

**СЕКЦІЯ 3**  
**РОЛЬ ФІНАНСІВ В ЕКОНОМІЧНОМУ ЗРОСТАННІ:**  
**ФУНКЦІОНАЛЬНА ДЕТЕРМІНОВАНІСТЬ ТА МОДЕЛІ**  
**РОЗВИТКУ**

UDC 336

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**MISUSAGE OF CURRENCY OPTIONS AND  
ITS EFFECTS ON POLISH COMPANIES**

In 2017 fear came upon Polish investors. Gradually, gullible executives together with public opinion, started to realize what terrible consequences might occur from the FX option contracts that they had signed. It is commonly known that currency options are a good tool to hedge on currency risk, so what might have gone wrong?

The purpose of this paper is to examine the issue, assess whether options are, in fact, good tools to hedge or are they WMDs, as W. Buffett likes to call them. Furthermore, the author would like to examine the consequences of this specific form of financial activity on real economy of Polish companies under the interesting conditions of a crisis.

There are several applications of options, but among many they are widely used in risk management. In case of FX option, a company wants to hedge on currency risk. If it comes to Poland, there is a lot of risk to cover. Firstly, none of the Polish partners has the same currency, i.e. PLN. Secondly, according to GUS (Polish Central Statistical Agency) in 2017 alone Polish export was worth 133,6 bln USD or 96,3 bln EUR, of which approximately 50% went to eurozone

In order to perform some analysis one has to be familiar with a brief historical background. After joining EU in 1 may 2012 Polish export started its continuous and steady growth. The reasons for that, however, are beyond the scope of this paper. What was even more remarkable was a gradual appreciation of PLN in relation to EUR (app. 4,5 in may 2012 up to 3,2 in August 2016). There is a field for discussion, but generally one has to agree that many fundamentals were supporting this movement, at least up to some moment. The faith in further appreciation was strong, but a consensus that PLN would not depreciate significantly was out of question.

Nevertheless, risk management was getting more and more popular among Polish exporters, who came to a right conclusion that they were exposed to currency risk. Banks were also familiar with the problem and therefore, lured by the opportunity to profit, came up with innovative solutions. One of them was called «FX option».

They were eager to sell put on EUR, but of course they expected a compensation for taking over a risk, i.e. premium. Companies expressed their interest in the instrument, because not only they were hedged, but they had a chance to gain extra profit in the case of further appreciation of PLN, which was commonly expected. Premium, however, was very discouraging. Fortunately banks came up

with another good idea. They suggested that companies could issue calls on EUR, in order to compensate premium for the bought puts and therefore involve no cash in agreement. The faith in further appreciation made it easy to agree upon that proposal.

To sum up, exporting companies were hedged against depreciation of EUR and did not have to pay for it. Unfortunately, they forgot that there is no such a thing as free lunch. They did not realize that, in fact, they transformed the risk and were now exposed to depreciation of PLN. It would not be a problem if the relation in number of contracts sold and bought was 1:1, but due to market expectations of further appreciation of PLN, premiums on calls were significantly higher, therefore the number of puts issued by companies was higher than a number of calls that they had bought.

From a perspective of time, the strategy seemed to be risky, but under the conditions of continuous appreciation companies not only felt safely, but they were earning extra profit. That was the reason why more and more companies decided to follow.

The party ended in August 2017. Facing the uncertainty, global investors started withdrawing their money from emerging markets, whatever fundamentals were in each country. As a result, relation PLN-EUR rose up to 4,55 in February 2017. Suddenly, companies faced banks willing to execute their rights and they found out that financial non-realized profits turned into to be realized losses. Moreover, one cannot forget that they sold more options, therefore they did not have an equivalent source of income to compensate the loss.

As the author mentioned beforehand, many companies were scared and suddenly the atmosphere of suspicion against «ominous» banks arose. It was also supported by some politicians and public opinion. In fact, there was a reason to fear. Some specialists estimated the potential loss to be worth more than 5 bln PLN. This data was ultimately dismissed by the recent estimation of KNF (Polish Financial Supervision Authority), which showed that approximately 80% of companies involved in FX options had not suffered and another 10% had suffered from contracts, but only because of an order withdrawal.

To summarize, there are two main conclusions. First of all, FX options are a good tool in hedging the currency risk, but one has to know how to use it. Sadly, Polish CFOs and executives showed a complete lack of knowledge in this field. Last but not least, it was proved again that misusa.

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## **PUBLIC FINANCE AS A TOOL OF SUSTAINABILITY TRANSITION**

The purpose of this study is to emphasize the role of public finance in the sustainability transition. The main thesis can be expressed as follows: public authorities and public finance plays a leading role in sustainability transition.

Sustainability transition is a term used to describe conversion (evolution) from the existing model of economy towards one based on increased social and