



---

## ANALYSIS OF THE PRACTICE OF USING EUROBONDS FOR ATTRACTING FOREIGN INVESTORS

FAYZIEV SAMANDAR

---

### Abstract

**Keywords:** a model of the financial market, euro continental model, banks insider activity, dividends, dividend policy.

*As a relatively new tool for raising funds, Eurobonds allowed the economies of the countries to further increase the investment cash flows. But Eurobonds are not only important for the state as a whole, but for each individual investor. This article discusses the need for issuing Eurobonds, the terms of issuing Eurobonds, the procedure for issuing and participants in the process of issuing these securities. The article, also analyzed the results of the issue of Eurobonds in Uzbekistan followed by the forecasts of the process of redemption of Eurobonds.*

*Copyright © 2022 International Journals of Multidisciplinary Research Academy.*

*All rights reserved.*

---

### Author correspondence:

**FAYZIEV SAMANDAR**

*Researcher in Economical Sciences, Tashkent Institute of Finance, Tashkent, Uzbekistan  
Email: fayzievss@gmail.com*

---

### INTRODUCTION

In our country, state and corporate structures finance their activities with a limited range of resources, mainly through their own funds, shares, bank loans, leasing. Financial security through the circulation of corporate bonds is extremely narrow. The fact that they have not yet organized the international circulation of shares, the practice of public placement of shares on international stock exchanges, the relatively narrow scope of the circulation of Eurobonds, indicate that there are problems in attracting foreign capital. "Our banks need to enter international financial markets and bring cheap and long-term resources. The National Bank and Ipoteka Bank should issue their own Eurobonds this year <sup>1</sup>."

The issues of attracting sovereign debts through the issuance of Eurobonds, the effective organization of financial security in joint stock companies are constantly discussed by the world's leading research centers, internationally recognized universities, international financial and economic organizations, international financial institutions, international auditing organizations, international rating agencies, transnational corporations. the fact that it is in the spotlight also reflects the relevance of the topic of this article.

---

<sup>1</sup> Address of the President of the Republic of Uzbekistan Shavkat Mirziyoyev to the Oliy Majlis. <https://uza.uz/oz/politics/zbekiston-respublikasi-prezidenti-shavkat-mirziyeevning-oliy-25-01-2020>

---



## LITERATURE REVIEW

Jacob Engwerda, Bas van Aarle, Tzanis Anevlavis analyze the impact of Eurobonds on the debt dynamics of countries on the example of Belgium and the Netherlands. It also examines the activities of monetary and fiscal authorities to mitigate the impact of Eurobonds on financial markets, with a particular focus on fiscal compliance <sup>2</sup>.

J.Tielens, B. van Aarle, J.Van Hovelar assessed the impact of Eurobonds on the dynamics of sovereign debt on the example of EU member states Portugal, Ireland and Greece. Sovereign debt scenarios have been developed without Eurobonds and through full Eurobonds. And the effectiveness of the use of Eurobonds to reduce macroeconomic shocks and uncertainties has been identified <sup>3</sup>.

One of the economists of our country Sh.A. Toshmatov analyzed the direction and efficiency of the funds received from the first sovereign international bonds of Uzbekistan <sup>4</sup>. MN Rakhmedova, in turn, studied the peculiarities of the circulation of Eurobonds <sup>5</sup> in terms of attracting foreign capital. The group of authors, led by SE Elmirzaev, studied the international securities market as an integral part of the financial market, paying special attention to Euro-actions, Euro-bonds, Euro-paper transactions <sup>6</sup>. IL Butikov studied the organization of financial security through securities <sup>7</sup>.

The most popular form of borrowing is the issuance of securities. In this context, let us consider the definition of the stock market and the stock market in the economic literature and vocabulary. E.F. Zhukov writes: "Currently, there are three markets for securities involved in financing the economy: over-the-counter, stock (stock) and street <sup>8</sup>." Other economists, such as Ya.M. Mirkin, see the concepts of stock market and stock market as one concept <sup>9</sup>. However, if we consider that in all three markets there is a single commodity quotation, which can be called "stock values", it becomes clear that the concepts of "stock market" and "stock market" are very similar.

