THE EVOLUTION OF MUNICIPAL BOND MARKET IN POLAND[1]

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Abstract. *The Act of 29 June 1995 on Bonds has formally launched the development of a market for municipal bonds in Poland. The changes not only affected the legal provisions, but also the attitudes of self-government activists and institutions engaged in the issue of municipal bonds; hence, the organization of the market had to be different. As a consequence, a new bond market, GPW Catalyst, has been established on 30 September 2009.*

The paper aims at presenting the municipal bond market in Poland. The main aspects of this market that are significant for its development are identified. An analysis and assessment of the market's development are conducted using the experience of more than a decade of developing the municipal bond market in Poland. The environment that led to the launching of the first municipal bond market in East-Central Europe at the end of 2009 is presented. The main motivation was the need to indicate new sources of finance during the periods of recession and the crisis of the public finance sector.

Key words: *public finance, municipal bonds, Catalyst*

Introduction

Local government entities authorized to issue municipal bonds have been formally functioning in the Polish capital market since 1995. A positive feature and trend exhibited by the municipal bond market is the growing attractiveness of municipal bonds. The potential of the municipal bond market becomes particularly significant now when banks are extremely prudent when granting long-term loans to local government entities for investment purposes.

Municipal bonds, despite their financial attractiveness for investors, have always been relatively illiquid instruments. It is exactly the liquidity risk that was a very significant obstacle to the municipal bond market in Poland. In addition, the crisis of public finance

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has led to a considerable reduction in the government budget policy of stimulating the investment activities of self-government. Therefore, new instruments of non-budgetary finance are required so that the consequences of the recession effects are reduced, and the local development is stimulated.

A chance to overcome the barriers that used to obstruct the full development of the market in debt instruments is offered by GPW Catalyst – a new bond market launched by the Warsaw Stock Exchange on 30 September 2009. It is the first market in corporate, municipal, and covered bonds in East-Central Europe. Catalyst opens up a municipal bond market for new institutional and individual investors. An approach oriented to investors' needs has forced the implementation of standardized rules regarding the origination and trade of municipal bonds. The transparency and equal access of investors to information provide favourable conditions that link the issuer's credibility with special features, risk and valuation of a given issue. On the other hand, reporting requirements duly met by local self-government entities allow them to build the debtor's credibility in the financial market.

Formal and legal regulations of municipal bond market

The development of the municipal bond market in Poland was initiated by the **Act on Bonds** of 29 June 1995 (DzU, 2001b). Art. 2, para. 1, point 2 of this Law formally introduced a commune as an issuer of bonds into the capital market. Following the modification of administrative division of Poland, the amended Act of 2000 lists all entities authorized to issue bonds. Among them there is a separate group of issuers containing communes, counties, voivodeships, associations of listed entities, and the capital city of Warsaw. This group of issuers is jointly defined as local self-government entities.

According to Art. 4 para. 1 of the Act on Bonds, *a bond is a security issued in series in which the issuer owes the holder a debt, and is obliged to bondholder to provide for a certain benefit (to redeem a bond)*. The fact that issuers of bonds are entities of local self-government results in a special character of those bonds, called municipal bonds to distinguish them from other bonds. The distinctiveness of municipal bonds that regards the essence of the underlying liability as well as the purpose of the debt and the default risk is shown by the following definition: *municipal bonds are public debt securities issued by local self-government entities with a purpose to finance investment projects executed within their legal tasks* (Kozuń-Cieślak, 2008).

In addition to the Act on Bonds, the issuance of securities by local self-government entities is also regulated by provisions of the **Law on Public Finance** of 30 June 2005 (DzU, 2005). Art. 82, para. 1 of this Law authorizes local self-government entities to issue securities with the purpose to fund a yearly budget deficit of the entity or to raise funds for expenditure that are not covered by current revenue.

