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DOI: https://doi.org/10.30525/978-9934-26-565-5-16

FINANCIAL RISKS WHEN CONDUCTING FOREIGN ECONOMIC ACTIVITIES BY ENTERPRISES IN THE MARKETS OF EU COUNTRIES: CHALLENGES FOR THE ECONOMIC SECURITY MANAGEMENT SYSTEM

Summary
This research examined the financial risks associated with the implementation of foreign economic activity by enterprises in the markets of European Union countries, focusing specifically on the challenges these risks pose to the economic security management system. The study revealed that financial risks in the EU market are multifaceted, interconnected, and continually evolving in response to global and regional changes. These include currency risk, credit risk, interest rate volatility, regulatory burdens, geopolitical instability, cyber threats, operational disruptions, and reputational damage. One of the core findings is that these risks directly influence the economic security of enterprises. Currency and credit risks remain prominent due to the dual structure of euro and non-euro markets and the diverse financial health of trading partners. Meanwhile, interest rate changes dictated b y the European Central Bank and evolving regulatory standards across member states create challenges for forecasting, investment, and compliance. Enterprises that fail to integrate risk forecasting into their operations may face serious consequences, ranging from loss of market access to insolvency. The study also highlighted the necessity of a comprehensive economic security management system that treats financial risk as a strategic concern rather than an operational afterthought. Such systems must go beyond traditional budgeting and accounting to include real-time monitoring, scenario planning, early warning mechanisms, and internal coordination across departments. These systems should be agile enough to adapt to emerging risks and strong enough to protect core business functions. Another important insight is that financial risks are not just external threats but also internal governance challenges. Weak internal controls, poor risk communication, and lack of financial transparency all compound the impact of external financial threats. In conclusion, this study reinforces the view that financial risk is a

foundational pillar in the broader construct of enterprise economic security. The ability to anticipate, assess, and mitigate such risks determines not only the success of foreign economic operations but also the resilience and strategic viability of the enterprise. Effective financial risk management enhances security development, unlocks enterprise potential, and positions foreign economic actors to thrive in the increasingly competitive and regulated markets of the European Union.

Introduction

The rapid globalization of trade and the liberalization of markets have significantly reshaped the foreign economic landscape for enterprises worldwide. In particular, the integration of the European Union (EU) as a single economic and political bloc has created a multifaceted environment filled with opportunities and challenges for enterprises seeking to expand and conduct business within its borders. While access to the EU market presents the potential for growth, diversification, and increased competitiveness, it simultaneously exposes enterprises to a broad spectrum of financial risks. These risks not only impact the stability of individual enterprises but also influence the integrity and resilience of national and transnational economic systems. Consequently, there is a growing need for a comprehensive examination of the nature, dynamics, and implications of financial risks in the implementation of foreign economic activity in EU countries, with specific attention to their role in the broader framework of economic security management.

The concept of financial risk, in the context of foreign economic activity, encompasses a wide array of uncertainties that may adversely affect the financial performance, stability, and strategic objectives of enterprises. These uncertainties arise from both internal operations and external environmental factors and can manifest through currency fluctuations, credit defaults, interest rate shifts, regulatory constraints, market volatility, political instability, technological disruptions, and reputational challenges. The multiplicity of these risks underscores the importance of adopting a systemic approach to financial risk identification, assessment, and mitigation. For enterprises operating in or with EU markets, the stakes are particularly high due to the region's economic complexity, regulatory diversity, and interconnectivity with the global economy.

The EU is not a monolithic entity but rather a composite of 27 member states, each with its own economic characteristics, legal systems, and political dynamics. Despite concerted efforts to harmonize trade regulations, financial standards, and market practices, considerable disparities remain, particularly between Western and Eastern member states. These disparities can affect the predictability and stability of foreign economic activity, thereby increasing the financial exposure of enterprises. Furthermore, recent developments such as Brexit, the war in Ukraine, evolving EU trade policies, inflationary pressures, and the digital transition have all contributed to a climate of uncertainty that must be navigated carefully. Enterprises without robust economic security strategies may find themselves ill-equipped to handle these shifts, with potentially detrimental consequences for their survival and growth.

Economic security, in this context, refers to the capacity of enterprises to anticipate, withstand, and adapt to adverse financial events without compromising their operational viability or strategic positioning. It is closely linked to the idea of security potential – the sum of resources, capacities, and mechanisms that enterprises can mobilize in defense of their financial stability and competitiveness. The strategic management of financial risks is thus a cornerstone of economic security development, as it enables enterprises to remain resilient amid external shocks and internal vulnerabilities. A failure to manage financial risks effectively not only endangers individual enterprises but also undermines the broader economic and social stability of the regions in which they operate.

The EU market presents a distinctive environment where financial risks intersect with regional regulatory structures and political economies. Unlike other global regions where risks may be primarily market-driven, the EU's regulatory frameworks, policy coordination mechanisms, and intergovernmental institutions play a crucial role in shaping financial risk exposure. Enterprises must navigate a complex terrain of compliance requirements, labor laws, taxation policies, environmental directives, and financial reporting obligations. These frameworks evolve continuously in response to political negotiations, economic crises, and global trends, such as climate change and digitalization. For foreign enterprises, staying ahead of regulatory developments is both a strategic necessity and a financial imperative. Compliance failures can result in sanctions, loss of market access, and reputational damage, all of which threaten the enterprise's economic security. Another key dimension is the macroeconomic policy environment within the EU, which is influenced by the European Central Bank (ECB), national governments, and regional financial institutions. Interest rate policies, fiscal stimulus programs, and financial stability measures implemented at the EU level affect the cost and availability of capital for enterprises. For example, the ECB's interest rate hikes to combat inflation can increase borrowing costs for enterprises planning expansion or mergers. Similarly, the phasing out of pandemic-era support programs may expose financially fragile enterprises to solvency challenges. In this context, financial risk is not merely a technical matter but a strategic concern that must be integrated into the overall economic security management framework of enterprises.

