

DEVELOPMENT OF THE MUNICIPAL BOND MARKET IN POLAND AFTER 1989

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Abstract. *The purpose of the paper is to present the development of the municipal bond market in Poland between 1989 and 2012, a characteristic of municipal bonds and their types, issued in this period. The empirical research conducted by the author provides some main financial indicators that determine the development of this market and its role for local governments in Poland. Moreover, there are analysed the types of investors on this market, organizers of the placements or the meaning of this market against the background of the municipal bond markets in the European Union (EU) countries. The study is mainly based on the miscellaneous reports and statistics of the National Bank of Poland, Ministry of Finance, Central Statistical Office of Poland, Warsaw Stock Exchange or rating agency Fitch Polska. An important source of information was also the research conducted by the author, which concerned the perspective of servicing the local governments by commercial banks and the associated risk. As a consequence, the author indicates that the value of municipal bonds issued in Poland is still relatively low in comparison with its gross domestic product and the leading EU countries. Therefore, there are possibilities of the further growth of this market in Poland. First and foremost, municipal bonds are positively perceived as an investment instrument by the investors, i.e. mainly commercial banks. Besides, these securities have a small share in the investment portfolio of pension funds and investment funds. However, one of the main obstacles of the further development of the municipal bond market in Poland is its relatively low liquidity.*

Key words: *municipal bond market, municipal bonds, local governments*

1. Introduction

In 1989, in Poland, the political and economic transformation initiated the process of decentralization of public governance in the country. As a result, over the years, new financial privileges and responsibilities were given to local governments. However, it turned out that the need for the modernization and development of the local technical and social infrastructure exceeded the financial capacity of these units. Thus, they began to search for additional sources of funding local needs, in many cases by incurring a debt. As a consequence, they also launched issuing municipal bonds. Thus, a crucial evolution of the municipal bond market in Poland is observed, which is affected by different functioning circumstances of the financial market, economy and legislation in this field.

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Therefore, the aim of the study was to analyze this development after 1989. The characteristic of this market and its meaning against the background of the main financial indicators between 1989 and 2012 are presented. The author took advantage of some information from the institutions, such as the National Bank of Poland, Ministry of Finance, Central Statistical Office of Poland, Warsaw Stock Exchange or the Fitch Polska rating agency, which are engaged in the process of the development of this market or gathering data for the aims of reporting. Furthermore, the author has also conducted a research in the field of the perspective of servicing the local governments by commercial banks and the associated risk. Thus, this study contributed to determining the attractiveness of municipal bonds for these banks as the main investors in this market. As a consequence, the article may be helpful in defining the possibilities of the further evolution of this market, the potential constraints, and issues positively affecting its development in Poland or in other countries.

2. Theory of municipal bonds: their attributes, advantages, and some constraints

In Poland, the term “municipal bonds” is not characterized by the Act on Bonds. Therefore, this concept should be determined in accordance with the general definition of bonds and legal regulations. In the theory and practice of finance, municipal bonds (municipal securities) represent a promise by local governmental authorities or other issuers related with these institutions to repay to lenders (investors) the amount of borrowed money (called principal) along with interest according to a fixed schedule. In general, these securities are repaid, or mature, from one to 40 years from the date they were issued in order to finance the broad range of public projects, such as roads, transportation facilities, school buildings, sewage treatment plants, housing, etc. (O’Hara, 2012, p. 1).

Municipal bonds are issued in the primary market, and investors may trade them to each other in the secondary market (Megginson, Smart, 2008, p. 164). Hence, they follow the practices of the corporate fixed-income markets. As a result, such issues take the form of public or private placements. While individual circumstances amongst the countries vary, in the public issue it is more common for the issuer to be underwritten. In this case, the local government is guaranteed (e.g., by a commercial bank) that a given amount of bonds will be sold at a given interest rate or a given margin over a reference rate (IMF, 2001, p. 338). There are two main ways for an underwriter to purchase municipal bonds, i.e. competitive sale or negotiated sale. The first method is a type of auction where sealed bids for these securities are submitted to the issuer at a specific time on a specific date. In turn, in a negotiated sale, the local governments may select a so-called “lead underwriter” or “senior manager” (other than a competing entity) whose task is to coordinate and manage the whole transaction (O’Hara 2012, p. 7–8).

