

<b>Municipality of Aksakovo</b>	Radostina Stamenova, Lead Financial Analyst stamenova@bcra-bg.com
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Credit Rating				
Date of Rating Committee:	14.12.2018	28.03.2019	20.02.2020	19.08.2020
Date of Publication:	14.12.2018	29.03.2019	21.02.2020	21.08.2020
Long-term rating:	BBB- (under review)	BBB-	BBB-	BBB-
Outlook:	-	Stable	Stable	Stable
Short-term rating:	A-3 (under review)	A-3	A-3	A-3
Long-term national-scale rating:	A (BG) (under review)	A (BG)	A (BG)	A (BG)
Outlook:	-	Stable	Stable	Stable
Short-term national-scale rating:	A-1 (BG) (under review)	A-1 (BG)	A-1 (BG)	A-1 (BG)

**BCRA – Credit Rating Agency (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 entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other limitations

The „Bulgarian Credit Rating Agency” (BCRA) affirms the following credit ratings to Municipality of Aksakovo:

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

Outlook: **stable**

Short-term credit rating: **A-3**

Long-term national-scale rating: **A (BG)**

Outlook: **stable**

Short-term national-scale rating: **A-1 (BG)**

The officially adopted methodology of BCRA for assigning credit rating of a municipality is used. The public version of the Methodology, including the definition of default, can be found at:

[https://www.bcra-bg.com/files/Municipality\\_Methodology\\_2018\\_bg.pdf](https://www.bcra-bg.com/files/Municipality_Methodology_2018_bg.pdf)

The users of the rating can find information on the meaning of each rating category in the published Global rating scale on the BCRA’s website:

[https://www.bcra-bg.com/files/global\\_scale\\_bg.pdf](https://www.bcra-bg.com/files/global_scale_bg.pdf)

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

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### Rating Factors Analysis

The year (2020) started positively for Bulgaria in political perspective, with the composition of the local authorities having renewed, progress in the preparation of the country for membership in the Banking Union and the respective inclusion of the Bulgarian Lev in the Monetary Mechanism II (ERM II). However, the **emergence of the COVID-19** pandemic worldwide addressed the issue, turned into one of the main priorities in Bulgaria, as well as in all its political and economic partners. A state of emergency was declared in the country (March 13, 2020) due to the unprecedented crisis, followed by a number of legislative measures by the government to mitigate the negative economic impact. The effects are yet to be measured and evaluated and at this stage, the projections are at risk of inaccuracy due to global uncertainty about the outcome of the situation. The prospects for the development of the global economy are deteriorating significantly, and at the moment it is only clear that drastic measures to control the infection will generate a massive shock in many sectors, regions and markets, which will result in a global recession.

The peculiar stopping of the economic processes in the country is reflected in both the real and the financial sector. The dynamics of household consumption, lending, the external sector and the inflation faced significant slowdown. The labour market reacted to the crisis speedily, and the unemployment trend rapidly grew. According to the Employment Agency, the registered unemployment in June in the age group 15-64 was 8.3% - a decrease of 0.7 pp on a monthly basis and an increase of 3.1 pp annually.

Bulgaria entered the current crisis with a strong fiscal position and low debt. At the end of May as the country's budget for 2020 has been updated, the consolidated balance of cash remained positive, amounting to 1.1% of projected GDP. There was a contraction in tax (5.3% on an annual basis) and non-tax (22.7%) revenues, with an increase in grants and donations of 37.1%. The projected CFP balance is an expected deficit of BGN 3.5 billion or 3% of the projected GDP.

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

**The government's anti-crisis legislation** at the end of March 2020 did not provide for a change in the deadlines for payment and declaration of local taxes and fees but extended until June 30, 2020, the deadline for the 5% discount on prepayment of annual real estate and vehicles taxes. The municipalities were financed with BGN 20 million to support social patronage used by nearly 43,000 people before the crisis. At a later stage, it was 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 municipal budgets of BGN 24.6 million to cover the increase of the standards for the activities delegated by the state for school and children's health care, health offices and to increase the salaries of employees in the social sphere. The funds are provided through a restructuring of expenditures and/or transfers to the central budget for 2020.

