RISK TOOLS FOR IDENTIFICATION FOR EXPOSURE OF THE EXTERNAL ECONOMIC VARIABLES

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Abstract: Government decisions may result in the overall downturn in the country's excessive protectionism. Government uses the economic advantage of the domestic industry to foreign investors, thereby creating two groups with an interest in the project in the system. Protectionism has many reasons, one of which is to protect the country before the entry of foreign partners in key industries such reason protection of fiscal stability and an independent foreign policy. J. J. Kobrin defined political risk as sensitivity to a change of value of investments or monetary resources as the result of government interventions. From the standpoint of a multinational corporation, such an effect may have a positive or negative value. Political risk may be divided into risk caused by the macroeconomic and social policy of the government within its legitimate regulation functions in the areas of budget, taxation, investments, consumer protection and the like, and the risk brought about in illegitimate ways in relation to the existing political and governmental system (armed conflicts, overthrows and other insurrections). Political risk has a direct effect on business activity, it is not possible to "escape" it, it is possible only to correctly estimate and manage it.

Keywords: course of risk, global risk, risk area, risk of transfer, political risk

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1. INTRODUCTION

Based on the scientific approach used by the examination of the risks in the global sector – definition of risk as the possibility, that a certain event occure by any level of likelyhood, which differs from the expected state or progress, it is impossible to reduce the level of risk using simple probability, because it involves reducing actual value of the likelihood and the quantifiable level of the event. If we can define the result as a loss with maximum level of likelihood, we can not define the proceeding as a risk. If we can estimate the negative impact, which is not appreciable, we can not estimate the level of risk in this case. If from the possible outcomes, the feasible of the loss is the possibility, the outcome which is uncertain, but it is offset by income, and it is necessary to determine an estimate the level of risk determined by the model, which is usable in direct ingerention from changes in individual characteristics at the time. It can also be a mixture of foreseeable risks with a high probability of foreseeable risk less likely. If the value of the likelihood of an event reaches the interval between zero and one, its realization is possible but is uncertain (Gratt 1987). It is not therefore the implementation of the event, or measurability likelihood of execution event, but you only conditionality of its existence. The degree of risk is therefore possible to quantitatively recognize as the probability of an unfavorable outcome, which values have to be set in the range from zero to one. This probability can be defined by the appropriate statistical probability using distribution function. This is the result that differ the situations that were by the entity assumed. When adverse event happen and the result which the entity expects is always positive, since only takes into account the desired result. The prerequisite is then determined unfavorable outcome, the implementation of the entity does not, or hopes that adverse event is full. It is the difference between expectations and anticipated future result may turn to the possibility of loss. The basic assumption of the risk management is risk analysis and evaluation. Filling threats and potential consequences of a real likelihood of risk in terms of threats to their implementation, vulnerability and measures implemented. These may be different from the preference and priority.

2. RISK FACTOR ANALYSIS

Global economic progress, determinant of increasing degree of competitiveness and insecurity as the major tendency, forced the states and companies facing the true nature of financial risks. The risk is defined by two base elements, in which may be identified. First, an estimation of the amount of the loss, which will be addressed by the entity (exposure) and the second - degree of certainty - defined by value of the likelihood that the loss occurs (Knight 1921).

Defining the technique of risk measure - ways to measure risk, we obtain a direct application to the risk metric - a method to measure risk. The determination of definition of risk, it is necessary to provide the definition on the application of risk exposure - quantifying exposure, risk uncertainty - interpretation of quantified uncertainty and combinations for quantifying risk exposure and risk assessment of uncertainty on all aspects of the nebulizations financial risk. Economist Frank Knight (Knight 1921): "Uncertainty must be taken in a sense radically distinct from the familiar notion of risk, from which it has never been properly separated .... The essential fact is that 'risk' means in some cases a quantity susceptible of measurement, while at other times it is something distinctly not of this character; and there are far-reaching and crucial differences in the bearings of the phenomena Depending on which of the two is really present and operating .... It will appear that a measurable uncertainty, or 'risk' proper, as we

shall use the term, is so far different from an unmeasurable one that it is not in effect an uncertainty at all.

