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IMPACT OF ECONOMIC RISKS ON HOUSEHOLDS' FINANCIAL DECISION MAKING

Households play an important role in the development of the national economy, providing the production process with labor, money, investment resources, creating demand for goods and services. The rationality of financial decisions affects the sustainability of the financial system; it determines the procedure for planning the family budget, the direction of income distribution and their use, the formation of savings and their investment direction, the choice of appropriate forms and financial instruments for accumulating funds.

Financial decisions influence the formation of households, ensuring their stable development in the long and short term. Correct financial decision-making by households allows avoiding financial risks and unforeseen situations, and can increase welfare by allocating available financial resources and planning future expenses. It is through financial decision-making that public interests and priorities are realized. However, households operate in an environment of economic instability. Their activities are affected by various economic risks [1].

One of such economic risks is interest rate risk. Its essence lies in unpredictable changes in interest rates in the financial market (both deposit and credit). The reason for the emergence of this type of financial risk may be a change in the financial market conditions under the influence of state regulation, growth or decline in the supply of free cash resources, etc. Negative financial consequences of this type of risk are manifested in the issuance activity of the household, in its dividend policy, in short-term financial investments and some other financial transactions. Interest rate risk is incurred by an investor who has placed his funds in medium- and long-term securities with fixed interest at the current increase in the average market interest compared to the fixed level (i.e. the investor could receive an increase in income due to the increase in interest, but cannot return his funds invested under the above conditions).

Losses related to interest rate risk are incurred by the issuer issuing medium and long-term securities with a fixed interest rate when the average market interest rate is currently decreasing compared to the fixed level (that is, the issuer could raise money from the market at a lower interest rate, but it is already related to the conditions of the issuance of securities). In an inflationary economy with rapid growth in interest rates, this type of risk is important for short-term investments in securities.

Currency risk is inherent in households engaged in foreign economic activity. It is manifested in the failure to receive the expected income as a result of the direct impact of the change in the exchange rate of the foreign currency used in foreign economic transactions. Thus, by importing raw materials and materials, the household loses from the increase in the exchange rate of the corresponding foreign currency in relation to the national one.

A decrease in this exchange rate determines the household's financial losses when exporting finished products.

Price risk. This type of risk consists in the possibility of incurring financial losses associated with an unfavorable change in price indices for assets circulating on the financial market. Such assets can be shares, derivative securities, gold and others. That is, price risks are associated with the probability of changes in market prices and their impact on financial or physical assets. Therefore, a change in the market price of assets causes a change in the value of active, passive balance sheet items or off-balance sheet liabilities, ultimately forming gains or losses on market-sensitive positions.

The instability and unpredictability of both the international and national financial markets in recent years have greatly aggravated the problem of finding optimal methods of managing the market group of risks.

Non-systematic risks include risks of reducing the financial stability of the household (or risks of disequilibrium in financial development).

These risks are generated by the imperfection of the capital structure (excessive share of used loan funds), which is generated by the imbalance of positive and negative cash flows of the household.

The risk of insolvency (the risk of unbalanced liquidity) of the household is generated by a decrease in the level of liquidity of current assets, which creates an imbalance in the cash flows of the household over time. In terms of its financial consequences, this type of risk is also among the most dangerous.

Credit risk is a risk that arises in the financial activities of a household when it provides goods (commercial) or consumer credit to buyers. The form of its manifestation is the risk of non-payment or untimely payment for finished products loaned by the household, as well as exceeding the estimated budget for debt collection.

Investment risk characterizes the possibility of financial losses in the process of carrying out investment activities of the household. According to the types of this activity, types of investment risk are also divided – the risk of real investment and the risk of financial investment. All considered types of financial risks associated with the implementation of investment activities belong to the so-called "complex risks", which in turn are divided into their separate subtypes. So, for example, risks of untimely preparation of an investment project can be allocated as part of the risk of real investment; untimely completion of design works; untimely completion of construction and installation works; untimely opening of financing for an investment project; loss of investment attractiveness of the project due to a possible decrease in its efficiency, etc. Since all subtypes of investment risks are associated with a possible loss of capital, they are also included in the group of the most dangerous financial risks.

Innovative financial risk is associated with the introduction of new financial technologies, the use of new financial instruments that do not have retrospectively defined standards and will reveal complexity and high professional requirements for effective analysis [2].

Deposit risk reflects the possibility of non-return of deposit contributions (non-repayment of deposit certificates). It occurs relatively rarely and is associated with an unsuccessful choice of a commercial bank for deposit operations. This type of risk occurs not only in Ukraine, but also in other developed countries. This was especially noticeable during the period of development of European countries, where commercial banking systems began to collapse due to crises, shady schemes, market oversaturation and high investment competition. There are also other risks that have low positions in terms of probability of occurrence or weight of losses. These are the so-called "force majeure" risks, emission risks, risks related to settlement and cash operations, tax, legislative, criminogenic, etc. Among them are the following: tax risk is a type of financial risk that determines the possibility of losses due to the introduction of new or an increase in the rate of existing taxes and fees. It is also related to the possibility of changing the terms and conditions of individual tax payments, the possibility of canceling current tax benefits in the field of economic activity; the risk of legislative changes is a general economic risk associated with changes in the legislative and regulatory framework governing securities registration rules, relations on the stock market. This risk can lead, for example, to the need to re-register issues, generates significant costs for issuers and investors. The issue of securities risks being invalid, the legal status of intermediaries conducting transactions with securities, etc., may change unfavorably; political, social, economic and other similar risks – risks of loss of funds invested in securities under the jurisdiction of countries with a shaky social and economic situation, or with unfriendly relations with the country of which the investor is a resident. In particular, political risk is the risk of financial losses due to a change in the political system, the placement of political forces in society, political instability; operational risk – the risk of losses arising at the time of securities purchase and sale operations, for example, due to unexpected forced delays in their implementation. They may arise in connection with problems in the operation of computer systems for processing and transmitting information related to securities, violations in the technology of operations on securities, computer fraud, etc.; settlement risk – the risk of losses on transactions with securities, associated with deficiencies and violations of technologies in the payment and clearing system [3].

Different methods of implementation are needed to level the risks. Market risk insurance tools include diversification of investments, involvement of experienced managers in investment management, and hedging.

Non-market risk insurance involves the careful selection of company managers and their inclusion in the corporate insurance system in case of bankruptcy and default.

Thus, the financial decisions of households in the conditions of economic risks should be based on their step-by-step management. There are main stages of risk management:

– identification of all possible risks that may threaten the household;

– identification of the sources of risks and the main factors that can affect the change in the financial state of the household;

– determination of the maximum permissible risk limit;

– calculation of probable losses from the occurrence of risks;

– development of a system of anti-crisis measures (preventive, restrictive, compensatory);

– calculating the economic efficiency of various options of anti-crisis measures and making a decision on their implementation in the practical activities of the household.

One of the most common ways of influencing the degree of risk among domestic households is risk aversion, which is considered the most radical and simple way. However, by applying it, the household deprives itself of the possibility of obtaining profit associated with the riskiness of the activity.

Therefore, compliance with the policy of risk avoidance can be appropriate only in the case when the risks are significant and dangerous (that is, when the level of risk is much higher than the level of possible profitability of a particular operation) or when avoiding one type of risk does not entail the occurrence of others risks.

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