

Ministry of education and science of Ukraine
Sumy State University
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DIPLOMA WORK

on the topic «THE CURRENCY AS A COMPONENT OF
ENHANCING EXPORT PRODUCT COMPETITIVENESS»

Master student of 2th year, group ME.m-71a

Specialty 292 «International economic
relations»

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ABSTRACT

of diploma work on the topic:

«THE CURRENCY AS A COMPONENT OF ENHANCING EXPORT PRODUCT COMPETITIVENESS»

by student Veronika Barvinok

The relevance of the chosen topic for the diploma work is determined by the fact that domestic producers should enhance their export products competitiveness in strong competition at the international markets requires. For domestic manufacturers it is hard to compete with high quality products of foreign countries. The most effective way to stand up to this challenge is to regulate export products price without decreasing profits. The export products are always traded in a special currency (either national or foreign) depending on a foreign trade partner. So, the government of the country can and should support domestic producers. At the moment, Ukrainian authorities are in the power to influence national currency and exchange rate as well as provide statistic information about the exchange rates on the domestic currency market.

The goal of this work is to analyze how currency and exchange rate influence export products competitiveness of Ukrainian manufacturers, consolidate the theoretical basis for the implementation of foreign currency in enterprise`s export operation for enhancing export product competitiveness.

Object of the research is the exchange rate as a component of export product competitiveness of domestic producers, on example LLC “Gorobina”.

Subject of the diploma work is a correlation between exchange rate and export products competitiveness of the enterprise`s foreign trade activities.

For achieving the goal next methods were used: theoretical and monographic analysis of the research of modern trends, statistical methods for the analysis of the currency market in Ukraine, the method of comparison for parallelization between

the different exchange rates in domestic enterprises, the method of modeling to describe the features of currency management with usage of currency clauses.

The information base of the diploma work are scientific publications, monographs of foreign and national economists, official websites of the National Bank of Ukraine, of the Verkhovna Rada, the Cabinet Ministers of Ukraine, the International Monetary Fund.

The main scientific results of the diploma work are following:

1) author of the diploma work defines the concepts of “currency”, “exchange rate” in terms of international trade;

2) systematization of ways of export product competitiveness improving through usage currency clauses and currency price advantage in setting currency of contract and currency of payment.

3) analysis of currency management effectiveness in enhancing export product competitiveness;

The results obtained can be used by the LLC “Gorobina” during the formation of management policy for improving export product competitiveness competitive advantages at international markets, as well as in determining the strategy of international export product competitiveness of the enterprise.

The results of the approbation of the main provisions of the diploma work were considered at:

1) Economic conference “The World of Economic Science”. № 9” Nov 27, 2018.

Keywords: currency, exchange rate, convertibility, central bank, competitiveness, spot rate, exchange rate (currency) policy, currency fluctuations, currency clauses.

The content of the qualifying work is set out on 49 pages, including the list of used sources of 72 titles, placed on 7 pages. The work contains 10 tables, 11 figures, as well as 8 appendixes, located on 10 pages.

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INTRODUCTION

Ukrainian open economy model includes development of effective international trade, particularly export of products, as one of the main sources of country's balance-of-payment account. Strong competition at the international markets requires that domestic producers should enhance their export products competitiveness. For domestic manufacturers it is hard to compete with high quality products of foreign countries. The most effective way to stand up to this challenge is to regulate export products price without decreasing profits. The export products are always traded in a special currency (either national or foreign) depending on a foreign trade partner. In such condition, exchange rate can become an effective component of improving trade positions at the international market which is determine relevance of this diploma work. So, the government of the country can and should support domestic producers. At the moment, Ukrainian government cannot control prices at the international markets in general, but Ukrainian authorities are in the power to influence national currency and exchange rate as well as provide statistic information about the exchange rates on the domestic currency market.

The domestic producers can form own currency policies for their export trading based on the official information and forecasts. The domestic enterprises able to give preference one currency or another, depending on theirs characterizes at international market and denominations in Ukraine according to the legislation.

Relevance of the work is in fierce competition at the modern international market, which become fiercer day by day. Domestic producers should enhance their export products competitiveness that abandon their positions among other countries. Currency is undervalued component of export operations which can be used by domestic producers.

Level of investigation: Currency and exchange rate definitions determine by international organizations as the IMF, the World Bank etc. Among economist

“currency” is researched by S. Stelmah, Yu. Kozal and others. The competitiveness of enterprise products was investigated by M. Zayalova and V. Andriychuk examined competitiveness of Ukrainian product among foreign analogs. M. Dunford researched enterprise policies for improving competitiveness of products. A number of scholars study the issue of correlation between exchange rates and export products competitiveness. P. Polivach investigated interdependence between euro and export volumes of Eurozone countries. T. Akulich examined how exchange rate control of the national currency stimulates competitiveness of Belarus producers. A. Suetin compared changes in exchange rates and product competitiveness based on cost structure, price and trade. The following are known economists such as P. Krugman, P. Josette, M. Goldstein, M. Mussa, P. Masson, J. Williamson and others in the field of foreign exchange risk management. Among Ukrainian scholars in the domestic economic literature are V. Yutschenko, Galchinsky, F. Zhuravka, S.Yu. Mykhailychenko, V. Mishchenko.

The goal of diploma work is to investigate how currency and exchange rate influence export products competitiveness of Ukrainian producers.

The aim of diploma work is manifested in the following objectives:

- familiarization with the theoretical bases of currency and exchange rate as a components of enhancing export product competitiveness;
- investigating exchange rate (currency) policy of the National Bank of Ukraine as the main regulator of monetary policy;
- to analyze the export of LLC “Gorobina” due current financial indicators;
- to explore usage of currency and exchange rate in LLC “Gorobina” products export as currency management;
- to identify problems of currency management of LLC “Gorobina”;
- recommend the ways of improving export product competitiveness of the enterprise due currency and exchange rate.

Object of the research is the exchange rate as a component of export product competitiveness of domestic producers, on example LLC “Gorobina”.

Subject of the diploma work is a correlation between exchange rate and export products competitiveness of the enterprise`s foreign trade activities.

The scientific novelty of the diploma work is in new approach of enhancing export product competitiveness with help of Ukrainian government though rational usage of currency and exchange rate by the domestic enterprises. The concept involves creating and forming specific currency management for the domestic producers within currency and exchange rate. The demonstration of effectiveness of implementing currency hedging methods will encourage the domestic companies to start improving their international trade strategy within currency.

SECTION 1

THE CURRENCY AS A COMPONENT OF ENHANCING EXPORT PRODUCT COMPETITIVENESS

1.1 The theoretical bases of currency and exchange rate in international trade: essence and principles

“Currency” is called general adopted legal tender, which is in money turnover and issued government of particular county. S. Stelmah under “currency” understands “monetary unit of particular county, which used in calculation during comparing monetary units of different counties. Economist Yu.Kozal defends “currency” as “a product, which can be implement medium of exchange function in international payments”. Currency provides link and interaction between national and international households. The majority of countries have own currencies with its value and particular item, symbol. For example, Swedish official currency is Swiss franc, in China is yuan etc. Moreover, a currency in different countries can have the same item, but different value. The bright example is dollar, which is national currency of Canada and the USA, but US dollar (American dollar) has higher value than Canadian dollar [3, 7, 42, 51, 53].

Currencies is capable to fall into categories, decided by the independence, the participation in currency operations, the level of elastics, the level of convertibility (liquidity) (tab. 1.1).

The feature of independence currency by national, foreign and international (regional) currency (see tab.1.1). National currency is legal tender (monetary unit) particular country in form of banknote, coins or others, which is in turnover of this country. Foreign currency is legal tender (monetary unit) foreign country in form of banknote, coins or others, which is in turnover of this country. International (regional) is national legal tender, regional currency payment and reserve funds of several countries simultaneously. For instance, euro is national currency of 19 countries, which is in Eurozone or Special Drawing Rights (SDR) is international

legal tender of International Monetary Fund (IMF), which is used for noncash foreign payments [42, 51, 53, 54].

The participation in currency operations shows role of one or other currency in international transactions such as: currency price of contract, currency of payment, currency of credit, currency of clearing and currency of debt (see tab.1.1). The currency of contract price (currency of price) is monetary unit, in which terms of contract goods are valued. Currency of payment is currency of agreement, in other words currency in which all payments are made according to the contract. Currency of price and currency of payment can be in one currency, but do not coincide. In last case, supplier (exporter) and buyer (importer) use their national currencies. In currency of credit, credits are made. The currency of clearing exists only in form of accounting records of banking operation for products supplies and provisions of services by countries of clearing payment agreement. In currency of debt expressed debts from international commercial credits [34].

There are two groups of currencies in case of level of elastics: hard and soft currency (see tab. 1.1). The first type is currency with high stability and adopted as an acceptable methods of payments. The high stability of hard currency is provided by government of country where it is issued, as a rule, developed countries with strong industrial economy such as the USA (US dollar - USD), the UK (pound sterling - GBP), Eurozone (euro - EUR) etc. Therefore, international trade participants favor the hard currency. The soft or weak currency characterizes as unstable currency and sharply react to political and economic events (e.g. Russian ruble) [11, 22, 32].

Table 1.1 – The classification of currencies by main characteristics

Characteristics	Categories of currencies
Independence (status)	National, Foreign, International (regional)
Participation in currency operations shows	Currency price of contract, Currency of payment, Currency of credit, Currency of clearing, Currency of bond

Continue of Table 1.1

Level of elastics	Hard Soft (weak)
Level of convertibility	Fully convertibility, Partially (limited) convertibility, Non- convertibility, External, Internal

Formed on: [7, 51-54, 66]

Before instigating convertibility, the reserve currency should be mentioned. The reserve currency defined as a hard currency held in large quantity because of stability reputation by central banks or other global financial institutions preserved as a part of foreign exchange reserve for transaction, investment or for influence domestic exchange rate etc. U.S. dollar, euro, Japanese yen, British pound, China`s yuan are the reserve currencies designated by the IMF (fig. C.1) [5, 21, 24, 31].

The convertibility is an ability of one currency to be in legal exchange to other country`s currency without/with some limitations by participants of foreign economic agreements (residents or no-residents). The level of convertibility is opposite relationship between a reserve currency and restrictions which are established in country [6, 14]. The relation of these types show on Figure 1.2.

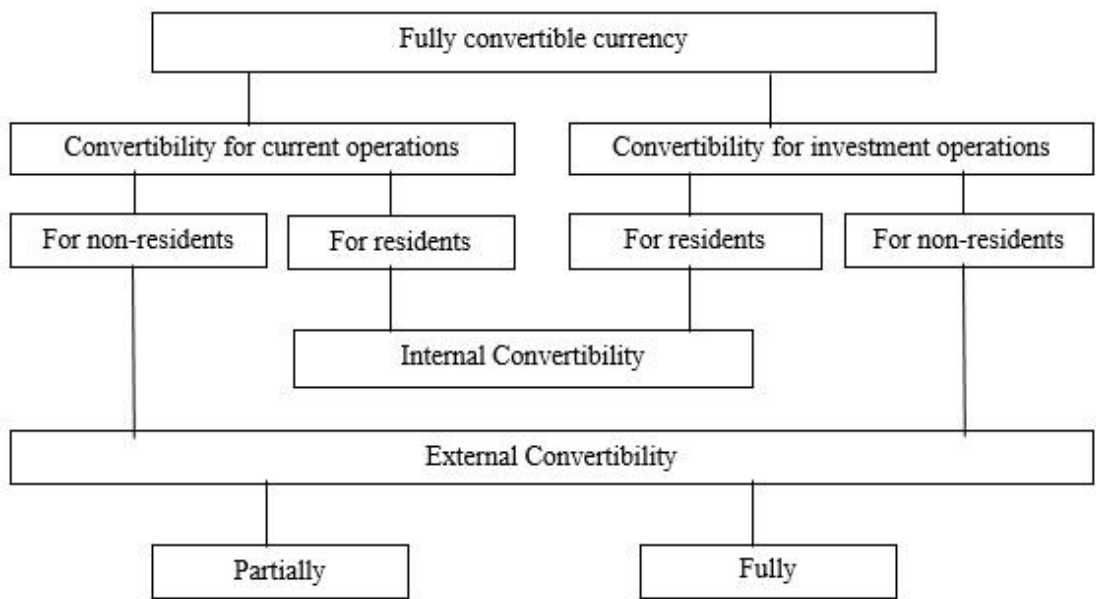


Figure. 1.1 – The framework of currency convertibility relationships
Source: [6, 14]

Each currency divided by level of convertibility for such categories: fully convertible, limited (partially) or nonconvertible currency. The fully convertible or freely usable currency can perform the role of world money and exchange without restrictions and obstacles for residents and nonresidents use it in all international transactions. Partly or limited convertibility of currency is only on current clearing accounts in certain foreign currency and is characterized by restrictions related to the type of transaction, the volume of contract, the terms, the subject's categories of currency market etc. Non-convertible currency spreads in developing countries with strict restriction such as prohibition of exchange national for foreign currency, limitations on export-import or buy-sale operations with national and foreign currency and use other currency restriction instruments. The bright example, the soviet ruble. Additionally, there are external and internal convertibility from the position of public's attitude. Internal convertibility provides opportunity to free exchange currencies for residents and external is opposite – the free exchange domestic national currency for non-residents. The convertibility of national currency positive influence domestic trade balance and balance of payment [6, 14, 66].

