



## THE BULGARIAN MUNICIPAL BOND MARKET – SITUATION ANALYSIS AND PERSPECTIVES FOR DEVELOPMENT IN THE POST-CRISIS PERIOD

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**Abstract:** This paper dwells on the analysis of the issued municipal bond in Bulgaria after 2009 in the context of the development of the US and European municipal bond market. The accent is on the comparative study on the Romanian municipal bond market. On this basis are defined the main problems that block establishment of the municipal bond segment in the Bulgarian capital market and are outlined directions for its development.

**Keywords:** municipal bonds, capital market, securities, sub-sovereign bonds, green bonds, pre-funded and pre-funding bonds.

### INTRODUCTION

The intention to decentralization of the public government has its own origin in the global and regional scope. The principle “Think globally, act locally” is well-known and his application creates new words as *glocal* and *glocalization* (combination of *global* and *local*). Across Europe, local and regional authorities account for two-thirds ( $\sim 178.9$  billion in 2011) of total public investment expenditure (Taylor, 2014). In Bulgaria the proportion of municipality capital costs in the consolidated fiscal program is about 43% for the first half of 2017 (According Ministry of Finance data).

The process of fiscal decentralization of the municipalities obtains his own summit with the amendment to Bulgarian Constitution and the amendments to the Local Taxes and Fees Act, in force from the beginning of 2017, through which the Municipality councils get the possibility to define the rates of their own taxes according to the law requirements. But formerly, as expression of the intention of financial sources diversification and the enhancement the local government’s credit, are issued the first municipal bonds – pioneer, but unsuccessful issue of Plovdiv Municipality during 1994 (Totev, 1996), and the Eurobonds of Sofia Municipality and domestic bond loan of Svishtov Municipality from 1999 (Tsonkova, 2006). Thus the establishment of the Bulgarian municipality bond market outrun the issuance of the securities from Romanian municipalities – the debut of the bonds of Predeal and Mangalia Municipality barely during 2001 (according information at: [www.bvb.ro](http://www.bvb.ro)). From 1999 to 2007 in Bulgaria is available fairly bright presence of the segment for municipal bonds, alongside with the development of the corporate bond market. In the reality of the financial crises and the post-crises period the municipalities face ongoing challenges, related to the need for financial resources for providing the stability of the local budgets and for forcing the social-economic development of the regions, which are reasonable to be realized through the means of debt securities also.

### THE LOOK ON THE MUNICIPAL BONDS

The municipal bonds are debt securities, issued by states, municipalities, regions for financing capital expenditure, including reconstruction of roads, bridges, schools ([www.investopedia.com](http://www.investopedia.com)). The municipal securities are not only alternative of bank loans, but their existence derives from the fact that “many issuers don’t have right to issue shares, because they don’t own equity capital” (Bond Market, 2009, p. 28). These are central and local authorities. As advantages of the bond financing to bank financing should be highlighted:

- The possibilities for raising large sums of money from diversified investors base;
- Lower cost of capital;
- Longer maturity in long-term projects.

For individual and institutional investors municipal bonds give relatively low-risk alternative for investing free cash. Traditionally dominating investors in the bond market are banks, insurance companies and individual investors (Parushev, 1995, p. 19). The municipal bonds are traded primarily in the over-the-counter market. In the USA, where is the most developed municipal bonds market, the electronic platform The Bond Buyer's is used (Fabozzi, 2000, p. 454). It is interesting to point out that on the secondary market are traded relatively small volumes of municipal bond, because private investors prefer to buy newly issued securities and to hold the maturity (buy-and-hold) (Sharp, Gordon & Bailey, 1999, p. 402).

In most legislation municipal securities are with favourable tax status – for example in the US, interest payments are exempt from taxation with federal taxes. At the same time, if the investors live in the state or in the municipality that has issued bonds, then they are exempt from paying not only federal, but also state and municipal income tax on the interests (Sharp, Gordon & Bailey, 1999, p. 399–400). Tax preferences and low-risk status are the reason why the municipal bonds have lower yield than government securities (see Treasury Direct site), which means that the price for repayment the bond loan is less, thus being a type of federal subsidy.

In Bulgaria, as a result of legislation amendments and requirements for compliance with the principle of fiscal neutrality, the income from interest and discounts on government, municipal and corporate bonds is not subject to personal income tax (Personal Income Tax Act. SG. № 95/2006, latest amendments SG. № 98/2016, Art. 13, subpar. 1, it. 9). At the same time, the capital gain from debt securities trading is taxable for both individuals and legal persons. But tax unifications of financial instruments with respect to trading on the regulated market could contribute to market liquidity (Tsonkova, 2006, p. 159).

According to Valentina Vasile and Mirela Matei, researchers on the Romanian municipal bond market, the issuance of municipal securities has advantages and disadvantages from economic, social and financial point of view and thus has specific dimensions for the so-called emerging economies (Vasile, 2010). Undoubtedly, the existence of a municipal bond market in Bulgaria is a key factor in accelerating the process of local infrastructure development, on the one hand, and the diversification of investment opportunities and the development of the financial market, on the other.