In the first quarter of 2020, the **municipalities in Bulgaria** demonstrate close levels of the financial conditions. The budget balance at a national level is positive, while the investment activity is weaker, and at the same time the amount of overdue liabilities has increased (by BGN 53 million on an annual basis), as well as the commitments made (by BGN 33.1 million). The liabilities of the municipalities with financial difficulties have increased by BGN 12.6 million.

A survey of the National Association of Municipalities in the Republic of Bulgaria (NAMRB)<sup>1</sup>, conducted by using data provided by 217 out of the 265 municipalities for the period January-April 2020, summarizes the trends and the impact of the crisis with COVID-19 on municipal budgets. The results from the study can be defined as highly disturbing.

Non-tax revenues are negatively affected by some restrictions imposed on certain activities, the measures taken to support local households and businesses (including the exemption or deferral of other local taxes) and of the rents due on the use

<sup>1</sup> NAMRB survey on the state of municipal budgets in a state of emergency, 2020:  
<https://www.namrb.org/download/file/3932>

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of municipality property for the period of the state of emergency.

In general, in the current conditions, the opportunities for a reduction of the expenditures in the municipal budgets are extremely limited. In the first months of 2020, municipalities reduced the costs for maintenance, interest payments, subsidies, and investments, at the expense of the increase of social costs. The reported extraordinary and unforeseen expenses in March-April 2020 are slightly over BGN 6 million, and to a large extent are related to the obligations of the municipalities for the implementation of the anti-epidemic measures.

The NAMRB concludes that the sharp decline in own revenues, in addition to the extraordinary costs for anti-epidemic measures, puts at risk the financing for basic municipal services, not only during the year but also in the medium term.

In the last three financial years (2017– 2019) the municipality of Aksakovo registers positive **results from operating activity**, evidence for a good ability in generating income. The operating result in the first half of 2020 amounts at BGN 1 584 thousand (34.8% of the operating income), registering an increase of BGN 1 115 thousand compared to the corresponding period of the preceding year.

**The own income** in the six months of 2020 increased by 10.8% annually and amounted at BGN 3 981 thousand. Despite the negative effect of the measures to limit the infection in the country, the municipality of Aksakovo continues to report an increase in tax and non-tax revenues in the first half of the year -11.4% and 10.4%, respectively. The increase in tax revenues is mainly in line with real estate tax revenues<sup>2</sup>, which increased by 20.6% compared to the corresponding period of 2019. Total taxes revenues rose by 7.8%, mainly due to the annual growth of 14.4% of the waste tax revenue. The revenues from property sale (-51.5%) and concessions (-30.6%) registered a decline in the non-tax revenues.

At the same time, the increase in total **revenues**

<sup>2</sup> In 2020, the real estate tax rates set by the municipal council under Art. 22 of the Local Development Act have been increased to 2.93 and 4.5 from 2.6 and 4 in 2019.

**for local activities** in the first half of 2020 is also due to the higher net amount of transfers and subsidies (+ 7.3%).

In the first half of 2020, the municipality. Aksakovo cuts its expenditures on almost all major items, concerning both the current activities of the municipality and its investment activity. **Current expenditures** for local activities and co-financing amount to BGN 2,961 thousand, compared to BGN 3,450 thousand for the same period of the previous year. The overall decrease is due to the 16.9% lower maintenance costs and a decrease of 31.9% in personnel costs. The interest expenses for the period amount to BGN 18 thousand, which accounts for 0.4% of the current revenues.

**The capital expenditures** for local activities and co-financing marked a decrease of 11.7% on an annual basis, reaching BGN 1,179 thousand. As a result of their dynamics, the deficit from investment activity narrowed to BGN 54 thousand by the end of June 2020.

The results of the operational and investment activities of the municipality form a total **surplus for local activities** of BGN 1,530 thousand, compared to the reported surplus of BGN 267 thousand for the first half of 2019.

Mayor of Aksakovo Municipality is Eng. Atanas Stoilov (GERB), re-elected in the last local elections in the fall of 2019 for a sixth consecutive term. The local administration reports **tax collection** below the national average. According to data from the Ministry of Finance for 2019, the collection of real estate tax amounts to 68.4% (compared to the national average of 74.8%), and the collection of vehicle tax - to 72.7% (compared to the national average of 70.9%).

