
ANALYSIS OF PREREQUISITES FOR ISSUING EUROBONDS BY UZBEK ISSUERS

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Abstract. *In the course of the work, the essence of Eurobonds is outlined, the key characteristics and features of Eurobonds as an investment instrument are identified. The circle of participants and the infrastructure of the market of this financial instrument are presented. Eurobond products offered to international investment companies have been studied. This article also considers the debut issue of Eurobonds by the Republic of Uzbekistan. Theoretical and practical bases of Eurobond issue are given. An analysis was made on the issue of Eurobonds by other CIS countries. Other ways of redistributing funds from the issue of Eurobonds in the Republic of Uzbekistan are proposed.*

Keywords: *eurobonds, debut issue, euromarkets, benchmark, eurobond tranche, demand, investment attractiveness, sovereign bonds.*

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Introduction

At the present stage of development of the world economy, it is difficult to overestimate the role of the international loan capital market. It is he who ensures the accumulation, redistribution and the most rational use of funds on a global scale. As you know, one of the main conditions for the effective investment of international capital is the absence of restrictive state regulation. The least subject to state regulation and the most mobile sector of the international loan capital market is the European market, which, due to its inherent properties, ensures the direction of financial flows to the places of their most effective application.

Thus, the emergence and development of European markets is the most important stage in the development of the international financial market over the past thirty years.

Materials and Methods

An account of the world's first issue of Eurobonds by the United States can be found in the book "Financial Markets and Institutions" by Frederic S. Mishkin, Stanley G. Eakins.

Theoretical visions about the issue and purpose of Eurobonds are given in the book by T.V. Teplovy "Corporate Finance".

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The views on the efficiency of the international stock market Richard A. Brealey, Stewart C. Myers, Franklin Allen in the book "Principles of corporate finance" are considered.

The data on the mechanism of placement of Eurobonds on the international stock market in the textbook by V. A. Slepova "International financial market" are analyzed.

The data from the article "Redistribution of funds received from the issue of sovereign Eurobonds and their effectiveness" by S.E. Elmirzaev, M.N. Rakhmedova and Kh. Kholikov.

You can also see in the scientific work of N. Tursunova research on the conditions for issuing Eurobonds, their advantages and disadvantages.

In this article, when studying the issue of Eurobonds and their advantageous aspects, abstract-logical, statistical-economic and tabular-graphical methods were used.

Results

Following the issuance of two debut tranches of sovereign eurobonds on the international bond market, domestic financial entities began their active work on the international loan capital market. After sovereign issues of Eurobonds by the Ministry of Finance, Uzbek commercial banks and the auto industry also tried their hand at this market.

Profitability of five-year securities was estimated by experts at 4.75%, and ten-year ones at 5.375%. The total amount of applications reached \$ 8.5 billion, which made it possible to reduce the coupon rate - initially they were 5.3% and 6%, respectively.

For the purchase of Uzbek Eurobonds, in total, over 150 applications were received from institutional investors, which indicates that the placement turned out to be in demand and a good diversion.

Management funds were major investors (75% and 78%). Insurance companies and pension funds took 20% and 16%, banks - 5% and 6% of five-year and ten-year bonds, respectively.

The success of the debut Eurobonds expresses the high interest and confidence of investors in the solvency of the Republic of Uzbekistan and in the effective management of debt

Demand for sovereign Eurobonds from foreign investment companies 8.5 times exceeded the volume of the planned placement of \$1 billion. Consider the demand for Eurobonds of other countries.

Table 1**The volume of government eurobonds of the CIS countries**

Country	Eurobond market volume (mln. \$)	difference	Eurobond market volume (mln. \$)	difference	Government debt to GDP ratio (2017) %	% rate of the Central Bank	Credit rating (M/SP/F)
Azerbaijan	7.91	-0.92	3.48	0.71	48.4	8.5	Ba2/BB+/BB+
Armenia	1.38	0.28	2.11	0.86	48.49	5.75	B1/-/B+
Belarus	2.94	0.59	13.43	-1.34	47.8	9.50	B3/B/B
Georgia	2.93	0.75	1.30	0.19	43	6.50	Ba2/BB-/BB-
Kazakhstan	23.60	-6.80	43.49	2.49	21.9	9	Baa3/BBB-/BBB
Kyrgyzstan	0.00	0.00	0.66	0.00	56	4.25	B2//
Moldova	0.30	0.3	1.23	0.76	27.1	6.5	B3//
Russia	143.62	-8.74	346.62	49.45	13.8	7.25	Baa3/BBB/BBB
Tajikistan	0.50	0.00	0.28	0.01	47.9	13.25	B3/B/-
Uzbekistan	1.00	1.00	0.21	0.19	23.5	16	B1/BB-/BB-
Ukraine	31.17	0.62	33.21	2.89	60.9	17.00	Caa1/B-/B-
General/Average	215.35	-12.93	446.01	56.23	47.80	8.50	

Analyzing the data in the table, we can conclude that the increased demand from foreign institutional investors will be announced by the fact that the pages of Central Asia are leading a more complex strategy of the countries' economies, and the Eurobonds they issue open a window to investors in this economy.

