



## **CAPITAL INFLOW THROUGH EUROBONDS IN UZBEKISTAN**

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### **Abstract**

*Today, attracting foreign investment is one of the main ways of developing domestic companies and the economy as a whole. The difficult economic and political situation deprived Uzbek companies of favorable loans on favorable terms previously obtained from foreign banks and forced them to seek new methods of attracting investments. This method of borrowing money by Uzbek companies is to use the issue of Eurobonds. Many domestic companies prefer to use this mechanism as a way of attracting foreign capital to the country due to the specifics of Uzbek business. This paper studies the experience of Eurobonds issuance of Uzbekistan and its success among foreign investors. According to the results, success of Eurobonds reflects the economic stability in Uzbekistan.*

*Keywords: Eurobond, issuance, investment, Uzbekistan*

### **INTRODUCTION**

The first Eurobond was issued in Italy in 1963. Today, the prefix “euro” is more a tribute to tradition, since the first Eurobonds appeared in Europe. Eurobonds are sold outside the country in whose currency they are denominated. Issued to bearer, due to which the investor remains anonymous. It is also important that Eurobonds are placed immediately in the markets of several countries, which means that they are not subject to national regulatory systems.

Eurobonds (Eurobonds) are debt securities issued by national companies, but whose currency is different from the national one. If we are talking about Eurobonds of Uzbek issuers, then we are talking about securities, often denominated in US dollars. The goal is to attract currency. Therefore, issuers include companies whose activities are in one way or another



connected with export-import operations or operations with foreign currency (for example, banks).

### **Specific features of Eurobonds**

This type of securities can be purchased and sold only in dollars and euros. Therefore, before you purchase the presented asset, you must convert currencies.

Eurobonds are a reliable type of investment asset. A high degree of reliability is guaranteed, first of all, by the fact that only large organizations are engaged in the issue of the presented security. Thus, the selection of the necessary asset with a higher return and lower risk is greatly simplified.

The average cost of this type of securities is much higher than the average cost of other types of bonds. So, lots are issued, the cost of which starts from one hundred thousand dollars. However, there are lots with prices ranging from - one thousand dollars.

Low liquidity. Since Eurobonds are an extremely good investment option, the demand for them among large investors is extremely high. Therefore, they are disassembled almost immediately after the issue, and investors keep these assets with them until the end of the bond. However, despite this level of demand, supply remains low.

Eurobonds are characterized by a double denomination - interest payments at the request of the investor in different currencies.

Currently, Eurobonds are an excellent alternative to foreign currency deposits, but not all domestic traders are aware of this.

The yield of Eurobonds depends on the terms and face value, but in any case it is higher than foreign currency deposits. At relatively low risk, the yield of Eurobonds of Uzbek issuers can reach 8%-15%.

### **ANALYSIS AND RESULTS**

Uzbekistan successfully places first \$ 1 billion Eurobonds in its history. The success of the debut issue of Eurobonds reflects investor confidence in Uzbekistan's solid economic fundamentals, reform progress and debt management strategies. Uzbekistan successfully placed the first in its history Eurobonds worth \$ 1 billion, follows from the data of the London Stock Exchange. The bonds were placed in a double tranche of \$ 500 million maturing in 2024 and 2029.

The yield on five-year securities was estimated at 4.7%, and ten-year bonds at 5.3%. The total number of applications at the peak reached \$ 8.5 billion, which allowed us to revise prices - initially they were 5.3% and 6%, respectively.

The placement turned out to be in demand and well diversified, since about 150 applications from institutional investors were received.

In terms of geography, British investors accounted for 39% of five-year bonds and 32% of 10-year bonds, American - 23% and 31%, investors from mainland Europe bought 32% and 37%, and the remaining 6% and 10% were taken by Asian investors.

