The Romanian Municipal Bond Market and the International Financial Crisis

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Abstract: *In Romania, the bond market was set up later, comparatively to the equity market. This market is in a development process, but the international financial crisis has affected even the interest of investors in bonds. The secondary municipal bond market is not a very liquid market because these securities are bought from the primary market and held in portfolios by investors because these bonds have a low risk. The issue of these bonds is correlated with the financial independence and the level of decentralization of the local public authorities. The issuance of these bonds is correlated with financial independence and decentralization level specific to local public authorities. Under crisis conditions, the volatility of this market is more significant, the increasing deficits of local budgets decreasing the interest of the middle-class in investing in such financial instruments.*

Key words: *bonds, crisis, stock exchange, municipalities*

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1. Introduction

Municipal bonds have historically been desirable because of both their safety and tax savings. Even now they have lower risk (Fisher, G, 2010)[1]. The issuance of money is the most profitable for the local community if the attracted amounts are used for infrastructure investments. The confidence of buyers in the maturity reimbursement capacity is strengthened and the purchasing term decreases significantly. For the individual purchasing money are important the following elements that define the decision to invest and: money suitability, the tax free yield to taxable ratio, market fluctuation, proper time decision for selling before maturity, type of portfolio as well (Barbells vs Ladders).

The development of municipality bonds represents a push factor for local development in emerging economies where local development opportunities are several, yet the financial resources required for investment are insufficient. Increasing the attractiveness of the investment at local level by promoting municipal bonds leads to the involvement of the middle-class in local development. Inflation is the scourge of any fixed-income investment, so the real rate of return will define the final efficiency in investing in money or an alternative taxable investment. At the same time, the opportunity of net superior gains by redeeming before maturity or sale on the secondary market might take over some of the disadvantages on medium-term resulting from the unfavorable economic situation or from the survival risk of the maturity term of the money.

2. Role of the municipal bonds in local development

Increasing the autonomy of local communities rises, on one hand, the risk in accessing funds for significant local investments, but ensures opportunities for promoting some local development initiatives adjusted to the needs of the community from the viewpoint of necessity and utility, as well as under the aspect of stringency, respectively of its temporal definition. On the other hand, a performance local autonomy relies on the existence of financial resources, hence on a financial autonomy that would allow for implementing local policies. It is both about increasing efficiency and effectiveness of local authorities in ensuring specific local services and about the potential of economic growth – restructuring, diversification, absorption of technological progress outcomes by

[1] Gragg Fisher, chief investment officer of Gerstein Fisher, an investment advisory firm, USA, in *The Risks and Returns of Municipal Bonds*, by Paul Sullivan, http://www.nytimes.com/2010/04/10/your-money/10wealth.html.

investments in niche fields with development perspectives on medium- and long-term, and by creating/developing competitive specific markets. In this manner, the members of the community may participate also financially in the local development and in balancing the local demand for goods and services. Even though the gain rate is lower, the safety of placing money is high compared to the investment in bonds of companies, and is used in the case of some significant local investments – constructions, communication network, hospitals, schools, sports or cultural facilities, etc.

For an emerging country, sustainable local investment in infrastructure is an indispensable condition for healthy, sustainable economic growth, where the interests of the inhabitants as beneficiaries of the regional progress is combined with the investors' interest in best valuing invested money. The higher the share of local investors' in bonds, the higher the safety of the bond market and the confidence of the inhabitants in the local development perspective as promoted by the local authority. A major restriction to achieving this mutual support between local authority and the members of the community is represented by the transparency of using attracted funds by money and the dynamics of the local taxation increase, respectively the fiscal pressure exerted on the inhabitants through local taxes and duties. On medium- and long-term the efficiency of using bonds is higher than the one of increasing local taxation, particularly because of the triggering and support effect of the community on medium- and long-term, externalities are net positive and rendered concrete in enhancing some local development self-supporting economic flows. Strengthening local demand of goods and services and the existence of solvable consumption demand of local households allow for increasing the potential of attracting additional funds by issuing new local bonds.

Issuing local bonds has at the same time advantages and disadvantages from economic, social and financial viewpoint.