Table 2**International and domestic bond markets**

Country	State bonds	Municipal bonds	Corporate bonds	Total	Government Eurobonds	Corporate Eurobonds	Total Eurobonds	Total
CIS								
Azerbaijan	57		47	104	6	4	10	114
Armenia	31		73	104	2	2	4	108
Belarus	99	158	738	995	3	3	6	1001
Georgia	52		17	69	1	12	13	82
Kazakhstan	166	54	277	497	6	34	40	537
Kyrgyzstan	116		13	129				129
Moldova	157			157		1	1	158
Russia	56	126	1565	1747	14	267	281	2028
Tajikistan	20		20	1			1	21
Uzbekistan	16		9	25	2		2	27
Ukraine	208	5	403	616	38	31	70	686

As can be seen from the analytical data, Russia, Belarus, Ukraine and Kazakhstan are interested in leading positions in the issuance of international bonds. Nevertheless, new market segments are actively joining the integration process, which makes it possible to differentiate the international stock market.

After the successful placement of the first sovereign Eurobonds by the Ministry of Finance of the Republic of Uzbekistan, the funds received from the sale of Eurobonds were distributed as follows: 89% of the 999.1 million dollars of proceeds from sovereign Eurobonds were placed on deposits of commercial banks through auctions in the amount of 889.2 million dollars, the other 20 million dollars were made to joint-stock commercial bank Agrobank to open a credit line as a subordinated loan.

The remaining 89.9 million dollars were allocated by the Ministry of Finance of the Republic of Uzbekistan as a budget loan in foreign currency to the Navoi Mining and Metallurgical Combine.

Whereas, before the first issue of sovereign Eurobonds of the Republic of Uzbekistan, a press conference was held by the government, where it was reported that the financial assets received from the issuance of state Eurobonds will be redistributed to strategic and infrastructure projects of the party, which include capital construction, reconstruction and overhaul of housing for agricultural living, repair of transport roads, improvement of drinking water conservation in the most inaccessible points of the state, urban improvement, as well as a number of state infrastructure and social programs.

After 9 months, after the Ministry of Finance of the Republic of Uzbekistan, the country's national banks also begin issuing Eurobonds for foreign investors. The first in this arena was the domestic bank Uzpromstroybank. Being one of the largest banks in the republic and at the same time strategic, Uzpromstroybank placed its first corporate Eurobonds on the London Stock Exchange for a period of 5 years. Their coupon yield was determined after the auction as 5.75% per annum for a total of \$ 300 million.

Many specialists were interested in buying corporate Eurobonds of Uzpromstroybank because of their strategic goals, which explains the increase in the volume of applications from investors by \$ 1.2 billion.

Thus, Uzpromstroybank became a reference point for other Uzbek corporate structures interested in attracting foreign capital through the international stock market with one fortress, and on the other side, the pillars opened access for foreign investors to a separate securities market.

The funds received from the issue of Eurobonds will be used to increase the economic and competitive capacity of this commercial bank. But a concrete and semi-transparent project plan was not demonstrated for outsiders.

Following Uzpromstroybank, Asaka Bank, Ipotekabank and the National Bank of the Republic of Uzbekistan dissolved their corporate Eurobonds.

Mortgage Bank has issued international bonds in the amount of 300 million US dollars for a period of 5 years. The debut issue of international bonds was carried out on the basis of the recommendations of such internationally recognized underwriting banks as J. P. Morgan, Raiffeisen Bank International AG, MUFG and Societe Generale.

A global audio conference (Global Investor Call) was held as part of the road-show event with the participation of more than 70 international investors operating in the USA, Europe and Asia, as well as in Russia.

Based on the proposals of investors and recommendations of financial consultants, the initial interest rate of international bonds of Mortgage Bank was determined at 5.625%.