## ANALYSIS AND RESULTS

In the global financial market, the stock market is approached and given serious attention as one of the most important means of attracting investment to governments, enterprises and organizations. Therefore, in today's national and global economic development, the issue of effective organization of investment flows through the stock market and the steady increase in profitability remains relevant. The implementation of large-scale financial and economic reforms in the financial market of the country allows to make significant changes in the securities market of the republic. In particular, the entry of various new financial institutions into the market, increasing the number of applicants, improving the regulation of financial markets in the context of economic liberalization, creating healthy

<sup>2</sup>Jacob Engwerda, Bas van Aarle, Tzanis Anevlavis. Debt stabilization games in a monetary union: What are the effects of introducing eurobonds? // Journal of Macroeconomics . Volume 59 , March 2019 . - Pages 78-102 .

<sup>3</sup>J. Tielens, B. van Aarle, J. Van Hove. Effects of Eurobonds: A stochastic sovereign debt sustainability analysis for Portugal, Ireland and Greece . // Journal of Macroeconomics . Volume 42, December 2014. - Pages 156-173.

<sup>4</sup>Toshmatov Sh.A. Placement of Uzbek international bonds in world financial markets: risks and forecasts. <http://review.uz/> . (Application date 08.05.2020)

<sup>5</sup>Tursunova N.R. Ways to effectively organize financial support in corporate finance management. - T .: "Economy and Finance", 2017. - 142 p.

<sup>6</sup>Elmirzaev S.E. et al. Financial market. Textbook. - T .: "Economy and Finance", 2019. - 324 p.

<sup>7</sup>Butikov I.L. Stock market. Textbook. - T .: "Konsauditinform", 2001. - B. 496 b.

<sup>8</sup>Market tsennyx bumag / Pod.red.E.F.Jukova. - M .: YuNITI, 2003. - P.13.

<sup>9</sup>Mirkin Ya.M. Tsennyye bumagi i fondovyy rynek. - M .: Perspektiva, 1995. - S.100.8



competition in the market and improving the quality of services create favorable conditions for market participants, professional issuers and investors. However, at the same time, the President stressed the need to do a lot to develop this area. In particular, it was noted that the mechanism of issuing securities and selling them on the stock market is not used effectively. The total value of shares in the stock market is 25 trillion soums, which is less than 6% of GDP. The figure is 188 percent in Singapore, 112 percent in Malaysia and 34 percent in Russia. Government bonds issued in the country in 2019 were sold only to commercial banks through the currency exchange. The number of professional stock market participants is less than 100<sup>10</sup>. Therefore, in carrying out the set tasks, it is important to improve the functioning of the financial market using various products of financial engineering, ensuring transparency of information, removal of various restrictions on the basis of revision of legislation governing the securities market. The development of the securities market of the Republic on the basis of the concept of financial engineering remains a topical issue.

The development of the stock market based on the concept of the financial market is considered as one of the most important and topical issues of all countries. In this case, development based on the concept of financial markets means new combinations and strategies aimed at achieving the goals of issuers. The objectives of the financial market include: creating an optimal level of risk; speculation and arbitration; profit based on the availability of non-busy segments and the use of an imperfect market. The process of financial engineering is influenced by the needs and interests of the issuer of the new product and the investor who is interested in it. Developed countries today play an important role in the development of stocks, bonds and other types of securities in the securities market based on the concept of financial engineering. In particular, the United States, the world's most developed and economically stable country, pays special attention to this area. As of January 2019, the total number of bonds issued by the United States (government bonds, municipal bonds and corporate bonds) was 30,862<sup>11</sup>.

The planned placement is 1 billion. The demand from buyers amounted to 8.5 billion dollars. Consider the demand for Eurobonds from other countries.

