

THE PRACTICAL NECESSITY OF EUROBONDS IN THE FINANCIAL MARKET OF UZBEKISTAN AND THEIR IMPACT ON THE ECONOMY

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ABSTRACT

This article describes the activities of Uzbekistan in the world and domestic financial markets, international securities market and stock exchanges.

Keywords: stock market, stock exchange, eurobonds, commercial banks, issuer, regulatory capital, debt instrument, advantages, disadvantages of eurobonds.

The most important issue of banks' activity in the stock market is the performance of investor functions by banks. In Uzbekistan, there are restrictions on the activities of banks as investors in the securities market. In particular, banks can invest in securities if the amount of bank investments:

- a) the authorized capital of one enterprise, as well as other securities of this enterprise, should not exceed 15% of the regulatory capital of a first-class bank;
- b) the authorized capital and other securities of all issuers should not exceed 50% of the regulatory capital of the first-class bank;
- c) the amount of the bank's investments in non-government securities for sale and purchase should not exceed 25% of the regulatory capital of the first-class bank.¹

Based on the above recommendations, the commercial banks of Uzbekistan are gradually entering the world community. An example of this is that in February 2019, for the first time in the financial history of Uzbekistan, Eurobonds were sold on the London Stock Exchange, which is considered the world's prestigious and rich financial market.

Bonds, especially Eurobonds, are debt instruments. They are one of the financial instruments with fixed income. Bonds are securities issued by countries or corporations, but not stocks. Bonds have maturities of 5, 10, 30, and even 100 years. Once they are received and expire, the investor returns these instruments to the issuing organization or government, but at the same time receives a fixed income for the life of the investment. The investor benefits from the coupon rate. The organization that received the loan spends it on the implementation of its projects based on its obligations during the term of the loan.²

For the first time in the independent history of Uzbekistan, in 2019, 5-year Eurobonds of 500 million dollars were placed at 4.75%, and 10-year Eurobonds of 500 million dollars at 5.375%.³ Initially, the range of coupons was set at 5.625 - 5.75% and 6%, but due to high demand, Uzbekistan revised the interest rates and lowered them to 4.75% and 5.375%.

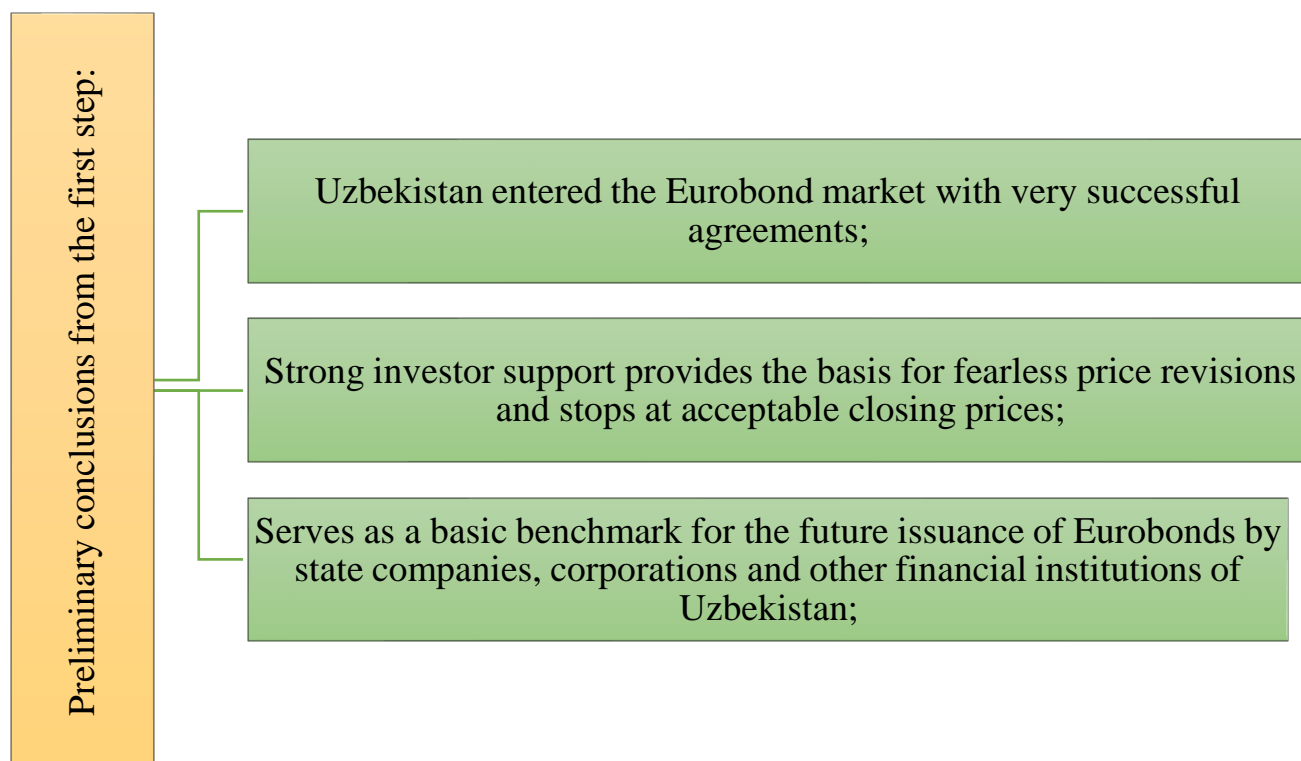
¹ https://training-center.uz/banki_na_rynke_cennyh_bumag_uzbeki#:~:text=B%20to%20je%20vremya%2C%20kommercheskie,xranit%20na%20onih%20denezhnye%20sredstva%2C

