the banking business.

From the bank-organizer's reputation, (in other words – confidence degree in the professionalism of its managers) depends the speed to make decisions by other banks to join the syndicate and, accordingly, the timeliness for the loan granting to the borrower in the certain amount (Mozghovyi O., 2015).

The main functions of the syndicate's organizer bank are:

- borrower's investment project analysis;
- selection of potential participating banks;
- preparation of the information memorandum of the borrower and his/her project;
- invite other banks to participate in the project and negotiate with them;
- preparation and coordination with all agreement parties of the lending documentation;
- consultation on questions about project and borrower, which can arise at banks-potential participators;
- maintaining of the necessary contacts with the borrower, information about the preparation and implementation of the agreement;
- activities as an agent of the credit (loan accounting; control of timely and full repayment for all his/her creditors; controlling of the interest payments on loans; monitoring of the financial condition of the borrower and the project, etc.).

Thus, the bank-organizer takes over the entire process of syndicated lending for the borrower. Bank-organizer must carefully work out the whole syndication scheme with a view to

offer for agreement participants **practically ready credit project.**

Syndicated loaning process **includes the following steps:**

First, a potential loan organizer evaluates borrower's market attractiveness and whole operation on the basis of publicly available information about him/her and the state of the credit market.

According to such analysis, the decision on the feasibility to offer to client the syndicated loan can be made. At the same time, the approximate structure and conditions for such agreement is developed. Than a borrower **earns a formal proposal** to the possibility to make such a loan.

If he/she agrees with the terms of the offer, the bank-organizer signs **preliminary agreement** with him/her to grant this bank an authority to create a syndicate. This agreement contains the most important economic conditions for the parties, connected with the future loan agreement. And, therefore, it plays an important role in syndicated lending, since these terms will guide all other banks-members of the syndicate.

After signing the preliminary contract, the bank-organizer determines the number of potential lenders. **It takes into account:**

- credit policy;
- financial capacity of anticipated participants;
- experience of working with them on other transactions;
- request of the borrower.

Later, the bank-organizer sends a written invitation to participate in the syndicate to potential members of agreement, in which the borrower and loan terms are indicated. It means that each member bank **must independently** (without relying on the opinion and information of bank-organizer) on the basis of the provided documentation, make the decision to participate in the credit agreement.

When deciding to participate or not participate in the syndicated loans, banks take into account the **following peculiarities of** the borrower's business**:**

- sustainable dynamics of the business;
- stable financial condition;
- information transparency for creditors;

- positive credit reputation;
- annual revenue that can be used to repay the loan etc.

After all approvals, banks which participate in the syndicated loaning in their own name conclude **one common loan agreement** with the borrower, which contains the basic economic terms and legal aspects of operations as well as the rights and obligations of the parties.

In particular, this contract fixes:

- full name of the syndicated loan members (participating banks and borrowers);
- loan purpose, amount, date, currency;
- provision;
- period of loan, its utilization and repayment;
- interest period, its terms, conditions on which the interest rate on the loan is set;
- stake of each creditor banks in the total credit limit;
- detailed description of the agent bank, its rights and obligations under the contract;
- borrower's rights and obligations in respect of all participating banks;
- an order for use the credit limit by borrower and repayment of his debt and interest on the loan etc.

Next to the signing the loan agreement and provision commitments with participating in the syndicate banks, the borrower may apply to the agent bank for this loan. It can be given in a **single order, but often in the order of opening the credit line to borrower** (Kozak Yu., 2014)**.**

After placing credit shares by participating banks to the correspondent account of bank-agent, their obligations under the syndicated loan are **considered as executed** and it is the basis for the onset of the borrower's obligations to repay the debt in terms, set by the contract. All payments in arrears (as well as interest payments) are made by the borrower through agent banks.

Repayment of loans to participating banks should come **simultaneously and in proportion to their share in the loan agreement.** If there is an **insufficiency** of funds in the borrower's checking account, opened in the bank-agent, the debt can be

repaid by the borrower from any proper checking account, opened in other banks.

