

**Municipality of
Aksakovo**

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

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„BCRA – Credit Rating Agency” (BCRA) retains the assigned ratings to Municipality of Aksakovo as follows:

- **Long-term credit rating BBB-, outlook: stable, short-term rating a-3;**
- **National-scale long-term rating A (BG), outlook: stable, national-scale short-term rating A-1(BG).**

When assigning ratings to municipalities, BCRA applies the officially adopted Methodology for assigning credit ratings to municipalities (http://www.bcra-bg.com/files/file_319.pdf).

BCRA uses 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 elaborate the credit report and to assign the credit rating.

During 2015, the economy of the country reported a 3.6% real growth – the highest value after the financial crisis, as the major growth factors are export of commodities and services and growth in final consumption. The marked growth in GDP was twice higher than the achieved for the last two years (1.6% in 2014, 1.3% in 2013). In the first half of 2016, there was an increase in importance of the domestic consumption for economic growth.

The FIF (foreign investment flow) reached 3.7% of GDP after hesitations of about 3.1%-3.3% over the last three years. A significant increase in the reinvested profit after the last year, and in investments in the share capital was observed. The investors, however, remained cautious as the levels of investments remained considerably lower compared to the years before the crisis. For the first half of 2016, the foreign investments reduced slightly compared to the same period of the last year – declined to 2.0% of GDP (2.1% of GDP as of Q2 2015).

The favourable changes in the labour market remained the same – unemployment rate (as well

as continuous unemployment rate as a percent of the active population) maintained their downtrend after 2013. In 2015, the average unemployment rate was 9.2% (11.5% in 2014).

Since early 2014, deflationary processes have been detected and reached their peak in early 2015 and remained the same at the end of the year. According to the EC spring forecast, there will be deflation in 2016 as well, as the expected price level change is about -0.7% at the end of the year. EC foresees the factors causing a decline in the price level to be removed, and in 2017 the country to switch to a situation of low inflation.

The 2014 banking system events led to the emergence of a potential threat to banking institutions to deepen the banking crisis and involvement of a larger number of participants in the sector. Despite the increased risk in the financial system raised by the removal of one of the main players and the risk of dropping the second, the banks in Bulgaria maintained its stability. The announced on 13.08.2016 results from the assets quality review and stress tests for stability of the banks in Bulgaria show that the banking sector is stable, well capitalized and public support to the banks with funds given by the public budget is not needed.

The municipal own revenues in the country increased for fifth consecutive year in 2015; for this period the cumulative increase was 28.0%, and for the last year - 4.0%, compared to 3.7% for the previous year. During 2015, however, the uptrend was interrupted in total revenues, a decline of 5.6% was reported compared to 2014. A positive factor is the increase in the share of own revenues in total revenues, which, after 39.1% in 2013 and 38.0 % in 2014 reached 41.8% in 2015 and this is its highest level from 2003 to now. The uptrend was maintained, emerged in revenues from taxes and local fees, as their rates were respectively 4.0% and 5.3% and exceeded the recorded for the previous year (3.7% and 4.4%).

After a growth of 15.3 % in 2014, during the year after that the level of costs for local activities and extra financing of government activities remained almost unchanged (a growth below 1%). The maintenance costs have the largest share in their structure (47.6%) which marked an increase of 4.8% on a yearly basis.

After two consecutive years of reduction of arrears of local municipalities, in 2015 they grew again (19.2% on a yearly basis) and their amount reached 189.9 million BGN (159.3 million at the end of 2014). At the end of the third quarter of 2016, the arrears grew to 193.7 million BGN. The largest arrears were observed during this period with Municipality of Pernik (16.9 million BGN), Municipality of Sliven (15.3 million BGN), Municipality of Kardzhali (14.8 million BGN), Municipality of Velingrad (9.5 million BGN), Municipality of Varna (8.5 million BGN), Municipality of Dospat (6.0 million BGN). A decline was observed at the end of 2016, when the arrears reduced to 184 million BGN.

In June 2016, amendments were adopted in the Law on public finances related to municipalities in a poor financial condition as the provisions of the law define a set of criteria for determining a municipality as a municipality with financial difficulties. Procedure for financial recovery of these municipalities and implementation of a recovery plan is planned, and possibility to support with a temporary government interest-free loan, whose parameters will be determined by the Minister of Finance. At present, two interest-free loans are granted – to Municipality of Pernik (4 million BGN) and Municipality of Belovo (2 million BGN), after their recovery plans are approved.

In 2015, the population of Aksakovo grew by 1.2% on a yearly basis in contrast to the population in the country which decreased by 0.7%. The population density in Aksakovo remained lower than the national average. The proportion of the working population remains close to the national average. A favorable factor is the higher proportion of the population of under working age in Aksakovo. Unemployment rate in the municipality is higher than the average for Varna, but lower than the average for Bulgaria.

In 2015, the production of the companies in the municipality increased by 20.6% compared to the previous year. In its structure a leading sector remains manufacturing industry with a share of 67.4% and a growth of 22.9%. During the period, the uptrend trend in investments in fixed tangible assets of companies was interrupted, and they reduced by 36.2% mainly with regard to manufacturing industry, which, although is also a major sector here, reported a decline of 73.8%. The investments of the companies in construction sector reduced considerably (84.6%).

	<p>CREDIT RATING Municipality of Aksakovo Long-term rating/ short-term rating: BBB-/a-3 (outlook: stable) National-scale long-term rating/national-scale short-term rating: A (BG)/ a-1 (BG) (outlook: stable)</p>
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During 2016, the Municipality of Aksakovo reported a positive result from operating activity in the size of 27.2% from incomes for local activities as it exceeded the realized during the previous year. The result from investment activity is negative but the shortage is covered entirely by the surplus from operating activity.