In an hour, the volume of orders amounted to more than 300 million US dollars and the volume of the planned issue was fully covered. In the course of trading, the volume of orders exceeded 500 million US dollars, which allowed to reduce the initial interest rate for the issuer and the final interest rate and coupon were reduced to 0.125% and set in the proportion of 5.5%. The funds received from the placement of international bonds are planned to be used to finance investment projects and support the efficiency of entrepreneurs who will contribute to the economic development of our countries.

Another bank of the Republic of Uzbekistan, which has successfully become a participant in the international financial market of the permanent National Bank for Foreign Economic Activity of Uzbekistan.

Discussion

The international rating agency Fitch Ratings has assigned this bank a BB - credit rating, meaning "expected long-term rating". The volume of their debut release was determined at a scale of \$ 300 million. The maturity of the National Bank's Eurobonds was 5 years. Due to the high demand of investors and the fact that this exceeds the volume of the issue by two times, the final coupon value of 4.85% per year decreased to 0.30% of the initial interest rate during trading.

Thus, the successful deployment of the Eurobond bank testifies to the positive assessment by international investors of the reforms being carried out in the direction of reforms.

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According to the analytical data of the national bank, the funds received from the issuance of corporate Eurobonds are planned to be created to finance the bank's foreign loan portfolio.

Table 3

Analysis of Eurobond issuance by national investors

Issuer	Output volume (million \$)	Coupon rate (%)	International rating (M/F/SP)	Term of circulation	Purpose of the release	Volume of applications
Ministry of Finance	500	4.7	B1/BB-	5	Commercial bank deposits Credit line for Agrobank Development of Navoinskaya HPP	3,8 billion
	500	5.3	/BB-	10		
Uzpromstroybank	300	5,75	-/BB-/-	5	-	1,2 billion
Mortgage Bank	300	5,50	-/BB-/-	5	Financing of large investment projects; Creating a credit history on international capital markets; Diversification of Eastern financing sources	500 million
National Bank	300	4,85	-/BB-/-	5	Creation of a loan portfolio in foreign currency	700 million
UzAvto Motors	300	4,85	-/B+/-	5	Expanding opportunities among foreign investors	1,4 billion
Ministry of Finance	555	3.7	B1/BB-	10	The funds from the placement will be used to cover the budget deficit, as well as to finance a number of projects that will be implemented in 2021 for the sustainable development of Uzbekistan	1,6 billion
	195	14,5	/BB-	3		180 million

As can be seen from the analytical data of Eurobonds issued by the eyes of popular average foreign investors, thanks for the coupon detail it is possible to reduce by several points.

Each of the issues is accompanied by a high volume of applications, which indicates that investors are interested in buying securities of countries that have been closing the economy until recently.

All coupon items take an approximate single value, which suggests that national issuers are still cautious about establishing a coupon point.

In the future, issuers will determine their coupon items, which would satisfy them whole and be profitable for investors. Here, for a deeper analysis of the issue of Eurobonds, it is necessary to understand the relationship between coupon points, the volume of applications and the funds received as a result of the issue of Eurobonds. We will conduct a regression and correlation analysis of the relationship between the coupon rate (%), the circulation period (years) and the volume of applications.

International rating agencies assess the economic potential of the pages at the V1 or VW - level. This means that the invulnerable party, on the other hand, can fulfill its financial obligations. The forecast of the situation in Uzbekistan is assessed as stable. Further development depends on the success of the resulting reforms.

It is also necessary to learn the fact that Eurobonds increase the state external debt, therefore, all the principles of the effective use of credit funds should be applied to it.

First of all, it is necessary to deal with the effective placement of funds received from the sale of Eurobonds to investors, since payments on coupons are made within 5-10 years (twice a year), and at the end of the debt period, return the entire amount and repay the Eurobonds. Therefore, investors evaluate these Eurobonds much better, which are placed under a certain investment project, the implementation of which will bring income in the medium term.

Conclusion

Since 2018, there has been a high activity in the development of private and medium-sized businesses in our country. This, in turn, led to the emergence and development of many effective investment projects in the country. The implementation of such projects requires extensive capital investments from both internal and external sources. Today, such sectors of the economy as construction, purchase of advanced and technically high equipment, as well as attracting highly qualified personnel to work need this kind of financing. These aspects affect the activities of all categories of corporate structures that can attract the most effective sources of external financing. The Eurobond issues studied by us have become successful and can become a reference point for other financial institutions wishing to increase the gross amount of profit received.

The more qualitative and effective the deployment of sovereign and corporate Eurobonds is, the cheaper it will be to attract funds from both state and honorary companies within the framework of corporate deployments.

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