

**Municipality of
Aksakovo**

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Credit Rating of Municipality of Aksakovo

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|-----------------------------------|--------------------------|------------|------------|
| Date of Rating Committee: | 14.12.2018 | 28.03.2019 | 20.02.2020 |
| Date of Publication: | 14.12.2018 | 29.03.2019 | 21.02.2020 |
| Long-term Rating: | BBB- under review | BBB- | BBB- |
| Outlook: | - | stable | stable |
| Short-term Rating: | A-3 under review | A-3 | A-3 |
| Long-term National-scale Rating: | A (BG) under review | A (BG) | A (BG) |
| Outlook: | - | stable | stable |
| Short-term National-scale Rating: | A-1 (BG) under review | A-1 (BG) | A-1 (BG) |

* For the full rating history, please see the table at the bottom of the document.

„BCRA – Credit Rating Agency” (BCRA) is the third qualified rating agency in the EU, registered under the Regulation (EC) 1060/2009 of the European Parliament and of the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are equal with the other ratings, recognized by the European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

„BCRA – Credit Rating Agency” (BCRA) affirms the following credit ratings to the Municipality of Veliko Tarnovo:

- Long-term credit rating: **BBB- Outlook: stale, short-term credit rating: A-3;**
- Long-term national-scale rating: **A (BG), Outlook: stable, short-term national-scale rating A-1 (BG).**

BCRA applies the officially adopted Methodology for assigning credit ratings to municipalities: https://www.bcra-bg.com/files/Municipality_Methodology_2018_en.pdf

BCRA uses the information provided by the rated municipality, Ministry of Finance, National Statistical Institute, National Employment Agency, its own database, consultants and other sources of public information in order to produce the credit report and to assign the credit rating.

The development of the economy in the country, including in the context of the expected accession of the Bulgarian lev to the ERM II exchange rate mechanism, have been analysed in detail by BACR - Credit Rating Agency and reflected in the awarded unsolicited sovereign rating of the Republic of Bulgaria. The growth of GDP and GVA by components as well as the dynamics of the external sector indicators are examined. The level and structure of government debt were positively assessed, taking into account the parameters of new debt issued in 2019. The current state of the banking sector is assessed as stable.

The Rationale of the current rating of the Republic of Bulgaria can be viewed on the official website of BCRA: https://www.bcra-bg.com/files/rating_republic_of_bulgaria_oct_2019_en.pdf

As of the end of September 2019, the average share of revenues in the total revenues of the municipalities in Bulgaria increased to 38.32% compared to 36.65% at the end of 2018 but remained lower compared to the same period of the past year. A similar trend is observed in the national average share of coverage of expenditures for local revenue activities. The national average level of debt as a percentage of projected revenue and planned equalization subsidy decreased to 47.48% (49.02% at the end

of the third quarter of 2018 and 50.25% at the end of the same year).

During the period, there was a weaker investment activity (share of capital expenditures in the total) - 13.6%, compared to the data at the end of 2018 when the average value of the indicator for the country was 14.07%. Compared to the average level of the indicator of 11.33%, compared to the same period of the past year, there is an improvement observed.

In 2017 and August 2018, plans for financial recovery of 11 municipalities were approved under the Public Finance Act, namely: Pernik, Belovo, Teteven, September, Velingrad, Sliven, Sungurlare, Vidin, Mizia, Simitli and Stambolovo. They set financial recovery goals that include revenue-growth and cost-cutting measures in the annual and medium-term, prepared on the basis of an objective analysis of key financial indicators.

Arrears of the municipalities as of the end of September 2019, stood at BGN 125.2 million. At the end of 2018, they amount to BGN 122.2 million, thus rising by 2.4%. 130 municipalities registered overdue liabilities (49% of their total number), while 135 municipalities completed the third quarter without such.

In 2018, the population of the Municipality of Aksakovo declined for a second year in a row (0.8%), albeit slighter compared to the past year (1.2%). The same pace is close to the registered one for the country (0.7%). In 2018, the dynamics of the age structure of the population of Aksakovo municipality were insignificant, and the same applies to the national average. The higher share of the under working-age population in the municipality compared to the total in the country is considered as a positive factor.

According to NSI, the unemployment rate of the Varna district was 4.4% in 2018, compared to 5.2% for the country. In 2019, Aksakovo is among the municipalities characterised by peak employment growth and noteworthy investment interest.

The operating result of the Aksakovo municipality was positive in 2019 and accounted for 5.9% of the own income (11.9% in 2018). Unlike the previous two years, in 2019, the result from investment activity was negative and amounted at BGN 4 982 thousand, due to the significant amount of capital expenditures. The investments in the course of

2019 amounted to BGN 7 117 thousand, which is the highest amount in historical terms. The aforementioned fact resulted in a deficit of BGN 4 581 thousand to be covered, both from the surplus of operating activities, as well as from amounts from bank credit and deposits and funds on accounts.

The own income of the Aksakovo municipality increased by 9.5% in both tax and non-tax revenues.

The tax revenues increased by 15% compared to the rate registered in 2018. The rise resulted in an upward trend of revenues from the tax on vehicles – by 19.4% and the tax on property acquisition, a growth of 33.6%. In the tax revenue structure, the largest share has the revenues from the vehicle tax (35.7%), as opposed to the previous year, when property tax dominated (40.2%).