As a rule, one currency is being converted in other foreign currency in particular ratio, which determines their relative value - exchange rate. Rephrasing, exchange rate of currency is price of monetary unit one country expressed in monetary units of other countries or in international currency units. Exchange rate for fully convertible currencies forming according to the demand and supply at international markets. Exchange rate for partly convertible currencies establishing by central bank. Exchange rate is necessary for international trade: export and import goods or services, comparing price at domestic and international markets etc. Sharply adjustment of exchange rate (currency fluctuations) can significantly influence on development of internal economic operations and external economic position of country [42, 56, 69].

According to the IMF's classification, there are floating and fixed exchange rates (ER). Fixed ER is established by central bank as a permanent ratio of national

to foreign currency exchange. Floating ER is result of demand and supply at currency market and government do not interfere in its forming [16, 33, 42, 58].

The exchange rate regime divides ER on:

1) Nominal ER (NER) – is a rate (relatedly value) between two currencies, the number of monetary units of domestic currency purchase in unit of foreign currency. NER is calculated by the formula (1.1):

$$E = C_d/C_f \quad (1.1)$$

C_d – the domestic currency;

C_f - the foreign currency.

NER is easiest and basic in calculation and is used in international contracts. But NER is not for long term forecasting [33, 42, 53].

2) Real ER (RER) is a nominal ER which adjusted in relative prices of domestic country or country to which quote the national currency. The RER formula (1.2):

$$E_r = E_n * \left(\frac{P_f}{P_d}\right), \quad (1.2)$$

P_f - the price level of foreign country,

P_d – the price level of domestic country.

The reduction of RER determined as appreciation of national currency and increasing of RER – depreciation [33, 42, 53].

3) The multilateral exchange rate index is a common effective exchange rate index, which compiled as a weighted average correlation of national currency ER between ER currencies of other countries equal to theirs shares in trade operations of domestic country. There are two types: nominal effective exchange rate (NEER) (correlate national currency ER to the foreign currencies ER basket) and real effective exchange rate (REER) (correlate domestic currency ER to ER of

currencies of the major home trade partners). NEER shows countries international competitiveness. REER determines whether the prices of domestic products are higher or lower than major trader partner of domestic country. The lower domestic prices lead to increasing of export and trade surplus [42, 53].

Summarizing, currency is a general adopted form of money, legal tender of country, which is issued and implemented as a medium of exchange function in international payments by particular government. Currencies is capable to fall into categories, decided by the independence, the participation in currency operations, the level of elastics, the level of convertibility (liquidity). The convertibility is an ability of one currency to be in legal exchange to other country's currency. As a rule, currencies are converted is some rate – exchange rate. Exchange rate can be floating and fixed. According to the regime of exchange rate it can be nominal, real or multilateral exchange rate index, which brightly demonstrate competitiveness of home products at international markets.

The exchange rate can be a very powerful instruments in international trading. The government and its authorities are in power to control currency and exchange rate rather enterprise in the country.

1.2 Exchange rate (currency) policy in international trade (export): implementation in Ukraine and benefits for domestic producers

The international trade of products is always operated in a particular currency (either national or foreign) depending on a foreign trade partner. The government of the country can and should support domestic producers. The most effective instrument of motivation domestic producer for export is improve its price level though the exchange rate policy.

In context of foreign trade, the exchange rate policy is the practical implementation and development by government tools of influence on market

subject's economic relationship closely connected with currency. The main goal of exchange rate policy as a part of monetary policy is stabilization of national currency exchange rate and its balance of payment. Ukraine has strict exchange rate policy and its objectives demonstrated it (provides stable operating of national currency system, promotes stability of balance of payment, harmonizes interests of exporters and importers) on Figure 1.3 [43, 44, 48, 56]:

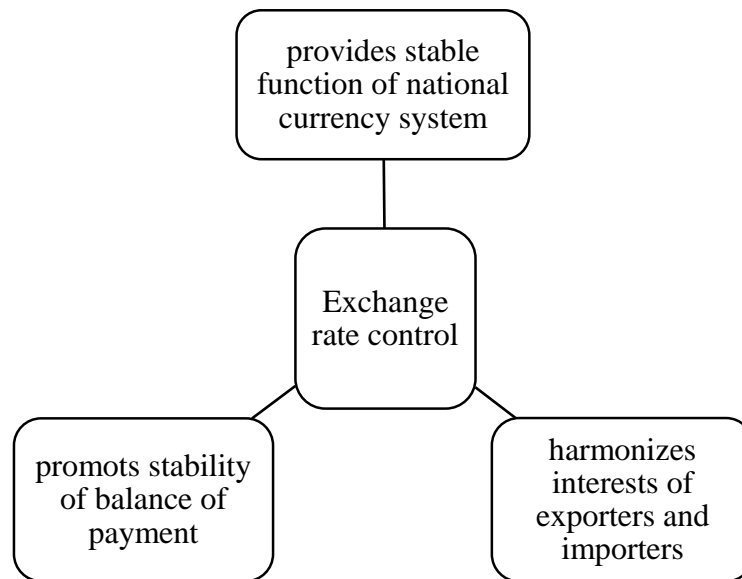


Figure 1.2 – The main objectives of exchange rate control in Ukraine

Source: [43, 44, 48, 55]

The National Bank of Ukraine (NBU) is the main authority charged in the implementation of exchange rate policy according to the economic policy principles in Ukraine. The NBU controls currency fluctuations due buy-sell operation of foreign currency at interbank currency market of Ukraine [55, 56].

The exchange rate policy regulated by a number of the legislative acts and the normative documents. The main of them is the Direction by Cabinet of Ministers of Ukraine “About system currency regulation and currency control” from 1993. The document strict limitations of currency relationship and is guided by rule “all is not allowed what is prohibited”. However, the legislation became softer because of EU requirements. So, July 21, 2018 the Verkhovna Rada approve the Law of Ukraine “About currency and currency operations in Ukraine. The law will enter into force

on February 7, 2019. Additionally, the Resolutions “Ranking of Foreign Currencies” created by NBU Board of Directors in 1998 divides all foreign currencies into three groups (tab. D.1) [25, 36-38, 49]:

1) Free convertibility currencies, which are widely used in international transactions and sell at international markets – 1st group of ranking. They are quoted by NBU and are exchanges for other foreign currencies without limitations (currency of EU-countries, U.S. dollar etc. – 24 currencies);

2) Free convertibility currencies, which are used in international transactions rarely and do not sell at international markets – 2nd group of ranking. They exchange with some limitations and their cross rates calculated by NBU;

3) Nonconvertible currencies, which are not exchanged and are not quoted by NBU [52].

As a rule, all trading operation implementing in currencies from 1 and 2 groups. According to the NBU statistics, from the begging of 2016 93% of all foreign currency earnings were in USD and EUR (currency from 1 group), because the main trade partners are European countries [3, 26, 67].

The official national currency in Ukraine is hryvnia (UAH) and is not fully convertible. Ukraine adopted the current account convertibility for UAH in 1997 under IMF's articles, but there are currency control difficulties for foreign traders [3, 27].

Ukrainian authorities are in the power to influence national currency and exchange rate as well as provide statistic information about the exchange rates on the domestic currency market for national producers. The official hryvnia exchange rate (UAH ER) is a rate national monetary unit of hryvnia to each foreign currency, and is established as a weighted average rate of buyers and sellers by National Bank of Ukraine: daily – to the free convertible currency, especially for EUR and USD (1st group of ranking) or monthly – for other foreign currency (2nd group of ranking). The average ER of UAH is determined for month, quarter and year. Starting from March 31, 2015 NBU establish ER one time in the end of work day and it actual

during next working day. That is why ER at the beginning and in the end of a day is equilibrium [55].

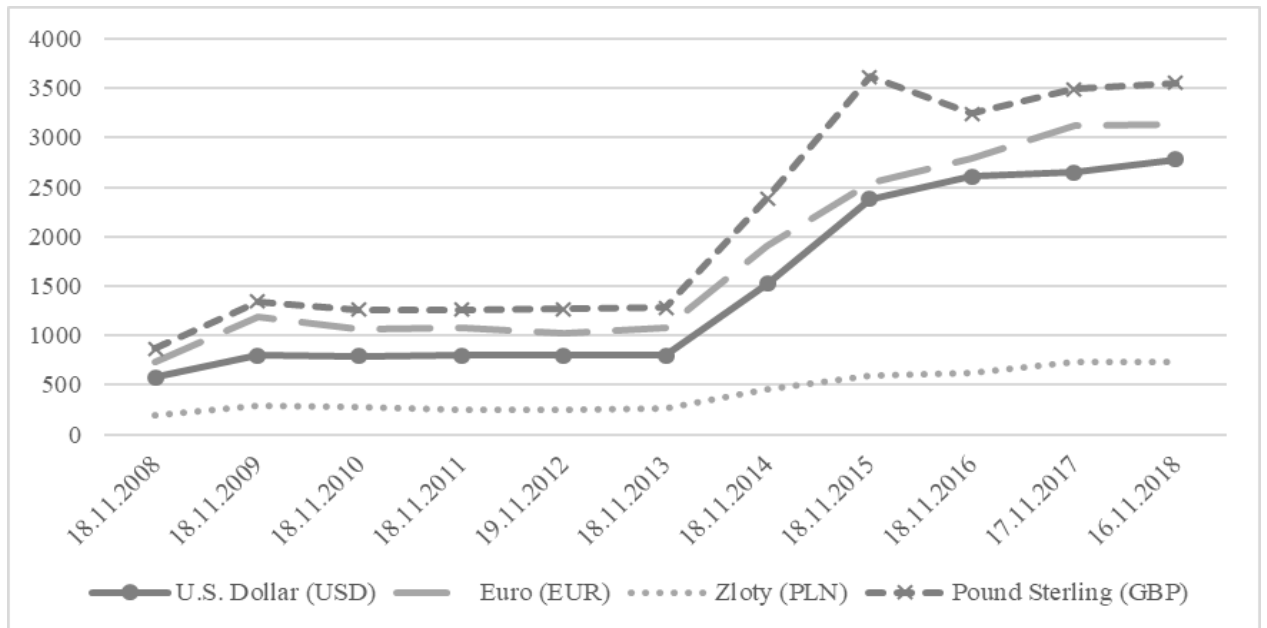


Figure 1.3 – UAH exchange rate to the leading world currencies (2008-2018)

Source: [59, 60, 67]

The general tendency (fig. 1.3) shows exchange rate increasing for all currency pairs. The GBP/UAH exchange rate demonstrates the fastest growing dynamics. At the same time, EUR/ UAH exchange rate and USD/UAH exchange rate are more stable in their dynamics and provide stable exchange rate margins for the producers. The UAH loss third of its value during last years [16, 58-60, 67].

