

EURASIAN JOURNAL OF BUSINESS AND MANAGEMENT

<http://www.eurasianpublications.com>

DEVELOPMENT OF PUBLIC MARKET OF CORPORATE BONDS IN POLAND

Piotr Prewysz-Kwinto

Corresponding Author: Torun School of Banking, Poland. Email: ppqq@poczta.onet.pl

Grazyna Voss

University of Technology and Life Sciences, Poland. Email: gvoss@wp.pl

Abstract

By the end of 2010, corporate bonds had not been very popular in Poland. Most of the issues were not public, which limited their volume and value, and mainly resulted from the lack of a proper public market for trading. The situation changed in September 2009 when the Warsaw Stock Exchange launched the bond market Catalyst that is a public market for trading in debt instruments. The aim of this work is to analyse corporate bonds available on Catalyst to prove that this market has become a significant place for raising capital by companies and has influenced popularity of bonds as a source of financing business activity. The primary methods used during the preparation of this work included: analysis of legal acts and papers on the Catalyst market. The author also conducted an analysis of statistical data on, for example, number of issuers as well as the volume and value of issues over the whole period of Catalyst operations, i.e. from September 2009 until the end of the first half of 2014. The analysis allowed achieving the aim and confirmed that launching the Catalyst market encouraged companies to raise funding through issues of bonds.

Keywords: Corporate Bonds, Public Market, Stock Exchange, Investment, Financial Instruments, Source of Financing

1. Introduction

Bonds constitute a significant source of funding business activity and companies are now more often considering bonds issue as an alternative to bank loans or equity increase. Benefits of bonds issues which are most often indicated include: lower costs of raising capital in comparison to equity, no free float or diluted earnings which are the case when shares are issued, and finally a possibility to increase profitability due to the financial leverage effect (Bien, 2008).

What is more, corporate bonds are becoming more and more popular among investors as on the one hand, they yield higher profit than bank deposits and treasury bonds, on the other hand, they are significantly less risky than investment in shares or raw materials.

By the end of 2010, corporate bonds had not been very popular in Poland. Most of the issues were not public, which limited their volume and value, and mainly resulted from the lack of a proper public market for trading. The situation changed in September 2009 when the

Warsaw Stock Exchange launched the bond market Catalyst that is a public market for trading in debt instruments.

The aim of this work is to analyse corporate bonds available on Catalyst to prove that this market has become a significant place for raising capital by companies and has influenced popularity of bonds as a source of financing business activity.

2. Function and the Economic Contribution of Capital Markets

The bond market Catalyst was launched on 30 September 2009. It was created by two institutions – the Warsaw Stock Exchange and its off-exchange market institution Bond magistrate Spot S.A. Debt instruments are traded on four independent trading platforms. Two of them operated by the WSE are dedicated to retail investors. Two markets available to wholesale investors are operated by Bond Spot S.A. (Gemra, 2011) Retail and wholesale markets comprise Regulated Market (RM) and Alternative Trading System (ATS) with its less strict admission conditions. (The Alternative Trading System operated by Bond Spot was launched six months following the opening of Catalyst, i.e. on 11 January 2013). The architecture of Catalyst (presented in detail in Figure 1) aims at enabling individual and institutional investors to enter transaction and, on the other hand, offering issuers an opportunity to introduce to trading debt instruments of different issue sizes.

