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	Initial Rating 04.02.2015	Update 25.02.2016
Credit Rating of Municipality of Aksakovo		
Long-term Rating:	BB+	BBB-
Outlook:	Stable	Stable
Short-term Rating:	B	A-3
National-scale long-term rating:	A- (BG)	A (BG)
Outlook:	Stable	Stable
National-scale short-term rating:	A-1 (BG)	A-1 (BG)

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„BCRA – Credit Rating Agency” (BCRA) assigns the following ratings to Municipality of Aksakovo:

- **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, NSI, 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.

The political environment as of the time of preparation of the report could be determined as relatively stable. In October 2015, the held local elections did not lead to any significant changes in the political layers.

For the first quarter of 2015, the country registered a considerably high real GDP growth – 2.2% compared to the same quarter of the previous year (0.2% for Q1 2014), and for the following quarter (Q2 2015) the rate remained almost unchangeable – 2.3%, as the reported value was slightly under this of the same (second) quarter of the previous year (2.6%).

During the first half of 2015, the investments in the country maintained levels that were similar with the reported during the same period of the previous year, despite the decline observed in the investment flows during the second half of 2014 (in comparison with the reported values for 2013).

A slight improvement in the conditions of labour market was observed, as the unemployment rates decreased, even though the levels remained high.

The price level in the country reported drops throughout the months since the beginning of 2014 that brought to strengthening deflationary

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processes. After February 2015, the deflation rates reported a gradual drop.

As a result of the political and economic instability of the country, observed during 2014, at the end of the year a considerable increase in the budgetary deficit was reported, as well an increase in the leverage level of Bulgaria. The increase of the debt also continued in 2015, whereas the budget reports improvements.

The 2014 events in the banking system led to the emergence of a potential risk for the banking institutions of deepening the banking crisis and involving a larger number of participants in the sector. Despite the increased risk in the financial system caused by the dropping of one of the main players and a risk of dropping of another, the banks in Bulgaria maintained their stability. For the nine-month period of 2015, the banking environment could be determined as stable, as evidenced by the high capital adequacy and liquidity of assets and growth in the attracted deposits. The share of the classified loans also marked a decrease that contributed for the improvement of the balances of the banks in the country.

The own income of the municipalities in the country increased in 2014, as their growth rate (3.7%) is lower than for the previous year (6.9%) and it is higher than for 2012 (1.4%). The number of the municipalities, which have increased their own income year on year, have reduced greatly – 139, compared to 192 for 2013 compared to the previous one. For a second consecutive year, the expenses for local activities have increased (including additional funds needed for the government expenses), with a higher rate compared to the previous year – 15.3%, 5.6% for 2013. A positive factor is the considerable growth of the capital expenses¹ – 53.3%, compared to 11.8% for 2013. The overdue debts of the municipalities continued to reduce, and after the decline of 2.6% for 2013, in 2014 it amounted to 5.9% on an yearly basis, and their size is 159.3 mln. BGN. At the same time, however, currently, there are municipalities in a very difficult financial situation that they are not able to carry out public services.

During the period of updating changes have occurred in the legal framework, regulating the activity of the municipalities. The Municipal Debt

Act has changed. According to the adopted changes the municipalities will be able to take a short-term debt for financing public services during a temporary shortage of funds arising in temporary cash disruptions in the budget, and also for payments on projects financed with EU funds. Texts from the law, regulating the sources from which the payments on municipal debt could be done, are lapsed.

At present, in a process of discussion is a **project for changes** in the Public Finance Act which defines a range of criteria for identifying a municipality as a municipality with financial difficulties. A procedure for financial recovery is foreseen for these municipalities, and introduction of a recovery plan, as well as an opportunity for supporting with a temporary free of interest loan from the government, whose parameters will be set by the Minister of Finance.

In 2014, there was a delay of the growth rate of the population of Municipality of Aksakovo, as it is 0.3% on an yearly basis. This dynamics is in the background of a continuous downtrend in the population of the country, as for 2014 the decline amounted to 0.6% year on year. The share of the workforce in Aksakovo remains close to the average for the country.

In 2014, the output of the companies on the territory of Municipality of Aksakovo reported a growth of 7.6% on an yearly basis, as manufacturing remains a leading sector. The investments also reported growth from the companies (6.3% compared to 2013), as by this indicator manufacturing also leads.

Municipality of Aksakovo realized a decreasing result from operating activity which remains positive. Its relation to income for local activities has shrunk – respectively from 23.7% in 2013 to 12.4% in 2014 and 10.5% in the last year. The investment activity result remained negative and is related to the large-scale investment projects of the municipality.

In 2015, the own funds of Aksakovo increased by 8.5%, including growth of 11.6% of the tax revenues. With the non-tax income the main item remains the taxes which reported a decline of 8.2%, including a decline of 6.3% of the domestic waste tax which has the largest weight. On account of the taxes a considerable growth during the past year was observed with the ownership

¹ With budgetary funds.