From the economic viewpoint, the possibility of using this instrument ensures the implementation of local development policies. Any investment generates employment and income increase in the local households, hence the demand on local market is triggered: determined by investment, by the diversification of individual and household consumption. At social level, the risk of poverty is diminished, and the return of the youth becomes attractive after finishing studies for employment and developing a career, and the availability of incomes for increased and diversified consumption of goods and services leads to improved social status, allows for personal development by education and continuing training and cultural progress. At financial level, the development of the money market not only revigorates the area under the aspect of financing opportunities, but also increases the appetite of new local or foreign investors in using this financial instrument for placing their monetary availabilities.

Policy makers in emerging economies have begun to identify a number of basic market strengths necessary to attract issuers and investors in a sustainable way[1]. The strengths are: a) on the demand side of municipal bonds - investor attraction: investor familiarity and confidence, ability to trade securities, freedom to invest, acceptable investment return, strong credit quality, information regarding risks, assistance in interpreting information; b) on the supply side of municipal bonds - issuer attraction: tolerable borrowing costs; long-term debt amortization, assistance to small borrowers, facilitating formal oversight. Additionally, municipality bonds performed better including in the case of redeeming, and for a long period of time money were regarded as the surest placement on the financial market. They represented a form of attracting population's savings and more prudent investors with a default rate for all money bonds of only 0.04% in the period 1970-2000 as against the default rate on corporate bonds (bonds issued by corporations) of 0.09%[2]. Moreover, recovery rates (that is, what you ultimately get back after a security has defaulted) on municipal bonds have typically been higher than the recovery rates on senior unsecured corporate bonds (roughly 60 percent versus 38 percent).

The disadvantages of municipal bonds may be synthesized in the following: a) relatively low interest (if gains from interest on bonds are non-taxable, then during the crisis period they turn into an advantageous financial instrument); b) relatively higher sensitivity to the influences propagated especially by the extended financial crisis period – in the last two years, the predictability and safety of municipal bonds changed into volatility so that under the conditions of extended financial crisis and of increased budgetary deficits the safety of municipality bonds decreased dramatically. Some experts, starting from the developments in the financial markets in Greece, Portugal, Spain, Ireland and France in the first half of 2010 and thereafter in the USA (Illinois, New York, Pennsylvania and California) appreciate

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[1] *Accelerating Municipal Bond Market Development in Emerging Economies: An Assessment of Strategies and Progress*, James Leigland, Senior Urban Policy Advisor, Center for International Development, RTI, http://www.developmentfunds.org/pubs/Accelerating%20Municipal%20Bond%20Mkt%20Dvpt.pdf

[2] http://www.marketoracle.co.uk/Article17320.html

that the Money Bond Market May Be the Next Phase of the Financial Crisis[1]. The issues are growing acute on the background of the officials' incapacity to promote anti-crisis measures that would generate the turnaround of the real economy based on a relatively stable or increasing domestic demand. Economic contraction and anti-crisis measures of diminishing current budgetary expenditures generated both diminished wages and growing unemployment, fact reflected in the local and national budgets by diminishing the surest incomes of the state that is taxes on income. But these reduced budgetary incomes are adjusted with the increased demand for social assistance (unemployment benefit and assistance services for poor individuals/families, etc.), hence pressures on increasing the budgetary deficit. Finally, greater deficit could generate eventually insolvency or default[2].

3. The dimensions of the European bond market

The bond market is a specific universe with many types of issuers, maturities, yields and specific clauses. Therefore, the bond market is different from the exchange traded derivatives and cash equity markets.

Taking into account the characteristics of the securities traded on the international market, the bonds are assets used by portfolio managers in order to diversify the risk and equilibrate the portfolios. At international level, the European market is the most important segment of bond market and the leaders are: BME Spanish Exchanges, London Stock Exchange and NASDAQ OMX Nordic Exchange (according with data presented in Table 1). The London Stock Exchange is the most dynamic stock exchange regarding the annual change between 2005 and 2008.

