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**ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ РАЗВИТИЯ РЫНКА  
ОБЛИГАЦИОННЫХ ЗАИМСТВОВАНИЙ СТРОИТЕЛЬНЫМИ  
КОМПАНИЯМИ В РОССИИ**

*Аннотация:* Статья посвящена анализу проблем и перспектив развития рынка облигационных заимствований строительными компаниями. С использованием различных методов финансового анализа была получена полноценная картина финансового положения компании и объяснены результаты.

*Ключевые слова:* облигация, финансовые рынки, финансовый анализ, строительные компании, проблемы, перспективы

**PROBLEMS AND PERSPECTIVES OF DEVELOPMENT OF BOND  
MARKET BY CONSTRUCTION COMPANIES IN RUSSIA**

*Annotation:* The article is devoted to the problems and perspectives of development of the bond market by construction companies in Russia. Using various methods of financial analysis, a comprehensive picture of the company's financial position was obtained, and the results were explained.

*Keywords:* bonds, financial markets, financial analysis, construction companies, problems, perspectives

## **PROBLEMS AND PERSPECTIVES OF DEVELOPMENT OF THE BOND MARKET BY CONSTRUCTION COMPANIES IN RUSSIA**

In 2018 The ruble bond market showed a predominantly negative trend, as evidenced by the extremely modest growth in the volume of bonds in circulation, a decrease in primary offerings and a turnover in secondary trading against the background of rising yields in all sectors of the market. Both external factors (anti-Russian sanctions, growth of geopolitical risks, etc.) and internal risks (exit of non-residents from OFZ, weakening of the ruble, inflation and inflation risks, tightening of monetary policy by the Bank of Russia) had a negative impact. Despite the fact that 2018. ended on the background of some stabilization of the situation in the ruble debt market, the coming year can be quite complicated and unpredictable, given the persistence of a large number of uncertainties.

Table 1 - Forecast of the main macroeconomic indicators in 2019.

Options	Basic scenario	Pessimistic scenario
Brent oil, \$ / barrel	60.0 -70.0	50.0 -55.0
Exchange, \$ / rub.	63.0 -66.0	68.0 -70.0
Inflation,%, g / g	4.9 -5.2	5.7-6.0
Key rate CBRF,% per annum	7.25 -7.75	8.00-8.25
OFZ yield, circulation period -10 years	7.90-8.20	8.75-9.00
Corporate bond yield, 1 echelon (circulation term - 3-5 years)	8.70-9.00	9.50-9.75

Source: Developed by the author

The main factors determining the dynamics of the ruble debt market in 2019 will be the following:

1. Geopolitical risks. The geopolitical risks associated with the outbreak of trade "wars" between the United States and China, as well as a number of other countries, with the slowdown of the global economy, in fact with the beginning of the "cold" war, with interference in the internal affairs of other countries and with a number of possible events remain the main factor pressure and periodically general decline in interest in

currencies and assets of developing countries, including to the Russian national currency and ruble assets. In addition, geopolitical factors can lead to increased volatility in commodity and financial markets.

2. Trends tightening monetary policy in the world. Tightening the monetary policy of the US Federal Reserve System and the central banks of other countries with developed markets increases the risks of sustainable capital outflows from countries with emerging markets.

3. Anti-Russian sanctions. Ruble assets will be under additional pressure due to concerns about the possibility of introducing new sanctions, which may include restrictions from the US on the purchase of a new public debt of the Russian Federation. In the case of the introduction of new sanctions by the United States, we can expect a continuation of the outflow of non-residents' funds from the OFZ market, which in the last 9 months of 2018 amounted to more than 560 billion rubles.

4. Inflation and inflation expectations. In 2018, inflation in annual terms accelerated to 4.3% versus 2.5% a year earlier. At the same time, since last autumn, inflationary expectations continued to rise, which reached 10.2% in December. At the same time, the Bank of Russia assumes that inflation expectations on the forecast horizon will remain sensitive to one-off events that affect inflation, to a greater extent this concerns the population's expectations. The regulator expects annual inflation to reach a maximum in the first half of 2019 and will be 5.0–5.5% at the end of 2019, and will return to 4% in the first half of 2020, when the effects of the ruble weakening and VAT increase will be exhausted.