The Act on Public Finance provides also some mechanisms preventing over-indebtedness of local self-government entities. The most important provisions are:

- Art. 83, para. 1 – total credits, loans and liabilities arising from securities issued by a local self-government entity may not exceed a limit determined by the Budget Act;
- Art. 83, para. 2 and 3 – in case of a credit or loan application by a local self-government entity or in case of a planned issue of securities by a local self-government entity, an executive branch of this entity is obliged to obtain an opinion of a regional chamber of control regarding the ability to repay a credit or loan or to redeem securities. The opinion is available to investors to whom securities are offered;
- Art. 169 – total annual payments of credits, loans and contingent warrants including interest due on those credits and loans and interest due on discounts applicable to securities issued by the entity, and expenditures payable in a given budgetary year due to redemption of issued securities must not exceed 15 per cent of the entity's revenue planned for a given budgetary year. In the case when the ratio of the country's total public debt and expected payments, due to warrants and guaranties given by public finance entities to the Gross Domestic Product, would exceed 55 per cent, the total credit charges of a given self-government entity mentioned above must not exceed 12 per cent of its planned revenue, unless total charges result from liabilities incurred before the date of announcement of this ratio by the Minister of Finance. The said restrictions are not applied to credits and loans raised due to funds defined by a contract with entities dealing with structural funds or the European Union Cohesion Fund, and also securities issued with such a purpose, warrants and guaranties given to self-government legal persons that perform tasks of a self-government entity using the EU funds;
- Art. 170 – regardless of the above-mentioned limits, a total debt at the end of a budgetary year must not exceed 60 per cent of the revenue attained by the entity in the given budgetary year; the restrictions are not applied to the securities issued, credit and loans raised as funds from the European Union within structural funds and the Cohesion Fund;
- Art. 172 – regional chambers of control are authorized to issue opinions on the ability to finance the deficit presented by the local self-government entity and on the appropriateness of total debt predicted in an annex to the budget, particularly as regards the compliance with provisions of the Budget Act on enacting and executing budgets in the following years.

The regulations restricting the debt levels (given by Art. 170) and debt servicing disbursements (given by Art. 169) will be binding by 2013. The new principles as to contracting and servicing a debt are provided by the Act on Public Finance (DzU,

2009). Among many changes, two are decisive. The first one stipulates that a local self-government entity is not allowed to pass a current deficit budget, particularly when the planned expenditure exceeds the planned revenue increased by a budget surplus from previous years and available funds resulting from settlement of securities issued or from loans and advances contracted in previous years.

The other area of changes refers to the individualization of debt limits. A fixed debt limit of a local self-government entity is to be repealed; instead, an individual level depending on repayment capability measured by the entity's past operational surpluses will be determined. The basis to calculate a maximum debt absorption is an index referring to the realized current revenue, income on property and current expenditure over three years, ex-post evaluated.

The issue of bonds by a local self-government entity is also based on the **Act on Communal Self-government** of 8 March 1990 (DzU, 2001a) that provides for a communal council to be exclusively authorized to issue bonds, and for a board to determine the rules of selling, buying and redeeming bonds. Similar regulations are provided by the **Acts on County Self-government and Voivodeship Self-government** of 5 June 1998 (DzU, 2001c; DzU, 2001d).

To recapitulate and interpret the above acts of law, it is worth highlighting that they delimit the formal area where local self-government entities as potential bond issuers are allowed to be active. Local self-government entities are by no means discriminated against as authorized to issue securities, and are equally treated as other entities (the Treasury and business firms). The motivations to regulations that avoid over-indebtedness of local self-government entities was not only prevention, but also openness, purposefulness, cost-efficiency and transparency of public finance.

A new paradigm for a limit on the indebtedness level of local self-government entities (to be enforced in 2014) will result in a qualitative change that requires a shift from a habitual way of thinking as regards the attainment of a statutory threshold of debt. A need will be created to manage debt and make financial decisions about property in a way that is aimed at new opportunities to increase debt, including the market in municipal bonds.

