



THEME 4

INTERNATIONAL ECONOMICS

OVERVIEW THEME 4

INTERNATIONAL ECONOMICS

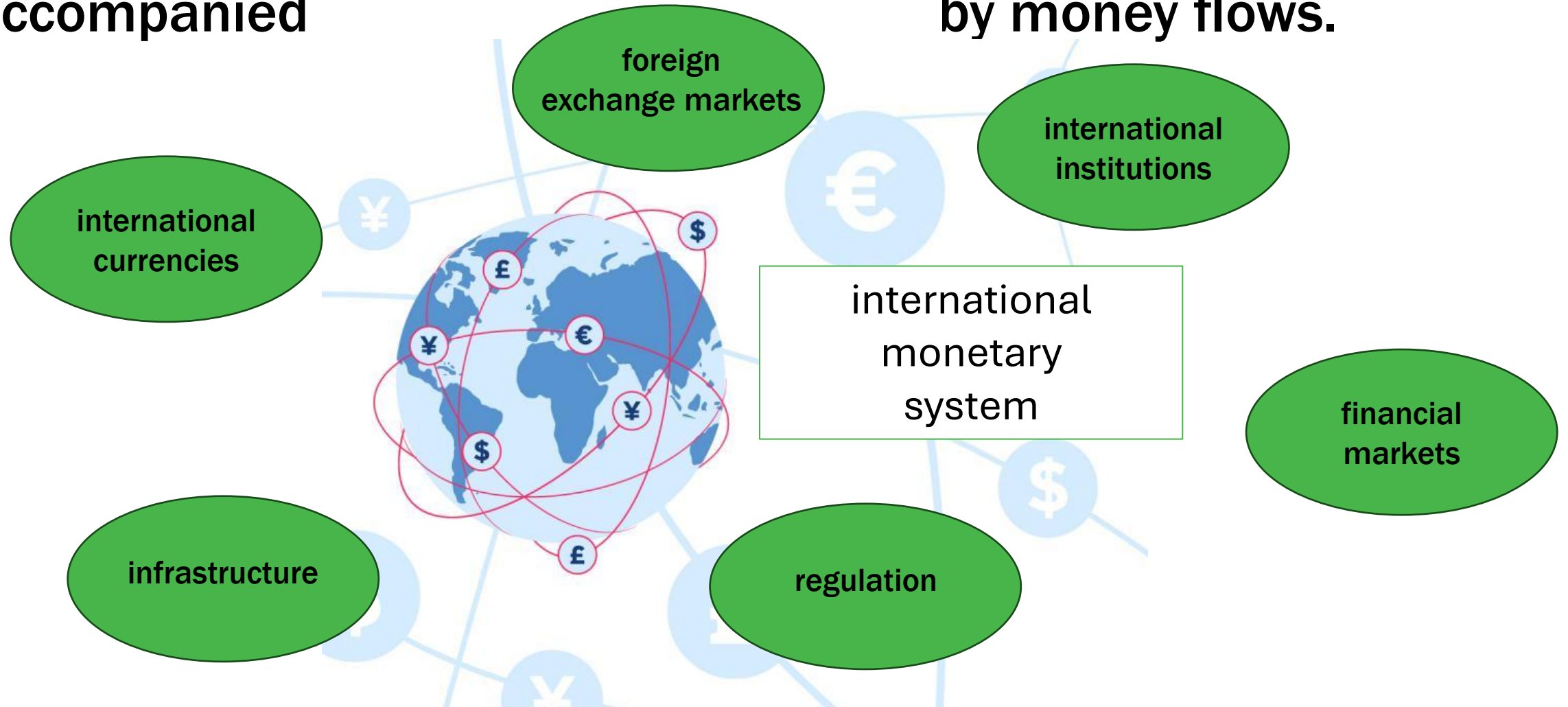
- INTRODUCTION: TEXT PART 1
- INTRODUCTION: TEXT PART 2 // LPD8: CONSEQUENCES OF INTERNATIONAL TRADE
- LPD9: INTERNATIONAL PAYMENTS
- LPD10: ROLE OF INTERNATIONAL MONETARY FUND (IMF)

LPD9: INTERNATIONAL PAYMENTS

- 1. INTERNATIONAL PAYMENTS**
- 2. FOREIGN EXCHANGE MARKET
AND FLOATING EXCHANGE RATES**
- 3. STABLE EXCHANGE RATES**

1. INTERNATIONAL PAYMENTS

International transactions (between countries) are accompanied by money flows.



On different levels...

