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ANALYSIS OF THE PRACTICE OF ATTRACTING CAPITAL THROUGH DEBT SECURITIES

SADULLAEVA MOKHINUR GAYRATJON KIZI

Abstract

This article studies essence, significance, types and features of debt securities according to the different scientists. It analyzes types of debt securities and the practice of debt securities market. Furthermore, the article learns the number of countries which are leading debt securities markets in global practice. Conclusions and proposals are given on the basis of the researches.

Keywords:
debt, debt securities, issue, bond, sovereign bond, government debt securities, risk, investor.

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INTRODUCTION

Effective continuation of the company's financial and economic activities without attracting debt funds is a complex issue in the conditions of the market economy. The use of debt funds allows to appropriately expand financial and economic activities, ensure more efficient use of private capital, accelerate the process of formation of various purpose financial funds, and finally increase the market value of the enterprise. In turn, it is impossible to implement certain projects by the state only at the expense of the state budget. Therefore, the state can also apply for internal and external debts.Such aspects show that it is relevant to study raising capital through debt securities.

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LITERATURE REVIEW

The features and mechanisms of debt securities are being learnt by foreign and local scientists in order to attract capital from foreign financial markets. According to K.Makun, "Foreign capital plays an important role in the process of economic growth and development of developing countries. Often these countries lack the necessary funds to ensure economic growth. Furthermore, developing countries face a low revenue base and high government operating costs, leading to increased dependence on foreign capital, such as remittances, financial aid, and external debt. However, inflows of foreign capital alone may not be sufficient for development, as a sound macroeconomic environment and policies are needed to prioritize these capitals, which are necessary to stimulate the process of economic growth" [1]. It is essential to mention that developing economies are paying attention to raising capital from foreign financial markets with the help of debt securities to develop local economy.

I.Qureshi and Z.Liaqat note some disadvantages of debts. "High and unsustainable levels of external debt are dangerous for developing countries, causing exchange rate fluctuations, sudden stops in capital inflows, and sudden capital outflows, which can lead to a banking system or currency crisis" [2].

According to Paula Margaretic and Sébastien Pouget, "The widespread use of sovereign bonds reflects both economic default risk and strategic default risk. It has been argued that a country's good financial performance reduces the risk of default by reflecting its ability to meet obligations" [3].

J.Kuepper pays attention to gaining capital with the help of sovereign bonds. "When carrying out operations related to sovereign bonds, both investors and the country issuing the sovereign bond must thoroughly analyze the process and investigate whether defaults will occur. Sovereign bond defaults are not uncommon, but they do happen" [4].

"I.Butikov defines "A bond is a security that testifies that its owner has given a loan and confirms to him the obligation to pay the nominal value of this security in the period specified with the payment of fixed interest" [5].

S.Elmirzaev and others investigates the role of debt instruments and local securities market to develop companies activities. "Issuing bonds has a number of attractive features for the issuing company.The company can attract the necessary funds without the intervention of creditors in the company's financial managementthrough the bond issue. However, the company should consider the funds raised through bond issues as additional funds to bank loans. Even in countries with a highly developed stock market, issued bonds do not cover the gross needs of enterprises for funds. Since bonds represent a debt relationship by their nature, the principles of bank credit are also characteristic of them. Therefore, the right to issue bonds is given only to enterprises that meet the creditworthiness" [6].

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According to above-mentioned approaches on capital gaining, debt securities play important role in not only developing economy, but also developing activities of companies.

ANALYSIS AND RESULTS

Corporate bonds appear in the process of lending to industrial enterprises, when banks took debt obligations (for example, bonds) from them divided into smaller amounts against the given loans. Instead of industrial bonds, this type of loan is often cheaper than other types of bank loans. Industrial bonds usually pay much higher interest rates because interest payments on bonds can be excluded from the company's taxable profit.

As a mean of financing, bonds have their advantages as well as disadvantages. Fixed interest on industrial bonds means an increase in fixed costs for the company. In times of stress, such costs are more significant to the issuer than dividends, as dividends may be set at a lower level or not paid at all, depending on the company's earnings.

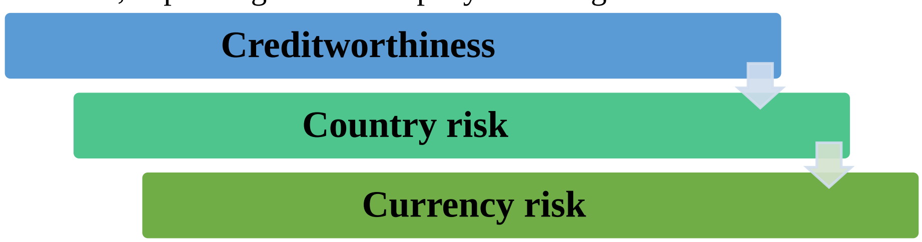

Figure 1. Main indicators of debt securities to define interest rates[1]

Several indicators should be taken into account to raise capital effectively when debt securities are issued. Creditworthiness is essential for investors because they can assess the level of risk with the help of this indicator. Moreover, issuers need creditworthiness due to achieve trust of investors. Other indicators which play crucial role to buy debt securities for investors are country risk and currency risk. It should be mentioned that these risks help to define interest rates of debt securities (Figure 1).

