SECTION 6

FINANCIAL AND MONEY AND CREDIT STRATEGIES IN INTERNATIONAL BUSINESS. BANKS AND THEIR ACTIVITY IN WORLD ECONOMY

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THE INFLUENCE OF QUANTATIVE EASING ON INVESTMENTS

Quantitative Easing (QE) is a euphemism for money creation. When interest rates are already close to zero, or when both consumers and businesses are focused on reducing debt rather than taking on more, the cash rate can have a very limited impact on growth because people still will not want to borrow. In this extreme situation central banks may decide to increase the amount of money in the economy through QE. It involves creating new money by the central bank electronically and using it to buy securities from financial institutions and the government, which keeps interest rates low, boosts lending and spending, and therefore, raises the pace of economic growth.

In practice this financial instrument was first used by the Bank of Japan to fight domestic deflation in the early 2000s. Since the advent of the global financial crisis of 2007–2008, similar policies have been used by the United States of America, the United Kingdom of Great Britain and Northern Ireland, and the Euro zone. QE was used by these countries because their risk-free short-term nominal interest rates were either at zero or close to this point.

Countries use QE for a variety of reasons. They are as follows:

1. foster maximum employment;
2. encourage lending and borrowing;
3. increase spending;
4. complement low interest rates.

Obviously, QE has an impact on economic activity, ranging from growth to unemployment, on exchange rate, leading to currency wars or competitive devaluation, on investments of business, and consumer spending and savings.

The influence of QE on investments is as follows:

Capital flight. The new money could be used by the banks to invest in emerging markets, commodity-based economies, commodities themselves, and non-local opportunities rather than to lend to local businesses that are having difficulty getting loans.

Banks invest heavily in shares and assets. They hardly make any investment in the business. QE has not been lending it more into productive assets like factories, plants and equipment. It has in fact stimulated the short term risky investments and has encouraged more speculation.

QE forces investors to step into ever-riskier investments. They may be bonds issued by less creditworthy businesses, or shares in companies with uncertain prospects.

The bank buying bonds makes them more expensive, so these securities are a less attractive investment. That means companies which have sold bonds may use the proceeds to invest in other companies or lend to individuals. If banks, pension funds and insurance companies are more enthusiastic about lending to companies and individuals, the interest rates they charge should fall, so more money is spent and the economy is boosted.

The growth of mergers and acquisitions. Adopting the policy of QE trillions of dollars are soaked into the world economy; that is why the M&A market has become more active.

To sum up we should mention that when the policy of QE is used investors change their strategy radically: they begin to risk more. The banks also revise their investment policy and choose more attractive securities to invest. Also they prefer non-local opportunities rather than to develop local businesses. However, QE promotes financial engineering rather than investments in real economy.

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BANKS AND THEIR ACTIVITIES

The banking industry can be divided into following sectors, based on the clientele served and products and services offered:

1. **Retail Banks:**

Retail banks provide basic banking services to individual consumers. Examples include savings banks, savings and loan associations, and recurring and fixed deposits. Products and services include safe deposit boxes, checking and savings accounting, certificates of deposit, mortgages, personal, consumer and car loans.

2. **Commercial Banks:**

Banking means accepting deposits of money from the public for the purpose of lending or investment. Commercial Banks provide financial services to businesses, including credit and debit cards, bank accounts, deposits and loans, and secured and unsecured