**Treasury Management in Banking**

**December 2023 Examination**

**1. In view of poor Balance of Payment management by Govt/RBI, higher interest rates and inflation, INR is expected to depreciate further. Suggest ways/ Internal/external Techniques to manage Currency Risk by Corporates for their ECB’s and Import payments (10 Marks)**

**Ans 1.**

**Introduction**  
In an interconnected global economy, currency risk emerges as a significant challenge for businesses operating beyond domestic borders. Adverse movements in foreign exchange rates can potentially harm a corporation's profitability, especially in circumstances where Balance of Payments is poorly managed, and where inflation and interest rates are on an upward trajectory. For corporates leveraging External Commercial Borrowings (ECB) and managing import payments, currency depreciation, like the anticipated fall of INR, can inflate costs and debt obligations. It becomes imperative for businesses to employ sound strategies to mitigate these risks and ensure It is only half solved

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**2. Explain the role played by SWIFT, Nostro, Vostro, Special Vostro Account for settlement of International Trade & Treasury products. Explain the term Globalization of INR used by Govt / RBI. (10 Marks)**

**Ans 2.**

**Introduction**  
In the intricate web of global finance, streamlined communication and efficient mechanisms for transferring funds across borders are paramount. Organizations like SWIFT and financial constructs like Nostro, Vostro, and Special Vostro accounts act as vital cogs in this machinery, ensuring seamless international trade and treasury operations. These systems and accounts simplify and expedite trade settlements, making globalization not just a theoretical concept but a functional reality. Additionally, the idea of 'Globalization of INR' reflects India's ambitions on the global

**3.“To control double digit inflation, US & other major Central Banks have increased interest rates, which resulted in the failure/consolidation of SVC Bank, First Republic Bank & Credit Suisse?**

**a. Discuss the impact of increase in interest rates on Treasury Investment Portfolios of Banks. (5 Marks)**

**Ans 3a.**

**Introduction**  
Interest rates, set by central banks, are pivotal instruments in the macroeconomic toolkit, often used to rein in inflation or stimulate economic growth. When central banks, like those in the US, decide to hike interest rates, particularly in the context of curbing soaring inflation, it invariably sends ripples throughout the financial ecosystem. Banks, with their treasury investment portfolios, are significantly affected. The purported challenges faced by institutions like SVC Bank, First Republic Bank, and Credit Suisse highlight the real-world implications of

**b. How the increase in interest rates will control inflation, when there is a huge liquidity in the system? (5 Marks)**

**Ans 3b.**

**Introduction**  
Inflation, the perennial economic challenge, often prompts central banks globally to recalibrate monetary policy to sustain economic stability. One commonly employed tool is adjusting interest rates. The recent escalation in interest rates by the US and other major central banks aims to combat double-digit inflation. However, such decisions can have profound ripple effects, as seen in the tribulations of institutions like SVC Bank, First Republic Bank,