Municipal bonds might be popular among the investors due to additional benefits, such as tax exemptions that influence the decrease of the yield of the newly issued municipal bonds (BIF, 2005, p. 69; Jajuga, 2002, p. 206–207). In practice, municipal bonds are frequently compared to credits. As a consequence, they possess some advantages, such as (Danilowska, 2009, p. 32):

- a possible lower interest rate as compared with the credit interest rate and more advantageous other terms, particularly the frequency of interest payment;
- the possibility of non-pecuniary reimbursement;
- the lack of a risk of a possible immediate repayment request;
- the possible marketing effect, mainly if they are listed on the stock exchange.

Municipal bonds are considered as safe investment instruments. According to the insolvency risk, in the rank of securities they are often in the second place, just after treasury bonds (Danilowska, 2009, p. 31). However, investing in municipal bonds is associated with three main risks. Firstly, it is a default risk which results from possibilities that a borrower (e.g., local government) would be unable to meet its commitments. In some ratings, this risk is considered as an instance where the obligor fails to make payment to the trustee of the money due (Nguyen, 2012, p. 52). Secondly, the municipal bond market may not be sufficiently liquid (liquidity risk). As a consequence, the investor will not be able to convert the investment into cash. Thirdly, there is a market value risk related to the changes of prices of the securities on the financial market and potential losses (Fulton, 2005, p. 13–14). Hence, these risks affect the development of this market. Furthermore, they determine the kind of market placement of municipal bonds and the types of investors. So, the crucial role belongs to rating agencies which evaluate both the risk of the issuer and the securities. Their functioning might attract new investors into a certain municipal bond market. This particularly concerns the interest of the foreign financial institutions or private investors that would like to diversify their investment portfolios. As a result, the functioning of the municipal bond market is strictly connected with the existence of the functional capital market, institutional mechanisms for evaluating the credit rating or a proper autonomy and credibility of local public sector (Danuleitu, 2010, p. 74). Moreover, the experience of the American capital market and that of other countries shows that the local authorities may create a new agency, authority or company which solely issue municipal bonds for a specific project in order to administrate it upon completion (Rosenbloom, 1976, p. 10). From the perspective of the local government, it could determine their indebtedness ratio which is crucial in the process of the finance management in units of the public finance sector. In Poland, the legal regulations grant the possibilities of issuing municipal bonds by communes, cities of counties, voivodships (in 2011 there were 2809 such units), the associations of these units as well as some communal companies (Chojna-Duch, 2010, p. 317; UoB, 1995,

art. 2). However, in Poland, every local government is obliged to keep quantitative limits of the debt. As a consequence, the issue of municipal bonds cannot be a reason for exceeding some financial indicators described in the public finance act. Thus, until the end of 2013, the standard overall amount of each local government debt cannot be higher than 60% of the annual total revenues, as well as the standard debt service in a given year cannot exceed 15% of the total revenues of a unit (Bury, Swianiewicz, 2008, p. 335). However, after 2013, the law obliges local governments to calculate their individual debt ratios, which are mainly based on the three-year average of the share of the operating surplus (positive difference between current revenues and current expenditures) in total revenues. It should be noted that these limitations do not include the redemption of municipal bonds for the EU projects backed by the money from the European funds (UoFP, 2009, art. 243). Furthermore, in Poland, according to the public finance act of 2009, local governments cannot pass the budget with the deficit in its current part (UoFP, 2009, art. 242). Thus, municipal bonds are mainly aimed at financing capital expenditures there.