² <https://www.amerikaovozi.com/a/4808412.html>

³ <https://daryo.uz/2019/02/14/ozbekiston-tarixda-birinchi-1-mlrd-dollarlik-yevrobondlarni-joylashtirdi/>

About 150 institutional investors received bids of \$3.8 billion to buy the bonds. Geographically, UK investors accounted for the majority of purchases of 5-year and 10-year bonds (39% and 32%, respectively), while US investors accounted for 23% and 31% of bonds. European investors accounted for 32% and 27%, and investors from Asia, the Middle East and North Africa accounted for 6% and 10%.

The majority of Eurobonds - 75% and 78% were bought by management funds, 20% and 16% by insurance companies and pension funds, and 5% and 6% by banks.



It is the first sovereign bond placement of 2019 among the countries of the Commonwealth of Independent States.⁴

By the decision of the President on April 2, the list of recipients of proceeds from 5- and 10-year sovereign international bonds in the amount of 1 billion dollars was approved:

889.2 million dollars will be placed in deposits of commercial banks through an auction;

- \$20 million will be given as a loan to Agrobank ATB;
- 89.9 million dollars will be given as a loan to the state enterprise "Navoi Mining and Metallurgical Combine".⁵

For the second time in 2021, Uzbekistan placed international bonds worth 635 million dollars and 2.5 trillion soums on the London Stock Exchange. The main buyers of Eurobonds in dollars and soums were investment funds.

⁴ <https://daryo.uz/2019/02/14/ozbekiston-tarixda-birinchi-1-mlrd-dollarlik-yevrobondlarni-joylashtirdi/>

⁵ <https://www.gazeta.uz/oz/2019/04/05/yevrobondlar/>

Initially, the organizers of the bond issue expected a return on Eurobonds of around 4.25-4.375% for the dollar tranche and 14.5% for the som tranche, but then these indicators decreased.

After the order book was declared open, demand for dollar bonds exceeded \$2.25 billion, and for som bonds - over \$350 million.

According to the results of the sales, a 635 million dollar tranche was issued for a period of 10 years (payment period - October 19, 2031) with an annual income of 3.9%. Eurobonds worth 2.5 trillion soums (about 235 million dollars) were placed for 3 years (July 19, 2024) with an annual yield of 14%. The main buyers of Eurobonds in dollars and soums were investment funds (92%). Eurobonds were mostly bought in dollars in the USA (56%) and Great Britain (23%), and in soums in Great Britain (43%) and European countries (24%).⁶

Commercial banks of Uzbekistan are also actively participating in placing Eurobonds on the world market.

Table-1 The value of Eurobonds placed by commercial banks. (million dollars)

Name of banks	2020 y	2021 y
National Bank of Foreign Economic Activity of the Republic of Uzbekistan	300	54
"Ipoteka-bank" joint-stock commercial mortgage bank	300	75
Uzsanoatqurilishbank AT	300	75

In conclusion, it can be said that by the end of 2021, the banks that actively participated in the placement of Eurobonds were among the banks that saw high profits in the financial market. The profit of the 10 most profitable banks is 5 times more than the total profit of the remaining 17 banks.

1. "Uzsanoatqurilishbank" - 787.3 billion soums;
2. Uzmilliybank - 676.8 billion soums;
3. Mortgage bank - 587.7 billion soums;
4. Trustbank - 323.9 billion soums;
5. Hamkorbank - 303.6 billion soums;
6. Silk Road - 299.9 billion soums;
7. Village Construction Bank - 272 billion soums;
8. "Kapitalbank" - 267.8 billion soums;
9. "Asakabank" - 258 billion soums;
10. "Orient Finans" bank - 213.7 billion soums.⁷

⁶ <https://www.gazeta.uz/oz/2021/07/13/bonds/>

⁷ <https://www.gazeta.uz/oz/2021/11/15/banks/>

Eurobonds for the financial market of Uzbekistan have the following advantages and disadvantages.

Advantages of Eurobonds	Disadvantages of Eurobonds
Foreign currency securities help protect capital against depreciation.	Investing in Eurobonds involves risks inherent to all securities, as well as currency risks.
Eurobonds are liquid assets.	The latter is risky because the foreign currency is also subject to inflation, which results in the Eurobonds falling in value.
Most of them are issued by reliable issuers whose securities are in demand.	If the dollar or euro falls during the conversion, a loss will occur. The movement of currency quotes is difficult to predict.
Often their stocks are called blue chips. A liquid asset can be bought and sold quickly, and the cost between selling and buying costs is minimal.	If you decide to buy floating rate bonds, it may decrease due to events in the issuing country and globally.
The fixed rate of Eurobonds allows predicting the expected return.	The issuer of Eurobonds or any other debt securities cannot fulfill its financial obligations.
To get the correct result, it is enough to calculate the coupon yield and the yield to maturity. Such calculations are not possible with a floating exchange rate, because the income depends on the main rate of the Central Bank.	If the borrower defaults, the investor does not receive coupons and the face value of the note is not returned. After the liquidation of the enterprise, the money is returned to the creditors and investors, but this is a long process.

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