Syndicated loaning is beneficial both for borrowers and banks - participants of the syndication agreement. **In particular:**

- **bank-organizer** except interest on loans (in the share defined by agreement) is substantial commission from the borrower to arrange syndicated loaning. In addition, his/her business reputation is increased in banking circles;
- **participating banks** (medium, small) acquire experience with first-rate borrowers, improve their skills in the design of large credit agreements; develop business partnerships with other banks; diversify credit risks;
- **borrower** gets a big loan, addressing only **to single** bank, while saving costs that can be more significant in the design of loan agreements with several banks; strengthens its reputation at the capital markets; may significantly expand its base of individual creditors in future.

It should be noted that syndicated loans are the form of **co-financing projects.**

Another form **is a parallel financing** for which the project is divided into parts, credited by various creditors, which are independent of each other, within their assigned quotas.

There is also a **consistent credit** (financing) of the investment projects. It takes place in the case, when a large bank acts only as initiator in credit operations, giving the right to demand payment of the borrower's debt to other banks. Nevertheless, to evaluate of the project, the development of the credit agreement and the issuance of loans the bank receives commission (Roy M., 2016).

International official assistance

One of the channels to distribute the global financial flows is to provide national income in the **assistance form** to developing countries, in order to eliminate their economic, social, technological and cultural backwardness.

The term "**Official assistance development" was created by** Development Assistance Committee (DAC), which is subdivision of Organization for Economic Co-operation and Development (OECD) with the reason to measure an international intergovernmental financial aid to developing countries.

Such financial resources redistribution relate to international out-of-market mechanism that promotes macroeconomic stabilization of the economy and sustainable production growth in countries, which go to the market economy.

Official development assistance (ODA) for developing countries, are mainly **in the form of soft loans and irreversible subsidies, as well as in the commodity form.**

The subjects of international **aid in the recipient countries are:**

- governments;
- authorized government executive bodies;
- central and Export-Import Bank;
- entities.

That is, recipient receives the **bulk of loans and subsidies in irrevocably from** industrialized countries, international financial institutions, multilateral funds, integration associations that act as foreign donors.

Official development assistance for countries is classified **on project and non-project.**

The project includes development assistance:

- **system projects** (macroeconomic stabilization of the economy), financial stabilization of the economy; structural changes in the economy; economic relations reforming; implementation of administrative reforms;
- **structural projects** (structural changes in some sectors), rehabilitation loans; institutional capacity building; public administration reform; the legal system reform;
- **investment projects**: the development of production, individual industries and economy sectors;
- **technical assistance projects.** Forms of assistance: additional qualified personnel; training in the workplace; specialized courses in the host country; documentation, equipment and technology to provide technical assistance.

Projects have the following **components:**

- mutual obligations between the government of recipient and donor countries;
- development program in certain sectors of the economy, mechanism of its implementation and monitoring for this process;

- grants to improve the preparation and implementation of the project.

Non-project assistance for developing countries includes:

- **commodity aid:** long-term preferential export credits for the purchase of imported goods; food aid in the form of gift for resale in local currency; creating as special funds to support agriculture based on profits, derived from the use of export credits;
- **grants** to support reform of government action: cover deficits; find certain parts of some projects;
- **extra-lending instruments of international official assistance:** discussing of the development strategy for the short and medium term; general economic and industry research work; mobilization and coordination of the official resources through donor meetings and participation in joint financing.

Nowadays, relations connected with the provision of official development assistance are **developed very actively**, as growth rates in developing countries may not be comparable with the development of developed countries.

However, in order to ensure that such aid can actually stimulate economic growth (not dependent on itself), recipient countries should implement their own action series:

- to engage in the mobilization of domestic resources;
- to attract foreign investment;
- to develop small and medium businesses;
- to reform the system of international trade and finance;
- to find new tools and forms to finance international development.