The currency control includes a creation of limitations improving economic situation for domestic producers (including exporters). One of such exchange rate policy is currency regulation as it is on Figure 1.4 [29]

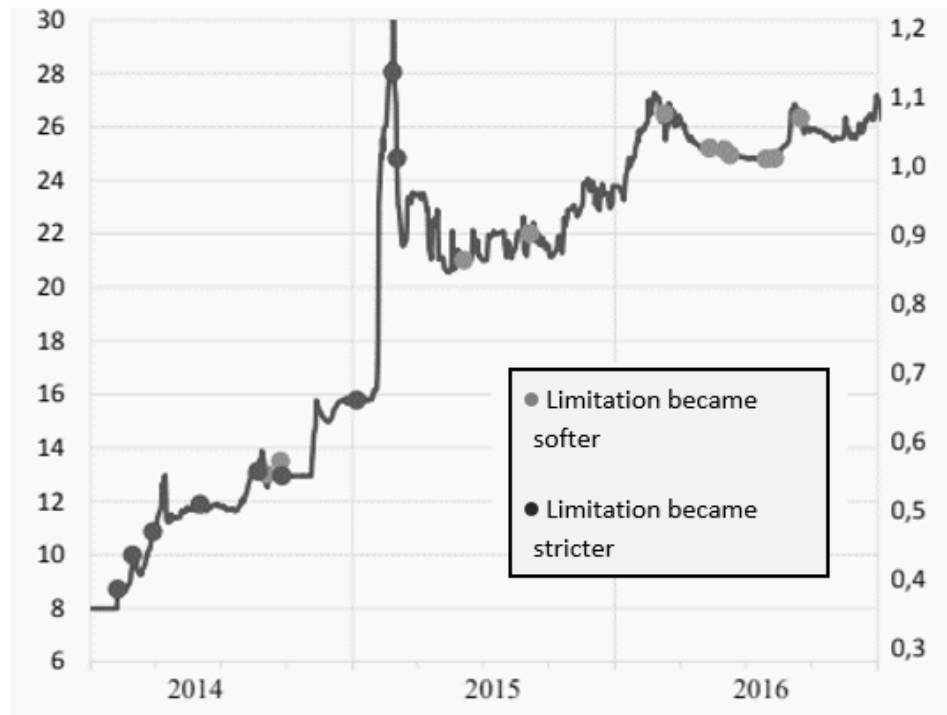


Figure 1.4 – USD/UAH exchange rate and exchange rate policy (on January 1, 2017)

Source: [17, 67]

At Figure 1.4 the regulation of UAH/USD exchange rate during 2014-2017 is demonstrated, which became stricter when ER raised. The government actively fight with depreciation of national currency. After 2014 exchange rate floating was established and the NBU have increased currency limitations for stabilization ER. After 2015 and for presents days there is healthy inflation, which was gained by the NBU. It shows strong currency (exchange rate) policy of the country and domestic producers can trust government regulation of currency sphere [17, 55, 67].

The NEER and REEN are effective indicators of competitiveness of Ukrainian export products. It demonstrates changes of exchange rate, adjust to the level of inflation in Ukraine and in its trade partner countries [67].

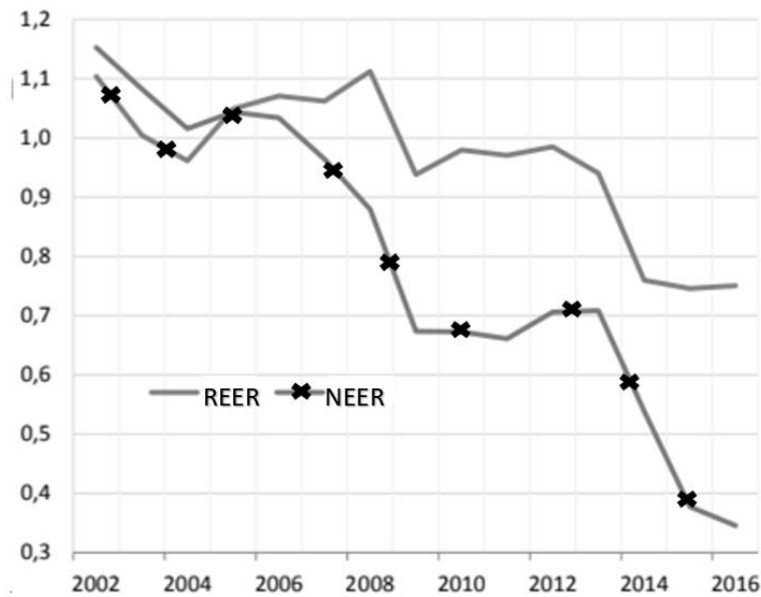


Figure 1.5 – The NEER and REER of UAH according interbank rate (1999=1), %

Source: [55, 67]

During 2002-2016 REER and NEER (fig. 1.5) significantly reduced. In 2016 the UAH NEER decreased by 9,1% and cover inflation rate in Ukraine compared to inflation rate trading partners. The REER also felt to 1,8%, which shows increasing competitiveness of domestic products at international and home county. It was gained though depreciation of national currency which helps home producers set lower prices for products in comparing with international competitors [55, 67].

So, the problem of improving competitiveness of domestic enterprises closely connected with regulation of domestic currency market and forecasting of exchange rate. In case of Ukraine exchange rate policy provides it. The National Bank of Ukraine is the main authority which establishing official exchange rate of national currency (hryvnia) to the free convertible currencies first and second groups. The majority foreign currency earnings were in USD and EUR, because of their free convertibility and stability in dynamic of exchange rates. The REER and NEER of hryvnia declined and indicate improving competitiveness of Ukrainian export products. In case of such exchange rate volatility the depreciating of national currency is beneficial for exporters.

1.3 The exchange rate (currency) management at enterprise as a way of enhancing export product competitiveness

In the condition of export effectiveness, “competitiveness” is defended as the degree of concentration in a sector or the monopoly power of an enterprise at international market. The product competitiveness is measured by the product quality, nature of marketing and the product price and the level of service. These factors of competitiveness require free funds.

Ukrainian enterprises relatively recent became independent at international markets. Unfortunately, many of them have no currency management department and do not monitoring exchange rate forecasts. The smart exchange rate management of enterprise not only hedge economic losses, but also bring profits. In general, it improves competitiveness of enterprise [1, 2, 45-48].

The exchange rate policy of enterprise (currency management - CM) is part of annual financial strategy with aim to neutralize negative effect from the enterprise operation connected with currency [3, 8-10].

For exporters is more beneficial to set currency price and price of contract in hard currency, exchange rate which had tendency to growth. In most cases it is the only one way of currency management, which is called “short terms currency policy”. The company acts only in frame of current goals of it. For instance, goal connected with getting export revenue in national or foreign currency. The opposite of this policy is long-term currency policy. The long-term currency policy directs on long-term perspectives. For example, in concluding contract for 1,5 years to 5 years because of specific company’s activity [45-48].

There are aggressive CM, where enterprise support “turnover” of currency cash at financial markets and conservative CM, where enterprise create reserves in hard currency.

The company also can lead fixed (hard) and flexible CM. The first CM includes that exporter company dominates at commodity market, and dictate suit

conditions for its in terms of currency without exceptions for buyers. The flexible CM is vice versa [8, 45 – 48].

All of these CM can be comparing when currency of contracts and payments establishing. The enterprise can choose the most price beneficial currencies with using exchange rate forecast of NBU, which bring currency margin. The margin is an additional profit for the company. These financial benefits can be involved in modernization of manufacture capacity of company and improving product quality or enterprise can low the price for products. The modernization of manufacture provides improving quality of selling products. The lower price provides increasing of demand for products. Both way lead to enhancing export product price competitiveness.

The currency policy should also include effective hedging of foreign exchange risks because all exchange rates are unstable in their dynamic. The reason is that each currency with fixed exchange rate is converted with currency with floating exchange rate [46, 71, 72].

The foreign exchange (currency) risk is real or potential treat of loss as a result of volatility of exchange rate of currency of price/currency of contract in the moment of signing or implementing international trade contract. The exchange rate volatility is due such factors as appreciation/depreciation of national currency, the movement of capital in national/foreign currency, speculation at the currency market etc. [2, 17, 23].

The currency risks are affecting domestic participants of international trader (exporters) of commodity the most, because such contracts as a rule sign in terms of deferral of payment. For instance, storage of currency price and currency payment leads to currency risks connected with purchasing power of currency. For hedging risks use special instruments – currency clauses [1, 2, 18, 50, 52-56].

The currency clauses are special terms with opportunity to evaluation the sum of payment in the same proportion as proportion between the exchange rate of currency of payment relatively to the clauses [45- 47].

Ukrainian enterprises relatively recent became independent at international markets and a lot of them have no management connected with currency – exchange rate management. The exchange rate management is a part of financial strategy and can be short or long term, aggressive or conservative, flexible or hard. These currency policies can be matched for getting currency margin. The margin as a spare profit can be involve in manufacturing for improving quality of product or helps to reduce the prices. Both lead to the enhancing competitiveness of export product for domestic producers.

Currency is a general adopted form of money, legal tender of country, which is issued and implemented as a medium of exchange function in international payments by particular government. As a rule, currencies are converted is some rate – exchange rate. Exchange rate can be floating and fixed. The exchange rate can be a very powerful instruments in international trading. Improving competitiveness of domestic enterprises closely connected with regulation of domestic currency market and forecasting of exchange rate. In case of Ukraine exchange rate policy provides it. The National Bank of Ukraine is the main authority which establishing official exchange rate of national currency (hryvnia) to the free convertible currencies. The majority foreign currency earnings were in USD and EUR, because of their free convertibility and stability in dynamic of exchange rates. The REER and NEER of hryvnia declined and indicate improving competitiveness of Ukrainian export products. In case of such exchange rate volatility the depreciating of national currency is beneficial for exporters.

The exchange rate (currency) management is a part of financial strategy. There are short or long term, aggressive or conservative, flexible or hard currency policies, which provide currency margin. The margin as a spare profit leads to the enhancing competitiveness of export product for domestic producers.

For investigation how currency and exchange rate improve export product competitiveness LLC “Gorobina” would be used.

SECTION 2

LLC'S "GOROBINA" EXPORT WITHIN CURRENCY AND EXCHANGE RATE

2.1 General characteristics of LLC "Gorobina" and the main financial indicators

LLC "Gorobina" is only producer and retailer of alcoholic beverages in Sumy region starting from 2001, when it was founded on bases on the leasing company distillery in Sumy. According to the LLC's "Gorobina" statute, the main economic activities are production of vodka, alcoholic beverages, fruit and berry wines, kvass, bottling mineral water, vermouths and trading of all these. Nowadays products of LLC "Gorobina" are presented in Germany, the USA, Germany, Italy, Latvia, Kazakhstan, Lithuania, China, Armenia and other countries [40, 57, 62].

LLC "Gorobina" has a wide assortment of trademarks: the "Province", the "Spirits of the Tzars", the "Noble Carafee", the "Sumy Wild", the "Sumy Yard" and others. Additionally, the company offers to create private label products with a choice and an opportunity to develop own brand and regularly purchase quality products, cheaper than manufacturers' brands for both domestic and foreign markets brand [57, 62].

LLC "Gorobina" has a linear-functional management structure (fig. E.1). This type of structure includes the line managers (directors, department heads) and heads of functional units (planning, technical, financial departments, accounting). The Accounting, Planning and Economic, Supply Department and Sales and Marketing Departments are engaged in financial performance of the company. The Accounting Department keeps records of economic facilities and objects of enterprise, accounts the financial results of the organization. The Planning and Economic Department establishment economic plans, account and analysis economic results of the enterprise. Separated subdivisions of LLC "Gorobina" are the store "Ropes", Sumy, Slobozhansky and Kharkiv branches [40, 41].

The main financial indicators of 2015-2017 are used for the analysis of the financial and economic efficiency of LLC`s “Gorobina” activities (tab. F.1) and financial indicators of the company (tab. G.1) for 2015 - 2017 [63-65].

LLC “Gorobina” has stabile financial situation during 2015-2017 and enterprise improves revenue from products selling in 30% (28 468,3 UAH), but net profit decrease almost in a half (49.4%) during three last years (tab. 2.1, tab.E.1, tab. F.1). The proceeds were impressive for such size of enterprise, but net earnings did not defensible the increasing of production volume. High expenses mainly decreased gross profit of enterprise such as: production and administration costs, taxes etc. Especially, VAT (value added tax) raised in 71,3% and tax stamps increased in 52,6% (11314,4 UAH). The volume of production was ramped up and it led to involving more finance in production for 18.6% (tab. 2.1). The dynamics of financial results had negative tendency because indicator of financial results was influenced by slow increasing income and fast raising expenses.

