**Topic 8 Currency and financial terms of international contracts**

8.1. The concept of currency terms of international contracts and the factors that determine them. 8.2. Financial terms of concluding international contracts.

8.3. Means of payment under international contracts.

8.1. The Concept of Currency Terms of International Contracts and Factors Determining Them:

International contracts involve transactions between parties from different countries, necessitating consideration of currency terms. Currency terms refer to the currency in which the contract is denominated and through which payments are made. Several factors influence the choice of currency terms in international contracts:

Stability and Convertibility: Parties often prefer currencies that are stable and easily convertible to their own currency or other widely accepted currencies. Currencies with low inflation rates and strong economic fundamentals are favored.

Global Reserve Currency: The choice of currency may be influenced by its status as a global reserve currency. For instance, contracts may be denominated in US dollars (USD), euros (EUR), or other major currencies due to their widespread acceptance and stability.

Exchange Rate Volatility: Parties consider the historical exchange rate volatility between the chosen currency and their own currency. High volatility increases uncertainty and risk, potentially leading parties to opt for more stable currencies or incorporate hedging mechanisms.

Legal and Regulatory Considerations: Legal and regulatory frameworks in the contracting countries impact currency choice. Some countries may impose restrictions on foreign currency transactions or require contracts to be denominated in the local currency.

Market Preferences: Market norms and preferences play a role in currency selection. In certain industries or regions, specific currencies may be customary for conducting transactions.

Risk Management Strategies: Parties may adopt risk management strategies such as currency hedging to mitigate exchange rate risk associated with the chosen currency.

8.2. Financial Terms of Concluding International Contracts:

Financial terms in international contracts encompass various aspects, including pricing, payment terms, and financing arrangements. Key components of financial terms include:

Pricing Mechanisms: Parties must agree on the pricing mechanism for goods or services traded in the contract. Common pricing methods include fixed prices, cost-plus pricing, and market-based pricing.

Payment Terms: Payment terms specify the timing and methods of payment. These may include upfront payments, installment payments, or payment upon delivery. Parties negotiate payment terms based on factors such as cash flow requirements, creditworthiness, and risk considerations.

Currency Clause: Contracts typically include a currency clause specifying the currency in which payments will be made. The currency chosen should align with the parties' preferences, considering factors such as exchange rate stability and convertibility.

Financing Arrangements: For large or long-term contracts, financing arrangements may be necessary. These could involve trade finance instruments such as letters of credit, bank guarantees, or supplier credit agreements to facilitate payment and mitigate financial risk.

Payment Security: Parties may incorporate mechanisms to ensure payment security, such as advance payments, performance bonds, or escrow accounts.

8.3. Means of Payment Under International Contracts:

Means of payment under international contracts encompass various methods used to settle financial obligations between parties. Common means of payment include:

Cash in Advance: The buyer makes full payment before the goods or services are delivered. This method provides security for the seller but may pose liquidity challenges for the buyer.

Letter of Credit (LC): A financial instrument issued by a bank that guarantees payment to the seller upon presentation of specified documents, such as shipping documents or proof of delivery.

Documentary Collection: A process whereby banks facilitate the collection of payment from the buyer on behalf of the seller by presenting shipping documents or a bill of exchange to the buyer upon shipment of goods.

Open Account: Payment is made after the goods or services are delivered, based on agreed-upon credit terms between the buyer and seller. This method offers flexibility but exposes the seller to the risk of non-payment.

Advance Payment Guarantee: A guarantee provided by the seller's bank to the buyer, ensuring repayment of the advance payment in case of non-performance or default by the seller.

Bank Guarantee: A commitment by a bank to fulfill the payment obligation of the buyer or seller in case of default, typically used to secure contractual obligations.

Electronic Payment Methods: Increasingly common methods include wire transfers, online payment platforms, and electronic funds transfers, offering convenience and speed of transaction.

The choice of payment method depends on factors such as the level of trust between parties, the nature of the transaction, regulatory requirements, and risk considerations. Parties may use a combination of payment methods to balance risks and optimize financial efficiency in international contracts.