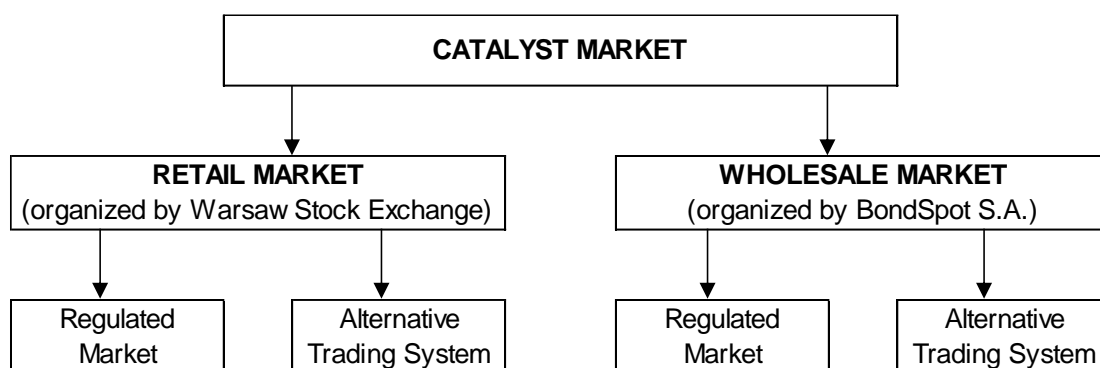


Figure 1. Architecture of the Catalyst market

Source: author's own study

The division into retail and wholesale markets is related to the minimum value of an investor's order. On the retail market, the value is not limited and an order can be placed for even one instrument. On the wholesale market, orders for debt instruments of the nominal value of at least PLN 100,000 are admitted and processed.

Since the opening, the following debt instruments have been traded on Catalyst:

- corporate bonds, i.e. bonds issued by companies and financial institutions,
- municipal bonds – issued by local governments,
- mortgage bonds, i.e. debt instruments issued by mortgage banks.

The scope of instruments admitted to trading has been extended. On 31 November 2010, co-operative bonds issued by co-operative banks were listed for the first time, and in January 2011, Treasury bonds were introduced to trading.

2. Introducing Corporate Bonds to Catalyst

Issuers can introduce bonds to Catalyst through (Mazurek, 2013, p.12):

- authorisation of a given issue without introduction to trading,
- introducing a given issue to trading on the organised regulated market or in the alternative trading system.

Bond authorisation does not introduce bonds to trading, but it places a given issue in the Catalyst's information system, and the issuer has to comply with reporting obligations, i.e. the issuer is required to provide current and periodic information in accordance with Catalyst rules (Puzyrewicz, 2011, p.11). Potential investors can thus access detailed information about the issuer and issues that have been carried out and issues that are planned. Since the market has been launched, only two companies have decided to authorise their issues. The first one is *Remedis*, which has been authorising issues since 2010. At the end of the first half of the year, five issues had such a status. The other company is *Aerogels Polska*, which has authorised one issue, the value of which was PLN 250,000.

There are several conditions to be met in order to introduce debt instruments to trading on a regulated market or in the Alternative Trading System. According to those conditions included in *Catalyst Operating Rules* (Catalyst, 2012, p.1, 5):

- debt instruments must be dematerialised,
- information document relevant to a given trading system has been prepared,
- transferability of debt instruments is not restricted,
- no bankruptcy or liquidation proceedings have been initiated against the issuer.

Moreover, an entity can apply for the admission of bonds to the regulated market (operated by the WSE) provided that the nominal value of the bonds covered by the application is equivalent to at least EUR 200,000 (Mazurek, 2013, p.14). In the case of both wholesale markets operated by Bond Spot, the value of introduced instruments cannot be lower than PLN 5,000,000 (Catalyst, 2013, p.6). What should be mentioned is that an issuer may decide to introduce issues to both retail and wholesale markets at the same time.

Introduction of debt instruments to the Alternative Trading System only, both retail and wholesale markets, requires an issuer to prepare information document, the framework of which has been defined in detail in § 2 of Exhibit 1 to the *Alternative Trading System Rules* and which should include such details as information on the issuer and instruments introduced to trading, financial statements and description of basic risk factors (Newconnect, 2013, p.1). Introduction of instruments to the regulated market, on the other hand, requires that a prospectus or information memorandum, i.e. documents which should enable investors to evaluate risks associated with the acquisition of those financial instruments, be prepared and then approved by the Polish Financial Supervision Authority.