Table 2.1 – The main financial indicators of LLC “Gorobina”

Indicator	2017	2016	2015	Deviation 2015-2017, %
Volume of sold production	35347	27581,9	34776,7	1,64-
Revenue from products selling	123272	93522,2	94803,4	30,03
- VAT	11819,8	5540,3	6899,9	71,30
- Tax stamps	32818	19936,8	21503,6	52,62
Net selling revenue	78300,1	67750,8	63377,9	23,54
Production costs of sold products	65671,6	58830,8	55383,5	18,58
Gross profit (loss)	12628,5	8920	9994,4	26,36
Administration costs	4261,8	3443	4179,1	1,98
Labour costs	10093,3	10359	909,25	1010,06
Distribution costs	7488,7	3510,3	5082,4	47,35
Profit (loss)	767,6	1115,7	1068,7	-28,17
Net profit (loss)	185,5	323	366,7	-49,41

Source: [63-65]

Indicators of profitability of an enterprise give an idea of the adequacy of profit compared with other individual values that affect the financial and economic activities of the enterprise.

The financial and economic activity of the company is carried out expenses mostly by its own funds (tab. F.1). LLC “Gorobina” attracts borrowed funds every year in order to finance manufacturing which is capital intensive (tab. H.1). Ukrainian government support the company by investment projects. All investment projects in national currency in quantities of 8378.2 thousand hryvnias. These attracted funds are involved mostly in manufacturing with aim to improve products quality decreasing costs for production, expanding of a range and ramping up the volume of production etc. As the result, growth of production during investigation period and increasing the company’s assets [63-65].

In conclusion, LLC “Gorobina” is producer of alcoholic beverages (vodka, fruit and berry wines, kvass, mineral water) in Sumy region. The products of company occupy a strong position at the domestic and foreign market. The enterprises products have high quality. The company has a linear-functional management structure. The main economic and financial performance of company are controlled by the Accounting, Planning and Economic, Financial department. The enterprise is profitable and earned profit during the analyzed period, but the profit level tends to decrease despite the increase in sales revenue. The selling of products covered the production and other costs. But net profit is small for expending manufacturing. That is why attracted funds are used, such as investment projects from Ukrainian government.

2.2 The foreign trade performance (export) of the enterprise

LLC “Gorobina” has established foreign economic relationships with many countries around the world with regard to the import of equipment and the export of

its own products. The production includes more than 80 types of alcoholic beverages, while the export range of LLC “Gorobina” is represented by about 50 commodity positions, the main ones are the “Sumska Gorobvna”, the “Sumska Special”, the “Ukrainian with Pepper” [28, 61-65].

The company continues to strive to expand the geography of cooperation and seeks to collaborate with new distributors, exporters and importers. The company is establishing contacts with companies from Georgia, Switzerland, Belarus, Hungary, Poland and other countries. Also, LLC “Gorobina” is discussing cooperation with UBGroup, which offers the possibility of exporting vodka to India, Latin America and China [57, 61].

Alcoholic beverage has highest demand among other products and enterprise continue to increase volume of vodka such as sumskaya lux, sumskaya traditional, sumskaya classic. The manufacturing directly depends on client’s orders and production structure flexibly changed. In 2017 fruit wine was not in production such as vermouths in 2015 (tab. 2.2, tab. F.1). During 2016-2017 production volume was significantly increased, especially for vermouths. Vermouths production was expended for two last years in twice. Kvass which is a third part of manufacturing in 2017, is higher than previous two years (from 9% to 33%). Such changers in production structure was caused changes of customers` preferences [63-65].

Table 2.2 – Products structure of LLC “Gorobina” (1 dal = 10 liters)

Products	2017, K dals	2017, %	2016, K dals	2016, %	2015, K dals	2015, %	15/16, %	16/17, %
alcoholic beverages	207,3	75,5	152,1	50,3	182,1	33,7	83,5	136,3
fruit wines	-	-	127,2	42,1	358,1	66,3	35,3	-
vermouths	67,2	24,5	22,8	7,5	-	-	-	294,7
kvass	90,7	33,0	45,7	15,1	48,6	9,0	94,0	198,5
Total production in physical terms	274,5	100,0	302,1	100,0	540,2	100,0	55,9	90,9

Formed on [61-65]

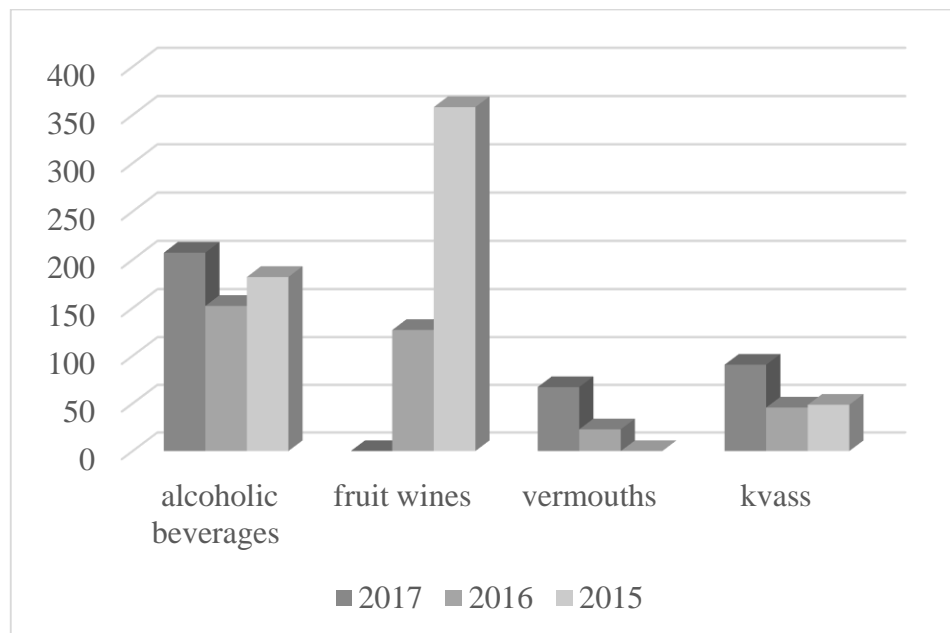


Figure 2.1 – The products structure of LLC “Gorobina” by 2015-2017 years, %

Source: [61-65]

The Figure 2.1 graphically demonstrates the leader position of products for the recognized period. Alcoholic beverages are stable in demanding dynamics during last three years. In case of 2017 it became the main products in range of LLC`s “Gorobina”. The fruit wine was very demanded in 2015, it took half of production structure and slightly decreased due to 2017.

Analysis of volume production shows that main production items are alcoholic beverage and vermouths, which are actively export abroad. But in last year vermouths was traded only on domestic market. According to Table 2.1.2, in 2015-2016 vermouths exporting was rapid decreasing in three times – on 157,1% (7920 bottles). Alcoholic beverage was in trends of LLC`s “Gorobina” foreign consumers. In 2016 was growth of export of alcoholic beverage approximately in 40% (162929 bottles) both in natural equivalent and in bottles. The reduction of alcoholic beverage was in 2017 for 27,7% (17540 bottles) [61-65].

The main consumers of enterprise`s products are the following countries: USA, China (trademark “Chizhik”, Lithuania “Beer Group”), Germany, Kazakhstan

and others (fig. 2.2). The permanent partners-distributors in Ukraine - Bayadera, Swift, Olmar, Ovation, Overco, Kopistyrtnе, TD Sophie, Fozzi Ost, Transcarpathian Prodgrupp and other countries of the world.

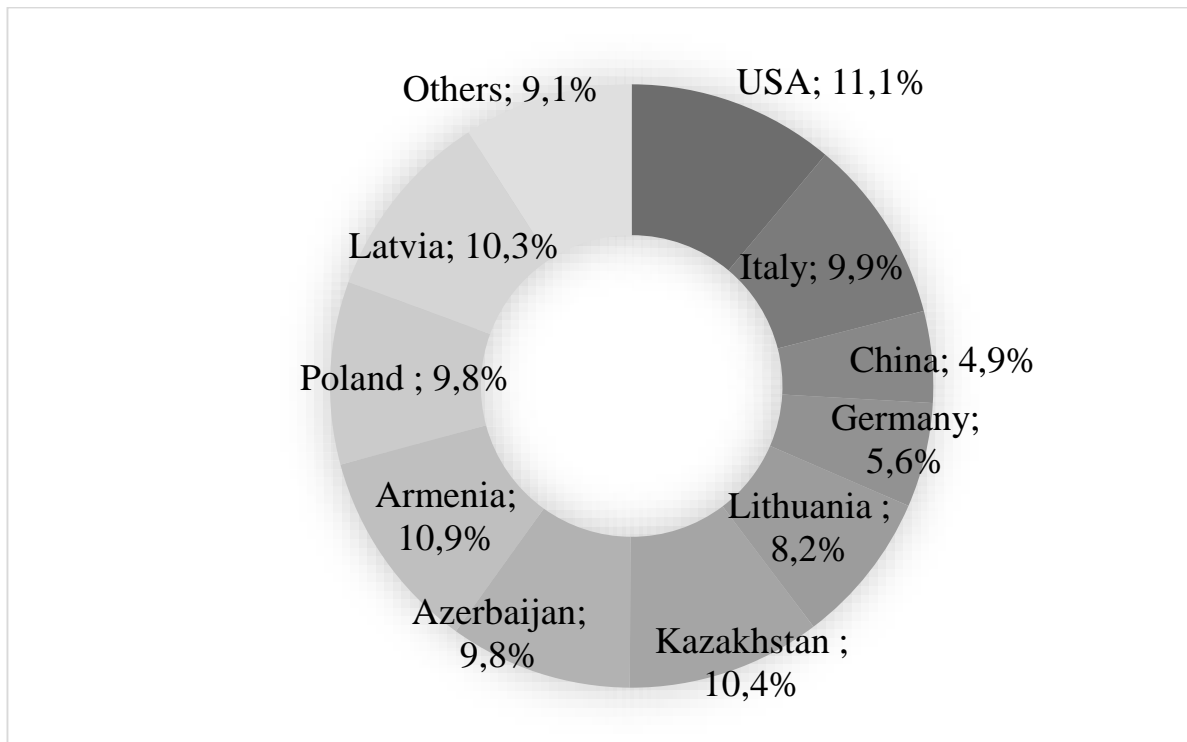


Figure 2.2 - Geographical structure of export partners of LLC “Gorobina”, %
Source: [61-65]

At pie-chart (fig. 2.2) demonstrated the main export partners. Latvia, Armenia, Kazakhstan are actively import LLC’s “Gorobina” alcohol beverage – more than 10% of export of the manufacturing. USA, as a large importer at the international market, consumers the significant amount of the company’s beverage – 11,1%. Latvia, Italy, Germany countries have near 10% of trade, Poland has lower percentage amount countries of Europe – 5,6 %. LLC “Gorobina” three groups of partners: EU countries, Asia countries (China, Armenia, Azerbaijan, Kazakhstan), USA (fig. H.1) [61-65].

The production structure differs from exporting structure in amount. The most demanded export products are alcoholic beverage and vermouths (tab. 2.3).

Table 2.3 – Production and exporting of alcoholic beverages and vermouths of LLC “Gorobina” export during 2015-2017

Products	Period				
	2015	2016	2017	2017/16	2016/15
Alcoholic beverage					
Volume of production, dals	207,30	152,10	182,10	16,47	-36,29
Export, dals (physical items)	18,36	30,96	24,24	-27,69	40,69
Volume of export, %	8,86	20,35	13,31	-52,88	56,48
Vermouths					
Volume of production, dals	67,20	22,80	-	-	-194,74
Export, dals (physical items)	0,65	0,25	-	-	-157,14
Volume of export, %	0,96	1,11	-	-	12,76

Formed on [61-65]

For estimation export efficiency, special formula is used [53, 54]:

$$\text{Export effectiveness} = \left(\frac{\text{Selling price}}{\text{Price costs}} \right) * 100 \%, \quad (2.1)$$

According to investigation export structure of LLC “Gorobina” alcoholic beverage and vermouths. Therefore, Vodka Sobieski “Premium” 0.5 l, Vodka Alaska 0.5 l, Vodka “Ukraine with paper” 0.5 l, Vermouths “Marinel Rhino Dessert Red 0.5 l are products that would be investigated for export effectiveness (tab. 2.4). The indicator is highest for product with highest price: Vodka Alaska 0.5 l with 143.9% efficiency. As for products with lower prices, the indexes of export effectiveness are also lower. The lowest indicator is for vermouths “Marinel Rhino Dessert Red 0.5 l - 125.8% [57, 62-65].