$$\{P = \{1\}, Q = \{1\}, U, V, M(u,v) \in \text{Re}\} \qquad (1)$$

P={1} – one rational participant
Q={1} – one indifferent participant
U – the set of admissible decisions that can reach a rational participant
V – the set of states of natures that can reach a rational party
M(u,v) ∈ Re – scalar function defined on U x V

If the participants reach the value of indifferent state of nature at random selection by arbitrary probability of distribution function defined on the set of states of the nature, we can define decision making under risk, if the distribution of probability is not known, we can postulate about decision making under uncertainty. Random outcome u∈U of decision-making situations (u,v) can not be determined using function M(u,v) are determined ex ante effect of the individual decision.

3. RANGE OF RISK

Model defined by Eugene Fama (1970) - the University of Chicago exclude any risk. His definition of the "efficient market hypothesis" excludes any deviation from the prescribed range, as a separate element, as part of the market, cannot overcome market by their behaviour. However, if any market possibility has already existed, anybody could use it, thus this uncertainty has disappeared. His hypothesis explains using the example that he rejects picked up twenty dollar bank note from the ground, because there cannot be any. If there even was any, someone would have picked up before him certainly. Such approach was also used for the risk of overvaluation or undervaluation of the market. If such risks arose, someone have already taken advantage of it, therefore the market can locate and eliminate risk alone, so there is not any. The market is considered efficient and therefore the stock market replicates the impact of all information. Therefore, according to him, overvalued or undervalued stocks does not exist, there are only stocks, which price depend on real information and its value is therefore real and quantifiable follows the trends in macroeconomic variables. Chapman and Ward (1997) exclude situations in which the risk was not included. If there is a project with minimum or zero risk, "it is no worth powder and shot". Organisations that understand the character of these risks and can manage them effectively, can avoid unforeseen disasters, but also can work with smaller deviations and lower coincidences, may release resources for continued efforts and may take the advantage of beneficial investment opportunity that might otherwise be dismissed as too risky. Risk and uncertainty differentiate Bussey (1978) as the decision that is conditional of risk. If the decision maker knows the full time series of possible outcomes and when he can assign to each known outcome probabilities, he can apply decisions based on definite values. In practice, however, this theory is difficult to apply. Bussey therefore defines uncertainty as phenomenon that exists when there is activity in the course of more than one possible result. A possible outcome is determined also by its probability, which is unknown. Thus, the decision maker can apply the argument in deciding between the results, but cannot assign their current probability values. Rowe (1977) defines risk as "the possibility of unwanted negative consequences of events or acts" as opposed to Gratt (1987) that has defined risk as "estimate of uncertainty based on the expected outcome conditional probability of an event occurring multiplied by the consequences of the event that occurred." Thus, he explained that if the risk is quantifiable and subsequently in the context of an undesirable phenomenon, such as a disaster - natural disaster, in which two thousand inhabitants live, to estimate the expected result by means of the likelihood of the occurrence - one of thousands died, or as the value of future result - two dead, can be used both.