After introduction to trading, bonds are quoted continuously from 8.30 to 17:00 from Monday until Friday, using the existing transaction systems (Prewysz-Kwinto, 2012, p.705). Specific trading rules will not be presented in detail due to the volume of this paper.

3. Analysis of Corporate Bonds on Catalyst

The development of the public market of corporate bonds has been very dynamic since it has been launched. Detailed information on the number of issuers and issues as well as values of issues in specific years is presented in Table 1.

Table 1. Basis statistics of corporate bonds – end-of-year data

Instrument	2009	2010	2011	2012	2013	2014*
Number of issuers	6	23	66	119	133	140
Number of issues	10	53	140	239	291	321
Value of issue (in PLN millions)	6,819	17,345	34,552	46,366	51,977	58,764

Source: author's compilation based on statistics of the Catalyst market (www.gpwcatalyst.pl)

Notes: * data as at first half year

The presented data show that during six months of 2014 the total number of issues increased by 10% while their value increased by 13%. The market developed very dynamically in 2011, when the number of issuers increased by 187% and the number of issues by 164%, and in 2012, when they increased by 80% and 70% respectively.

It is worth mentioning that corporate bonds are dominant on the Catalyst market. At the end of the first half of 2014, in terms of the value of issue, corporate bonds constituted almost 89% of all non-Treasury debt securities quoted on that market and remained so until the end of 2011. Moreover, at the end of the first half of 2014, issues of corporate bonds constituted 72% of the total issues of non-Treasury debt instruments. It should be underlined that almost half (45%) of all issuers were joint-stock companies listed on the main market of the WSE.

Among corporate bonds available in the first six months of 2014, floating interest rate bonds were dominant. It was the case for 271 series, which constituted 83.1%. Fixed interest rate bonds constituted 27.2% and two issues – European Investment Bank and MIDAS company – were zero coupon bonds. Attention should be paid to the fact that since the beginning of quotations, the share of floating interest rate bonds had been increasing (see Figure 2) – at the end of 2009 it was merely 40% and at the end of the first half of 2014 it was already 83.1%. For most issues, the floating interest rate is determined based on the level of the Warsaw Interbank Offered Rate (WIBOR) applicable in Poland.