Characteristics of municipal bond market in 1996–2009

The **issuers** of municipal bonds in Poland are great cities, towns and small rural communes. Municipal bonds are also issued by land counties and voivodeship self-governments. The diversity of issuers also results in diverse sizes of issues. The nominal value of municipal bonds issued in Poland after 1995 ranges from under PLN 1 million (e.g., Pieniężno – PLN 0.9 million) to over PLN 200 million (e.g., the second issue of Gdynia – PLN 206.3 million). Despite the relatively low volumes of issues, in many cases they were subdivided into tranches and series that often did not exceed PLN 1 million

(e.g., the commune of Jaktorów issued 26 tranches valued from PLN 100 thousand to PLN 200 thousand, totalling PLN 3 million). The maturities of bonds ranged from 1 year to 17 years, most often 3 to 8 years. Many local self-government entities sold more than just one issue of bonds (in 2009, the town of Leszno issued municipal bonds for the eighth time). Such a great diversity of the Polish bond market is exceptional in Europe dominated by large issues of great entities with nominal values of tens of millions of euro.

A positive feature and tendency exhibited by the municipal bond market is a growing attractiveness of bonds among self-governments, irrespective of the size of a local self-government entity. The number of issuers and the valuation of municipal bond market in 1996–2009 are shown in Table 1.

TABLE 1. **The number of issuers and the valuation of municipal bond market in Poland, 1996–2009**

Year	Number of issuers	Market valuation (PLN million)
1996	10	299.2
1997	28	453.0
1998	40	504.4
1999	53	653.6
2000	90	860.0
2001	149	1 628.6
2002	192	2 218.8
2003	201	2 639.1
2004	227	2 954.5
2005	264	3 295.2
2006	322	3 830.4
2007	337	4 132.2
2008	373	4 461.2
2009	415	6 906.1

Source: author's own elaboration based on data from Fitch Polska S.A.

An analysis of data presented in Table 1 reveals the three periods in the development of the municipal bond market in Poland: 1996–1999, 2000–2003 and after 2004.

- The first period is the beginning of municipal bond market functioning in Poland; it was regulated by the Act on Bonds of 1995. The first issuers of bonds were large communes. The issuances were typically one-series issues, and a one-time acquisition of funds was substantial. The process of issuing was therefore simple and convenient for agent banks; however, it was difficult for issuing self-governments. They were finding it difficult to effectively use the acquired funds and to ensure the sufficient funds at the time of redeeming the bonds. Such experience gave rise to a wrong opinion on municipal bonds that they were an inflexible financial instrument available only to large entities of local self-government. To

challenge this situation, first issues in tranches and series were launched, thus allowing the adjustment of the issue to the investment cycle, offering bonds in terms when the funds were needed, and designing the redemption of bonds that matched the financial potential of the issuer.

- The second period of the development of municipal bond market was characterized by the two tendencies. Following a new administrative division of the country, new issuers emerged – counties and voivodeships, while the growing indebtedness of self-governments required longer maturities and seeking for a wider range of investors.
- The third period of the development of the municipal bond market started after Poland's accession to the European Union. Large amounts of available structural funds forced modifications in the market for municipal bonds. A number of bond issues increased significantly and, due to the existing indebtedness of local self-government entities, the maturities of subsequent issues accordingly lengthened.

Despite the ongoing increase of value of municipal bond issues and greater numbers of issuers, the municipal bond market in Poland is the smallest segment of the non-Treasury bond market (14.99 per cent of total valuation). However, the number of the issuers in the self-government sector is relatively great compared to the number of companies and banks issuing bonds (Table 2).

TABLE 2. **Non-treasury bonds in Poland (as of 31 December 2009)**

Issuers	Number of issuers	Value (PLN million)
Companies	71	12 158.23
Banks	14	18 965.64
Self-government entities	415	6 906.08

Source: author's own elaboration based on Rating & Rynek, 2009b.

