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Appendix A

Cross-currency swaps can be viewed as the combination between currency and interest rate swaps^{*}, where the parties exchange both principal and interest rate exposures in two different currencies over a given period of time. One basic example of cross-currency swaps is the fixed-to-floating rate currency swap generally used by borrowers to convert borrowings in one foreign currency into borrowings in their domestic currency in order to eliminate both currency and interest rate risk.

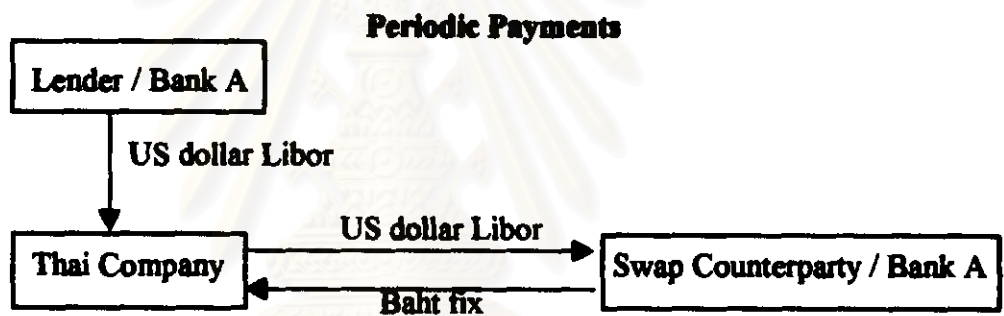
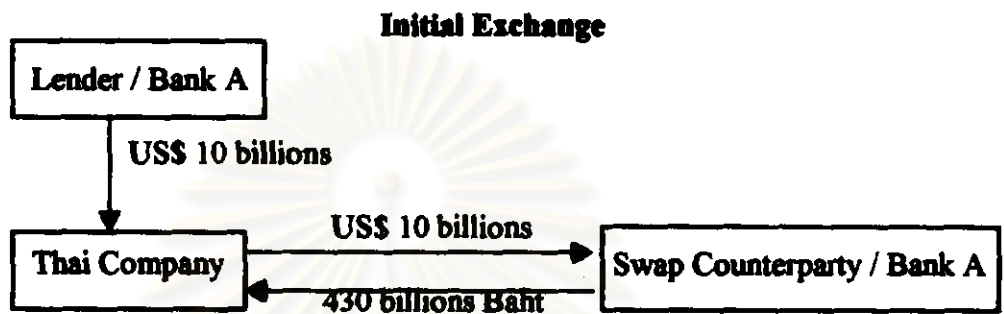
For example, a Thai corporation with Thai baht income has an outstanding debt in US dollar LIBOR. This company will have currency and interest rate risk when US interest rates are rising and the dollar appreciates. Thus, to hedge against increasing currency losses, the Thai borrower can enter into a cross-currency swap in which he pays baht fix and receive dollar Libor in return. In doing so, the borrower can not only hedge currency risk, but also pay baht fix at a time of rising US interest rates—Libor (see Exhibit a).

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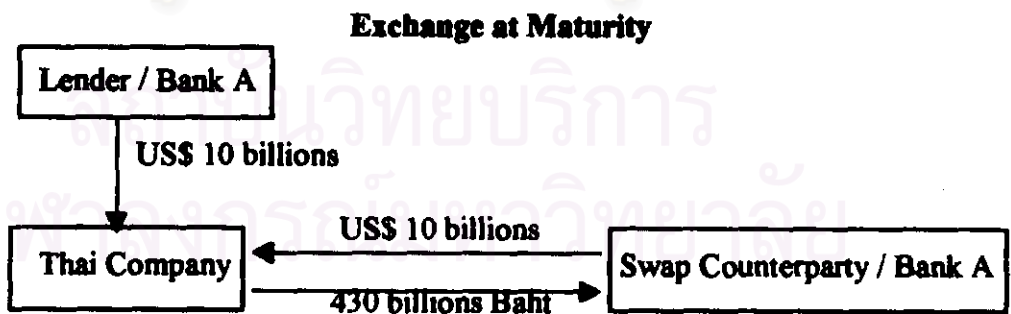
^{*} A currency swap is the exchange of principal or notional amount in two different currencies; whereas, an interest rate swap is the exchange of two streams of interest payments in the same currency, generally fixed rate against floating rate.

Exhibit a: Cross-currency swap.

Assume a Thai company wants to borrow 430 billion baht for one year. To hedge its currency risk, the company will borrow US\$ 10 billion (spot rate = B 43/\$) and enter into a cross-currency swap in which it pays baht fix and receives US\$ Libor.



Thai company pays baht fix to the swap counterparty and pays US\$ Libor to the lender but receives US\$ Libor from the swap counterparty.



The principal amount exchanged at the beginning of the transaction are re-exchanged at maturity. Thus, the Thai company receives US\$ 10 billions from the swap counterparty to pay for US\$ 10 billion loan and pays 430 billion baht to the swap counterparty.

Appendix B

As there are many varieties of factors indicating the risk inherent in investing in foreign countries, this appendix summarizes some important indicators and issues, of economic risk needed to be analyzed in determining the value of an investment in foreign country, as follow:

1. Economic Structure and Inflation

- Rate and pattern of economic growth: real GDP growth, per capita income
- Size and composition of savings and investment: savings/GDP, investment/GDP
- Inflationary pressures: inflation rate
- Rate of money and credit growth: M2

2. Balance of Payment Flexibility

- Structure of trade and current account balances: export/import ratio, export/GDP, import/GDP, current account deficit/GDP
- Size and composition of exports and imports
- Adequacy and composition of capital inflows: direct investment, portfolio flows or debt flows

3. External Financial Position

- Size, maturity and currency composition of external debt: debt/GDP, debt/exports, short-term debt/total debt, private debt/total debt, debt service ratio
- Adequacy of foreign reserves: foreign exchange reserves/debt service, foreign reserves in months of imports

4. Economic Policies and their Influences

- Monetary policy
- Fiscal policy
- Exchange rate policy

Biography

Miss Nuntawan Meesomboonpoonsuk was born on July 27, 1975 in Bangkok. She completed her Bachelor Degree in Business Administration with honours from Assumption University in 1996 and continued her Master Degree in International Economics and Finance, Faculty of Economics, Chulalongkorn University in that year. At present, she is employed by Export-Import Bank of Thailand in the treasury department.



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