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Credit Rating of the Municipality of Burgas					
Date of Rating Committee:	14.12.2018	17.04.2019	31.03.2020	01.10.2020	01.04.2021
Date of Publication:	14.12.2018	19.04.2019	03.04.2020	02.10.2020	02.04.2021
Long-term Rating:	BBB (under review)	BBB	BBB	BBB	BBB
Outlook:	-	stable	stable	stable	stable
Short-term Rating:	A-3 Under review	A-3	A-3	A-3	A-3
Long-term National-scale Rating:	AA-(BG) (under review)	AA-(BG)	AA-(BG)	AA-(BG)	AA-(BG)
Outlook:	-	stable	stable	stable	stable
Short-term National-scale Rating:	A-1+(BG) (under review)	A-1+(BG)	A-1+(BG)	A-1+(BG)	A-1+(BG)

****Notes:**

- 1) To become familiar with the full rating history, please, see the chart at the bottom of the document;
- 2) Prior to the present publication the credit rating and rating outlook was disclosed to the rated entity. Following that disclosure amendments in the credit rating and the rating outlook have not been executed;
- 3) In the last 2 years, the BCRA – Credit Rating Agency AD has not provided ancillary services to the rated entity or a related third party.

„BCRA – Credit Rating Agency“ AD (BCRA) is the third qualified rating agency in the EU, registered under Regulation (EC) No. 1060/2009 of the European Parliament and the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are fully equal to the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other limitations.

At a session of the Rating Committee of BCRA, held on **April 1, 2021**, a report of the review of the credit rating of **the Municipality of Burgas** has been discussed. The session was run by D.Sc. (Econ.) Kiril Grigorov, in his capacity as a Chairman of the Rating Committee. Following a discussion on changes in the factors affecting the rating during the review period, the members of the Rating Committee **took the following decision:**

The BCRA affirms the assigned credit ratings to the Municipality of Burgas:

- Long-term credit rating: **BBB**
- Outlook: **stable**

- Short-term credit rating: **A-3**
- Long-term National-scale rating: **AA-(BG)**
- Outlook: **stable**
- Short-term National-scale rating: **A-1+(BG)**

The officially adopted by BCRA Methodology for assigning a Municipality credit rating has been applied:

https://www.bcra-bg.com/files/Municipality_Methodology_2018_en.pdf

The users of the rating can find information on the meaning of each rating category, including definitions of default in the published Global rating scale on the BCRA's website:

https://www.bcra-bg.com/files/global_scale_en.pdf

The report has been prepared and the rating - assigned, based on information made available by the rated municipality, Bulgarian National Bank, National Statistical Institute, BCRA' database, consultants and other public information sources.

Rating Factors Analysis

The emergence of the COVID-19 pandemic worldwide has turned the issue into one of the main priorities to address in Bulgaria as well as in all its political and economic partners. Due to the unprecedented crisis, the state is in an “emergency epidemic situation”, with the government taking a number of legislative measures to limit the negative economic consequences.

The COVID-19 pandemic and the measures taken to limit the infection have adversely impacted the economic activity in the country. Preliminary data for 2020, indicate a decline in Bulgaria's GDP of 4.2%, after an increase of 3.7%, achieved in 2019. A slowdown is observed in the dynamics of the indicators for household consumption, lending, the external sector, as well as in inflation processes. In 2020, the unemployment rate rose to 5.1% (from 4.2% a year earlier). However, the labour income maintains an upward trend, with the average monthly gross salary amounting to BGN 1,378 (EUR 709) in 2020.

Bulgaria has entered the current crisis with a stable fiscal position, accumulated reserves and low government debt. According to the preliminary data, of the Ministry of Finance, the projected CFP balance reached a deficit of BGN 3.5 billion or 3% of the projected GDP, following the government's fiscal measures to support the most affected economic sectors. General government debt rose to 24.7% of GDP in September 2020, together with the due to financing fiscal measures to overcome the crisis and the decline in GDP but remained low in a comparative aspect.

In 2020, the Bulgarian Lev was included in the European Rate Mechanism II (ERM II), while the ECB commenced its direct supervision of five Bulgarian banks. Meanwhile, the banking sector remains stable, albeit with the economic shock. The capital adequacy and liquidity of banks are at high levels, supported by the steady growth of the deposit base and the anti-crisis regulatory measures implemented by the BNB

Against this background, the municipalities in Bulgaria are expected to face serious financial and organizational challenges.

