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Introduction

Global risk management, foreign investments, foreign exchange, and different monetary activities are the primary focusses of international financial management, or IFM. It facilitates multinational corporations to minimise dangers, maximise returns, and make the satisfactory financial choices possible throughout its nationwide boundaries. The following report will explain the concept of foreign exchange risk and how it works, and for the better understanding of the topic, Barclays, an UK based bank will be taken into consideration. The report will shed light on the major types of foreign exchange risk and the way in which they have an influence on the bank along with providing strategies to mitigate those hazards. In addition to this, it will identify the challenges faced by MNCs and few recommendations will be provided to mitigate the same.

Body

Overview of Foreign Exchange Risk

Exchange price fluctuations among different foreign currencies give an upward push to foreign exchange risks, that is frequently referred to as foreign exchange risk (Berndt *et al.*, 2023). As overseas currency is converted to domestic currency, it affects the cost of financial statements, investment and global transactions. Since they have a wide business, investments, and trade, all over the international boundaries, multinational corporations (MNCs) are specifically vulnerable. There are three major categories of foreign exchange hazard that exists, which includes transaction risks, that influences character transactions which consists of imports or exports. Another one is translation risk, which affects the economic statements of subsidiaries and last is the economic risk, which arises from fluctuations in alternate rates and affects the marketplace value over the long term (Berndt *et al.*, 2023). To keep their aggressive advantages in international markets, MNCs must manipulate foreign exchange risk that allows it to stabilise cash flows and maintain profit margins.

Foreign Exchange risk faced by MNC

Multinational corporation (MNCs), that operates within the United Kingdom are liable to certain foreign exchange risks, especially in context to the country's extensive international trade and monetary operations (Boateng *et al.*, 2022). One of the most important and major banks of UK that has overseas recognition is Barclays, which is also exposed to foreign exchange risks which includes the following:

Transaction Risk: When an MNC conducts international trade and the financial transactions are done in the currency of another country, then this type of risk is a transaction risk. Barclay is exposed to the risk that exchange price will negatively range before the settlement of transactions when it lends loan, invests or conducts further international trade in currencies such as American dollar or Euro (Dawes, 2024).

Translation Risk: This type of risk refers to the condition when the financial statement and fiscal position of the parent company gets affected due to its subsidiary company operating in foreign country tries to influence their currency where they operate. For example, Barclay is massively spread to numerous nations, which includes the US, Europe and Africa. Although these subsidiaries' fundamental performance is still strong, Barclay's consolidated financial statement will display a decrease translated cost of subsidised company's earning, assets and liabilities if the pound gains price relative to the currencies of international locations (Dodge, 2024).

Economic Risk: Exchange price fluctuation's long-time period results on Barclay's market role and general competitiveness is known as economic risk, also referred to as operating exposure. Under the situation that are price and value of the pound rises, local banks using weaker currencies might also find it tougher to compete with Barclays in international marketplace. Due to the possibility that local monetary institutions may additionally offer better situation, this could lower Barclay's market share in such areas.

Impact of these risks on the bank

Impact on Capital: Barclays increases capital and budget in several currencies, which results in capital and investment charges (Dodge, 2024). The cost of capital and finance may be impacted by way of changes in foreign exchange prices, particularly if the financial institution ought to convert currencies to pay for activities abroad or to fulfil its responsibilities.

Impact on Earning: Barclays' earnings may be impacted by adjustments in exchange rates. A sizeable quantity of the financial institution's profits is derived from resources outside the UK, and a better pound may make these global earnings less valuable upon the return of money, consequently compressing earnings margins (Eichengreen, 2024).

Impact of Balance Sheet: The cost of Barclays' global assets and liabilities, specifically, can be impacted due to shifts in exchange rate. Investor trust, the bank's crucial financial ratios, and the ordinary economic position may additionally all be impacted by means of these modifications.

Strategies adopted to manage Foreign Exchange risk

There are certain strategies that are adopted by MNCs to manage their exposure to foreign exchange risks that are elaborated in detail on the points below:

Financial Hedging: To counteract feasible losses occurred due to fluctuations in foreign exchange rate, hedging like commodity, currency and interest rate are used (Eichengreen, 2024). For instance, Barclays may enter in a forward agreement to fix the charge price for a future transaction, so that it is able to convert currencies at a fast charge even if the market shifts in an unpredictable manner. This is more effective where Barclays has bigger responsibilities or transactions in overseas currencies, like accepting bills in Euros or making investment in Dollars.

