

# WAYS OF IMPROVING FOREIGN INVESTMENT FLOW THROUGH BONDS

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**Аннотация:** В статье рассматриваются перспективы увеличения потока иностранных инвестиций через облигации, основная часть инвестиций, выделяемых на финансовый рынок, осуществляется за счет финансовых вложений и ценных бумаг компании, в частности, через еврооблигации.

**Ключевые слова:** государственный долг, инвестиции, еврооблигации, рейтинг облигаций, финансовый рынок, доходность рынка облигаций.

**Abstract:** The article, the prospects of increasing the flow of foreign investments through bonds, the main part of the investments allocated to the financial market are carried out through financial investments and the securities of the company, in particular, through Eurobonds.

**Key words:** public debt, investments, Eurobonds, bond rating, financial market, bond market yield.

**INTRODUCTION.** It is difficult to imagine the development of the national economy without significant investments, in which the main role is assigned to the financial market and the main part of the investments is made through financial investments. An integral part of the current stage of development of the world economy is the rapid development of economic integration processes at the national and international levels.

In recent years, several decisions and decrees of the President have been adopted as a first practical step to strengthen Uzbekistan's position in international rankings and indexes. In particular, the decision of the President of the Republic of Uzbekistan dated July 21, 2018 "On additional measures to diversify sources of external financing" No. Decree No. PQ-4210 (Decree, 2019), Decree No. PF-5687 of March 7, 2019 "On Systematization of Measures to Improve the Rating of the Republic of Uzbekistan in International Ratings and Indexes" (Decree, 2019) and Decree No. PF-6003 of June 2, 2020 "On improving the position of the Republic of Uzbekistan in international ratings and indexes and introducing a new mechanism of systematic cooperation with them in state bodies and organizations" (Decree, 2020) was adopted.

This trend is manifested, in particular, in the increasingly active participation of subjects of global economic activity as debtors in the world financial market. This is mainly done through the company's securities, in particular Eurobonds.

**Literature review.** To date, they have been covered in the literature to a lesser extent by looking at eurobonds as a means of attracting investment, and in more depth in production sources. Although the modern Western scientific literature focuses on some problems of the main debt instrument market and the activity of judicial economic entities, a comprehensive analysis of the participation and production processes of the developing factors in the Eurobond market.

The main capital of the investment theory is found in the works of many famous scientists, such as Samuelson (Article, 1991), who covered the processes of attracting profitable investments through securities from Russian scientists.

Some methods of operation of Eurobonds developed by M. B. Hamidulin, N. R. Tursunova, I. L. Butikov (Textbook, 2004) and O' I. Alievalar (Article, 2019) were reviewed.

In addition, S. E. Elmirzayev, O. N. Khamdamov and N. Sh. The attractive aspects of Eurobonds such as Shavkatov (Article, 2020) are studied and their

beneficial aspects for the country are listed. Theoretical definitions are given in "financial market" textbooks.

According to him, support by the country is the financial market. It plays an important role in the modern economy in the process of integration into the international financial market. The same stable economy continues the market as economic growth, production of national currency, export management.

Thus, A. A. Suetin (Textbook, 2016), a professor at the Academy of Finance under the Russian government, believes that "the financial market is a money-place where the purchase and sale of financial capital is carried out." (Textbook, 2016), as a result of the analysis of the literature on the subject, a number of scientists and specialists conducted scientific research on the improvement of the international reputation of Eurobonds and their operations in the international capital market.

**Research methodology.** During this research, general methods of scientific analysis, as well as special statistical methods: questionnaire survey, statistical grouping, selective observation, economic indices, dynamic series, correlation-regression analysis and other methods were widely used.

**Analysis and results.** The role of the current state of the capital market in Uzbekistan in the economy of the Republic, its impact on the economy, the study of arguments that hinder the development of this system, the question of mitigating the negative consequences of the system and bringing the capital market to a new level, taking prompt measures was explained. In these reforms, activity in our country and the role of the world community were highlighted. The potential of the subjects of our economy to attract long-term investments and enter the international capital market was studied and analyzed. The economic indicators occurring in the activities of economic entities implementing this process were studied. The opportunities, theoretical and practical support implemented by the authorities of Uzbekistan in entering the international capital market were analyzed. Conclusions and suggestions were given for the perspective of this

activity. This article consists of three parts. The first part focuses on the history of the emergence of Eurobonds, and the second and third parts focus on the specific features of the issuance and circulation of Eurobonds.

