CURRENCY RISK MANAGEMENT
OF UKRAINIAN COMMERCIAL BANKS

Annotation. The essence and the structure of the foreign exchange market of Ukraine, the main characteristic of the currency transactions, and the essence and types of exchange rate risk of commercial banks in Ukraine are elucidated. The ways of improving the functioning of commercial banks of Ukraine using the methods of currency risk management are illustrated.

Key words: currency market, currency transactions, currency risk, currency management, exchange rate, foreign exchange market.

The theme of the work is the foreign exchange market and currency risks. Anyhow, the problem concerning the foreign exchange market, currency transactions and currency risks are under discussion nowadays. Many domestic and foreign scientists study this problem.

The aim of the research paper is to get acquainted with the nature and causes of the currency risks.

The objectives of this paper are: to examine all the features of the foreign exchange market of Ukraine; to analyze transactions of the commercial banks in the foreign exchange market and the method of their evaluation; to explore and investigate the cause-effect relationships of currency risks; to study the ways of improving the functioning of the Ukrainian commercial banks using the methods of the currency risk management.

The foreign exchange market is the market in which participants are able to buy, sell, exchange and speculate on currencies. Foreign exchange markets are made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors. The forex market is considered to be the largest financial market in the world [1].

The object of the research is the activities of the Ukrainian commercial banks.
Many commercial banks, having received a license to conduct foreign exchange operations, had difficulties with their implementation. In this connection it is necessary to examine and use the experience of foreign banks in foreign exchange markets and the mechanism of foreign exchange operations on it [2].

The subject of the research is the nature and size of the currency risks of commercial banks in Ukraine.

When an organization decides to engage in international financing activities, they also take on additional risk as well as opportunities. The main risks that are associated with businesses engaging in international finance include foreign exchange risk and political risk. These risks may sometimes make it difficult to maintain constant and reliable revenue.

In other words, currency risk is the risk of losses due to the adverse changes in rates of the foreign currencies in the implementation of agreements for their sale [3].

All the participants of the international currency market face the currency risks, the risks of losses in the implementation of the certain operations. Foreign exchange risks are associated with inflation and currency fluctuations. Objective basis of the currency risk is that in the long run, the exchange rates depend on the economic situation of different countries, and in short – on the economic issues, the speculations, expectations, political events and, finally, on the wrong dealers decision.

According to international practice, lack of attention of banks to currency risk management can lead to the significant financial losses. But today we can talk about the lack of the comprehensive theoretical studies and practical research on the management of the currency risks, however practical and theoretical importance has gained the currency risk assessment, the election management methods and tools for its optimization.

Currency risk management provides for its detailed analysis, assessment of the possible consequences and the selection of the insurance methods. Risk assessment involves identifying the length of the risks, the amounts of money are at stake, and the amount of the losses for the respective obligations that may arise in the near future [4].

The currency risk management based on the selection of the appropriate risk management strategy that includes the following elements: to use all the possible means of avoiding risks, that leads to the significant losses; to control risks and minimize the amount of the probable losses, if not possible to avoid it altogether; to insure the currency risks in order to avoid it [5].

Anyhow, the masterful manipulation significantly reduces the risks of the currency transactions. There is no single effective method, however in different cases, the commercial banks have to use different methods and in their entirety [6].

The practical application of the paper is to use the results of the work in the future studies and career.

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