Table 1

Total value of bond trading (Domestic & Foreign bonds), million of US dollars

	2005	2006	2007	2008
Athens Exchange	49.7	5.6	18.4	41.7
BME Spanish Exchanges	4,092,370.6	4,980,429.9	5,862,636.5	6,839,481.3

[1] http://www.portfolio.com/views/blogs/daily-brief/2010/06/18/muni-bond-market-may-be-next-phase-of-financial-crisis si http://finance.yahoo.com/news/Are-Municipal-Bond-Defaults-etfguide-402145871.html?x=0&.v=1

[2] The problem is more serious in federal states, such as the USA, where lately municipal bonds covered local budget deficits. http://globaleconomy.foreignpolicyblogs.com/ 2010/06/20/ municipal-debt-the-next-financial-crisis/

	2005	2006	2007	2008
Borsa Italiana	154,240.8	156,069.7	206,009.7	258,063.9
Budapest Stock Exchange	1,391.3	1,672.9	1,160.8	2,371.8
Deutsche Börse	381,052.6	288,189.8	315,649.3	182,295.0
Ljubljana Stock Exchange	1,534.1	1,537.1	598.2	374.6
London Stock Exchange	3,008,685.9	3,305,356.8	3,603,164.5	6,567,404.8
Luxembourg Stock Exchange	2,423.1	1,633.2	616.7	84.2
NASDAQ OMX Nordic Exchange	3,100,530.8	2,885,596.2	2,798,076.4	2,923,512.4
NYSE Euronext (Europe)	176,859.2	390,174.0	194,724.0	48,681.9
Oslo Børs	100,232.9	111,719.1	105,896.5	126,190.4
Swiss Exchange	149,333.5	139,494.1	144,141.2	184,815.4
Warsaw Stock Exchange	813.0	897.8	636.7	1,032.3
Wiener Börse	425.4	625.1	784.3	1,176.0

Source: World Federation of Exchanges, http://www.world-exchanges.org.

The international financial crisis does not have a strong negative impact on bonds market; to the contrary, in some cases, the total value of bond trading has increased during the year 2009. The interest of investors in this type of securities is based on the risk level of bonds. In the period of financial crises, the institutional and individual investors have oriented themselves o low risk securities like corporate or Treasury bonds. During the year 2009, if we analyse the data published by the World Federation of Exchanges, we can observe that the number of bond issuers has decreased slowly with one exception: Deutsche Börse. Taking into account the structure of bond market, we notice three types of exchange:

- the exchanges where the most prominent sector is the domestic private sector like BME Spanish Exchanges, NASDAQ OMX Nordic Exchange, Warsaw Stock Exchange, Wiener Börse;
- the exchanges dominated by domestic public sector like: Borsa Italiana, Budapest Stock Exchange;
- the exchanges with an important foreign sector like NYSE Euronext, Luxembourg Stock Exchange and SIX Swiss Exchange.

Table 2

Total value of bond trading 2009 (million of US dollars)

	Total	Domestic private sector	Domestic public sector	Foreign
Athens Exchange	25.0	25.0	0.0	0.0
BME Spanish Exchanges	8,180,998.1	4,857,616.2	3,323,381.9	0.0
Borsa Italiana	303,447.8	9,184.5	278,241.5	16,021.8
Budapest SE	1,459.7	107.0	1,352.7	0.0
Deutsche Börse	139,068.7	18,287.7	94,869.6	25,911.4
Ljubljana SE	205.6	55.3	150.3	0.0
London SE	6,943,331.0	35,003.5	6,883,494.8	24,832.7
Luxembourg SE	74.6	0.0	0.1	74.5
NASDAQ OMX Nordic Exchange	2,257,282.3	1,437,419.1	817,905.6	1,957.6
NYSE Euronext (Europe)	61,310.3	NA	12,097.1	49,213.2
Oslo Børs	224,759.7	28,660.8	194,553.2	1,545.7
SIX Swiss Exchange	178,633.6	28,660.6	48,198.1	101,774.8
Warsaw SE	1,268.5	823.7	444.8	0.0
Wiener Börse	1,280.4	1,128.1	19.9	132.4

Source: World Federation of Exchanges, http://www.world-exchanges.org.

Even if the international financial crisis has affected the total value of bond trading, the financing of the institutions through the issue of bonds is an important tool for companies and public authorities. This fact is demonstrated by the increase in the value of bonds listed at the major European stock exchanges (Table 3).