On the other hand, in Poland, municipal bonds can be purchased by the local governments, apart from deposits and treasury bills, in order to maximize the profits of the temporarily disposable cash. As a consequence, they may be used in the process of cash management in these units. However, the financial shortages of local governments constrain local authorities to buy these securities for investment purposes, especially for the long-time perspective. There are also statements that the low liquidity of the bond market in Poland restrains from using municipal bonds in this field. Even a two-day delay of selling these securities is unacceptable by local authorities there (Cieślak-Wróblewska, 2010, p. FII-FIII). Furthermore, in Poland, the legislator enables to purchase municipal bonds in order to invest the so-called “free resources”, excluding from these funds grants from the budget (both from the state budget and from the other local government budgets). This results in a decreased interest in buying these securities in the period of a less financial autonomy (lower share of own revenues in total revenues) of local governments as well as during the mentioned financial shortages in the public sector (Galiński, 2012). This means that there are a lot of issues which may determine the development of the municipal bond market in the country.

3. Types of municipal bonds issued in Poland after 1989

There are two major types or options of municipal bonds: general obligation bonds and revenue bonds. General obligation bonds are backed by the “full faith and credit” or full taxing capacity of their issuers. This type of municipal bonds is considered to be a debt of the primary unit as a whole and not of any derived fund or component unit.

On the other hand, in the case of revenue bonds, the local government simply pledges to use a debt backed by a specific portion of a certain tax or revenue. Thus, in some countries, this type of debt is not counted against the debt margin (Giankis, McCue, 1999, p. 143). In practice they are issued to finance bridges, municipal sewer systems or sports complexes whose functioning may generate financial benefits (Bowman, Kearney, 2012, p. 308).

General obligation bonds are typically sold in a serial form, as regular serial bonds (equal installments) or irregular serial bond (customized repayment), whereas the revenue bonds are normally issued as “term” bonds, in which the payment of the principal falls on the date of maturity. As a consequence, there is a fundamental difference between these two types of municipal bonds is the cost associated with issuance. Since the general obligation bonds are backed by the full faith and creditworthiness of the local governments, they are cheaper for this unit as compared with revenue bonds (Giankis, McCue 1999, p. 144–145).

In Poland, the modification of the Act on Bonds in 2000 enabled local governments to issue municipal bonds. Nonetheless, until mid-2011, they were issued only by three communal companies (Ostrowska, 2011, p. B10).

Besides the above division of the municipal bonds, there are other possible classifications of these securities. The first criterion is the way to mark the bondholder. According to it, there are registered bonds and bearer bonds. Registered bonds are issued for specific persons, and the transfer of rights from them must be tied with the release of a document. However, the bearer bonds do not require that. Thus, the difference lies in the freedom and eases of circulation and includes the fact that the issuer may limit or exclude the possibility of reselling registered bonds. This is why in Poland the local governments have been issuing bearer bonds so far, except the case of “residential” bonds. Registered bonds, due to the difficult transfer of rights associated with them, may be reluctantly accepted by investors, and local authorities do not want to decrease their liquidity. Justification for them occurs in a situation in which these securities would involve additional benefit (e.g., privilege in process of purchasing a land, the house and other facilities), and the issuer does not want to favour any other individuals than the identified ones (e.g., current tenants or leaseholders) (Huczek, 2010, p. 9).

Furthermore, due to the criterion of the subject of rights under the bonds, they may be divided into municipal bonds bearing cash, non-cash, and mixed benefits. In practice in Poland there were issued municipal bonds with cash benefits, although in some cases the issuer slightly modified them, e.g., “housing privatization bonds” issued in 1993 and 1994. These bonds gave the holder the premium in the purchase of a house. However, in practice, only some local governments allocated the whole obtained funds from this sort of issues in the housing, whereas others did not specify the amount of this portion (Maciejasz-Świątkiewicz, 2005, p. 143).

Municipal bonds may be also divided owing to the market they are sold and the currency. Therefore, there are municipal bonds issued on the domestic market, which are denominated either in the national or other currency, as well as the securities issued on the foreign markets (Grybionko, 2010, p. 36). However, only few local authorities have decided to sell these securities abroad. The experience of these units has showed that they are very attractive for the largest local authorities with an excellent credibility, which want to purchase the larger amount of the capital. This resulted in the lower cost of the debt (Łękawa, 2011, p. 94).

