

UDC: 336

EXCHANGE RISK HEDGING

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Key words: *Hedging, derivative financial instruments, forward price, forward points.*

Abstract. The article analyses the problems caused by the establishment of a floating market exchange rate regime in the Republic of Belarus. The liberalization of the currency market makes it necessary to use the strategies of risk hedging due to unfavorable changes in the exchange rate dynamics.

Introduction

The transition of the National Bank to a more flexible FE (foreign exchange) mode as well as external shocks associated with significant fluctuations of prices for oil and world currency courses have brought up to date the issues of improving FE risk management system.

Since the beginning of 2015 the National Bank has pursued a policy of the flexible exchange rate of the Belarusian ruble.

The exchange rate is determined by the market, which is economically positive. At the same time, the volatility of the exchange rate has increased, which determines the need for currency risk insurance.

This necessitates the use of security policies and risk hedging of losses due to unfavorable changes in the exchange rate dynamics.

Research results

The goal of risk management is not to eliminate it but to achieve the optimal risk structure and to transform it into acceptable forms.

The result of the effective FE risk management is the reduction of losses from changes in world currency rates, the reduction of the uncertainty of future cash flows, providing a more efficient financial management and the reduction of income fluctuations.

The greatest stability of the currency market is provided by the participants who don't seek additional revenue from exchange rate fluctuations.

First of all these are importers and exporters who use currency trading for goals that do not depend on short-term fluctuations of exchange rate differences.

One of the most common and effective ways of risk management in the field of currency market trading is the application of the approaches of technical and fundamental analysis of the dynamics of FE rates and the use of derivative financial instruments for currency risk hedging.

Hedging transactions (hedging) are forward sales or purchases of a foreign currency (or the execution of an option strategy) to reduce an exchange risk exposure connected with the assets or liabilities (or forecasted transactions) denominated in a foreign currency. They are not held for speculative purposes, but are carried out mainly to minimize the risk.

Hedging allows to effectively manage market risks even in conditions of increased instability inherent in the world economy due to the consequences of the financial

crisis, which leads to the impossibility of predicting the future behavior of market indicators, therefore, in the world practice, the use of various hedging instruments has long become an integral part of the economic activities of most companies. To be able to successfully compete in the international market, the subjects of management of the Republic of Belarus also need to learn how to work with hedging instruments.

The main purpose of hedging is the achievement of the optimal risk structure, that is, of a balance between hedging benefits and its cost.

The main constituents of the hedge are the following main derivative financial instruments (hereinafter – the DFIs):

- Forward: Actual exchange of currencies where settlement takes place more than two days after the trade at a fixed rate. The forward price is comprised of the spot rate plus the forward points.

- Currency futures: A transferable futures contract that specifies the price at which a currency can be bought or sold at a future date. Currency futures contracts are legally binding and counterparties that are still holding the contracts on the expiration date must trade the currency pair at a specified price on the specified delivery date.

- FX option: A contract that grants the buyer the right, but not the obligation, to buy or sell a specified currency at a specified exchange rate on or before a specified date. For this right, a premium is paid to the seller, the amount of which varies depending on the number of contracts if the option is bought on an exchange, or on the nominal amount of the option if it is done on the over-the-counter market.

- FX swap: Spot foreign exchange transaction simultaneously reversed by a forward contract. The difference in rates reflects interest rate differentials between the two currencies.

The world practice shows that the hedge is one of the main and the most popular ways of risk management and control.

According to experts FE market entities of the Republic of Belarus has gone out in a limb because of the current situation.

“Due to the fact that many companies in Belarus carry out export and import operations, are obliged to sell 30% of its currency revenue and have costs and revenues in different currencies, this kind of exchange rate fluctuations have a negative impact on them, increasing risk of potential losses due to unexpected leaps in exchange rate” – experts of the Research Center of the Research, Forecast and Monitoring and of the German Economic Team in Belarus believe.

Experts consider that such a situation poses Belarusian companies “the question of how to deal with this kind of currency risk and to protect their revenues from the volatility of the Belarusian ruble.

Economists estimated that a growing number of companies in the world hedge these risks. The authors of the research give data showing that Western companies prefer to hedge about 40% of FE risks.

It should be noted that in Belarus there are currency risk hedging instruments, however, they are not widespread yet because of the complexity of accounting of these transactions as well as some other problems.

Currently, in the Republic of Belarus derivatives market is immature both in terms of the Belarusian Currency and Stock Exchange and OTC market.

Regulatory barriers: for transactions with derivative financial instruments (including the concepts of “derivative financial instrument” and “derivative

security”), as a result there are problems with identifying and recording these types of instruments.

Accounting methodology: Insufficient methodology and practice of accounting of transactions with derivatives market instruments and, in particular, instruments of currency risk hedging.

As the chairman of the Belarusian Currency and Stock Exchange stated in 2015 the volume of futures transactions which make it possible to hedge currency risks amounted to only 16.6 billion rubles in Belarus. “At present currency futures in Belarus are not widespread due to poor awareness of customers as well as unresolved taxation and accounting issues of these transactions”, – the Chairman of the Exchange claimed.