### **DIMENSIONS OF THE MUNICIPAL BONDS MARKET IN THE USA AND EUROPE**

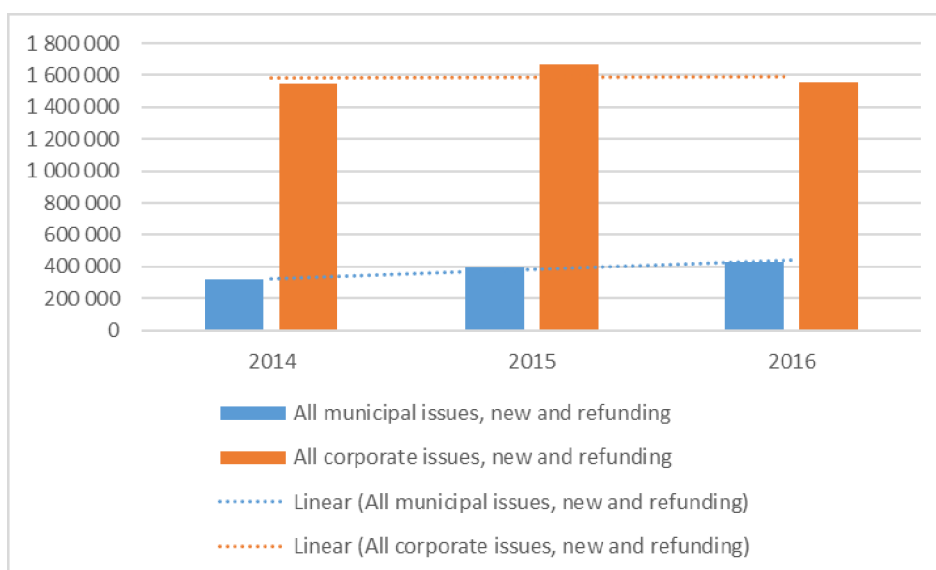
The structure of the municipal bonds market is determined by the administrative and territorial structure and traditions of the country concerned. In this sense, often in specialized literature and investment practice, the terms “sub-sovereign bonds” or “sub-sovereign securities” are used to sum up the securities issued by the administrative-territorial units of different levels.

Comparison of municipal bond markets between countries is difficult because of the different sources of information and the different levels of its aggregation and presentation. However, the available databases allow the pointing out some market relations and trends. In the United States, the following sub-sovereign issuers are distinguished: states, special districts or statutory authorities (e.g. school districts), municipalities, counties and townships (Federal Reserve, Release Date: March 2018).

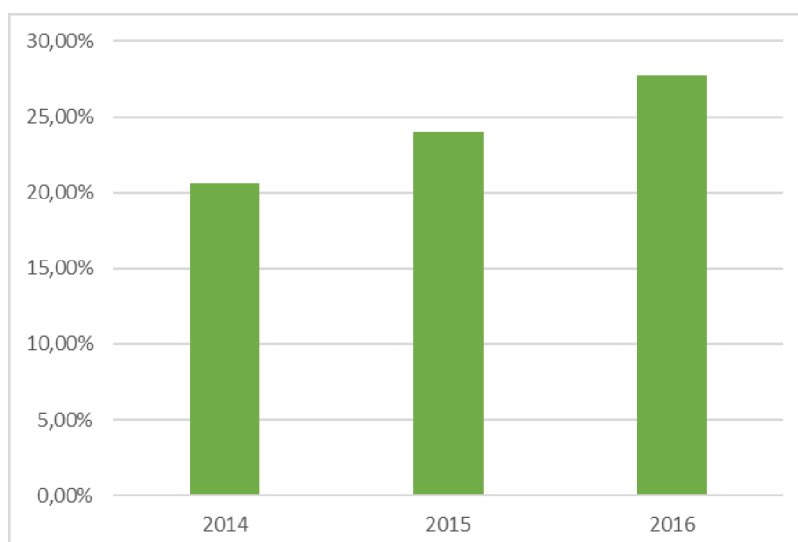
**Table 1.** Comparison of municipal security issues (State and Local Governments) vs. corporation bond issues in the USA (new and refunding)

	2014	2015	2016
All municipal issues, new and refunding	318 478	399 597	430 995
All corporate issues, new and refunding	1 546 089	1 664 185	1 552 312
Relative share of municipal bond issues to corporate bond issues	20,60%	24,01%	27,76%

Source: Federal Reserve System



**Fig. 1.** Dynamics of bond issues issued by state and local authorities and corporate bonds in the US (2014 – 2016)



**Fig. 2.** Dynamics of the relative share of US municipal bond issues to US corporate bonds (2014 – 2016)

Table 1, Fig. 1 and Fig. 2 highlight the significant scale of the US sub-sovereign primary market despite the superiority of corporation bonds. Issues of sub-sovereign bonds record a growing presence for the period 2014-2016, reaching from 20% to 27% to the scale of corporate bond issues.

**Table 2.** Structure of the sub-sovereign securities issues in the USA

	2014	2015	2016
All municipal issues, new and refunding	318 478	399 597	430 995
<i>By type of issue</i>			
General Obligation Bonds	126 388	161 147	161 394
Revenue Bonds	192 089	238 688	269 859
Relative share of General Obligation Bonds	39,69%	40,33%	37,45%
Relative share of Revenue Bonds	60,31%	59,73%	62,61%
Issues for new capital	140 826	169 532	168 426

Relative share of issues for new capital	44,22%	42,43%	39,08%
<i>By use of proceeds</i>			
Education	36 173	46 523	50 433
Transportation	15 989	13 945	19 595
Utilities and conservation	5 028	8 477	3 861
Industrial aid	12 573	14 696	14 119
Other purposes	54 545	56 027	56 702

Source: Federal Reserve System

The information in Table 2 shows that the income bonds – i.e. those that are paid out of the proceeds of the financed project are about 60% of all issues, and the general obligation bonds (secured by all expected receivables of the issuer) – about 40%. At the same time, the issues for new capital ranges from 40-45%, and the rest is therefore linked to refinancing of old issues or debt restructuring. It is worth noting the various goals of using the accumulated resources – school infrastructure, transportation, industrial support, water supply and sewerage and other communal construction.