Table 2.4 – The export effectiveness of LLC’s “Gorobina” products [62-65]

Product	Price cost, UAH	Selling price, UAH	Profit, UAH	Effectiveness of export, %
Vodka Sobieski “Premium” 0.5 l	64.4	90	25.56	139.7
Vodka Alaska 0.5 l	67.5	97	29.6	143.9
Vodka “Ukraine with paper” 0.5 l	42.6	67.4	24.8	127.4
Vermouths “Marinel Rhino Dessert Red 0.5 l	27.8	35	7.2	125.8

The enterprise actively develops worldwide relationships by taking part in different international forums. LLC “Gorobina” is a member of the world business organization ICC-Ukraine – Ukrainian national committee of International Chamber of Commerce. In March, 2018 the company was one of participants at European Ukrainian forum, which was not at first. That is why LLC “Gorobina” is one the top biggest exporters of alcoholic beverage in Ukraine [68, 70].

The foreign trade activity of LLC “Gorobina” consists of a few stages:

- 1) preparation of the international trade agreement;
- 2) conclusion of all mentioned terms sin the trade contract;
- 3) implementation obligations of the contact [57].

At first stage, LLC “Gorobina” discusses objects of trade, quantity, price of contract, quality, packaging, delivering, terms of payment etc. with its foreign partner. During negotiating the enterprise defines currency of contract, which would be the effective the most. At the moment of drafting a contract, the methods of contract price-fixing are obligatory negotiated. The price of contract based on selling price for one unit of product and quantity. The planning and economic department calculation price costs. The cost price is calculated for one unit, as a rule, in USD. The procedure of establishing selling price showed at the Figure 2.3 [4, 19]

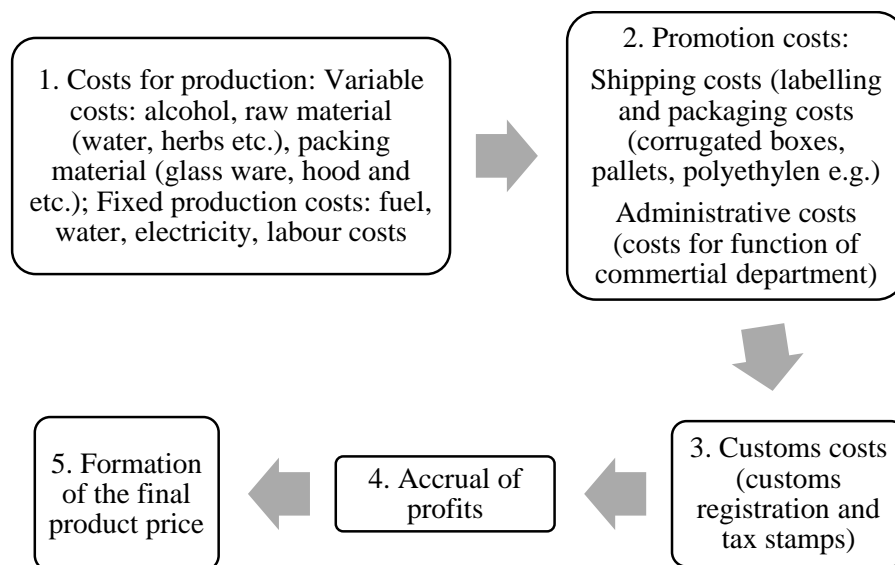


Figure 2.3 – The main stages of calculation selling price of LLC “Gorobina” Formed on: [61-65]

The commercial department responsible for pricing for trade. The selling price or final product price of product is determined in any hard currency according to the expenses in national currency basis on exchange rate. The expenses calculation bases on such costs: 1) costs for production, promotion and customs costs (fig. 2.3). For investigation the calculation process within foreign currency, the setting of selling price for vodka “Premium”, “Premium” standard and “Ultra-light would be taken. According to Table 3.1 the calculation items are different types of costs and profit which the company plan to get. In such case, the average cost is \$1.34 per bottle, which initially in financial balance in UAH, but for calculation selling price all costs convert in foreign currency according to exchange rate of signing contract for these products. After calculating cost price set the profit (\$0.64 per bottle) and forming the final price (\$1.34 per bottle) [61-65].

During second step creating international trade contract where all terms are determined in writing form. For example, in section “Terms of payment” defined the method, currency and condition of payment of product price by established selling price. For this reason, the enterprise price of contract is fixed at the moment of signing a contract with defined sums in foreign currency (hard currency) which should be paid. This price of contract is not subject to change thought its period of validity, the timing and order of a commodity delivery. For LLC “Gorobina”, as for exporter, such fixed price leads to currency risk. To avoid the risk, the company require foreign partner to make payment in advance. In case of LLC “Gorobina”, the payment in advance is only methods of payment as for export (product) for each agreed batch of products in accommodate with the invoice within 3 days after its delivery. The amount of advanced is determined in international trade contract. The rate of trade advance can be provided in full or partially amount of contract price, depending on percentage of this contract price – 100% or 70/30%, rarely it could be 50/50%. All expenses related to the transfer of foreign currency funds to the seller`s banking account are made at the buyer`s funds [57, 62-65].

Price of the contract is fixed, but exchange rate is not determined in the contract. The currency of contract as a rule, in euro (in case of exports to European

countries) or in US dollar (for other countries) (fig. F.1). In individual cases currency of contract can be one of the partner's national currency, but it should be free convertible currency. In condition of depreciation of national currency such terms of payment are very effective for the company. Income from export is converted into the hryvnias at the moment of payment according to bank's exchange rate [40, 57].

The last stage is implementation of contract. After contract is signed and payment on the company banking accounts, products manufacture and prepare for delivering with such documents: the certificate of conformity, the original quality certificate, the certificate of trade mark, the original of a packing list, an invoice, the original of the consignment a bill of landing [61].

LLC "Gorobina" predominantly exports on short-term basis and on such term of delivery as FCA (according to Incoterms 2010). The duties of the enterprise limited to export packing, marking and labelling, export clearance (license, EEI/AES) and dispatching of products. The place of dispatching is warehouse of LLC "Gorobina". The products can be shipped in corrugated boxes on pallets in polyethylene or without pallets. The costs of labelling and packaging are included in selling price of product [15, 19-20, 40, 57].

The exported products are shipped by water transport to the USA, by automobile transport delivered to European and Asia countries. In Sumy region there is railway tracks (station "Sumy Commodity") which is also actively used for delivering LLC "Gorobina" products [61, 62].

In case of some confusion during implementing contract the parties solve problem though negotiations. As a rule, the main force-major are writing in contract.

Income from export is converted into the national currency (UAH) at a moment of transaction according to bank's exchange rate [40].

As for the import of equipment, LLC "Gorobina" almost the same in stages, but terms of payment are dissimilar. The terms of payment are in advance. The company buy foreign currency in which is contract price according to the exchange rate and transfer money though bank to foreign partner. After payment is accrued on seller's banking account the corresponding equipment arrived to the company [62].

Consequently, the foreign trade activity of LLC “Gorobina” consists of three main steps: 1) preparation of the international trade agreement, where discusses objects of trade, quantity, quality, price of contract (selling price for all products based on price costs), packaging, delivering, terms of payment are drafted; 2) conclusion of all mentioned terms of the trade contract, where signing the contract with payment in advance (as a rule in 100% advance) in hard currency and 3) implementation obligations of the contact, where product producing and delivering (with all necessary documents) by water, automobile transport or though railway tracks . Income from export is converted into UAH.

Summarizing, LLC “Gorobina” is one of top-exporters of beverage in Ukraine, it was reached by active establishing relationship with European and other countries. The main export partners of the company are Latvia, Armenia, Kazakhstan, the USA, Italy. The enterprise export alcoholic beverage, kvass, vermouths and fruit wine. In recent year product leader became alcohol beverage and kvass. For investigating period, the alcoholic beverage and vermouths were actively exported. Such foreign trade activity of the company based on export effective of these products. The indicators of net profit and export effectiveness demonstrate high efficiency on LLC “Gorobina” trade activity. The payments in foreign currency always lead currency risks. Such kind of risk should be managing. At the moment, LLC’s “Gorobina” attached funds from investment projects.

2.3 LLC’S “Gorobina” problems and approaches of improving export products competitiveness

LLC “Gorobina” is competitiveness exporters of alcoholic beverage amount Ukrainian companies, but the enterprise faces with stronger competitors at international market than it is. At the moment, there are no opportunities for the company to improve their products quality even with attracted cost from

government. The most appropriate way is start to enhancing competitiveness of LLC “Gorobina” export products though improving currency management due foreign trade performance. In condition of volatility currency market and floating exchange rate in Ukraine, exporters should be attentive in choosing currency.

The price of contract LLC “Gorobina” is, as a rule, in euro and U.S. dollar, in rare cases it can be another hard currency depending on foreign partners. It is not the best option to peg in EUR and USD all foreign trade contracts. These two reserve currency also can be influenced by waves of financial crises. In 2008 after collapse of American financial market purchasing power of USD significant decreased and spread for other reserve currencies, such as euro [9, 30]. There is always possibility for financial crisis in future. All financial collapses are unpredictable and occur rapid because of external factors (economical, political or etc.). Financial crisis leads to currency risks or exchange risks for enterprises. This type of risk can significantly influence financial result of the company. If the currency of contract and currency of payment have tendency to depreciation it leads to reduction of a profit or economic losses. The investigation of foreign trade performance within currency demonstrates lack of hedging currency risks.

The risks could be caused by economic activities of the company. The risks related to delay in the selling of products or it is called risks of revenue lost, in other words, declining of proceeds and growing financial costs. In case of LLC “Gorobina”, it is the smart move calculating price cost in hard currency, because national currency constantly depreciates. The problem is that the company calculation only in one foreign currency – USD. The American dollar is one of the strongest currency in SDR – special drawing rights (currency basket of the International Monetary Fund), but along with it such reserve currencies as: pound sterling, euro. Trade partners of the company have national currencies, which are stronger than hryvnia (e.g. Poland zloty, Chinese yuan, etc.). At the moment, LLC “Gorobina” has inflexible currency management in export.

First and second problem require rational currency management and sophisticated calculation. The analysis of organizational structure demonstrates the

absence of employees responsible for currency management in accounting, economic and planning, commercial department. It is no significant problem, but it should be outlined.

Solution of outlined problems are highly recommended for enhancing competitiveness of export products. The recommendations are given below.

LLC “Gorobina” should develop more flexible system of currency management. During setting a currency of payment, a currency of contract or calculating price cost for accruing and etc. LLC “Gorobina” uses two, as a rule, hard currencies: Euro, U.S. dollar. The one of these currencies is the currency of contract and currency of payment in one time. The company should abroad horizons and involve other currencies such (e.g. pound sterling, Poland zloty). For instance, calculate the cost price not only in USD and accrue profit in British pound (if currency of contract is British pound) or in Euro (if currency of contract in Euro) during forming selling price. The reasons for using these legal tenders in next. British pound has high purchasing power. The exchange rate of GBP is higher and more stable in its dynamics than exchange USD (fig. 1.3). Euro is national currency of key trade partners of LLC “Gorobina” (fig. 2.2). Poland zloty is national currencies of bigger importer of the LLC’s “Gorobina” alcohol beverages (fig. 2.2).

Ignoring perspectives of applying these currencies in price of contract and price of payment can leads to losing financial benefits. These financial benefits can be involved in modernization manufacture capacity of company and improving product quality. As the result, these extra funds for enhancing export product competitiveness in future. Plus, manipulation with currency gives an opportunity to reduce a price cost and a selling price for export products without decreasing quality of product. Low price at the international market with the same quality would make product more competitiveness. Additionally, currency management also can includes choosing bank-partner, which can convert all international hard currency.