6. INTERNATIONAL SECURITIES MARKET

With the rapid economic rise in many industrialized countries, traditional funding sources are not fully meet the needs of large corporations in the capital. Therefore, these companies are not restricted to the services of national banking systems and, relying on its high credit rating, attract cheaper financial resources by **issuing securities.**

From this perspective, there are some current trends, such as:

- growing demand from issuers;

- increase in supply as a result of the national markets integration;
- competition as a result of openness and globalization in the world economy.

Results in:

- reducing the role of the banking sector as a mechanism for redistribution of financial resources at the national and international levels;
- increasing investment and lending activities in the international securities market.

Therefore, the **international securities market** - a market in which exists the movement of financial liabilities and instruments (like securities) beyond national borders with the goal to get profit (Mehlaperidze A., 2013).

Real long-term securities called **stock market**. Together with the short-term market of **money debt** (bills, certificates) they form **securities market.**

Thus, the international securities market combines part of:

- international debt market. **Instruments:** bonds, bills, savings certificates;
- international market of property titles (rights). **Instruments:** all existing types of shares, depositary receipts; Hybrid instruments - securities that have the characteristics of both bonds and shares (eg preference shares and convertible bonds);
- international market of financial derivatives. **Instruments:** warrants, options, futures.

International Settlements Bank distinguishes **issues** on the international market among the following types of securities:

- issue of securities by non-residents in national or foreign currency at the domestic financial market;
- issue of securities by residents in foreign currency;
- issue of securities by residents in national currency held for sale to foreign investors.

International Securities Market **has two structural components:**

- foreign securities market. It is financial market in countries, which concluded the agreement on the financial assets of non-residents - **foreign securities**;

- Euromarket of securities. It is the market, on which securities denominated in eurocurrency are issued, bought and sold.

In the broadest sense, **investment** is the use of monetary funds to generate income or to increase capital.

In fact, all types of property and intellectual values that are contained in business and other activities for profit or achieving social effect are **investments** (Onyshchenko V., 2016).

In other words, in this case we **should not talk just about money** like cash or a means to make payments, but money that are the monetary form of capital circulation, ie investment capital.

Investment capital can be:

- own (retained earnings, depreciation);
- borrowed, which source are temporarily free funds of individuals or entities.

*In banking practice there is a third type of capital – **involved capital,** by which considers the bank deposits.*

Own savings, by moving in some objects, are directly converted into investments.

Borrowed financial resources are transformed into investment through the capital market, primarily because of the **stock market**.

However, temporary free money by themselves are not **the investment.** They turn is to investments in the purchase of production elements that can generate income. In other words, during the transition of money in **real assets.** These investments are called **real investment.**

Real assets are the economic resources of the enterprise: fixed and working capital, intangible assets (patents, licenses, know-how, trademarks, etc.) used for productive activities to generate income.

Nevertheless, it should be noted that **not all allocations in real assets are investments**. Real assets can be investments in the situation, when they **cannot just generate profit**, but also **bring it**.

But not just physical assets can be the object of investments. They can also include:

- real investment projects;
- real estate;

- various financial instruments.

Financial instruments as investment objects - are different types of financial obligations:

- deposits in the bank;
- securities (bonds, shares, options, etc.).

Investments into financial assets are called - **financial investments.**

Thus, the term **investments is** used to refer:

- investment funding into intellectual property, into real assets, ie production process;
- investment funding in financial instruments, ie the purchase of securities.

In terms of the international capital market, one should consider investments not to in real assets (production) but in **various financial instruments**.

The main participant of the investment process is the investor. **Investor** is an individual or legal person, who invests financial resources and/or other assets for their preservation and enhancement. During the funds investing in securities, the main investor's purpose is to **minimize risk.** Other **potential interests** may include:

- security of investments;
- increase in current income;
- accumulation of funds for major expenses;
- accumulation of funds for retirement period;
- concealment of income from taxation;
- liquidity of investments (Makarenko M., D`iakonova I., 2013).

This feature (the interest of minimizing risk) distinguishes the investors from **other members** of the international securities market:

- **speculators, who are ready** to go on calculated risk;
- **players, who are** ready for any risk to increase the profit.