On the other hand, it is possible to distinguish municipal bonds as fixed, variable, and zero-coupon bonds. Fixed interest bonds yield the same revenues until their maturity, in contrast to bonds with a variable interest rate, which are preferable by investors in Poland. This rate is usually determined by a certain base rate (rate of inflation, treasury bill yields, WIBOR) and a fixed margin (Huczek, 2010, p. 10). The level of the margin is tied with the financial risk of the issuer. It results from two basic factors such as (Galiński, 2011, p. 30–31):

- the size of the local government, measured by the level of its revenues and expenditures;
- the actual amount of the debt of the unit and the level of indebtedness ratios.

Furthermore, the level of margins is dependent on the periods of their redemption. As a consequence, the longer the term, the higher margin is calculated, whereas the zero-coupon municipal bonds are sold at an original issue discount, with the full value, including the accrued interest paid at the moment of their maturity.

As regards the maturity of municipal bonds, they may be divided also into short- (up to 1 year), medium- (1–5 years), and long-term (over 5 years) securities. The first ones are especially aimed at financing the budget deficit, but the others serve the investment purposes. In Poland, the role of short-term municipal bonds is little. For example in 2010, their share in the overall value of the debt of local governments was merely 0.2% (NBP, 2011, p. 208).

Moreover, according to the criterion of their security, there are three types of municipal bonds, such as secured, partly secured, and completely unsecured. In Poland, the legal statute of local governments as units of the public sector is a sufficient guarantee for the investors in the field of repayments of these assets. As a result, the issues are unsecured there (Huczek, 2010, p. 10).

4. Development of the municipal bond market in Poland in 1989–2012

Between 1989 and 2012, in Poland, it might be distinguished five sub-periods of the development of the municipal bond market, i.e.: 1) 1989–1995, 2) 1996–2000, 3) 2001–2008, 4) 2009–2011, and 5) the year 2012 when one can see a substantial decline in the

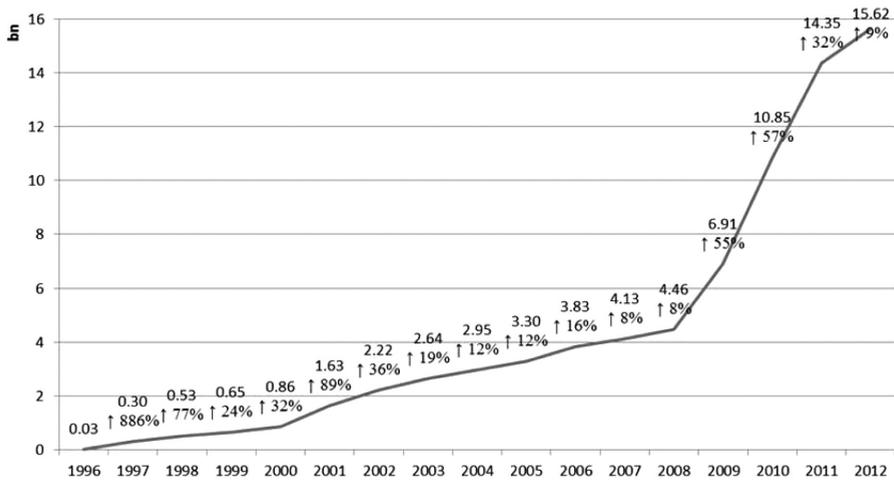


FIG. 1. The value of the municipal bond market in Poland between 1996 and 2012 and its annual percentage growth

Source: author's study based on: FP 2013; Kozuń-Cieślak, 2008, p. 132–133.

growth rate of this market as compared with the previous three years (Fig. 1). First and foremost, after the political and economic transformation in Poland in 1989, the market of municipal bonds re-emerged in 1993. However, there was a low interest from the side of local governments (communes) in issuing municipal bonds. It resulted from the adverse regulations involved in the Act on Bonds of 1988 that constrained the size of each issue. As a consequence, in 1993, there appeared three emissions of municipal bonds, which met a limited demand on the market. Thus, as mentioned above, until 1995 local governments had issued only housing bonds (Kozuń-Cieślak, 2008, p. 132–133).