Table 3

Value of bonds listed (million of US dollars)

	2005	2006	2007	2008
Athens Exchange	211,046.5	252,569.6	284,589.6	281,258.4
BME Spanish Exchanges	NA	1,230,030.3	1,621,213.5	1,700,202.0
Borsa Italiana	1,972,340.7	2,844,028.1	3,400,738.4	3,690,383.5
Budapest SE	36,881.3	46,305.7	58,358.1	52,204.7
Ljubljana SE	7,136.1	8,744.8	8,676.3	9,468.2
London SE	2,633,996.6	3,491,630.5	3,886,566.5	2,734,440.9
Luxembourg SE	6,655,030.2	7,485,205.9	7,942,855.2	8,467,270.5
NASDAQ OMX Nordic Exchange	686,293.9	824,182.5	837,953.2	823,324.5

	2005	2006	2007	2008
Oslo Børs	74,186.8	87,943.1	92,547.2	82,532.8
SIX Swiss Exchange	368,633.4	407,580.1	440,779.9	479,546.2
Warsaw SE	88,386.0	111,682.4	142,158.4	121,206.2
Wiener Börse	223,345.1	280,572.3	343,574.2	372,554.6

Source: World Federation of Exchanges, http://www.world-exchanges.org.

In the year 2009, the most important segment of the European bond market was the foreign segment according with the data present in the next table regarding the value of bonds listed in this year. The most important centers for listing foreign bonds are Deutsche Börse, Luxembourg Stock Exchange, Borsa Italiana and London Stock Exchange.

Table 4

Value of bonds listed in 2009 (million of US dollars)

	Total	Domestic private sector	Domestic public sector	Foreign
Athens Exchange	281,842.5	1,055.2	280,787.3	0.0
BME Spanish Exchanges	1,983,060.3	1,249,614.1	733,446.2	0.0
Borsa Italiana	4,336,754.2	70,271.1	2,009,098.5	2,257,384.6
Budapest Stock Exchange	60,289.6	6,298.5	53,991.1	0.0
Deutsche Börse	21,379,497.4	2,318,924.0	3,156,218.1	15,904,355.4
Ljubljana Stock Exchange	15,525.9	1,915.1	13,610.8	0.0
London Stock Exchange	4,841,514.5	2,160,397.8	1,105,840.1	1,575,276.6
Luxembourg Stock Exchange	8,828,508.0	0.0	2,869.4	8,825,638.6
NASDAQ OMX Nordic Exchange	2,461,693.0	1,567,575.3	891,965.6	2,152.1
Oslo Børs	140,961.3	48,774.2	90,133.8	2,053.2
SIX Swiss Exchange	504,186.5	89,974.9	116,016.6	298,195.0
Warsaw Stock Exchange	142,135.0	831.8	141,098.4	204.7
Wiener Börse	452,033.0	115,726.0	212,721.7	123,585.4

Source: World Federation of Exchanges, http://www.world-exchanges.org.

In addition, the intense activity of foreign issuers on the bond market is demonstrated by the number of these issuers on exchanges like Deutsche Börse, Irish Stock Exchangea and Luxembourg Stock Exchange. At these exchanges, the number of foreign issuers represents over 75% of the total number of the issuers. Taking in account the new capital raised by bonds, we remark the interest of the domestic public sector and of foreign entities for financing through bonds.

Table 5

Investment flows - New capital raised by bonds in 2009 (million of US dollars)

	Total	Domestic private sector	Domestic public sector	Foreign
Athens Exchange	12,270.9	0.0	12,270.9	0.0
Budapest SE	32,584.7	5,185.2	27,399.6	0.0
Deutsche Börse	504,381.0	4,407.2	486,468.1	13,505.7
Ljubljana Stock Exchange	5,759.0	167.8	5,591.2	0.0
London Stock Exchange	1,103,522.3	399,073.0	339,330.7	365,118.6
Luxembourg Stock Exchange	1,390,013.9	0.0	0.0	1,390,013.9
NASDAQ OMX Nordic Exchange	NA	NA	NA	NA
NYSE Euronext (Europe)	NA	NA	NA	NA
Oslo Børs	107,385.7	19,014.1	88,248.9	122.7
SIX Swiss Exchange	96,799.2	37,941.6	6,809.9	52,047.8
Warsaw SE	29,295.0	765.6	28,529.4	0.0
Wiener Börse	108,976.4	33,499.3	32,243.6	43,233.6

Source: World Federation of Exchanges, http://www.world-exchanges.org.

Despite the effects of the international financial crisis, the foreign sector of the bond market is the most active segment if we take into account the amount of capital raised by bonds in the last year. The most important transactions on the primary market take place at the London Stock Exchange and Luxembourg Stock Exchange.