Securities are financial documents, which prove ownership or loan relations, determine the relationship of the person, who has issued them with their owner and provide, in general, paying income as dividends or interest and the ability to transfer monetary and other rights, arising from these documents to other parties.

From this perspective, the investment **can be divided into:**

- direct investment (FDI);
- portfolio investments.

Foreign direct investment is a kind of foreign investment, designed to expand production and ensure of the control to company's activity through ownership for controlling stake. They are carried out at the enterprises, land and other capital goods.

The **international portfolio investments** are investments in foreign securities that do not give to investor the right for real controlling of the investment object, but give him/her a pre-emptive right to acquire income under the portfolio share of the investee. In international practice, as a privilege, this share does not exceed 10%.

In other words **foreign direct investment** is a real investment, which, unlike the portfolio, is not purely financial assets that are expressed in local currency. In addition, they, unlike the portfolio, usually provide the management control over the object, in which the capital has invested (Mozghovyi O., 2015).

Investors, depending on their market interests, have a wide variety of **strategies** to ensure the safety of their investments and their profitability. In order to guarantee an effective movement between these parameters, the investor should clearly establish the balance among:

- riskiness and profitability;
- reliability and liquidity;
- influential and yield etc.

No one type of securities has such qualities that will ensure the achieving of these goals.

The mechanism of the securities market act so that in the situation, where securities are truly secure, their returns will be low. Such relationship is between securities qualities such as capital growth prospects and profitability.

Optimum securities portfolio is achieved by: investment's diversification, when capital is distributed among the multiplicity of different securities; regular portfolio review. Adopted to limit the investment in one type of securities by 5 - 10% of the total portfolio.

Intermediaries in securities market

Purchases and sales of securities are made at the international securities market through the **following intermediaries**:

- investment dealers and brokers;
- investment fund;
- depository (institution that maintains securities and draws transfer of ownership for them);
- settlement and clearing houses;
- registrars.

A broker performs securities, transactions based on the contract with the client, and at his/her expense. For service broker gets a commission and brokerage therefore belongs to the category of the commission activity.

A dealer performs operations on his/her behalf and for his/her own account for resale of securities to the third parties or for purpose to form his own securities reserve. Dealing belongs to the category of the commercial activity (Kozak Yu., 2014).

In addition to dealer and brokerage services at the international securities market, there is the depository activities, includes:

- storage and transfer of securities and inventories, related with them;
- documents collection, verification, correction and providing the mutual settlements - clearing and settlement activity;
- registrars activities - legal person who keeps the register of securities holders.

Except this, intermediary operations for the production and circulation of securities **could perform:**

- banks;
- investment companies, which combine the functions of a financial intermediary and institutional investor;
- companies that specialize in working with securities and an intermediary activity for the production and circulation of securities.

Institutionalized and permanent securities market is the **stock exchange** - a voluntary association of stock market intermediaries.

Securities market creates investment risk. **Investment risk** is a possibility of loss:

- in invested capital
- in expected income.

The risk of loss in the invested capital depends on: *market risk* and *business risk.*

Market risk is not directly linked to the commercial and industrial activity of the enterprise.

It can depend on:

- movement of interest rates,
- exchange speculation
- strike etc.

Business risk is determined by the possibility and the ability of the company to maintain the income level on are invested capital, and for the stock company – for shares. The competitive situation at the international commodity, credit and currency markets affects business risk indirectly.

The **expected income risk of loss in** depends on: **interest rate risk** and the **risk of changes in the money purchasing ability.**

Example

Government bonds have a nominal value, expressed in money. The sudden rise in prices reduces the real value of bonds for interest value of money depreciation.

The shares profitability depends on: **dividends** and **changes in share prices**. Dividends and capital gains, for sufficiently long period are determined by the company's revenue, which in turn depends on technological, competitive, economic and political factors.

Exchange rate fluctuations also affect the yield of the securities.