The scale of sub-sovereign bond financing in Europe can hardly be traced through aggregate data, both due to the specificities of administrative and territorial planning and to the different markets for primary supply and secondary trading. One way to study municipal bond markets is via the World Federation of Exchange (WFE) databases. Annual information on debt trading is also presented for some Europe's stock exchanges but is structured for the following three groups of issuers: the domestic private sector, the domestic public sector and the foreign sector. In table with information for “number of issuers”, it is logical number 1 in the column “domestic public sector” to be interpreted that only government securities are traded (the Athens Stock Exchange in 2016, the Istanbul Stock Exchange, the Malta Stock Exchange, the Irish Stock Exchange). While where the number in the same column is above 1, sub-sovereign securities are also traded (Moscow Stock Exchange, Oslo Bors, Swiss Exchange). On these exchanges, public sector issuers (regional and local authorities) are increasing in 2016 compared to 2015 (Table 3).

**Table 3.** Number of available public-sector bond issuers in Europe region

Борца	number of domestic issuers, public sector	
	2015	2016
Athens SE	25	1
Irish SE	1	1
Borsa Istanbul	1	1
Moscow exchange	46	47
Malta SE	1	1
Oslo Bors	16	63
SIX Swiss Exchange	10	26

Source: World Federation of Exchanges members

In the most powerful EU economy – the German one, it is logical that the scale of the municipal securities market is the largest. It is over-the-counter, and the outstanding bond issues are below 20% of outstanding corporate bonds (Table 4). The German sub-sovereign debt market has a modest relative presence compared to the US equivalent market. In addition to the euro-denominated municipal bonds, they are also issued in USD, GBP and CHF, but their volumes are scarce in comparison to euro-denominated bonds and considerably smaller than corporate bonds (Financial C bonds information, Germany bond).

**Table 4.** Comparison of outstanding euro-denominated issues municipal vs. corporate bonds in Germany

August 2017	number of euro-denominated issues	volume of euro-denominated issues
outstanding issues of municipal bonds	902	299 941 215 970
outstanding issues of corporate bonds	9 278	1 597 318 621 428
relative share of municipal bonds to corporate bonds		18,78%

Source: cbonds.com

The aggregated information from the Federation of European Securities Exchanges about secondary bonds trading divides registered issues, transactions and turnover with sovereign bonds, on the one hand, and sub-sovereign bonds, on the other. From the presented statistics by months for the period 2015 - 2017 it is evident that there are registered municipal bonds on the following exchanges: Bucharest SE, Prague SE, Irish SE (foreign municipal securities), Swiss SE, Warsaw SE, Ljubljana SE (Table 5 for July 2017). The Bulgarian Stock Exchange is included in the bulletins only with one registered issue in the beginning of 2015 (Shumen Municipality bonds, repaid). The only three exchanges for which information for sub-sovereign trading is available in 2017 are the Bucharest Stock Exchange, the Oslo Stock Exchange and the Warsaw Stock Exchange (Table 6). The number of trades is scarce and the turnover is low, even single on the Bucharest and Warsaw Stock Exchanges, where the transactions are realized through the electronic order book. Transactions at the Oslo Stock Exchange are more, but they are negotiated through the off-electronic order book.

**Table 5.** Registered issues of sub-sovereign bonds (July 2017)

	Registered sub-sovereign bonds
Bucharest SE	38
CEESEG - Prague	2
Irish SE	12
Warsaw SE	63
общо	115

**Table 6.** Trades and Turnovers with Sub-Sovereign Bonds on Exchange Markets (June 2017)

	Electronic Order Book Transactions		Off-Electronic Order Book Transactions	
	Trades	Turnover (EUR m)	Trades	Turnover (EUR m)
Bucharest SE	15	0,2	0	0
Oslo SE	n/a	n/a	164	1706,1
Warsaw SE	11	2,4	0	0

Source: Federation of European Securities Exchanges

The following trends in the European municipal securities markets stand out:

- The presence of the sub-sovereign securities on the capital market has increased considerably, partly due to the need for financing day-to-day public services operations and capital infrastructure in roads, hospitals, bridges, etc., and due to the government's fiscal constraints (see web site of Investing in Bonds Europe, Sub-Sovereign Bonds).

- The participation of individual investors in Europe is considerably less than in the US because of the considerable tax advantages in the USA. However, in some countries in Europe, for example in Germany, individual investors are more willing to participate in the sub-sovereign securities market (see web site of Investing in Bonds Europe, Sub-Sovereign Bonds).

- The municipal securities market in Europe is mostly over-the-counter, and transactions are sporadic, as investors prefer to hold bonds until maturity.

- There is a process of listing municipal bonds on the stock exchanges, especially in Eastern European countries, in order to stimulate the capital market trade and to increase the publicity of the issued instruments and initiatives of the municipalities.

## THE EXPERIENCE IN ROMANIA

Against the background of the earlier emergence of municipal bonds in Bulgaria, compared to Romania, it is interesting to consider further development of the market in our northern neighbour. The transformation of the economies and the establishment of the capital markets in both countries take place at the same time, so the study of the Romanian practice in the field of municipal securities can serve to draw useful conclusions. The indisputable fact is the active campaign, realized by the Bucharest Stock Exchange in order to attract issuers – local public authorities, as well as the subsequent registration of the issued bonds on the main market segment. The offer of municipal bonds on the regulated market of the Bucharest Stock Exchange is a tactic aimed at attracting investors and providing a cheaper and profitable structured alternative compared to bank financing (Municipal bonds: Obtaining finance for municipal investment projects // Listing Romania). The analysis of the information presented on the Romanian capital market point to the following findings:

- In August 2017, the bond segment of the main market is dominated by municipal bonds – 38 issues with a total volume of EUR 728,395,008 (Table 7). The corporate and the government bonds stand back from the municipal bonds – 10 registered corporate bond issues and 21 government securities issues.