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

Table 1. Issue of Eurobonds

Currency	Issue	The total amount in UZS
<b>Government</b>		
UZS	17	1 950 000 000 000
USD	2	1 000 000 000
<b>Corporate</b>		
UZS	9	299 000 000 000

Source: Tashkent Stock Exchange

Table 2. The last issue

Issue	ISIN	Coupon	The amount	The end of the placement	Maturity date
Uzbekistan, 0% 26dec2019, UZS (03, 160D) - Bonds		0%	300 000 000 000 UZS	19.07.2019	26.12.2019
Uzbekistan, 0% 24dec2019, UZS (02, 160D) - Bonds		0%	200 000 000 000 UZS	17.07.2019	24.12.2019
Asia Alliance Bank, FRN 16jul2026, UZS - Bonds	UZ6055797666	20%	50 000 000 000 UZS	16.07.2019	16.07.2026

Issue	ISIN	Coupon	The amount	The end of the placement	Maturity date
Uzbekistan, 15% 8jul2022, UZS - Bonds		15%	100 000 000 000 UZS	12.07.2019	08.07.2022
Uzbekistan, 15% 1jul2022, UZS - Bonds		15%	100 000 000 000 UZS	05.07.2019	01.07.2022
Uzbekistan, 15% 16jun2021, UZS - Bonds		15%	100 000 000 000 UZS	19.06.2019	16.06.2021
Uzbekistan, 15% 9jun2021, UZS - Bonds		15%	100 000 000 000 UZS	12.06.2019	09.06.2021
Uzbekistan, 15% 1dec2020, UZS - Bonds		15%	100 000 000 000 UZS	04.06.2019	01.12.2020
Uzbekistan, 15% 18nov2020, UZS - Bonds		15%	100 000 000 000 UZS	22.05.2019	18.11.2020
Uzbekistan, 15% 14may2020, UZS - Bonds		15%	100 000 000 000 UZS	15.05.2019	14.05.2020

Source: Tashkent Stock Exchange

On February 13, 2019, the primary issue of international bonds of the Republic of Uzbekistan for a period of 5 and 10 years with a total value of 1 billion US dollars was placed on world financial markets.

Over the past two months, their prices in the secondary market have been stable and have changed in accordance with general trends, under the influence of global economic processes, macroeconomic changes and expectations.

Price fluctuations for 5-year international bonds to their face value range from 99,200% to 100,950% (with yield from 4,532% to 4,933%), including 100.333% as of April 19 (yield - 4,670%).

Price fluctuations for 10-year international bonds to their face value ranged from 98,000% to 100,523% (5,306% - 5,640%, respectively), including 100,160% on April 19 (yield - 5, 353%).



Figure 3. Dynamics of prices for 5- and 10-year Eurobonds in the Republic of Uzbekistan in the secondary market

Source: official website of Ministry of Finance of Uzbekistan

For reference: the price of international bonds is inversely proportional to the yield on them. Interest rate yield decreases when the price rises. The following factors influenced price changes:

- expectations and decisions on financial policies of the US Federal Reserve System and the Central Bank of the European Union;
- Placement of sovereign and corporate international bonds by developing countries in global financial markets;
- Brexit, changes in trade relations between China and the United States of America, as well as other world economic trends

The dynamics of prices for Uzbek Eurobonds over the past two months indicates that they correspond to the general situation in the capital markets. In other words, at initial offering they were not significantly underestimated or overvalued compared to fair market value.

The fact that the price varies within the general fluctuations in the market and maintains relative stability with respect to the face value of bonds means that international investors do not have significant risk or negative expectations regarding these bonds. Eurobonds prices are for investors barometers of the macroeconomic situation and expectations in the republic.

Therefore, changes in cost are also associated with systemic reforms and cautious macroeconomic policies of Uzbekistan, as well as ensuring the transparency of relevant information.

The small price volatility and the demand for Uzbek bonds mean that our country is integrated into the international financial system. This, in turn, requires a systematic analysis of changes in the global economy that affect global capital markets.

## CONCLUSION

Eurobonds of Uzbek issuers are a good alternative to foreign currency deposits. Firstly, the entry threshold is quite low, and secondly, Eurobonds are classified as liquid reliable assets. Thanks to recent innovations, the investment procedure for private individuals has been simplified, and the investment process itself is no different from investing in other assets - through an account opened with a broker.

By investor type, 75% and 78% of the allocations went to Asset Managers and Funds, 20% and 16% to Insurers, Pension Funds & Sovereign Wealth Funds; whilst Banks and Private Banks took 5% and 6% of the 2024 and 2029 bonds respectively.

The success of the debut Eurobond issue reflects investors' confidence in Uzbekistan's solid economic fundamentals, reforms progression and debt management strategy.

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