

Municipality of Burgas

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	Initial Rating	Update
	07/2008	09/2009
Credit Rating of Municipality of Burgas		
Long-term rating:	BBB	BBB
Outlook:	Stable	Stable
Short-term rating:	A-2	A-2

*Bulgarian Credit Rating Agency is the only Bulgarian agency listed as eligible by Financial Supervision Commission and its credit ratings are acknowledged for its aims equally with the international agencies **Moody's, Standard & Poor's and Fitch**. Up to now BCRA has assigned credit ratings to most all leading insurance companies. In 2004 BCRA adapted rating methodology of creditworthiness of municipalities by ICRA (An associate of Moody's Investors Service).*

Bulgarian credit rating agency (BCRA) retains the long-term credit rating of Municipality of Burgas BBB, outlook: stable and short-term credit rating A-2. The officially adopted methodology for awarding of a credit rating of municipality by BCRA is used (http://www.bcra-bg.com/files/file_67.pdf).

To elaborate the credit report and to assign the credit rating is used information from the rated municipality, Ministry of Finance, NSI, National Employment Agency, database of BCRA, consultants and other sources of public information.

As a whole in 2008 the municipalities marked improvement in the rendered results although it is lower than the last year. The own incomes retain the increasing trend, but the growth for 2008 is just about 7 % (compared to 35 % in the last year). For the first time during this period the municipalities marked annual downturn in the sales property incomes. This is an indicator for decreasing their dependence on this source of incomes which is not presented as a constant income.

There is also a continuing growth of capital expenses invested by municipalities, within 29% compared to last year, as the amount of investments still remains insufficient for realization of their investing programmes.

On basis of the trends in the financial condition and legal regulation of municipalities, as well as global economical crisis affecting on their financial condition, we consider, that the overall system risk related to their activity increased to moderate.

The population of municipality marked a growth for the first time in 2008, which is very positively compared to continuing downturn of the population in the country. Share of labour force population is over the average values for the country and it decreases on a small scale compared to the increase of population under the capable of working age. The growth of production on the municipal territory in 2007 is significantly lower - 8%. The Processing industry with share of 75,5 % goes on being leading factor, whilst the Extractive industry reduced by 15% in production.

We retain the risk from external factors relatively low.

Annual growth of the current incomes of Municipality of Burgas amounts to ~19% and significantly anticipates this of the current expenses. As a result Municipality of Burgas realizes the highest operative activity result within 5-year period. The municipal investments are retained approximately at levels similar as these of the last year. Growth

 BCRA CREDIT RATING AGENCY	CREDIT RATING Municipality of Burgas BBB/a-2 September 2009
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of municipal own incomes is observed and it is up to 8,4 %, which is mainly in respect of tax incomes. For period of actualization growth of the non-tax incomes is 18%. The municipal current expenses increased by about 10 % on a yearly basis.

In 2008 the municipal capital expenses are up to 9 106 thousand leva totally, as the highest share of them (30%) is related to housing construction and public works. During the period under review Municipality of Burgas goes on having higher own incomes per capita of the population compared to the country and group of towns, and lower compared to Municipality of Varna. Regarding the capital expenses, Burgas keeps occupying the most unfavorable position compared to the both excerpts and Municipality of Varna.

We retain the overall risk of operative activity as moderate.

The issued financial forecast shows that having in mind these assumptions the municipality will realize a positive operative result just in the first year of the forecasted period, which will be sufficient for paying off the financial obligations on the bank credit granted. As per forecasted data in 2011 the municipality will need extra financing.

BCRA considers that the municipality will be characterized with satisfactory levels of creditworthiness in short-term aspect.

Main financial indicators in leva:

	2006	2007	2008
Total incomes	86 878 663	104 400 104	132 412 839
Local activities	46 467 094	59 143 298	64 559 386
Incomes includes:			
Own incomes:	43 130 781	55 920 450	60 605 025
- tax incomes	13 819 537	23 325 663	27 570 779
- non-tax incomes	29 311 244	32 594 787	33 034 246
Local activities			
subsidies and	3 336 313	3 222 848	3 954 361
transfers			
Capital expenses	7 712 625	9 000 668	9 106 106
Operating result	1 320 142	-699 460	3 455 653
Operating result	1 394 020	-354 561	3 812 157
before interests			
Investment activity	214 553	1 442 156	-2 394 732
result			
Local activity	1 534 695	742 696	1 060 921
deficit/Surplus			