

WAYS TO IMPROVE CURRENCY RISK MANAGEMENT IN
TREASURY**Shamsitdinova Xonzoda**

Student, Faculty of finance and accounting

Abstract: In this article, the problems of currency risk management in the treasury and the factors causing them were studied. Also, relevant proposals and conclusions were given regarding currency risks affecting the investment activities of state, enterprise and commercial banks and their management.

Keywords: treasury, currency risk, interest rate, conversion, diversification, hedging.

Introduction

The existence of currency risks is related to the implementation of currency operations in foreign exchange markets, the establishment of transnational enterprises, the internationalization of the market of banking operations, including the diversification of their activities. For this reason, a number of factors significantly affect the risk. Examples of these are geographical, political, economic, legal, demographic and other factors.

The main reason for currency risks is the change in exchange rates. Such changes affect all individuals: business firms and state structures. In most cases, their activities are related to export-import transactions, and therefore, creditors and borrowers, investors and speculators, economic entities prefer to conduct their business in foreign currencies compared to the national currency. they are happy. The law on amendments and additions to the Law of the Republic of Uzbekistan "On Currency Regulation" was adopted by the legislative chamber on July 22, 2019, and approved by the Senate on October 11, 2019. [1]

Each country has its own national currency. Currently, there are more than 250 countries on earth. 195 of them are independent countries, and the rest have uncertain or special status. There are about 160 currencies in the world.

Analysis of used literature

In various economic literature, scientists have expressed their views on the currency and its risk. According to D.A. Tashmukhamedova, there are three types of currency conversion. [2] Freely convertible - a currency that does not have any restrictions in the process of exchange for other currencies. Countries that own such currencies do not impose any barriers to transactions with these currencies. Such currencies include US Dollar, Euro, Swiss Franc, British Pound, Japanese Yen, etc.



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Non-convertible currency - the government of the country imposes restrictions on the sale and purchase of currencies or other transactions. These are North Korean won and Cuban pesos. Circulation of such money is allowed only within the country.

Partially convertible currency - these are national banknotes with limited circulation outside the issuing country. For example, in Uzbekistan, the soum is a legal tender. Outside the country, there are restrictions on the exchange of soums, which can only be exchanged for certain foreign currencies. For example, a person wants to travel to Malaysia and has a certain amount of Uzbek soums that he wants to exchange for Malaysian ringgits. but the currency of Malaysia is a rare currency and cannot be bought in banks. For this, it is necessary to exchange Uzbek soums, for example, for US dollars. Once in Malaysia, dollars, a freely convertible currency, can easily be exchanged for Malaysian ringgits. This situation is an example of the exchange of partially convertible currencies.

Abdullaeva SH.Z. In the literature written by I.M. Qulliyev, the cross course is defined as follows. Cross rate is the mutual ratio of the value of two currencies, which is determined by their rates against a third currency.[3]

In practice, the cross-course calculation is as follows. Suppose we want to know the exchange rate of the Croatian kuna against the Uzbek soum. The Bank of Uzbekistan does not set the value of the kuna, so you must use the cross exchange rate. The National Bank of Croatia sets the exchange rate of the kuna against the dollar (USD/HRK), and the Bank of Uzbekistan, in turn, sets the exchange rate of the soum against the dollar (USD/UZS). By dividing these rates by each other (USD/UZS by USD/HRK), it is possible to determine the exchange rate of the kuna against the soum. For example, as of March 18, 2020, the exchange rate of the dollar against the soum was 9520.34 soums (1 US dollar - 9520.34 soums) and the exchange rate of the dollar against the kuna was 6.97 (1 US dollar - 6.97 kuna). On this day, the value of the kuna against the sum was as follows:

$$(9520.34 \text{ USD/UZS}) / (6.97 \text{ USD/HRK}) = 1365.90 \text{ HRK/UZS}$$

Analysis and results

Currency risk, also known as exchange rate risk, describes the possibility that the value of an investment will decrease due to changes in the relative value of the currencies involved. This affects investors and any business involved in international trade.