Eurobonds are debt securities denominated in a currency other than the currency of the country or countries in which the bond is issued. They are usually issued by governments, multinational organizations or corporations to raise funds from international investors.

**Some key features of Eurobonds are:**

- **Currency:** Eurobonds are usually issued in a currency other than the national currency of the issuer. For example, a European country may issue bonds denominated in US dollars or Japanese yen.

- **International market:** Eurobonds are usually issued on international capital markets, which allows issuers to attract investment from global financial markets.

- **Diversification:** Eurobonds allow issuers to diversify their investor base beyond domestic investors and access a wider range of funding sources.

- **Regulatory framework:** Eurobonds are subject to regulatory requirements of issuing countries. However, there is no clear single regulatory framework for Eurobonds and they may be subject to different legal and tax regimes.

- **Yield and risk:** The yield of Eurobonds depends on various factors, including the creditworthiness of the issuer, prevailing interest rates and market demand. Eurobonds issued by highly rated organizations or countries with strong credit will have a lower yield than those with a lower credit rating or higher risk.

- **Maturity:** Eurobonds can have different maturities, from short-term (for example, a few months) to long-term (for example, several decades).

- **Trading:** Eurobonds are usually traded on the international secondary market, where investors can buy and sell them ahead of maturity. These bonds are

often listed on major global exchanges or sold over-the-counter (OTC) through broker-dealers.

It should be noted that Eurobonds should not be confused with bonds issued in Euros. Eurobonds can be denominated in any currency other than the national currency of the issuer.

Eurobonds are short-term, medium-term and long-term. Short-term up to 1 year, medium-term from 10 to 30 years, and long-term up to 40 years. This type of bond was first issued in Italy and is still active in European countries. Such papers have the following characteristics:

- these are the presenting securities;
- placed on several markets at the same time;
- is given for a long time
- as a rule, 10-30 years (up to 40);
- if the currency of the loan is foreign to both the issuer and the investor;
- eurobond has a dollar equivalent;
- interest on coupons is paid without tax deduction;

The main purpose of the Eurobond issuer to issue this bond is to seek alternative financial resources. In addition, it provides many conveniences to the Eurobond issuer. Save up to 20% on the cost of raising capital.

The issuer can issue Eurobonds to the capital market of several countries at the same time. Less obligations are imposed on the issuer.

International financial transactions are rapidly developing in the global Eurobond market. Training of personnel to meet these standards is one of the main reforms that need to be carried out now. In the future, the expansion of Uzbekistan's participation in the Eurobond market will lead to an increase in the

share of capital resources in the international financial market, an increase in the experience of our personnel, and as a result, an increase in the efficiency of Eurobonds placed at the right time and place. A successful placement of Eurobonds in a wide range of economic entities in the economy will ensure the accumulation of a large amount of capital resources and, of course, the coverage of more areas of financing. improves the investment attractiveness of our country and brings our country to the top at the international level.

As a sovereign state, Kazakhstan issues Eurobonds to raise funds for various purposes, such as financing infrastructure projects, financing budget deficits or refinancing debt. By issuing Eurobonds, the government of Kazakhstan is increasing the flow of foreign investments into the country. The main reason for the large volume of Eurobonds and low interest rates is the high sovereign credit rating of the country.

**Table 1**

**The volume of Eurobonds issued by Kazakhstan in 2020-2023**

<b>Issue Date</b>	<b>Maturity Date</b>	<b>Coupon Rate</b>	<b>Issue Size (USD)</b>	<b>Rating</b>
January 1, 2020	January 1, 2025	4,5%	500 mln dollar	BBB (S&P)
February 15, 2021	February 15, 2031	3,75%	1 bln dollar	Baa2 (Moody's)
July 10, 2022	July 10, 2032	5,0%	750 mln dollar	BBB+ (Fitch)
January 1, 2023	January 1, 2033	4,5%	500 mln dollar	BBB

*Source: Prepared based on data analyzed by the author.*

Kazakhstan was one of the first countries in the region to evaluate its sovereign credit rating. Uzbekistan first assessed its sovereign credit rating to rating agencies such as Standard & Poor's, Moody's and Fitch in 2018, while Kazakhstan assessed it in 1996 and today it is at BBB- stable level. This is very important for the country's mobilization of low-interest large-scale debt and

investment funds from international stock markets. In particular, in 2022 Moody's: Baa3 stable, Standard & Poor's (S&P): BBB- stable, Fitch Ratings: BBB stable.