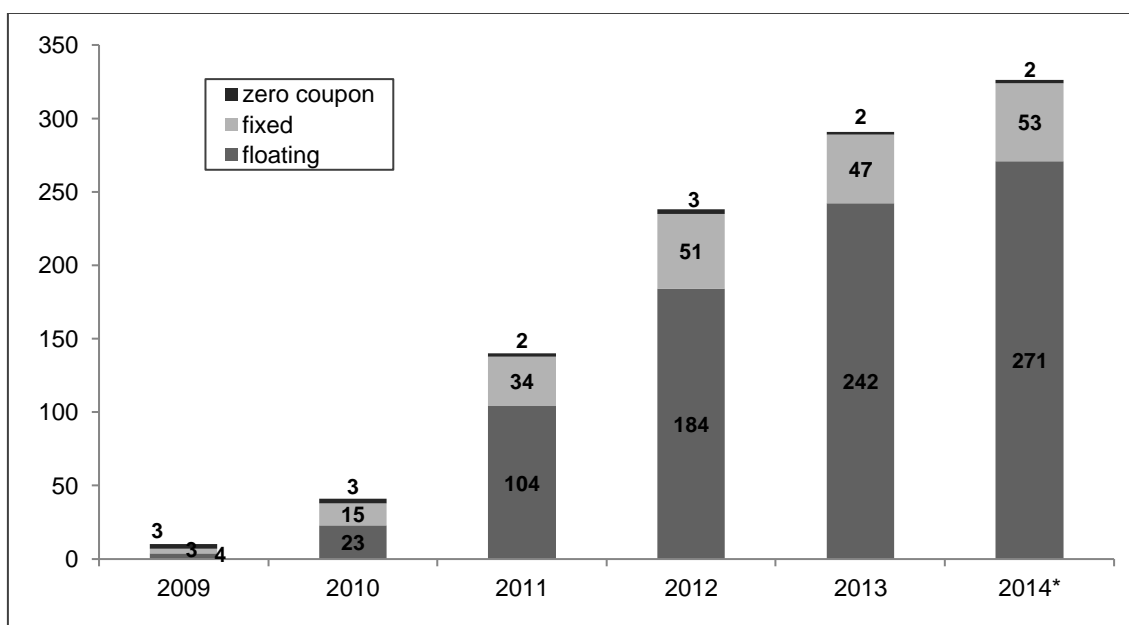


Figure 2. Number of issues of corporate bonds based on the type of interest rate

Source: author's compilation based on statistics the Catalyst market (www.gpwcatalyst.pl)

Notes: * first half year of 2014

As far as the interest rate of corporate bonds quoted on Catalyst is concerned, the analysis was conducted on the basis of an average rate calculated for all issues as at end of each year. The results are presented in Figure 3, which also includes average interest rates of municipal bonds and Treasury bonds for comparison. By the end of 2012, an average interest rate of corporate bonds had remained on a fairly stable level of approximately 10%. It started to decrease in 2013, which resulted from a series of interest rate reductions introduced by the Polish Central Bank. Since the third quarter of 2012, the National Bank of Poland has reduced interest rates by half from 4.75% to the current rate (November 2014) of 2.0%. The reductions have automatically resulted in the decrease in interbank interest rates (WIBOR and WIBID), and thus the decrease in the interest rate of bonds.

It is worth mentioning that according to the presented figure, an average interest rate of corporate bonds was on average 60% higher than an average interest rate of municipal bonds and 100% higher than an average interest rate of Treasury bonds.

Attention should also be paid to the fact that the decrease in the interest rate of corporate bonds was slower than the decrease in interest rates of bank deposits, which increased the benefits of investing in those financial instruments. In 2013 and 2014, an average

interest rate of bonds was approximately three times higher than an average interest rate of bank deposits.