The risk arises when the contract between two parties specifies the exact prices of the goods or services, as well as the delivery dates. If the value of the currency fluctuates between the date of signing the contract and the date of delivery, there may be a loss for one of the parties.[4]

Tranzaktsion risk- kompaniya boshqa davlatdagi yetkazib beruvchidan mahsulot sotib olganida yuzaga keladi va narx yetkazib beruvchining valyutasida taqdim etiladi. Agar yetkazib beruvchining valyutasi xaridorning valyutasiga nisbatan qimmatlashsa, xaridor shartnomadagi narxni qondirish uchun uning asosiy valyutasida ko'proq to'lashi kerak bo'ladi.

Masalan, Britaniya kompaniyasi AQShda o'zining sho'ba kompaniyasiga ega bo'lib, uning AQSh dollaridagi aktivlari mavjud. Agar Britaniya kompaniyasining AQSh dollaridagi etarlicha passivlari bo'lmasa, ushbu aktivlarning AQSh dollaridagi to'langan qiymati tufayli kompaniya riskka duchor



bo'ladi. Funt sterlingga nisbatan AQSh dollarining qadrsizlanishi natijasida sho'ba kompaniyalar aktivlari qiymatining balans bahosini pasayishiga olib keladi, chunki asosiy kompaniyaning balans hisoboti funt sterlingda ifodalanadi. Shu singari, mazkur valyuta kursining oshishi holatida xorijiy valyutadagi passivlar bilan kompaniya riskka duchor bo'ladi.[3]

Operatsion risk asosan savdo operatsiyalari, shuningdek, dividend to'lovlari va moliyaviy investitsiyalash bo'yicha pulli shartnomalar bilan bog'liq holda yuzaga keladi ya'ni ularni moliyaviy hisobga ta'siri. Operatsion risk pul mablag'lari harakatida yuzaga kelgan holda foyda darajasiga bevosita salbiy ta'sir ko'rsatadi.

Amerika uskunasi distribyutori ispan yetkazib beruvchisidan 100 ta jihozni har bir quti uchun 500 yevroga yoki jami 50 000 yevroga sotib olishga rozi bo'ladi, to'lov yetkazib berilgandan keyin to'lanadi. AQSh dollari va evro paritetda : \$1 = 1 evro. Amerika kompaniyasi kelishilgan summani yetkazib berishdan keyin 50 000 evro to'lashni kutmoqda, bunda xarid qiymati \$ 50 000 bo'lgan. Ishlab chiqarish muammolari tufayli yetkazib berish uch oyga kechiktirildi va bu vaqt ichida AQSh dollari Evroga nisbatan qadrsizlanadi, shuning uchun 1 yevro endi 1,10 dollarga teng. Shartnoma narxi 50 000 evro bo'lib qolmoqda, ammo AQSh kompaniyasi to'lashi kerak bo'lgan dollar miqdori 55 000 dollarni tashkil qiladi.

Transaction risk - occurs when a company buys products from a supplier in another country, and the price is presented in the currency of the supplier. If the supplier's currency appreciates against the buyer's currency, the buyer will have to pay more in its base currency to meet the contract price.

For example, a British company has a subsidiary in the United States that has assets denominated in US dollars. If a British company does not have sufficient liabilities in US dollars, the company will be exposed to risk due to the paid value of these assets in US dollars. As a result of the depreciation of the US dollar against the pound sterling, the value of the assets of the subsidiary companies decreases, since the balance sheet of the parent company is denominated in sterling. Similarly, in the event of an increase in the exchange rate, the company with liabilities in foreign currency is exposed to risk.[3]

Operational risk mainly occurs in connection with trade transactions, as well as dividend payments and monetary contracts for financial investments, i.e. their impact on the financial account. Operational risk has a direct negative impact on the level of profit if it occurs in the movement of funds.

An American hardware distributor agrees to purchase 100 units from a Spanish supplier for €500 per case, or a total of €50,000, payable upon delivery. US dollar and euro parity: \$1 = 1 euro. The American company expects to pay 50,000 euros after delivery of the agreed amount, where the purchase price was \$50,000. Due to production problems, delivery was delayed for three months, during which time the US dollar depreciated against the Euro, so that 1 euro is now worth 1.10 dollars. The contract price remains at €50,000, but the dollar amount the US company must pay is \$55,000.