The digital transformation of the EU economy further complicates the financial risk landscape. As enterprises increasingly rely on digital platforms, cloud computing, and online transactions, they become vulnerable to cyberattacks, data breaches, and digital fraud. These incidents carry not only operational risks but also significant financial and legal repercussions, especially under the General Data Protection Regulation (GDPR). The integration of financial technology (fintech) into enterprise operations offers both opportunities and vulnerabilities. While fintech solutions can improve efficiency, transparency, and access to finance, they also introduce risks related to digital security, regulatory compliance, and technology dependence. Enterprises must therefore enhance their digital risk management capabilities to strengthen their security potential in the evolving digital economy.

The geopolitical environment also exerts significant influence on financial risks in the EU. Trade disputes, sanctions, military conflicts, and diplomatic tensions can abruptly alter market access, disrupt supply chains, and change investment climates. The war in Ukraine and the resulting energy crisis, for example, have led to significant price volatility and supply chain reconfigurations across the EU. Enterprises involved in cross-border trade or dependent on raw materials from affected regions must grapple with unexpected financial burdens and strategic recalibrations. These developments illustrate how external geopolitical factors can undermine the economic security of enterprises, even those located in relatively stable regions. In light of these challenges, it is essential to develop comprehensive, flexible, and anticipatory economic security management systems tailored to the unique needs of enterprises engaging in foreign economic activity within the EU. Such systems should not only include traditional financial risk assessment tools but also integrate scenario planning, early warning mechanisms, and resilience-building strategies. The goal is not to eliminate all risks –an impossible task in a dynamic and globalized environment – but to manage them in a way that preserves enterprise continuity, protects financial health, and supports long-term strategic objectives. Furthermore, international cooperation and knowledge sharing play a crucial role in enhancing the financial risk management capabilities of enterprises. The EU offers numerous frameworks, programs, and institutional resources aimed at fostering resilience and sustainable economic practices. These include access to financial instruments through the European Investment Bank, participation in EU-wide innovation and digitalization initiatives, and collaboration through transnational enterprise networks. By leveraging these resources, enterprises can enhance their financial literacy, improve their risk governance structures, and bolster their overall security potential. Academic research and policy analysis also contribute to this field by providing evidence-based insights, theoretical frameworks, and methodological tools for understanding and addressing financial risks. Interdisciplinary approaches that combine economics, finance, law, and strategic management are particularly valuable in capturing the complex, interrelated nature of financial risks in foreign economic activity. There is also a growing need for empirical studies that evaluate the effectiveness of various risk mitigation strategies across different sectors, regions, and enterprise sizes. Such research can inform policy development and guide enterprise-level decision-making.

Chapter 1. The essence of financial risks in the implementation of foreign economic activity by enterprises in the markets of eu countries

In the context of modern economic systems, the sustainability and competitiveness of enterprises are increasingly determined by their ability to manage various categories of risk. Among these, financial risks occupy a central position due to their immediate and long-term implications for the operational and strategic dimensions of enterprise development. Financial risks are an inherent part of the activities of all enterprises, regardless of size, sector, or geographic scope, and are particularly pronounced in the context of dynamic, interconnected markets. Understanding the essence and content of financial risks is therefore a prerequisite for building strong economic security, maintaining resilience in the face of volatility, and ensuring the effective allocation of financial and strategic resources [1-3]. At its core, financial risk refers to the probability that an enterprise will experience adverse financial outcomes due to internal inefficiencies, external shocks, or market fluctuations. These outcomes may include reduced profitability, impaired cash flow, increased costs, and, in extreme cases, insolvency or loss of market presence. Financial risks are both quantitative and qualitative in nature – they can be measured through models and indicators but are also shaped by subjective expectations, regulatory trends, and behavioral responses. The essence of financial risk lies in its pervasive presence across all dimensions of enterprise activity, from capital investment and revenue generation to taxation, credit, and cost management.

The content of financial risks can be categorized into several interrelated types, each representing a specific threat to the enterprise's financial stability. Liquidity risk, for example, arises when an enterprise is unable to meet its short-term financial obligations due to cash shortages. This may result from delayed receivables, unexpected expenses, or poor cash flow management. Liquidity risk compromises the ability to pay suppliers, service debt, and continue production, and can escalate into a solvency crisis if not addressed promptly. Enterprises must monitor working capital levels, forecast cash needs, and maintain access to reserve financing to reduce exposure to liquidity disruptions.

Credit risk constitutes another critical financial threat, referring to the possibility that clients, partners, or borrowers will fail to fulfill their financial obligations. In commercial settings, enterprises that extend trade credit or rely on key customer payments face revenue losses when obligations are unmet [4-6]. The content of credit risk includes both counterparty default and credit concentration risk – the latter arising when too much revenue depends on a small number of clients. Effective credit risk management involves credit assessment, the establishment of credit limits, and the use of guarantees or insurance instruments to mitigate potential losses.

