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THE MUNICIPAL BONDS IN ROMANIA

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Abstract: *The local public administrations generally dispose of relatively reduced funds and there are often unable to raise local taxes; Therefore, in order to support the investment projects, they seek alternative sources of financing such as municipal bonds; They represent interest bear documents being issued by local authorities (counties, cities, small village towns) to attract resources needed for the financing of certain objectives. The advantages of Eurobonds issue are clear both to investors and issuers. They both avoid the financial intermediation of banks. The investors receive higher interests than at the deposits, and city halls borrow cheaper than if they would appeal to a bank loan.*
Key words: *bonds, investments, advantage, lower risk*

1. THE ADVANTAGES OF THE MUNICIPAL BONDS

The municipal bonds are movable values issued by the local authorities, especially cities and towns, through which are attracted funds form the capital market to finance some investment projects of local interest (Badea, 2005).

The main features of these types of securities are: bonds are instruments of the capital investment in the medium and long term; they express the debt of the holder over the issuer's assets asssembly; they also express the obligation of the debtor to the creditor who to makes its funds available for the first. The municipal bonds are issued by the territorial -administrative units with the following purposes (Grecu, 2008):
(a) Financing a new project of investments;
(b) Funding the repairing and maintenance of assets held by the issuer;
(c) Re - funding a eurobond issue already in circulation in order to reduce costs with the interest.

In Romania, the emissions of municipal bonds were not possible till 2001 because there had not been found the pandors to provide the security and the good development of such action, there was no legal basement to allow such operations.

The emissions of municipal bonds are a pretty recent apparition in the evolution of the Romanian capital market, because they became possible only the entering in rule of Law 189/1998 regarding the local public finance, replaced in the present by Law 273/2006, completed by the Govern's Emergency Order no. 64/2007. The legal frame of the municipal bonds emissions is completed with the Capital Market Law and with Regulation Romanian National Securities Commission no.1/2006, regarding the public offer of movable values and other financial instruments regarding the issuers and the movable values operations.

The reduced level of the local administrations available funds and the impossibility to increase the local taxes so as to get higher incomes cashed by the local budgets, impose the finding of some alternative financing sources to sustain the local investment programs. From the point of view of the costs, of the reimbursement terms, of the easiness to obtain financing, the obligatory loans are more advantageous in comparison with the bank loans (Grecu, 2009). For investors, the bonds offer an intermediary output between the shares holdings directly on the stock exchange and the bank deposits. They are also called "determinate income instruments", which refer to their coupon. Their enormous advantage to the deposits is that they are transactional on the organized markets.

In the mature markets, the volume of the transactions with bonds is bigger than the volume of transactions with shares or other derivate financial instruments. This is because the bonds market is the investment place of many investment banks and the bonds are their favorite instrument, from the corporative ones to Eurobonds, from those issued by the local administrations to the ones issued by governs or multi-national companies or national banks, etc (Prunea, 2007).

The bonds are always an alternative to the stock investment and to the bank deposits that is why they function quite reversely: if the stock or the interests to deposits decrease, the transactional prices of the bonds increase and vice-versa.

As to the influence of the currency market, generally it is the same: when the national currency decreases in comparison with other currency, the bond market increases and vice-versa. The advantages of the bond emissions are clear both for the investors and for city halls. They both avoid the financial intermediation of the banks. The investors receive higher interests than at deposits while the city halls get cheaper loans than if they would make a bank credit.

2. THE INTEREST FOR THE MUNICIPAL BONDS

For the first time after the World War II, in Romania, in 2001 two resort-towns in Romania, Mangalia and Predeal, proclaimed their independence to the state budget for investments in the sub-structure and launched a municipal bonds emission. For Romania, this was a premiere and this emission was also a test to see how things evolve (Prunea, 2005). The interest of these bonds was counted with an arithmetic average between the active and passive interests on the interbank market at which we add 2 percentage points for the titles issued by Mangalia and 3 for those issued by Predeal. These emissions of municipal bonds were later followed by other municipalities.

Presently, the interest for the municipal bonds is much below the values registered 9 years ago. From the current transactioned emissions at the Bucharest Stock Exchange, one started at the stock exchange in 2005, seven in 2007, eight in 2008, thirteen in 2009, and three in 2010. Nevertheless, the credit titles market at the Bucharest Stock Exchange is still modest even if lately, the number of bond emissions almost doubled.

Although from the number point of view, the credit titles emissions listed at the Stock quota should have insured a minimum cash amount, in reality, the number of transactions with such movable values was up to the present extremely low due to the reduced value of the emissions (Grecu, 2008).