It is estimated (Inwestowanie, 2009) that municipal bond issuers represent an exceptional group of local self-governments that become increasingly successful when raising funds in a financial market. In case of municipal bonds, the risk of losing the principal or interest is negligible. It does not mean, however, that self-governments never experience financial distress; quite the opposite is true, as statutory tasks imposed on them generate risks other than those resulting from a bad debt management. In addition, unlike many corporate borrowers, self-government becomes aware of potential threats well in advance and communicates it to their banks so that appropriate restructuring activities may eliminate or significantly reduce the risk. Self-governments increasingly enhance their positions in the market by means of independent ratings that confirm their financial standing in a long-term perspective.

A proper servicing of municipal bond subscription depends basically on an agent – the **issue organizer**. Organizing and carrying out an issue of securities is a complex task; therefore, local self-government entities that decide to issue municipal bonds usually engage financial and legal consulting firms. The tasks of an advisor are: completing applicable resolutions and documents for a regional chamber of control, providing a financial plan and schedule of debt servicing, servicing an auction to select an issue agent, negotiating contracts with an issue agent on behalf of the issuer. To summarize, the issue organizer performs all most complex and labour-consuming activities necessary to carry out the issuance of municipal bonds; therefore, more and more small communes decided to issue bonds. In 2008, initial issues of municipal bonds were made by 122 communes, 23 counties and 2 voivodeships (Rating & Rynek, 2008). The most active consulting firm in Poland is Poznań-based Inwest Consulting S.A. and its subsidiary Inwest Finance Ltd., which were advising on 177 issues of municipal bonds.

The procedure of arranging an issue became streamlined and shorter after the amendment of the Act on Public Contracts of 2004. The amended act provides that financial services of arranging and organizing an issue of securities are exempt from compliance with public contracts regulation. In Poland, the selection of an issue agent was typically conducted through the public auction according to the Civil Code.

The biggest organizer of municipal bonds issues in 2008 was PKO Bank Polski S.A. with a share of 44.93 per cent in the municipal bonds market (Rating & Rynek, 2008). The shares of remaining organizers in the municipal bonds market were: Bank DnB Nord Polska S.A. – 15.68 per cent, BGK – 15.22 per cent, BOŚ – 10.88 per cent, Nordea Bank Polska – 7.23 per cent, ING Bank Śląski S.A. – 5.43 per cent, Pekao S.A. – 0.32 per cent.

More than 80 per cent of the municipal bonds valuation were securities issued in a non-public offer. The banks that organized the issues were also involved in secondary trading, thus there was no current pricing of those securities. Banks offered such terms of conducting the issue that the cost of bonds was comparable to or slightly lower than the credit interest rate on investment loan of the same maturity.

Municipal bonds are perceived by **investors** as attractive financial instruments, mainly because of a special character of an issuer that formally is bankruptcy-remote; however, the market in municipal bonds is not very liquid. Actually, there had been no secondary market in Poland before October 2009. All issues were guaranteed by banks to be placed in the market, and with the issued securities in their asset portfolios, banks became the key buyers of municipal bonds. According to data from Fitch Polska S.A. (Rating & Rynek, 2009a), in February 2009, banks held 86.16 per cent of all municipal bonds, whereas foreign investors bought 11.43 per cent, investment funds 1.24 per cent, insurance companies 0.89 per cent, and other entities 0.18 per cent of municipal bonds.

An analysis of the above findings allows to identify the most significant factors that were relevant for Poland's municipal bond market in 1996–2009:

- municipal bonds are a more and more popular source of funds raised in the financial market, irrespective of the size of a local self-government entity;
- a mature market of firms providing financial and legal consulting services encourages more and more small local self-government entities to issue bonds;
- issuers better manage their debt; local self-governments benefit from independent ratings in order to confirm their long-term financial standing forecast and to enhance their market positions;
- because of the increasing indebtedness of local self-government entities, maturities of subsequent issues are longer;
- a significant variation of the issue volume proves that there is no break-even threshold of municipal bond issues, and indicates a quasi-credit nature of underlying liabilities;
- the non-public character of issues, underpinned by organizer's firm commitment, favoured the transformation of obligations into quasi-loans.