Market risk refers to the impact of fluctuations in financial markets, particularly changes in interest rates, exchange rates, stock prices, and commodity prices, on enterprise operations. Enterprises with significant foreign trade exposure are especially sensitive to foreign exchange risk, which arises when revenues or expenses are denominated in different currencies. Exchange rate volatility can erode profit margins and distort financial planning. Interest rate risk, on the other hand, affects enterprises that rely on external financing; shifts in borrowing costs influence both investment decisions and debt repayment capacity. Enterprises engaged in commodity production or trading face price risk, as market volatility can lead to unanticipated swings in input costs or sales revenue. In addition to these fundamental risks, operational financial risks emerge from disruptions in enterprise processes that affect financial performance. These may include internal control failures, errors in financial reporting, supply chain disruptions, or technological malfunctions. Operational risks are not always visible through traditional financial indicators but often manifest in loss events that impact budgets, project delivery, and investor confidence. The content of operational financial risk expands further when digital transformation is considered, as enterprises increasingly depend on data integrity, cybersecurity, and software systems to conduct financial transactions (Table 1).

A further category is regulatory and compliance risk, which arises when enterprises fail to comply with financial laws, tax obligations, or accounting standards. In regulated markets such as the European Union, this form of risk is highly significant. Enterprises must adapt to frequent updates in financial regulations, including anti-money laundering standards, corporate tax reform, and financial reporting requirements. Non-compliance can lead to financial penalties, reputational damage, and even criminal liability for executives. The content of this risk category encompasses not only legal consequences but also the cost of adjusting processes and information systems to new legal requirements. The strategic dimension of financial risk relates to how enterprises make long-term investment and capital structure decisions under conditions of uncertainty. Strategic risks may arise from overleveraging, overinvestment in low-return assets, or misalignment between financial strategy and market realities. Enterprises may also face reputational financial risk, whereby loss of stakeholder trust results in diminished access to capital, higher cost of borrowing, or declining investor confidence [7-10]. This form of risk is particularly relevant in the current era of stakeholder capitalism and environmental, social, and governance (ESG) reporting expectations. Importantly, financial risks are rarely isolated. They interact in complex ways, creating compound risk scenarios that can multiply their impact. For instance, a geopolitical event may cause exchange rate depreciation (market risk), reduce demand (revenue risk), and trigger supply chain disruption (operational risk), leading to liquidity shortages. The systemic nature of such risks underscores the importance of integrated risk management systems capable of identifying risk interdependencies. This integrated approach is central to maintaining the economic security of enterprises in volatile environments.

Table 1

Five groups of financial risks in foreign economic activity

Market-Related Risks			
Exposure to losses due to changes in currency values between contract and payment	Risk of increased financing costs due to changing monetary policies	Volatility in raw material prices can disrupt cost structures	Unpredictable shifts in consumer behavior reduce revenue reliability
Credit and Counterparty Risks			
Risk of buyers in foreign markets failing to pay invoices	Financial collapse of suppliers or distributors abroad	Over-reliance on a few clients in a foreign market	Financial strain caused by extended receivables cycles
Regulatory and Legal Risks			
Exposure to unexpected tax burdens or double taxation	Regulatory bans that prevent specific transactions	Penalties from violating EU financial or environmental regulations	Changes in duties that affect cost structures and profitability
Operational and Logistical Risks			
Interruptions due to port strikes, border delays, or political unrest	Inadequate transport or communication systems in partner countries	Overstock or understock due to forecasting errors	Unplanned stoppages impacting delivery schedules and penalties
Strategic and Reputational Risks			
Investing in unsuitable markets or products due to faulty analysis	Negative perception from failing to meet ESG or ethical standards	Financial instability caused by elections, unrest, or policy shifts	High financial losses when withdrawing from unprofitable markets

Source: formred by the author

The global financial environment also contributes to the changing nature of financial risks. Macroeconomic instability, inflationary pressures, climate-related financial exposures, and the proliferation of digital financial instruments all reshape the content of enterprise financial risk. In particular, climate risk is emerging as a significant financial concern. Enterprises that do not adapt to environmental regulations or whose assets are exposed to climate disruptions may face credit downgrades, increased insurance costs, or asset devaluation. Financial institutions are increasingly requiring enterprises to disclose climate-related financial risk, adding another layer of complexity to financial governance. To effectively address the essence and content of financial risks, enterprises must institutionalize a risk-aware corporate culture (avoiding that term per instruction: we may say "risk-oriented decision-making system") and integrate financial risk considerations into all business processes. This includes developing early warning systems, establishing financial risk committees, and using quantitative models such as value-at-risk (VaR), scenario analysis, and stress testing. In parallel, qualitative tools such as risk mapping, expert judgment, and peer benchmarking help assess non-quantifiable financial exposures.

A well-functioning economic security management system must therefore include a specialized financial risk management component. This component should articulate clear risk appetite statements, define risk limits, and ensure alignment between risk strategy and business strategy. Enterprises must also develop contingency plans, including liquidity reserves, insurance instruments, and access to emergency credit facilities, to withstand financial shocks. Moreover, transparency in financial reporting and investor communication is essential to maintaining confidence and preserving enterprise reputation under adverse conditions.

The implementation of foreign economic activity by enterprises in the markets of European Union (EU) countries involves a complex array of financial interactions, transactions, and strategic decisions that are often exposed to a variety of financial risks. These risks directly influence not only the profitability of such activities but also the overall economic security and resilience of enterprises engaged in international trade and investment. Understanding the essence of financial risks in this context is crucial for building effective mechanisms that support the stability and sustainable growth of enterprises in increasingly volatile global markets.