- in terms of flows of **goods and services** (international trade)

e.g. import and
export
transactions

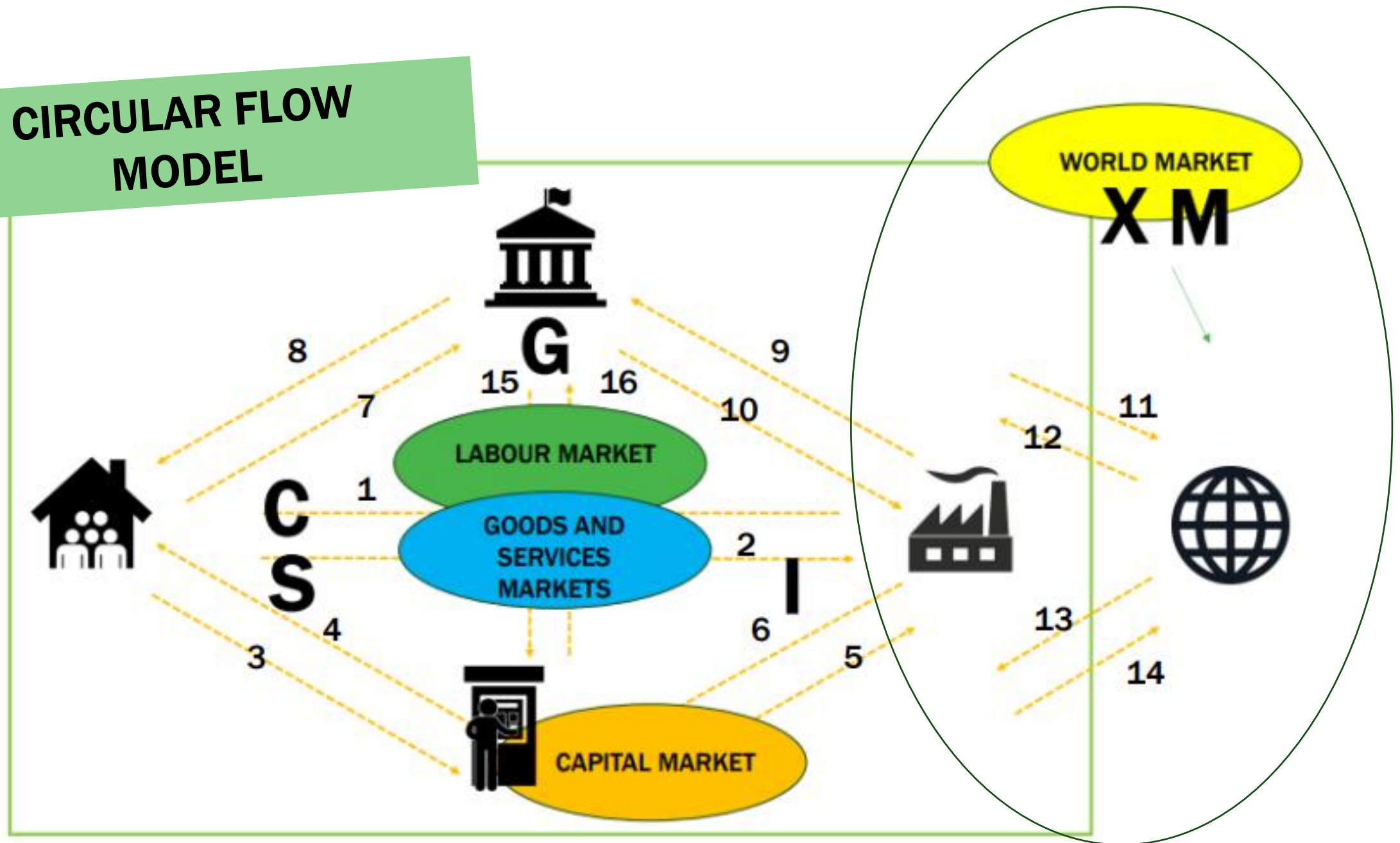
- in terms of **capital** flows

e.g. international loans,
development aid,
FDI

- in terms of **migration** flows

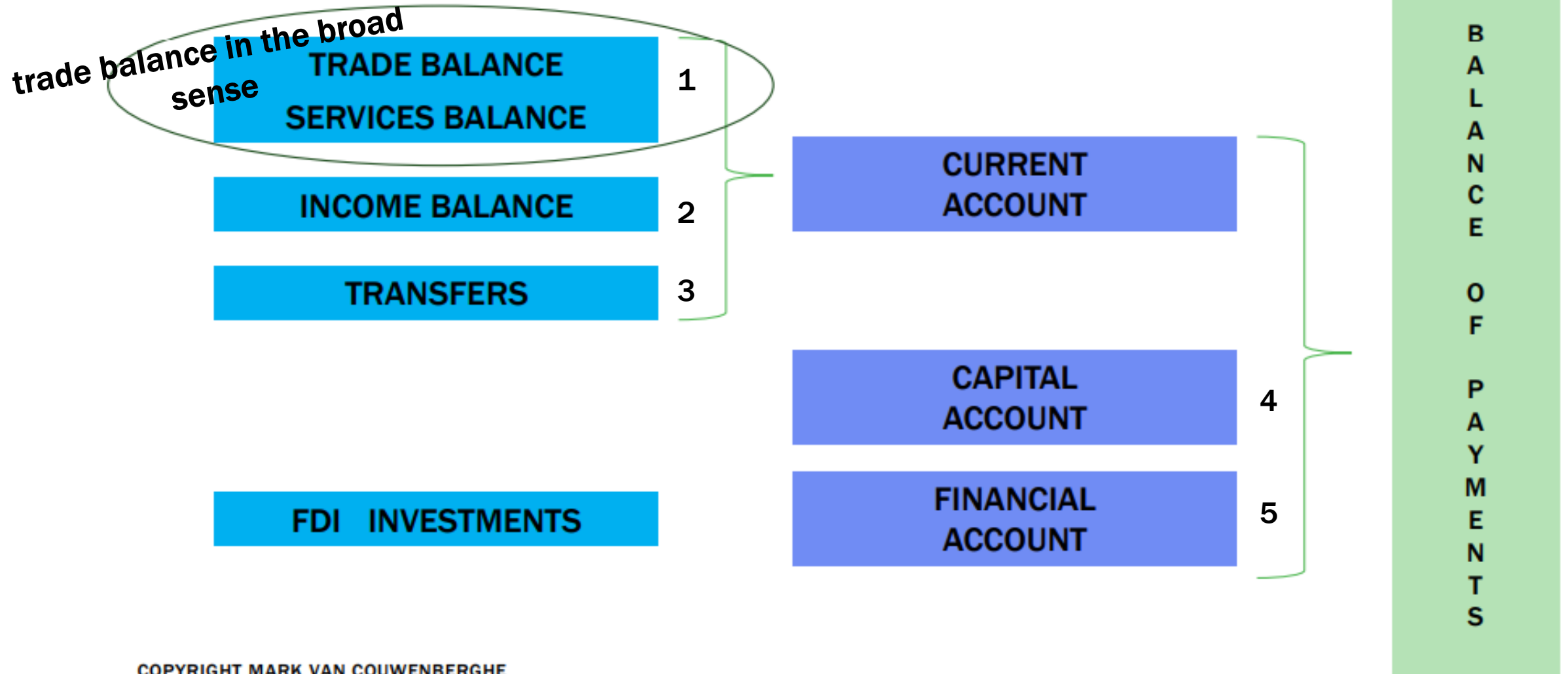
e.g. income transfers
in the context of
cross-border work

CIRCULAR FLOW MODEL



BALANCE OF PAYMENTS

Overview of all incoming and outgoing cash flows of a country



- 1 Imports and exports of goods >>> trade balance X-M**
services >>> services balance
- 2 Labour and capital income**
e.g. incoming and outgoing wages/salaries of
cross-border work
e.g. incoming and outgoing dividends and interest
- 3 Transfers**
e.g. contributions to EU (membership), development aid

4 Unilateral transactions

e.g. debt cancellation

(small part of balance of payments)

5 Investments

e.g. FDI (!)




important part of balance of payments!