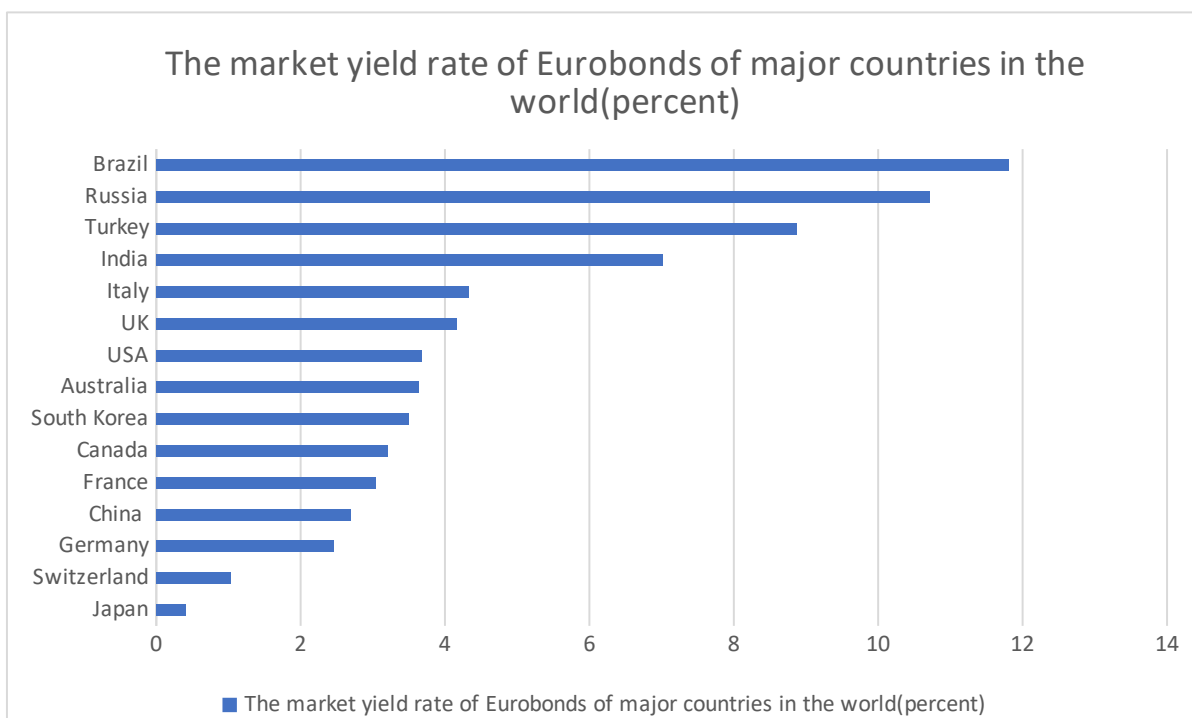
**Table 2**

<b>Country</b>	<b>Eurobond size</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>
Kazakhstan	11,8 bln dollar	2.875 %	2022
Uzbekistan	\$1,0 bln dollar	3.750 %	2025
Turkmenistan	0,7 bln dollar	4.625 %	2024
Kyrgyzstan	0,5 bln dollar	4.750 %	2024
Tajikistan	0,2 bln dollar	7.125 %	2025

**Eurobond market statistics of Central Asian countries (until September 2021)**

*Source: Prepared based on data analyzed by the author.*

Kazakhstan has issued the most Eurobonds among Central Asian countries, which indicates that it is an important player in the Eurobond market. Kazakhstan's Eurobonds have a relatively low interest rate of 2.875%, indicating that investors perceive Kazakhstan's securities as a low-risk investment. Uzbekistan has less debt than Kazakhstan, but despite the fact that it has been participating in the Eurobond market for 4-5 years, it has been very actively participating in international debt markets in recent years. Uzbek bonds of USD 500 million have a yield of 4.75% and 5.375%, and are slightly higher risk compared to Kazakhstan. Because the sovereign credit rating of Uzbekistan in 2023 BB- remains at a stable level. Turkmen bonds have less participation in the euro bond market than Kazakhstan and Uzbekistan. A high percentage of 4.625% means that investors view Turkmenistan as a high-risk investment compared to the previous two countries. In general, this analysis is very important to show the participation of Central Asian countries in the Eurobond market.