The enterprises have no power to prevent currency crisis, but they can be prepared for it. During entering foreign trade contracts, the enterprise has an opportunity to include additional conditions to the contract article 11 “Other terms”

with aim to defend exchange rate risks. In this case new currency is included to the contract – currency clauses. Practical usage the currency clauses in the international trade is the optimal instrument of hedging of exchange risks. The currency clauses aimed to replace a currency of contract in case it depreciation for more resistance currency. Example of currency clauses in trade contract is: if the exchange rate of a currency of payment during certain period more than on $n\%$, price of contract raised proportional major between actual and attributable to the changes. Currency margin during forming selling price could be additional profit for LLC “Gorobina”.

For the company is good idea to create new job position specifically for currency management in collaboration with planning and economic, commercial, accounting department. This worker could for currency administration development due export and the calculation of effectiveness of use one or another foreign currency in trade based on NBU exchange rate forecasts. The financial benefits can cover costs for wage for this worker.

The high level of currency management could be reached though solving such outlined problems of LLC “Gorobina”: lack of hedging currency risks and inflexibility in using currency in foreign trade contract, exempt currency regulation department. For improving export competitiveness within currency such recommendations are given: develop more flexible currency management, use currency clauses in foreign trade contracts and employee specific for currency management.

Summarizing, LLC “Gorobina” is producer of alcoholic beverages (vodka, fruit and berry wines, kvass and mineral water) in Sumy region and is one of top-exporters of beverage in Ukraine. The products of the company occupy a strong position at the domestic and foreign market. The main economic and financial performance of company are controlled by the Accounting, Planning and Economic, Financial department. The enterprise is profitable and earned profit during the analyzed period, but the profit level tends to decrease despite the increase in sales revenue. The selling of products covered the production and other costs. The main export partners of the company are Latvia, Armenia, Kazakhstan, the USA, Italy.

For investigating period, the enterprise export alcoholic beverage, kvass, vermouths and fruit wine, the export leaders are alcoholic beverage and vermouths. The indicators of net profit and export effectiveness demonstrate high efficiency on LLC “Gorobina” trade activity. The company earned profit, but currency risks can easily disserve cost-effectiveness. Such kind of risk should be managing. The high level of currency management could be reached though solving such outlined problems: lack of hedging currency risks and inflexibility in using currency in foreign trade contract. For improving export competitiveness within currency such recommendations are given: develop more flexible currency management, use currency clauses in foreign trade contracts and specific employee for currency management.

SECTION 3

CURRENCY AS A COMPONENT OF ENHANCING EXPORT PRODUCT
COMPETITIVENESS: CASE OF LLC “GOROBINA”

3.1 Currency flexibility in forming selling price of LLC’s “Gorobina” export products

LLC “Gorobina” is a strong producer of alcohol beverage in Ukraine with high export effectiveness of products, but with volatility position at international market. Next recommendations help to enhance its export product competitiveness: to develop more flexible currency management and to use currency clauses in foreign trade contracts.

The products predominantly export on short-term basis and on the condition of 100% advance payment. Price of the contract is fixed, as a rule, in euro (exports to European countries) or in U.S. dollars (exports to other countries). Exchange rate is not fixed in the contract, but the contract price and the currency of contract are fixed. It gives opportunity to the company trade in currencies which are more effective according to the floating exchange rate in Ukraine. Income from export is converted into the hryvnias at the moment of payment based to bank’s exchange rate.

The cost price and profit are always determined only in USD (tab. 3.1). For example, selling price for vodka “Premium” (0.5 bottle) stands at \$1.34 per bottle, with cost price —\$1.27/bottle and vodka “Ultra-light” (0.5 bottle) stands at \$1.34 per bottle, with cost price —\$1.28/bottle. The second type of product prevents higher expenses for raw material, because of more complicate manufacturing technology.

Table 3.1 – Cost prices of LLC “Gorobina”, USD

Calculation items	Vodka “Premium” 0.5 l	Vodka “Premium” standard 0.5 l	Vodka “Ultra- light” 0.5 l
Alcohol and other raw material (water, herbs etc.)	0.231	0.231	0.236
Total production costs (fuel, water, electricity)	0.091	0.091	0.091
Glass ware, hood and other packing material	0.709	0.709	0.709

Continue of Table 3.1

Sticking the tax stamp by hand	0.013	0.013	0.013
Administrative costs and wages	0.197	0.197	0.197
Promotion costs	0.017	0.017	0.017
Customs registration of tax stamps and commodity	0.017	0.017	0.017
Total cost price	1.27	1.28	1.28
Selling price	1.34	1.34	1.34

Source: [61-65]

The enterprise exports alcohol beverages and vermouths, that are produced in Ukraine. The cost price calculated by commercial department of LLC “Gorobina”. The raw and packing materials are purchased in Ukraine in hryvnias. As a rule, administrative costs and labour costs are fixed and accrued in hryvnias. The exported products of LLC “Gorobina” are deliver by water transport, by automobile transport or by railway tracks and pay in national currency. Term of delivery always is FCA and operations with product end at custom house. Custom fees must also be paid in the national currency, according to legislation of Ukraine. Equipment is purchased in Italy in foreign currency (euro), but depreciation is calculated in UAH. So, all expenses for producing and delivering are in UAH [4].

However, the LLC “Gorobina” is most advantageous to calculate the cost price in UAH for accruing it (because the company would pay less) than in USD. The price of contract should be set in dollars or other hard currencies (e.g. euro, pound sterling etc.), which appreciate the most. The general formula for profit is:

$$\text{Profit} = I - E, \quad (3.1)$$

I - Income

E - Expenses

In case of volatility of exchange rate and export formula changes in such way:

$$\text{Profit} = (\text{EX}_1 * \text{Price of contract}) - (\text{EX}_2 * \text{Price costs}), \quad (3.2)$$

Price of contract – is selling price of 1-unit multiply by quantity of export products order;

Price costs – is price costs for of 1-unit multiply by quantity of order, which would be pay for producing export products;

EX_{1,2} – exchange rate on certain date

Profit – includes profit and currency margin (if EX₁ and EX₂ are different)

Let's consider the following case:

On October 20, 2018 LLC “Gorobina” concluded a contract with Canada for delivering 3,000 bottles of Vodka “Premium” (0.5 l), 6,500 bottles of Vodka “Premium” standard (0.5 l) and 10,000 bottles of Vodka “Ultra-light” (0.5 l). Date of payment on LLC`s “Gorobina” banking account is November 21, 2018. Currency of contract is USD. Selling price for 1 bottle is USD 1.34 (tab. 3.1).

$$\begin{aligned} \text{Profit} &= (\text{€}/\$27.75 * (\$1.34/\text{bottle} * 19,500 \text{ bottles}) - \\ &- (\text{€}/\$27.75 * (\$1.27/\text{bottle} * 3,000 \text{ bottles} + 1.28/\text{bottle} * 16,500 \text{ bottles})) = \text{€}724,025 - \\ &- \text{€}689,851 = \text{€}34,174 \quad (3.3) \end{aligned}$$

Let's suppose that price cost is calculated in UAH, with exchange rate on October 20, 2018 being as follows: 1 USD = 26,55 UAH. Then the cost price per bottle stands at €33.80 (tab. 3.1).

$$\begin{aligned} \text{Profit} &= (\text{€}/\$27,75 * (\$1.34/\text{bottle} * 19,500 \text{ bottles}) - (\text{€}33.80/\text{bottle} * \\ &* 19,500 \text{ bottles}) = \text{€}724,025 - \text{€}660,019 = \text{€}64,005 \quad (3.4) \end{aligned}$$

Comparing the price costs converted into UAH and USD, we see that figures for profits differ: if price costs are calculated in USD, profit figures stand at UAH 34,632; if price costs are calculated in UAH, profit figures stand at UAH 64,005,052. In second case currency margin is higher.

So, price calculate in UAH for accruing is lower. Thus, for LLC “Gorobina” currency margin is higher if the price cost is calculated in UAH than currency margin

if the price cost is calculated in USD. But it is only at the condition of UAH depreciation. If the company will have the information from the website of NBU that the exchange rate increases in the future, they will get price advantages. There two option in these case. First, LLC “Gorobina” may slightly reduce the export product price and increase their competitiveness at the international market due lower prices for their product. Second currency margin as net profit can be involved in manufacturing and increase quality of the export products. Both ways will improve export products competitiveness of LLC “Gorobina” at the international market.

The one more problem if USD exchange rate falls down and leads to losses for the company. That is why it is good idea to calculate price costs in UAH and then manipulate price of contract due converting price costs in currency of contract. But exchange floatation is unpredictable, better to hedge risks by currency clauses.

3.2 Currency clauses in foreign trade contracts of LLC`s “Gorobina”

As was mentioned earlier, the system of currency management of LLC “Gorobina” should be more flexible. LLC “Gorobina” use mostly two hard currencies: euro, US dollar and as usual one of these is the currency of contract and currency of payment in one time, which leads exchange rate risk. There are cases when the enterprise makes exception in payments in national currency of trade partners (e.g. for Poland in Poland zloty (PLN), which are soft currencies. The optimal instrument of hedging of exchange risks is currency clauses.

Before using the clauses, the monitoring currency market of Ukraine should be made. General tendency for such hard currencies as USD, EUR, PLZ is positive (fig. 1.4). These currencies are hard and reserve currencies (tab. A.1), belong to 1st group (according the Resolutions “Ranking of Foreign Currencies”

created by NBU – tab. B.1) and are free convertible in Ukraine. All these currencies are national currencies of key LLC's "Gorobina" trade partners.

Let's consider the next case:

On November 18, 2018 LLC "Gorobina" concluded a contract with Polish importer for delivering 30,000 bottles of vodka "Ultra-light" (0.5 l) (tab. 3.1). Currency of contract is Poland zloty (PLZ). Exchange rate on November 18, 2018 is USD/PLZ=3.7687 (UAH 100 = USD 2777.4; UAH 100 = PLZ 731.34). Exchange rate on December 6, 2018 USD/PLZ=3.7716 (UAH 100 = 741.69; UAH 100 = USD 2777.68) [12, 13, 59, 60].

Price of contract is PLZ 10,666.81 (equivalent to USD 40,200 at the exchange rate on the day of sign the contract). Date of payment is on LLC's "Gorobina" banking account is December 6, 2018.

The currency of the contract price is U.S. dollar and the currency of payment is Poland zloty. Thus, the fluctuations of the USD/PLZ exchange rate is not significant for exporter, because price of international trade contract is fixed and always be \$40,200. If at the moment of payment exchange rate USD/PLZ=3.7716, the polish importer should pay PLZ 10,666.81 to LLC "Gorobina" instead PLZ 10,658.61. Thus, the enterprise hedge risk in sum of 8.2 zloty (60 hryvnias). That is not so big loss, but if it was 1,500,000 bottles, the losses would be 3000 hryvnias. The domestic exporter gained revenue, but there is no benefit during converting into U.S. dollar.

Let's consider that according forecast of NBU, USD depreciates. In case of LLC "Gorobina", The enterprise should set currency clauses in EUR.

Practical usage of method which is based on currency clauses is the effective way of hedging currency risks. The enterprise could involve to the contract currency clauses, which is hard and have tendency to appreciation relatively to U.S. dollar or Poland zloty. For instance, euro.

In such way in the trade contract is added next currency clauses: if EUR/USD exchange rate is raised higher than by 2.5% on the date of payment, the contract price in USD would be increased proportionally to the difference between

the actual and the specified change.

At the moment of conclusion contact (November 18, 2018) there were next spot rates: is USD/PLZ=3.7687; EUR/USD=1.1362. On December 6, 2018, at the moment of payment, when export product should be delivering, exchange rates are: USD/PLZ=3.7716; EUR/USD=1.1417 [12, 13, 59, 60].

Therefore, price of international trade contract is necessary to increase by 1,12%.

$$1,12\% = (1.1417-1,1362)/1,1362*100\% - 2,5\% \quad (3.5)$$

At the same time, LLC “Gorobina” receives 44,891.34 USD (40,200*1.12%) or 16,9312.2 RLZ (40,200*1.12%*3.7716).

In addition, one more additional currency clauses can be write down in the trade contract: if USD/PLZ exchange rate is raised higher than by 2.5% on the date of payment, the contract price in U.S. dollar and Poland zloty would be increased proportionally to the difference between the actual and the specified change.