deficit: incoming capital < outgoing capital

surplus: incoming capital > outgoing capital

Example for Belgium...

Betalingsbalans

 Aanpassen ▼  Export ▼  Mijn Queries ▼				
→ Eenheid	Miljoenen euro's ▼			
→ Stroom	Saldo (net) ▼			
→ Frequentie	Jaarlijks ▼			
→ Periode	2021	2022	2023	2024
	▲ ▼	▲ ▼	▲ ▼	▲ ▼
→ Rubriek				
+ Lopende rekening	9 295	-10 918	1 167	-2 342
+ Kapitaalrekening	1 081	990	1 143	-910
+ Financiële rekening	11 855	-10 137	2 217	5 614

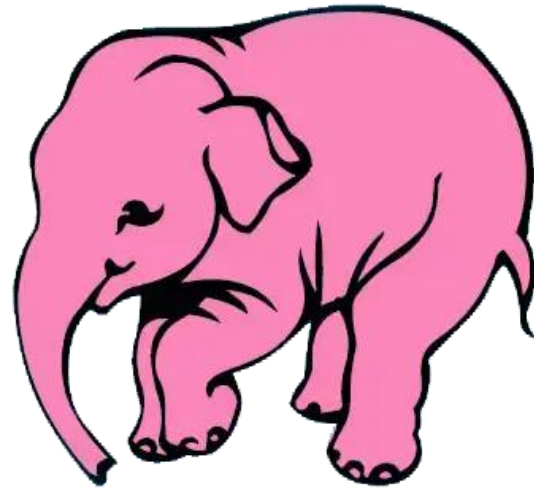
2024: * current account deficit (increased consumption and therefore imports)
 * surplus on the financial account (net capital inflow)

2. FOREIGN EXCHANGE MARKET AND FLOATING EXCHANGE RATES

(We'll elaborate on this section and the next section with an example.)

Brewery Huyghe from Melle (near Ghent) produces the specialty beer Delirium Tremens

Turnover is approximately €45 million; 83% of this is exported, including to the U.S.