*Source: Prepared based on data analyzed by the author.*

**Figure 1. The market yield rate of Eurobonds of major countries in the world**

**Table 3**

**Eurobond market statistics of central countries (until September 2021)**

<b>Country</b>	<b>Eurobond rate</b>	<b>S&amp;P</b>	<b>Moody's</b>	<b>Fitch</b>
<b>Japan</b>	0,405%	A+	A1	A
<b>Switzerland</b>	1,033%	AAA	Aaa	AAA
<b>Germany</b>	2,463%	AAA	Aaa	AAA
<b>China</b>	2,701%	A	A1	A+
<b>France</b>	3,048%	AA	Aa2	AA
<b>Canada</b>	3,212%	AAA	Aaa	AAA
<b>South Korea</b>	3,494%	AA-	Aa2	AA-



<b>Australia</b>	3,634%	AAA	Aaa	AAA
<b>USA</b>	3,684%	AA+	Aaa	AAA
<b>UK</b>	4,159%	AA	Aa3	AA-
<b>Italy</b>	4,327%	BBB+	Baa3	BBB-
<b>India</b>	7,018%	BBB-	Baa3	BBB-
<b>Turkey</b>	8,870%	B+	B1	BB-
<b>Russia</b>	10,720%	BBB-	Baa2	BBB-
<b>Brazil</b>	11,810%	BB-	Ba2	BB

*Source: Prepared based on data analyzed by the author.*

If we analyze the above table, Switzerland, Germany, Canada, Australia and the USA are the countries with high ratings of all three major credit rating agencies (S&P, Moody's and Fitch). These countries are considered to have high creditworthiness and are perceived as low-risk borrowers. Turkey, India, Russia and Brazil have a relatively low ranking compared to the developed economies listed in the table. These countries may face higher debt costs due to the higher risks associated with their economies, in other words, the lower the rating, the higher the interest rate on the investments that will be attracted, which will help these countries to service their debts. leading to higher display costs.

Eurobonds issued by India, Turkey, Russia and Brazil have higher market rates than countries with higher credit ratings for several reasons. These are:

**Credit Risk:** These countries have credit ratings lower than investment grade ratings, indicating a higher perceived level of credit risk. Investors require higher returns to offset the increased risk associated with their bond investments.

**Economic Stability:** The economic stability and indicators of these countries are considered to be less stable compared to countries with higher credit ratings. Because of the political instability and sanctions in the world in recent years, there is a big crisis in the energy sector. This increases inflationary processes at the

global level, leading to fiscal deficits in countries, unemployment and instability of exchange rates. Bulae, in turn, led to an increase in market rates for Eurobonds.

Market sentiment: Investor sentiment and market perception play a crucial role in determining bond market rates. If investors perceive high risk or uncertainty in the economies of these countries, they may demand higher yields, which will lead to an increase in market rates for their Eurobonds.

Liquidity issues: Low liquidity in the secondary market for these countries' Eurobonds has also affected market rates. When liquidity is lower or the number of investors and security holders is limited, this results in wider bid-offer spreads and higher borrowing costs for issuers.

**CONCLUSION.** Global market conditions: external factors such as changes in global interest rates, market conditions relative to emerging markets or general market conditions affect the market rates of Eurobonds. These factors may affect demand and prices for bonds issued by these countries. It should be noted that market rates for Eurobonds may change over time as they are affected by factors such as the issuer's credit rating, market conditions and investor demand.

In recent years, the volume of Eurobonds in global debt markets has decreased significantly. The main reason for this is the oil, gas and energy crisis due to the ongoing political instability in the world since February 2022. This led to an increase in the prices of almost all production and services, which means that the inflationary processes became much faster. This, in turn, led to an increase in interest rates on global debt markets, that is, to an increase in debt costs. That's why many countries have reduced the volume of Eurobonds issue, taking into account the fact that debt costs are increasing. When inflation rises, investors typically demand a higher return on their investments to compensate for the decline in the purchasing power of future cash flows. As a result, market yields on Eurobonds may rise to reflect expected higher inflation.

**List of used literature:**

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