

International Conference on Applied Economics, ICOAE 2015, 2-4 July 2015, Kazan, Russia

Municipal loans as a tool for solving the financial problems of the territory

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Abstract

Issue of municipal bonds become a popular method of financing the deficit of local budgets. In the article the peculiarities of municipal loans of Moscow and Kazan, are identified shortcomings and proposed recommendations on increase of efficiency in the implementation of borrowing through bonds issue. Among the measures proposed by the author is significant, however the mechanism of public-municipal partnership.

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Selection and/or peer-review under responsibility of the Organizing Committee of ICOAE 2015.

Keywords: budget deficit; investment; municipal loans; bonds; regional market of securities.

1. Introduction

As you know, securities are the most effective tool to attract necessary for the Issuer of financial resources. Among the variety of types of securities are of particular interest bonds issued on behalf of municipal authorities, since the municipal territories are concentrated key resources of our country and the financial condition of municipalities, ultimately, affects the sustainable development of our state. Attention, in our opinion, deserve two municipalities - the city of Moscow and Kazan because they are capitals of Federal and regional significance, respectively, are centers of international sporting events, research and educational activity and in fact are basic investment and financial centers in the country. In this regard, it is important to analyze the conditions of issue and circulation of municipal bonds of Kazan and Moscow.

2. Data and Methodology

We have analyzed bond issues in the period July 2005 to December 2011.

Ratings of issuers in Fitch characterized by the following parameters [1]:

- as 21.08.2012 short-term credit rating of Kazan in foreign currency - B, as at 18.01.2013. short-term credit rating of Moscow in foreign currency - F3;
- as 21.08.2012 long-term default rating of Kazan in foreign currency - B+, as at 18.01.2013 short-term

credit rating of Moscow in foreign currency is BBB;

- as 21.08.2012 long-term default rating of Kazan in national currency - B+, as at 18.01.2013 short-term credit rating Moscow in the national currency - BBB;

as 21.08.2012 long-term credit rating of Kazan on a national scale - A, as at 18.01.2013. long-term credit rating of Moscow on a national scale is AAA.

Obviously, loans of Moscow have a higher rating compared to loans of Kazan. Total borrowing by the administration of Kazan for the analyzed period amounted to 14.8 billion rubles, and the Government of Moscow - 455 billion rubles. The average volume of the bond loan by the government of Kazan was \$ 1.85 billion, the Government of Moscow - 21.6 billion rubles. We see that the average amount retained by the Government of Moscow financial resources more than 11 times the size of the loan Kazan.

Compare the parameters of the budgets of the two capitals. In 2013 the Moscow city budget planned deficit in the income 1517,9 billion rubles and expenditures in 1718,3 billion [2], and in previous years also witnessed a deficit. For 2013 the budget of the city of Kazan planned balanced when revenues 15,612 billion rubles and expenditures in 15,612 billion [3]. The income of the budget of Moscow of the order of 100 times the income of the budget of Kazan.

It turns out that the purposes of the bonded debt of the Government of Moscow are the financing of the budget deficit and optimization of budget revenues. And the administration of Kazan uses this tool primarily as a way of optimizing revenues of the budget.

Relative terms, the average term of borrowings by the administration of Kazan was about 30 months, and the Government of Moscow - more than 60 months.

The timing of the bond issue the Government of Moscow exceed twice the timeframe of the introduction by the government of Kazan resources. Longer terms of attracting financial resources reduce the burden on the budget, but at the same time they can increase the cost of servicing the bond issue, as income investors generally have to pay the longer and more often.

Bonds of Moscow and Kazan are in the index of municipal bonds of the Moscow exchange [4]. The yield of the securities represented issuers roughly similar, but there is a difference depending on the issue. We conclude that the Administration of Kazan and Moscow Government are active participants in the stock market. The main differences between their bond issues are timing and the amount of the loan. In this context, it is unreasonably low rating of municipal bonds of Kazan.

On the basis of article 14 of the Federal law "On General principles of organization of local self-government in the Russian Federation" dated 06.10.2003 №131-FZ to significant issues of local importance, in our view, should include:

- ensuring residing in the settlement and in need of accommodation for low-income citizens living areas, organization of construction and maintenance of municipal housing stock, the creation of conditions for housing construction, the implementation of municipal housing control and other powers of local authorities under the housing law;

- creation of conditions for providing transport services to the population and organization of transport service of the population within the boundaries settlements;

- creation of conditions to ensure that local residents have communication services, public catering, trade and consumer services;

- providing conditions for development on the territory of the settlement of physical culture and sports;

- organization and assistance in development of agricultural production, creation of conditions for development of small and medium enterprises.

Analysis of bond issues of Moscow and Kazan have shown that the specific purpose of attracting financial resources by municipalities are not installed.

It is true M. E. Ivanov's thinking about the possibility of using bond loans regions in the framework of implementation of important socio-economic projects [5].

Believe that the use of market instruments securities municipal entities should be associated with the decision of questions of local value indicated by us above, namely: to raise funds for the construction or purchase of apartments, houses for the poor, for the purchase of city vehicles, for creation of infrastructure facilities etc. With a resource base for the payment of income to investors on the bonds may be:

- lease payments from the rental built or purchased apartments, houses to needy citizens in the lease (with the right to purchase apartments, houses citizens);

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