RELATIONSHIP WITH MONEY MARKET OPERATIONS

Foreign exchange (Forex) and money market operations are closely interconnected and impact each other in various ways. Here's a look at the relationship between foreign exchange and money market operations:

1. **Forex Market and Money Market Link**: The Forex market is where currencies are bought and sold. It is a decentralized global market where participants trade currencies based on their relative values. The money market, on the other hand, refers to a market where short-term **borrowing and lending of funds take place. Both markets are essential components of the global financial system.**
2. **Currency Trading and Money Market Instruments:** In the Forex market, participants engage in currency trading to buy and sell different currencies with the objective of making a profit from **fluctuations in exchange rates**. Money market instruments, such as treasury bills, certificates of deposit, and commercial papers, are short-term **debt instruments that are bought and sold in the money market. These instruments often have an impact on interest rates, which, in turn, can affect foreign exchange rates.**
3. **Impact on Exchange Rates:** Money market operations, particularly those related to interest rates, can influence exchange rates. Central banks and monetary authorities use various tools, such as open **market operations and monetary policy adjustments, to manage interest rates in the money market. Changes in interest**

rates can affect the demand and supply of currencies, leading to movements in exchange rates.

4. **Arbitrage Opportunities:** The relationship between foreign exchange and money market operations can create arbitrage opportunities. Arbitrage involves taking advantage of price discrepancies in different markets to make a risk-free profit. Traders can exploit differences in interest rates between currencies and money **market instruments to execute carry trades, where they borrow in currencies with low interest rates and invest in currencies with higher interest rates.**
5. **Interbank Market Transactions:** Money market operations often involve interbank transactions, where banks lend or borrow funds from each other for short-term periods. These transactions can have an impact on foreign exchange rates, especially if they involve foreign currencies. **Changes in the supply and demand for currencies in interbank transactions can influence exchange rates**.
6. **Central Bank Interventions:** Central banks play a crucial role in both foreign exchange and money market operations. Central banks may intervene in the foreign exchange market to stabilize exchange rates or **manage currency values. They can also conduct money market operations to influence interest rates and liquidity in the financial system, which indirectly affects foreign exchange rates.**

INTERNATIONAL FINANCIAL INSTITUTIONS - AN OVERVIEW

International financial institutions (IFs) are financial institutions that have been established by more than one country, and hence are subjects of international law. Their **owners or shareholders are generally national governments, although other international institutions and other organizations occasionally figure as shareholders.**

THE WORLD BANK GROUP

The World Bank **Group consists of five organizations:**

• The International Bank for Reconstruction and Development

The International Bank for Reconstruction and Development (IBRD) lends to **governments of middle-income and creditworthy low-income countries.**

• The International Development Association

The International Development Association (IDA) provides interest-free loans - **called credits - and grants to governments of the poorest countries.**

• Together, IBRD and IDA make up the World Bank.

• The International Finance Corporation

The International Finance Corporation (IFC) is the largest global development institution focused exclusively on the private sector. It helps developing countries-**achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments.**

• The Multilateral Investment Guarantee Agency

The Multilateral Investment Guarantee
Agency (MIGA) was created in 1988 to promote foreign direct **investment into developing countries to support economic growth, reduce poverty, and improve people's lives**. MIGA fulfils this mandate by offering political risk insurance (guarantees) to investors and lenders.

• The International Centre for Settlement of Investment Disputes

The International Centre for Settlement of Investment Disputes (ICSID) provides **international facilities for conciliation and arbitration of investment disputes.**

MULTILATERAL DEVELOPMENT BANK

A multilateral development bank (MDB) is an institution, created by a group of countries, **that provides financing and professional advisory for the purpose of development.**

MDBs have large memberships including both developed donor countries and developing borrower countries. MDBs finance projects in the form of long-term **loans at market rates, very long-term loans (also known as credits) below market rates, and through grants.**