5. Bank of Russia policy. The Board of Directors of the Bank of Russia on December 14, 2018 decided to increase the key rate by 0.25 percentage points to 7.75% per annum. According to the regulator, the decision is proactive and is aimed at limiting inflation risks, which remain at an elevated level, especially in the short term. Raising the key rate will help prevent a steady fixation of inflation at a level significantly exceeding the

goal of the Bank of Russia. Also in its statement, the Bank of Russia noted that some tightening of monetary conditions continues. The OFZ yields remain noticeably higher than the levels of the first quarter of the current year. There is a further increase in interest rates in the deposit and loan market. Increasing the key rate by the Bank of Russia will help maintain positive real interest rates on deposits, which will support the attractiveness of savings and balanced consumption growth.

6. Plans to increase borrowing in the domestic market by the Ministry of Finance. The borrowing plan of the Ministry of Finance of the Russian Federation through the OFZ for 2019 is almost 2.4 trillion. rubles, while the "clean" placements will be about 1.7 trillion. RUB, incl. for infrastructure investments. For the 1st quarter of 2019, the Ministry of Finance announced the volume of internal loans for 450 billion rubles. At the same time, the Ministry of Finance of the Russian Federation noted that the possible imposition of US sanctions on Russian debt would not prevent Russia from carrying out government borrowing plans, since the demand of domestic investors will be sufficient to carry out government borrowings in the planned volumes even without the active participation of foreigners in the OFZ market. In 2018, the domestic borrowing program in the middle of the year increased to 1.044 trillion. rubles, in the fall was reduced by 480 billion rubles, and the net attraction plan was reduced by 380 billion rubles. At the same time, the Ministry of Finance was not concerned about the failure to comply with the updated domestic borrowing program for 2018, noting that the decline in domestic loans will be repaid by balances and budget resources without prejudice to the fulfillment of expenditure commitments. At the same time, a substantial increase in government borrowing may also lead to an increase in interest rates and a shift in investor interest from the sub-federal and corporate debt markets.

7. Canopy of unrealized placements of constituent entities of the Russian Federation and corporate borrowers. The refusal to enter the bond market last year by many regions, as well as by large and medium-sized corporate borrowers, can form a large

supply on the primary market in 2019, provided that the situation on the financial markets stabilizes. Currently, the Bank of Russia and the Moscow Exchange have registered issues of corporate issuers totaling more than 3 trillion. rubles at par. In addition, more than 10 trillion. rub. at par value falls on unplaced bonds in the framework of registered exchange-traded bond programs (PBO). Naturally, only a small part can be implemented in 2019, but the presence of such programs indicates a possible “quick” start of borrowers. In addition, in 2019 corporate borrowers will have to refinance redeemable bonds worth more than 530 billion rubles, regions - about 100 billion rubles.

In Russia, to strengthen the role of the corporate bond market as a mechanism for accumulating and redistributing funds into the real sector of the economy, a number of measures have already been taken by the state to increase the attractiveness and reliability of this market. <sup>1</sup>

First, the market decline is already offset by the release of so-called infrastructure bonds issued to attract financing for infrastructure investment projects, as a rule, such bonds are issued for a period of 1 to 10 years, that is, for a longer period than ordinary bonds. The advantage of these bonds is achieved due to the fact that the state gives its guarantees for them, provides tax incentives (both for the principal amount of the debt and for income received on these bonds).

According to the Ministry of Finance of the Russian Federation, in the current market conjuncture, long-term money is mainly held by insurance companies and pension funds, the remaining groups of investors will show interest in infrastructure bonds only when the Russian corporate bond market recovers. Most likely, at the initial stage, infrastructure bonds will be acquired by the largest banks Vneshtorgbank, Sberbank and Gazprom, which have preliminary agreements with both the state and issuing

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<sup>1</sup> Kalabin, Y.Y. Bond loan - as a mirror of the financial condition of the company // Finance, 2002. - №12. - p. 28-29

companies. In the future, as the market recovers, infrastructure investors will also be interested in institutional investors.

Subsequently, as the market strengthens, infrastructure bonds will be issued by special project companies in the Russian Federation on the basis of an agreement between the state and the issuer with a state guarantee. The redemption of such bonds and the payment of coupons will be at the expense of income from the operation of objects. Another group of borrowers will be companies that place bonds for specific infrastructure projects that are not secured by government guarantees.<sup>2</sup>

Secondly, the corporate bond market will be supported by issues that are aimed at their further refinancing in the Central Bank. These projects, above all, include investment projects related to the construction of roads, such as the construction of the Moscow-St. Petersburg high-speed highway.