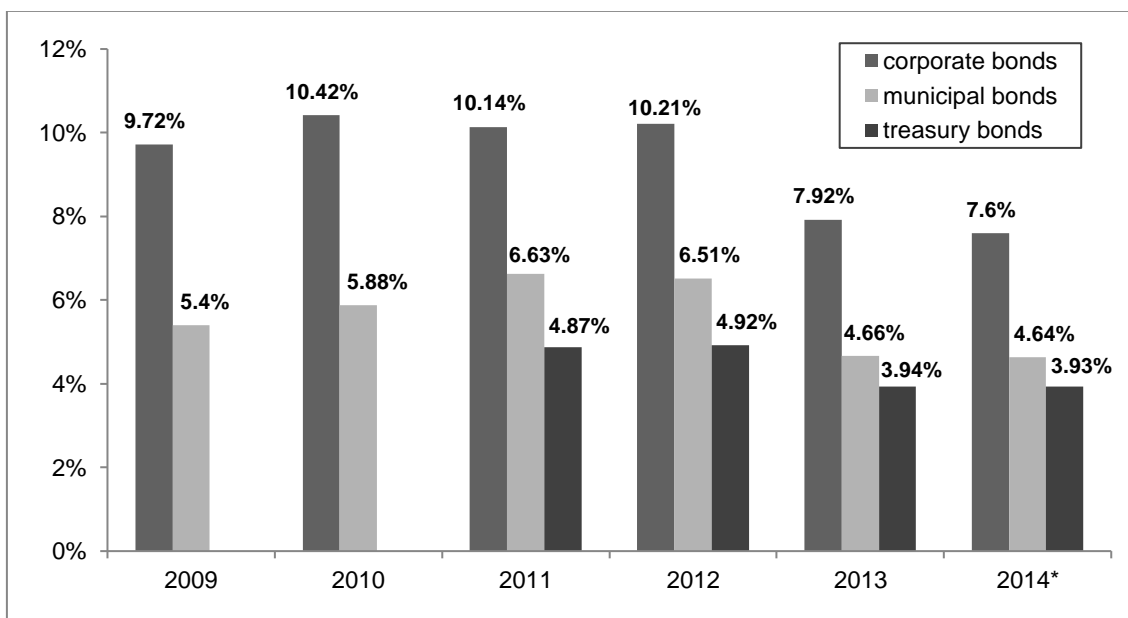


Figure 3. Average interest rate of bonds on Catalyst

Source: author's compilation based on statistics of the Catalyst market (www.gpwcatalyst.pl)

Notes:* first half year of 2014

While analysing interest rates of corporate bonds in detail, one should notice that the interest rate of bank bonds was on a lower level. At the end of the first half of 2014, an average annual interest rate was 5.52%, and it fluctuated from 3.04% for *Bank Gospodarstwa Krajowego* to 7.49% for *Alior Bank* and 8.54% for *Meritum Bank*. Non-banking companies had higher interest rates. An average rate in this group was 8.01%, and the interest rates fluctuated from 3.4% for *Polska Grupa Energetyczna* (PGE) to 12.21% for *UBOTE-Line*, and even 15% for *Ekopaliwa Chełm*. Such tendency was similar in previous years as well and, for example, at the end of 2013 an average interest rate of bank bonds was 5.73%, and 8.3% of corporate bonds. At the end of 2012, the rates were 7.5% and 10.63% respectively.

It is worth mentioning that the interest rate of public corporate bonds listed on the WSE Main Market was on a lower level. At the end of the first half of 2014, an average interest rate was 7.08%. For other entities the interest rate was 8.25%. Such tendency was similar in previous years, and at the end of 2013 an average interest rate of the WSE Main Market corporate bonds was 7.26%, and 8.86% for the remaining ones. At the end of 2012, the rates were 10.02% and 10.9% respectively.

A separate analysis based on the type of interest rate (floating – first group, fixed – second group) also showed significant differences. In the first group, an average interest rate was lower than in the second group, and at the end of the first half of 2014 it was 7.33% and 9.01% respectively. At the end of 2013, the interest rates were 7.61% and 9.99% respectively, and at the end of 2012, 10.02% and 10.9%. The difference increased in the last period, which resulted from the Central Bank's interest rate reductions on the one hand, and an increasing share of floating interest rate bonds in comparison to fixed interest rate bonds, on the other hand.

While analysing corporate bonds in terms of interest rates, those which had the highest interest rate should be indicated as well. They were bonds issued by *Onico S.A.* and *Green House Development*. The rate of the former was 18% per year and that of the latter was 17%. Both were short-term issues and were redeemed in 2012. Bonds with the interest rate of 15%

were issued by *Orzeł*, *Pol sport Group*, *E-Kancelaria* and *Grupa Prawno-Finansowa Causa*. All bonds have already been redeemed.

The analysis of corporate bonds in respect of frequency of interest payment shows that the most popular were bonds with interest paid once every six or three months. The former constituted 60% of the total issues and the latter more than one third. In the case of merely five issues, interest was paid once per year. *Miraculum's* issue in 2011 is worth attention, in which case interest was paid every month and the amount of the interest was calculated based on one-month WIBOR. Up to now, it has been the only issue with a monthly interest coupon.

Regarding the currency of issue, among all bonds quoted on Catalyst since its opening only two series of *PKO Finance AB* have been issued in EUR (the first are three-year fixed interest bonds of the value of EUR 800,000 issued in 2012, with the redemption date in 2015; the second are five-year bonds of the value of EUR 500,000 issued in 2014, with the redemption date in January 2019). The remaining bonds have been issued in PLN. It is worth mentioning that among all issuers of bonds on Catalyst there have been three foreign entities. They were: *Warimpex Finanze und Beteteiligungs AG* from Austria (six issues of the total of PLN 130,500,000), *Ronson Europe N.V.* from the Netherlands (five issues of the total of PLN 204,000,000) and *Polkomtel Finance AB* from Sweden (one issue of the total of PLN 1,000,000,000). All issues of those entities were carried out in the Polish currency.

