DESCRIPTION & STAKEHOLDERS

- Analysis of finance opportunities conclusion: neither the local credit market and nor the international financial institutions (e.g. ERBD, EIB, IFS etc) are able to meet the city demands.
- Only option: private international markets, namely bond issue
- Rating analysis undertaken by Standard & Poor’s. In 2004, it gave Bucharest municipality the same rating as the central government (BB- stable). Just before the bond issue, it upgraded the bond issue the rating to BB+ stable.
- Selection of a consortium made by JP Morgan & ABN Amro to carry out all the preparation of the bond issue
- Bond issue in 2005 to finance the investment needs in the public infrastructure of Bucharest (the investment includes road infrastructure, parking facilities and public transportation fleet)
- Results of the experience:
  - The bond issue ended up more than three times bigger than planned. It saved the city from looking for more financing in the coming years
  - The city had not borrowed ever since. It is trying to so, but the bullet repayment makes it exceed the debt threshold in 2015. The Ministry of Finance claims that the 2005 exemption did not include the repayment, only the approval for the insurance

SPECIFICITIES OF LOANS

- The issue took place in mid-June 2005 at London Stock Exchange
- Bond issue: 500 million € 10 year bullet repayment instruments.
- Interest rate: 4.12%
- The bond underwriters: European banks
INSTITUTIONAL AND REGULATORY FRAMEWORK / PRUDENTIAL MEASURES

- The debt threshold for municipalities is 20% of own revenues. However the government passed an emergency ordinance exempting the city from the 20% debt threshold which was in force at this time. The exemption was passed just a month before the bond issue.

ADVANTAGES

- The interest rate of 4.12% is lower than that of central government bonds and than that of most of current municipal loans in Romania.
- The deposits from bond proceeds yielded enough interest to service the debt for two years.

DISADVANTAGES / ISSUES RAISED

- The bullet repayment structure causes problems to the city nowadays. The plan to take a new loan to build kindergartens is stalled, because the debt threshold is set to be broken in 2015 when the bond issue is repaid.

Sources: Guidelines on local government borrowing and recent development in NALAS countries (2005)