

Currency Risks When Concluding Standard Contracts at Enterprises

Kurbanova Sitora Bakhodirovna
SamIES, "Finance" department teacher

ABSTRACT: the article outlines the currency risks that many enterprises face when concluding standard contracts and ways to eliminate currency risks when concluding contracts.

KEYWORD: currency risks, stock market, operational risk, translational risk, economic risk, inflation, export volume, risk insurance.

At a certain historical stage, the increase in the number of international economic relations inevitably led to an increase in the role of the monetary and financial sphere on a global scale. The process of international movement of goods, services, capital, industrial and scientific and technical cooperation, labor migration, and the development of tourism have led to the emergence of social relations associated with monetary requirements and the corresponding obligations of participants in international economic relations. It is the international payment turnover associated with the payment of monetary obligations of legal entities and individuals from different countries that is served by the foreign exchange market.

The purchase and sale of foreign currency is carried out in the foreign exchange markets, which are official centers where such transactions are made at a certain rate. In a broader sense, the foreign exchange market is understood as the sphere of economic relations arising from transactions for the purchase and sale of foreign currency. Operations related to the movement of capital are also carried out in the foreign exchange markets (purchase and sale of securities in foreign currency, foreign exchange investment).

Currency markets developed in the 19th century. Depending on the volume of currency trading, the number of currencies traded among the currency markets, one can single out national (local), regional and world markets. The growth in the volume of transactions in national markets and the deepening of mutual relations between them, as the trend towards the internationalization of economic life intensified, led to the formation of a world foreign exchange market.

The scale of operations carried out with the currency far exceeds the needs of commercial transactions. Foreign exchange markets are increasingly being used to hedge currency and credit risks, and speculative and arbitrage transactions also play an important role.

Every day people face many risks. It has become an integral part of everyone's life. Risk is the probability that an event will occur that will result in a loss and negative consequences at a certain point in time. To date, there are many types of risk, this article will consider currency risk.

Currency risk is the risk of losses due to changes in the exchange rate of a foreign currency against the national one. Its peculiarity is that it can lead not only to large losses for the company, but also to profit. As a

rule, countries with low levels of production and high inflation are more likely to experience foreign exchange risks than countries with stable economies.

Many organizations are exposed to currency risks. Companies may include:

- paying wages, rent in foreign currency;
- engaged in foreign economic activity;
- servicing foreign currency loans with settlements in foreign currency.
- Currency risks have their own classification, which makes it possible to more accurately determine the cause of their occurrence.
- There are 3 types of currency risks:

operational currency risk - the possibility of loss of profits and possible incurring losses during import-export operations due to changes in the exchange rate for the expected amount of money. First of all, it is connected with trading operations. Here, both importers and exporters suffer losses. The importer, purchasing the goods, incurs losses, as there is a positive trend in foreign currency relative to the national one. The exporter, in turn, loses from the fact that by selling the goods, he receives a lower payment for it due to the fact that the national currency becomes lower than the foreign one. As a result, we can observe a decrease in exports, because it becomes unprofitable to sell goods at the same price, and if prices rise, the product loses its competitiveness;

- translational currency risk - the probability of receiving the negative effects of changes in foreign exchange rates on the firm's financial statements. It is reflected in the accounting and financial statements. This risk is faced by companies that have branches and subsidiaries abroad. The fact is that depreciation of the currency in which the finances of a branch located in another country can be conducted against the currency of the head office can happen;
- economic currency risk - the possibility of a negative the impact of exchange rate changes on the company's economic stability. It is long term. The company faces the risk of rising costs and lower revenues due to currency fluctuations. An example of this risk can be an increase in the price of raw materials and materials, an increase in competition in the market.

In addition, the following factors influence exchange rate fluctuations:

- interest rate, that is, when it increases, there is an increase investment. Investors sell one currency and buy another to invest, which will bring them more profit;
- inflation, that is, as inflation rises, there is a decrease national currency compared to the currencies of other countries with economic stability;
- the volume of exports, that is, the higher the export of the country, the greater the demand for goods, and therefore for the currency to pay for them;
- State participation is related to the fact that countries can cooperate to influence the currency through the sale of currencies from their reserves.