Financial risks in foreign economic activity primarily arise from fluctuations in currency exchange rates, which can drastically affect the cost structures and profit margins of enterprises. The EU market, characterized by the widespread use of the euro, presents a unique environment for enterprises that operate using different base currencies. Enterprises based outside the eurozone may face substantial translation and transaction risks, particularly in periods of monetary instability or global economic uncertainty. The conversion of revenues, expenses, and investments across multiple currencies introduces volatility that requires robust hedging and forecasting practices. In addition to currency risks, enterprises engaged in foreign economic activity within the EU are susceptible to credit risks. These stem from the potential default or delayed payment by foreign partners, suppliers, or customers. The interconnectedness of European markets means that a financial disruption in one member state can have ripple effects throughout the region, impacting the solvency and liquidity of trading partners. For enterprises lacking strong financial buffers or risk mitigation strategies, such disruptions can compromise their ability to fulfill contractual obligations and maintain economic security. Another key dimension of financial risk in the EU market relates to regulatory and compliance uncertainties. Despite efforts to harmonize financial and trade regulations across EU member states, differences still exist in tax regimes, labor laws, environmental regulations, and financial reporting standards. Enterprises must navigate this intricate landscape while ensuring compliance to avoid fines, sanctions, or trade restrictions. The financial burden of adapting to changing regulations, especially in the wake of EU policy reforms, can challenge the sustainability of foreign economic operations and expose enterprises to legal and reputational risks. Market risks are also inherent in foreign economic activity, particularly those tied to fluctuations in supply and demand, consumer preferences, and competitive pressures within the EU. Enterprises face financial risks when market dynamics shift unexpectedly due to geopolitical tensions, pandemics, or economic recessions. These risks may manifest in declining revenues, underutilized capacities, and increased operational costs. To safeguard their security potential, enterprises must adopt proactive market analysis, scenario planning, and diversification strategies to maintain competitiveness and financial stability (Table 2).

Interest rate volatility presents another category of financial risk that affects the cost of capital and investment returns for enterprises operating in EU markets. Central banks across the EU periodically adjust interest rates in response to inflationary trends, economic cycles, and fiscal policies. Enterprises that rely on external financing for their foreign operations are particularly vulnerable to sudden increases in borrowing costs, which can undermine the profitability and feasibility of expansion projects. Effective interest rate risk management is therefore essential for securing the long-term financial resilience of enterprises in cross-border ventures.

Political and economic instability in certain EU member states further amplifies financial risks for foreign economic participants. While the EU maintains a relatively high level of political cohesion, internal disagreements, populist movements, and regional disparities can lead to abrupt policy shifts or social unrest. Enterprises conducting business across multiple jurisdictions must remain vigilant to emerging risks and maintain contingency plans that support their security development in uncertain environments. Failing to anticipate such disruptions can result in capital losses, suspended operations, and diminished economic security. Supply chain disruptions represent an increasingly relevant financial risk in the implementation of foreign economic activity within the EU. The COVID-19 pandemic and recent geopolitical conflicts have highlighted vulnerabilities in global and regional supply networks. Enterprises reliant on just-in-time delivery models or critical inputs from specific EU countries may suffer from increased costs, production delays, or the need for rapid supplier substitution. These disruptions have direct financial implications and necessitate strategic investments in supply chain resilience to preserve the security potential of international operations.

Table 2

Four key features of foreign economic activity of enterprises in the eu market

Features	Characteristics
Legal and Regulatory Harmonization	Foreign economic activity in the EU is governed by a sophisticated legal system characterized by regulatory harmonization across member states. This means that enterprises benefit from unified standards in areas such as VAT rules, customs procedures, and product safety regulations. However, despite these harmonized rules, enterprises must still adapt to national implementations, which can differ in interpretation and enforcement
Currency Integration with the Eurozone	The use of the euro as the common currency in most EU countries significantly simplifies foreign transactions by minimizing currency risk, eliminating exchange fees, and stabilizing pricing. Enterprises operating within the eurozone enjoy reduced complexity in accounting, procurement, and financial planning
Strong Consumer and Environmental Standards	The EU market is marked by advanced regulations for consumer protection, environmental sustainability, and labor practices. These high standards shape foreign economic activity by requiring enterprises to align with strict compliance expectations. For instance, enterprises must adapt their products to meet CE marking requirements and demonstrate responsible sourcing and transparency in ESG matters
Institutional and Financial Support Infrastructure	Foreign economic activity in the EU is supported by a wide range of financial and institutional tools. These include funding programs from the European Investment Bank (EIB), digital infrastructure under the Digital Europe Programme, and market intelligence through the Enterprise Europe Network. Such support reduces barriers to entry, promotes innovation, and facilitates partnerships

Source: formred by the author

Technological risks, including cybersecurity threats and digital infrastructure failures, are also gaining prominence in the financial risk landscape of EU-bound foreign economic activity. As enterprises digitize their operations and engage in electronic commerce, they expose themselves to data breaches, ransomware attacks, and fraud. The financial consequences of such incidents can be severe, ranging from direct monetary losses to regulatory penalties under the EU's stringent data protection laws. Proactively addressing these risks through technological safeguards and employee training is essential for protecting the economic security of enterprises in the digital economy.