The dimensions of the Romanian bond market

The public authorities have supported the set up and the development of the Romanian capital market through different instruments. The first steps were the launch of the Mass Privatization Program, the establishment of the Bucharest Stock Exchange and the listing of the main state-owned companies to this exchange. In addition, some state-owned companies like Transelectrica or Transgaz launched initial public offers (IPO) and now are listed at the Bucharest Stock Exchange.

The Romanian capital market is based manly on the equity market, but the bond market is in a process of consolidation and development. Even if the first bond issue took place in 1997, the reference year is 2001, when the first municipal bonds were issued by the towns of Predeal and Mangalia. Then many municipalities have decided to choose this type of financing and, in order to increase the interest of the local and foreign investors for these securities, they decided to list the bonds to the Bucharest Stock Exchange.

In the last 10 years, the local public administration underwent many changes because of the local decentralization, the regional economic development and the law improvement. The results consist in the increase in the local financial independence and the possibility of municipalities to make free decisions and to choose the sources in order to finance the local objectives. The issue of municipal bonds is possible because of the local decentralization and the sound financial situation of the municipalities, which must meet the criteria imposed by capital market regulations. The bonds issued by municipalities have been attractive for local and foreign investors because of the remuneration and the risk. For municipalities, this source of financing has lower costs than a bank credit (Mosteanu, Lacatus 2009).

Besides the efforts of the local authorities, we notice the support offered by international financial institutions to the development of the Romanian capital market. Prestigious international institutions like the European Investment Bank and the European Bank for Reconstruction and Development have launched bonds in 2007 and 2009 and have decided to list these bonds on the Bucharest Stock Exchange.

According to the National Bank of Romania, the public administration is the main issuer of bonds and the bond loans are used frequently in order to finance their activity. For many years, the Treasury bonds issued by Ministry of Finance have been traded on a secondary market administrated by the National Bank of Romania. For this reason, another reference year for the development of the Romanian bond market is 2008, when the Treasury bonds began to be listed and traded at the Bucharest Stock Exchange. The result was the increase in the number of the issuers but the effects of international financial crisis lessened the positive impact of this listing at the Bucharest Stock Exchange, according to data in the next table.

Table 6

The dimensions of the Romanian bond market

Year	No. of trading sessions	No. of transac-tions	No. of bonds sold	Value of bonds USD	Daily medium value (USD)	No. of issuers	No. of new issues listed
2001	17	5	45	152.96	9.00	2	2
2002	247	10	59,050	236,816.63	958.77	4	2
2003	241	39	187,870	5,137,570.66	21,317.72	10	8
2004	253	1.116	530,466	88,053,235.45	348,036.50	22	16
2005	247	394	397,101	44,677,765.23	180,881.64	19	6
2006	248	570	3,917,457	360,507,425.86	1,453,658.98	19	5
2007	250	268	6,652,467	325,861,099.76	1,303,444.40	22	11
2008	250	552	1,214,353	87,266,684.78	349,066.74	50	33
2009	250	965	2,892,920	432,363,959.36	1,729,455.84	60	16

Source: Bucharest Stock Exchange, www.bvb.ro.

Taking into account the data presented in the previous table, we notice the slow development of the bonds market. The first bonds listed on the Bucharest Stock Exchange were the municipal bonds issued by towns of Predeal and Mangalia. After these events, many local public authorities have decided to finance their activity through the issue of municipal bonds. In the year 2004, a new segment of the bond market was set up and the corporate bonds issued by some commercial banks listed at the Romanian exchange. At the end of the year 2009, the bond market has three components: the municipal bonds segment with 31 issues; the corporative bonds segment with 3 issues; and the treasury bonds segment with 26 issues.

Table 7

The bonds segment of the Bucharest Stock Exchange

	No. of issuers	Notional value of bonds issues (RON million)	The interval of interest rate
Municipal bonds	31	434.8	8.25-13.00%
Corporate bonds	3	704.15	7.00-17.26%
Treasury bonds	26	15,170.93	6.50-11.25%

Source: Bucharest Stock Exchange, www.bvb.rowww.bvb.ro, Monthly Bulletin 12/2009.