The following are usually classified as the main
MDBs:
- World Bank
- International Fund for Agricultural Development (IFAD)
- European Investment Bank (EIB)
- Islamic Development Bank (ISDB)
- Asian Development Bank (ADB)
- European Bank for Reconstruction and Development (EBRD)
- CAF - Development Bank of Latin America (CAF)
- Inter-American Development Bank Group (IDB, IADB)
- African Development Bank (AfDB)
- Asian Infrastructure Investment Bank (AIIB)

REGIONAL DEVELOPMENT BANKS

The regional development banks consist of several regional institutions that have **functions similar to the World Bank group's activities, but with particular focus on a specific region.**

Shareholders usually consist of the regional countries plus the major donor countries.

The best-known of these regional banks cover regions that roughly correspond to United Nations regional groupings, **including the Inter-American Development Bank, the Asian Development Bank; the African Development Bank; the Central American Bank for Economic Integration; and the European Bank for Reconstruction and Development.**

BILATERAL DEVELOPMENT BANKS AND AGENCIES

A bilateral development bank is a financial institution set up by one individual **country to finance development projects in a developing country and its emerging market, hence the term bilateral, as opposed to multilateral. Examples include:**

• the Netherlands Development Finance Company FMO, headquarters in The Hague; one of the largest bilateral development banks worldwide.
• the DEG German Investment Corporation or Deutsche Investitions-und Entwicklungsge-sellschaft, headquartered in Köln, Germany.
• the French Development Agency Francaise de Développement, and Caisse des depots, founded 1816, both headquartered in Paris, France.

OTHER REGIONAL FINANCIAL INSTITUTIONS

Financial institutions of neighbouring countries established themselves internationally to pursue and finance activities in areas of mutual interest; most of them are central banks, followed by development and investment banks. **Examples include Bank of International Settlements, International Investment Bank, Black Sea Trade and Development etc.**

CORRESPONDENT BANKING AND NRI ACCOUNTS

Correspondent banking refers to a relationship between two financial institutions, typically banks, where one bank (the correspondent bank) provides **services on behalf of another bank (the respondent bank). It is a crucial aspect of global financial transactions, especially for cross-border payments and international trade.**

In correspondent banking, the correspondent bank holds accounts on behalf of the respondent bank, allowing the respondent bank to access various financial services that it may not have direct access to. These services can include **payment processing, fund transfers, foreign exchange transactions, trade finance, and other banking services.**

NON-RESIDENT INDIANS (NRIs) AND PERSONS OF INDIAN ORIGIN (PIOs)

Different types of accounts which can be maintained by an NRI/PIO in India:

If a person is NRI or PIO, she/ he can, without the permission from the Reserve Bank, open, hold and maintain the different types of accounts given below with an **Authorised Dealer in India, i.e. a bank authorised to deal in foreign exchange.**

A. Non-Resident Ordinary Rupee Account (NRO Account)

NRO Account, is a type of bank account in India that allows non-resident Indians (NRIs) to manage their Indian income and rupee-denominated transactions

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Any person resident outside India may open NRO account with an authorised dealer or an authorised bank for the purpose of putting through bona fide transaction in rupees. However, opening of accounts by individual/ entities **of Pakistan and entities of Bangladesh require prior approval of Reserve Bank of India.**

• **Savings Account** - Normally maintained for crediting legitimate dues /earnings/income such **as dividends, interest etc. Banks are free to determine the interest rates. NRO Savings accounts can also be maintained with the Post Office in India.**

• **Term Deposits** - Banks are free to determine the interest rates. Interest rates **offered by banks on NO deposits cannot be higher than those offered by them on comparable domestic rupee deposits.**

• Account should **be denominated in Indian Rupees.**

• Eligible debits such as all local payments in rupees including payments for investments as **specified by the Reserve Bank and remittance outside India of current income like rent, div-idend, pension, interest, etc., net of applicable taxes, of the account holder.**

• The limit of USD 1 **million per financial year includes sale proceeds of immovable properties held by NRIs/ PIOs**.