- There are municipalities with good practices in financing through securities, which already have both repaid and active bond issues. “The champion” in this regard is Timisoara Municipality – with a total of 7 bond loans.

- The most of the bonds are with floating rate (Figure 3), which for the period 2016 – 2017 is below 2% on an annual basis, with quarterly or six-month coupon payments. Only the bonds of the Bucharest Municipality offer a fixed interest rate paid annually ranging from 2.8% for the three-year bonds to 5.10% for ten-year bonds. That is why Bucharest bonds enjoy the greatest interest and liquidity and are traded at prices above the nominal value. Other bonds are either non-liquid (Figure 5) or are traded at a discount due to low interest rates compared to similar government securities.

- Principal payments of the main part of the bonds are simultaneously with the coupon payments (Figure 4), which means less duration and a correspondingly lower risk of insolvency of the issuer compared to the bonds with principle payments at maturity. Only the bonds of the capital city are “plain-vanilla” and pay the principal at maturity, which leads to some increase in the credit risk, *cet. par.* At the same time, Bucharest Municipality has a high credit rating and excellent opportunities for accumulation of own revenues.

- The high concentration is a characteristic feature of the Romanian bond market – the market is dominated by several major issuers, such as Timisoara, Iasi, Tirgu-Mures, and Bucharest (Table 7). The presence of such municipalities, which have issued several bond loans, is a proof of the interest of investors and the success of the issuers in the capital market. There were also failures in signing municipal issues (for example, the issue of Botosani), but there were no significant delays in interest and principal payments (Grecu, 2010).

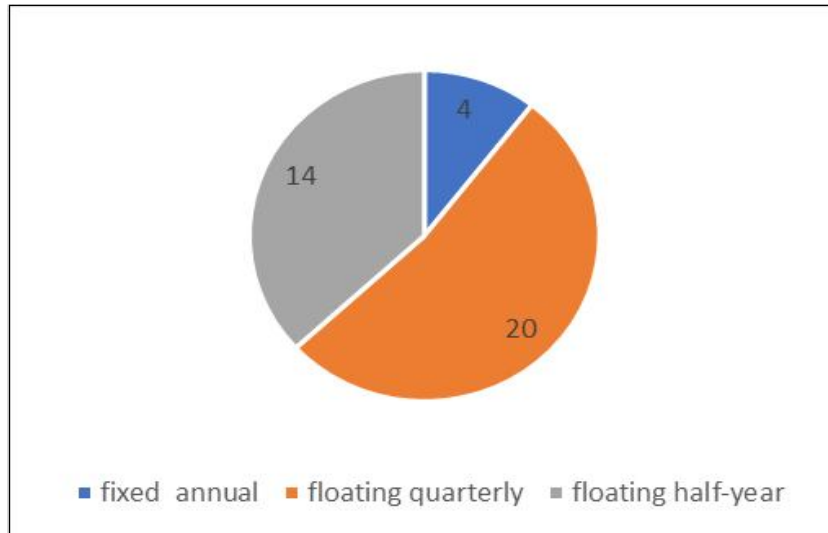
- A very important point in increasing the rating of bonds and reducing their credit risk is the practice of issuing several consecutive issues with the same maturity – each subsequent issue is called “pre-financing issue” and the proceeds received from it are invested in government securities or other low-risk instruments under a special guarantee account. Blocked financial instruments, together with the interest payments they generate and other available funds, are used to service the previous issue (pre-funded issue) (Concerning so-called “pre-funded bonds”, see also <http://finance.zacks.com/prefunded-bond-10303.html> or [www.bestcashcow.com/pre-refunded-municipal-bonds.html](http://www.bestcashcow.com/pre-refunded-municipal-bonds.html)). The technique is also used in Romania and through it are implemented the bond issues of Alba-Iulia Municipality, Bacau Municipality, Hunedoara County, Iasi Municipality, Tirgu-Mures Municipality and Timisoara Municipality.

- The maturity of all bonds, except for Bucharest, is over 10 years, and for a large part – 20 years. Orientation to larger volumes and longer maturities, compared to early issues, experts explain with factors such as: need of long-term development programs financing; the increase in the share of public funds that can be used to pay for loans (from 20 to 30%), as amended by the Local Public Finance Act; the confidence of investors in the solvency of Romanian municipalities; the use of alternative financing techniques – so-called pre-funded bonds and bridge financing (Vasile, & Matei, 2010).

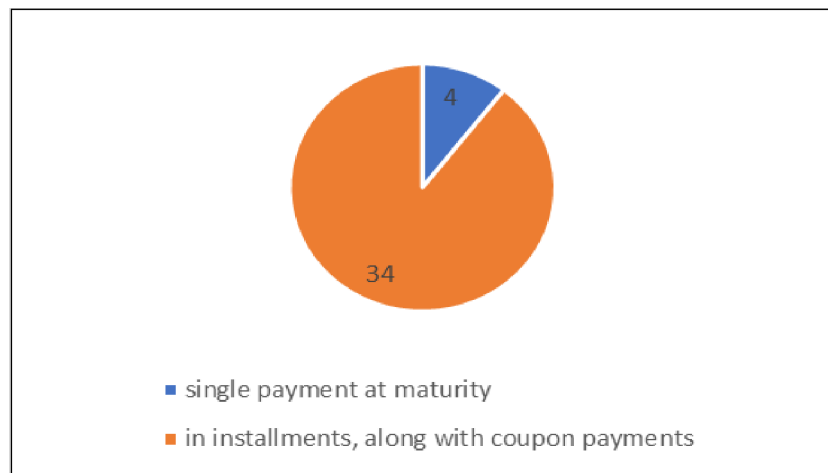
**Table 7.** Registered Municipal Bonds on the Bucharest Stock Exchange (August 2017)