Analyzing the statistics, the increase in demand for Eurobonds from foreign institutional and private investors is explained by the fact that Central Asian countries are pursuing a more closed strategy of the country's economy, which opens a window for investors in these economies and allows them to invest in the latest financial instruments. Naturally, investing in such securities carries a high risk. Among the CIS countries, Tajikistan (1913) is the largest issuer of bonds, followed by Belarus (968). In terms of Eurobonds, Tajikistan (298) has become an active participant in the CIS. The number of bonds issued by the country was 10, while the number of Eurobonds was 1. It should be noted that in 2018 our country will receive a sovereign credit rating, which will allow it to place sovereign international bonds in world financial markets.

<sup>10</sup>The issues of stock market development were discussed. <https://president.uz/uz/lists/view/2913>

<sup>11</sup><http://cbonds.ru/countries/USA-bond>



Table 1

The volume of government Eurobonds of the CIS countries<sup>12</sup>

Country	Eurobonds (\$ million)	Difference	Bond amount, (In million USD)	Difference	Public debt to GDP ratio (2021) %	CB percent rate	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-
Total / average	215.35	-12.93	446.01	56.23	47.80	8.50	

Uzbekistan has entered the Eurobond market with very successful deals. Strong support from investors will pave the way for a fearless review of the price and a settlement at an acceptable final price. It will serve as a basic benchmark for future issuance of Eurobonds by state-owned companies, corporations and other financial institutions of Uzbekistan. It is the placement of the first sovereign bonds in 2019 among the CIS countries. Countries, as a rule, issue such securities for the purpose of implementing a planned social or economic project. For example, in September 2017, Tajikistan placed the first Eurobonds for the construction of the Rogun HPP. The more important the reason for issuing Eurobonds, the higher the confidence in the issuer and the more favorable the terms of their sale. Before obtaining a sovereign credit rating and issuing Eurobonds, Uzbekistan must ensure that the system of collection and dissemination of economic information, bring the relevant regulatory framework in line with international standards, make the system of economic regulation more transparent and understandable to investors. After receiving the rating, Uzbek banks will be able to obtain similar ratings and attract funds from abroad at lower rates. As a result, the opportunities for enterprises to use banking services will increase. New prospects open up in the stock markets for both local and international companies. All this

<sup>12</sup> <http://cbonds.ru/indexes/>



will make it easier to enter the international capital market. It is precisely the financial engineering that plays an important role in the positive implementation of the above. Financial markets are an important factor in managing trade and risk, managing long-term and short-term cash investments. Financial engineering products can be used in several cases:

1. These include changes in the structure of the investment portfolio, stock index replication, non-refundable sales, a cheaper way to address foreign financial issues, which may include a decrease in the cost of borrowing money.

2. A specific combination of risk and profitability, such as guaranteed return on investment, non-standard dependence on market variables, access to new markets.

3. The optimal time to open and close the position is selected.

4. The situation with the issues related to accounting and tax optimization.

The situation with a specific combination of risk and profitability under the second paragraph, such as guaranteed return on investment, non-standard dependence on market variables, acceleration of integration into international markets based on the concept of entering new markets, may stifle interest in the market. Therefore, all financial market participants are required to enter this process faster through the most important elements of financial engineering.

In our country, as well as the positive results in all areas, significant progress has been made in attracting investment. In 2019, foreign direct investment amounted to \$ 4.2 billion, an increase of \$ 3.1 billion or 3.7 times compared to 2018 . The share of investment in GDP reached 37%.

For the first time, our country received an international credit rating and successfully placed \$ 1 billion in bonds in the global financial markets. The Organization for Economic Cooperation and Development (OECD) has improved Uzbekistan's credit risk rating for the first time in 10 years.

Deep structural reforms have begun in energy, oil and gas, geology, transport, road construction, agriculture and water management, drinking water and heat supply, and a number of other sectors. Modernization and competitiveness programs are being implemented in 12 leading industries. As a result, economic growth last year was 5.6 percent. The volume of industrial production increased by 6.6%, exports - by 28%. Our gold and foreign exchange reserves increased by \$ 2.2 billion in 2019 to \$ 28.6 billion.

