Mohamed Khaider University, Biskra

Faculty of Economics, Commerce and Management Sciences

Commerce Department

Module: International Finance

Branch: International Trade
Level: Third year Bachelor

Lecture 03: International Financial System

Learning Outcomes

When you have completed your Study of this Lecture and its readings, you will be able to:

- Showing the meaning of the international Financial System

- Explaining the financial Globalization and determining its forces driving

- Discussing the importance of Global financial centers

1-Definition of International Financial System:

The global financial system refers to the combination of financial markets and financial institutions, which operate in a legal and tax environment of international business.

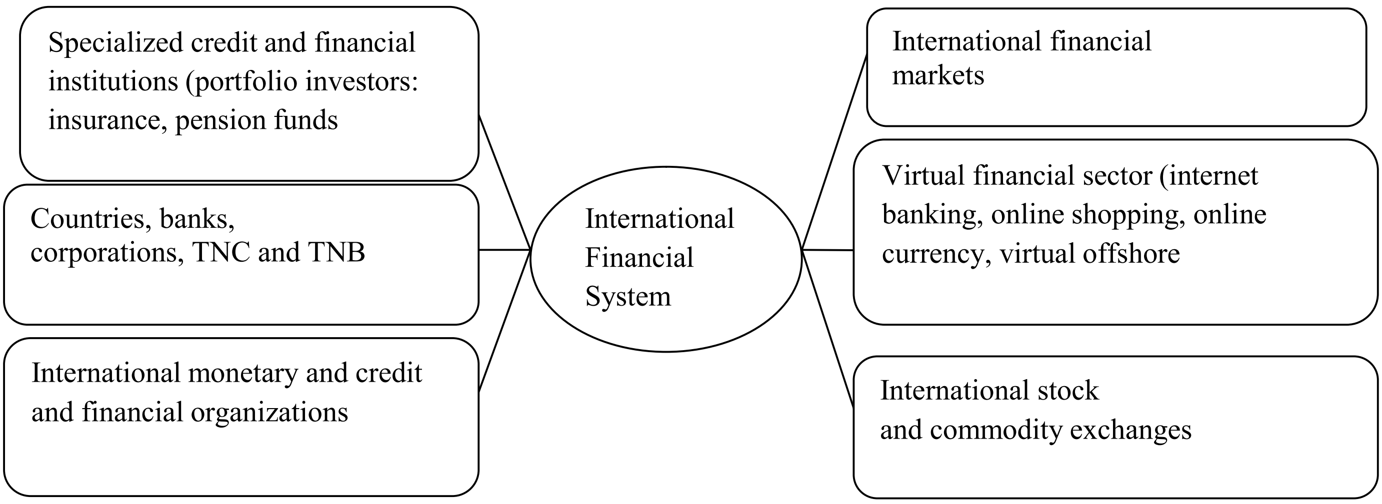

Fig. 1 The main components of world's financial system

The participants of the global financial system that intermediate the main part of international financial flows are:
-National participants - corporations, banks, specialized credit and financial institutions, including insurance and pension companies , stock and commodity exchanges, government ;
- International participants - international corporations, multinationals , international banks, TNB, specialized credit and financial institutions , large stock and commodity exchanges, international

monetary and financial institutions.
-The commercial banks take the central role in the global financial market, due to the broad sphere of financial activities. Liabilities of banks consist mainly of deposits with different maturities of assets: loans (by the corporations and states), deposits in other banks and bonds.
-Corporations (especially TNCs) conduct operations to attract foreign sources of capital to finance their investments: sale of equities, loans, sale of debt funds of the corporation in the international capital market. Corporation bonds, denominated not in the foreign currency of the financial center, in which these bonds are sold, are called euro bonds.
-Non-bank financial institutions conduct operations to diversify their portfolios of foreign assets.
-Central banks are included to the global financial markets through the means of currency intervention. Government bodies borrow funds abroad, produce government bonds. The governments of developing countries, as well as companies owned by the state, take loans from the commercial banks of foreign countries.

2-Financial Globalization and the global financial system

The current global financial system operates and develops in conditions of financial globalization.

A-Definition of Financial Globalization

It is an objective process of the integration of a large part of capital of different countries, strengthening of their interdependence.

B-Main Features

The availability of huge financial resources of TNCs and TNBs.
High intensity of cross-border financial transactions of the global financial system's members.
The emergence of new mechanisms and instruments of international financial transactions and the formation of the world financial market.
The international market and off-market redistribution of financial resources is carried out through the world financial market.

C-The driving forces of financial globalization

International financial integration
International financial institutions
Financial innovations.

International financial integration

The aim of international financial integration is removing of the barriers to the movement of financial capital. It is the process of unification of financial services, banking operations; liberalization of customs procedures; unification of the system of coordination through the international financial and credit institutions, electronic system of payment instruments; movement toward global monetary system with unified world money.
EU has the major progress in financial integration. Its concept of single financial area includes:

- total liberalization of payments and capital movements
- open access to market of banking, insurance and other financial services of partner countries to the companies and individuals of EU's countries;
- the harmonization of banking, tax and other legislation on the investment;
- the increase of control over the activities of the national credit and financial institutions and protection of the interests of investors
- the ensure of publicity and transparency of existing law

International financial institutions :

The system of international financial institutions includes world-class organizations (IMF, World Bank Group, which includes the International Bank for Reconstruction and Development, International Finance Corporation, International Development Association, etc.), regional financial institutions. These *institutions* are the branched network of international currency and credit and financial institutions.
The main objectives of the international financial institutions are: the stabilization of the world economy and international finance; realization of international currency and credit and financial regulation; development and coordination of strategies and tactics of the international monetary and financial policies. These organizations give loans, develop the principles of functioning of the global monetary

system, assist in solving of international financial problems. Their financial resources form considerable part of the flows of official international assistance.
Financial innovations: that is the creation of new financial instruments (eurodollar certificates of deposit, foreign exchange swaps, zero-coupon eurobonds, syndicated loans in the euro currency, euro notes etc.) and the introduction of new technologies.
Technological innovations improve the quality and speed of international financial transactions and their amounts.

3-Global financial Centers :

These centers are: New York, London, Zurich, Luxembourg, Frankfurt am Main, Singapore, Hong Kong, Bahamas, Panama, Bahrain and others. International banks, consortiums of banks, the stock exchanges, which engaged in international foreign exchange, credit, transactions with securities and gold are concentrated in these centers.
The national currency, credit and equity markets, that are closely interconnected with the similar global markets, take part in the operations of the world financial market The global financial centers were formed on the base of the huge domestic markets. They conduct international operations.
Global financial centers (GFC) occur in the countries where there are:

- sustainable monetary and economic position;
- the developed credit system and well organized exchange;
- moderate taxation;
- preferential currency legislation, that allows access of foreign borrowers and securities to exchange quotation;
- comfortable geographical location:
- relative stability of the political regime;
- standardization and high degree of information technologies of paperless operations are on the base of the use of the newest computers.

Reference

Y.Kozak and others. Essentials of International Finance: Questions & Answers. Tbilisi Publishing House „ Universal“ 2017