

# СВІТОВЕ ГОСПОДАРСТВО І МІЖНАРОДНІ ЕКОНОМІЧНІ ВІДНОСИНИ

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## EVOLUTION OF THE INTERNATIONAL FOREIGN EXCHANGE MARKET

The mutual exchangeability of currencies is really in demand. It contributes to the development of international trade, further international work distribution, effective use of owned savings, at the same time bringing benefits to the entire international community.

The purpose of this paper is to present the evolution of the international foreign exchange market, its instruments and transaction execution methods observed in the last dozen of years.

The paper presents the assumed thesis that the Forex market has been subject to strong evolution since the 80's and is still developing with high dynamics.

The research method used by the author of this paper consists in the analysis of statistical data collected on the three years' basis by the Bank for International Settlements (BIS, Switzerland). BIS, in collaboration with central banks and supervisory institutions in particular states, has collected data from approximately 1300 institutions.

### 1. International foreign exchange market – «Forex» and its development

The «Forex» (Foreign Exchange) market is the largest financial market in the world. It is characterised with the largest dynamics, liquidity and turnover volume [1, p. 114]. Its main features include, for example:

- Global range – Forex is a market with global range and has no specific geographical location. Currency transactions are carried out in different regions of the world;

- Decentralisation – Forex is a decentralised market in the economical, technical and geographical aspect;

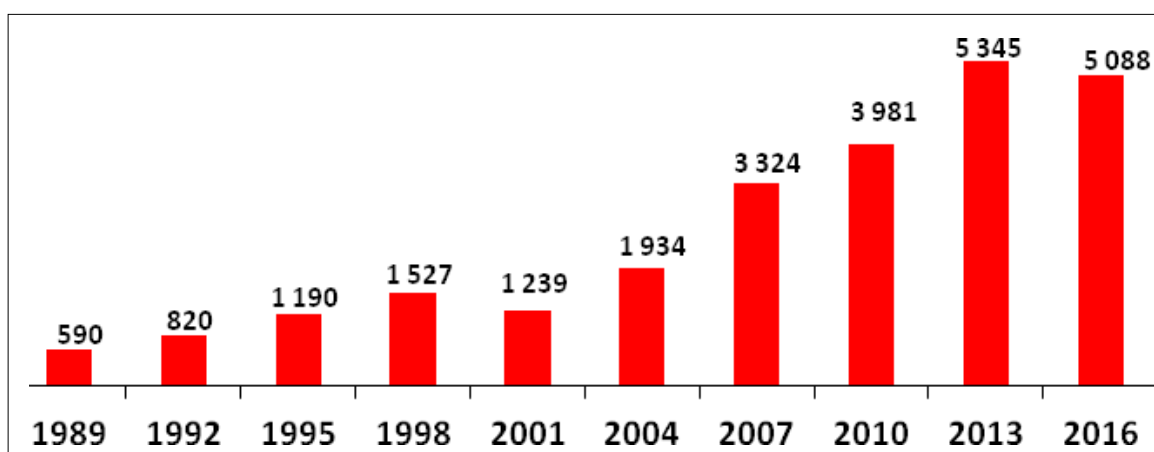
- OTC market – Forex is an over-the-counter market (OTC-market);

- It is open round-the-clock – Forex operates 24h a day;

– There is no supervisory institution – Forex is a market not supervised by any international institution. Each state exercises individual supervision over the operation of the Forex market in each country.

– Contract for Difference market – Forex it is a market dominated by Contracts for Difference [2, p. 188; 3, p. 201; 4, p 178; 5, p. 208; 6, p. 22].

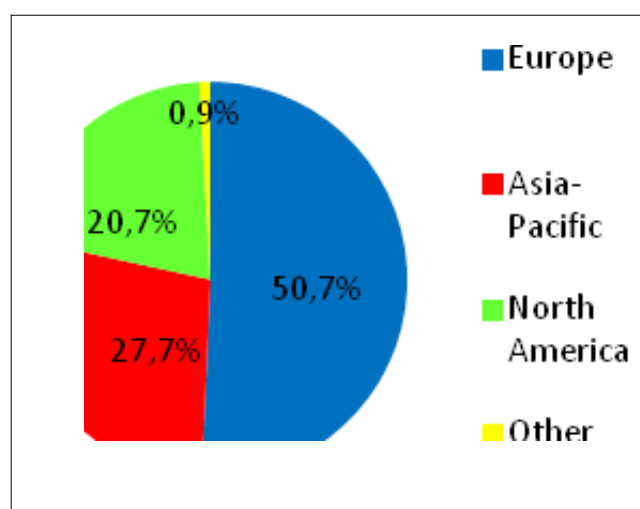
Since the 80's, an increase of the turnover value in the Forex market has been observed (diagram 1). In 2016, the average daily turnover amounted to over 5 billion dollars.



