

## ANALYSIS OF THE CURRENT STATE OF THE DEVELOPMENT OF THE DERIVATIVES MARKET IN UKRAINE

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**Abstract.** In the contemporary world of global financial transformations and the expansion of risk management tools, the derivatives market is gaining progressively more significance in the financial system of Ukraine. In the last decades with distinguishing rapid changes and innovations the derivatives market has become an essential component of the effective functioning of the economy and of ensuring the stability of financial institutions' operations.

The derivatives market in Ukraine consists of financial instruments such as forwards, futures, options, and swaps. The market attracts a variety of subjects for participation, including commercial banks, investment funds, corporations, and other financial institutions. Individual and institutional investors also become active players, using derivative instruments to hedge risks and generate additional income. Derivatives provide market participants with the ability to effectively manage risks associated with fluctuations in asset prices and exchange rates. The growth in market capitalization and trading volumes suggests a certain level of investor confidence in the market. However, there are certain arising challenges that affect the functioning and development of the derivatives market.

The main factors that affect the derivatives market include the following:

1. Macroeconomic conditions and global trends. Macroeconomic factors such as changes in economic growth, inflation rates, discount policy rates, and global economic trends have a significant influence over the development of the derivatives market. For example, an increase in interest rates can

affect the value of financial assets and determine risk management strategies.

2. Technological innovations and digital technologies. The development of technological innovations, including blockchain technologies and artificial intelligence, can significantly revamp the landscape of the derivatives market. The implementation of digital technologies can improve liquidity, reduce transaction costs, and mitigate exchange risks.

3. Psychological factors and market participants' convictions. Market psychology, investor perspectives and their expectations can significantly influence market dynamics. Phenomena such as "irrational excesses" or significant shifts in market participants' attitudes can lead to unforeseen price fluctuations.

4. Geopolitical events and risks. Global geopolitical events, such as conflicts, trade wars, or economic sanctions, can be important determining factors in the derivatives market. Instability on the international stage can cause disruption among investors and lead to risky behavior in financial markets.

5. Market liquidity. The level of liquidity in the derivatives market is determined by the availability of financial instruments for buying and selling without significant price increase. Insufficient liquidity can lead to diminution of market participants' opportunities and increase in transaction costs.

6. Political and regulatory influence. Changes in politics and regulation can significantly impact the derivatives market. The introduction of new regulations, changes in the regulatory environment, or political

instability can cause price fluctuations and alter the strategies of market participants.

The last of the aforementioned factors currently has the most extensive impact on the development of the derivatives market in Ukraine, as the full-scale invasion in 2022 adversely affected derivatives trading. While new types of derivative financial instruments used for both risk hedging and speculation are emerging in the global market, the Ukrainian market has shown a tendency to contract in 2022 compared to 2021.

One of the crucial aspects of market development is the regulatory and supervisory system. The National Securities and Stock Market Commission of Ukraine plays a key role in ensuring fairness and transparency in the market by developing and implementing relevant legislation and standards. Domestic regulations have already embarked on the path of developing, adopting, and implementing legislative acts adapted to European and global standards. In particular, the year 2020 was marked by the adoption of the Law of Ukraine «On Capital Markets and Organized Commodity Markets». This law establishes a more transparent and systematic legislative framework for regulating issues

related to the execution of operations with derivative securities [2].

The founding of an appropriate regulatory framework, as well as the implementation of regulatory measures similar to those of countries with developed financial markets, serves as evidence of an effort to stimulate the development of the derivatives market in Ukraine.

In order for the derivatives market in Ukraine to function effectively, it is imperative to:

- improve the regulatory framework to clearly define operations with derivatives.
- establish educational centers that would focus on teaching Ukrainian citizens how to use derivative securities, as they act as a hedging tool that helps mitigate risks and generate profits.
- observe and learn from international experience regarding operations with derivative securities and their regulation.
- provide consultations to buyers on the potential uses of derivatives.

The improvements in the derivatives market will have a positive impact on the development of the domestic financial market, the financial system of Ukraine, and the national economy as a whole.

**Keywords:** development; derivatives market; risk management; financial instruments.

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