Studies of economic features of financial instruments used in the world and now in the Republic of Belarus too, revealed significant differences in the essential characteristics of financial instruments, as well as in their quantitative parameters in various segments of the global monetary and financial market.

Conclusions and suggestions

The use of futures transactions of the financial market is a tool of insurance of one of the currency risks – the danger of loss of conversion of foreign money into the national one or vice versa.

Financial instruments should be used both for immobilization of idle cash for the needs of the national economy, control of inflation and for effective hedging of all risk groups aiming at minimizing the results of their impact on assets in place.

Hedging transactions (hedging) are term transactions concluded to prevent possible losses as a result of changes in prices and rates of commodity, currency and stock markets and exchanges. They are conducted not for speculative purposes, but are carried out, mainly, in order to minimize the risk.

On the basis of the considered characteristic differences of hedging derivatives on the OTC and exchange markets, taking into account the specifics of the main forward transactions, taking into account the dual nature of derivatives, the author defines concepts such as "hedge" – a derivative financial instrument is used to optimize the price risk of the underlying asset on commitments and the accepted planned with the greatest possible efficiency according to the developed and allows hedging strategy etc. its implementation (under certain conditions) to receive additional financial profits.

The definition of the concept of "hedging" – an independent kind of economic relations on the optimization of the price risk on the actions taken and planned commitments through the use of hedging instruments with the greatest possible efficiency.

Multivariate of risks when conducting transactions in the open market naturally requires both on the part of the central bank and on the part of other participants of the FE market using different combinations of ways to hedge risks.

The National Bank as a future single regulator should pay special attention to the development of this market.

Thus, in order to minimize exchange risks implementing currency transactions it is necessary to develop the uniform concepts and rules of practice for the application of all exchange risk security tools taking into account both world experience and the peculiarities of the national monetary and financial market functioning.

Based on the study of the world experience of hedging foreign exchange risks by non-financial organizations, it is possible to indicate the main factors constraining the use of hedging instruments (over-the-counter and exchange) in the Republic of Belarus:

- the lack of normative legal documents regulating and explaining the procedure for conducting and accounting for non-financial organizations of hedging transactions, as well as establishing the procedure for taxing income on hedging transactions of currency risks and accounting for arising expenses in taxation;
- low quality of corporate risk management in enterprises;
- there is no risk-taking in the currency market, which would be ready to assume positions on buying / selling currencies with forward execution dates;
- the lack of profitability in the benchmark market for long-term debt instruments, a repository.

Summary

The National Bank's transition to a more flexible exchange rate regime, as well as external shocks related to the significant fluctuations in world oil prices and world currency rates observed in recent years, was stimulated by non-financial organizations that perform settlements in foreign currencies for export-import transactions and liabilities on banking Loans, to hedging foreign exchange risks.

The result of effective currency risk management is a decrease in losses due to changes in the rates of world currencies, a reduction in the uncertainty of future financial flows, the provision of more efficient financial management, and a reduction in profit fluctuations.

One of the most common and effective methods of risk management in the field of operations in the foreign exchange market is the application of hedging methods of currency risks.

A key factor for the further progressive development of the domestic derivatives market, as well as its effective and reliable functioning, among other things, is the full-fledged market infrastructure for hedging in the Republic of Belarus.

It is considered appropriate to divide measures oriented to the development of the institution of hedging currency risks on conditionally two blocks of measures.

The first block of measures includes measures to develop corporate risk management, improve the infrastructure of the derivatives market.

The second block is the activities that lie in improving the system of regulating the derivatives market and the legal framework for the derivatives market.

Priority at this stage are measures to improve the mechanisms for regulating hedging transactions of currency risk in terms of their accounting in the accounting of non-financial organizations and determining the taxable hedging base, clarifying the procedure for disclosing the hedging strategy, developing a national methodology for calculating the benchmarks of profitability in Belarusian rubles for a period of 1 month Up to one year, the creation of a national system for collecting, processing and storing information on transactions performed on the OTC market.

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UDC 338.45:68(476.5)

**DEVELOPMENT OF INTEGRATION
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PRACTICAL ASPECTS**

**РАЗВИТИЕ ИНТЕГРАЦИОННЫХ СВЯЗЕЙ В
ПОВЫШЕНИИ КОНКУРЕНТОСПОСОБНОСТИ
ПРЕДПРИЯТИЙ РЕСПУБЛИКИ БЕЛАРУСЬ:
ТЕОРЕТИЧЕСКИЕ И ПРАКТИЧЕСКИЕ
АСПЕКТЫ**

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Key words: integration communications, competitiveness, efficiency, cluster structures, cooptation, stakeholders

Ключевые слова: интеграционные связи, конкурентоспособность, эффективность, кластерные структуры, коопетиция, стейкхолдеры

Abstract. The relevance of development of integration communications for textile and clothing enterprises is proved in article. The assessment of integration