The crucial stimulus for the development of the municipal bond market in Poland was the implementation of the Act on Bonds of 29 June 1995, which formally introduced a commune as an issuer of these securities into the capital market (Łęka, 2011, p. 85). As a consequence, in 1996, first emissions of municipal bonds, based on this legal framework, were issued (Kozuń-Cieślak, 2008, p. 133). Between 1996 and 1999, the number of issuers rose from 10 to 89 units (Fig. 2), while the overall value of the municipal bond market increased from 0.03 to 0.86 bn PLN (Fig. 1). Almost all of these issues took a form of private placements (Jajuga, 2002, p. 207). In this period, the obtained funds were aimed at financing: roads (31% of these resources), communal infrastructure (22%), swimming pools and sport centres (15%), local transportation systems (13%), investments in education (11%) and housing (85%) (Ziarko, 2001, p. 113). At the end of this sub-period (in 1999), there was implemented a new local government structure (in place of communes, the regulation introduced cities of a county status, counties, and 16

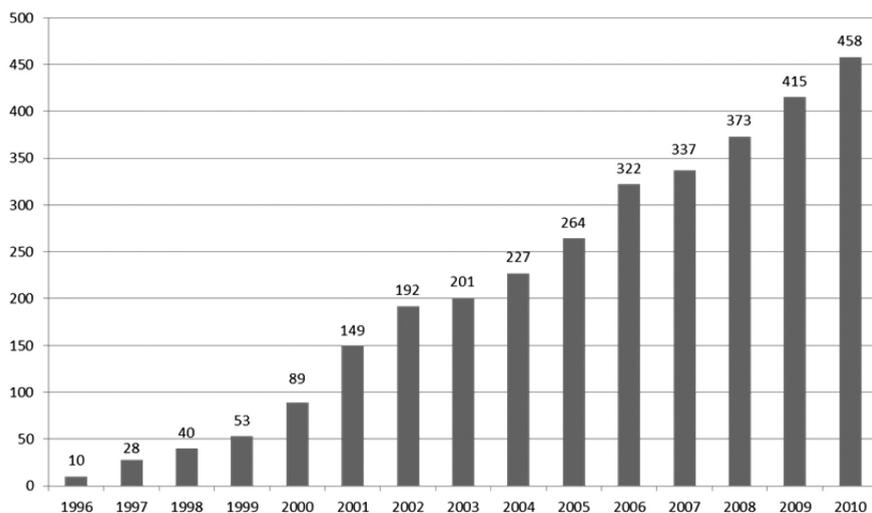


FIG. 2. Number of issuers of municipal bonds in Poland between 1996 and 2010

Source: FP, 2013; Kozuń-Cieślak, 2008.

voivodships). However, the Fitch Polska rating agency claims that this reform did not affect the growth of interest in municipal bonds (FP, 2013, Year 1999, p. 5).

The improved financial conditions of the local governments as well as a decrease of the interest rates and the inflation rate positively influence the surge of the value of the municipal bond market in Poland after 2000 (Danilowska, 2009, p. 33; NBP, 2004, p. 180). Only between 2000 and 2001, the value of this market almost doubled, and the number of issuers of these securities rose significantly (Figs 1 and 2). In 2001, the municipal bond rates were generally lower by 0.5–2 percentage points in comparison to banking credits granted in a comparable amount and a of similar maturity (Markowski, 2002, p. 54–55).

Nevertheless, between 2001 and 2008, the annual growth rate of the market value of municipal bonds in Poland was gradually decreasing. This decline was affected, *inter alia*, by the use of foreign loans by local governments, in many cases granted on preferential terms (NBP, 2006, p. 217). In 2005, the majority of the emissions of municipal bonds (about 76%) were aimed at financing roads, environmental protection, education, and bus fleet (NBP, 2006, p. 215). Moreover, after 2001, local governments could decrease the cost of debt, comparing municipal bonds and banking credits, if the value of the emission exceeded 2 mm PLN (NBP, 2004, p. 181). Because in 2003 the average value of the issue was 3.5 mm EUR, the functioning of the municipal bond market positively influenced the debt management in these units.

