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Vietnam's maiden international bond

Hanoi calling

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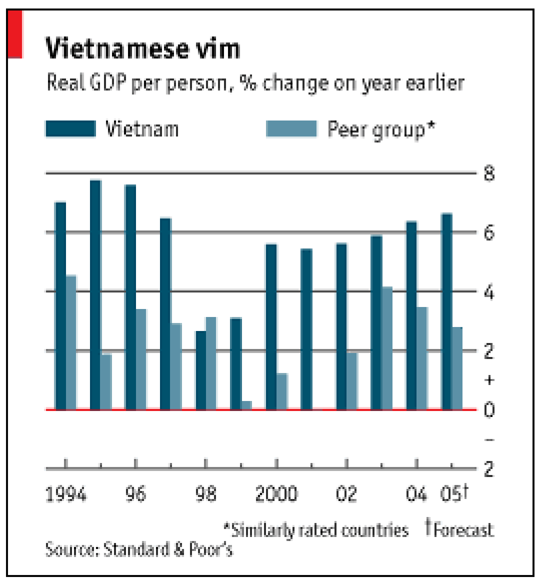
The capital markets welcome another communist refugee

FOR a socialist ingénue, Vietnam is navigating the global financial markets with considerable poise. The country's first overseas government-bond issue, on October 27th, met such strong demand that its size was increased from $500m to $750m and the yield tightened from 7.25% to 7.125%—a mere 2.5 percentage points above that on ten-year American Treasuries and a tighter spread than on comparable bonds from Indonesia and the Philippines.

Novelty and fund managers' desire to diversify their emerging-markets exposure away from large countries like Argentina and Brazil played a part. But Vietnam's attraction goes deeper. Many investors see it as a second China: a communist nation undergoing a steady, state-led transformation to capitalism. The economy is diversified, resource-rich and increasingly open, and is growing fast. GDP per head has risen at an annual rate of 5%-plus for the past five years, much faster than in countries with similar credit ratings (see chart).



Similarities to China do not end there. Secretly, foreign investors like the country's mix of liberal economics and social and political stability (in other words, lack of freedom). The regime in Hanoi has been more cautious than China's in pushing economic development, but its commitment to reform is clear. Vietnam's vibrant private sector has 60% of the economy, at least as big a share as China's. Foreign direct investment is rolling in, at over $2 billion a year. Vietnam hopes to join the World Trade Organisation next summer; WTO membership spurred reform in its vast northern neighbour.

Vietnam does not really need the money. Its public-sector debt is relatively modest at 54% of GDP, calculates Standard & Poor's (S&P), a rating agency, which is why the fresh funds are being spent on new ships for the state shipbuilding company and aircraft for the national airline, rather than anything more urgent. The bond's real significance is that it diversifies Vietnam's sources of financing and establishes a benchmark for future capital raisings, says Le Thi Bang Tam, the vice-finance minister.

The hope is that the country's big corporations, such as PetroVietnam, an oil-and-gas group, Vietnam Airlines and EVN, the state electricity company, will follow the government and raise funds on international markets. Eventually, private companies could too. There is a great need for this given the shallowness of the country's domestic capital markets, says Agost Benard, of S&P. Although Vietnam has two stockmarkets and a domestic bond market, its companies are still too reliant on a ramshackle state banking sector—another parallel with China.

There is a risk that, if allowed to borrow from abroad, Vietnamese companies might borrow too much and investors might lend too willingly. As recently as 1998, $850m of distressed commercial loans from Vietnam were repackaged into so-called Brady bonds because it could not repay them. This time, Hanoi is likely to keep a firmer rein on its charges.