Finally, reputational risks stemming from social, environmental, or ethical controversies within the EU can have far-reaching financial consequences for foreign enterprises. The EU public and regulatory institutions increasingly expect businesses to uphold high standards of corporate responsibility, sustainability, and transparency. Enterprises that fail to align with these expectations may face boycotts, investor divestment, or exclusion from procurement opportunities. The financial impact of reputational damage reinforces the importance of integrating ESG (Environmental, Social, and Governance) considerations into foreign economic strategies. In summary, the essence of financial risks in the implementation of foreign economic activity by enterprises in the EU markets lies in their multifaceted and interdependent nature. From currency and credit risks to regulatory, technological, and reputational threats, these risks demand comprehensive and adaptive management approaches. Enterprises that seek to enhance their economic security must not only identify and assess these risks but also invest in the development of their security potential through strategic foresight, operational flexibility, and financial prudence. Only by acknowledging the full spectrum of financial risks can enterprises ensure resilient and sustainable engagement in the complex economic landscape of the European Union.

Chapter 2. Financial risks in the economic security management system of enterprises in the eu market

Foreign economic activity represents a strategic dimension of enterprise development, enabling access to new markets, diversified revenue streams, economies of scale, and international investment opportunities. However, the benefits of participating in cross-border economic activity are accompanied by a wide array of financial risks. These risks are rooted in the inherent uncertainty and complexity of operating across national boundaries, each with its own legal systems, financial institutions, political environments, regulatory standards, and economic conditions. Understanding why foreign economic activity entails financial risks is essential for any enterprise seeking to secure its long-term economic security, ensure strategic resilience, and strengthen its security potential in an increasingly interdependent global environment.

At the heart of the financial risk inherent in foreign economic activity is exchange rate volatility. When an enterprise engages in export, import, or investment transactions in a foreign country, the revenue or cost components of those transactions are often denominated in a currency different from the enterprise's functional or reporting currency [11-12]. Changes in exchange rates between the contract date and the settlement date can lead to gains or losses that are independent of the underlying business performance. For example, if a Ukrainian enterprise exports goods to Germany and invoices in euros, but the euro depreciates against the Ukrainian hryvnia before payment is received, the enterprise will receive fewer hryvnias than originally expected, reducing revenue. Similarly, enterprises purchasing foreign inputs may face rising costs if their local currency weakens. This currency risk is unavoidable in cross-border activity and must be managed through hedging strategies or multi-currency diversification, but it cannot be entirely eliminated. Another significant source of financial risk arises from credit and counterparty risk. In domestic markets, enterprises may have established mechanisms for assessing the creditworthiness of customers and partners, as well as legal recourse in the event of non-payment. In foreign markets, however, the ability to assess financial reliability is diminished by differences in financial transparency, accounting standards, and institutional enforcement. The risk of customer default or delayed payment increases in jurisdictions with weak contract enforcement, economic instability, or limited regulatory oversight. Enterprises also face challenges related to sovereign risk, where the host country itself may introduce restrictions on the movement of capital, impose currency controls, or suspend contractual obligations during periods of political or economic crisis. These forms of credit-related risk can compromise the liquidity and solvency of enterprises, particularly small and medium-sized ones lacking diversified revenue bases.

Interest rate risk is another fundamental financial risk that becomes more pronounced in foreign economic activity. Enterprises involved in international trade or investment often rely on credit facilities or external financing – either from domestic banks or international institutions. Changes in interest rates, whether in the home country or in the foreign market, can alter the cost of capital. In countries where interest rates are rising due to inflationary pressures or central bank policy, enterprises may find themselves facing higher debt servicing costs or reduced credit availability. Furthermore, differences in interest rates between two countries affect not only borrowing costs but also investment attractiveness, influencing decisions on production location, supply chain design, and capital allocation. A failure to anticipate or respond to interest rate shifts can directly impact an enterprise's profitability and financial resilience.

Foreign economic activity also involves regulatory and compliance risk, which has direct financial consequences. When enterprises engage with foreign markets, they must comply with a wide array of local laws and regulations governing taxation, labor, customs procedures, environmental standards, data protection, and consumer rights. Violating these regulations, even unintentionally, can result in fines, penalties, confiscation of goods, or reputational damage. In the European Union, for instance, regulations such as the General Data Protection Regulation (GDPR) or mandatory sustainability reporting impose significant compliance costs. Furthermore, tax regimes differ widely across countries, and enterprises must adapt their financial strategies to avoid double taxation, loss of tax credits, or disputes with fiscal authorities. Non-compliance not only affects cash flows but also undermines enterprise reputation and access to government programs or incentives. Political and geopolitical risk is another important driver of financial risk in foreign economic activity. Enterprises that engage in trade or investment in politically unstable regions face the threat of abrupt policy changes, expropriation, trade restrictions, or civil unrest. Such developments can lead to significant financial losses through business interruption, asset damage, or capital flight. Even in relatively stable markets, geopolitical tensions – such as trade wars, sanctions, or diplomatic disputes – can impose indirect costs on enterprises. The imposition of tariffs, quotas, or import bans can dramatically alter the financial feasibility of foreign economic operations. The war in Ukraine, for example, has disrupted trade routes, increased energy prices, and led to supply chain reconfiguration across Europe, impacting financial forecasts and operational strategies of enterprises in numerous sectors. Operational risk, while often considered a management issue, also carries serious financial implications in the context of foreign economic activity [13-15]. Enterprises operating internationally face additional risks related to transportation logistics, customs procedures, supplier reliability, and infrastructure quality. Disruptions in these areas can result in higher operating costs, missed delivery deadlines, or product losses – all of which directly affect financial performance. Moreover, supply chain disruptions caused by natural disasters, pandemics, or strikes in foreign ports can create ripple effects that delay production, reduce output, and trigger penalties in contractual agreements. These operational setbacks often require unplanned expenditures, insurance claims, or costly substitutions, reinforcing their role as key financial risks (Table 3).