The anti-crisis legislation of the government from the end of March 2020 does not provide for a change in the deadlines for payment and declaration of local taxes and fees, but extends until June 30, 2020, the

deadline for using a 5% discount on prepayment of annual real estate or vehicles taxes. The municipalities have been allocated BGN 20 million to support social patronage used by nearly 43,000 people before the crisis. At a later stage, the government decided to exempt taxi drivers from paying local taxes in 2020, and the state to cover the deficiencies in municipal budgets.

The Council of Ministers also approved transfers to the municipal budgets of BGN 24.6 million to cover the increased standards of the delegated activities for school and child healthcare, health offices and to increase the remuneration of the employees in the social sphere. The funds are provided through restructuring of expenditures and/or the central budget transfers for 2020.

Despite the difficult situation, at the end of September 2020, a slight annual increase in the coverage of the local activities' costs with revenues is reported nationwide. At the end of the same period, on average for the country, the amount of debt as a percentage of planned revenues, total balancing subsidy and other transfers for local activities was almost unchanged compared to the same prior-year period. It should be taken into account that what is more essential is not the amount of debt but the properly planned and budgeted debt repayments.

Regarding the municipalities' investment activities (the share of the investment expenditures to total expenditures) there was an annual decrease. The number of the municipalities with higher than the national average is 127, by 10 more, compared to the corresponding period of the previous year.

The share of the overdue liabilities of the annual amount of expenditures was 1.7% as of 09.2020, which represented a slight annual increase, from 1.6% as of 09.2019.

At the end of the third quarter of 2020, the value of overdue liabilities was BGN 139.7 million, which was a mild decrease of ~3% compared to the middle of the year but the annual increase is ~12%.

During the period of update (2020), Dimitar Nikolov (GERB), re-elected in the local elections in the fall of 2019 in the first round with 65.83%, remains mayor of Burgas, which marks the beginning of his fourth term as a mayor.

In 2020, the municipality of Burgas reported a result from operating activity of BGN 381 thousand, which is drastically lower than the values in the last years.

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The result from investment activity is negative as well, thus the net cash flow is negative amounting to BGN -10 606 thousand.

In the review period, the income from taxes is BGN 40 532 thousand, which makes the change insignificant compared to the amount in the past year. The property tax dominates the tax structure with a share of 35.3% (34.4% in 2019), where the revenues marked a slight increase of 2.9%. According to the latest information published by the Ministry of Finance, for 2019, the Municipality of Burgas achieved an average collection of vehicle tax and real estate tax of 79.1%, compared to 78.1% in the previous year. At the same time, the amount exceeds the average for the country (72.9%).

The structure of non-tax revenues remains dominated by revenues from fees (BGN 28,360 thousand) with a share of 30.3% of revenues for local activities. Revenues from fees marked a slight decrease of 3.8% on an annual basis, resulting mainly from the decrease in revenues from the fees for kindergartens (37.8%, BGN 908 thousand) and nurseries (44.2%, BGN 908 thousand). The development of the COVID-19 pandemic activated this dynamic, which inevitably reflects the attendance of the children's institutions and, accordingly, the revenues from fees.

The main budget item - municipal waste tax (a share of 70.3% of fees) - there is a slight increase of 1.3% compared to 2019.

Property income is characterized by a significant annual decline of 17.6%, due to the dynamics of all three main items: income from the sale of goods, services and products, property rents and land rents. The reason for the reduction again is a result of the COVID-19 crisis, due to the exemption from rent payments of some groups of tenants during the state of emergency.

The revenues from property sale amount to 5 054 thousand, which is a decline of 14.2%, thus preserving the downward trend, formed in 2017.

Regarding the current expenditures for local activities and co-financing in 2020, it should be noted that they increase slightly (2.1%) in terms of subsistence, while the change in expenditures for salaries and social security contributions can be defined as insignificant.

The interest expenses account for 0.9% of the current ones, with a downward trend, amounting to 3.4% on annual basis.

The capital expenditures, incurred by the municipality with budget funds in 2020, marked annual growth of 14.9%, against the background of a decline of 30.2% in the previous year. The general capital programme of the municipality amounts to BGN 55 285 thousand.