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income (69.4%), mainly in the land rent. The subsidies and transfers are considerable by size, but negative, due to transfers in connection with the implementation of projects under operating programmes.

Municipality of Aksakovo did not report overdue debts at the end of November 2015.

In 2014, the costs for local activities and additional funds for the municipality increased by 1.6% year on year, as the increase is in line of the current costs (growth of 9.9%), whereas the capital expenses with budgetary funds reported a drop of 30.2%. In 2015, the total costs continued to increase, reporting growth of 11.9% on an yearly basis. The change refers mainly to a considerable increase of the investments which increased by 67.1%, whereas the current costs reported a slight growth of 2.7%.

In the structure of the costs by functions it is observed that the downtrend in the share of utility costs is maintained – by 39.4% for 2013, by 36.4% for 2014 and 27.1% for 2015, on account of growth in the share of the costs for total state services which reached 31.3% in the past year. The share of the costs by function Economic activities and services increased from 8.5 p.p. to 19.6%.

In November 2015, the project for regional depot of household waste management facility in village of Vaglen was completed. The system includes depot, separating and composting installations, which will serve about 365 thousand people from the municipalities of Varna, Aksakovo and Beloslav. The total value of the facility is 34.4 mln. BGN. 23 mln. BGN of the total sum are financed under OP "Environment", 4 mln. BGN – from the national budget, and total 7.4 mln. BGN are financed additionally by the main beneficiary of the project – Municipality of Aksakovo, and the Municipalities of Varna and Beloslav. The site will function for a period of five years – by 2019, then another two cells should be built during the period 2020-2034 as per the plan.

Another key project is „Improvement of urban infrastructure for water and wastewater in Aksakovo“ under OP „Environment“ with a total budget of 11 276 thousand BGN, which was completed in May 2015. The infrastructure measures have been performed for improving water and wastewater system in Aksakovo. With its realization the urban ecological infrastructure has

improved and developed further; the number of the population, whose waters are treated fully, increased.

In July 2015, the implementation of the water project in village of Kichevo was completed in the amount of 1 022 thousand BGN.

Unlike 2013, when the overall capital programme of the municipality was financed, to a great extent, with its own funds (62.5%), during the next two years the capital expenses are financed fully with EU funds – respectively 93.5% in 2014 and 97.1% in 2015.

The comparative analysis of BCRA compares the main financial indicators of Municipality of Aksakovo (calculated per capita) with the average in the country, and with the values of a group of municipalities with a similar number of population. With regard to total income and income for local activities per capita, Aksakovo has an unfavourable position compared to the two groups but remains its favourable position by own income per capita.

On the local elections held during the autumn of 2015, Atanas Stoilov (Political Party „GERB“) won the first round with 73.99% of votes, as this is the start of his fifth mandate. The Municipal Council continues to be comprised by 17 members.

BCRA builds a financial forecast of the Municipality for the period 2016-2018. The results show that in development, similar to the forecast, Municipality of Aksakovo shall realize a positive operating result during the entire analyzed period. The free cash flow is negative but it is covered entirely by the balances on accounts.

A positive impact on the rating of the Municipality may cause increase of the result from operating activities, reinforcement of the uptrend in their own revenues, increase of the collection of major taxes and fees.

The rating could downgrade if leverage increases and overdue debts accumulate, also a negative result from operating activity forms.

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Main Financial Indicators in BGN

(BGN)	2015	2014	2013
Incomes for local activities incl.	2 543 421	5 879 318	6 203 580
Own incomes	4 260 408	3 926 556	5 047 112
- tax income	1 816 121	1 627 840	1 703 172
- non-tax income	2 555 293	2 515 699	3 343 940
Subsidies and transfers for local activities	-1 716 987	1 952 762	1 156 468
Capital Costs with Budgetary Funds	1 231 138	736 914	1 055 030
Total Capital Adequacy	19 385 634	11 648 229	1 675 516
Operating result	268 047	729 324	1 468 883
Operating Result before Taxes	328 974	772 359	1 468 883
Result from Investment Activity	-3 484 174	-7 253	-332 177
Deficit/Surplus for local activities	-3 216 127	722 071	1 136 706

Resume of the Minutes of the Rating Committee:

The members of the Rating Committee reviewed the report for credit rating of Municipality of Aksakovo and discussed the factors defining its credit rating.

Due to the specific risk profile of the municipality, and the condition of the general law regulation of the municipalities in Bulgaria, the base rating was assigned as BBB-. The national-scale long-term A (BG) and national-scale short-term rating A-1 (BG) were assigned on the ground of the position of the rating characteristics of the municipality in a comparative aspect compared to the other municipalities in Bulgaria.