Eurobonds issued by local self-government entities

The local self-government entities may raise capital by issuing not only municipal bonds in a domestic market, but also debt instruments denominated in a currency not native to the country where they are issued, i.e. eurobonds. Eurobonds are fiscally privileged instruments traded in international capital markets and are issued in eurocurrencies with the intermediation of an international financial consortium. In addition to all typical features of domestic bonds, eurobonds have better qualities resulting from their international nature. The main characteristics of eurobonds as emphasized by the literature (Dosoo, 1992; Kozuń-Cieślak, 2008) are:

- eurobonds are based predominantly on interest payments due;
- interest payments are payable in gross form, i.e. without the deduction of tax. Eurobonds can even include a clause that in the case of legal changes imposing a tax on interest paid by a borrower the interest has to be adequately increased;
- fiscal neutrality of eurobonds results from an anonymous trading: they are typically bearer bonds and no official records are kept; thus, they are attractive instruments for those investors who prefer anonymity for a number of reasons;
- eurobonds are issued by international underwriting syndicates;
- investors do not monitor issuers' financial management, and some clauses in a contract determine default events on principal or interest payments;
- the euro-market's functioning is not subject to a direct control by national or international monetary authorities; therefore, its development is free and

competitive, with one regulatory factor, i.e. an interest rate that affects demand and supply;
- eurobonds are distinct from foreign bonds placed by issuers based in a country different from a country of debt instruments' issuer denominated in the other country's currency and subject to securities law and procedures binding in this country;
- typically, eurobonds are publicly issued, whereas foreign bonds are privately placed in a specified national market.

The first issue of municipal eurobonds in Poland occurred in 1998, the city of Cracow being the issuer. Two-year eurobonds denominated in German marks were issued in units of DEM 250,000 and total nominal amount of DEM 66 million (approximately PLN 138 million). The bond was priced at 99.9 per cent of its nominal value, i.e. with an issue margin at 0.1 per cent. A half-year coupon interest was linked to the LIBOR for the German mark, including the investor's margin of 1 per cent. The creditworthiness of Cracow was approved by Standard & Poor's rating as BBB for the global market and BBB+ for the domestic market. Hence, Cracow was included into the group of investment grade municipalities. The issue was performed by a consortium of banks consisting of Westdeutsche Landesbank Polska, West Merchant Bank, CBI Securities, BPH and BZ. The principal paying agent function was provided by Westdeutsche Landesbank Girozentrale; it was also a fiscal agent, while West LB International PLC from Luxembourg was a paying agent and an issue agent. In addition, Weil, Gotshal & Manges LLP, based in Warsaw and London, was a legal advisor of the management group as regards the Polish and British law on a subscription contract. Eurobonds were offered to trade in a regulated market in Luxembourg. The funds raised in the issue were used to finance transport infrastructure projects (Memorandum, 1998).

Unfortunately, the event coincided with the worldwide distress which affected global financial markets following the Asian crisis and the consequent investors' flight from emerging markets, and again with the breakdown caused by the Russian debt default. In response to this situation, Cracow performed a new issue of eurobonds in 2000, which was denominated in euro. The issue's objective was to roll the 1998 debt, now offering callable bonds. In 2005, Cracow redeemed the eurobonds at a market price determined by market prices of securities listed on the stock exchange in Luxembourg.

Warsaw issued the first tranche of eurobonds in April 2009. These are 5-year eurobonds paying a fixed interest rate, maturing in 2014, and available in global markets. The total amount of the issue is EUR200 million. A coupon of 6.875 per cent is paid annually. The issue is public and the instruments are listed on the stock exchange in Luxembourg. The arrangers and issue agents were Deutsche Bank and BNP Paribas. The investors are financial institutions and investment funds, mainly from the UK, Switzerland, the Czech

Republic and Germany. Issuing eurobonds, the capital city of Warsaw would like to raise funds to finance the planned budget deficit, including property expenditures.