Issuer	Number of bonds	Face value	Value	Year of issuance	Year of maturity	Number of coupons
PRIMARIA MUNICIPIULUI ALBA IULIA	80000	100	8 000 000	2005	2025	39
PRIMARIA MUNICIPIULUI ALBA IULIA	80000	100	8 000 000	2005	2025	37
PRIMARIA MUNICIPIULUI ALBA IULIA	85000	100	8 500 000	2009	2025	35
CONSILIUL JUDETEAN ALBA	500000	100	50 000 000	2009	2026	71
PRIMARIA MUNICIPIULUI ALBA IULIA	320000	100	32 000 000	2009	2027	72
PRIMARIA COMUNEI ANINOASA	30000	100	3 000 000	2008	2027	48
MUNICIPIUL BACAU	350000	100	35 000 000	2007	2026	76
MUNICIPIUL BACAU	350000	100	35 000 000	2008	2026	73
MUNICIPIUL BACAU	400000	100	40 000 000	2009	2026	68
JUDETUL BIHOR	779864	100	77 986 400	2011	2027	34
MUNICIPIUL BISTRITA	350000	100	35 000 000	2009	2029	80
PRIMARIA EFORIE	60000	100	6 000 000	2006	2017	23
MUNICIPIUL FOCSANI	280000	100	28 000 000	2009	2026	70
CONSILIUL JUDETEAN HUNEDOARA	150000	100	15 000 000	2006	2026	80
CONSILIUL JUDETEAN HUNEDOARA	135000	100	13 500 000	2007	2026	79
CONSILIUL JUDETEAN HUNEDOARA	315000	100	31 500 000	2007	2026	77
MUNICIPIUL IASI	1000000	100	100 000 000	2008	2028	81
MUNICIPIUL IASI	1000000	100	100 000 000	2010	2028	74
PRIMARIA ORASULUI NAVODARI	200000	100	20 000 000	2009	2027	37
MUNICIPIUL ORASTIE	125000	100	12 500 000	2009	2029	80
PRIMARIA ORASULUI ORAVITA	60000	100	6 000 000	2008	2027	39
MUNICIPIUL BUCURESTI	55500	10000	555 000 000	2015	2018	3
MUNICIPIUL BUCURESTI	55500	10000	555 000 000	2015	2020	5
MUNICIPIUL BUCURESTI	55500	10000	555 000 000	2015	2022	7
MUNICIPIUL BUCURESTI	55510	10000	555 100 000	2015	2025	10
ORASUL PREDEAL	40000	100	4 000 000	2006	2026	39
MUNICIPIUL SLOBOZIA	500000	100	50 000 000	2009	2029	80
PRIMARIA ORASULUI SIRET	40000	100	4 000 000	2009	2028	37
PRIMARIA TEIUS	15000	100	1 500 000	2006	2020	29
MUNICIPIUL TG. MURES	200000	100	20 000 000	2007	2027	75
MUNICIPIUL TG. MURES	320000	100	32 000 000	2008	2027	78
MUNICIPIUL TIMISOARA	300000	100	30 000 000	2006	2026	78
MUNICIPIUL TIMISOARA	300000	100	30 000 000	2007	2026	76
MUNICIPIUL TIMISOARA	300000	100	30 000 000	2007	2026	74
MUNICIPIUL TIMISOARA	300000	100	30 000 000	2008	2026	72
MUNICIPIUL TIMISOARA	300000	100	30 000 000	2008	2026	71
JUDETUL TIMIS	1000000	100	100 000 000	2011	2028	68
JUDETUL TIMIS	1000000	100	100 000 000	2011	2028	68
MUNICIPIUL ZALAU	643000	100	64 300 000	2010	2030	80
			3 310 886 400	RON		
			728 395 008	EUR		

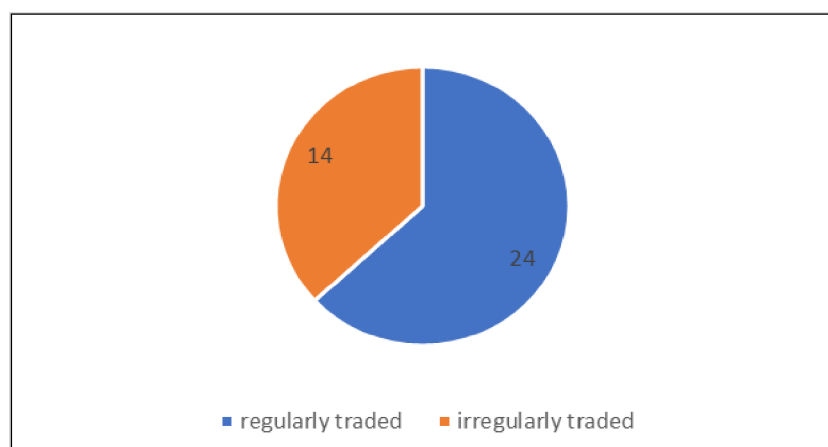
Source: Bucharest Stock Exchange



**Fig. 3.** Distribution of the Romanian municipal bonds according to the type of the interest rate



**Fig. 4.** Distribution of the Romanian municipal bonds issue according to the way the principal is repaid



**Fig. 5.** Distribution of the Romanian municipal bonds according to whether they are traded regularly or not

## THE SITUATION IN BULGARIA

The presence of the segment of municipal bonds on our capital market is imperceptible in comparison with the Romanian market. While in the initial period of development of the market – from its appearance in 1999 to 2009, the primary or secondary public offerings of municipal securities and their registration on the BSE – Sofia prevailed, during the period 2009–2016 on the segment “Bonds” has registered only corporate bonds. Issuers – municipalities, through the decisions of the municipal councils declared their preference to the private issues with subsequent listing on the stock exchange, but in reality, until now, the promises made are not fulfilled. This circumstance, as well as the purchase of the bonds by several institutional investors and their hold-to-maturity strategy, is indicative of the lack of a real municipal bonds market (Marinova, 24.02.2016), creating the impression of a modest presence of the instruments in the financing of the Bulgarian municipalities. The study of the financial statements of municipalities and the reports on the implementation of the consolidated fiscal program shows no decrease of municipal securities in the structure of municipal debt (about 10%). The analysis of the municipal bonds issues in Bulgaria in the period of the financial crisis and in the post-crisis period demonstrates their specific characteristics as well as some similarities with the Romanian ones (Table 8, Figures 6–8).