4. GLOBAL RISK

Rating is an independent assessment whose goal is, on the basis of a complex analysis, to identify all the known risks of the evaluated subject as to how this subject is willing and able to play al its obligations on time and in the full amount. A great advantage is its ability to provide rapid, quality and transparent information on the results of the independent assessment. A disadvantage of rating is the process of the mathematical analysis, which is automatically, executed using the data from the subject's financial history and the setting of the evaluation indicators, while rating uses also external indicators in the assessment, and their development over time. John Moody is considered as the founder of the rating evaluation, and it was he, who established the system for evaluating American railway securities. He created a relatively simple system based on marks. With these marks he designated individual classes to which he ranked American securities according to quantitive indicators. By describing the risks of the railway company securities, Moody introduced a simple and useful aid. The rating became so popular that in 1909 Moody founded a rating agency for the designation of financial tools. Moody's Manual of Railroads and Corporation Securities was not his first publication. The very first work which he published was "Moody's Manual of Industrial and Miscellaneous Securities". This manual was full of statistical and economic data on mining companies, the amount of their extraction and of the financial transfers of local governments. In a few months it was sold out, and its fame started to spread. He accordingly decided on the publication, "The Truth about Trusts: A Description and Analysis of the American Trust Movement" in 1904. Despite his cleverness and great success, the 1907 crisis forced Moody to sell his companies, together with the rights to his first book. After two years however he again published "Moody's Analyses of Railroad Investments" in which he not only gave a huge mount of data, but he also decided, in addition to current information on the companies and their financial situation, to publish also the state of their property, and to include predictions on their values in the future.

From a time standpoint ratings can be divided into short-term (a period of up to one year) and long-term (a period of from 5-10 years), and according to the subject of the rating we divide ratings institutionally (issuer, country, bank sector subject, insurance sector subject, financial institutions or business entities) or according to the instrument which it is assessing (debt instruments – shares, securities, mortgage bonds, government securities,

communal securities). According to the criterion of publishing, a rating may be public (the results of the rating assessment are published) and non-public (the client does not agree with the publishing of the results of the rating assessment). For identification of the risks in global sector, of importance is the corporate rating or a rating granted to a macro-sphere subject or a micro-sphere subject which reflects their reliability and stability, and a rating of an issuer of securities, for which a public administration subject appears as their issuer – classification of the degree of ability to pay matured obligations connected to the specific type of security or other obligation. As a result of discovering the individual factors it is possible to establish the risk of effect on access to resources, the effectiveness of operations and also the effectiveness of the issue of the securities, the attitude of investors to the evaluated entity, savings on interest and the entry of third parties into the subject and its steps (public, business partners, higher bodies of state and public administration). Through an evaluation of access to resources is discovered mainly the possibilities of gaining resources through credits on the domestic and international markets. If the indicator is high, access is not limited; this is accordingly a prediction of high willingness and ability to cover obligations in the established terms. By assessing the effectiveness of the issue, with the allocation of a rating degree there is better placement on the market, which can result in a higher issue premium in sales. In its assessment, a rating takes into consideration both financial and non-financial indicators, as opposed to audits. In this way it evaluates as a complex the entire environment and external effects, and so its response capacity is more effective. For a lower degree of rating the subscribers can demand a higher risk supplement. This is a disadvantage for the issuer, but at the same time may attract less cautious clients who are widening their portfolio by connecting different contracts.

In the rating process, the name of the rating agency which performed the rating has great influence, since quantity and quality factors which may be viewed differently come into the assessment. The trustworthiness of the rating is therefore influenced by the perceptions of investors due to the agency's degree of independence, history and status on the market.

A rating evaluation arises from a scoring evaluation. In scoring, the evaluated indicators have only a quantity character. The financial standing of the evaluated subject therefore depend on the source of the data which the evaluated subject provides from its internal sources (previous economic results, the state of receivables, obligations), whereas predicted results are not assigned great weight. A disadvantage of rating is also the mathematical analysis, which is automatically executed after the setting of the evaluation indicators, while rating uses also external indicators in the assessment, and their development over time, so the differences which appeared in the application of methods and the behaviour of the assessed subject while ranking assesses the momentary situation. Therefore ranking is more useful for one-time deals or investment activities. A second support instrument for executing a rating is the audit. An audit is the process of obtaining provable information with the presence of auditor risk. [Alexy, 2014] By this definition there is in the process of

the audit itself defined the risk of an incorrect opinion of the auditor, expressed through the report, which is a significant error, or there is here a high degree of capacity to threaten the accuracy of the auditor's statement. The audit is concluded by the statement of the auditor which gives a report in the evaluation judgment on whether the results which are the subject of his evaluation are or are not in conformity with the results which were published or will be published. On the basis of such a viewpoint it is therefore not possible to evaluate the risk possibility since the assessment itself has compounded in it certain elements of a self-assessment.