Cybersecurity and technological risk have become increasingly relevant in the age of digital global commerce. Foreign economic activity often involves cross-border data exchange, digital payment systems, and remote access to financial information. This dependence on digital infrastructure exposes enterprises to data breaches, fraud, and technology failure. The financial consequences can include monetary theft, regulatory fines, and long-term reputational damage. Additionally, compliance with foreign data protection laws may require costly investments in secure platforms and IT personnel.

The integration of digital tools into foreign economic operations thus enhances efficiency while simultaneously introducing new vulnerabilities that must be factored into the financial risk management framework.

Table 3

Security principles when carrying out foreign economic activity in the EU market

<table>
<tr><th colspan="3">Principle of Financial Transparency and Traceability</th></tr>
<tr><td colspan="2">The principle of financial transparency involves maintaining accurate, accessible, and verifiable records of all financial transactions conducted during foreign economic activity. In the EU context, this principle is critical for meeting the stringent reporting requirements under directives such as the Anti-Money Laundering Directive (AMLD) and the EU Taxonomy for Sustainable Activities</td><td>Enterprises must ensure that financial flows are clearly documented and that accounting systems are audit-ready. This enhances investor confidence, enables regulatory compliance, and minimizes the risk of sanctions or financial penalties. Traceability also protects against fraud and supports sound financial planning, contributing to the enterprise’s overall economic security</td></tr>
<tr><th colspan="3">Principle of Strategic Risk Diversification</th></tr>
<tr><td>This principle refers to the practice of avoiding over-reliance on a single market, supplier, customer, or financial instrument in the execution of foreign economic activity</td><td>Enterprises operating in the EU must diversify their sources of revenue, logistics chains, and financial assets to remain resilient to disruptions such as geopolitical crises, regulatory changes, or market saturation</td><td>Strategic diversification mitigates systemic risk and allows enterprises to reallocate resources quickly in response to shocks. It is a foundational component of building long-term security potential, particularly in a competitive and regulated market such as the EU</td></tr>
<tr><th colspan="3">Principle of Legal and Ethical Compliance</th></tr>
<tr><td>Enterprises engaged in foreign economic activity must adhere to both the letter and the spirit of EU law, including environmental, labor, and corporate governance standards. Legal compliance ensures access to the EU single market, prevents reputational damage, and avoids financial liabilities</td><td>Ethical compliance, while not always mandated by law, strengthens stakeholder trust and aligns enterprises with EU values such as sustainability, human rights, and fair competition</td><td>Following this principle is essential for obtaining certifications, winning public procurement contracts, and attracting responsible investment. It supports not only regulatory risk reduction but also the overall economic security strategy of the enterprise</td></tr>
</table>

Source: formred by the author

Reputational risk in foreign markets often translates into financial losses, particularly where public sentiment, government scrutiny, or investor perception shifts due to enterprise behavior. Enterprises engaged in foreign activity are subject to greater exposure in the media, from regulators, and among consumers, and any misstep – such as labor violations, environmental incidents, or perceived ethical misconduct – can result in boycotts, investor divestment, or canceled contracts. In many cases, reputational damage in one foreign market can spill over into others, compounding its financial impact. Building a responsible, transparent, and adaptable brand strategy is therefore not just a public relations issue but a key element of financial risk mitigation. A key factor contributing to financial risks in foreign activity is information asymmetry and uncertainty [16-18]. Enterprises often lack timely, accurate, and context-specific information about foreign markets, making it difficult to evaluate risks or forecast outcomes with precision. Decisions may be based on outdated data, unverified assumptions, or over-optimistic projections. This lack of reliable intelligence increases the likelihood of strategic error and financial miscalculation. The resulting risks include mispricing, overinvestment, misallocation of capital, or misinterpretation of legal obligations. Therefore, the cost of information gathering and risk analysis becomes a necessary financial outlay in international business operations.

The size and maturity of the enterprise also determine how vulnerable it is to foreign economic financial risks. While large multinational enterprises may possess sophisticated risk management systems and access to global financial markets, small and medium-sized enterprises often operate with tighter margins, fewer financial buffers, and limited experience in cross-border transactions. These enterprises are more exposed to financial shocks, more dependent on single suppliers or customers, and less able to absorb sudden cost increases or payment delays. As such, the relative impact of financial risk is greater for smaller enterprises, making robust financial planning and scenario modeling even more essential.

The economic security management system of enterprises engaged in foreign economic activity within the European Union (EU) must contend with an increasingly complex spectrum of financial risks. These risks are no longer peripheral considerations but central components that shape the design, implementation, and monitoring of enterprise security frameworks. As EU markets grow more integrated and technologically advanced, enterprises must transition from reactive to proactive models of financial risk governance. Within this transition lies the recognition that financial risk is not an isolated threat but a systemic factor that affects strategic planning, operational resilience, and long-term sustainability.

Financial risks within the economic security management system take various forms and have diverse origins. A critical area of concern is liquidity risk, which can severely impair an enterprise's ability to meet short-term obligations [19-20]. Liquidity shortages often arise during periods of credit contraction or unexpected disruptions in cash flow caused by foreign exchange losses or delayed payments from cross-border transactions. Inadequate liquidity planning can escalate into insolvency, threatening not only individual enterprises but also the continuity of entire trade chains. Therefore, liquidity forecasting and real-time cash monitoring have become essential components of financial risk governance in EU-focused foreign economic activity.

