

ADVANTAGES OF USING EUROBONDS IN FINANCING PROJECTS IN UZBEKISTAN

Adilova G.J.

Acting Associate Professor, Department Of "Insurance And Pension", Tashkent Financial Institute, Uzbekistan

Shodiboeva D.F.

Master's Student, Department Of "Insurance And Pension", Tashkent Financial Institute, Uzbekistan

ABSTRACT

The article describes the concept of international bonds (Eurobonds), which are becoming increasingly important in the economies of countries, as well as the theoretical basis for their use in financing a number of projects in the country. It also provides information on international bonds issued and planned to be issued by financial institutions, banks and large enterprises in our country.

KEYWORDS:- International Bonds, Investment, Stock Market, Private Investors, Hedging, Joint Stock Company, Corporate Bonds, Investment Potential, Issue, International Rating Agency, Statistical Analysis.

INTRODUCTION

At a time of rapid development of global financial markets, investors are looking at the stock market as an area for the placement of accumulated funds. One of the most popular and large-scale segments of the stock market in developed and developing countries is the

Eurobonds market, which is represented by the primary and secondary markets, as well as the derivatives market. These types of securities allow private investors to save and increase cash in times of instability in global financial markets and low rates on bank deposits. At the same time, for issuers, Eurobonds are the most effective way to

attract investors and finance.

Today, Eurobonds are becoming a key issue in the securities market of our country. It is known that the development of the securities market of the Republic, and thus attracting investors and increasing investment attractiveness, has risen to the level of public policy. In his address to the Oliy Majlis in January this year, President Shavkat Mirziyoyev said that for the first time in the history of Uzbekistan, Eurobonds were issued in 2020 and traded on the London Stock Exchange, international bonds were issued by UzSanoatQurilish Bank and two other commercial banks of Uzbekistan – The National Bank and Ipoteka Bank are also planning to issue international bonds. In turn, it should be stated that the reason for the interest of private investors in international bonds is the advantage of hedging the opportunity to earn the expected return of investors in times of instability in global financial markets, as well as high returns (compared to foreign currency deposits in banks) and currency risk.

Foreign bonds (Eurobonds) are usually bonds placed in foreign currency by the issuer in international financial markets, using an international syndicate of underwriters, as well as foreign investors. Eurobonds are classified as bonds, Eurobonds, and Eurobills, as well as foreign bonds. Eurobonds now account for more than 75% of all Eurobills. Demand for international bonds is growing year by year as they become a reliable tool for investors. Therefore, the study of Eurobonds and its prospects for financing projects in our country is a hot issue with scientific and practical significance.

REMARKS ON LITERATURE

At the current stage of development of the world economy, it is difficult to overestimate the role of the international market for credit capital. This is an important issue for the collection, redistribution and rational use of funds on a global scale. It is known that one of the main conditions for effective investment of international capital is the non-disturbance of government regulation. The European market is the least regulated object by the state and the

most mobile sector for international credit capital, ensuring that financial flows are directed to the areas where they are most effectively applied due to their unique characteristics.

The study of the modern structure and development trends of the international debt market, which is an integral part of the international financial market, affects a wide range of global financial and economic problems. In the course of scientific research, the author relied on the theoretical principles, assumptions and conclusions contained in the works of Russia, Western countries and many other foreign scholars.

Many developing countries are expanding the range of debt instruments they use. In recent years, the financial situation has expanded the opportunities for low-income developing countries (LIDCs) to finance commercial debt to enter international bond markets. This has changed the risk profile of government debt

portfolios. In particular, the issuance of Eurobonds by LIDCs has increased over the last decade. This has been aided by long-term low interest rates and portfolio diversification strategies in mature markets, where investors are looking for additional returns. (Patrick, Jessen, 2019).

Since 2004, nearly a hundred developing countries have issued more than 750 international bonds.¹ While there was a sharp decline during the financial crisis of 2007-2009, the average number of issuers in the remaining years was close to 60 per year. The average volume of the issue was about USD 1 billion, and the total volume of financing during this period reached USD 760 billion.²

The bond issuance is sold to investors in the UK capital market, where it is quoted and traded. Bonds issued in the United States are called Yankee bonds, and foreign bonds issued in Japan are called Samurai bonds. Canadian legal entities are the main buyers of foreign bonds in

¹ Including Sukuk and guaranteed bonds

² For another overview with detailed country-by-country analysis, see Guscina, Anastasia, Guilherme Pedras, and Gabriel Presciuttini, 2014, "First-Time International Bond

Issuance—New Opportunities and Emerging Risks," IMF Working Paper 14/127 (Washington: International Monetary Fund)

the United States. (Das, 2018).

Eurobonds are debt instruments denominated in another currency that is different from the national currency of the country or market in which they are issued. Eurobonds are often grouped by the currencies in which they are denominated, such as the euro or bonds denominated in other currencies that are foreign to the issuer. Because Eurobonds are issued in foreign currency, they are often referred to as foreign bonds.

Eurobonds are usually issued by an international syndicate of financial institutions on behalf of the borrower, one of whom can sign a contract, thereby guaranteeing the purchase of the entire issue. (Chen, 2020)

Eurobonds are one of the most profitable financial instruments designed to attract funds from Western investors and financial institutions. The main advantages of Eurobonds are lengthy borrowing period and a large amount of debt, in addition, factors such as the income on Eurobonds is paid without income tax, and large international banks are considered as collateral for the issuance are also benefits of eurobonds. Additionally, this type of

euro paper is characterized by the low cost of borrowing. This is related with the fact that a large amount of cash is offered in the international market.