The municipal own revenues during the last year increased by 9.1% (8.5% in 2015). The increase in tax revenues was 16.7% with regard to two of the three main articles: vehicle tax reported an increase of 49.7%, and real estate tax - 32.4%. The revenues from property acquisition taxes reduced by 23.8%.

In the group of non-tax revenues, leading are the fees with a 68.6% share. After a decline in 2015, during the next year the revenues from them increased by 6.9% on a yearly basis. Their structure continues to be dominated by domestic waste fee with a 59.8 % share. The revenues from it grew by 23.3% compared to 2015.

The stable uptrend in property incomes is confirmed where the increase during the last year was 29.3%, conditioned mainly by the increase in rents of land (a growth of 35.5%), which are a main article with a share of 61.9%. The property sale revenues remained at the level of 2015, a little bit over 320 thousand BGN.

The amount of subsidies and transfers is positive and considerably higher compared to 2015, when were reported considerable by size outgoing transfers between budgets and accounts for EU funds in connection with the implementation of projects on OPs (Operational Programmes). The dynamics additionally cooperates for the increase of incomes for local activities during 2016 compared to the last year together with the growth in own incomes.

At the end of 2016, Municipality of Aksakovo reported arrears in the amount of 353.5 thousand BGN.

During 2016, the uptrend in costs for local activities and extra financing of the government activities of Municipality of Aksakovo continued – they reported a growth of 3.2% in regard to current costs (2.5%), and of capital costs (5.9%). There were some changes in their structure: after a passing decline in the share of the public utility costs in 2015 to 27.1%, during the year after that the share increased again reaching 45.0%. Next in

importance are the costs for general government services with a share of 25.8%, by 5.5 p.p. higher than the reported in 2015.

During 2016, the current public utility costs reported some growth of 63.6% compared to 2015, reaching 2 071 thousand BGN which is the highest value from 2010 to now. As in the previous few years, the maintenance of cleanliness is dominant with a share of 38.3% that reported a decline of 14.9% on a yearly basis. Next in importance with a share of 33.3% are the costs for construction, repairs and maintenance of the street network which decreased by 19.0%. The municipality have been working on some projects for rehabilitation of the street network, and other projects are submitted are in phase of monitoring.

After 2014 and 2015, Aksakovo financed its capital programme nearly fully by funds on European programmes. During 2016, the share of financing on OPs is barely 13.5%. On the one hand, it is explained with the end of the preceding programme period, and, on the other hand, we should bear in mind that the municipality has already finished its key infrastructure projects such as establishment of a regional waste depot in village of Vaglen, as well as water projects for Aksakovo and Kichevo.

The comparative analysis prepared by BCRA compares basic financial indicators of Municipality of Aksakovo (calculated per capita) to the average for the country and to the values of a group of municipalities with similar population. With regard to total revenues and incomes for local activities per capita, Aksakovo has an unfavourable position compared to both groups or close to them. When comparing own revenues per capita, it is obvious that Aksakovo occupy a slightly better position in a comparative aspect, while with capital costs the position of the municipality is close to the average for the group, but slightly more unfavorable than the average for the country.

The mayor of the municipality of Aksakovo during the period of updating was Eng. Atanas Stoilov (PP GERB), elected at the last local elections during the autumn of 2015. In the structure of the municipal administration there were changes. The number of deputy mayors has reduced by one as Eng. Dimitrina Dimitrova was discharged. At present, deputy mayors are Mrs. Ruska Ilieva and Eng. Krasimira Diankova. During 2016, the

collection of vehicle taxes increased and, to less extent, of domestic waste tax while the tax on real estates remained at the level of the last year.

BCRA makes a financial forecast of the municipality for the period 2017-2019. The results show that in development, similar to the forecast, Municipality of Aksakovo shall realize a positive operating result during the entire forecast period. The free cash flow is negative during the first two years but it is covered entirely by account balances.

A positive impact on the rating of the municipality may cause consolidating the uptrend of operating result, increase in collection of main taxes and fees, decline and full payment of arrears, considerable improvement of the main infrastructure elements.

Downgrade may happen if there is an increase in leverage and an increase in arrears, a negative result from operating activities and reduction of their own revenues.

Main financial indicators in BGN

	(лева)	2016	2015	2014
Incomes for local activities incl.		7 262 670	2 543 421	5 879 318
Own revenues		4 646 839	4 260 408	3 926 556
- tax revenues		2 119 548	1 816 121	1 627 840
- non-tax revenues		2 750 584	2 555 293	2 515 699
Subsidies and transfers for local activities		2 615 831	-1 716 987	1 952 762
Capital costs with budgetary funds		1 303 369	1 231 138	736 914
Ultimate Capital Programme		2 392 689	19 385 634	11 648 229
Operating Result		1 972 387	268 047	729 324
Operating Result Before Taxes		2 038 072	328 974	772 359
Result from Investment Activity		-663 252	-3 484 174	-7 253
Deficit/Surplus for Local Activities		1 309 135	-3 216 127	722 071

Resume of the Minutes of the Rating Committee:

The members of the Rating Committee reviewed the credit rating report of Municipality of Aksakovo and discussed the factors assigning its credit rating described above.

With view to the specific risk profile of the municipality and the condition of the general legal regulation in the municipalities in Bulgaria, the base rating is assigned at BBB-. The national-scale long-term rating A (BG) and the national-scale short-term rating A-1 (BG) are assigned based on positioning of the rating characteristics of the municipality in a comparative aspect compared to other municipalities in Bulgaria.