Thus, at the moment of payment sum of contract in U.S dollars and Poland zloty would increase by 3.75%.

$$3,75\% = (3.7716-3,7687)/ 3,7687*100\% - 2,5\% \quad (3.6)$$

In this case, LLC “Gorobina” has export income in sum of 168,342.5 USD (44,891.34 *3.75%) or 634,920.7 RLZ (44,891.34 *3.75%*3.7716).

So, the effectiveness of use of currency clauses demonstrated in Table 3.2. In the table results of using currency clauses are presented. The higher effectiveness is for zloty, especially after usage of one clauses – 148.72% versus 11.67% in U.S. dollars in the same case. There is correlation between number of used currency clauses and percentages of effectiveness – one clause 11.67%, two clauses – 275%.

Table 3.2 – The effective of usage of currency clauses for LLC “Gorobina”

№	Type of contract	U.S. dollars		Poland zloty	
		Export revenue, USD	Effectiveness, %	Export revenue, PLZ	Effectiveness, %
1	Without using currency clauses. Currency of contract and currency of payment – Poland zloty.	40,169.1	0	10,658.61	0
2	Currency of contract – USD, currency of payment – Poland zloty	40,200	0.8	10,666.81	0.8
3	One currency clause – EUR	44,891.34	11.67	16,9312.2	148.72
4	Two currency clauses – USD and EUR	168,342.5	275.00	634,920.7	275.00

So, practical usage of currency clauses in international trade contract domestic exporter, such as LLC “Gorobina” is necessary conditions in hedging currency risks. Gained results demonstrated very high effectiveness (to 275,0%) after using the clauses. The is correlation between number of used currency clauses and percentages of effectiveness. All earned costs easy able to cover labour costs for currency management. Plus, free money reserves could involve in manufacturing of export products to improve the quality of the company`s brands and improve export product competitiveness.

Consequently, the currency management is effective and even profitable for LLC “Gorobina”. The flexible system of using currencies in trade contract and payments is more beneficial. For LLC “Gorobina” currency margin is higher if the price cost is calculated in UAH than currency margin if the price cost is calculated in USD, but it is only at the condition of UAH depreciation. The company will get price advantages. The company can slightly reduce the export product price and increase their competitiveness at the international market due lower prices for their product. The one more problem the reduction of USD exchange rate leads to economic losses. In this case currency clauses can be used. The clauses are effective for the enterprise and can be actively used. All additional net profit, earned though currency management by LLC “Gorobina”, can be involved in manufacturing and increase quality of the export products. It will improve export products competitiveness of LLC “Gorobina” at the international market.

CONCLUSION

Currency is a general adopted form of money, legal tender of country, which is issued and implemented as a medium of exchange function in international payments by particular government. As a rule, currencies are converted is some rate – exchange rate. Exchange rate can be floating and fixed. The exchange rate can be a very powerful instruments in international trading. Improving competitiveness of domestic enterprises closely connected with regulation of domestic currency market and forecasting of exchange rate. In case of Ukraine exchange rate policy provides it. The National Bank of Ukraine is the main authority which establishing official exchange rate of national currency (hryvnia) to the free convertible currencies. The majority foreign currency earnings were in USD and EUR, because of their free convertibility and stability in dynamic of exchange rates. The REER and NEER of hryvnia declined and indicate improving competitiveness of Ukrainian export products. In case of such exchange rate volatility the depreciating of national currency is beneficial for exporters.

The exchange rate can be a very powerful instruments in international trading. The government and its authorities are in power to control currency and exchange rate rather enterprise in the country. Additionally, the exchange rate (currency) management is a part of financial strategy. There are short or long term, aggressive or conservative, flexible or hard currency policies, which provide currency margin. The margin as a spare profit could enhancing competitiveness of export product for domestic producers. LLC “Gorobina” was used for investigation how currency and exchange rate enhance export product competitiveness.

LLC “Gorobina” is producer of alcoholic beverages (vodka, fruit and berry wines, kvass and mineral water) in Sumy region and is one of top-exporters of beverage. LLC “Gorobina” is one of top-exporters of beverage in Ukraine, it was reached by active establishing relationship with European and other countries. The

products of the company occupy a strong position at the domestic and foreign market. The enterprise is profitable and earned profit during the analyzed period, but the profit level tends to decrease despite the increase in sales revenue. The main economic and financial performance indicators of net profit and export effectiveness demonstrate high efficiency on LLC “Gorobina” trade activity. The main export partners of the company are Latvia, Armenia, Kazakhstan, the USA, Italy. For investigating period, the enterprise export alcoholic beverage, kvass, vermouths and fruit wine, the export leaders are alcoholic beverage and vermouths. The majority of foreign trade contracts in U.S. dollar or in Euro. The cost price is in USD and profit also accrue in USD. The company earned profit but currency risks can easily disserve cost-effectiveness. Such kind of risk should be managing.

The high level of currency management could be reached though solving such outlined problems: lack of hedging currency risks and inflexibility in using currency in foreign trade contract. For improving export competitiveness within currency such recommendations are given: develop more flexible currency management, use currency clauses in foreign trade contracts and specific employee for currency management.

LLC “Gorobina” is a strong producer of alcohol beverage in Ukraine with high export effectiveness of products, but with volatility position at international market. The currency management is effective and even profitable for the enterprise. The proposed recommendations are effective and the calculations demonstrate it. In fist case, currency margin after calculating and accrue the price cost in UAH is more profitable than calculating of the price cost in USD, but at the condition of UAH depreciation. The company will get price advantages. All additional net profit, earned though currency management by LLC “Gorobina”, can be involved in manufacturing and increase quality of the export products. The company can slightly reduce the export product price and increase their competitiveness at the international market due lower prices for their product. The second case, currency clauses also should be used, its effectiveness demonstrate how it profitable. All additional net profit, earned though currency management by LLC “Gorobina”, can

be involved in manufacturing for improving quality of product or helps to reduce the prices. Both ways will improve export products competitiveness of LLC “Gorobina” at the international market. So, the currency management is effective and even profitable for the LLC “Gorobina”.

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APPENDIXES

Appendix A

SUMMARY

Barvinok V. Yu. The currency as a component of enhancing export product competitiveness. – Diploma work. Sumy State University, Sumy, 2018.

The diploma work focuses on the essence of the currency in the developing export products competitiveness. The main strategy is developing effective currency management in international trade operations of enterprise. The main aim of this research is to give recommendations to improve the export products competitiveness of the LLC “Gorobina”.

Keywords: currency, exchange rate, convertibility, central bank, competitiveness, spot rate, exchange rate (currency) policy, currency fluctuations, currency clauses.

АНОТАЦІЯ

Барвінок В. Ю. Валюта як складова підвищення конкурентоспроможності експортного продукту. - Магістерська кваліфікаційна робота. Сумський державний університет, м. Суми, 2018 р.

Дипломна робота присвячена сутності валюти у розвитку конкурентоспроможності експортної продукції. Основною стратегією є розробка ефективного валютного менеджменту в зовнішньоекономічній діяльності підприємства. Основною метою цього дослідження є надання рекомендацій щодо покращення конкурентоспроможність експортної продукції ТОВ “Горобина”.

Ключові слова: валюта, валютний курс, конвертованість, центральний банк, конкурентоспроможність, спот-курс, валютна політика, валютні коливання, валютні застереження.

Appendix B

Abstracting foreign literary sources

1. Polivach P. Single European currency and external trade of the Eurozone countries [18]

In article is investigated how the foreign trade indicators of the Eurozone countries have changed since the introduction the euro was adopted as a single European currency. This research is motivated by two research questions: what influence did the European currency have on foreign trade of Eurozone countries and European Central Bank policy during last ten years. Trade of different countries has changed the Eurozone in terms of the functioning of national currency. The research estimates, that the major cause of different successes of the Eurozone members in their external trade is the different pace of structural reforms, undertaken in these countries.

Analyzing dynamics of the euro's exchange rate and foreign trade of various Eurozone members, compare the dynamics of trade and the real effective rate of the euro for the largest countries of the Eurozone. The analysis shows that the fluctuations of the single currency and equal impact on each of these countries.

The article draws attention to an important aspect, which, as a rule, is not pay due attention in discussions on the question of the influence of the currency factor on foreign trade. This refers to the question of which currency actually serves the foreign trade of a particular country.

The author of the article, using the statistical method, have refuted the fact that devaluation can increase the competitiveness of exporters, and revaluation will hinder them, but in turn will stimulate imports.

The nature of the foreign trade balances of the largest countries in the Eurozone-12 was investigated in connection with the use of a single currency, which showed that countries with a negative balance trade balance did not seriously improve their positions and countries having a positive balance, mostly kept it. That

is why the authors the euro's exchange rate was not a factor, which supported external competitiveness of some member countries and depressed it in other ones.

2. Akulich T. Stimulation of the competitiveness of the Belarusian manufacturers through the management of the rate of the national currency [1]

This study develops and test the idea that effective exchange rate policy of the state is one of the most important instruments for regulating the economy of the republic.

In the article outlined main factors affecting the impact of the national currency exchange rate such as elasticity of demand for a product on the foreign market, elasticity of product supply to the external market by other countries, elasticity of the product offers for export. The author created recommendation for improving export of Belarus thought devaluation policy and price advantages.

The findings of the article demonstrate that the physical volume of commodity exports is insignificant and main influence exchange rate for the value of exports occurs through changes in the equivalent of foreign exchange earnings, and revenue as a commodity export and export services.

3. Zavyalova M. The basis of competitiveness of enterprise products [35]

The article deals with a systematic approach to the level of enterprise competitiveness, which is based on the results of comparative monitoring of competitors' products, analysis of the enterprise products and competitors. The author identifies the strengths and weaknesses of the enterprise products. This approach is aimed at achieving a high level of competitive advantage in a particular segment of the consumer market. It has contributed to achieving a high level of efficiency of marketing activity in the conditions of the specific market situation.

The main investigation of the article the algorithm of foundation of the level of enterprise competitiveness. In conclusion author defined that The competitiveness of the enterprise with the requirements of a particular market or segment is caused by the most acceptable ratio for both consumers and manufacturers between the main components of the studied indicators, such as follows: product quality, cost, consumption, nature of marketing promotion of products in the market and the level

of service. Theoretical contribution is the methodological approach allows defining quantitative terms of the complex index of product competitiveness of enterprises in various market segments.

4. Dunford M., Louri H , and Rosenstock M. Competition, Competitiveness, and Enterprise Policies [8]

In this study introduce the concept of the effects on cohesion of European Union competition and competitiveness policy, industrial competitiveness policies, and the enterprise policy. The authors investigate manufacture structure and countries shares with its dynamics. In this way the cohesion countries fell at the two ends of the spectrum, with either relatively large shares of industry in output or very low shares.

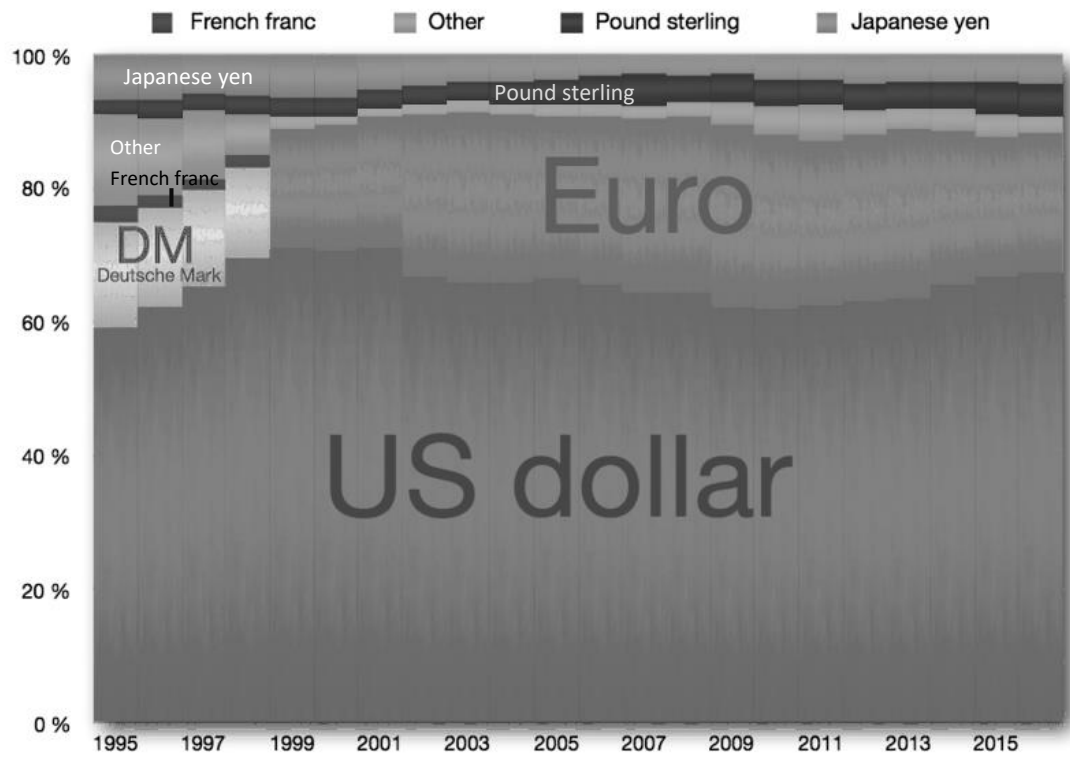
The author suggested that Germany, Italy and France with the principal beneficiaries of increased international competition during 1980-1990. The findings from the research illustrate correlation between competitiveness and other economic factors at enterprises of these countries.