3. MUNICIPAL BONDS PERSPECTIVES

Even if at first sight the total value of the bonds emissions and of the bank credits accessed by various municipalities was low, in the past years it increased significantly (Prunea, 2007).

Presently at Bucharest Stock Exchange there are present a series of 32 municipal bonds issued by 16 city halls, 1 village (Aninoasa) and 2 county (Alba and Hunedoara) councils that decided to finance their projects with the help of the capital market. Some of them were attracted by the bonds reaching the second, the third or even the sixth emission.

The market is reduced in value due to the few listings and to the small values; In the following years, the number of the municipalities to choose this solution of financing shall increase, being stimulated by the example given by those who each have at transaction more bond emissions and the money was efficiently invested in local development programs.

In the last years, various city halls in the country announced that they want to launch bond emissions on the local capital market. If initially neither the city halls, nor the state made loans on longer terms than seven years on the capital market, in the last years, the municipalities have tried the internal market with three times bigger maturities. Now, the mayors or the district boards launch bonds emissions on 18-20 de years.

Together with the apparition of the private pension funds, it was a bigger and bigger volume of bonds and long term loans.

In its turn, the Ministry of Finance had launched in 2008 the first state titles on fifteen years. These instruments is a reference point for other actors of the financial market too, interested in issuing bonds with higher and higher maturity.

In the next years, the municipalities shall have more and more work to do. The rehabilitation of the sub-structure shall benefit of the biggest structural funds, but to access them they will need their own money too. The money may be obtained through bank credits or bonds. More advantageous are the municipal bonds that can be run on longer periods and which are immediately “absorbed” by the market (insurers and private pension funds) considering that the non-payment risk is almost zero. The city halls need to attract money on longer terms in order to co-finance the projects for which they want to attract structural funds from the European Union. Especially the sub-structure works but other big local projects too, brought on the financial market with such titles the authorities;

The municipal bonds are among the most successful titles transactioned at the Bucharest Stock Exchange due to the interest over the market’s average and to the investment guarantee assured by municipalities.

In 2001, when the bonds reappeared on the securities market in Romania, many analysts were skeptical regarding the ability to support the loan (Stoica & Gruia, 2005). However, to date, there was no municipality to be delayed with the payment of the interest or of the principal amounts borrowed.

In the last three years the number of listed municipal bonds issues doubled (from 16 in 2007 to 32 in 2010). Few municipal bonds (like Iasi) used the bridge credit (a pre-finance of the future bond emission that allows the payment of the interest for the amounts used on the investment period only).

The offer for such titles becomes more and more consistent when the request shall also greatly increase in the following years. The most interested shall be the insurance companies, but mainly the administrators of the private pension funds.

Municipality	Number of listed bond issues today
Alba Iulia	4
Bacău	3
Targu Mures	2
Timisoara	6

Tab. 1. Municipal Bonds (Bucharest Stock Exchange)

They will need to put the contributors’ money into low risk instruments and on longer terms possible.

The municipal bonds and state titles fulfill all these conditions. That is why they could attract the interest of the foreign investors who would wish to build more diversified portfolios. A benefic effect over the future outputs of the municipal bonds shall also have the cash on the market and the presence of the non-residential interested in more various investment instruments (Grecu, 2008).

Moreover, the municipal bonds have the advantage of a very long running period with output over the market average, both for legal and natural persons. The outputs shall be influenced by the evolution of inflation that acts for decreasing, but also by a cash price for the mobilization of the amounts on longer terms, that act for the increasing of the output.

4. CONCLUSIONS

The municipal bonds represent a viable solution of funding for local governments, as well as an advantageous tool of saving for the agents. Once listed on the Stock Exchanges, these saving instruments give the investor the possibility to sell his bonds before maturity, obtaining the interest for the period under which he held them.

The interest shown to the municipal bonds prove that the issuers consider these instruments as an efficient way of financing their investment projects, while the investors find them an instrument which offers interests superior to those existent on the bank market and with a lower risk degree in comparison to the shares on the stock exchange.

The positive evolutions both of the emission values and of maturities mark a positive and correct direction of development of the municipal debt market in which the bonds are basically used for the long term financing of the municipality needs.

The signals were positive and we may expect that in some years all important cities in the country develop local investments based on the funds obtained from the bond emissions.

The appeal to the obligator loan is a process in continuous rise and of real interest in the local public administrations; this is an operational mechanism particularly useful under the general scheme of sustainable development and modernization.

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