The possibility that securities will both **revenue and reliability** is **insignificant**. High income, usually accompanied by high risk.

The securities **referred to risky** if the rate of return on investment varies greatly. In fact, **any** investment in securities contain an element of **risk** (Table 2).

Table 2. Risk and revenue ratio by type of securities or deposits in the USA

Type of securities or deposit	Income on investment	The risk of loss in invested capital		The risk of loss in expected revenue	
		Marker risk	Business-risk	Interest rate risk	Risk of changes in the money purchasing ability
Speculative ordinary shares	15-20%	H	H	L	L
Rising shares	10-12%	H	H	L	L
Actions with "blue collars"	8-10%	M	M	L	L
Certifications of investment funds	8-10%	M	M	L	L
Revenue shares	7-8%	M – L	M – L	M	M
Convertible privileged shares	6-10%	H – M	H – M	L	L
Convertible bonds	5-10%	H – M	H – M	L	L
Enterprise bonds	5-8%	M – L	M-L	H-M	H
Municipal bonds	4-5%	L	L	H	M
Government bonds	4-6%	L	L	H	H
Account in savings or commercial bank	4-5%	L	L	L	H
Account in Swiss bank	0%	L	L	L	H
Savings in safe	0%	L	L	L	H

1. **Depending on the purpose, securities are divided into:**

- **stock** (shares, bonds) are the tools of the capital investment. They mediate trade operations and have the circulation mostly on stock market; usually they are perpetual or have the turnover more than one year;
- **commercial** (bills, letters of credit, etc.) are credit instruments, mediate trading operations and circulate at the monetary market. These securities are mainly of short term. Usually they are just partly used to invest the capital.

2. **By issuers:**

- issued by firms;

- companies;
- governments;
- state institutions;
- banks;
- local authorities.

3. **Due the transferring of property rights:**

- **registered securities**. The transition of property rights on registered securities requires holder's authentication (confirmation);
- **on the bearer.** The transition of property rights on bearer securities does not require holder's identification;
- **transferable.** Transferable securities (note-draft) that are issued by the creditor (drawer) and are an order to the debtor (drawee) to pay a specified amount in appointed term to third party (payee) or bearer.

4. **Depending on its role:**

- **basic,** in which basic property right or claim are fixed;
- **subsidiary,** which is a confirmation of additional rights, conditions, requirements (eg coupon that indicates the owner's right to appropriate interest or dividends).

5. **On the possibility of sale:**

- **market,** which can be resold;
- **non-market,** which can be sold only once.

6. **According to the method of income payment:**

- **securities with a fixed payment** (bonds and preferred shares);
- **securities with floating rates** (bonds with floating interest, which depends on the discount bank rate);
- **securities,** the income of which depends on the size of net profit (ordinary shares).

7. **On the basis of turnover area:**

- **regional** (local government bonds);
- **national** (securities of internal stock market);
- **international securities,** which can rotate freely in other countries.

8. **For the registration place:**

- **foreign.** Securities which issuers are non residents in the particular country and their issue is registered in other countries;
- **domestic** securities.

9. By degree of **reliability:**

- high quality (with high probability of capital return and getting the income);
- **ordinary** (with a low probability of capital return and getting the income).

There could be even others approaches for classifying the securities.

Shares as part of the international securities market, the Euro-shares

Share is a security without setting the turnover term, which shows a part in the capital of the company and entitling the holder to receive the profits in the dividends form, to participate in the distribution of assets during the company liquidation.

The nominal value of the shares is set at formation of the company and fixed on the front side. It **does not reflect the value of company's real assets** and in recent years, generally, not indicated at all. Shares without par value issued at a price attractive to investors.

The carrying value of shares is calculated as the quotient of the company's net asset value to the number of issued common shares.

Coursework (market) value of shares is determined by supply and demand for them on the stock market. It is the present value on the stock exchange or off-exchange.

The main types of shares:

1. Common (ordinary) shares are the shares, revenues of which depend on the net income of the corporation and its dividend policy.

