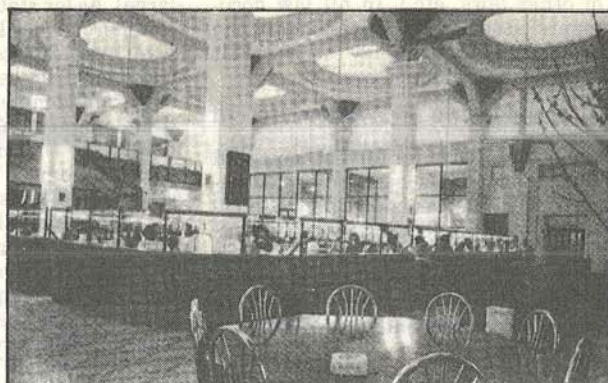


ISSUING BONDS IN INTERNATIONAL MARKETS BENEFITS AND CHALLENGES

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In order to accelerate the growth rate and double the personal income by 2000, the Government has paid a lot of attention to the mobilization of both foreign and local capital needed for the economic development and improvement of people's living standard.

Besides common foreign sources of capital such as direct investment, ODA, commercial loans, immigrant remittances, etc., the sale of government bonds and bills in foreign markets is also a matter of great importance. This is, however, a new and complicated business that requires us to be cautious.

I. In Vietnam's conditions, this way of mobilizing capital has the following advantages and disadvantages

1. Advantages

- The risk is reduced because a variety of investors is involved. Moreover, creditors have the advantage over the debtor in other relations.

- Their negotiability is high because they could be traded in secondary markets, so they are attractive to investors. This reason enables issuers to enjoy more preferential interest than other ways of borrowing.

- It could secure big loan (from US\$100 million to some billions) with long maturity (from several years to over a decade).

- To enhance the attractiveness of government bonds and bills; many sale promotion techniques could be used (to change bonds into shares, to give preferential treatment to buyers of bonds last issued, etc.). With these techniques, the price offered by underwriters could rise by 1%.

2. Disadvantages

- Vietnam bonds haven't been rated by international rating services, so we have to offer a higher



interest rate if we issue them without credit rating.

- We haven't enough experience of this business.

- We have to go through more complicated procedures and longer preparation than what should be done to secure loans of other kinds.

II. In addition, to issue bonds in international markets, we have to choose the kind of bonds, its maturity and markets appropriate to Vietnam's conditions. There are many markets for bonds in the world today:

- The global bond market: it includes many regional markets. In this market, the competition is very keen, the interest rate is lower than that in other markets, the bond maturity is longer (over 10 years), large amount of bonds can be issued (up to US\$3 billion), business transaction in this market is very lively. However, only companies with high credit ratings can take part in this market by issu-

ing a large amount of bonds in many markets simultaneously.

- The US bond market: it comprises two markets:

- + The US public market: this market is of keen competition. Bonds of long maturity could be traded in here in large quantities by professional investors. However the transactions in secondary markets is less active and bonds traded in here should be rated by famous rating services such as Standard & Poor's or Moody's.

- + Private bond market: Not-rated bonds could be traded in this market. Issuer and buyer will negotiate about interest rate, maturity and amount of bonds issued.

- Eurobond: This market is smaller than the US markets, and maturity of bonds traded in here is shorter (under 6 years). The negotiability of bonds traded in here is weaker than in two above-mentioned markets. Bonds issued here needn't to be rated but most of them are rated before issuance.

- Dragon bond market: it includes stock markets in Asian developing countries where the growth rate is high. Bonds traded here are of short maturity (under 5 years), issued by small quantities (US\$500 million at most), so their negotiability is low but the credit rating isn't required, therefore it's rather easy to issue bonds here.

III. Regardless of what the chosen market is and who the issuer is, the issuance of bonds should go through the following steps:

1. Negotiation: in this step, the issuer and the underwriter negotiate about everything relating to the issuance and make all necessary preparations. This step will take a lot of time. As a new issuer, Vietnam should

spend from two to three months on completing this step.

2. Authorization: the issuer signs the letter of offer and authorizes the underwriter to market bonds. This step will take from one month and a half to two months.

3. Issuance: Everything becomes official, all documents are signed and exchanged, all official requirements are fulfilled and bonds are offered and distributed to investors. This step can last for about a month.