Economic risk refers to the impact of unexpected currency fluctuations on the company's market value. This may affect the company's future cash flows, foreign investments and earnings. Economic currency risk occurs in the exchange of goods, in the exchange of foreign exchange rates



when buying or selling finished products between countries. During the process of selling the company's products to another country or calculating the goods purchased at the company's branch in that country, the exchange rate creates economic currency risks.

Another strategy for mitigating currency risk is currency trading, where companies trade in the currencies of different countries. Also known as hedging, this financial strategy helps manage exposure and currency risk and financial losses. Hedging covers potential losses from currency trading by taking an opposite position in a related currency.

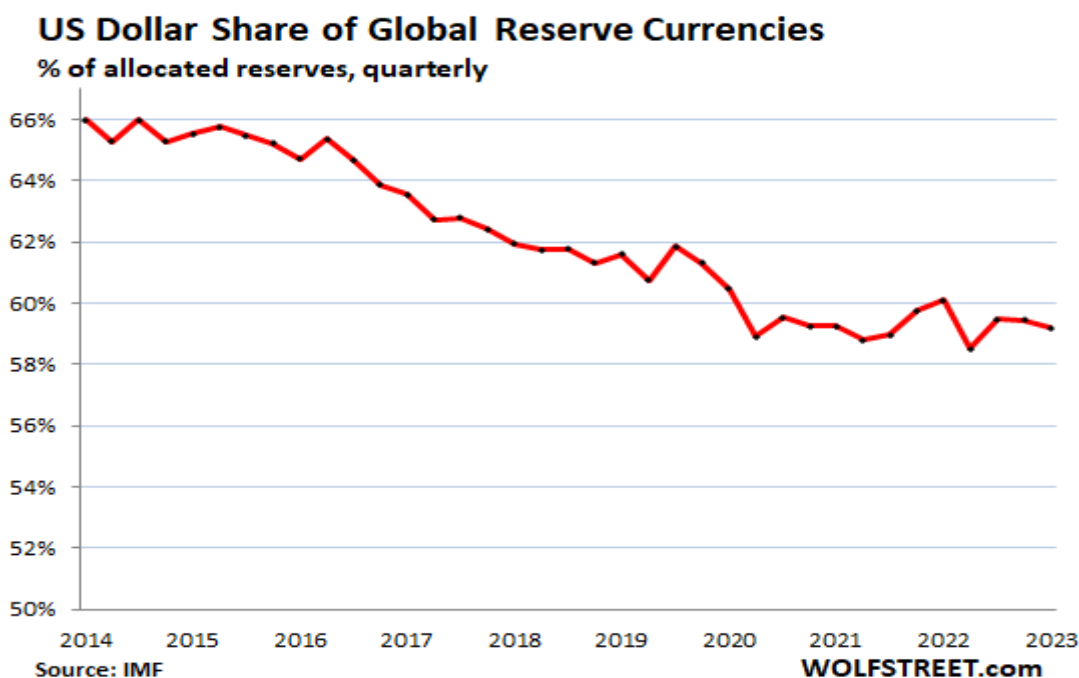
Example: A US company plans to purchase products from France in the future. The dollar and the franc are equal, but the franc is expected to appreciate against the dollar.

Hedging strategy: The company buys francs at the current price, which is equivalent to dollars. It then makes future purchases in francs

Forward contract. As the most direct and common way of managing currency risk, this option ensures that, for example, a US exporter receives a predetermined payment in US dollars even if the exchange rate changes. To set it up, the exporter needs to know three things: the amount of foreign currency; the date the importer pays and the currency exchange delivery date.