To minimize currency risks, it is necessary to transfer funds from the branch to the head office as quickly as possible or immediately invest them. It is also important that with an increase in risks, it becomes necessary to reduce the amount of stock in the warehouse.

One of the ways to minimize the negative consequences of currency risks is insurance of currency risks. Currency risk insurance is not a mandatory element. The company itself decides to insure all risks, some of

them, or completely abandon it. Nevertheless, although the company loses part of the profits by insuring risks, the size of the possible loss of money is insignificant.

Enterprises and organizations directly entering the foreign market face the risk of foreign exchange losses due to sharp fluctuations in foreign exchange rates. Currency risks exist when making settlements both in freely convertible currencies (hard currency) and in clearing currencies, as well as when performing barter transactions. There are two main currency risks: the risk of cash currency losses on specific transactions in foreign currency and the risk of losses in the revaluation of assets and liabilities, as well as balance sheets of foreign affiliates in national currency.

The risk of cash foreign exchange losses exists both when concluding contracts and when providing (or receiving) loans and consists in the possibility of a change in the exchange rate of the transaction against the ruble (and, accordingly, a change in the amount of receipts or payments when converted into rubles).

These currency risks (before and after the conclusion of the contract) differ in nature and existing opportunities for their prevention. Thus, the first type of risk (before the signing of the contract) is close to price risk or the risk of deterioration in competitiveness associated with changes in the exchange rate. It can be taken into account already in the negotiation process. In particular, in the event of a sharp change in the exchange rate during the negotiation period, the enterprise may insist on some change in the original price, which would compensate (in whole or in part) for the change in the exchange rate. However, after signing the contract (if it does not include an appropriate currency clause), such agreements are no longer possible.

The actual currency risk associated with a change in the exchange rate in the period between the signing of the contract and payments under it in the exporter's currency due to a depreciation of a foreign currency against the national one or an increase in the value of an import contract as a result of an increase in the exchange rate of a foreign currency against the ruble. In practice, this risk can be eliminated by applying various methods of currency risk insurance. The risk of lost profits lies in the possibility of obtaining worse results when choosing one of two decisions - to insure or not to insure the currency risk. For example, exchange rate changes may be favorable for the FEO or the enterprise, and by insuring the contract against foreign exchange risks, it may lose the profit that it otherwise should have received. However, it is virtually impossible to foresee the risk of lost profits without sufficiently effective exchange rate forecasts. The dependence of enterprises' revenues on fluctuations in exchange rates is also affected by the procedure for internal settlements for export-import transactions.

References:

1. Bakhodirovna K. S. Effects of Enterprises Financial Sustainability on Innovative Development Processes //Academic Journal of Digital Economics and Stability. – 2021. – T. 11. – С. 103-108.
2. Мухаммедов М. М., Исхакова С. А. Антикоррупционная политика—центральное звено широкомасштабных реформ Узбекистана //Проблемы современной науки и образования. – 2020. – №. 4-1 (149). – С. 35-40.
3. Murodovna M. Z. Strategic Priorities of Sectors of the Economy of Uzbekistan //Journal of Ethics and Diversity in International Communication. – 2022. – T. 1. – №. 8. – С. 106-108.
4. Murodovna M. Z. INVESTMENT PROJECTS AT THE EXPENSE OF VENTURE CAPITAL PROPOSALS FOR THE APPLICATION OF WORLD BEST PRACTICES IN FINANCING //Web of Scientist: International Scientific Research Journal. – 2021. – T. 2. – №. 12. – С. 618-623.
5. Мухаммедов М., Муродов Ш. Венчурное инвестирование как перспективное направление инновационного развития Узбекистана //Общество и инновации. – 2021. – Т. 2. – №. 6/5. – С. 86.
6. Мухаммедов М. М. Сокращение численности трудовых мигрантов и предложения по поводу дальнейшего искоренения трудовой миграции.