Thus, for the first time Vietnam issues bonds in foreign financial markets, it will take us around five or six months to complete all three said steps. At other times when we have enough experience and our bonds are known by foreign investors, the issuance can take a shorter time (from two to three months).

IV. In order to succeed in entering foreign bond markets, a strategy with appropriate steps must be made out. More practically, we should solve the following problems:

1. Credit rating: In the long run, Vietnam's bonds need to be rated by qualified rating services so we can attract capital more easily at a lower interest rate. However, for the time being, this problem can be delayed because of many reasons:

- Getting rated will cost us a lot of money (from US\$60,000 to 100,000 for rating a bond) and take a long time (from 3 to 6 months, and even a year), whereas we are badly in need of capital now.

- Because our legal infrastructure is imperfect, numerical data and information are collected unsystematically, so it's hard to reach an exact credit rating, or our bonds could be underrated. This will make it difficult for us to mobilize foreign capital.

- Many countries entering international markets for the first time usually issue not-rated bonds (NR bonds). At later times, after some successful issuances, their bonds would get rated (bonds issued by Chinese and Czechoslovak governments for example).

2. Selected markets: because our bonds are not rated so at first we can't issue them in the global market and the US public market. In this case, we had better choose Asian markets, and then, the Eurobond market or the US private bond market where the credit rating isn't required. In these markets, some prestige underwriters (investment bankers or securities corporations) can help us sell out of bonds.

Later on, when our bonds are rated favorably, we can enter bigger markets.

3. Amount of bonds issued and maturity: When we issue bonds for the first time in international markets, we had better issue a small amount of bonds (worth about US\$100 million or 200 million), because the investing public have only a limited knowledge of Vietnam's bonds and we usually have to pay a high interest rate for the first issuance. Our bonds will have short maturity (from 3 to 5 years), because they are issued in Asian markets or Eurobond market where only short-term bonds or stocks are traded. Moreover, in the first time we issue bonds, if they are long-term bonds, we must pay a higher interest rate and we will meet with difficulty in



mobilizing foreign capital.

4. Interest rate: we can offer either floating rate or fixed rate of interest. The fixed rate is tied to the rate paid by the US Treasury bills and the floating rate could be tied to LIBOR for example.

In the first issuance, the Philippine government had to pay an interest rate of 7.8%, and at later times, the interest rate was reduced to about 6% when foreign investors became accustomed to Philippine bonds. Thus, we had better pay a rather high interest rate in order to ensure the success of our first issuance.

5. Issuer: Foreign experience shows that when a bond is issued for the first time, the issuer must be the Ministry of Finance or the central bank, because foreign investors with little knowledge of Vietnam's financial markets can only place trust in

the Ministry of Finance or the central bank. At later times, the issuer could be other legal entities (investment banker or securities corporations).

Selecting the issuer for the first issuance is a matter of great importance which will affect result of the issuance. According to foreign financial institutions, we had better select the Ministry of Finance as the first issuance because of the following reasons:

- The foreign investing public usually have more knowledge of banks and banking than of Vietnam's Ministry of Finance.

- The central bank is responsible for controlling foreign exchange reserves. This will make foreign investors feel sure about their investment.

- The capital mobilized by selling bonds will be allocated by the central bank to development projects through the banking system. This source of capital, therefore, will be well-managed, that is, the risk will be reduced.

- The first issuance can offer only a small amount of bonds with short maturity, so we had better not have it done by the Ministry of Finance, because the Ministry of Finance usually issue a large amount of bonds of long maturity.

However, regardless of who the issuer is, besides the plan for issuing government bonds in foreign markets, we have to make a detailed plan for employing this source of capital. Mobilizing capital is an urgent matter, but employing this source of capital effectively is a matter of greater importance.

Moreover, we have to choose carefully between the mobilization of foreign capital by issuing bonds and by attracting foreign direct investment or securing loans from foreign banks. When bondholders decide on retrieving their money, we will have no capability to stop them from doing it or to know why they do it, that is, we will face an economic crisis. Therefore, many economists warn that if we have to rely on foreign capital, we had better encourage foreign direct investment, because it's difficult for foreign investors to stop or change their projects as easily as bondholders do.

In other words, issuing bonds in international markets is similar to playing a game (or cards). Everybody wants to win. Results depend on experience, knowledge of playing rules and sobriety of each party. Naturally, we have to pay a price in order to play the game ■