Despite the above positive results, a number of problems remain in the stock market. We know that if the capital market is developed in the country, it will be so easy to attract financial resources for economic development, especially direct investment. On the other hand, this aspect also plays a positive role in attracting capital from the international financial markets. Because the issuers have gained the trust of investors on the basis of their activities in the national sphere and ensured their interest. In this regard, we must first ensure the development of the government bond market and the corporate bond market, along with other financial instrument markets. Then the entry into the market of sovereign Eurobonds and corporate Eurobonds will further guarantee success in this regard.

During the activities of corporate issuers, the issuance of shares to form the authorized capital, the issuance of additional shares to increase the authorized capital, the issuance of corporate bonds, the issuance of corporate Eurobonds and international public offering of shares are carried out on a sequential basis. In this case, each issue of securities will be successful for the next issue when a mutually beneficial relationship is established with the owners of securities and the investor's interests are satisfied.

In turn, when the state acts as an issuer in the financial market, it is important that it



succeeds in the national financial market, gaining the trust of a wide range of investors. After that, the placement of sovereign bonds, especially sovereign Eurobonds, in the international financial markets will be successful.

The market capitalization of Uzbek companies is very low, and the evaluation of participants other than commercial banks is almost non-existent. Compared to developed markets, international investors have a relatively low share in the turnover structure. The expected high return on capital is high due to the high level of country risks, which significantly limits the investment potential of the Republic of Uzbekistan.

June 2019, the Central Bank of the Republic of Uzbekistan conducted an anonymous survey on the funds of the population of the republic. According to the results of the survey, the Central Bank of Uzbekistan estimated that the population's savings amounted to \$ 10 billion. Unfortunately, these funds do not come to the stock market and are not directed to the economy. It is almost impossible to attract these funds to the stock market today. According to the results of monitoring on how the capital market should be formed, what are the factors against it, there is no confidence in the stock market among the owners of securities. In addition, the value of securities in the stock market of our country will not increase. In most cases, they are sold at a price lower than their face value. Second, many shareholders do not receive dividends on time. Last year, the Capital Market Development Department received more than 700 complaints in this regard, and about 500 of them do not pay dividends<sup>13</sup>.

We know that the banking market and the capital market are closely interrelated. The banking market is a barometer of the value of money. If the population's funds are attracted as an investment in the banking sector, that is, if a certain citizen places his funds in the form of deposits in commercial banks, he will earn up to 24% per annum. In addition, bank deposits of individuals are guaranteed by the state. Income from securities is, firstly, unknown in advance (amount of income), and secondly, there is no guarantee for such income. Therefore, investing in securities can lead to uncertainties in future earnings and "unsecured" the rate of return to be covered must be higher than the bank deposit rates, i.e. the risk premium must apply. Bonds should also be more attractive in terms of profitability than bank deposit rates. For such revenues to be secured through securities, the profitability of companies that place their shares on the stock market must also be much higher. Today, there are very few such companies operating in our country. It is not yet easy for companies looking to raise funds by placing their shares on the stock market.

In addition, the scale of "dollarization" in the national economy is extremely high. Uncertainty about the exchange rate of the soum against foreign currencies is high among the population and business. There are no clear forecasts for the dollar / soum exchange rate in the near future. However, in the Uzbek stock market, securities are traded in soums. Therefore, an investor who buys shares in soums will first need to consider the possibility of a high growth rate of the dollar / soum exchange rate in the future. In our country, the population sees the soum as an unstable or, in other words, "weak" currency, it has little confidence, almost no. Therefore, the development of the country's stock market is directly related to the stability of the national currency exchange rate (relative to foreign currencies).

<sup>13</sup>[https://mf.uz/uz/?option=com\\_content&view=article&id=898](https://mf.uz/uz/?option=com_content&view=article&id=898)



## CONCLUSION

In the global financial market, the stock market is approached and given serious attention as one of the most important means of attracting investment to governments, enterprises and organizations. Therefore, in today's national and global economic development, the issue of effective organization of investment flows through the stock market and the steady increase in profitability remains relevant.