- The total volume of Bulgarian issues is about 7 times lower than the Romanian ones, which cannot be justified by quantitative differences, such as the number of population and the volume of GDP. The place of the bonds in the total financing of the municipalities is at the same time a function and a factor for the development of the capital market. There are significant differences in the campaign for the use of municipal securities in the structure of municipal financing and in the investors’ portfolios. In Romania there is a strategy for developing this segment of the capital market, implemented at the state and local level with the active support of the stock exchange and the professional investment community.

- 15 issues have been realized on Bulgarian market since 2009, part of which is related to the refinancing of old debts. Within the first sub-period there is an increase in municipal debt and the value of issued bonds due to the reduction of the state budget financing and the need to finance own participation in European projects as well as the reconstruction of the sites of social and community importance. The Plovdiv Municipality has a significant contribution to the increased share of debt in bonds with a record issue of EUR 25.5 million. In the second sub-period (2014–2016), the increase in the number and nominal value of issues is mainly related to their use as a means of debt restructuring and debt refinancing – such are the issues of Dupnitsa, Smolyan, Peshtera and Sliven. The preferences of the municipal managements of Dupnitsa and Sliven for large and frequent issues correlate with the poor financial health of the municipalities and put the painful question of future opportunities for debt repayment.

- The bulk of the bonds offer floating interest rates in relation to the decreasing interest rate levels, but the comparatively low difference over the yield on government securities with a similar maturity is noticeable. The difference can not compensate the higher risk of municipal bonds, especially in the absence of a credit rating or in the absence of an investment credit rating. In this respect, we observe similarities with the interest rate level of the municipal bonds in Romania.

- The preferences of the issuers are on the existence of grace periods in the payment of the principal and its gradual repayment. During the analysed period, plain-vanilla bonds, which would have a higher duration, credit and interest rate risk, other things remaining equal, were not issued.

- All bonds are secured only with a special pledge of municipality future revenues, i.e. they are general obligation bonds, which increase their risk.

- There are some cases of delays in payments, as well as of non-targeted use of funds and weaknesses in reporting, including the National Audit Office’s findings<sup>1</sup>.

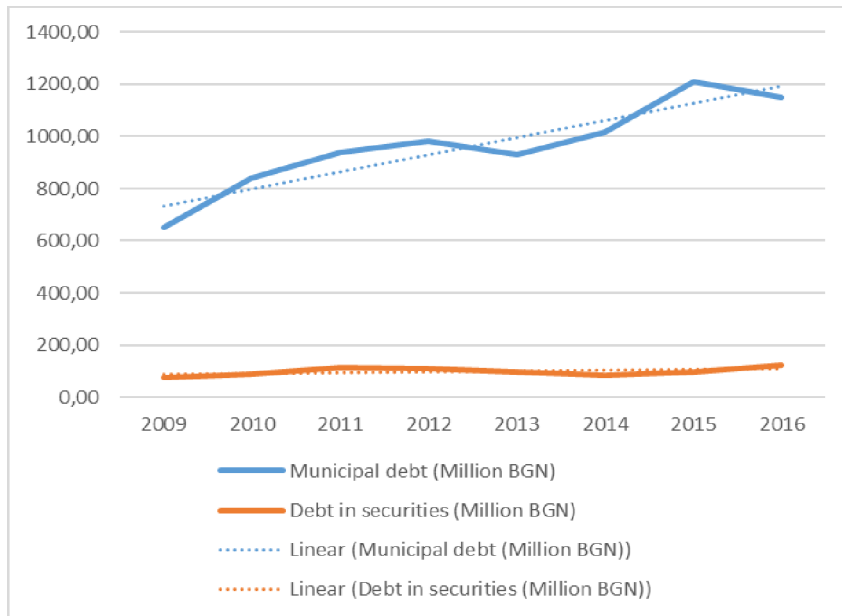
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<sup>1</sup> There is a delay in the payment of the bonds of Dupnitsa Municipality and weaknesses in reporting – in Kyustendil Municipality.

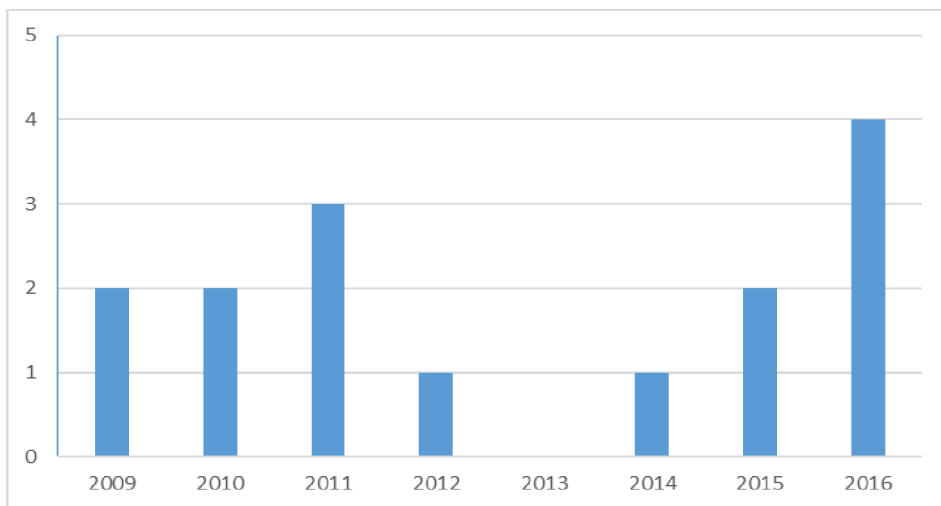
**Table 8. Issued municipal bonds in Bulgaria in the period 2009 – 2017**