[1] Done by author

Table 1

Analysis of total debt securities of countries (June, 2022) [7]

№	Countries	Amount of total debt securities (billion USD)			
		Total	Financial corporations	Non-financial corporations	General government
1.	Belgium	765	198	52	515
2.	Austria	573	203	40	331
3.	Canada	4131	1749	585	1797
4.	China	21855	7792	5021	9043
5.	Denmark	674	560	22	92
6.	France	4828	1532	655	2641
7.	Germany	4003	1589	220	2194
8.	Hungary	118	13	8	96
9.	Ireland	1075	877	37	161
10.	Italy	3209	656	159	2394
11.	Japan	11644	2308	752	8584
12.	Luxembourg	851	814	23	15
13.	Netherlands	2162	1594	170	399
14.	Norway	442	268	93	80
15.	Portugal	305	70	34	201
16.	Singapore	602	294	149	159
17.	Spain	2091	593	131	1367
18.	Sweden	669	546	11	113
19.	United Kingdom	5228	2018	451	2752
20.	United States	50623	16388	7542	26493

According to Table 1, total debt securities of several countries are analyzed as June 2022. Amount of debt securities includes three forms of debt securities such as debt securities of financial corporations, debt securities of non-financial corporations and debt securities of general government. If we pay attention to Table 1, government debt securities are used mainly to attract capital. General government debt securities indicators show that several countries such as China (9043 billion USD), United States (26493 billion USD), United Kingdom (2752 billion USD), Japan (8584 billion USD), Italy (2394 billion USD), France (2641 billion USD) have high share among other countries.

Table 2

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Analysis of central government debt securities market (2021) [7][2]

№	Countries	Domestic currency (billions of USD)				Foreign currencies (billions of USD)
		Total	Fixed rate	Floating rate	Inflation-linked	
1.	Belgium	454,4	448,0	2,7	0	3,7
2.	Australia	594,8	564,9	0	29,9	0
3.	Canada	785,9	748,5	0	37,4	0
4.	Germany	1722,8	1617,7	5,7	78,5	20,9
5.	Hungary	90,5	76,0	5,9	7,2	1,4
6.	India	1076,5	1015,7	60,6	0,2	0
7.	Indonesia	331,7	288,0	43,4	0	0,3
8.	Israel	212,0	115,5	12,7	83,8	0
9.	Korea	807,5	802,9	0	4,5	0
10.	Malaysia	229,8	229,8	0	0	0
11.	Poland	186,4	131,5	53,6	1,3	0
12.	Saudi Arabia	149,0	124,6	24,4	0	0
13.	Turkey	98,5	32,6	15,3	21,7	28,9
14.	United Kingdom	2711,3	2046,5	0	664,8	0
15.	United States	18814,0	16482,0	603,4	1728,6	0

If we analyze central government debt securities market in 2021, we can see that countries have issued government debt securities in both domestic and foreign currencies (Table 2). Issued government debt securities may differ one another according to interest rate forms. Government debt securities may be issued in fixed rate, floating rate or inflation-linked rate. Ifdebt securities in domestic currency are paid attention, Germany, United States and United Kingdom have high results compared to other countries. Turkey and Germany have issued more debt securities in foreign currency than other countries.

[2] https://www.bis.org/statistics/c2.pdf – information of website of Bank for International Settlements

Table 3

Analysis of central and general government debt securities markets (billions of USD, 2021) [7][3]

№	Countries	Centralgovernment		Generalgovernment	
		Domestic currency	Foreign currency	Domestic currency	Foreign currency
1.	Australia	62,1	112,5	80,9	112,5
2.	Austria	310,3	2,9	315,7	3,8
3.	Belgium	450,6	3,7	502,6	3,7
4.	Brazil	1296,9	42,7	1318,6	44,5
5.	Canada	801,0	12,5	1437,6	156,3
6.	Denmark	116,1	2,1	116,1	2,1
7.	France	2244,1	7,1	2458,0	47,9
8.	Germany	1643,7	20,9	2129,5	42,5
9.	India	1068,5	0	1641,1	0
10.	Indonesia	331,4	90,2	334,4	90,2
11.	Ireland	177,8	0	177,8	0
12.	Italy	2401,1	22,7	2416,4	23,0
13.	Japan	7876,8	0	8522,5	8,3
14.	Korea	807,5	10,1	831,4	10
15.	Netherlands	388,0	0,6	392,8	0,6
16.	Norway	55,7	0	72,4	0
17.	Poland	185,1	40,6	188,5	40,6
18.	Portugal	184,3	3,5	189,3	3,5
19.	United Kingdom	2711,3	0	2779,1	0
20.	United States	18809,4	0	22022,1	0

Table 3 describes the analysis of central and general government debt securities markets in 2021. The most debt securities have been issued by United States in 2021 while the least issued country was Norway according to Table 3. Most countries are paying attention to issue debt securities in domestic currency compared to foreign currency.

[3] https://stats.bis.org/statx/srs/table/c1?f=pdf – information of website of Bank for International Settlements

CONCLUSIONS

The following conclusions are given while analyzing the practice of attracting capital through debt securities.

First, bonds may be issued by the state or corporate entities in foreign currency and placed in foreign countries. The need for financial resources of state and corporate issuers is also satisfied through debt securities market. Therefore, both the state and joint-stock companies participate as issuers in the debt securities market.Bonds are put into circulation by the state and corporate entities as securities representing debt relationships.The practice of issuing and placing bonds by corporate structures is mainly carried out in order to finance medium and long-term goals.

Secondly, one of the most observed cases is that the funds raised as a result of the issuance and placement of bonds by the state are directed to cover the state budget deficit. If capital is attracted by placing long-term bonds, it is appropriate to direct the funds to strategically important projects.

Thirdly, state and corporate structures prioritize attracting cheap financial resources from the international financial market by issuing securities (for example, eurobonds) representing international debt relations. But in this case, different aspects are noticeable in the capital assessment according to the sovereign or corporate credit rating.

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