The total value of shares in the national stock market is 25 trillion soums, which is less than 6% of GDP. The figure is 188 percent in Singapore, 112 percent in Malaysia and 34 percent in Russia. Government bonds issued in the country in 2021 were sold only to commercial banks through the currency exchange. The number of professional stock market participants is less than 100 .

During the activities of corporate issuers, the issuance of shares to form the authorized capital, the issuance of additional shares to increase the authorized capital, the issuance of corporate bonds, the issuance of corporate Eurobonds and international public offering of shares are carried out on a sequential basis. In this case, the next issue will be successful when each issue of securities is based on a mutually beneficial relationship with the owners of securities and the interests of the investor are satisfied.

The level of "dollarization" in the national economy is extremely high. Uncertainty about the exchange rate of the soum against foreign currencies is high among the population and business. There are no clear forecasts for the dollar / soum exchange rate in the near future. However, in the Uzbek stock market, securities are traded in soums. Therefore, the development of the country's stock market is directly related to the stability of the national currency exchange rate (relative to foreign currencies).

In the stock market of any country, the state is the most reliable issuer, and government bonds determine the break-even point. The main participants (buyers) in the government bond market in our country are state and commercial banks. We need to ensure the liquidity and openness of the government securities market of our country to all types of investors, which in turn will lead to some success.

The development of the national capital market will serve to increase the sovereign credit rating, credit rating of commercial banks and other joint-stock companies in the future. This, in turn, will lead to a sharp decline in interest rates on sovereign Eurobonds and corporate Eurobonds in international financial markets.

The interest rate on Eurobonds will be lower if the project to which the funds will be directed, whether sovereign or corporate Eurobonds, will be evaluated clearly and promisingly. From this point of view, in the future, state and corporate issuers should pay special attention to this aspect.

of funds raised for the placement of the first sovereign Eurobonds to commercial banks is not strategically important and only serves to cover the costs associated with the placement and payment of interest.

In order for the placement of sovereign or corporate Eurobonds to serve as a benchmark for other issuers, the capital value of Eurobonds must be disclosed.



## LIST OF REFERENCES

Elmirzaev, S. E., and A. K. Abdurakhmonov. "EUROBONDS AS AN INVESTMENT TOOL IN UZBEKISTAN." *International Finance and Accounting* 2020, no. 6 (2020): 16.

Adilova, G. J., and D. F. Shodiboeva. "ADVANTAGES OF USING EUROBONDS IN FINANCING PROJECTS IN UZBEKISTAN." *Frontline Marketing, Management and Economics Journal* 1.07 (2021): 1-8.

Van Meeteren, Michiel, and David Bassens. "World cities and the uneven geographies of financialization: Unveiling stratification and hierarchy in the world city archipelago." *International Journal of Urban and Regional Research* 40.1 (2016): 62-81.

INVESTMENTS, FOREIGN, and NOT JUST. "Belarusian Economic Research and Outreach Center Outreach Center." (2011).

Khan, Mohd Abdul Rahim, Shavkatov Navruzbek Shavkatovich, Bharti Nagpal, Anil Kumar, Mohd Anul Haq, V. Jeevika Tharini, Sathishkumar Karupusamy, and Malik Bader Alazzam. "OPTIMIZING HYBRID METAHEURISTIC ALGORITHM WITH CLUSTER HEAD TO IMPROVE PERFORMANCE METRICS ON THE IOT." *Theoretical Computer Science* (2022).

INVESTMENTS, FOREIGN, and NOT JUST. "Belarusian Economic Research and Outreach Center Outreach Center." (2011).

Lupenko, Yu O., A. O. Gutorov, and O. I. Gutorov. "Investment ensuring for development of integration relations in the agricultural sector of Ukrainian economy." *Financial and credit activity problems of theory and practice* 4.27 (2018): 381-389.

Lupenko, Yu O., A. O. Gutorov, and O. I. Gutorov. "Investment ensuring for development of integration relations in the agricultural sector of Ukrainian economy." *Financial and credit activity problems of theory and practice* 4.27 (2018): 381-389.