

OPPORTUNITIES FOR NON-FINANCIAL ORGANIZATIONS OF THE REPUBLIC OF BELARUS IN THE DERIVATIVES MARKET

P. PANKOV, L. MASKO

Polotsk State University, Belarus

The current state of derivatives market in Belarus has been analyzed. For better understanding the necessity of hedging and its practical importance the organization as an open system has been considered. In this system the model of hedging the most significant risks arising in the current activity of non-financial organizations has been developed.

Managing the organization in market environment is a complex task that can be performed successfully not mainly with the help of management tools, but it should be based on understanding of common truths and knowledge of possible variants of the situation development. In modern conditions any organization is closely connected with the environment and depends on it both in terms of its resources and in terms of consumers. Openness of both individual organizations and the economy as a whole is associated with many risks that are caused by external factors. Derivatives provide an effective method of transferring risk from parties that do not want to be exposed to this risk to market participants, who are willing to accept it.

The impact of external environment and the necessity of coordination within the organization require making management decisions constantly. Management is understood worldwide as the process of planning, organization, motivation and control necessary to achieve the company's goals. Theory and practice of management allow us to present economic entities of any level as open systems. The characteristics of management activity on the enterprise as on the open system may be presented in the following form (figure 1).

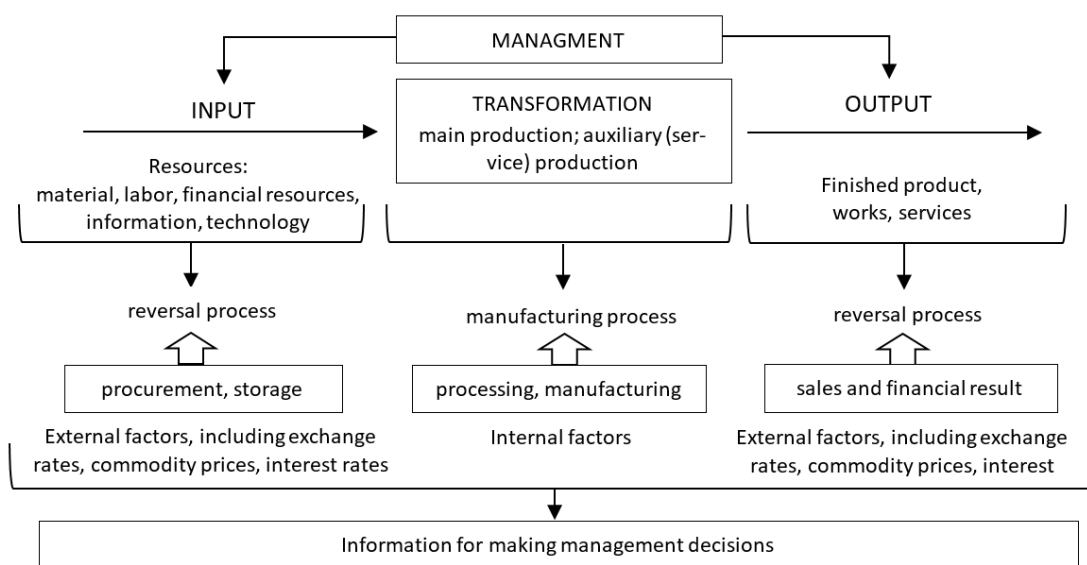


Figure 1 – Characteristics of the opened management system

Source: own development based on [1]

Depending on the field of activity, market variables (exchange rates, exchange prices, interest rates) can have significant impact on the final result of the company's performance indicators. Moreover, exposure to the risk of adverse movement of market variables can occur both at the stage of procurement and at the stage of sale of goods or services.

It is evident that the planning function will be implemented better if the probability of occurrence of the planned scenario is higher. In this case, hedging with derivatives allows the company to plan the result that won't be affected by market risk. On the other hand, when hedging, the organization consciously abandons the potential

profit, that's why not the entire volume of future cash flows is hedged, but only a part of it. However in general, as noted earlier, non-financial organizations are more interested in protecting against market risks, which is associated with the movement of relevant exchange rates, commodity prices, interest rates, rather than in obtaining speculative income from short-term market fluctuations.

In assessing hedging effectiveness, it is necessary to take into account the changes in the value of the hedged item, while consideration of only profit or loss of the hedging instrument (derivative) doesn't take into account the purpose of hedging. Because the cost of the hedged item and hedging instrument in an effectively built risk management system should move in opposite directions and provide the company with a stable level of income with a high probability [2].