Profit distribution to owners of the ordinary shares is made in proportion to the invested capital, which depends on the number of purchased shares (Kozak Yu., 2014).

However, **not all net profit goes to dividends** on ordinary shares. Having paid on preferential dividends in most corporations there is a practice, when part of net income is transferred to finance future investments.

The risk of investing the equities in common shares is linked to the fact that dividends on them may be declined or even can be unpaid. Sometimes dividends are paid not in the monetary

form, but in shares. If the corporation goes bankrupt, the holders of common shares may lose all their investments.

If the company's bankruptcy will be held, during putting a claim on assets and earnings of the corporation, **the owners of ordinary shares will be last in the order** - after banks, bondholders and preferred shares.

Thus, **the source of the risk at common shares** may be either the stock market or the company or both – the first and the second.

The attractiveness of common shares is that they:

- are entitled to vote:
- give preferential right to purchase shares of new issues:
- give the ability to build up capital (increasing with time share price) due to its high liquidity, that is quite active stocks trading at any time.

Depending on the **degree of risk and return** the stocks, which acirculated at international securities market, divided into shares:

- shares with "blue collars";
- revenue shares;
- shares of growth;
- cyclical shares;
- speculative shares.

2. Along with common shares, companies issue **privileged (preferred)** shares in an amount not exceeding 10% of its share capital.

These shares give to their holders **a number of benefits** (preferences), however do not give the right: to vote; to participate in the corporate management (if other provisions haven't provided by the charter).

These benefits include:

1. The right to receive a **fixed income** as a percentage of the shares value or as a certain amount of money, paid regardless the company's performance;

2. The priority right:

- to get the dividends;
- to participate (after satisfaction of creditors - banks, bond holders) in the distribution of company's assets at its liquidation;

3. If the dividend size, paid on ordinary shares, **exceeds** the amount of dividends on preferred shares, their holders can receive additional payments.

The Company may issue preferred shares **at the following types:**

- **cumulative, which have rights to** accumulate unpaid dividends, their accrual and payment in the further periods;
- **non-cumulative**, in which unpaid dividends do not join dividends of the coming years;
- **convertible**, which may be exchanged for fixed number of ordinary shares or company's bonds;
- **non-convertible**, which can not change their status;
- **with a share of participation**, which entitles their holders for additional dividend than prescribed, if dividends on common shares are higher (Mozghovyi O., 2015).

A variety of benefits makes preferred shares attractive to investors.

The issuer is also interested in their production because it does not lead to the erosion of capital and lets him/her to save a controlling stake.

Holders of preferred shares occupy an **intermediate position** between the bonds holders, who are company's creditors, and the common shares holders, who are co-owners with the right to participate in the corporate management.

Preference shares may be regarded as **compensation for the lack of voting rights.**

Euro-shares are shares that are placed simultaneously at several national stock markets by the syndicate of international financial institutions, which sell them for Eurocurrency.

It is believed that the **Euro-share market was founded** in 1983.

Euro shares sold on the European market, listed in the world's financial centres (mainly in London) and the **income**, derived by them, **is not the subject to any national tax system.**

Mobilization of financial resources through the Euro-shares tend to perform by TNC in developed countries, its share of total emissions *is about 50%.*

Euro-share market characterized by an increase in issue and in expanding of the participants, however its scope is relatively small (4-7% of total issue in the European securities market).

Euro-shares issue has a positive impact on the company, which plans to export to foreign markets and to develop foreign production, as it becomes **widely known abroad.** It promotes its products at this market. Issue of the euro-shares often improves the credit reputation of the issuing company, making easier its access to other resources and is the **indirect promotion abroad.**

Bonds as investment securities

In order to expand the possibilities to mobilize financial resources, corporations, state and municipal authorities are released into turnover on the securities market its bonds.

Bond is a debt investment security that certifies the payment, made by its holder, and confirms the commitment to compensate him/her in definite term its nominal value with certain fixed percentage from nominal value.