The municipality of Burgas is maintaining a significantly lower ratio of debt payments to the three-year average value of own-source revenues together with the total equalization subsidy - 4.60%, which according to the Public Finance Act should not exceed 15%. For another year, the municipality of Burgas registered zero overdue liabilities.

The structure of the expenditures by function does not show any significant changes – the expenditures for public works dominate with a share of 46.2%, almost unchanged compared to the previous year. The dynamics of the current expenditures by function are determined by cleanliness costs, those for construction, repair and maintenance of the street network, lighting and landscaping.

The capital expenditures for public works, a major share remain the expenses for water supply and sewerage (BGN 5 318 thousand, 39.2%) and the amount is identical to the one registered in 2019. Most of the latter is invested in a project for the construction of water supply and sewerage in the Rosenets Forest Park.

Considerable amounts for waste management are invested during the year. They are related to the pre-separation plant for mixed household waste, five mobile centres for separately collected household waste, as well as the construction of a second and third cell at the landfill for household waste near the village of Bratovo.

The analysis illustrates the position of the municipality of Burgas according to a number of financial indicators compared to their average levels for the country, for the municipalities – district centres, as well as to the municipality of Varna (as a municipality with alike profile¹). The positioning of Burgas in comparative terms is predominantly favourable compared to the

¹ The information concerns 2019, based on the last published data by the Ministry of Finance.

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average for the country and the district centres. At the same time, the levels of most of the compared indicators of Burgas are close to the levels reported by the Municipality of Varna.

The financial forecast prepared by the BCRA team for the period 2021-2023 shows that in similar development to the forecast, the municipality of Burgas will realise positive operating result, as well as positive free cash flow throughout the entire period.

Outlook

*The **stable** outlook of the ratings of the Municipality of Burgas reflects the expectations of BCRA that the municipality will maintain a stable financial condition in 2021, despite the difficult situation related to the COVID-19 pandemic.*

*As far as the rating of the Republic of Bulgaria is a ceiling of the rating of the municipality of Burgas, a possible upgrade of the sovereign rating could **positively** affect the municipality's rating.*

*The rating could be **negatively** affected by the accumulation of overdue liabilities, a considerable decline in own-source revenues, and a significant increase in leverage.*

Summary of the Minutes of the Rating Committee:

The members of the Rating Committee discussed the main factors, determining the financial condition of the municipality in 2020. It was pointed out the COVID-19 pandemic inevitable effect on the functioning of the municipality. At the same time, the members outlined the measures taken by the municipality to address the crisis. The Committee took into account the fact that the costs amount committed in 2020 for measures related to the pandemic to be significantly reduced in 2021.

Main Financial Indicators

	<i>BGN'000</i>	<i>2020</i>	<i>2019</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>
Income for local activities, incl.		93,656	102,895	103 830	108 866	110 080
Own-source revenues:		89,674	93,349	96 349	93 931	84 687
- tax revenues		40,532	40,453	39 891	38 883	33 993
- non-tax revenues		49,142	52,896	56 458	55 048	50 694
Subsidies and Transfers		3,982	9,546	7 481	14 934	25 393
Capital expenditures		19,858	17,284	24 758	17 480	32 033
Current expenditures		84,404	82,692	82 869	70 117	72 297
- interest payments		735	761	742	838	1 014
Operating result		381	4,905	8 343	15 507	7 547
Result from investment activity		-10,986	-1,986	-12 140	833	-6 930
Deficit/Surplus for local activities		-10,606	2,919	-3 797	16 340	617

Rating History				
Date of Rating Committee:	17.04.2015**	03.05.2017	25.04.2018	15.05.2018
Date of Publication:	24.04.2015**	05.05.2017	27.04.2018	18.05.2018
Long-term rating:	BBB-	BBB-	BBB-	BBB
Outlook:	stable	stable	positive	stable
Short-term rating:	A-3	A-3	A-3	A-3
Long-term National-scale rating:	AAA (BG)	AA (BG)	AA- (BG)	AA-(BG)
Outlook:	stable	stable	stable	stable
Short-term National-scale rating:	A-1+ (BG)	A-1+ (BG)	A-1+ (BG)	A-1+ (BG)

***Initial rating*