

EXCHANGE RISK HEDGING WHEN CARRYING OUT EXCHANGE OPERATIONS

IRYNA STROHANAVA, VALIANTINA BAHATYROVA
Polotsk State University, Belarus

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.

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 the policy of a 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.

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.

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.

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.

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.

REFERENCES

1. Об особенностях функционирования внутреннего валютного рынка при переходе к биржевым торгам в режиме непрерывного двойного аукциона : Правления Национального банка Респ. Беларусь от 26.05.2015 № 323.
2. Носкова, И.Я. Валютные и финансовые операции : учеб. для вузов. – 2-е изд. с перераб. и доп. / И.Я. Носкова. – М. : Финансы, ЮНИТИ, 1998. – 334с.
3. Суворов, С.Г. Азбука валютного дилинга / С.Г. Суворов. – СПб. : Изд-во С.-Петербургского ун-та, 1998. – 296 с.
4. Пупликов, С.И. Валютные операции: Методология и методика валютных операций в транснациональной экономике / С.И. Пупликов. – Минск : Экоперспектива, 2002. – 220 с.
5. Пупликов, С.И. Методология и механизмы взаимодействия в развитии мировой и национальной валютных систем / С.И. Пупликов. – Минск : Беларуская навука, 2012. – 272 с.
6. Крюкова, В.В. Анализ динамики развития валютного рынка Forex / В.В. Крюкова, А.А. Шутикова // Актуальные вопросы экономики и управления : материалы междунар. заоч. науч. конф., Москва, апрель 2011 г. – М. : РИОР, 2011. – Т. I. – С. 169–172.
7. Кирхнер, Роберт К вопросу о хеджировании валютных рисков в Беларуси [Электронный ресурс] / Йорг Франке, Ирина Тоцицкая // Немечкая экономическая группа Беларусь ; Исследовательский центр ИПМ. Аналитическая записка. – Берлин/Минск, 2016. – Режим доступа: <http://www.research.by/publications/pp/1603/>.
8. Заяц, Д. Эксперты: У белорусских компаний возросла потребность хеджировать валютные риски [Электронный ресурс] / Д. Заяц / БелПАН, 2016. – Режим доступа: <http://news.tut.by/economics/505036.html>.
9. Кирхнер, Роберт Рынки валютных деривативов. Зарубежный опыт [Электронный ресурс] / Роберт Кирхнер, Йорг Франке. – Берлин/Минск. – Немечкая экономическая группа в Беларуси. Исследовательский центр ИПМ. – Режим доступа: <http://www.nbrb.by/finsector/forexhedging/DerivatesMarketInternationalPractices2016.pdf>.