The symbols of the results of the rating evaluation depend on the type and kind of assessment performed, in relation to the time segment for which the assessment is to be used.

Arising from the rules established in Directive of the European Parliament and Council 2006/48/ES from June 14, 2006 on starting and executing activities of credit institutions (Directive on Credit Institutions) and in Directive of the European Parliament and Council 2006/49/ES from June 14, 2006 on the Capital Adequacy of Investment Companies and Credit Institutions (Directive on Capital Adequacy), which were projected into the Slovak Legal Code in Act no. 483/2001 Z. z. on Banks and on Amendments and Completions of certain acts, in the wording of later regulations, and in Act no. 566/2001 Z. z. on Securities and Investment Services, and on Amendments and Completions of certain acts, in the wording of later regulations, banks and security dealers are allowed to use ratings of recognized rating agencies and agencies for the support of export, for the purposes of the calculation of risk exposure by the standardized approach for credit risk. In National Bank of Slovakia Measure no. 4/2007 on Own Resources for Financing of Banks and Requirements of Own Resources for Financing of Security Dealers are stated details on classification or determination of risk exposure pursuant to § 32 No. 3 of the Act on Banks, the rules for the use of ratings by recognized rating agencies, and the terms of the requirements for recognition, requirements for organization and administration, and details on other requirements for an agency. The purpose of this directive is to set the process for the recognition of rating agencies for the performance of the above-stated activities on the territory of the Slovak Republic.

5. COURSE OF RISK

It is mainly public acceptance, health and human protection, environmental protection, acceptance by other administrations, implementation options, reduction of toxicity volume and negative effects on the private sector. Therefore it is necessary to establish the primary and secondary components of risk in deciding. Outputs useful in deciding on risk can be achieved only using proper assessment process on them. The total and target risk will be defined only using the correct interpretation of the risks and uncertainties in the process, will then take into account in their assessment of all the circumstances. Outcomes of subsequent identification process allow enough factors on deciding on the evaluation process and the process of elimination to gain. Outcomes of the risk assessment must be accurate and must provide information about each phase

of identifying risks so they can be used as part of risk assessment. The overall structure of the process defines the formulation versions clearly, while eliminating risks. In the process of risk management is essential to follow the public participation and the perception of the risk. Risk management is necessary to inform the public, and its view of the action. Determination of measures must be consistent with the public perception of risk assessment taken, in order to ensure it support the estimate structure for the management and measures taken to minimize the risk to an acceptable level.

According to Smith's (Smith 1995) risk management, the process includes:

1. to identify risks or uncertainties,
2. the analysis of the consequences,
3. the response for risk minimization,
4. the allocation of appropriate contingency.

Risk management must be continuous with the identification, analysis, notification of risk in a single unit – "risk loop". Despite constant requirements for risk management, there is no uniform standard that could be applied on eliminating proceeding and approaches. Stages of risk management as a systematic process defined Merna (Merna 1996) as a sequence of steps of identification, analysis and risk response. Chapman and Ward (Chapman 1997) extended risk process into eight stages, each of which is defined by the object and purpose. The process is divided into the following phases:

1. the definition of any relevant factors and gaps in the implementation process,
2. allocation - the result should be trappable and verifiable aspects of risk,
3. identification of risk - and the possibility of monitoring the proactive and retroactive conditions associated with risk responses,
4. the structure - which is designed to show the hierarchy of risks and subsequently tested using simple assumptions as to its accuracy
5. ownership - Allocation of risk and subsequent determination of the responsible entity for its management,
6. estimation of risk exposure,
7. evaluation - Synthesis assumptions and results of the test probabilities,
8. the term plan of activities undertaken to implement the previous steps.

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