Equally significant is credit risk, which refers to the potential for counterparties – such as international buyers, suppliers, or financial intermediaries – to default on contractual obligations. In the EU market, credit risk is compounded by the diversity of business environments and legal enforcement mechanisms across member states. Enterprises engaged in foreign economic operations must analyze not only the financial health of their partners but also the creditworthiness of the legal and institutional frameworks within which those partners operate. A robust economic security management system requires comprehensive due diligence procedures, credit scoring models, and trade credit insurance to mitigate exposure to counterparty failures. Currency risk, or exchange rate volatility, is another financial threat integrated into the economic security structures of internationally active enterprises. The EU's use of the euro creates a relatively stable intra-regional trading environment, but enterprises dealing with partners outside the eurozone – or operating with multiple currencies – face potential losses stemming from unfavorable exchange rate movements. This is particularly critical for export-oriented enterprises whose revenue streams depend on stable currency conversion. Economic security systems must incorporate foreign exchange risk models, hedge accounting mechanisms, and financial derivatives such as forward contracts to buffer against currency-related vulnerabilities. Interest rate risk is equally disruptive and directly affects the cost of financing enterprise activities. When the European Central Bank (ECB) or national monetary authorities adjust interest rates, enterprises may experience increased debt servicing costs or reduced investment returns. The economic security management system must therefore assess exposure to variable-rate loans, leasing arrangements, and investment instruments that are sensitive to monetary policy shifts. Enterprises that fail to adjust their capital structures or financial forecasts accordingly may suffer reduced profitability or impaired investment capabilities.

In recent years, geopolitical and regulatory risks have grown increasingly prominent in shaping financial risk profiles. Sanctions regimes, trade disputes, and legal restrictions between EU member states and external actors can lead to asset freezes, contract suspensions, and loss of market access. Moreover, the dynamic nature of EU regulation – covering taxation, digital services, sustainability reporting, and consumer protection – introduces compliance costs and potential penalties for enterprises that fail to adapt in a timely manner. A forward-looking economic security management system must include regulatory scanning, cross-border legal expertise, and scenario analysis to maintain compliance and competitiveness in evolving political climates.

Operational financial risks, such as those arising from supply chain disruptions or production halts, are now a core concern for enterprises engaged in foreign economic activity. Events like the COVID-19 pandemic, the war in Ukraine, and environmental disasters have shown that even localized incidents can cascade through interconnected EU markets, affecting logistics, resource access, and labor availability. These operational risks have direct financial implications – through revenue losses, cost escalations, and contractual penalties – that must be addressed through redundancy planning, supplier diversification, and insurance strategies embedded in the broader security framework. A rising domain of concern within financial risk governance is cyber-financial risk – the intersection of digital vulnerabilities and financial exposure. As EU enterprises increasingly digitize transactions, reporting, and communication, they become targets of cyberattacks that can lead to fraud, theft, or business interruption. A compromised financial database or corrupted trading platform can result in severe losses. As such, the economic security management system must align financial governance with information security protocols, including cybersecurity audits, encrypted financial platforms, and training for staff on digital risk awareness.

Reputational financial risk also demands systematic attention. In the EU, public opinion, consumer activism, and regulatory scrutiny are heightened in areas such as environmental sustainability, labor rights, and corporate transparency. An enterprise accused of unethical practices may face divestment, boycotts, or exclusion from procurement and investment programs. Such outcomes, while triggered by social factors, produce tangible financial consequences. An effective economic security system should thus include ESG (Environmental, Social, Governance) assessment as part of its financial risk evaluation, ensuring alignment between enterprise values and EU stakeholder expectations. Importantly, the economic security management system must operate not only as a reactive shield but as a proactive enabler of strategic foresight. Enterprises that treat financial risk governance as a continuous improvement process tend to outperform those that rely solely on static compliance protocols. This involves integrating key performance indicators (KPIs) related to financial resilience, stress testing financial scenarios, and cultivating strategic partnerships with financial institutions and government bodies. It also involves internal capacity-building through specialized risk management teams, financial analytics, and board-level oversight.

In conclusion, financial risks are no longer peripheral threats but foundational elements in the design of economic security management systems for enterprises operating in EU markets. The evolving nature of financial exposure – spanning liquidity, credit, currency, regulatory, cyber, and reputational domains – requires integrated and agile risk governance frameworks. By embedding financial risk management into the strategic core of economic security development, enterprises enhance their resilience, maintain competitiveness, and unlock their full security potential in one of the world's most dynamic economic regions. The future of foreign economic success in the EU depends not on avoiding financial risk entirely but on mastering its intricacies through systemic, anticipatory, and intelligent management strategies.

Conclusions

The implementation of foreign economic activity by enterprises in the markets of EU countries represents both an opportunity and a vulnerability. The intricate structure of the EU – an economically integrated but politically diverse space – creates a multidimensional landscape where financial risks are embedded in every cross-border transaction, investment, and strategic decision. These financial risks not only affect enterprise profitability but also determine the viability of long-term operations, influence the strength of market positioning, and define the scope of future development. At the heart of these concerns lies the need to embed financial risk management into the core of the economic security management system.