Municipality	volume	currency	year of issuance	maturity	interest rate	frequency of int. payment	principal payments	purpose	collateral
Varna	10 000 000	BGN	2015	2023	4,40%	quarterly	3 yrs. grace.per.; 20 incr.quat.payments	own participation in European projects	without collateral
Varna	15 000 000	BGN	2015	2023	4,40%	quarterly	4 yrs. grace.per.; 20 incr.quat.payments	playgrounds and sports grounds	without collateral
Varna	6 000 000	EUR	2010	2020	6m.Euribor+4,4%	semi-annually	1 yr. gr.per.; 18 equal payments	not-target	without collateral
Shumen	7 670 000	EUR	2011	2022	6m.Euribor+4,4%	semi-annually	1 yr. gr.per.; 20 equal payments	social and infrastructure projects	future own revenues
Pazardjik	7 500 000	EUR	2009	2019	3 yrs. 7,25%; afterw. - 6m.Eur.+4,4%	semi-annually	8 equal annual payments	repair of streets	future own revenues
Dupnitsa	1 750 000	EUR	2014	2024	6,75%	semi-annually	6 m. gr.per.; 19 paym. (18 equal and the last - double)	refinancing of old debts (incl. bond loan from 2008)	real estate and current and future own revenues
Dupnitsa	4 740 000	BGN	2016	2024	3m.Sofibor+2,35%	semi-annually	16 equal semi-annual	refinancing of bond loan and FLAG debt	own revenues and a general equalizing subsidy
Kyustendil	6 500 000	EUR	2011	2021	6m.Euribor+4,67%	semi-annually	semi-annual paym.; redemption option after 2 yrs. gr. per.	building a balneo complex	assets - private municipal property and own revenues
Smolyan	10 000 000	BGN	2016	2028	3,50%	semi-annually	24 semi-ann.payments	refinancing of loans	own revenues and a general equalizing subsidy
Kavarna	3 000 000	EUR	2009	2014 (2019)	6m.Euribor+4 %	semi-annually	1 yr. gr. per.; 8 equal paym. (18)	infrastr. project and new adm. building of the municipality	own revenues and a general equalizing subsidy
Peshtera	4 000 000	BGN	2016	2028	6m.Sofibor+2,4 %	semi-annually	3 yr. gr.per.; 18 equal payments	refinancing old loans and purchasing part of an adm. building	own revenues and a general equalizing subsidy
Plovdiv	25 564 590	EUR	2011	2021	2,88%	semi-annually	18 m. gr.per.; 17 equal payments	construction and reconstruction of sites	own revenues and a general equalizing subsidy
Sliven	25 000 000	BGN	2016	2031	6m.Sofibor+2,1%	semi-annually	2 yrs. gr.per.; 25 equal paym.and the last - equalization paym.	debt refinancing and hall renovation	own revenues and a general equalizing subsidy
Nesebar	9 250 000	BGN	2012	2017	3,70%	quarterly	quat. payments	road, water, sports, cultural infrastructure	own revenues and a general equalizing subsidy
Svilengrad	5 499 794	BGN	2010	2020	7%	semi-annually	1 yr. gr.per.; 18 equal payments	rehabilitation of streets and water supply financing	own revenues

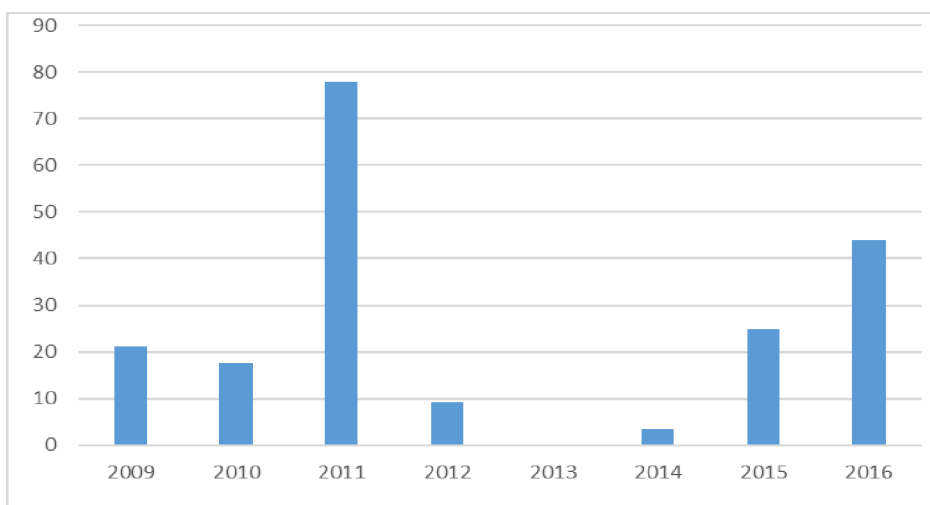
Source: Websites of municipalities, information from Central Depository and specialized media.