The experience of Cracow showed that a market in eurobonds is a very attractive source of debt capital; however, its requirements are also very strict. It is a market for the best and largest entities. An adequate attention of foreign investors and a low cost of debt are available only for the best issuers, i.e. those with an excellent assessment and credibility approved by a high rating. Moreover, only the largest entities issuing large amounts of debt can benefit from the low total cost of capital when high costs of arranging and organizing the issue are compensated by low interest payments.

Therefore, the entrance of Cracow to the eurobonds market should be assessed as a significant success and a reason for hoping that other local self-governments in Poland will be following the example and start raising funds in global markets, just like Warsaw did issuing its municipal eurobonds.

Analysis of the growth limits of the municipal bond market in Poland

Before September 2009, the development of municipal bond market in Poland was restricted by the lack of a secondary market and the resulting lack of available information and uniform market procedures. The limitations were mainly due to the fact that the dominating entities arranging the issues of municipal bonds were banks but not local self-government entities, and other potential investors in addition to banks.

- Banks as issue organizers considered the arranging and underwriting of bond issues as an alternative to the investment credit extended to local self-governments.
- There was no secondary market in these financial instruments. Banks as issue organizers also dealt with secondary trading, and so there was no current pricing of these securities. They offered such terms of issue that cost of bonds was comparable to or slightly lower than the credit interest rate on an investment loan of the same maturity. Before 2007, the interest on municipal bonds had been linked to the yield of 52-week Treasury bills. Later, there had been a shift toward linking the prices of municipal bonds to the WIBOR rate. The decision to base a bond's interest coupon on WIBOR was motivated by a more accurate and easier pricing of securities, so that their potential liquidity of scarce trading in a secondary market could be significantly enhanced. Moreover, it also emphasized a close dependency of bond prices on the interbank money market.
- Standards aimed at streamlining the procedures, so that they were oriented to meeting the banks' needs, but not those of non-bank investors.
- Banks servicing issues were not interested in disclosing information, because they were dominant holders of issued municipal bonds.
- The lack of generally available information about which local self-governments were bond issuers made impossible comparing offerings of different local self-governments.

- The lack of current verification of investment attractiveness of different municipal issues resulted in an inefficient allocation of funds which did not always flow to the most efficient local self-government entities.
- The lack of current pricing by a secondary market quotations did not allow investors to verify their former decisions, and issuers were not informed about how investors perceived their activities.
- The non-public character of issues excluded individual buyers from potential investors, although some of them, motivated by local patriotism, would be willing to invest in bonds issued by towns or communes of their residence.

The lack of secondary market and resulting conditions were not the only limitations for the development of the municipal bond market; there were also some restrictions stemming from the local self-government environment. A significant part of people in that environment are reluctant as to the sources of funds different from bank loans. The reasons of such an approach include, among other things:

– difficulties to utilize a one-time large amount of funds and to ensure an adequate amount for the date of bond redemption;
– the complexity of municipal bond issues, which is more challenging compared with bank loan application; therefore, additional specialists or firms from the area of financial and legal consulting are necessary;
– a formal requirement to have a confirmed credibility of local self-government among investors. It is typically a rating provided by independent, specialized rating agencies involving, on the one hand, considerable expenditures and, on the other hand, some anxiety that the rating procedure could disclose various weaknesses (e.g., poor management, losses, failure to comply with the ratios determined by the Act on Public Finance, etc.), which in turn could discourage potential investors instead of attracting them.

The Polish market in municipal bonds saw a major shift when the Warsaw Stock Exchange launched a new market for trading municipal and corporate bonds.

A new market of municipal bonds in Poland

Since 30 September 2009, local self-government entities issuing bonds can use a new trading platform called GPW Catalyst. It is a retail and wholesale market in debt financial instruments, operated by the Warsaw Stock Exchange (WSE) and BondSpot S.A. It is the first market in corporate, municipal and covered bonds in East-Central Europe. Catalyst comprises (*Przewodnik,* 2009):

– a regulated market operated by the WSE (dedicated to retail investors),
– a regulated market operated by BondSpot (dedicated to wholesale investors),

– an alternative trading system operated by the WSE (retail investors),
– an alternative trading system operated by BondSpot (wholesale investors).