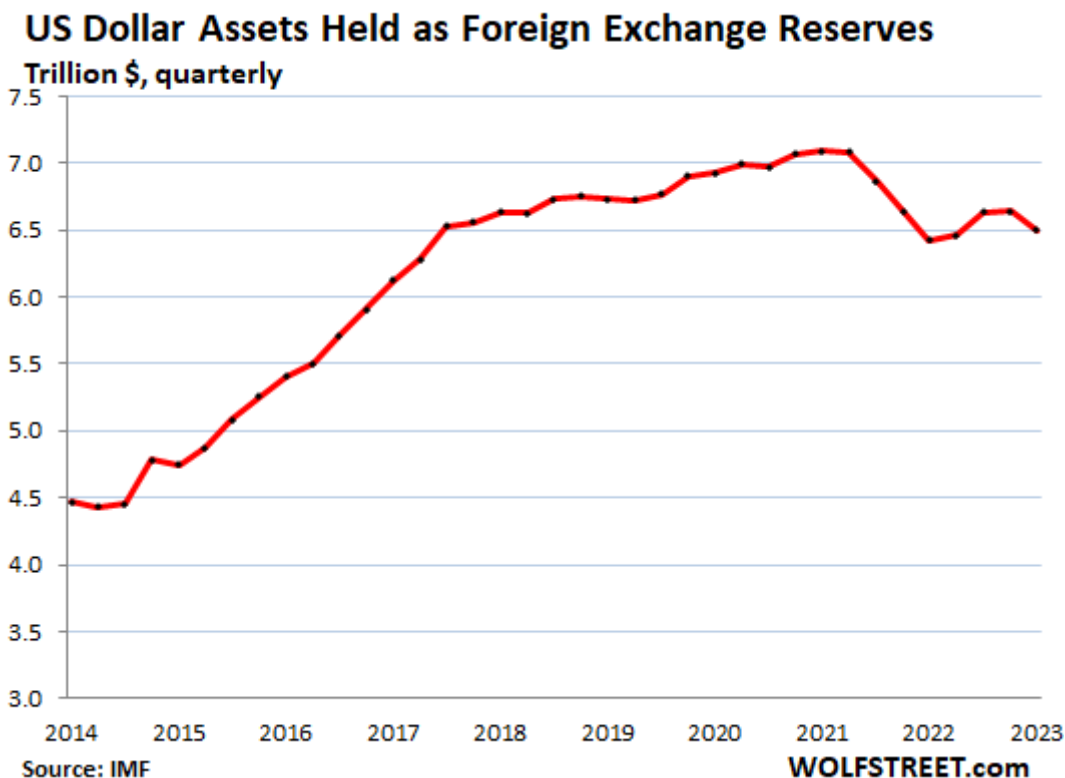
Diversification to achieve high efficiency in production, get economic benefits, end bankruptcy, etc. purposes. Diversification of foreign exchange reserves means the organization of reserves in several currencies at the same time.

The share of USD-denominated foreign exchange reserves dipped to 59.2%, according to the IMF's COFER data released on December 31 for Q3 2023. For the past 20 years, the USD's share has been on a slow downward trend, with other currencies nibbling at it from all sides.



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In dollar terms, the holdings of USD-denominated assets at foreign central banks dipped to \$6.5 trillion. Note that the Fed’s holdings of Treasury securities and MBS are not included in foreign exchange reserves. No central bank’s holdings in its own currency are included.



Since 1965, the USD’s share of global reserve currencies has gone through a tumultuous history, including the collapse of its share starting in 1978 through 1991 from 85% to 46%. This came after inflation exploded in the US in the late 1970s, and the world lost confidence in the Fed’s ability to manage inflation. And the decline of the USD’s share continued even as inflation began to fade in the 1980s. But by the 1990s, confidence returned gradually and the dollar’s share rebounded until the euro came along and put a stop to the gains by the USD (2023 through Q3)

Conclusion

In conclusion, it can be said that operations related to the payment of the government's external debt should be completely left to the discretion of the Central Bank. If this issue is not resolved, the Central Bank currency full aspects related to the effect of the movement of funds on the money supply has no control.

One of the main tasks of the Central Bank of the Republic of Uzbekistan within the currency policy is to create a favorable environment for the development of commercial currency operations in the country. Currently, the development of term operations is a very urgent and complex issue. For this, it is necessary to develop the current market. First of all, it is necessary to fully ensure the liquidity of the Republican Currency Exchange. Because any type of forward currency operation -



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"swap", "Forward", operations related to currency options and futures ultimately depends on the liquidity of the SPOT market.

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