**Diagram 1. Development of foreign exchange market between 1989 and 2016 in USD billion**

*Source: Own study on the basis of: [7, p. 3; 8, p. 3]*

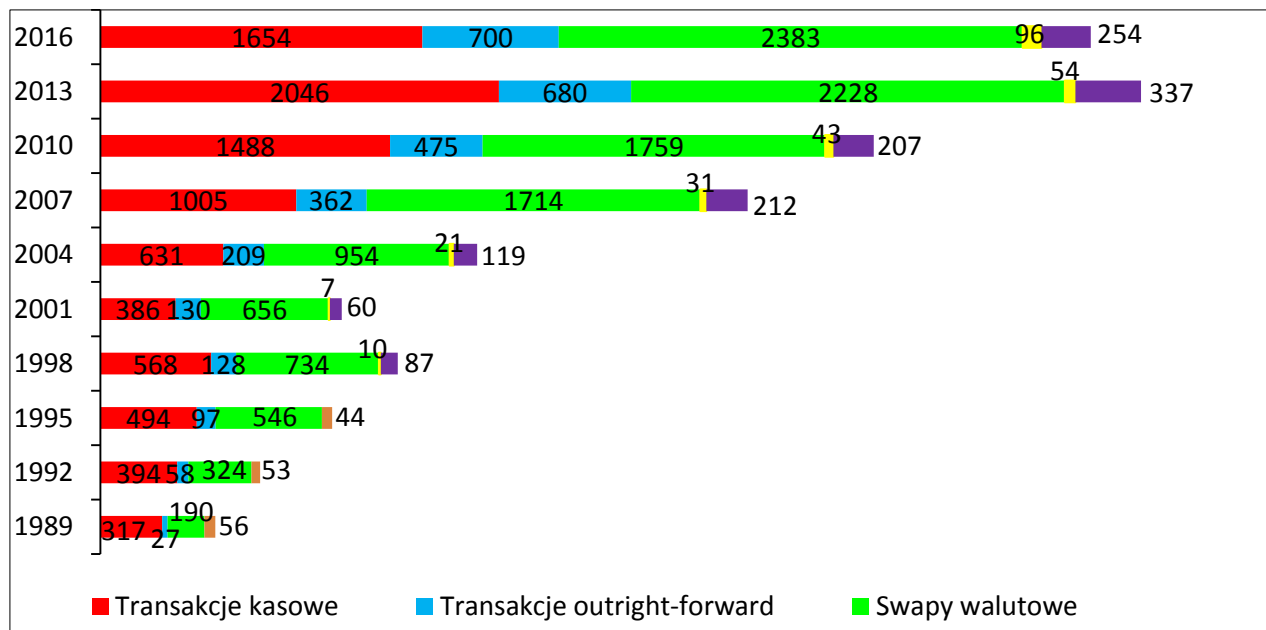
The Forex market has been developing globally. However, currently, the European countries have the largest share in this market (diagram 2).



**Diagram 2. Share of particular world regions in foreign exchange market in 2016, in %**

*Source: Own study on the basis of: [8, p. 14]*

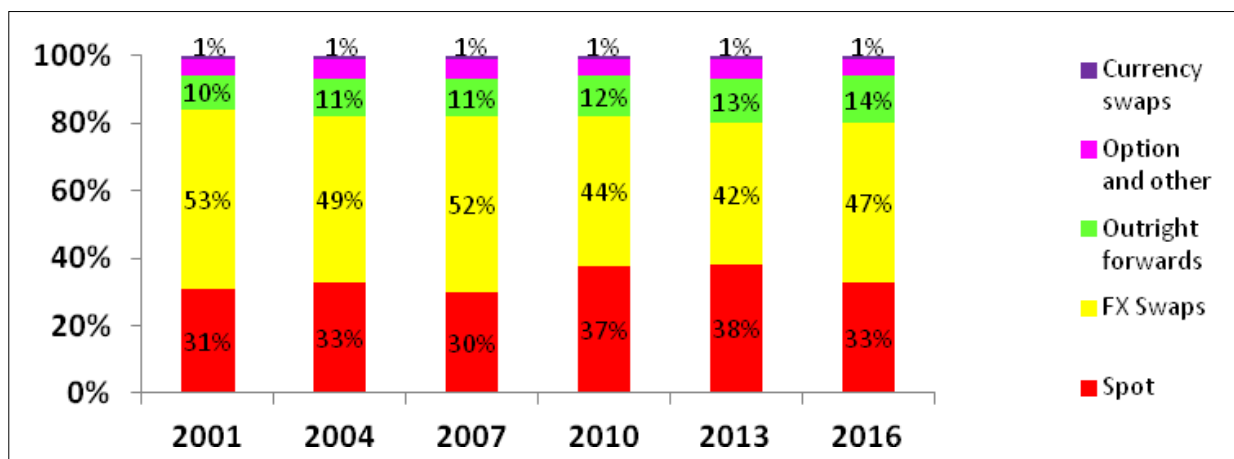
The modern Forex market is also developing in terms of offered instruments. Nowadays it also offers the possibility to invest through such instruments as: spot transactions (spot), outright forwards, foreign exchange swaps (fx swaps), cross-currency interest rate swap (CIRS, currency swaps) and currency options (fx options, options) [8, p. 9]. Development of individual instruments is shown in diagram 3.