The main aim of article is identifying the impact of EU competition, competitiveness and enterprise policies on different factors (employment, investments etc.) in relative economic performance.

According to gained by authors results the EU had sought, in particular thought the regulation of state aid, to ensure that a European perspective acts as a counterweight to national perspectives on cohesion.

Appendix C

Table C.1 – The world reserve currency in percentage correlation



Source: [5, 24]

Appendix D

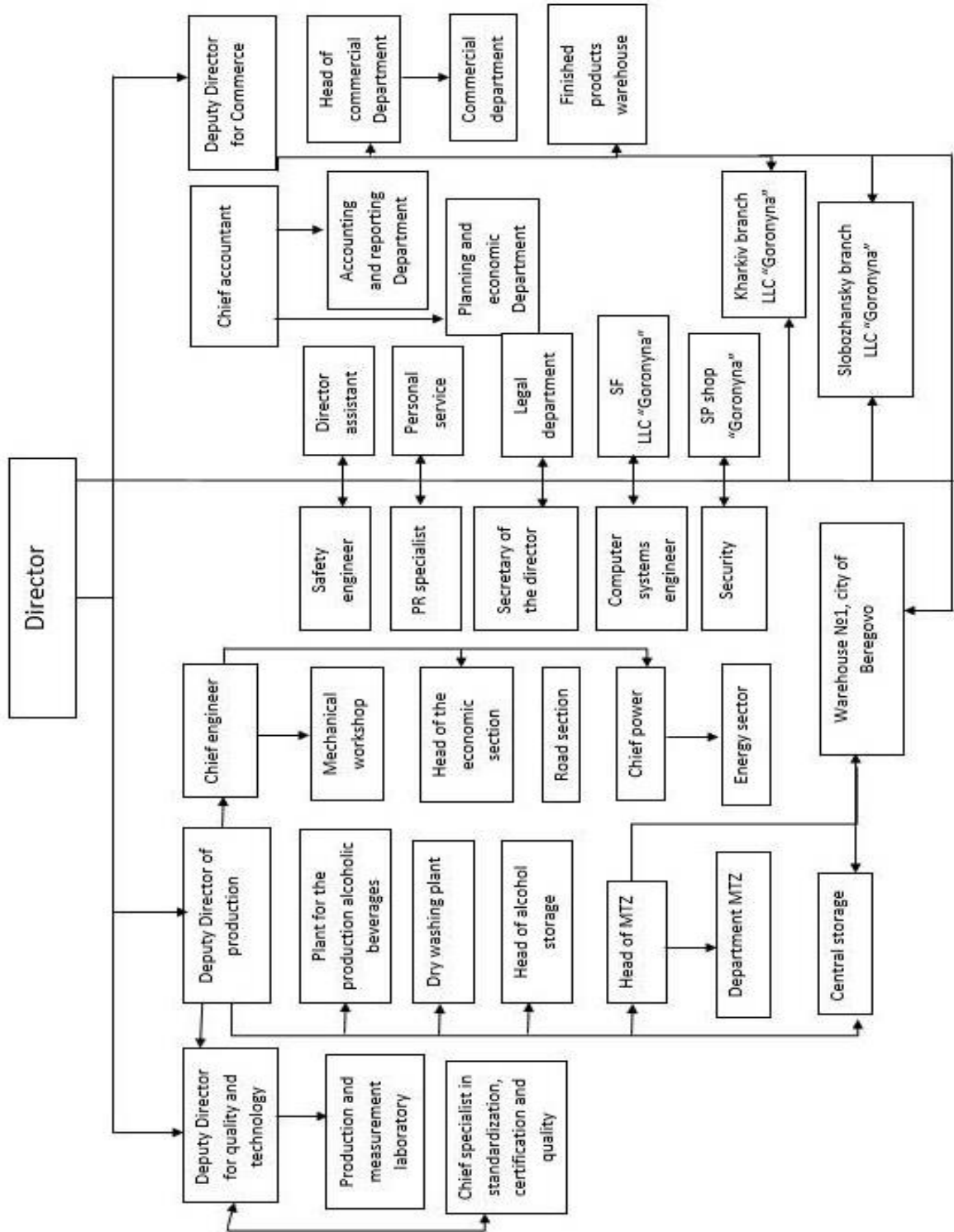
Table D.1 – The list of foreign currency classification depends on convertibility according the National Bank of Ukraine

Group 1: free convertible currencies (widely used for international transactions)	Group 2: free convertible currencies (not widely used for international transactions)	Group 3: non-convertible currency
Australian dollar	Belarussian rubles	Azerbaijani manat
British pounds sterling	Hong Kong Dollars	Egyptian Pounds
Danish crowns	Estonian crowns	New Taiwan Dollars
U.S. dollars	Indian rupees	Tajik somoni
Irish Pounds	Icelandic crowns	Turkmen manats
Canadian dollars	Latvian lats	Uzbek sums
Chinese yuan	Lithuanian summer	Yugoslavian dinarsta
Norwegian crowns	Poland zloty	Others which are not in 1 or 2 groups
Swedish crowns	Republic of Korea von	
Swiss francs	Russian ruble	
Japanese yen	Singapore Dollars	
Euro	Slovak Crowns	
SDR	Slovenian tolars	
All currencies of European county	Turkish Lira	
	Hungarian Forint	
	Other currencies	

Source: [52]

Appendix E

Figure E.1 – The organizational structure of LLC “Gorobina”



Resource: [41]

Appendix F

Table F.1 – The main indicators of economic performance of LLC “Gorobina”
in 2015-2017

Indicator	Unit	2017	2016	2015	2015/16, %	2016/17, %
Volume of product production in price on January 1, 2017	K UAH	30428	27508,2	42872,2	-35,84	110,6
Production in physical terms:	K dals	274,5	302,1	540,2	55,9	90,9
- alcoholic beverages	K dals	207,3	152,1	182,1	83,5	136,3
- fruit wines	K dals	-	127,2	358,1	35,3	-
- vermouths	K dals	67,2	22,8	-	-	294,7
- kvass	K dals	90,7	45,7	48,6	94	198,5
Price costs of products	K UAH	33655	26345,2	37852,1	69,6	127,7
Cost-effectiveness of production	%	-1,7	0,8	-	-	147,1
Costs on 1 UAH of goods	UAH	1,02	0,99	1,08	92,1	102,6
Products shipped	K UAH	382,5	363,1	583	62,3	105,3
Volume of sold production	K UAH	35347	27581,9	34776,7	79,4	128,2
Production costs of sold products	K UAH	35035,4	27121,3	37231,9	72,8	129,2
Revenue from selling	K UAH	311,6	460,6	-2455,2	-18,7	67,7
Cost-effectiveness of sold production	%	0,9	1,7	-	-	52,4
Net profit	K UAH	181,5	323	366,7	88,1	57,4
Labour costs	K UAH	10093,3	10359	909,25	88,1	97,4
The average number of workers	persons	234	261	554	102,8	89,7
The average montly of wages of one worker	UAH	4313,4	3968,9	3,579	90,9	108,7
Accounts receivable at the end of period	UAH	37308,2	41015,5	48502,9	84,6	91,1
Accounts payable at the end of period	UAH	28019,1	347813	48854	71,3	80,5

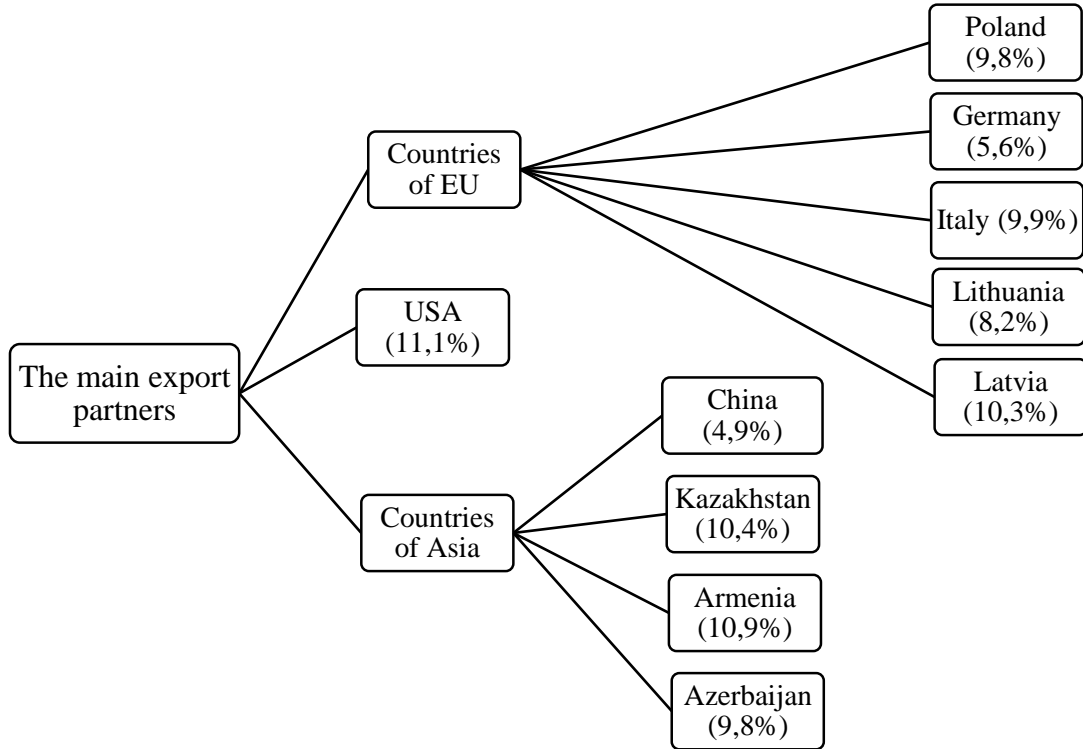
Appendix G

Table G.1 – The main indicators of financial activity of LLC “Gorobina” in 2015-2017, K UAH

Indicator	2017	2016	2015	Deviation 2015-2017, %
Volume of sold production	35347	27581,9	34776,7	1,64
Revenue from products selling	123272	93522,2	94803,4	30,03
- VAT	11819,8	5540,3	6899,9	71,30
- Tax stamps	32818	19936,8	21503,6	52,62
Net selling revenue	78300,1	67750,8	63377,9	23,54
Production costs of sold products	65671,6	58830,8	55383,5	18,58
Gross profit (loss)	12628,5	8920	9994,4	26,36
Administration costs	4261,8	3443	4179,1	1,98
Labour costs	10093,3	10359	909,25	1010,06
Distribution costs	7488,7	3510,3	5082,4	47,35
Profit (loss)	767,6	1115,7	1068,7	-28,17
Other incomes	1199,6	399,9	535,4	124,06
Other costs	1622,1	1111,9	1044,1	55,36
Income tax	159,6	80,9	193,3	-17,43
Net profit (loss)	185,5	323	366,7	-49,41

Appendix H

Table H.1 – The main indicators of financial activity of LLC “Gorobina”
in 2015- 2017, K UAH



Formed based on [61-65]