• Other than current income and the limit of
USD 1 Mn per financial year **applicable to NRIs/ PIOs, balances in NRO accounts cannot be repatriated without the prior approval of RBI.**

• The accounts may be held **jointly with residents and / or with non-resident Indian.**

• The NRO account holder may **opt for nomination facility.**

B. Non-Resident (External) Rupee Account (NRE Account)

NRO Account, is a type of bank account in India that allows non-resident Indians (NRIs) to manage their Indian income and rupee-denominated transactions

• NRE account may be in the form of savings, current, recurring or fixed deposit accounts (with maturity of minimum one year). Such accounts can be opened only by the **NRI (as defined under Regulation 2(vi) of Notification No. FEMA 5/2000-RB dated May 3, 2000) himself and not through the holder of the power of attorney.**
• Account will be **maintained in Indian Rupees.**
• Balances held in the **NRE account are freely repatriable.**
• Accrued interest income and balances held in
NRE accounts are **exempt from Income tax and Wealth tax, respectively.**

• **Savings -** Banks are free to **determine the interest rates.**
• **Term deposits** - Banks are free to determine the interest rates of term deposits of maturity of one year **and above. Interest rates offered by banks on NRE deposits cannot be higher than those offered by them on comparable domestic rupee deposits.**
• Such accounts can be **operated through power of attorney in favour of residents for the limited purpose of withdrawal of local payments or** remittances through normal banking channels to the account holder himself.

C. Foreign Currency Non -Resident (Bank) Account - FCNR (B) Account

A Foreign Currency Non-Resident (Bank) Account, commonly known as an FCNR (B) Account, is a type of bank account in India that allows non-resident Indians (NRIs) **and Persons of Indian Origin (PIOs) to hold and manage their foreign currency deposits in designated currencies. Here are some key features of an FCNR (B) Account:**

Purpose: The FCNR (B) Account is designed to enable NRIs and PIOs to hold and maintain **foreign currency deposits in India. It allows them to earn interest on their foreign currency holdings without converting them into Indian rupees.**

• NRIs are eligible to open and maintain these accounts.
• FCNR(B) accounts are only in the form of **term deposits of 1 to 5 years.**
• Account can be held **in any freely convertible currency.**
• Loans can be extended against security of funds held in FCNR(B) deposit either to the **depositors or third parties without any ceiling subject to usual margin requirements.**
• The interest rates are **stipulated by the Department of Banking Operations and Development, Reserve Bank of India**
• When an account holder becomes a person resident in India, deposits may be allowed **to continue till maturity at the contracted rate of interest, if so desired by him.**

Other facilities available to NRIs/PIO:

A. Investment facilities for NRIs
NRI may, without limit, purchase on repatriation basis:
• Government dated securities/Treasury bills
• Units of domestic mutual funds;
• Bonds issued by a public sector undertaking (PSU) in India.
• Non-convertible debentures of a company incorporated in India.
• Perpetual debt instruments and debt capital instruments issued by banks in India.
• Shares in Public Sector Enterprises
• Shares and convertible debentures of Indian companies under the FDI scheme.

B. Investment in Immovable Property
• NRI/PIO may acquire/transfer immovable property in India other than agricultural land/ plantation property or a farm house out of repatriable and/or non-repatriable funds.
• Foreign national of non Indian origin resident outside India shall not acquire/transfer any **immovable property in India other than on**

lease not exceeding five years, without prior approval of Reserve Bank of India.

Foreign Currency Account

• A person resident in India who has gone abroad for studies or who is on a visit to a foreign country may open, hold and maintain a Foreign Currency **Account with a bank outside India during his stay outside India, provided that on his return to India, the balance in the account is repatriated to India.**

• A person resident in India who has gone out of India to participate in an exhibition/trade fair outside India may open, hold and maintain a Foreign Currency Account with a bank outside India for crediting the sale proceeds of goods on display in the exhibition/trade fair. However, the balance **in the account should be repatriated to India through normal banking channels within a period of one month from the date of closure of the exhibition/trade fair.**