In 2009, a dynamic increase of the municipal bond market again appeared in Poland (Figs. 1 and 2). As a result, between 2008 and 2011, its value rose from 4.46 bn PLN

to 14.35 bn PLN. This rapid development was caused mainly by three factors. First and foremost, it was associated with the realization of the EU programs and projects and the practical introduction of the EU financial perspective for the period 2007–2013. Thus, the obtained funds were allocated into the technical investments in the field of local transport systems, environment, road infrastructure or water and sanitation in order to cover Poland's own contribution to the EU investments. Secondly, the county status cities that hosted the European championship in football in 2012 financed the creation of the required infrastructure in this way. In 2010, their emissions accounted for about 30% of all municipal bonds issued in Poland. The largest issuer was the capital city of Warsaw which sold municipal bonds worth nearly 1 bn PLN (NBP, 2011, p. 208). Thirdly, a lot of emissions were aimed at the refinancing or early repayment of a previously incurred debt (NBP, 2012, p. 290). It consisted mainly of credits with the higher interest rates due to the eruption of the global financial crisis in the second part of 2007. Furthermore, on September 30, 2009, there was introduced a Catalyst market as a new transaction platform of the bond market, organized by the Warsaw Stock Exchange and BondSpot. During the years 2009 and 2012, the values of the floating municipal bonds were accordingly 0.93, 1.75, 2.22 and 2.37 bn PLN there (WSE, 2010, 2011, 2012, 2013), with the average value of the emission amounting to 68 mm PLN and the term of maturity 7.2 years (GT, 2012, p. 18, 36). In turn, on the overall municipal bond market in Poland, the average term of maturity was 8.5 years in 2011 versus 5.5 years in 2005 (NBP, 2012, p. 292; NBP, 2006, p. 216). It should be added that at the end of 2012, on the Catalyst market there were floated 31 series of municipal bonds worth, as mentioned, 2.37 bn PLN, but 88.6% belonged to the Warsaw capital (WSE, 2012).

In Poland, emissions of municipal bonds are in most cases carried out in private placements. This means that these securities are primarily purchased by the commercial banks (Fig. 3). In most placements, these institutions act as underwriters (buy municipal bonds as investments or resell them to other investors). Moreover, between 2006 and 2012 rose the significance of commercial banks on the municipal bond market of Poland. The little interest of other non-banking institutions to the municipal bond market resulted from its low liquidity (NBP, 2012, p. 293). However, the research has indicated that until 2015 in Poland for 64% of commercial banks these securities as investment instruments will be very attractive, for 27% they will be of average and for 9% of little interest (Galiński, 2011). Simultaneously, this attractiveness increased versus to 2011 (Fig. 4).

In turn, in pension funds, between 2005 and 2012 the value of municipal bonds in the investment portfolio rose from 29.24 mm PLN to 1.11 bn PLN. However, their importance for the total investment portfolio in these institutions was relatively low (in 2012 the share of 0.41%) (PFSA, 2006; PFSA, 2013).

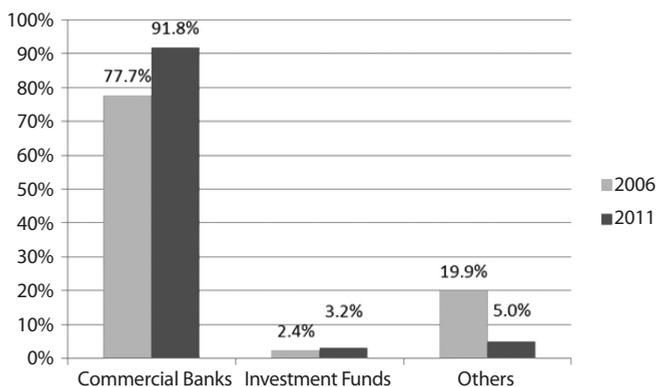


FIG. 3. I. Investors on the municipal bond market in Poland in 2006 and 2011

Source: NBP, 2012, p. 294; NBP, 2007, p. 208.