**Diagram 3. Development of individual transaction instruments on Forex market between 1989 and 2016 in USD billion**

Source: Own study on the basis of: [9, p. 5; 8, p. 9]

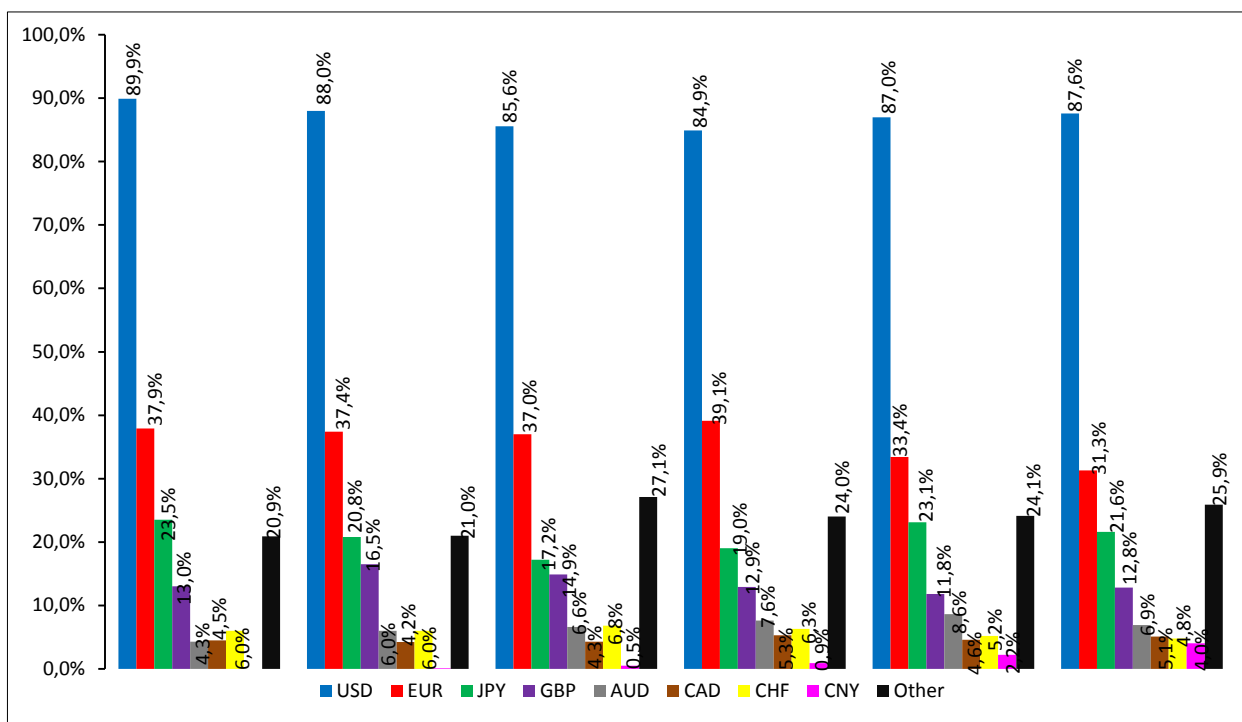
The largest increase can be observed in case of swap transactions which increased by 1170 %. In turn, cash transactions noted an increase by 645 %. The percentage share of the particular instruments is presented in diagram 4.