The analysis of issues in respect of their value showed that the highest amount was received by *Bank Gospodarstwa Krajowego*, which issued securities of the total of almost PLN 32,000,000,000 PLN (82% of this amount is constituted by infrastructure bonds issued by BGK for the Polish National Road Fund). The second came *Polskie Gornictwo Naftowe i Gazownictwo (PGNiG)*, which issued one series of bonds of the total of PLN 2,500,000,000; with the received funds dedicated to strategic investments (exploring fuels, development of warehouses and distribution networks), the completion of which should improve the energy security of Poland and increase the company's goodwill at the same time. The third were the bonds issued by *Getin Noble Bank*, which from the twenty eight issues carried out until 30 June 2014 obtained the total of PLN 2,100,000,000. The funds are to be dedicated to the development of business activity.

As far as the smallest issues carried out on Catalyst are concerned, the ones worth attention are the issue carried out by *Veniti* of the total of PLN 355,000 in 2014 and the issue carried out by *Grupa Prawno-Finansowa Causa* of the total of PLN 420,000. The remaining biggest and smallest issuers of bonds on Catalyst are presented in Table 2.

Table 2. The biggest and the smallest issuers of corporate bonds

Company Name	Value in PLN millions	Number of series	Company Name	Value in PLN millions
PGNiG	2,500.0	1	Veniti	355.0
Getin Bank	2,086.4	28	GPF Causa	420.0
PKN Orlen	2,000.0	7	Blue Tax Group	500.0
Multimedia Polska	1,795.0	4	Cash Flow	515.0
PKO BP	1,600.7	1	Indygotechs Mineral	690.0
Energa	1,000.0	1	Quality All Development	800.0
PGE	1,000.0	1	Certus Capital	802.0
Polkomtel Finance AB	1,000.0	1	Grupa Emerson	899.0

Source: author's compilation based on statistics of the Catalyst market (www.gpwcatalyst.pl)

Corporate bonds quoted on Catalyst have also been analysed in terms of the number of series carried out by one issuer. By the end of the first half of 2014, *Getin Noble Bank* had carried out the highest number of series, i.e. 28 issues. The second came *Kruk S.A.* with 18 series and the third was *E-Kancelaria* with 16 issues. The analysis also determined the number of series carried out by specific issuers in each year. The results are presented in Figure 4.

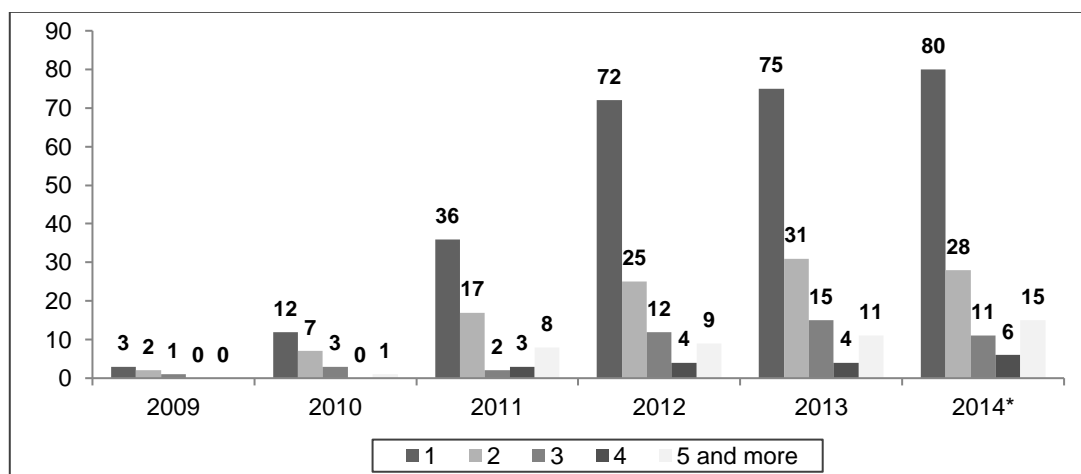


Figure 4. Number of issues per one issuer

Source: author's compilation based on statistics of the Catalyst market (www.gpwcatalyst.pl)

