

Why do Latin American firms manage currency risks?

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***Abstract:** This paper investigates the determinants of currency risk management in non-financial firms in Argentina, Brazil, Chile and Mexico. We study not only the decision of using derivatives, but also the magnitude of derivatives holdings and the importance of operational hedge in firms' risk-management strategies. We find that currency exposure is the most managed with derivatives and that firms use derivatives mainly to hedge foreign debt. We also find that economies of scale, financial distress costs, informational asymmetry and growth opportunities are important for risk-management decisions, and that firms do not hedge because of potential tax benefits.*

Keywords: risk management; derivatives; foreign exchange, Latin America.

JEL classification: F-31, G-15, G-31, G-32.

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