Bonds holder (investor) **is not the owner of the share capital**, he/she is the lender and has the right to obtain solid income and for return in certain period of the bond's nominal value or other property equivalent.

The bond's attractiveness to investors is that they have a higher degree of reliability compared to stocks, although profitability is lower (in developed countries within 6-12%). The most reliable bonds are those, which linked with state and local loans that are guaranteed by the government and provided the relevant property (Onyshchenko V., 2016).

The bond's disadvantage is the fact that the fixed rate is actually the periodic interest payments at regular intervals without taking into account the inflation. To increase their attractiveness to investors, may be issued following types of bonds:

- with floating interest rate, which varies with the change of return and interest rate;
- bonds with indexed percentage of the price level for goods.

In practice **different types of bonds** can be issued, they are classified by:

- **loan terms** - short-term (3 years), medium (3 to 7 years), long-term (7 to 30 years), undated;
- **frequency** of income calculation;
- **the rules of trade** - free circulation and limited circulation;

- **the principle of repayment** - serial bonds, which are repaid by consistently series at regular intervals and ordinary bonds that are issued simultaneously on the date;
- **the nature of taxation** - with the usual tax; with reduced tax; not subject to tax;
- **payment mechanism of the interest rate** – nominal (registered) bonds; bearer (not registered).

Bond's exchange at the stock market depends on **supply and demand** on them, which, in turn is determined by:

- income that is given by bonds;
- interest rate levels;
- profitability level of alternative investment funds.

If at the stock market there are bonds of **several corporations, face value of which is equal**, then, with other similar conditions, higher demand will be for those bonds that have a higher interest rate.

At the same time, demand depends on the **bond rating**, which is determined by special agencies based on an analysis of the financial condition of the company and its ability to fulfil obligations.

The market price of each bond at a time may be higher or lower than the nominal value, may increase or decrease.

International bond market is a **powerful source of medium- and long-term capital** in the international financial environment.

International bonds are divided into **foreign and Eurobonds**:

- **Foreign bonds** are securities issued by non-residents in the domestic bonds market and denominated in the national currency of this the market;
- **Eurobonds** long-term debt securities that are placed simultaneously in several markets by transnational syndicates and in the currency, in which they have been issued, is foreign for those investors, who buy them.

International market of financial derivatives

Over the past three decades at the financial markets a large number of new financial instruments types called **derivatives** appeared.

The **financial derivatives** are understood the instruments for financial risk trading, prices of which are linked to a financial or real assets. **Derivative** is a standardized document that certifies

the right and (or) the obligation to buy or sell the underlying asset at the specified conditions in the future.

The underlying assets include goods, securities, monetary resources and their features that are subject to obligations under derivative.

If classical securities are designed to attract long-term capital, derivatives are an **instrument for hedging**, ie insurance against price risks. Derivatives as means to reduce risk at the financial markets are the most popular among other possible tools.

Terms of derivatives **are determined for each case** and by participant' agreement (Kozak Yu., 2014).

According to the Bank for International Settlements classification, there are four types of underlying assets, to which derivative can be linked:

1. **goods** – derivative' price attaches to the price of a certain product or commodity groups;
2. **shares** – derivative' price attaches to the price movement of a stocks or to price index of the group of shares;
3. **foreign currency** – derivative' price attaches to rate fluctuations of one or several currencies;
4. **interest rate** – derivative' price attaches to the a fixed, floating, combined interest rate.

Accordingly, **the derivatives prices** are determined by the movement of:

- commodity prices;
- financial instruments
- price indices.

The specific derivatives feature is that in the process of their trading, counterparties exchange not **by assets themselves but risks** arising from these assets.

The **main goals** of derivative are:

- fixing the future price of any asset today, reached by the conclusion a forward or futures contract;
- exchange with cash flows or assets (swaps);
- purchase the right but not the obligation on the transaction (option contract type).

According to financial organization of the international trade for derivatives, **two main contracts types are distinguished:**

- **forward** contract type (forwards, futures, swaps);
- **option** contract type.