Notes:* first half year of 2014

The presented chart shows that the number of issues owned by specific issuers has increased every year. Within three years, i.e. from the end of 2010 to the end of 2013, the number of issuers with two issues increased by 350% (from seven to twenty-eight) and with three issues by 400% (from three to eleven). It means that issuers who need capital and who have placed bonds on Catalyst before decide to carry out next issues.

The analysis of corporate bonds in terms of trading market has also been conducted (retail, wholesale, regulated, alternative). Currently, most of corporate bonds introduced to trading on Catalyst are quoted in the Alternative Trading System, in the case of both retail and wholesale markets. The number of issues of instruments available on Catalyst divided into RM and ATS is presented in detail in Table 3.

Table 3. Number of issues of corporate bonds divided by quotation markets— data as at year-end

Market	2009	2010	2011	2012	2013	2014*
<i>Retail (WSE), including:</i>	9	49	112	196	226	258
Regular Market	7	7	7	10	15	21
ATS	2	42	105	186	211	237
<i>Wholesale (Bond Spot), including:</i>	3	23	96	129	150	162
Regulated Market	3	3	5	5	5	6
ATS	0	20	91	124	145	156
Total	12	72	208	325	376	420

Source: author's compilation based on statistics of the Catalyst market (www.gpwcatalyst.pl)

Notes: data as at first half year

At the end of the first half of 2014, there were 21 issues quoted on the retail regulated market and six on the wholesale market. There were 237 issues introduced to the Alternative Trading System operated by Catalyst and 156 by Bond Spot, and the growth had been dynamic since Catalyst had been launched. Greater popularity of ATS might result from less strict conditions that an entity applying for admission needs to meet and which are related to both the size of issue and reporting obligations. The number of issues on the wholesale regulated market was stable while there had been a gradual growth since 2012 on the retail market.

Finally, an analysis of trading in corporate bonds on Catalyst has been conducted. The following parameters were considered: number of transactions, volume and value of turnover. Results are presented in Table 4 and Table 5.

Table 4. Number of transactions, volume and value of turnover in specific years

Parameter	2009	2010	2011	2012	2013	2014*
Number of transactions	132	3,167	11,352	26,768	47,092	25,317
Volume of turnover (in thousand)	67.6	368.0	906.9	1,532.2	4,014.4	2,388.0
Value of turnover (in PLN million)	107.3	411.1	304.8	859.0	1,937.6	974.9

Source: author's compilation based on statistics of the Catalyst market (www.gpwcatalyst.pl)

Notes: * data as at first half year

Table 5. Number of transactions, volume and value of turnover per one issue

Parameter	2009	2010	2011	2012	2013	2014*
Number of transactions	13.20	59.75	81.09	112.00	161.83	78.87
Volume of turnover (in thousand)	6.76	6.94	6.48	6.41	13.80	7.44
Value of turnover (in PLN million)	10.73	7.76	2.18	3.59	6.66	3.04

Source: author's compilation based on statistics of the Catalyst market (www.gpwcatalyst.pl)

Notes: * data as at first half year

In the first half of 2014, there was the total of 25.3 thousand transactions, the total value of which was almost PLN 1,000,000,000. In 2013, the number of transactions had increased nearly 14 times in comparison to 2010 while the turnover increased four times. The number of transactions per one issue increased as well. In 2010, there were 60 transactions per one issue while in 2013 nearly 162. The volume of turnover per issue had been stable until 2012 and remained on the average level of 6.5 thousand items per year. In 2013 it increased by 100% to 13.8 thousand items, which was related to significant reductions in interest on bank deposits resulting from interest rate reductions. Regarding an average value of turnover per issue, it had decreased by 2011 to the level of barely PLN 2,000,000. A gradual growth started in 2012.