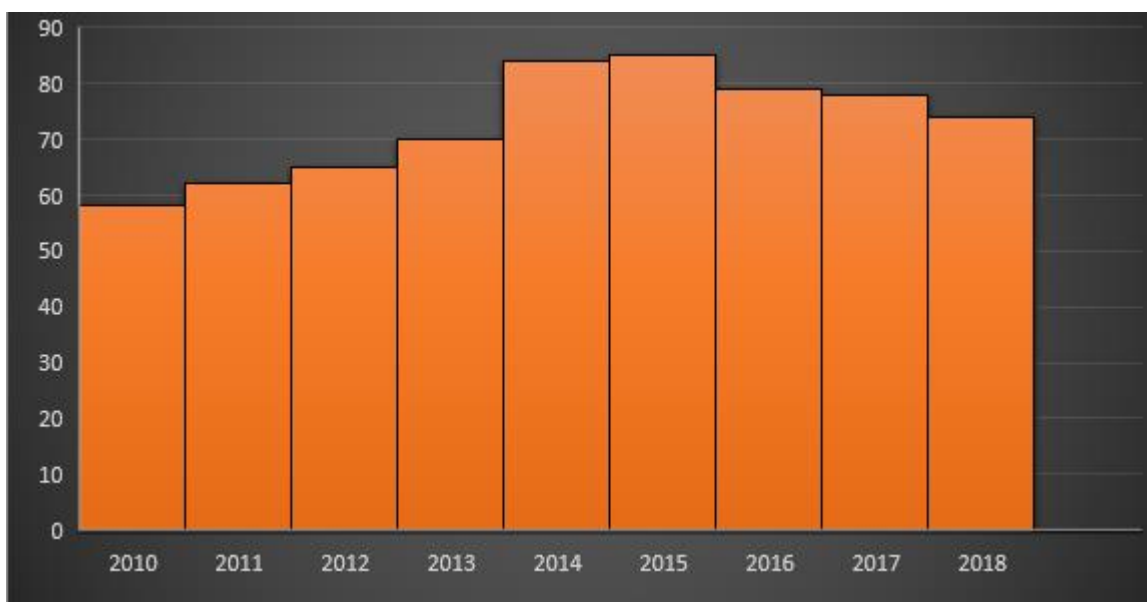
Thirdly, the deadline for the fulfillment of obligations on exchange-traded bonds has been extended from one year to three years, and their issuance is allowed not only to open joint-stock companies, but also to other economic societies, as well as state corporations. Due to changes in legislation, exchange bonds became available to 203 issuers whose shares and / or bonds were listed on the MB Stock Exchange.

Thus, the measures taken and planned by the state will help the market to gradually develop its main function in attracting and redistributing financial resources for development and modernization of the economy. At the same time, since loans in some cases will still be non-market in nature, it will be difficult to create a liquid secondary market. Consequently, its main function - the redistribution of funds in the real sector of the industry - the corporate bond market will not be able to perform without the regulatory assistance of the state.

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<sup>2</sup> Dye R.F., Merriman D.F., Goulde K. Tax Increment Financing and the Great Recession // National tax journal. – 2016. №3. – P. 697-718.

Changes in the rules of shared construction, the transition to project financing and a strong dependence on macroeconomic indicators led to a slowdown in construction at the end of the outgoing year. Despite the obvious deterioration in this segment, the fourth quarter was distinguished by high rates of buying up real estate, including residential and commercial properties.



*Figure 1 - The sectoral structure of the corporate bond market*

*Source: Developed by the author based on the article Analysis of the Construction Market 2019*

The reduction in the rate of new facilities introduction is caused by a decrease in consumer demand of the final consumer, perturbations in legislation and a permanent increase in the cost of the land fund.

By the beginning of 2019 there was an investment attractiveness of capital construction objects. The most important incentives for owners of capital have become the active introduction of new high-tech industries and fatigue from the low return of financial instruments.

Along with active intervention in mortgage lending, the state institute presented for review the final project of shared construction. There are at least two obvious conclusions in this situation.

