



DEVELOPMENT AND PERSPECTIVES OF MUNICIPAL BOND MARKET IN SERBIA

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PRESENTATION OUTLINE

- General market overview
- Legal framework
- When is borrowing the right choice?
- Why there were no municipal bonds in Serbia until recently ?
- Local governments borrowing experiences in Serbia
- Support from EU Delegation to Serbia
- Conclusion



GENERAL MARKET OVERVIEW

- New instrument on local capital market
- New alternative for financing local infrastructure projects
- Delay in development compared to the region
- Completed legal framework enabling market development
- Further support to local governments needed for more intensive use of the new financing instrument



LEGAL FRAMEWORK

- Public Debt Law (until 2011)
- Public Debt Law amendments (in 2011)
- Law on Local Government Finance
- Budget System Law
- Capital Market Law
- Public offer – new possibility**



WHEN IS BORROWING THE RIGHT CHOICE?

- Transfers (Grants)
- Capital grants
- Subsidized (low interest) loans
- Pay-as-you-go finance (from current revenues)
- PPP and joint venture
- Debt issuance – main reasons for municipal bonds issuing**
- Critical gap between the communal infrastructure (environment) development and EU standards coupled with high investment needs**



WHY THERE WERE NO MUNICIPAL BONDS IN SERBIA UNTIL RECENTLY?

- Legal framework was no obstacle
- Local government finance system specificities
- Favorable tax treatment was no obstacle
- Local governments assets issue – only partialy
- Lack of experience and needed expertise
- Extensive IFI's financing
- (Un)Readiness of financial institutions (banks and non-banks)



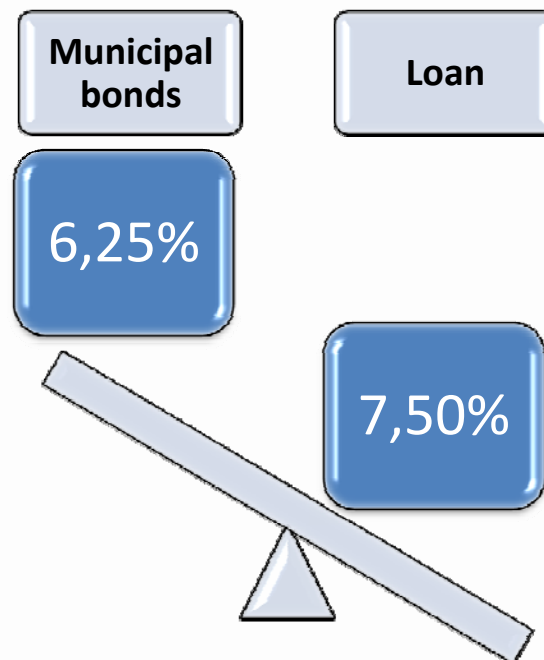
LOCAL GOVERNMENT BORROWING EXPERIENCES IN SERBIA

- Long term loan market experience
- Significant increase of activities from 2009
- 169 cities, municipalities and city municipalities – 110 were active on the loan market by the end of 2010
- Market segment with significant potential
- Relatively attractive loan conditions
- Local governments financial capacity growth
- Novi Sad – best practice example – over EUR 3 million more in the local budget



FIRST MUNICIPAL BOND IN SERBIA – CITY OF NOVI SAD

- ❑ Ultimate goal – lowest costs of financing
- ❑ Loan procurement and underwriter procurement in paralel
- ❑ For financing of two important local projects