Step 1: transaction

Brewery Huyghe organizes a shipment of beer by container to the U.S.

Customer is supermarket chain Walmart.

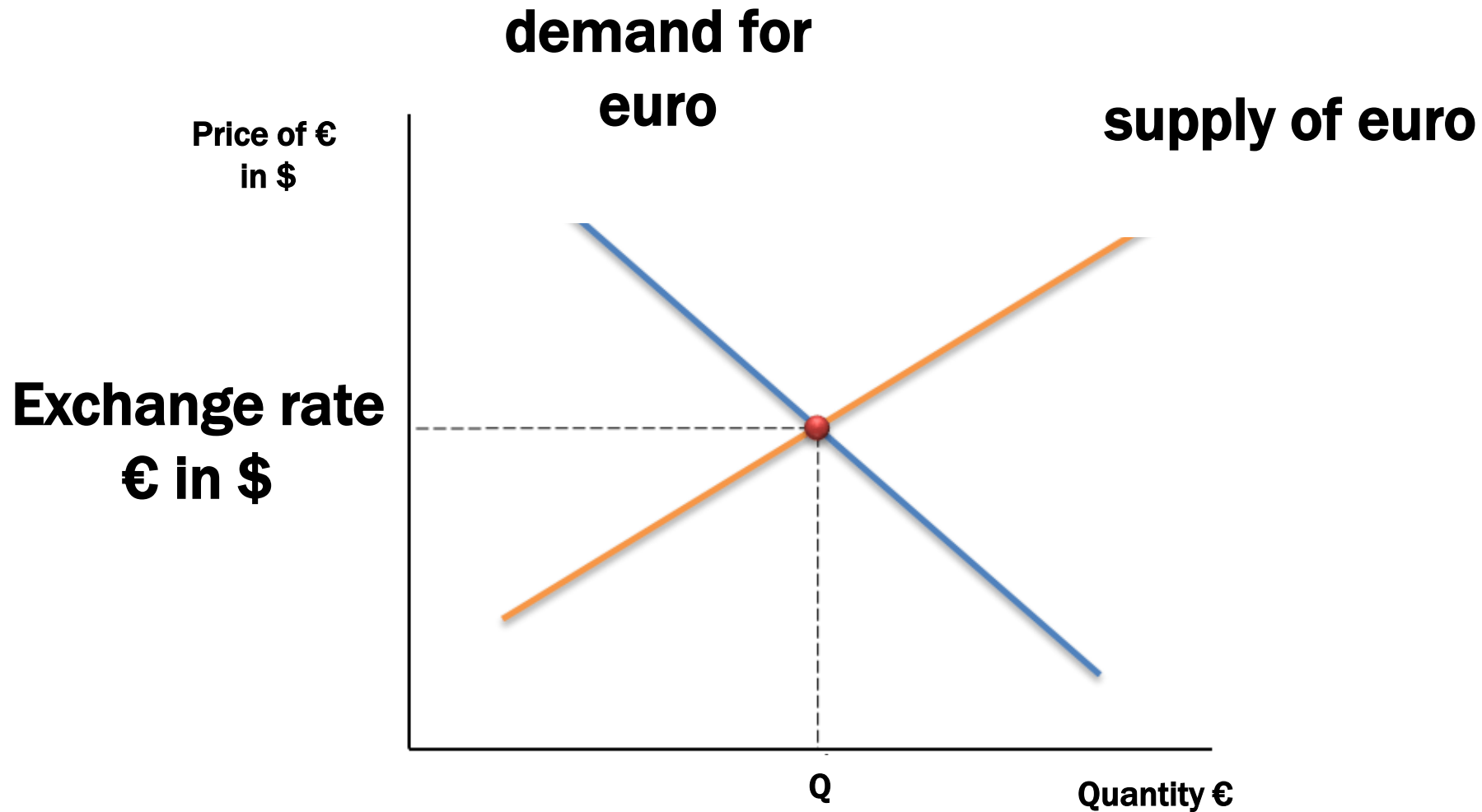
Value of the shipment is €40,000

Step 2: payment

Walmart pays the €40,000 invoice by converting \$ in the bank account into €

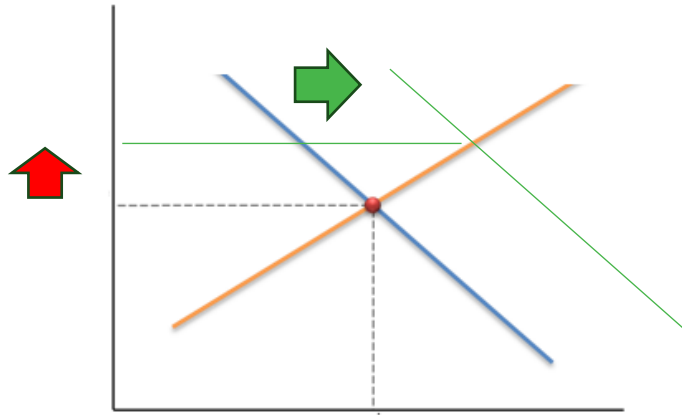
Exchange rate: 1€ = 1,17\$ >>> invoice value in \$ = \$46.800