Firstly, project executors, including non-residential capital projects, will have to be actively credited for the implementation of planned programs. The second consequence of the new laws will be overstating the cost of the final product for the consumer. The check will cover the costs of performing and servicing credit obligations.<sup>3</sup>

The investment demand indicated above, which gained momentum at the end of 2018, is confirmed by the already planned increase in VAT. Understanding that the amount of tax will inevitably enter into the pricing of capital construction, obviously prompted investors to buy up liquid objects.

Since December 30, 2004, when Federal Law No. 214 “On Participation in Shared Construction” entered into force, developers have been provided with an effective financing mechanism. It was as simple as possible and convenient for all participants in the process. Buyers could invest in real estate at the stage of excavation and save, and developers - to receive direct investment for the implementation of objects.

Attempts by the state to solve the problem in 14 years have not been successful. Then in October 2017, Vladimir Putin instructed the relevant ministries to develop a three-year plan for the abandonment of shared construction with the transition to new types of funding. In the course of the “Direct Line” on June 7, 2018, the head of state announced the exact dates for the abolition of shared construction - from July 1, 2019, it will be replaced by project financing.

In order to stimulate the development of the Russian corporate bond market, the need to form a market pricing mechanism, increase confidence in the issuer, protect the rights and interests of investors, the following measures can be proposed to develop and regulate the corporate bond market, as well as to improve Russian legislation in this area.

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<sup>3</sup> Bougheas S. Pooling, tranching, and credit expansion // Oxford economic papers. – 2017. №2. – P. 557-579.



1) Changes in the terms of taxation of the issue of corporate bonds and income from them. Russian legislation contains a number of discriminatory conditions with respect to corporate bonds in comparison with not only state and municipal bonds, but also with shares. According to the amendments to the Federal Law “On Securities Transaction Tax” of December 23, 2003, the issuer of shares and corporate bonds is charged a tax on securities transactions in the amount of 0.2% of the nominal amount of the issue when registering a securities issue.

Issues of federal government securities, bonds issued by constituent entities of the Russian Federation and local governments, as well as so-called “technical” stock issues, effected during revaluation of fixed assets, reorganization of joint-stock companies and restructuring of their debt to the budget, are exempted from this tax. Thus, a large part of the issue of shares is exempted from tax on operations.

At the same time, a positive decision is worth noting the change from January 1, 2018 of the procedure for taxing personal income tax in the form of interest on tradable bonds of Russian organizations.

Until 2018, the personal income tax was levied on the entire amount of income received on circulating bonds.

In the new order, such income will be taxed as bank deposits. The difference between the interest payment (coupon) and the interest calculated on the basis of the nominal value of the bonds and the refinancing rate of the Central Bank of the Russian Federation increased by five percentage points in force during the period for which the coupon was paid will be taxed.

At the same time, the procedure for taxation of income on bonds that are not traded on an organized securities market, as well as on income received by taxpayers from any mutual investment funds, does not change.

The procedure for taxation of income received on bonds that are not subject to the criteria specified in the law (for example, for bonds denominated in foreign currency, or issued before January 1, 2017) also remains the same.

2) Providing tax incentives to investors. In world practice, there are special tax breaks for investors investing in corporate bonds:

- the introduction of a non-taxable minimum profit from the growth of the market value of securities (Germany, Canada, France);
- the provision of a tax credit in the amount of purchase of securities (Spain);
- exclusion from the objects of taxation of investments in shares and bonds of enterprises of the “high technology” sector (United Kingdom)

In Russia, it is necessary to introduce the provision of a tax credit in the volume of purchase of securities, since tax credits cover the widest range of benefits that reduce the amount payable to the budget (without affecting the amount of the tax base). This benefit can be granted for a period of one to five years for income tax on the amount of actually incurred investment expenses in the real sector of the economy. At the same time, the loan amount accumulated during the tax period cannot exceed 50% of the amount of tax payable for this tax period.

This measure will serve as an incentive for Russian investors to invest their money in bonds of the real sector of the economy on a long-term rather than speculative basis, which will lead to a greater balance of the Russian corporate bond market and an increase in the share of the sectors of the real sector.

3) Cancellation of the ban on circulation of securities before the completion of the placement of the entire issue and registration of the report on the results of the issue. The imperfection of the legislation has led to the fact that most large corporations are forced to issue bonds with a maturity of 3-5 years. Their liquidity and investment attractiveness are insufficient due to the lack of long-term benchmarks in the Russian economy. The very essence of borrowing in the corporate bond market implies the need

for companies to implement long-term financing programs using the debt refinancing mechanism.