The most evident directions of hedging for non-financial organizations in the Republic of Belarus are protection against currency and price risks faced by exporters and importers, or by organizations working with exchange traded commodities. Potential areas of hedging risks that arise in the terms of current activity in non-financial companies are presented in figure 2.

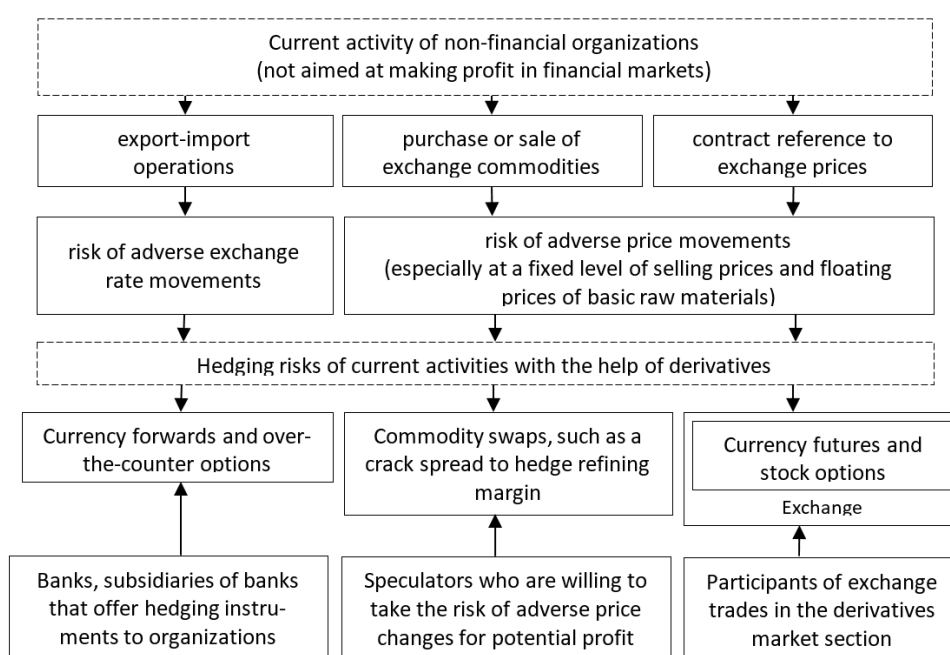


Figure 2. – Model of hedging the most significant risks arising in the current activity of non-financial organizations

Source: own development

Any organization can resort to hedging with derivatives if its cash flows are subject of market risk (risk of changes in exchange rates, commodity exchange prices, interest rates), and there is an objective necessity to reduce this type of risk. But in cases, which are presented in figure 2, it will be one of the most appropriate risk-management techniques.

Despite major financial turmoil, the crisis of 2008-2009 didn't significantly affect the use of derivatives around the world. This is confirmed by a study conducted by Bodnar (2011) [3], where it is noted that out of 624 respondents (risk managers of large financial and non-financial organizations around the world) 27 % indicated that the crisis prompted them to reduce the use of derivatives, 23 %, on the contrary, noted that the crisis forced them to expand the scope of derivatives usage, and the remaining 50 % indicated that the crisis didn't affect their attitude to derivatives.

Currently, among non-financial organizations in Belarus the most popular derivative financial instruments for hedging currency risks are forward contracts for the purchase, sale or conversion of currency. As a rule, the counterparty to such transactions is the servicing bank. Offers of banks on forward transactions for purchase, sale and currency conversion represent the OTC market of derivatives. In addition, banks and financial institutions both

Economics

registered in the Republic of Belarus and abroad may offer organizations to purchase derivatives with different conditions and underlying assets. While the volume of OTC transactions with such derivatives is rather difficult to estimate, it can be noted that the usage of OTC derivatives with a variety of underlying assets (not only currency) by non-financial organizations in Belarus hasn't become widespread at the moment.

The nomenclature of the derivatives exchange market is represented by non-deliverable (settlement) futures contracts of OJSC «Belarusian currency and stock exchange» on the US dollar, the Euro, the Russian ruble, Euro/US dollar rate, which are still not in demand among Belarusian organizations. In addition to the derivatives market section of OJSC «Belarusian currency and stock exchange» trading of commodity derivatives with underlying assets is conducted at the OJSC «Belarusian universal commodity exchange». Generally, the derivatives market in the Republic of Belarus can be represented in figure 3.