The non-tax revenues were dominated by the fees - 23.0% in the revenues for local activities, which value was closed to the reported one in 2018. Municipal waste tax dominated their structure, although the value slightly decreased. The revenues from the tax on a municipality property sale amounted at BGN 337 thousand, 44.4% lower than the reported one in the previous year. Its small share in the structure of revenues for local activities (3.6% in 2019, 5.3% in 2018) is positively assessed.

Following the slight decrease in current expenditures for local activities and co-financing in 2018 (1.8%), in 2019, their amount significantly increased by 21.3%. The increase is due to both the main accounting item (maintenance) and the cost for salaries and social security. Following the slight decline in 2017, the latter increased in 2018 (14.2%) and still more in the last year (34.8%).

The interest payment expenses remain nearly unchanged compared to 2018 (BGN 28 thousand) and have a low weight in current expenditures (less than 1%).

At the end of 2019, the municipality of Aksakovo reported overdue liabilities in the amount of BGN 345 thousand, mainly due to suppliers. Concurrently, the ratio of debt payments to the average own revenues and the equalization subsidy for the last three years was 0.43%, compared to the legal limit, which stances at not more than 15%.

The capital expenditures amounted at BGN 7 117 thousand in 2019, which is the highest registered value since 2008. A considerable amount of the capital expenditures (43%) is invested in construction, repair and maintenance of the street network. It should be noted that in 2019 the municipality funded a significant stake of its capital programme with its own finances.

In terms of the structure of the expenditures by function, there is an increase in the weight of expenditures by function, namely "Economic activities and services" that reached 27.0% (7.7% for 2018), as a result of the realized costs for road construction and maintenance. The main expenditures for rehabilitation reported a lower share (from 57.9% to 44.8%), despite the significant growth in both current and capital expenditures by function.

The comparative analysis prepared by BCRA compares the main financial indicators of Municipality of Aksakovo to the average for the country, and to other municipalities with a similar population. Comparing to a few financial indicators, the municipality reports more favourable results than the group of municipalities with a similar population and compared to the national average.

The Mayor of Municipality of Aksakovo is Eng. Atanas Stoilov (PP GERB), re-elected at the last local elections in the autumn of 2019. Deputy Mayors are Ruska Ilieva and Eng. Krasimira Dyankova.

In 2018, the collection rate for the main revenue items was 67.17% on the real estate tax, 71.0% - on municipal waste tax and 75.0% - on vehicle tax. The overall collection rate was 71.0%.

In mid-2019, Aksakovo Municipality received a "24 Hours" daily Award from the "Model Municipality Initiative" in the Welfare category. The prize is awarded for the achieved level of income, employment and opportunities for professional development and doing business in the municipality.

BCRA prepares a financial forecast of the municipality for the period 2020-2022. The results show that in development alike to the forecast, the Municipality of Aksakovo will be characterized by relatively good creditworthiness in short- and medium-term.

The rating could be upgraded upon the significant increase of the own income, growth of the operating result, significant further development of the municipal infrastructure and improvement in the demographic characteristics.

The increase of overdue liabilities, the deterioration of the operating result, the enduring shrinkage of own revenues, the deterioration of the position of the municipality in a comparative aspect can result in a downgrade of the rating.

Main Financial Indicators in BGN

| | (BGN) | 2019 | 2018 | 2017 |
|---|-------|------------|------------|------------|
| Income for Local Activities, incl. | | 9 465 530 | 11 371 731 | 10 168 709 |
| Own revenues: | | 6 768 050 | 6 180 492 | 5 710 568 |
| - tax revenues | | 2 975 685 | 2 587 020 | 2 404 954 |
| - non-tax revenues | | 3 792 365 | 3 593 472 | 3 305 614 |
| Subsidies and transfers for local activities | | 2 697 480 | 5 191 239 | 4 456 141 |
| Capital expenditures funded by central budget | | 7 117 269 | 3 841 546 | 1 534 967 |
| Operating result | | 401 176 | 738 421 | 236 302 |
| Operating result before interests payment | | 428 838 | 765 989 | 276 685 |
| Result from investment activity | | -4 981 690 | 1 078 330 | 2 577 859 |
| Deficit/Surplus for local activities | | -4 580 514 | 1 816 751 | 2 814 161 |

Resume of the Minutes of the Rating Committee:

The members of the Rating Committee reviewed the credit rating report of the Municipality of Aksakovo and discussed the changes in the factors determining the credit rating.

The Committee members considered the good financial state of the municipality, the overdue liabilities, reported at the end of 2019 and at the same time, the low indebtedness. The significant amount of investments and their main objective targets were outlined. Last but not least, Aksakovo municipality's favourable position in a comparative aspect was pointed out.

**Municipality of
Aksakovo**

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Rating History

| Credit rating of Aksakovo Municipality | Initial Rating | Review | Review | Review |
|--|----------------|------------|------------|------------|
| Date of Rating Committee: | 04.02.2015 | 25.02.2016 | 16.03.2017 | 29.03.2018 |
| Date of Publication: | 06.02.2015 | 26.02.2016 | 17.03.2017 | 30.03.2018 |
| Long-term Rating: | BB+ | BBB- | BBB- | BBB- |
| Outlook: | stable | stable | stable | stable |
| Short-term Rating: | B | A-3 | A-3 | A-3 |
| Long-term National-scale Rating: | A- (BG) | A (BG) | A (BG) | A (BG) |
| Outlook: | stable | stable | stable | stable |
| Short-term National-scale Rating: | A-1 (BG) | A-1 (BG) | A-1 (BG) | A-1 (BG) |