The structure of the Catalyst market matches the issues of different sizes and characteristics, and also the needs of diverse investors: retail and wholesale, individual and institutional.

The admission to trading of bonds in Catalyst requires:
– authorization of a given issue by the issuer, or
– authorization of a given issue by the issuer and the listing of bonds in the regulated market or in an alternative trading system.

An innovation in the Polish exchange is a category of bonds that are authorized by Catalyst, but are not traded yet. The authorization by Catalyst sends a signal to investors and counterparties of the local self-government entity that the issuer is a public entity, transparent and responsible to the market and business environment, and therefore they comply with the same reporting requirements as those binding for issuers of the instruments that are listed and traded.

The Catalyst market performs the main functions of a public market in securities, i.e. capital accumulation and allocation. More institutional and individual investors have got a chance to efficiently and flexibly invest their surplus funds in local self-government bonds by means of Catalyst. It was designed for more than 1.1 million individual investors – customers of brokerage houses, so that they are encouraged to buy municipal bonds. A wide access to investors and their capital is supposed to be a chance for local self-government entities to more cheaply raise funds in order to finance the tasks that they are legally required to accomplish. In addition, a local self-government entity is able to borrow money for a much longer term compared with a bank loan maturity, and to adjust the structure and schedule of payments to its current budget.

A new market for a wide range of investors requires adequate access to information about the specifics of a given issuer, which will reveal the business capability of a given local self-government entity, its strengths and weaknesses, and risk factors, so as to provide a basis for an individual evaluation of an issuer's business, wealth and financial standing confronted with the given issue's specifics and risk. A type and range of available information are presented in Table 3.

All data should facilitate the evaluation of the business, wealth and financial standing of an issuer and the evaluation and price of bonds by investors. Access to comparable data from several periods will reveal the underlying trends and conduct an analysis of their causes. Collections of statistical data may also be used for comparative researches of other local self-government entities of similar size and characteristics.

When complying with reporting requirements, issuers build their credibility as debtors in a financial market. A reliable and wise reporting policy enhances the credibility of a

TABLE 3. **Main information available in the Catalyst market**

Type of data	Range of information
DESCRIPTION OF AN ISSUER (local self-government entity)	
General data	Type of an entity, location, area, basic demographic data
Capability and business activity	Number of economically active population, number of unemployed, major companies, employers and their employees, plan of development, short description of activities, description of business investment policy
Basic financial data	Revenues, expenditures, current and investment expenditures, indebtedness in the past budgetary year, information about the degree of budget execution in revenues and expenditures
Debt outstanding	Liabilities due to issued bonds, received credits and loans, extended warrants and guarantees, collateral backing those liabilities
DESCRIPTION OF AN ISSUE	
Purpose and size of an issue	Nominal value and issue price or pricing method, information about the results of the project that will be financed
Basic conditions of an issue	Information about conditions of redemption, interest payments, additional rights due to holding debt securities
Collateral	Size and type of the collateral, entity providing the collateral, the value of debt outstanding on the last day of a quarter preceding the offering to buy bonds, and outlook of issuer's debt management before the total redemption of debt securities
Rating	Description of the current rating of an issuer or of securities issued by an issuer
DESCRIPTION OF RISK FACTORS	
Risk generated by securities	Liquidity risk, de-listing risk, basic interest rate risk
Risk generated by an entity	Risk of increased burden of a given local self-government entity without compensating revenue, risk of lower revenues from participating in Personal Income Tax and Corporate Income Tax, risk of imposing prudential and remedial procedures on the public finance sector, risk of instable economy
Specific risk of an entity	E.g., risk of large concentrations (such as significant dependence on one source of revenues – real estate tax from one big company), risk of demographic shift (such as caused by emigration of inhabitants).

