



## Chapter VII: BANKING TERMINOLOGY AND INTERNATIONAL TRADE

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### Introduction

Modern economies depend heavily on financial systems and global commerce. Banks facilitate financial transactions, provide credit, manage risks, and support economic growth. At the same time, international trade allows countries to exchange goods and services across borders, enabling specialization, economic development, and access to global markets.

Understanding banking terminology is essential for grasping how financial institutions operate and how they support international economic activity. Similarly, understanding international trade mechanisms helps explain how countries conduct business globally.

These two domains are closely connected: banks provide the financial infrastructure that makes international trade possible. They facilitate payments, provide financing for exporters and importers, manage currency exchange, and reduce the risks associated with cross-border transactions.

### I. Banking Terminology

#### 1. Bank

A **bank** is a financial institution that accepts deposits from individuals and businesses and provides financial services such as loans, payment services, and financial management.

Banks play several key roles in the economy:

- Safeguarding deposits
- Facilitating payments
- Enabling international financial transactions
- Providing credit
- Supporting investment

Banks act as financial intermediaries, connecting those who have surplus funds (savers) with those who need funds (borrowers).

#### 2. Deposit

A deposit is money placed in a bank account by individuals or organizations for safekeeping or financial management. Deposits allow banks to use these funds to provide loans and investments.

There are several types of deposits:

- Demand deposits: funds that can be withdrawn at any time (current accounts).
- Savings deposits: funds that earn interest but may have withdrawal restrictions.
- Time deposits: money deposited for a fixed period with higher interest.

Deposits are the primary source of funds that banks use to provide credit to the economy.

#### 3. Loan

A loan is money borrowed from a bank that must be repaid with interest over a specified period. Loans allow businesses and individuals to finance projects, investments, and consumption.

Types of loans include:

- Personal loans
- Business loans
- Mortgages
- Trade finance loans

Interest charged on loans represents the bank's profit and compensation for the risk involved.

#### 4. Interest Rate

The interest rate is the cost of borrowing money or the return earned on savings. It is expressed as a percentage of the principal amount. Interest rates influence economic activity because:

- Low interest rates encourage borrowing and investment.
- High interest rates discourage borrowing and reduce spending.

Central banks often influence interest rates through monetary policy.

#### 5. Credit

Credit refers to the ability of individuals or businesses to borrow money with the promise of repayment in the future. Credit plays a crucial role in economic development by allowing businesses to invest in production, expansion, and innovation.

Banks evaluate creditworthiness, which includes factors such as income, financial stability, and repayment history.

#### 6. Foreign Exchange (Forex)

Foreign exchange refers to the process of converting one currency into another. Foreign exchange markets determine exchange rates, which represent the value of one currency relative to another. Exchange rates are essential in international trade because they affect:

- The price of imports
- The competitiveness of exports
- International investment flows

Banks and financial institutions play a key role in managing foreign exchange transactions.

## II. International Trade

### 1. Definition

International trade refers to the exchange of goods and services between countries. It allows countries to obtain products they cannot produce efficiently and to specialize in industries where they have a comparative advantage. International trade includes:

- Exports: goods and services sold to foreign countries.
- Imports: goods and services purchased from foreign countries.

### 2. Balance of Trade

The balance of trade measures the difference between a country's exports and imports.

- Trade surplus occurs when exports exceed imports.
- Trade deficit occurs when imports exceed exports.

The balance of trade is an important indicator of a country's economic position in the global market.

### 3. Trade Barriers

Governments sometimes regulate international trade through trade barriers. Common trade barriers include:

- Tariffs: taxes on imported goods.
- Quotas: limits on the quantity of imported products.
- Subsidies: financial support given to domestic producers.

These measures aim to protect local industries but can also affect international competition.

### 4. International Payments

When companies trade internationally, they must make payments across borders.

International payments may involve:

- Bank transfers
- Letters of credit
- Documentary collections

Banks ensure that these transactions are secure and reliable.

### 5. Trade Finance

Trade finance refers to financial instruments and services used to facilitate international trade.

Examples include:

- Letters of credit
- Import financing
- Export financing
- Bank guarantees

Trade finance reduces risk for both exporters and importers.

## III. Relationship Between Banking and International Trade

Banking systems and international trade are deeply interconnected.

### 1. Financing Trade

Banks provide loans and financial services that allow companies to:

- Produce goods for export
- Manage cash flow during international transactions
- Pay for imported goods

Without bank financing, many international trade activities would be difficult.

### 2. Managing Currency Exchange

Because international trade involves different currencies, banks provide foreign exchange services that allow companies to convert currencies and manage exchange rate risks.

### 3. Reducing Transaction Risks

International trade involves risks such as non-payment, currency fluctuations, and political instability.

Banks reduce these risks through financial instruments such as:

- Letters of credit
- Bank guarantees
- Insurance mechanism

### 4. Supporting Global Economic Integration

By facilitating international payments and providing financial services, banks contribute to the expansion of global trade and economic cooperation between countries.

## Conclusion

Banking terminology and international trade concepts are fundamental to understanding the global economic system. Banks serve as financial intermediaries that mobilize savings, provide credit, and facilitate financial transactions. At the same time, international trade enables countries to exchange goods and services, expand markets, and benefit from specialization.

The relationship between banking and international trade is essential. Banks provide the financial infrastructure, payment systems, and risk management tools that allow international trade to function smoothly. Together, they contribute to economic growth, international cooperation, and the development of modern economies.

## Let's practice

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**Activity 1:** Choose the correct answer.

1. **A bank is mainly a:**

- a) Government organization
- b) Financial institution that accepts deposits and provides loans
- c) Factory producing goods
- d) Trading company

2. **A deposit refers to:**

- a) Money borrowed from a bank
- b) Money placed in a bank account
- c) Taxes paid to the government
- d) Goods exported abroad

3. **Interest rate is:**

- a) The tax on imports
- b) The price of foreign goods
- c) The cost of borrowing money
- d) The value of exports

4. **Foreign exchange refers to:**

- a) The production of goods in another country
- b) The conversion of one currency into another
- c) Government spending
- d) The price of commodities

5. **Exports are:**

- a) Goods sold to other countries
- b) Goods bought from other countries
- c) Goods produced locally
- d) Goods stored in warehouses

6. **A trade deficit occurs when:**

- a) Exports are greater than imports
- b) Imports are greater than exports
- c) Exports equal imports
- d) No goods are traded

**Activity 2:** Write True (T) or False (F).

- 1. Banks act as financial intermediaries between savers and borrowers. \_\_\_\_\_
- 2. Loans must be repaid with interest. \_\_\_\_\_
- 3. Imports refer to goods sold to foreign countries. \_\_\_\_\_
- 4. International trade allows countries to exchange goods and services. \_\_\_\_\_
- 5. Foreign exchange is important in international trade because different countries use different currencies. \_\_\_\_\_
- 6. A trade surplus occurs when imports are greater than exports. \_\_\_\_\_

**Answer Key: Activity 1** 1 → b - 2 → b - 3 → c - 4 → b - 5 → a - 6 → b

**Answer Key: Activity 2** 1 → True - 2 → True - 3 → False - 4 → True - 5 → True - 6 → False