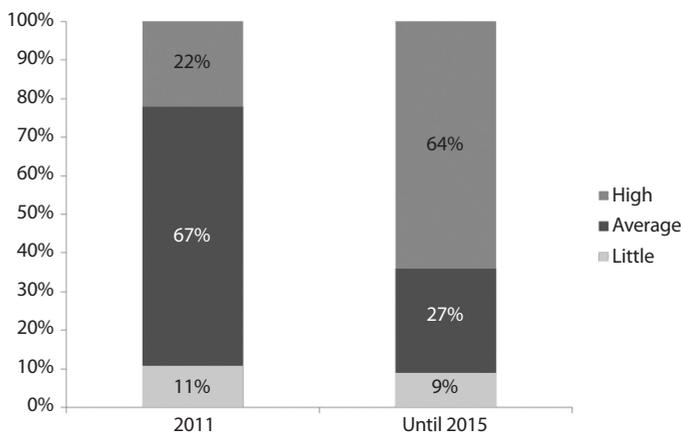


FIG. 4. Attractiveness of purchasing municipal bonds for investment purposes in Poland in 2011 and until 2015 in the opinion of banks (% of banks)

Source: Galiński, 2011.

Although there are many organizers of municipal bond issues in Poland, their placements tend to be made by few such entities. Moreover, in 2010–2011, this concentration has grown, because three of those entities increased their share from 56.3% to 90.5% as the organizers (NBP, 2012, p. 292). So, during this period, most of the issues were made by private placements, and their organizers were almost exclusively banks with a developed branch network or brokers. (NBP, 2010, p. 207). There are statements that such private placements of the public debt, which in part is a debt of local governments, enable to decrease the cost of its creation and service (Głuchowski, Buszko, 2007, p. 47).

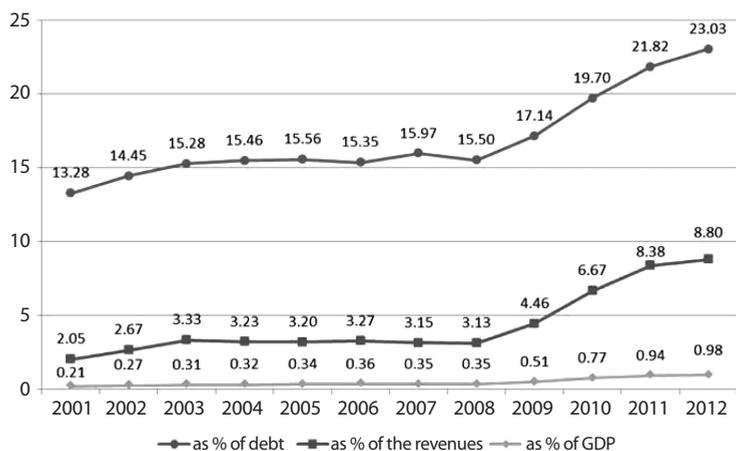


FIG. 5. The share of the municipal bond market in Poland in debt and revenues of local governments and in the Gross Domestic Product (current prices) between 2001 and 2012 (%)

Source: MF 2013; CSO 2013; FP 2013.

In Poland, it especially concerns the issues of municipal bonds of smaller communes in rural areas. Besides, in this period, the costs of emission of municipal bonds could be lower in comparison with incurring banking credits if the value of the issue would exceed a certain amount of money. For example, in 2003 it was 2 mm PLN, while the real average value of the emission was 3.5 mm PLN (NBP, 2004, p. 181). Therefore, the functioning of the municipal bond market determined a more efficient debt management by the local governments.

Between 2008 and 2012, noticeable was also the growth of the value of the municipal bond market in relation to the total indebtedness of local governments and their revenues (Fig. 5). This means that they gained importance as a debt instrument aimed at financing capital expenditures by local governments. Moreover, in this period rose also the share of the value of municipal bonds as a percentage of the gross domestic product (Fig. 5). However, this is still a small ratio.

Besides, in Poland, the share of the municipal bond market in the domestic capital market is also small: at the end of 2011, the share of these instruments in the value of traded long-term debt securities was approximately 2.5% (NBP, 2012, p. 289). The value of these securities is low also in the overall value of the Catalyst market: at the end of September 2012 it made merely 5%, while the value of the turnover of municipal bonds on sessions was 7% (GT, 2012, p. 7–8).