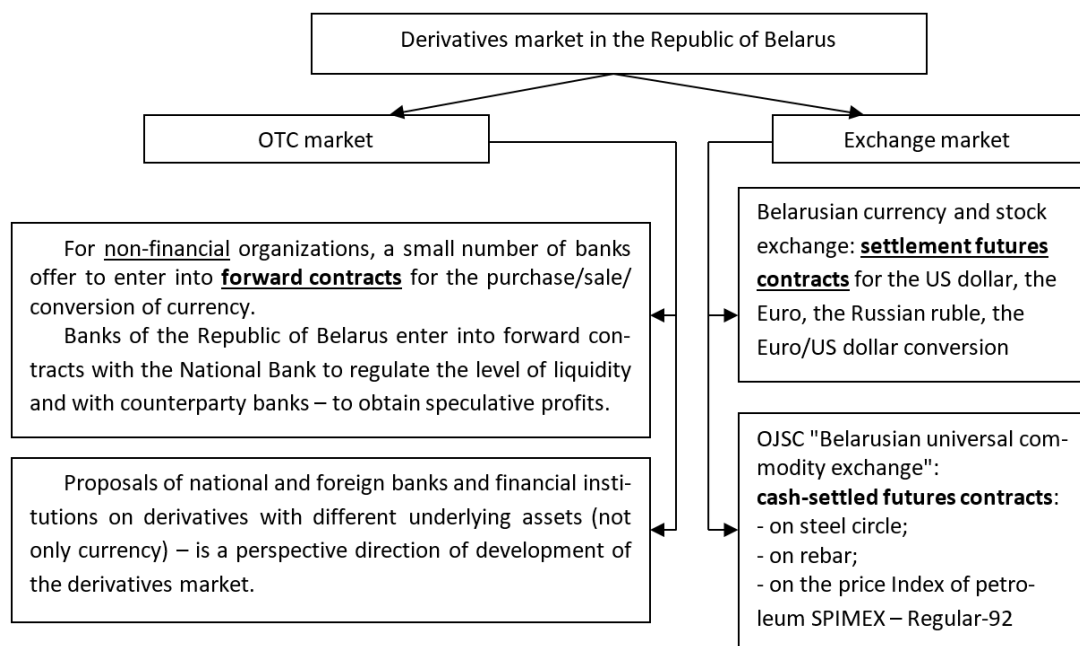


Figure 3. – Derivatives market in the Republic of Belarus

Source: own development based on [4, 5, 6]

As we can see, the derivatives market in the Republic of Belarus can't be considered effectively developed. Its development will be faster, if the companies participate in transactions on futures market by their own, without external orders. Here may be useful the proposed model of hedging the most significant risks arising in the current activity of non-financial organizations, which will help company to plan and direct resources on risk-management actions more effectively.

Conclusion. For better understanding from senior management side the necessity of hedging market risks and its place in the management system, we have considered the organization as an opened system, which is influenced by external factors. The planning function in this system will be implemented better, if the organization will be able to obtain the result that is not exposed to market risk. Therefore, we have developed a Model of hedging the most significant risks arising in the current activity of non-financial organizations. It includes such areas as export-import operations, purchase or sale of exchange goods, contract binding to exchange prices. In these cases, hedging with derivatives will be one of the most appropriate risk-management techniques and will have a positive effect on the work of a non-financial organization.

REFERENCES

1. Lavrinenko A.R., The development of accounting and audit methodology for joint activities under simple partnership agreements / A.R. Lavrinenko. – Novopolotsk: PSU, 2010. – 184 p.

2. Pankov, P. Interdependence of investment attractiveness of the organization and hedging / P. Pankov, L. Masko // Bulletin of PSU, 2018. – No. 5. – p. 39-45.
3. Bodnar, Gordon M. and Giambona, Erasmo and Graham, J. Robert and Harvey, Campbell R. and Marston, Richard C., Managing Risk Management, 2011 // SSRN [Electronic resource]. – Available at: <https://papers.ssrn.com/abstract=1787144>. – Accessed: 28.02.2020.
4. Hedging of currency risks by non-financial organizations // National Bank of the Republic of Belarus [Electronic resource]. – Available at: <http://www.nbrb.by/finsector/forexhedging>. – Accessed: 28.02.2020.
5. Uzelfalchik, I. V. Hedging of currency risks by non-financial organizations / I.V. Uzelfalchick // Bulletin of the Belarusian State University of Economics, 2017. – No. 5. – P. 88-95.
6. Sidorenko, Y. Fundamentals of hedging currency risks in the Republic of Belarus / Y. Sidorenko // Banking Bulletin, 2017. – No. 5 (646). – P.12-20.