Exchange rate is established on the foreign exchange market



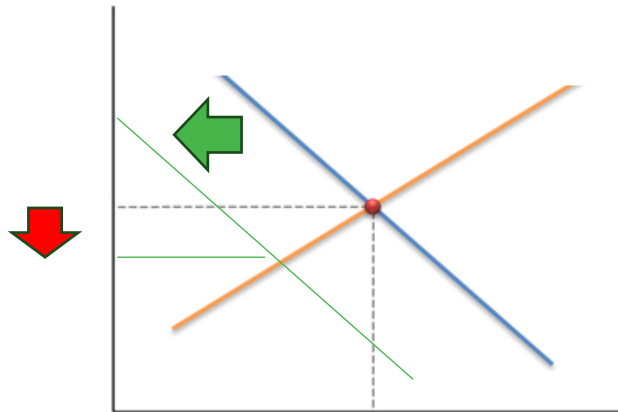
Exchange rate fluctuates due to shifts in supply (and demand)

example: € in \$



Appreciation = exchange rate increases

D increases
S drops



Depreciation = exchange rate drops

D drops
S increases

Causes of demand shifts (and supply shifts)

example: € in \$

Demand is increasing (supply is decreasing)

More imports of European goods by U.S.

Interest rates more attractive to investors in Europe versus U.S.

Demand is decreasing (supply is increasing)

Less imports of European goods by the U.S.

Interest rates more attractive to investors in the US versus Europe

Demand is increasing (supply is decreasing)

Instability of the \$: € is more attractive for investors

Inflation in the U.S. higher than in Europe

Speculation: € expected to rise

Demand is decreasing (supply is increasing)

Instability of the €: \$ is more attractive for investors

Inflation in Europe higher than in the U.S.

Speculation: \$ expected to rise

System of floating exchange rates

Standard system worldwide!

Advantages

- Automatic balance of payments adjustment
 - e.g. Deficit
 - >>> currency depreciates due to fall in demand
 - >>> products are becoming cheaper worldwide
 - >>> exports are rising
 - >>> balance of payments deficit is falling (and vice versa)

Advantages

- Central bank can operate autonomously (currency is not linked to another currency)

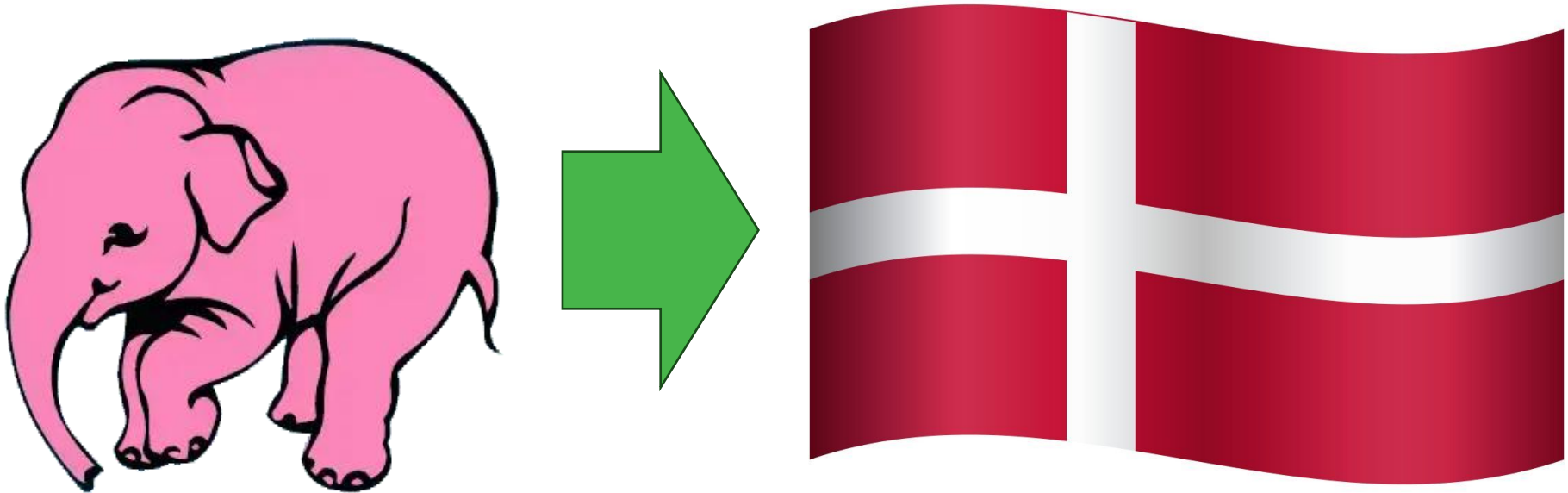
Disadvantages

- Exchange rate uncertainty
- Volatility (e.g. speculative movements)

Euro beleeft opnieuw topjaar in eerste jaar Trump, 2026 belooft verdere groei

3. STABLE (of fixed) EXCHANGE RATES

Huyghe Brewery also exports beer to Denmark



Denmark is a member of the EU, but not of the euro zone!

