Case study

[Name of the Writer]

[Name of the Institution]

**International Finance**

In South Africa, Switzerland is the landlocked country and newly it is called as Swatini and according to Switzerland 2015 census, its population is 1.2 million (Mushtaq,&Siddique. (2016). In 2017, according to the report of "The World Economic Forum" and the report of "State bank" that Switzerland is facing worst economic problems and they are not able to manage their interest rate and exchange rate. Switzerland does not give an actual understanding in the context of the country in previous paper Relationship Between Inflation and Interest Rate in Swaziland” which was investigating the interest and inflation rate of Switzerland (Khumalo, Mutambara&Kodua, 2017). Country interest rate impact on economic growth is the key to know about the operations of the country and its economic growth. The economy of Switzerland is facing the worst increase in inflation and interest rate due to the Inability of Monarchy to manage the economy. From 2010 to 2014, Switzerland was facing economic downfall because of the increase in the level of poverty. Studies O Khumalo (2017) shows that in the economy of Switzerland there is a positive relationship present between the interest and inflation rate Switzerland is required to make a proper monetary and fiscal policies against the prevailing and controlling economic challenges. In 2018, the real GDP of Switzerland is 2.5% which shows that the economy of Switzerland has shown growth as compared to 2014 (2.4%). In the first half of 2018, the growth was above than average but in the second half of 2018, it was noticed that the growth of economy became weekend (Press releases Feb 2019). Research shows that there is positive relationship present between the inflation rate of Switzerland and the relationship is negative in case of the interest rate. The economic crises in Switzerland are due to macroeconomic variables that affect the economy of Switzerland includes foreign market instability and crises of Monarchy (Khumalo, et, al., 2017). The monetary and fiscal policies are not effecting the inflation and interest rates of the economy of Switzerland which has to be monitored keenly by financial expect and analyst of Switzerland. The currencies of Switzerland and the US market are interrelated and they appreciate together in real and nominal term.De Bock &Filho, 2013). Transaction exposure is the risk due to the fluctuation of the exchange rate of foreign currency and Switzerland currency is fluctuating with the currency of US so there is a risk in the value of domestic currency while investing in the US. Transaction exposure is short term and well defined. To hedge transaction expose of Switzerland currency forward contract is the best choice to mitigate the effect of transaction exposure. Moreover the buying and selling of payable and receivable in the money market can also be helpful to mitigate the effect of transaction exposure. Translation exposure is the risk that a company of Switzerland faces on assets, liabilities, equities or income value change with the change of US exchange rate (Saeed,. 2018). The translation exposure can be mitigated by investment in foreign currencies in the form of forwarding contract and options. In forwarding contract, there are two possibilities either the investor gets favorable exchange rates or worse rates of exchange (Arribere, 2016). Economic exposure another name is operating exposure, the company cash flows are affected by the change in the foreign exchange rate. It can also affect the market value of the company. Multinational firms as many foreign subsidiaries and chains which may be directly affected by economic exposure. It can be mitigated by currency swap or diversifying financing. It is not required to hedge the risk in the perfect capital market. It is necessary that the firm should hedge at a lower cost. If a firm is facing an increase in taxes in foreign currency, hedging is the best solution to reduce the risk.

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