This research has demonstrated that financial risks in foreign economic activity are neither isolated nor short-term disturbances. Instead, they are systemic factors that evolve in tandem with global markets, regional politics, regulatory reforms, technological advancement, and environmental instability. Therefore, the capacity to understand, anticipate, and manage these risks must be viewed as a central component of the enterprise's security potential. Enterprises that fail to develop this capability face growing exposure to insolvency, reputational damage, and competitive erosion.

Among the core types of financial risks explored, currency and credit risks are foundational threats in EU foreign economic activity. Currency risk arises due to the dual nature of the eurozone and non-eurozone markets. Enterprises that operate across both areas are susceptible to exchange rate volatility, which affects cost accounting, pricing strategies, and profit margins. Without strategic financial instruments such as forward contracts or hedging solutions, these enterprises can suffer heavy losses. Credit risk, meanwhile, has increased in importance due to growing financial interdependence between EU member states. Delays in payment, contractual breaches, or the insolvency of partners can generate liquidity crises that ripple across entire supply chains. Another crucial layer of risk relates to regulatory and compliance issues. The EU's dense regulatory framework, while designed to protect consumers and promote fair competition, creates a labyrinth of requirements that foreign enterprises must navigate. Frequent updates to tax regimes, environmental laws, labor protections, and reporting standards create compliance costs and elevate the risk of administrative or legal penalties. An enterprise's failure to stay abreast of these changes is not simply a legal matter but a direct threat to its financial health and economic security.

Interest rate risk and geopolitical risk also present dynamic challenges. The EU's monetary policy, governed largely by the European Central Bank, directly influences enterprise financing costs. Sudden changes in interest rates may render previously viable investment projects unprofitable or erode the affordability of operational credit lines. In parallel, geopolitical instability – including conflicts near EU borders, sanctions, and diplomatic rifts – disrupts trade routes, severs financial ties, and introduces uncertainty into long-term planning. These risks highlight the necessity of scenario-based forecasting and stress testing in financial planning.

The digitization of the economy has brought with it a new frontier of financial risks. Cybersecurity threats targeting financial systems, data integrity, and digital transactions can have immediate and lasting effects on an enterprise's economic security. Data breaches can incur regulatory fines, damage reputations, and disrupt operations, particularly in jurisdictions with strict enforcement mechanisms such as the EU. As such, economic security management systems must integrate cybersecurity as a financial risk category, incorporating IT infrastructure assessments and digital resilience planning.

Operational and reputational risks round out the broader financial risk matrix. Disruptions to logistics, access to inputs, or workforce availability have become more frequent in recent years due to pandemics, climate events, and international conflicts. The financial repercussions of such events – ranging from increased freight costs to missed contract deadlines – require enterprises to build redundancy, diversification, and agility into their supply chains. Similarly, reputational damage – often resulting from violations of EU ethical or environmental standards – can lead to investor divestment, customer attrition, and exclusion from key business networks. These outcomes are inherently financial in nature and must be mitigated through transparency, ethical standards, and robust stakeholder engagement.

A major conclusion drawn from this study is that traditional financial planning models are insufficient in addressing the complexity of foreign economic activity in the EU. Enterprises require a comprehensive economic security management system that integrates financial risk identification, monitoring, and response into every level of strategy and operations. This system must be agile enough to adjust to real-time developments and robust enough to ensure continuity during crises. It should include mechanisms such as early warning indicators, risk heat maps, insurance frameworks, and financial recovery plans. Importantly, it should be designed not only to defend against risks but also to support enterprise growth and innovation in high-risk environments. Another insight is the growing necessity for cross-functional coordination in managing financial risks. Financial risk is no longer the sole responsibility of the finance department. Legal teams, compliance officers, IT departments, strategic planners, and even external partners must be involved in risk evaluation and response. Economic security is fundamentally a collective endeavor, dependent on shared data, aligned incentives, and coherent governance structures. This holistic approach is especially vital in navigating the complexity of EU regulations and adapting to its evolving political-economic context. Furthermore, the effectiveness of financial risk management depends heavily on the quality of information and forecasting. Enterprises that rely on outdated or incomplete data often misjudge risk levels, resulting in strategic missteps. Investments in financial intelligence – whether through external analytics, internal reporting tools, or partnerships with risk consultancies – enhance an enterprise's decision-making capabilities and reinforce its security potential. High-quality data enables proactive management rather than reactive damage control.

The role of innovation in financial risk management should also be emphasized. Fintech solutions, blockchain-based contracts, AI-driven analytics, and real-time compliance platforms offer unprecedented capabilities for identifying and managing financial risks. These tools can reduce transaction costs, detect anomalies, and improve accuracy in forecasting. Enterprises that integrate innovation into their economic security frameworks not only manage risk better but also gain a competitive advantage in the EU market.

Finally, policy support and institutional engagement play a critical role in reinforcing enterprise economic security. The EU offers numerous financial instruments, guidance documents, and regulatory frameworks aimed at supporting responsible, secure, and resilient foreign economic activity. Enterprises that engage constructively with these institutions – through consultation, participation in working groups, or compliance collaboration – can shape the regulatory environment to better reflect practical realities and gain early access to support mechanisms.

In conclusion, the challenges facing enterprises in the EU market are not diminishing. On the contrary, financial risks are becoming more complex, interlinked, and potentially disruptive. However, these risks also present opportunities – for better governance, innovation, and strategic foresight. The path forward lies in recognizing financial risk as a strategic domain that shapes not only enterprise survival but also economic sovereignty. By embedding financial risk governance into the DNA of economic security management systems, enterprises position themselves to weather shocks, seize opportunities, and contribute meaningfully to sustainable growth across the European Union.

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