



FINANCIAL POLICY

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ABSTRACT

Financing Policy refers to the decisions, choices, or regulations related to the financial system of the organization like payment system, borrowing system, lending system, etc. The policies are framed to introduce financial stability, promote market efficiency and enhance the firm's value for its stakeholders.

Keywords: Policy ensures, Monetary policy, Stability, Economy, Capital.

In the world, the term «policy» nearly always used as solving problems and issues, certain actions related to achievement of goals. Since ancient times «policy» was considered from different sides: social, political, economic, psychological and so on. There is not a single work of great thinkers with the description of the structure, forms and methods of the various policies. Policy-making — identification of desired conditions for the existence and activities of the organization. In addition, the financial policy of the organization is considered as one of the maintenance factors of entity's effective development.

Financial policy is a very complex notion covering measures aimed at working out basic concepts, major guidelines, goals and objectives, as well as at creating an adequate financial mechanism and at directing financial activities of a country. Financial policy is based on strategic guidelines which set long-term and medium-term prospects for using financial resources and ensure attainment of major economic targets and solution of goals in the social sphere. At the same time a country pursuing its financial policy sets current goals and objectives connected with mobilization and effective utilization of resources and development of productive forces.

Over the past two decades financial problems have exacerbated the world over. Public debts have reached unsustainable levels in a growing number of industrial countries. This development and its results – higher interest rates, lower investment, and slower growth in living standards – have stimulated efforts by policymakers to find solutions to swollen budget deficits.

Central to these solutions is fiscal policy. Fiscal policy is the policy adopted by a government for raising revenue to meet expenditure. For countries that now face unsustainable fiscal deficits, financial stabilization represents a top priority.





A well-made financing policy is important for the organization's growth in the long run. A business can show good growth and expand its profitability if the financial aspects are maintained in a transparent manner. Good governance on financial performance and financial policy ensures higher returns on the capital invested. Every organization frames its financing policy depending on its functionality, requirements, suitability, and environment in which it is functioning.

The cost of financing for the long term is always higher than the short term. However, the risk in short-term financing is always greater. The financing policy of the organization determines the type of borrowing that a business should opt for.

Hedging policy involves offsetting the finance for an asset with a liability that matures on the asset's expected life. For example, a business wants to purchase machinery having an expected life of 20 years. It can do so by financing the asset with a 20-year loan. This way, the asset and liability both will mature in the same period. The purpose of the hedging policy is to match the assets and liabilities during the relinquishing period.

An organization's attempt to match the assets with the liabilities is not always possible. In such situations, the business uses a conservative financing policy. In this policy, the firm uses more long-term sources of finance and less short-term finance to purchase its asset. The business acquires permanent and current assets using long-term sources of finances. Only a part of short-term finance is used to finance its temporary current assets.

Financial policy is based on a few basic tenets:

- The principle of self-sufficiency and self-financing (recoupment of funds of the organization, production costs and costs of goods sold);
- The principle of self-government and economic independence (independent determination of the prospects and directions of the enterprise's activity);
- The principle of liability;
- The principle of interest (interest in performance results);
- The principle of control (monitoring of financial and economic activities of the organization);
- The principle of financial reserves generation (continuity of business).

Formation of the financial mechanism is the integral part of financial policy. Financial mechanism of the enterprise is a financial management system intended to interaction of financial relations and funds to optimize their impact on the production outcomes. The structure of the financial mechanism consists of six interacting components: financial relations, financial instruments and levers, legal coverage, regulatory and information provision. Financial mechanism of the enterprises should





promote the full and effective implementation of finance functions. A key indicator of the company's financial position is the availability of funds with reference to which the entity on time settles accounts with suppliers, the budget, the banks, creates the required funds and satisfies other requirements. This reflects the financial control of the enterprise.

The main ways to strengthen the finances are associated with the optimization of their use of cash and the elimination of the deficit. The most important directions of improving financial performance in entities:

- System-based and continuous financial analysis of their activities;
- Control of working capital to optimize financial status; the entity's cost optimization based on dividing them into variable and fixed, the analysis of the interaction “costs – revenue – profit”;
- Optimization of profit distribution and the choice of the most effective dividend policy;
- The adoption of commercial credit and circulation of bills in order to optimize the sources of funds and impact on the banking system;
- The use of leasing activities;
- Development and implementation of the company's strategic financial policy.

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