4. Conclusion

Since its opening, the public market of corporate bonds has been developing dynamically and issuing of debt financial instruments by companies has become an important source of funding their business activity. It is proved by the conducted analysis of statistic data, based on which the following conclusions can be drawn:

- since opening, the number of issuers of corporate bonds, the number of issues and their value have been increasing every year,
- corporate bonds are dominant on Catalyst in comparison to other non-Treasury debt securities both in terms of the number of issues and their value,
- floating interest rate bonds are dominant on Catalyst and their share has been increasing every year,
- since 2013 an average interest rate on corporate bonds has decreased due to interest rate reductions by the Central Bank; the decrease has been slower than the decrease in interest on bank deposits, and thus investors' greater interest in those instruments,
- lower interest rate is typical for bank bonds and bonds of the companies, the stocks of which are listed on the WSE main market; moreover, floating interest rate bonds have lower average interest,
- due to the frequency of interest payment, half-year and quarterly coupon bonds are dominant,

- every year the number of issuers carrying out more than one issue of bonds has been increasing; it means that issuers who need capital and who have already carried out issues on Catalyst decide to carry out next issues,
- significant majority of issues are quoted in the Alternative Trading System, both on the retail and wholesale markets.

It should be expected that in the next years, the public market of corporate bonds, Catalyst, will continue to develop. The development will be facilitated by low interest rates, and thus low interest on bank deposits, which attracts investors and, on the other hand, lower costs of raising funding in the case of issuers.

References

- Bien, W., 2008. *Rynek papierów wartościowych [Securities market]*. Warszawa:Diffin, pp.49-50.
- Catalyst, 2012. Catalyst operating rules - as of 1 October 2012. [pdf] Available at: <http://www.gpwcatalyst.pl/pub/files/regulacje/Catalyst_Operating-Rules.pdf> [Accessed 4 August 2014].
- Catalyst, 2013. Rules of alternative trading system organized by the BondSpot S.A., text according to legal condition at 1 August 2013. [pdf] Available at: <http://www.gpwcatalyst.pl/pub/files/regulacje/Regulamin_ASO_BS_1.08.13_en.pdf> [Accessed 4 August 2014].
- Gemra, K., 2011. *Rozwój Catalyst nabieratempa [Development of Catalyst gathers pace]*. [online] Available at: <<http://www.stockwatch.pl/artykuly/post/2011/02/12/Rozwoj-Catalyst-nabiera-tempa.aspx>> [Accessed 1 August 2014].
- Mazurek, J., 2013. *Obligacje korporacyjne na Catalyst – przewodnik dla potencjalnych emitentów [Corporate bonds on Catalyst – The guide for potential issuers]*. Warszawa: Wydawnictwo GPW.
- Newconnect, 2013. *Alternative trading system rules - Exhibit 1 (Information Document)* - text according legal condition at 1 June 2013. [pdf] Available at: <http://www.newconnect.pl/pub/regulacje_prawne/Regulamin_ASO_UTP_zal_1_en.pdf> [Accessed 4 August 2014].
- Prewysz-Kwinto, P., 2012. Catalyst – rynek obligacji GPW w 2,5 roku od otwarcia [CATALYST – WSE bond market 2,5 year after opening], *Annales Universitatis Mariae Curie-Skłodowska, Sectio H Oeconomia*, 56, pp.699-710.
- Puzyrewicz, T., 2011. *Obligacje na rynku Catalyst. Przewodnik dla inwestorów [Bonds on Catalyst. The guide for investors]*. Warszawa: Wydawnictwo GPW.