Furthermore, the municipal bond market in Poland is also relatively small as compared with the most developed markets of the EU countries where emissions of the mu-

municipal bonds of the German *Länder* dominate (in 2011 they accounted for almost 75% of the whole emissions in the EU, Fig. 6). In the European Union, there is the highest concentration of municipal bond markets among the federal (e.g., in Germany 373 bn EUR, in Belgium 13 bn EUR) or quasi-federal states (e.g., Spain – 60 bn EUR) (Dexia-CEMR, 2012, p. 34).¹

Nevertheless, the municipal bond market in Poland remains the largest among the countries of Central and Eastern Europe. For instance, in 2011, it accounted for 3.5 bn EUR versus to 2.2 in Hungary or 0.4 bn EUR in the Czech Republic (NBP, 2012, p. 289). In turn, between 2001 and 2008, in Romania municipal bonds were issued by over 30 local governments (Matei, Popescu, Eftimie, 2009, p. 205), while in Poland there were 2065 such units (Fig. 2). The experience of the other EU countries also indicates that these securities enable to issue a debt for a longer period in comparison with commercial credits. For example, in 2008, in Romania local authorities launched issuing municipal bonds with the 18–20-year maturity. Also, in this country, like in Poland, these emissions were strongly tied with the existence of the EU funds (Greco, 2008, p. 2281).

5. Conclusions

Summarising the above considerations, one can see that in the period 1989–2012 there has been a rapid development of the municipal bond market in Poland. This process was particularly initiated by the introduction of the Act on Bonds in 1995. Another important stimulus for this development was the use of municipal bonds in the process of financing the contribution into the EU projects by local governments. Therefore, a significant increase of the municipal bonds was noted during periods of financial crisis on the global markets. During this period, local governments were searching for the cheapest sources of funding in the conditions of limited their own revenues and transfers from the state

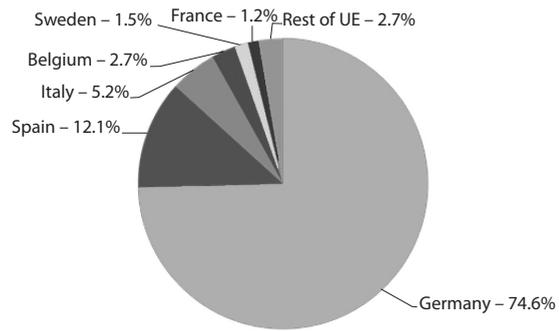


FIG. 6. Subnational public sector bond debt by country in EU 27 in 2011

Source: Dexia-CEMR, 2012, p. 34.

¹ The large value of the German municipal bond market and its rapid development were initiated in the early 1990s when the German *Länder* used the capital market to finance the costs of the German unification. Furthermore, the value of this market is determined by the cooperation of smaller lands in the field of issuing a common series of municipal bonds (called Jumbos) with the average issue size slightly higher than 1 bn EUR (Schulz, Wolff, 2008, p. 3–6).

budget. Moreover, the functioning of this market enabled to restructure the local government debt. In many cases, these units issued municipal bonds due to their lower service charges in relationship to banking credits. As a result, the shares of the value of this market in debt and revenues of local governments have increased in Poland. However, the value of municipal bonds issued in Poland is still relatively low as compared with the GDP, as well as with their largest markets in the European Union.

According to the research, in Poland the growth possibilities of municipal bond issues are large. In particular, commercial banks, which are the major investors in this market, positively perceive the investments in these securities in the forthcoming years. Furthermore, there is still a small share of municipal bonds in the investment portfolio of pension funds and investment funds. Moreover, the development of this market is undoubtedly affected by the activity of the Catalyst market on the Warsaw Stock Exchange, which increases the liquidity of trading. This liquidity is indicated as one of the main factors that reduce the development of the municipal bond market in Poland. However, there are many other issues which will determine its evolution. This especially concerns the financial situation of local governments (e.g., possibilities of incurring a debt) and of the whole public finance sector. Furthermore, the legislator also possesses some tools, and their implementation may positively influence the development of the municipal bond market in Poland. These tools are easing the restrictions in the field of debt ratios in local governments or even potential tax exemptions.

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