DANISH CROWN (DK)



Step 1: transaction

Huyghe Brewery organizes a shipment of beer by container to Denmark

The customer is supermarket chain Coop.

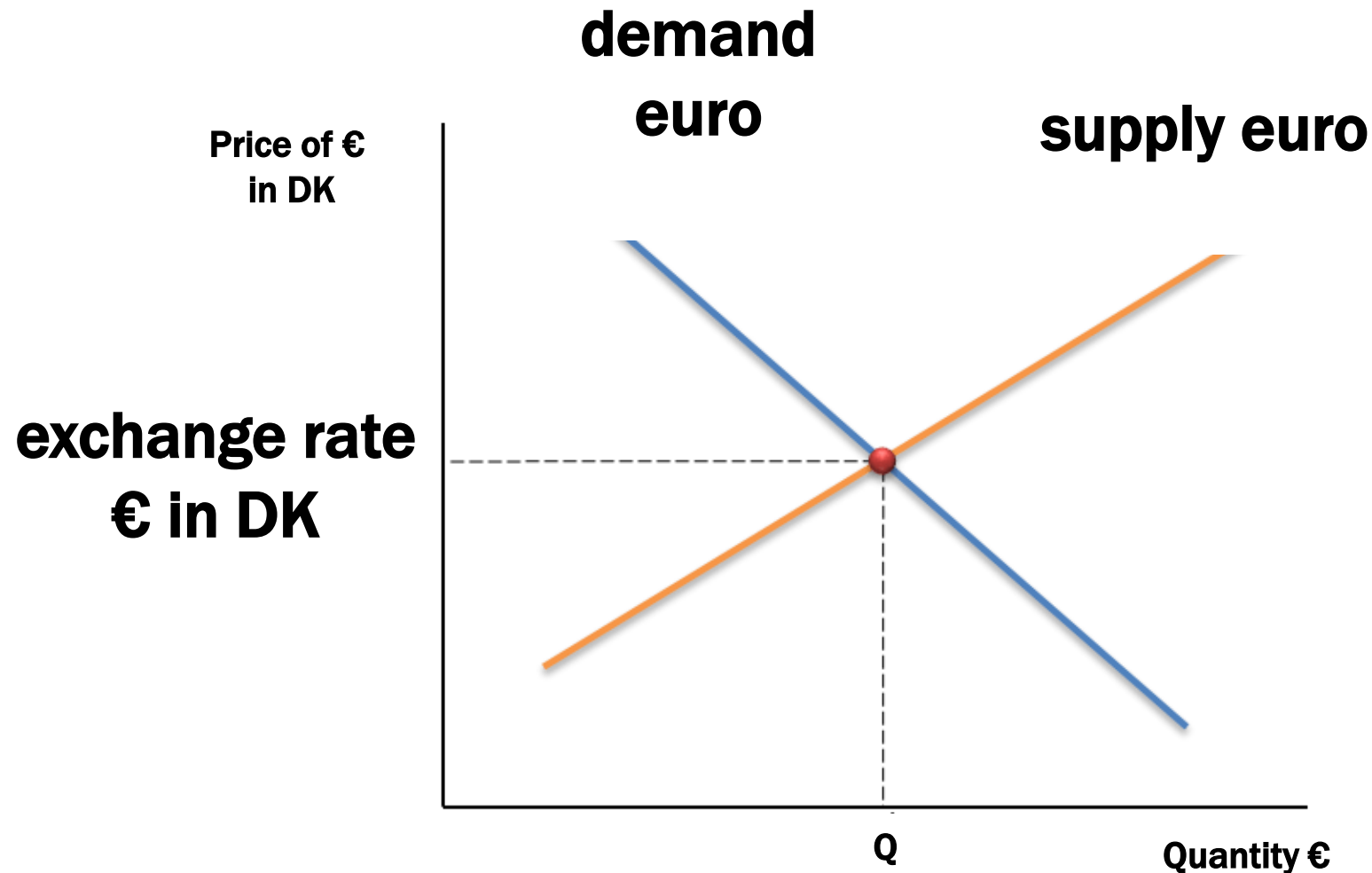
Value of the shipment is €40,000

Step 2: payment

Coop makes payment of the invoice of €40,000 by converting DK into € in the bank account