**Diagram 4. Share of individual instruments in transactions on Forex market in percent**

Source: Own study on the basis of: [10, p. 8; 8, p. 9]

The most popular currency on the Forex market is undoubtedly the American dollar. This currency holds over 87 % share in transactions on the Forex market at the present moment. Such a high share in transactions results from the fact that it is the currency of the largest and the most stable world economy. Investors trust the American dollar the most. In addition, the American dollar is still used to settle international transactions. The share of the particular currencies in transactions on the Forex market is presented in diagram 5.



**Diagram 5. Foreign exchange market turnover by currency between 2001 and 2016**

Source: Own study on the basis of: [8, p. 9]

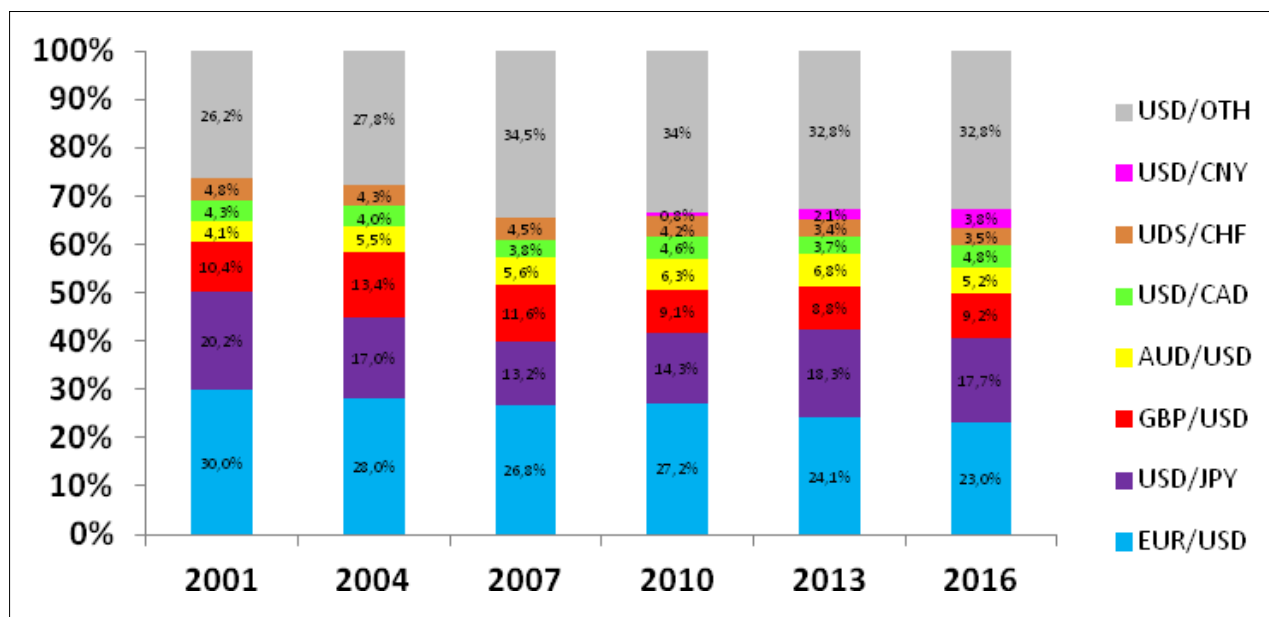
The investors are interested mostly in the currencies paired with the dollar (diagram 6).

The transaction execution methods on the Forex market have also undergone some transformations. Currently, the investor can use the following execution [11, p. 16] methods:

- Direct method – direct trade where the transaction is executed only between contractors. The Parties can contact each other only via telephone (*voice direct*) or in an electronic manner (*electronic direct*) – with the use electronic communication systems (e.g. *Thomson Reuters Dealing*) and electronic transaction platforms.

- Indirect method – with participation of a third entity. The involvement of the third party can be in a vocal (*voice indirect*) or electronic form – with

the use of electronic broking services (e.g. EBS Market) and multilateral dealing services.



**Diagram 6. Foreign exchange market turnover by currency pairs between 2001 and 2016**

*Source: Own study on the basis of: [8, p. 11]*

Traditional methods, such a telephone contact or voice broker, start to lose their significance. New methods appeared along with technological progress, characterised with broad variety. Both the bank and customer sector can use the modern methods.

Since the 80's, an unusually dynamic turnover growth has been observed on the Forex market. The instruments and currency transaction execution methods available to investors have also been subject to change. This could be caused by the dynamic development and general access to the Internet which makes it possible to invest from any place in the world. The facilitated access to the latest technologies, mainly to information and communication technologies, and the omnipresent computerisation of societies can also be of importance in this aspect.

### References:

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