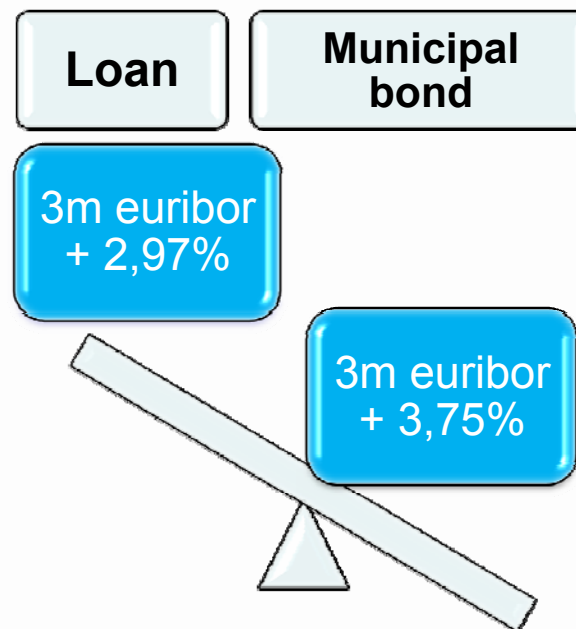
BOND STRUCTURE – CITY OF NOVI SAD

Issuer	City of Novi Sad, Moody's credit rating Ba3
Nominal issue	EUR 35 m, devided in 3 tranches
First two tranches	October 2011 and April 2012
Denomination	EUR
Maturity	12 years (including 2 years of grace period)
Interest rate	Fix, 6,25%
Repyment schedule	Semi annualy
Prinicpal repayment	Amortization plan
Possibility for 3 tranche	Partial US Treasury guarantee
Underwriter	UniCredit Bank



CITY OF UŽICE EXAMPLE – best loan conditions

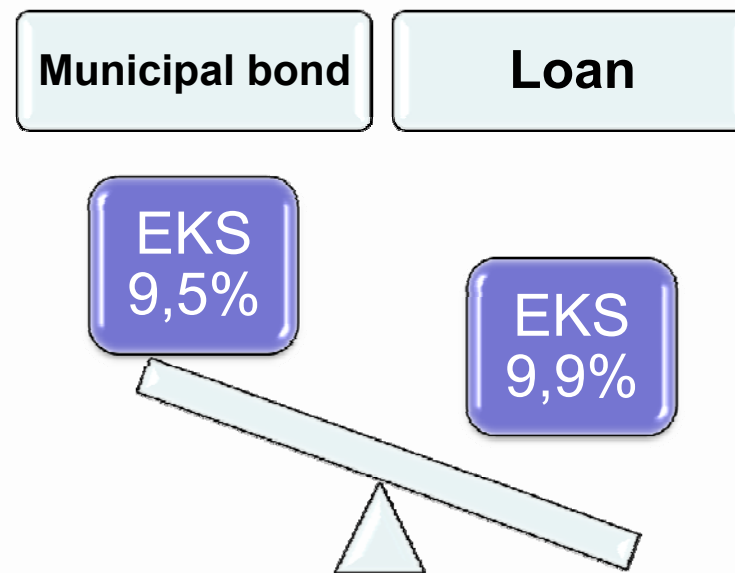
- ❑ Total borrowing – RSD 100 m (September 2011)
- ❑ Maturity – 2 years grace period and 4 years amortization
- ❑ Parallel public procurement for loan and the underwriter





SECOND BOND IN SERBIA – CITY OF PANČEVO

- ❑ Total borrowing – RSD 107 m (December 2011)
- ❑ Maturity – 1 year grace and 6 years (call opcija)
- ❑ Paralel loan and underwriter procurement





SUPPORT FROM EU DELEGATION TO SERBIA

Key incentive for the first bonds

- Program Exchange 3 – IPA 2007 (SCTM)
- Program MSP – IPA 2007
- Joint planning process and cooperation
- Municipal bonds feasibility study
- First Information memorandum developed under Exchange 3 program
- Direct support to Novi Sad, Užice, Pančevo etc.
- Continuation of support in next years – Exchange 4



CONCLUSIONS

- Support from the Ministry, Public Debt Administration and SEC
- Lack of experience among local governments
- Education for investors, issuers and citizens
- Market conditions improving from the perspective of future municipal bonds
- Local governments transparency and accountability
- Further support for local governments by all stakeholders



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