Exchange rate: 1€ = 7,47DK >>> invoice value in DK = 298.800DK

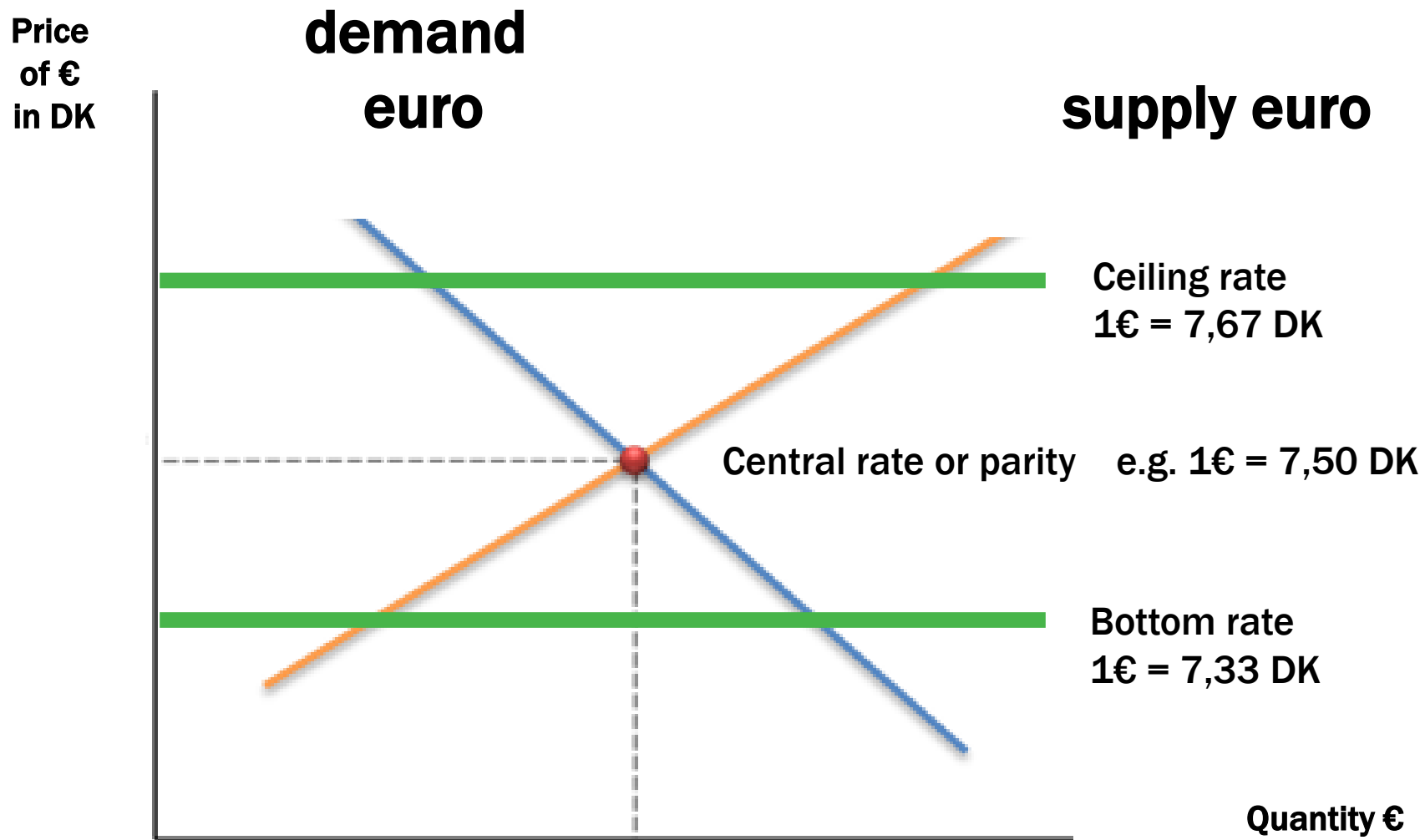
Exchange rate is established on the exchange market



Supply and demand will shift, causing the exchange rate to rise or fall,

But...
the fluctuations are limited!
STABLE (or fixed) EXCHANGE RATE SYSTEM

System of fixed or stable exchange rates

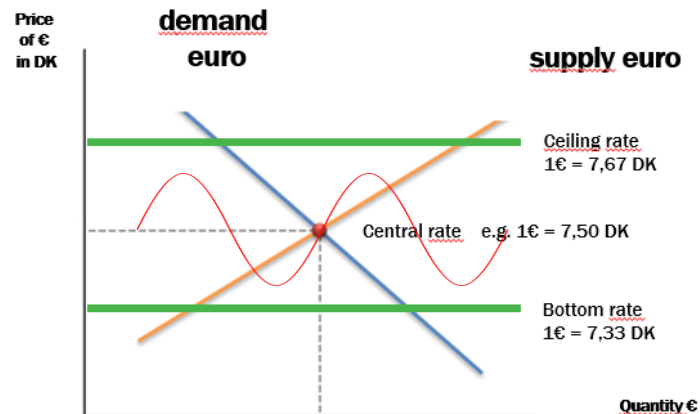


Explanation (part 1):

Central banks of the euro area (ECB) and Denmark set a central rate or parity. They also set a maximum margin of fluctuation in relation to the central rate or parity.