The ban does not contribute to the development of the market for short-term corporate bonds, which, unlike stocks or long-term bonds, are usually placed not in one installment at a time, but in parts (tranches). In this case, the placed bonds of earlier tranches cannot circulate on the secondary market until the issuer places the entire bond issue and registers the issue report. In addition, the issuer is obliged to provide and register the prospectus for each new tranche. To overcome this legislative limitation, corporate bond issuers began to use the offer mechanism, which allows short-term borrowing under the guise of long-term corporate bonds.<sup>4</sup>

It should also be noted that tranches of state and municipal securities within one issue may circulate on the secondary market, without waiting for the end of placement of the entire issue of these bonds.

Thus, the following measures are proposed to solve the problem:

1. To cancel the ban on circulation of securities before the completion of placement of the entire issue and registration of the report on the results of the issue;
2. Simplify the requirements for providing a prospectus for issuing bonds only once when registering this issue.

These measures will allow companies to achieve significant flexibility in terms of issuing securities to changing market conditions, and the issues themselves may be small and correspond exactly to the current needs of the company, and the offer mechanism will be unnecessary. Issuers will have the opportunity to reduce the time of registration of bonds in all subsequent issues.

4) Expansion of the range of bonds that non-state pension funds and insurance companies are entitled to acquire. The “long” nature of this money can allow even in

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<sup>4</sup> Azizpour, S., K. Giesecke and G. Schwenkler (2018), “Exploring the Sources of Default Clustering”, *Journal of Financial Economics*, Vol. 129, №. 1, pp. 154-183.

the event of a sharp collapse in bond prices not to fix losses, while remaining in a long position. This aspect is particularly relevant in a crisis. When expanding the list, special attention should be paid to the fundamental principles of investing funds: reliability and profitability. The list should include only bonds with a high rating assigned by an independent rating agency.

5) The introduction of effective protection of investors in the corporate bond market. To achieve a high level of protection of the rights of creditors, the following measures can be proposed to solve this problem:

1. clearly define the procedure for actions in the event of a default, ensuring the protection of bond holders;
2. apply stringent requirements for the financial condition of the issuer of bonds entering the market;
3. require corporate bond issuers to form repayment funds.

To improve the reliability of the market, it is necessary to improve the credit quality of issuers. First of all, the introduction of covenants and the conditions of additional cases of default, which are used in the Eurobond market. Restrictions should include: restrictions on the possibility of reorganization of the issuer, maintaining at a certain level the size of net assets, the ratio of debt to profit. Additional cases of default may include cross-default, bankruptcy of the guarantor, non-performance of covenants under the loan agreement.

6) Reduction of the time gap between the registration of the bond issue prospectus and the beginning of their secondary circulation. A too large time gap between the registration of the issue prospectus and the beginning of their secondary circulation makes it difficult to enter the market, dramatically increasing the financial risks for the issuer of an adverse change in market conditions. For investors, time costs are also quite important. The current practice of placements is such that at least 1.5 months elapse between the placement of bonds and their secondary circulation. As a result, having

bought bonds at an auction, an investor can sell his package at best in a few weeks, which in the conditions of high market volatility often entails financial losses. In an effort to compensate for them, investors are trying to lay a large premium in the initial price of the bond, further reducing the attractiveness of the market for the issuer. It should be noted that in developed corporate bond markets, secondary circulation begins simultaneously with the placement.

Thus, measures taken by the state in Russia to revitalize the bond market (infrastructure bond issues, government guarantees for a number of issues, expanding the securities list of the Central Bank, improving legislation on exchange bonds, etc.) increased the attractiveness and reliability of this market, created prerequisites to attract financial resources in the real economy. However, this is not enough for the development of a full-fledged corporate bond market in the country for accumulating and redistributing financial resources for the development and modernization of the economy; moreover, the country lacks a full-fledged market for government bonds, as well as a liquid secondary market.

The measures proposed in the work will contribute to the improvement and development of the Russian bond market both in the market as a whole and construction companies, solving the problem of lack of financial resources for the purpose of modernizing the economy, integrating the Russian bond market into the world market, and increasing the role of Russia in the global bond market including the formation of a world financial center in Russia.

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