DOMESTIC BOND v INTERNATIONAL BOND

DOMESTIC BOND

These relate to bonds issued and traded within the internal market of a country and denominated in the currency of the country. The entire process for this type of bonds, that is, from the issuance to redemption is regulated under that country's laws. Therefore, unlike international bonds, domestic or local bonds are not subject to currency risk or the different risks specific to international bonds (explained below). They are usually characterised by lower risk since the different regulatory and taxation requirements are already known to the investors or their brokers. In Mauritius, the "five-year Government of Mauritius (GoM) Savings Bonds" were recently issued to counter the excess liquidity in the banking system while promoting the saving culture in the Mauritian population and protecting interest income being eroded by inflation.

INTERNATIONAL BOND

The international bond market is made up of the Eurobond market and the foreign bond market.

The Eurobond market comprises bonds denominated in a currency other than that of the country in which they are issued. They are classified by their currency denomination. For example, Eurodollars are denominated in USD while a Euroyen bond would be denominated in Japanese Yen. All Eurobonds have notably 4 characteristics: being underwritten by an international syndicate; upon issuance, being offered simultaneously to investors in different countries; issued outside the jurisdiction of any single country; and being in unregistered form.

The foreign market involves bonds that are issued by foreign borrowers, that is, those entities which do not "reside" in the country in which the bonds are issued. A very good example of would be a bond that is issued by a non-Mauritian entity but then trades in the local market. Such bonds can be issued in any currency and can have colourful nicknames such as "Yankee Bonds" (foreign bonds issued in the U.S.), or "Bulldog Bonds" (sterling-denominated bonds traded in the U.K.).

Another type of a foreign bond is the Supranational. These bonds are issued when two or more central governments issue foreign bonds to promote economic development for the member countries. These include bonds issued by the International Bank for Reconstruction and Development, or World Bank, and the International American Development Bank.
This is quite similar to the so-called "Brady bonds". These are international bonds issued in US dollars in order to help developing countries better manage their international debt.

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DOMESTIC BOND v INTERNATIONAL BOND

International bonds are beneficial because these can be a tax-friendly way for companies to raise money in different foreign markets. With a Eurobond, a company won't fall under the wrath of one country's tax policy. This form of debt issuance allows for a potentially low-cost way to raise money in the world bond market. The Eurobond market allows investors to lend money in overseas markets without being double-taxed by two countries. Also, international bonds can help to spread interest rate and economic risk across a wide spectrum (diversifying the portfolio of an investor).

However, international bonds carry different types of risk as compared to domestic bonds. These include the exchange rate risk (possibility that the foreign currency will depreciate against the domestic currency), volatility risk (bonds from emerging national are more volatile because the regulatory frameworks are yet to be well-established), sovereign risk (risk associated with the laws of the country or events that may occur there such as restriction of flow of capital or nationalisation of issue) and disclosure risk (due to lack of disclosure about an issuer or the accounting rules therefore not reflecting the true financial status of the issuer).

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