In this case: +2,25% >>> ceiling rate
- 2,25% >>> bottom rate

Central banks ensure that fluctuations remain within the maximum margins.



Explanation (part 2):

Scenario 1:

WHAT IF THE **EXCHANGE RATE FALLS BELOW THE CENTRAL RATE OR PARITY?**

Initially, the ECB, in consultation with the Danish central bank, will support the euro by making **support purchases** on the foreign exchange market and selling DK (decrease in foreign exchange reserves)

Secondly, if the support purchases have no effect and the price sinks further >>> **devaluation**

**DEVALUATION MEANS THAT THE CENTRAL RATE OR
PARITY AND THE CORRESPONDING FLUCTUATION
MARGINS ARE ADJUSTED DOWNWARDS**

Scenario 2:

WHAT IF THE **EXCHANGE RATE RISES ABOVE THE CENTRAL RATE OR PARITY?**

At first, the ECB will "correct" the € in consultation with the Danish central bank by **selling euros** on the foreign exchange market and buying DK (increase in foreign exchange reserves)

Secondly, if these sales have no effect and the price rises further >>> **revaluation**

**REVALUATION MEANS THAT THE CENTRAL RATE OR
PARITY AND THE ASSOCIATED FLUCTUATION
MARGINS ARE ADJUSTED UPWARDS**

System of fixed or stable exchange rates

System is only applied to certain currencies (e.g. DK and €)

Advantages

- No exchange rate risks
- No volatility

Disadvantages

- No automatic balance of payments adjustment
- No autonomy of central bank

Historical base: Bretton Woods System (after WWII)

1 Vaste wisselkoersen t.o.v. de dollar

Elk deelnemend land legde een vaste wisselkoers vast van zijn munt ten opzichte van de Amerikaanse dollar.

Kleine schommelingen rond die pariteit waren toegestaan (meestal $\pm 1\%$).

2 Dollar gekoppeld aan goud

De Amerikaanse dollar was inwisselbaar voor goud: \$35 per ounce goud. Andere landen koppelden dus indirect hun munt aan goud via de dollar.



**GREATER SECURITY AND STABILITY IN
WORLD TRADE AFTER WWII**

Exchange rate risks eliminated by the introduction of EMU (€)

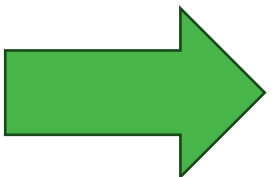
1 Eén munt → geen wisselkoersen meer

Vóór de EMU had elk land zijn eigen munt (frank, mark, lire, peseta ...). Handel tussen landen bracht dus altijd wisselkoersschommelingen met zich mee.

2 Gemeenschappelijk monetair beleid

De Europese Centrale Bank (ECB) voert één monetair beleid.

Er is geen nationaal monetair beleid meer. Geen plotselinge devaluaties of revaluaties tussen lidstaten.



BUT... THIS LOSS OF MONETARY AUTONOMY MEANS THAT SOME EU COUNTRIES DO NOT PARTICIPATE IN THE EURO, OTHERS ARE DIVIDED

Weinig publieke steun voor euro in Polen: toetreding tot eurozone lijkt onwaarschijnlijk

- Uit een recente opiniepeiling blijkt dat het Poolse publiek sterk gekant is tegen de invoering van de euro als nationale munt binnen de komende tien jaar.
- Dit verzet is ingegeven door zorgen over inflatie en verlies van monetaire controle, terwijl voorstanders wijzen op potentiële voordelen zoals lagere transactiekosten en grotere handelsintegratie.
- Door de lage publieke steun en het feit dat Polen niet voldoet aan de criteria voor fiscale stabiliteit die vereist zijn voor invoering van de euro, lijkt toetreding tot de eurozone in de nabije toekomst onwaarschijnlijk.

Bulgarije verdeeld over invoering euro

In 2007 trad Bulgarije toe tot de EU, en sindsdien hebben verschillende Bulgaarse regeringen pogingen gedaan om van de euro de nationale munt te maken. Toch is het Balkanland, dat 6,7 miljoen inwoners telt, sterk verdeeld over die stap, blijkt uit opiniepeilingen, die overigens laten zien dat het bedrijfsleven overwegend positief is.

Anderen vrezen echter dat gebruik van de euro de prijzen zal opdrijven. Daarnaast is er ook veel wantrouwen richting de Bulgaarse regering, die deze maand is afgetreden vanwege een verhitte discussie over voorgestelde belastingverhogingen. Tel daarbij op dat in een land dat historisch, cultureel en politiek gezien banden heeft met Rusland, velen wantrouwend zijn tegenover verdere loyaliteit aan Europa.