Forward is a bilateral agreement on the standard (typical) form that certifies entity's obligation to buy (sell) an underlying asset at a specified time in specified circumstances in the future with fixing the price at the time of the contract conclusion.

There are the following **types of forwards:**

- **commodity forward** - for the supply of goods;
- **forward** on shares - for the supply of shares in future or shares list at a fixed price;
- **forward interest agreement** - a contract under which the interest rate, which will have to be paid or received in the future, is determined, when signing the contract;
- **immediate forward** - a contract to exchange two currencies at the agreed rate today, more than two working days after its signing.

Futures are actually a stock exchange forwards. **Futures contract** is a standard document that certifies the obligation to buy (sell) an underlying assets at a certain time and on certain conditions in the future, with fixation of price at the time of contract obligations by the parties.

The subject of the futures transaction is underlying asset, however the futures contract can be sold **regardless the existence of these assets at the transaction time**. It is **enough** that it includes the interest rate, exchange rate, price index etc.

The main reason of a futures contract is that it is a fixed-term agreement, in other words there is a **gap** in time between the conclusion of the agreement and its implementation.

Swaps are a forward contracts, in which the process to buy and to sell the underlying asset take place with simultaneously with conclusion of reverse transaction on the same asset.

The basic reason for swaps is that they enable to get additional income not from the simple exchange of assets but from the **dynamics of prices for counter transactions.**

Swaps **can be:**

- **commodity swaps** mean an exchange of two payments for one product, one of which is paid for its current price and the second – by agreed price for this product in the future;

• **currency swaps** are contracts that involve the exchange of two currencies, excluding interest payments now and exchange them back at a specified date in the future at a rate agreed today;

• **stock swaps** are contracts to exchange income from shares or index for shares, resulting from the use of fixed and floating interest rates;

• **interest rate swaps** are a contract under which the parties exchange payments arising from differences in the case of the fixed and floating interest rates.

Option is a standard document, which certifies the right to buy (sell) an underlying asset on specified future conditions with the price fixation at the time of signing the contract or at the purchase time by the contractors' decision.

The option feature is that the owner is entitled, but not obliged to buy or to sell the underlying asset. Option **buyer may refuse his/her** right to buy the underlying asset. However, the **seller cannot refuse**, receiving a fee (premium) for the option, the obligation to sell them if the obligations are required by the buyer of the option.

Option buyer may **sell it to any third party** and then the seller will have the option to perform the contract in relation to the new owner. Option becomes **negotiable** securities.

Options can be of the following **types:**

• **commodity option** is a contract that gives the buyer the right to buy or to sell a certain quantity of goods at an agreed price before a certain date;

• **share option** is a contract for the supply or obtain a certain share or set of shares to the particular date in the future under the option terms;

• **currency option** is a contract that gives under the option a right to buy or to sell currency at the agreed rate over time;

• **interest rate option** is a contract for the supply or receive certain interest income on the agreed amount in the future under the terms of the option.

The purpose of the option buy-sell can be:

• **speculation** in differences of rates;

• **hedging** is reducing of the risk associated with a decrease in prices.

In the option relations **both parties are at risk**, however, the buyer of the option meets somewhat lower risk than the seller because he has the opportunity to make the choice:

- purchaser buys or does not buy an underlying asset and his loss will be expressed only in the **amount of premium;**
- seller loss has the character of lost profits because due selling the underlying assets for option contract, he loses the opportunity to get course profit for them.

The list of questions

1. What is the difference between the scientific concepts of finance and international finance?
2. What is international financial flow? By what types it is classified?
3. What is currency, quotation and exchange rate? What is reserve (key) currency?
4. Does the eurocurrency mean euro?
5. What is the essence of international financial market? What structure and functions does it have?
6. What is the role of fundamental analysis at international currency market? What macroeconomics indicators must be taken inti account during fundamental analysis? Why?
7. How to use technical analysis to research the situation at international currency market?
8. What is Eurocredit market?
9. Explain the features of international securities market. What are the main types of securities traded on this market?

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