After analyzing the municipal bond prospect, we observed some similarities between issues because almost all the municipalities used the same advisory company – VMB Partners (Matei 2009). The main characteristics of the municipal bonds are presented hereunder:

- the bonds are dematerialised and nonconvertible, the issue is *al pari* and the bond redemption takes place at face value;
- almost all the loans are denominated in the local currency – RON;
- many municipal bonds are listed and traded at the Bucharest Stock Exchange; this is a signal for investors and demonstrates the financial power of the issuer;
- the sale of the bonds is usually made by means of banks such as the Romanian Commercial Bank and the Romanian Development Bank;
- the loans are reimbursed in equal half-yearly or quarterly installments;
- the bonds are guaranteed with the full tax power of the issuer, according to the law and prospectus; and the bond creditors` claims have priority over any subsequent claims of third parties to the local public administration ;
- the issuer pledges to pay the debt, the interest and the fees related to debt only from the local public administration incomes, and the government does not have any obligation to pay this debt;
- the interest rate is variable and is calculated on a quarterly basis according to the formula (ROBID+ROBOR +) / 2 + a spread of 0,1- 3%;
- the medium annual interest was 10.78% at the end of 2009, 15.5% at the end of 2008, 8.5% in 2007, 9.8% in 2006 and 8.1% in 2005[1];
- the investment financed by bond loans regards the cleaning stations, the modernization of the tourist roads, the municipal roads, the water system extensions and so on.

The first bond loans had small notional values and short maturities (2-5 years). After 2005, the notional values increases and the maturity of these loans is around 14-20 years; this situation can be explained by factors like: the need that municipalities finance long-term development programs, the rise of share of public revenues that can be used for the repayment of municipal bonds (from 20% to 30%) according to the law of local public finances; the trust of investors in

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[1] www.kmarket.ro , Evoluția pieței de capital în anul 2009.

the payment capacity of the Romanian municipalities and the use of a new financing technique: pre-finance bonds.

Table 8

The issues of municipal bonds available at the Bucharest Stock Exchange

Symbol	Issuer	Maturity	Loan value (RON)	Coupon	Price
ALB25	Alba Iulia Municipality	04/2025	8,000,000	10.50%	100.00
ALB25A	Alba Iulia Municipality	04/2025	8,000,000	10.50%	100.00
ALB25B	Alba Iulia Municipality	04/2025	8,500,000	10.50%	100.00
ALB26	Alba County Council	11/2026	50,000,000	11.06%	Not traded
ANI20	Aninoasa Commune	11/2020	3,000,000	11.92%	Not traded
BAC26	Bacau Municipality	10/2026	35,000,000	10.52%	99.00
BAC26A	Bacau Municipality	08/2026	35,000,000	10.01%	100.50
BAC26B	Bacau Municipality	11/2026	40,000,000	10.06%	Not traded
BHR20	Baile Herculane	12/2020	3,150,000	10.50%	Not traded
BIS29	Bistrita Municipality	11/2029	35,000,000	10.99%	Not traded
EFO17	Eforie City	12/2017	6,000,000	10.45%	99.99
FOC26	Focsani Municipality	11/2026	28,000,000	11.01%	Not traded
HUE26	Hunedoara County Council	02/2017	15,000,000	11.43%	93.00
HUE26A	Hunedoara County Council	08/2026	13,500,000	11.43%	81.36
HUE26B	Hunedoara County Council	08/2026	31,500,000	11.43%	100.00
IAS28	Iasi Municipality	11/2028	100,000,000	9.73%	98.10
LGJ14	Lugoj Town hall	09/2014	3,500,000	10.65%	100.00
NAV27	Navodari Municipality	06/2009	4,500,000	11.13%	Not traded
ORD10	Oradea Municipality	05/2010	15,000,000	13.00%	100.00
ORS29	Orastie Municipality	05/2029	12,500,000	11.06%	Not traded
ORV27	Oravita City	06/2027	6,000,000	10.70%	100.00
PRD26	Predeal City	06/2027	4,000,000	11.50%	Not traded
TEU20	Teius City	11/2019	1,500,000	10.65%	99.99
TGM27	Targu Mures Municipality	08/2027	20,000,000	11.22%	Not traded
TGM27A	Targu Mures Municipality	08/2027	32,000,000	11.22%	Not traded

Symbol	Issuer	Maturity	Loan value (RON)	Coupon	Price
TIM11	Timişoara Municipality	02/2011	20,000,000	8.25%	100.00
TIM26	Timişoara Municipality	05/2017	30.000.000	10.57%	97.00
TIM26A	Timişoara Municipality	05/2026	30.000.000	10.57%	97.00
TIM26B	Timişoara Municipality	05/2026	30.000.000	10.57%	100.00
TIM26C	Timişoara Municipality	05/2026	30.000.000	10.57%	98.00
TIM26D	Timişoara Municipality	05/2026	30.000.000	10.57%	Not traded

Source: www.kmarket.ro, Evoluția pieței de capital în anul 2009.