Source: author's own elaboration based on Huczek 2009.

local self-government entity, and in future it may result in more ease of raising capital. The high and stable credibility means more attention of investors to municipal bonds and thus an easy, immediate and advantageous access to capital.

During seven months when the new municipal bond market was functioning in Poland, by the end of April 2010, twelve series of municipal bonds issued by six local self-government entities have been traded in the Catalyst market. A leader is the capital city of Warsaw whose long-term bonds valued at PLN 900 million are listed in regulated markets operated by the Warsaw Stock Exchange and BondSpot. The second-biggest issuer, the city of Poznań, issued short-term bonds valued at PLN 218 million listed in the regulated wholesale market. Besides, 12 issues of municipal bonds by five local self-government entities were authorized by the Catalyst market. Thus, the beginnings of the new market are very encouraging.

Conclusions

There has been a stable increase of the value of municipal bond issues and of the number of issuers, but a non-public type of issues backed by the organizer's guarantee produced the conversion of borrowed funds into quasi-loans. Before October 2009, there had been no secondary market in those financial instruments. The arrangement of issues was dominated by the traditional credit banking approach. The standards aimed at streamlining the procedures that resulted in the orientation towards satisfying the needs of banks, not of other investors. Another key aspect of that market was the lack of generally available information as to which local self-governments are issuers of bonds. Banks servicing the issues were not interested in the disclosure of information because they were holding the majority of issued municipal bonds. The lack of current information flows impeded the market verification of investment attractiveness of respective issues of municipal bonds.

The organization of the municipal bond market was radically changed after the Warsaw Stock Exchange had launched a new bond market called GPW Catalyst. According to the basic premises of the Catalyst market, the adopted solutions are supposed to to remove the barriers that used to obstruct the development of market in municipal bonds. Accordingly, the following evidence demonstrates the actual value of the Catalyst market:

- The Catalyst market has concentrated an otherwise dispersed market in debt securities issued by local self-government entities.
- The market is adjusted to issues of various sizes and diverse characteristics, and also to suit the needs of different investors: wholesale and retail, institutional and individual.
- The Catalyst market has got streamlined procedures – it offers a simple authorization of bonds without the requirement to present an elaborate prospectus, or quotations in an alternative trading system. An innovation in the Polish stock market is a category of bonds that are authorized by Catalyst, but are not traded yet. The authorization by Catalyst is a signal to investors and counterparties of the local self-government entity that the issuer is a public entity, transparent and responsible to the market and business environment, and therefore they comply with the same reporting requirements as those binding for issuers of the instruments that are listed and traded.
- The development of a secondary market has been ensuring the liquidity of bonds, thus guaranteeing a long-term financing of self-government investments.
- Public offering of issues and equal access of investors to information have encouraged linking an issuer's credibility to specific characteristics, risk and pricing of respective issues.

The recent recession and global crisis have strongly emphasized the relevance of the Catalyst market for financing the regional and local development. The interdependence

between the finance of government and local self-government entities relies on common economic foundations of budgetary revenues. As of 2009, the main sources of revenues for local self-government entities in Poland have been still subsidies and funding from the state budget. They contributed on average to nearly 50 per cent of all revenues, 37 per cent from proceeds of local taxes and fees, and income taxes, whereas the remaining 13 per cent were obtained from property income (Kańczuga 2009). Consequently, the economic and financial problems of the state, such as a lower budgetary income, decreased employment, higher inflation and lower real wages, increased indebtedness result in the financial problems of a local self-government. The local self-governments are aware of the impact of lower dynamics in revenues on the weaker growth of investments and the threat to exceed the investment limit; therefore, they seek for new financial instruments that allow to keep the current levels of economy, investments and living conditions of inhabitants. It is my conclusion that the new bond market, GPW Catalyst, has provided perfect conditions for raising non-budgetary finance and a more dynamic development of local self-government entities in Poland.

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