

SECTION 2

REFLECTION OF GLOBAL BUSINESS TRENDS IN THE ECONOMY OF THE REPUBLIC OF BELARUS

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THE ROLE OF DERIVATIVES IN THE BELARUSIAN ECONOMY

With the development of the global financial system and the transnationalisation of capital, the role of already traditional segments of the international financial market, such as the international money market and the international capital market, is becoming smaller in comparison to the international derivatives market. Derivatives are contracts about the future price of different types of underlying assets within a contract.

At the end of 2021, the gross market value of the derivatives market is estimated at almost USD 13 trillion, while the nominal value of outstanding derivatives is around USD 610 trillion. The main elements of this market are contracts such as forwards, futures, options and swaps [3]. Their distribution by underlying asset is as follows: interest rate derivatives (75%), commodity contracts (11%), foreign exchange derivatives (10%) and credit SWAPs (4%). Despite the fact that this segment of the financial sector is almost entirely represented by countries with developed financial systems (US-European Union-Japan), an assessment of the current state of this part of the financial market is important for determining the key directions of development.

Given the fact that the financial market in the Republic of Belarus is generally underdeveloped and that volatility in its foreign exchange segment is a problem, risk insurance in this area is mostly important when considering derivatives. The derivatives market in Belarus first appeared in 1994 in the form of currency futures.

A feature of forward contracts is their over-the-counter nature, which allows the price of the underlying asset to be fixed. Currently in the Belarusian market forward contracts can be represented only in 2 types: foreign exchange and commodity. The commodity forward is relevant for Belarus in terms of trade in agricultural products. Such a contract allows producers in our country to fix prices for commodities, especially in a volatile world market and a shortage of producers' funds. As for currency forwards, in our country you can fix the exchange rate of the Belarusian ruble against the Russian ruble, the US dollar and the euro. These contracts are used for exporters and importers that sell goods paid for in foreign currencies in order to fix the proceeds and increase profitability. Belarusian banks are involved in providing these services: Priorbank, Paritetbank, and Bank BelVEB. The problem with the development of this contract is the terms of provision from the Belarusian banks: the fee for the contract itself and the margin, and the term up to 6 months. In practice, forwards make sense if they are concluded regularly and for long enough periods, and the hedging of risks is done for the

enterprise rather than for the bank asking for the margin. In order to develop this line of business in Belarus, banks need to change their policy of entering into these transactions. A large number of these deals and economies of scale would allow banks to make money on these deals. However, this is not possible in a situation of severe devaluation, such as at the beginning of 2022. The total volume of forward transactions in Belarus is in the order of 100-300 million Belarusian rubles per month, falling in absolute numbers from 358 million in August of 2021 to 203 million in February 2022 [2]. In relation to exports, this amount is small, but in the long term the market volume could grow several times over.

A less common derivative in Belarus is the option. In general, it can be said that the option is not exactly an element of the financial market in Belarus and is not linked to underlying assets' prices as in other countries. The use of the option as a derivative is evident in the corporate direction. Under Decree 8, HTP companies can grant options to acquire an interest in a company. Virtually every HTP start-up and some international companies, such as EPAM, use options to attract employees. From April 2021, options can be used in all business entities in the Republic of Belarus. The difficulty in using this tool is that the stock market in the country is not sufficiently developed to evaluate companies and the securities options they offer.

In the near absence of a full-fledged financial market, futures contracts in Belarus would also only be possible for currencies or commodities. But this direction in the country is mainly represented by the aforementioned forwards. Since 2015, no transactions were carried out on the exchange in this direction, and the number of players during its operation decreased from 47 in 2005 to 28 by 2019, while the volume of transactions was about 0.001% [1]. The deals themselves were not systematic, but rather ad hoc. In other words, while this market is characterized by trillions of dollars in the world, it is extremely small in Belarus. For example, in Russia the volume of futures transactions to GDP was about 16%.

Looking at the derivatives market, we can say that it is as underdeveloped as the securities market. The main problems of the Belarusian derivatives market are the small number of participants, the terms of transactions and the lack of financial institutions. The market itself can be characterized as illiquid, unable to provide both the possibility to hedge risks and to speculate with these instruments. Ways to improve the derivatives market in Belarus include: establishing legal regulations, introducing the role of a central counterparty in the market and a liquidation netting instrument, and increasing transparency over transactions.

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