The data presented in Table 8 demonstrate that the secondary market of municipal bonds is not very liquid because many bonds are not traded. This situation is due to the investors that buy the bonds from the primary market but keep these securities in their portfolios many years, sometimes until the maturity of the bond loans. Another characteristic of the Romanian municipal bond market can be observed: the high concentration of this market is dominated by few important issuers like the cities of Timisoara, Iasi, Targu Mures. Regarding the geographical distribution of the issuers, we may observe that the municipalities that use this financing technique are spread all over the country, but the most important loans have been raised by the municipalities from Moldova and Transylvania.

Table 9

The commitments of local administrations
(stocks at the end of the year)

Commitments/ year	2001	2002	2003	2004	2005	2006	2007	2008
Securities, other than shares and derivatives (RON million)	1	12	61	93	1,902	1,838	2,048	1,749
Total (RON million)	1,460	2,330	2,619	3,109	5,392	6,616	10,122	12,662
Weight of securities in total commitments	0.07%	0.51%	2.33%	2.99%	35.27%	27.78%	20.23%	13.81%

Source: The National Bank of Romania, www.bnr.ro.

The presence of municipalities on the capital market has consequences on their activity. The financial independence, the local decentralization and the need for local development have forced the municipalities to find new ways to finance their activity. In order to gain the investors' confidence, the municipalities have paid attention to the way of collecting and managing the resources (Mosteanu, Lacatus 2009) and to the efficiency of their activity. In addition, many municipalities like Predeal, Alba Iulia, Timişoara, and Oradea launched several bond loans. This fact demonstrates the success of these entities on the capital markets and the interest of investors in the municipality bonds. But the presence of the municipalities on the capital market as issuers of bonds is modest if we take in account the weight of bond loans in the total local financing resources (the figures presented in Table 9).

Conclusions

In Romania, the Treasury bond segment dominates the bond market. This fact is normal. The international financial crisis has major effects on the international capital market and the results consist in the decrease of the share prices and the increase in demand for government bonds (BIS 2010). But the recent events in Greece determined the lowering of Greece's sovereign rating by the major rating agencies – Moody`s, Standard&Poor`s and Fitch. So, in this period, even the Treasury bonds are not risk-free securities.

The development of the Romanian municipal bond market is shown by the increase in the notional value of loans and of the maturity of the bonds. The Romanian bond market is not a very volatile market and many bonds are not traded currently at the Bucharest Stock Exchange. Some issuers like the municipalities of Iaşi or Timişoara dominate the market, so this market is highly concentrated.

Another drawback of the municipal bond market is the lack of transparency. According to legal commitments, the issuers of municipal bonds are not obliged to inform and publish reports regarding their activity. Thus, the investors do not have enough information from the issuers and they must inform themselves from mass media or other sources, like the report of the Romanian Court of Accounts. On the bond market, the rating activity of bonds is essential. In Romania, a rating company named Bucharest Equity Research Group initiated the activity of bond rating, but, at present, the information about municipal bonds is not available any longer. So, for investors, the rating of bonds could be an important instrument to substantiate the buying or selling decisions on the secondary market.

The officials of the International Monetary Fund have made some appreciations regarding the Romanian municipal bond market. The actual law of local public finances induces the idea that the municipal bond loans are guaranteed by the Romanian Government because all the local entities must get the approval from the Notice Commission of the Local Loans (that is in the subordination to Romanian Government). Therefore, the Ministry of Finance intends to improve this law and thereby the investors will have a proper image about the risk of municipal bonds.

Compared with other markets, the Romanian one has small dimensions and the interest of investors is decreasing. For example, at the beginning of this year, the town of Botoşani failed to issue municipal bonds and the offer was unsuccessful because only few investors subscribed the bonds. Other municipalities like Oravița and Hundeoara delayed the payment of the interests because of some financial and political problems.

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