**Fig. 6.** Dynamics of total municipal debt and debt in securities in Bulgaria



**Fig. 7.** New issues of municipal bonds in Bulgaria



**Fig. 8.** Nominal value of the new issues of municipal bonds (Million BGN)

## CONCLUSION

The municipal bond market is an inseparable segment of the capital market. It brings the benefits to local authorities by providing them with an efficient alternative for financing, as well as to investors with relatively low risk tolerance and interest in longer investment horizons. In Bulgaria, despite the promising beginning, municipal securities are unpopular for the major part of the municipalities as potential issuers and for the broader investment community. Bonds issued after 2009 are privately sold and redeemed by specific financial institutions, therefore they look more like a standard bank loan than liquid market instruments. However, the preparation of this type of loans with the help of investment intermediaries, the specialized media publications on the parameters and the purpose of the issues, the invitations for discussion among the local community and other accompanying public activities, to a certain extent lead to the popularization of the issuing municipality, while successful loan servicing is an appropriate test for the market and investor attitudes, for assigning a high credit rating and improving financing opportunities in the future.

As a result of the study, it is concluded that legislative and other changes are necessary in view of building a real market of municipal bonds in Bulgaria.

Firstly, with regard to tax legislation, are possible measures to stimulate the liquidity of the bond market. Changes in the Corporate Income Tax Act and the Personal Income Tax Act, extending the range of transactions in financial instruments concluded on a regulated market whose capital gains are not taxed (Art. 44, subpar. 1 of the CITA; and Art. 13, subpar. 1, it. 2, ñ) of the PITA). The different tax treatment of profits from trading in shares and government securities, on the one hand, and from trading in corporate and municipal debt securities, on the other, is perplexing. By eliminating the taxation of the latter, it is facilitated for building up a fair tax system and the registration of issues and their subsequent trading on a regulated market.

Secondly, in order to ensure the fulfillment of the declared commitment in the municipal council's decisions for the subsequent bonds registration on a regulated market, it is necessary to introduce imperatives in the Public Offering of Securities Act. In this regard, the recent changes in the Law, whereby the issuer undertakes to repurchase, at the request of a bondholder, the bonds at issue value within 7 days of the request, if after six months from the bond issue, the bonds are not admitted to trading on a regulated securities market.

Thirdly, in the Municipal Debt Act it is necessary to be expressly stated that the general meeting of bondholders has the same rights as the general meeting of bondholders under the Commerce Act, relating to the issue of bonds by joint-stock companies. Accordingly, all changes in the parameters of the issue, such as early repayment of part or the entire loan, are made under the same recently accepted conditions for changes in the parameters of corporate bond loans<sup>2</sup>. The Municipal Debt Act superficially deals with issues of securities and specific questions related to changes in loan conditions. Some municipalities even refer to the Commerce Act and the provisions concerning general meeting's decisions for bond issuing.

Fourthly, apart from the legislative changes, the actions taken by the responsible institutions to create conditions for the development of the municipal bonds market are very important. Good practices from other countries should be used to boost initial public offerings (IPOs) and/or subsequent registration of regulated market issues, including the participation of the stock exchange, the Capital Market Development Council and investment intermediaries. In the Strategy for Development of the Capital Market in Bulgaria from 2016 does not find the place the revival of municipal bonds segment (Strategy for Development of the Bulgarian Capital Market, 2016). Local authorities and municipal administrations could also play an active role in using more innovative financing techniques and in awareness campaigns. Still municipalities with good financial health and high administrative capacity, such as Burgas, Rousse and others, have not gone out on the market but would enjoy the investor interest. It is timely to use also different but proven practices such as the issuance of the following types of bonds: convertible bonds used to finance infrastructure projects; short-term debt securities used for bridge financing (tax-anticipation notes, TANs; revenue-anticipation note, RANs; tax-and-revenue-anticipation notes, TRANs; bond-anticipation notes, BANs); the so-called "green bonds" (Taylor, 2014) in connection with the realization of long-term contracts with guaranteed outcome (ESCO contracts); the so-called "pre-financing bonds" reducing credit risk.

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<sup>2</sup> The amendments to the Public Offering of Securities Act in State Gazette no. 62/2017, in Art. 100b, subpar. 4 provide for all changes in the conditions under which the bonds are issued to be accepted by the general meeting of the bondholders, representing at least 2/3 of the issued bonds by a decision taken by a majority of not less than 3/4 of the presented bonds. In the prospectus or in the proposal for subscription of the bonds, a larger quorum and a majority may be envisaged in the decision making for changing the terms and conditions of the bond issue.

Fifthly, in order to overcome the relatively high floatation costs that accompany small issues, it is necessary to induce an effect of economies of scale. In this spirit is the idea of creating a professional agency for municipal bonds – an agency that can aggregate capital from the financial markets through bond issue and provide the proceeds to selected municipalities at a lower price than if the municipality had to issue its own bonds. A leading example of such an institution is Kommuninvest in Sweden, founded in 1986, and with AAA credit rating. In Europe, national municipal debt agencies also exist in Finland, Denmark, the Netherlands, Switzerland and Italy (Taylor, 2014), and from 2015 in the United Kingdom (UKMBA) (Localis Roundtable Discussion, 2015). The idea for such an agency in Bulgaria was launched at meetings of the NAMRB (National Association of the Municipalities in Republic of Bulgaria), and its representatives believe that it would be particularly useful for small and medium-sized municipalities that have no administrative capacity and competencies (according interview of Emil Savov for Bloomberg TV, 2017). The availability of the agency has the following advantages: the cost of municipal financing is reduced by the issuance of large bond loans; the credit risk is reduced; transparency is increased through strict supervision by the agency as a representative of all municipalities.

The above confirms the need for significant changes in the structuring of issues in order to create a real municipal debt market, to realize more efficient and cost-effective financing of infrastructure projects and to fill the missing niche for institutional and individual investors. Of course, the development of the municipal bonds market and the municipalities as a whole is also dependent on the state of the national economy, regional policies, and public finance management.

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