At the end of July 2020, the **overdue liabilities** (entirely due to suppliers) of the Municipality of Aksakovo amounted to BGN 219 thousand, reporting a decrease of BGN 126 thousand compared to the end of 2019.

The residual amount of **municipal debt** at the end of June 2020 amounted to BGN 3 398 thousand, a rise of BGN 208 thousand compared to the previous year. The debt financing covers 2 municipal loan agreements and is entirely for investment purposes. In general, the municipality of Aksakovo reports a low level of the ratio of debt service costs to own revenues and TIS, and the

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level of indebtedness remains below the national average.

The **complex analysis** of the quantitative and qualitative rating factors shows that the municipality of Aksakovo is positioned among the municipalities in Bulgaria with very good parameters of financial stability and creditworthiness.

### Outlook

The **stable** outlook for the ratings of Aksakovo municipality reflects the opinion of BACR that despite the deteriorating macroeconomic situation, the risks to the financial condition and creditworthiness of the municipality are currently balanced.

The following factors can have a **positive effect** on the rating and / or outlook:

- Lack of overdue liabilities;
- A steady increase in own income;
- Reduction of the municipal debt.

The following factors may have a **negative impact** on the rating and / or outlook:

- Significant deterioration of the operating result;
- Constant decline in own revenues;
- Growth of overdue liabilities;
- Significant increase in the municipal debt.

### Main Financial Indicators

	BGN	I-VI	I-VI			
Income for local activities	5 670 568	5 071 864		9 465 530	11 371 731	10 166 709
Own income	3 981 203	3 591 774		6 755 420	6 173 142	5 704 863
- tax revenues	1 851 403	1 661 903		2 975 685	2 587 020	2 404 954
- non-tax revenues	2 129 800	1 929 871		3 779 735	3 586 122	3 299 909
Aids and donations	100 960	0		12 630	7 350	5 705
Subsidies and transfers for local activities	1 588 405	1 480 090		2 697 480	5 191 239	4 456 141
Expenditures on local activities and co - financing	4 140 127	4 785 290		14 046 044	9 554 980	7 352 548
Current expenditures	2 961 335	3 449 568		6 928 775	5 713 434	5 817 581
Capital expenditures	1 178 792	1 335 722		7 117 269	3 841 546	1 534 967
Operating result	1 584 222	469 705		401 176	738 421	236 302
Operating result before interests	1 602 484	482 228		428 838	765 989	276 685
Result from investment activity	-53 781	-183 131		-4 981 690	1 078 330	2 577 859
Deficit/surplus for local activities	1 530 441	286 574		-4 580 514	1 816 751	2 814 161
Overdue liabilities	219 239 <sup>(1)</sup>	0		344 897	0	9 600
Municipal debt – residual amount	3 398 179	2 270 907		3 190 289	872 235	898 619

(1) Data as of 31.07.2020

### Summary of the Minutes of the Rating Committee

On 19.08.2020 the Rating Committee of BCRA – CREDIT RATING AGENCY (BCRA) had a session, on which the Report regarding the review of the credit rating of Municipality of Aksakovo was discussed. The session was headed by Dr Kiril Grigorov - Chairmen of the Rating Committee. The members of the Rating Committee discussed the grades of numerous credit rating factors included in the **Rating Model** and analysed in the **Credit Rating Report** according to the **Methodology for assigning a credit rating to a municipality**.

The main parameters concerning the financial condition of the municipality and the impact of the COVID-19 crisis were discussed. Despite the crisis, as of 30.06.2020, the Municipality of Aksakovo achieved a positive operating result, along with revenue growth and cost reduction compared to the corresponding period of the preceding year. These factors result in the favourable positioning of the municipality in comparative aspect. The municipality increased overdue liabilities and the municipal debt grew as well, which, however, remains below the national average. The credit ratings and the related outlook have been affirmed based on the above discussion.

Rating History of Municipality of Aksakovo				
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)

\*\* Initial rating