

International Bonds Market - Vietnam's Destination on the Way to Development and Integration

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1. Requirements of international bonds issuance

To release bonds to international investors is not easy. Investors will initially examine their credit rating. A credit rating assesses the creditworthiness of an individual, corporation, or even a country. Credit ratings are calculated from financial history and current assets and liabilities and tell a lender or investor the ability of the subject to pay back a loan.

A poor credit rating indicates a high risk of defaulting on a loan, and thus leads to high interest rates. The issuer must respect international common practice in process and procedure of issuance and bond repayment. These procedures are rather complicated and need careful and comprehensive preparations. In addition, companies must present their prospectus in line with international regulations. Charges of managing and underwriting issue of international bonds depend on the term of repayment (maturity), company's reputation and host country's position. These charges are commonly based on the percentage of total issuance value and discounting price.

2. Factors affecting bonds' interests

The definite interest of any bond is the top attractive factor to investors. International bonds have different rates of interest (coupon) and follow the rule: more risks, higher coupon. The following are factors affecting a bond interest:

+ The issuer's position

Investors highly appreciate the credit rating of famous and creditworthy debtors like the World Bank or the European Investment Bank, so their bonds have the lowest interest rates. As a result, to enhance the government and companies' creditworthiness is a must, this is indicated by credit rating of international institutions.

+ The bond maturity

The longer maturity has more potential risks; therefore investors require the bond to offer a higher coupon.

+ The scale of issue

If bonds are issued in larger quantity, they will be traded more easily. This also boosts up the bond liquidity in the secondary market, so their interests may be lower if the issue is larger.

+ The currency stability

The currency stability leans on political factors, balance of payment, inflation, etc. The unreliability of the currency used for bond repayment will increase interests for potential investors.

+ The supply and demand relation

The bonds with supply higher than demand must have interest rates high enough to attract investors.

+ The structure of the international bond market

The primary market: This market deals with the issuance of new securities. Companies, governments or public institutions can obtain funding through the sale of a new stock or bond issue. In the case of a new stock issue, this sale is called an initial public offering (IPO). Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus.

Like internal stock markets, the primary market of international bonds is also a place to settle the issue of new bonds. On this market, international financial groups or large investment banks are present to bid on underwriting a nation's bonds.

The secondary market: This market is necessary for trading bonds that have already been issued to the public. Alternatively, the secondary market can refer to the market for any kind of used goods. The market that exists in a new security just after the new issue, is often referred to as the after-market. Once a newly issued stock is listed on a stock exchange, investors and speculators can easily trade on the exchange, as market makers provide bids and offers in the new stock.

In the secondary market, bonds are transferred from one investor to another. It is therefore important that the market be highly liquid and transparent. Before electronic means of communications, the only way to create this liquidity was for investors and speculators to meet at a fixed place regularly.

+ Credit rating

Credit rating is extremely important because it reflects the market assessment of the issue and therefore affects the bond coupon. For markets such as Europe, credit rating is a must for international bonds in recent years, while in the US stock market; it becomes the prior concern of investors and stock companies.

3. Vietnam enters the international bonds market for the first time

The first release of Vietnamese bonds on the international capital market was an unexpected success with demand for the Vietnamese bonds six times greater than that offered. The number of international investors buying Vietnamese bonds was higher than seen for many years in the international capital market with 255 investors (while there were 150 investors purchased Indonesian government bonds in early October 2005). The total

demand for Vietnamese bonds was US\$4.5 billion. On the very first day of distribution in Hong Kong (October 19), foreign investors asked for around US\$1 billion worth Vietnamese bonds, twice the estimated release level. On October 26, after the Vietnamese Government decided to release US\$250 million more, the Vietnamese bonds' value as registered by foreign investors tripled, from more than US\$1 billion to nearly US\$3 billion. On October 29, the day the Vietnamese Government bonds were to be valued on the world financial market, foreign investors registered to acquire US\$4.5 billion worth bonds, six times the estimated US\$750 million value at this time.

Besides buying a huge amount of Vietnam's bonds, foreign investors were solid and reputable. Several powerful financial investors were willing to buy the total bond volume released by the Vietnamese Government. Several central banks and government investment institutions in several Asian countries ordered US\$50-100 million worth Vietnamese bonds. The distribution scale was broad and well proportioned. Asian investors took 38% of the bonds, while investors from Europe took 32%, and those from the US, 30%. As for investor structure, 51% of the investors were financial investment funds, 25% were banks, 17% were insurance companies, and the remaining seven% were other investment organizations.

Vietnamese government bonds have fascinated international investors due to the following reasons:

- Their high appreciation of Vietnamese government's efforts in maintaining stable socio-political conditions along with continuing economic growth. According to the US company Merrill Lynch, one of the world's leading financial consultancy and management, international investors should take part in the Vietnam's stock market because Vietnam is one of fast growing economies in Asia over the past years and it has boosted up economic reformation, restructured and equitized state-owned enterprises.

- The Vietnamese Government bond interest rates are lower than those of bonds of other regional countries in the international capital market. The fixed rate of interest for 10-year bonds is 7.125% per year, and the nominal rate of interest is 6.875% per year. This rate is lower than the initial estimated level of 7.25-7.5% per year. But, this rate of interest is favorable for Vietnam. The interest rate of 10-year Philippine government bonds is 8.1% per year, while 10-year Indonesian bonds are 7.8% per year.

The successful issue of Vietnamese bonds in the international market will make a breakthrough of capital mobilization for local corporations such as Vietnam Electric Corporation, Vietnam Petroleum Corporation... These corporations are about to become national financial groups and expand their operations to the world market. At present, they have carried out important projects requiring huge capital, therefore, the issue of international bonds is a feasible and effective measure while banks cannot

meet their demand and the ODA funds will be contracted.

4. Some measures to boost up the international issue of Vietnamese government bonds and corporate bonds

First, the government has to maintain socio-political stability and economic growth; and devise a long-term development strategy with effective projects which are able to absorb investment and repay debts.

Second, the country's legal frame must be compatible with international common practices. This will ensure and encourage investors.

Third, the Government needs to establish national credit rating agencies (CRA) to assess companies before they issue bonds in the international market. The company's credit rating will make their issuance easier and help international CRAs obtain grounds to rank the company.

Fourth, the Vietnam's stock market should be developed in line with IOSCO standards. Vietnamese securities need to be listed on the world stock markets, initially regional markets like Singapore... This will create liquidity for Vietnamese bonds and thus alluring investors. More importantly, they have chances to seek profits due to price difference.

In addition, companies which want to issue international bonds have to prepare the following conditions:

- First, they have to renovate their system of management, information, financial and accounting statement, secure their transparency and update information.

- Second, they should examine carefully the efficiency and feasibility of projects using loans. They even consider all possible risks of international bonds issuance. They need to calculate costs and eliminate unnecessary costs and wastes.

- Third, they have to plan the reception and disbursement of investment capital in line with the process of realizing projects because this is loan, so they should prepare sources to repay the interest and principal.

These careful preparations will promote the company's credit rating. Obviously, the issue of corporate bonds is much harder than that of government bonds, but the company's creditworthy enhancement will change foreign investors' recognition and persuade them to buy the company bonds.

In short, the Government and companies must carry out thorough investigations of the international financial market; important changes and events may impact variations of interest rates or foreign exchange rates and thereby arising risks will reduce the efficiency of this capital mobilization method. Careful preparations will ensure the success of bond issues, the efficiency of capital utilization and more importantly gain foreign investors' attention and confidence and eventually push up foreign capital flows into the Vietnam's securities market. ■