ANALYSIS AND RESULTS

Many projects are being implemented, focusing on the role of sovereign international bonds issued by Uzbekistan in world markets and the proceeds from Eurobonds. According to the Decree of the President of the Republic of Uzbekistan № PF-4947 dated February 7, 2017 "On action strategy for further development of the Republic of Uzbekistan" and the Resolution of the President of the Republic of Uzbekistan dated July 21, 2018 No PQ-3877, for the first time in the history of Uzbekistan, the Ministry of Finance of the Republic of Uzbekistan placed Eurobonds (Eurobonds) on the international financial market – London in February 2019. Eurobonds were placed on behalf of Uzbekistan by JP Morgan Chase, Citibank and Gazprombank. The repayment terms of the bonds are set for 2024 and 2029.

Initially, the coupon range was set at 5,625 to 5.75 percent and 6 percent, but due to high demand, Uzbekistan reconsidered interest rates

and reduced them to 4.75 percent and 5.375 percent. Bids worth about \$ 3.8 billion were received from about 150 institutional investors to buy the bonds. In terms of states, the majority of 5-year and 10-year bonds were purchased by British investors (39 per cent and 32 per cent), while American investors purchased 23 and 31 per cent, respectively. European investors

accounted for 32 per cent and 27 per cent, while investors from Asia, the Middle East and North Africa accounted for 6 per cent and 10 per cent, respectively. The majority of 5-year and 10-year Eurobonds – 75% and 78% were purchased by management funds, 20% and 16% by insurance companies and pension funds, and 5% and 6% by banks, respectively (Figure 1).



Figure 1. Distribution of sovereign international bonds of the Republic of Uzbekistan among investors³

The successful placement of sovereign international bonds has created a benchmark in the market for Uzbekistan, paving the way for large state-owned enterprises and banks to place their bonds in global financial markets and

move to independent financing of investment projects. Due to the careful monitoring of the changes taking place in the country by international investors who have purchased sovereign international bonds, the country will

³ <https://www.mf.uz/uz/open-data/otkrytye-dannye-1/perechen-otkrytykh-dannykh.html>



ensure the consistent implementation of the transparency and prudential approach necessary for the effectiveness of economic governance reforms. In other words, the quotation of sovereign international bonds in the secondary market serves as a barometer of sustainable economic policy. The size, scope and duration of such loans are limited, and in many cases additional conditions and obligations are imposed to the state. Hundreds of investors purchased sovereign international bonds without any additional conditions or obligations.

Based on the latest research and data provided by the Ministry of Finance of the Republic of Uzbekistan, the prices and yields on the secondary market of 5- and 10-year international sovereign bonds issued by

Uzbekistan can be seen in the table below as of May 22.

Current prices on international bonds of the Republic of Uzbekistan for 5 and 10 years were set at 105.798% and 108.535%, respectively. For information, it should be noted that in the table below, and in general, the coupon rate is the rate at which annual interest payments are made. The current price is the deviation of the bond price from the nominal value (increase (+) or decrease (-)). Yield to maturity is the current rate of return on the market for an investor as a result of trading. Z-spread (spread with zero variability) - the current balance of bonds is a constant spread of the yield of bonds, which is clearly reflected. This is calculated by adding to the income at each point on the U.S. Treasury exchange rate curve.

Table 4

Quotations⁴ of international bonds issued by the state of the Republic of Uzbekistan in the world capital market

Parameters	5-year period	changes from 22.05.2020	10-year period	changes from 22.05.2020
Coupon interest rate(%)	4,750%	firm	5,375%	firm
Current price (%)	105,798	+0,237%	108,535	+0,061%
Profitability (%)	3,091%	-2,184%	4,196%	-0,214%
Z-Spread (base point)	276,65	-8,40 b.p.	360,58	-2,66 b.p.
Benchmark related spread (base point)	275,61	-6,93 b.p.	353,64	-0,88 b.p.
U.S. Treasury bonds (%)	0,315%	0,000%	0,648%	0,000%

(Spread is the difference between U.S. Treasury bonds and income on issuers payment period). The benchmark spread is the spread between the bond yield and the analogous representation of the yield on government bonds. U.S. Treasury Bills (US T-bills) is the yield on U.S. Treasury

bonds for a certain period over a particular time period, which serves as a benchmark.

CONCLUSION

In the current pandemic, Eurobonds are the most attractive long-term, effective and viable means of debt for economic recovery as well as

⁴ According to the information from the Ministry of Finance on May 25, 2020

the recovery and financing means of industries. In world practice, the issuance of Eurobonds and their use in financing projects is becoming one of the most appropriate methods and this is getting proved over and over. Many organizations in Uzbekistan can now improve their financial position by attracting investor funds as a participant in the global financial market, using debt instruments such as Eurobonds through a benchmark created for companies. As a result of the ongoing reforms in Uzbekistan, the country has become a participant in the world financial markets, and the assessment of international financial institutions serves to increase the flow of foreign investors, which in turn shows their growing confidence in our country. Due to the poor development of the stock market in Uzbekistan over the past years, the lack of attention to the bond market, as a result of which it has become an issue out of attention, new possibilities arise in recent years to attract foreign investment through the effective use of debt instruments, thus enabling many investors to regain confidence, which can be seen as per the results of the analysis.

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