
Armenia Raises \$700 Million In Debut Eurobond Issue

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Dollars-US Debt-WASHINGTON, DC - MAY 20: Newly redesigned \$100 notes lay in stacks at the Bureau of Engraving and Printing on May 20, 2013 in Washington, DC.

The Armenian government has raised \$700 million from its first-ever sale of Eurobonds on international markets which will further increase the country's debt burden.

The Finance Ministry said on Friday that the 7-year bonds were sold through Deutsche Bank, HSBC and J.P. Morgan at a yield of 6 percent on Thursday.

A ministry statement portrayed the sale as a huge success, saying that investors were ready to buy as much as \$3 billion worth of Armenian external bonds. It quoted Finance Minister Davit Sargsian as saying that the government capitalized on the continuing low cost of borrowing in the United States.

'The Wall Street Journal' also spoke of 'strong investor demand' for Armenia's debut Eurobond issue in a report on the landmark development. 'The country used the revived demand for emerging-market assets to sell its debut bond deal,' it said.

Plans for the external commercial borrowing were first announced by Prime Minister Tigran Sarkisian in May. He did not clarify how the government intends to use proceeds from the Eurobond sale.

Other Armenian officials have also shed little light on this question since then. Finance Minister Sargsian on Friday said only that the government wants to 'diversify the country's financial sources.'

Reports in the Armenian press have said that the key purpose of the Eurobond issue is to repay a \$500 million loan that was allocated to Armenia by Russia in June 2009. The authorities in Yerevan were supposed to use the credit, repayable in 15 years, for alleviating severe consequences of a global economic crisis for the Armenian economy.

The Russians set a 4-year grace period for the loan, meaning that the Armenian side should start repaying it in the second half of this year. There have been no indications that they could reschedule the repayment as a result of Yerevan's recent decision to join a Russian-led customs union.

The Eurobond sale might also be connected with the recent completion of the International Monetary Fund's \$400 million lending program for Armenia launched in 2010. The cheaper IMF loans have been used for financing Armenian budget deficits and shoring up the country's hard currency reserves.

A senior IMF official told RFE/RL's Armenian service (Azatutyun.am) in June that Armenia is no longer viewed by the fund as a low-income country and is therefore likely to receive fresh loans on less favorable terms.

'A shift from multilateral credit facilities to international markets may increase investor confidence,' the Economist Intelligence Unit wrote

following Prime Minister Sarkisian's May announcement. The London-based think-tank said this could help Armenian private companies sell their corporate bonds abroad at more favorable rates.

The Eurobond sale also means a considerable increase in Armenia's foreign debt, which stood at roughly \$3.6 billion until now, having more than doubled since 2008.