Operational Adjustment: To lessen foreign exchange risk, adjustment should be made to the business enterprise's economic structures and business methods (Fisera, 2024). For example, as opposed to billing customers in a foreign currency, Barclays can also decide to use its local rates, that is the British pound. Barclays may additionally use leading and lagging strategies, which contain accelerating or delaying sales in response to predicted foreign exchange fluctuations. For instance, Barclays will possibly wait to pay its local suppliers to advantage from a better trade charge down if it anticipates that the value of pound will show a hike.

Foreign Money Control: To efficiently manipulate foreign exchange risk, this involves analysing and comparing foreign exchange markets, monetary facts, and geopolitical traits (Maina, 2023). To expect foreign money actions and take preventative movement to guard the financial institution's economic interest, Barclay's treasury and risk control departments are vital. Barclay's foreign exchange risk management strategies maybe correctly adjusted in reaction to dynamic market situation by implementing this technique.

Currency Diversification: Barclays lessens its dependence on any one foreign money by spreading its enterprise and investment activities in course of several distinctive currencies and geographical areas (Schembri, 2024). Due to its diverse foreign money publicity, Barclays can mitigate the effect on its normal financial scenarios, as an instance, if the Euro declines in respect to US currency's growth.

Natural Hedging: By matching a business enterprise's revenue and the price of currencies, natural hedging facilitates to minimise its exposure to foreign exchange risks. For instance, Barclays may generate revenue in the same currency, which include paying salaries or other financial activities, if it receives a huge quantity of the US currency from its US groups

(Turdieva *et al.*, 2024). Foreign exchange risk can also be lessened for Barclays by strategically directing its assets in the direction of regions where it may balance its foreign exchange inflows and outflows.

Challenges of implementing these strategies

The major challenges that Barclays faces while implementing strategies are as follows:

Predicting Accuracy: Since the industry's economic markets are so widespread and dynamic, predicting foreign exchange money shifts is a difficult task (Masso *et al.*, 2020). Barclays would not be able to predict trade rate tendencies with enough accuracy, regardless of advanced algorithms and statistical analysis. This should bring about mismatched hedging processes and unanticipated financial outcomes.

Cost Control: Another major obstruction that MNCs could face is the proper and efficient management of costs. Even though monetary hedging devices like swaps and diversifications are precise at lowering risks, they have charges like transaction expenses and premiums. These fees can mount up for a financial group which include Barclays, particularly while dealing with a tremendous and varied portfolio of foreign exchange risk (Masso *et al.*, 2020).

Recommendations:

For tackling the challenges faced by MNCs while implementing strategies to mitigate foreign exchange risk, certain recommendations are suggested for the corporation.

Improving forecasting and analytics: Predicting foreign exchange moves more appropriately may be done by means of making an investment in sophisticated forecasting software and analytics. Barclays should use huge statistics and machine learning to forecast more correctly by means of analysing beyond tendencies and economic indicators.

Cost-benefit evaluation of hedging tools: To manage the costs related to economic hedging, Barclays should carry out a comprehensive cost-benefit analysis of the hedging types. Barclays can make sure that risk leveraging profits is greater than costs by means of automatically assessing and optimising its hedging strategy.

Conclusion

This report has examined the conceptual framework of international financial management and the foreign exchange risks that multinational corporations (MNCs) like Barclays face over time. By using Barclays, one of the UK's leading banks, as a case study, the report identified three significant foreign exchange risks and evaluated strategies to mitigate them. In addition, it highlighted the practical challenges that MNCs may encounter when implementing these strategies and provided recommendations for overcoming these obstacles.

Ultimately, the findings underscore the critical need for MNCs to continuously adapt and refine their risk management approaches in an increasingly globalized and volatile financial environment. As global markets evolve, so too must the strategies that protect against foreign exchange risks, ensuring that MNCs like Barclays remain resilient and competitive on the international stage.

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