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Credit Rating of Municipality of Aksakovo <sup>1</sup>					
<b>Date of Rating Committee:</b>	14.12.2018	28.03.2019	20.02.2020	19.08.2020	18.02.2021
<b>Date of Publication:</b>	14.12.2018	29.03.2019	21.02.2020	21.08.2020	19.02.2021
<b>Long-term Credit Rating:</b>	<b>BBB-</b> under review	<b>BBB-</b>	<b>BBB-</b>	<b>BBB-</b>	<b>BBB-</b>
<b>Outlook:</b>	-	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>
<b>Short-term Credit Rating:</b>	<b>A-3</b> under review	<b>A-3</b>	<b>A-3</b>	<b>A-3</b>	<b>A-3</b>
<b>Long-term National-scale Rating:</b>	<b>A (BG)</b> under review	<b>A(BG)</b>	<b>A (BG)</b>	<b>A (BG)</b>	<b>A (BG)</b>
<b>Outlook:</b>	-	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>
<b>Short-term National-scale Rating:</b>	<b>A-1 (BG)</b> under review	<b>A-1 (BG)</b>	<b>A-1 (BG)</b>	<b>A-1 (BG)</b>	<b>A-1 (BG)</b>

1) For the full rating history, please see the chart at the bottom of the document;

2) Prior to the present publication, the credit rating and the rating outlook were disclosed to the rated entity. Following those disclosure amendments in the credit rating and the rating outlook have not been executed;

3) During the last two years, BCRA Credit Rating Agency has not provided ancillary services to the rated entity or a related third party.

„BCRA – Credit Rating Agency” (BCRA) is the third qualified rating agency in the EU, registered under the Regulation (EC) 1060/2009 of the European Parliament and of the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are equal with the other ratings, recognized by the European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

**„BCRA – Credit Rating Agency” (BCRA) affirms the following credit ratings to the Municipality of Veliko Tarnovo:**

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 a credit rating to a municipality is used. Public version of the Methodology (incl. the definition for default) is published on the BCRA's site:

[https://www.bcra-bg.com/files/Municipality\\_Methodology\\_2018\\_en.pdf](https://www.bcra-bg.com/files/Municipality_Methodology_2018_en.pdf)

Rating users can find information about each rating category in the Global scale published on BCRA web site at:

[https://www.bcra-bg.com/files/global\\_scale\\_en.pdf](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, Ministry of Finance, National Statistical Institute, National Employment Agency, its BCRA's database, consultants and other public sources.

#### Rating Factors Analysis

The emergence of COVID-19 pandemic worldwide has made tackling the problem one of the main priorities both in Bulgaria and in all its political and economic partners. Bulgaria was in a state of emergency from March 13 to May 13, 2020, due to unprecedented crisis, with government taking a number of legislative measures to limit the negative economic consequences. Subsequently, the state of emergency was replaced by an "epidemic emergency", along with new socio-economic measures.

Development of economic processes in country, including in the context of COVID-19 pandemic, are analyzed in detail by "BACR - Credit Rating Agency" and are reflected in the assigned unsolicited state rating of Republic of Bulgaria. A summary of the report on assigned current rating

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of the Republic of Bulgaria is available on BCRA official web site:

[https://www.bcra-bg.com/files/rating\\_republic\\_of\\_bulgaria\\_oct\\_2020\\_en.pdf](https://www.bcra-bg.com/files/rating_republic_of_bulgaria_oct_2020_en.pdf)

COVID-19 pandemic and the measures taken to control infection have a strong adverse impact on economic activity in the country. Unprecedented shock disrupted the positive dynamics of GDP at the beginning of the year, as real growth slowed to 1.8% on an annual basis in first quarter, and its full effect spread within the next, during which a decline of 8.5% for second and 4.2% for third quarter was reported. Imports, exports and investments suffer significant declines. In line with dynamic situation on labor market, indicators for income growth and household consumption in country are fluctuating. After unemployment trend turned upwards at the pandemic outbreak, in 2020 third quarter the number of registered unemployed according to Employment Agency data in 15-64 age group is 43% higher compared to the same period of previous year, reaching 246 thousand people. A slowdown is observed in lending, external sector, as well as in inflation. For Bulgaria, European Commission forecasted a decline in GDP of 5.1% for 2020.

Bulgaria is entering current crisis with a stable fiscal position and accumulated reserves. At the end of October, after country budget for 2020 was updated and government financed fiscal aid to the sectors most affected by crisis, the consolidated cash balance remained positive, at 0.5% of projected GDP. There was a minimal increase in tax revenues (by 0.5% on an annual basis), and in non-tax revenues - a decrease of (11.3%), with an increase in grants and donations by 22.6% in first ten months of 2020. At the same time, expenditures increased by 1.1%. The projected balance under Consolidated Fiscal Program (CFP) is a deficit of BGN 3.5 billion or 3% of the projected GDP.

General government debt rose to 24.7% of GDP in September 2020 due to finance fiscal measures to overcome crisis and the decline in GDP. This is a significantly lower level of the indicator compared to the maximum permissible reference value of Maastricht convergence criterion of 60%. The ratio of government debt to GDP has traditionally been assessed as a positive factor in comparison with EU, only Luxembourg reported lower by the end of third quarter of 2020.

Current state of banking sector remains stable. Banks capital ratios and liquidity are at high levels, supported by steady growth of deposit base. In conditions of uncertainty in the ninth month of 2020 lending to non-financial sector is slowing down, to a greater extent for enterprises. On July 10, 2020 Bulgarian lev was included in Exchange currency mechanism II (ERM II). At the same time, ECB's decision to establish close cooperation with BNB was announced.

Under these circumstances, municipalities in Bulgaria are expected to face serious financial and organizational challenges.

Anti-crisis government legislation from the end of March 2020 does not provide any change in applicable deadlines for payment and declaration of local taxes and fees, but extends until June 30, 2020 term for using a 5% discount when prepaying annual tax on real estate or vehicles. BGN 20 million have been allocated to municipalities for support social patronage used by nearly 43,000 people before crisis. At a later stage, it was decided to exempt taxi drivers from paying local taxes in 2020, and to cover shortcomings in municipal budgets by the state.

Council of Ministers also approves transfers to municipal budgets amounting to BGN 24.6 million to cover the increase of standards for activities delegated by the state for school and children's health care, health cabinets and for increase of employees' remunerations in the social sphere. The funds are provided through restructuring of expenditures and / or transfers under the central budget for 2020.

Despite complicated situation, as of 09.2020 at national level, a slight annual increase in coverage of local activities' costs with revenues was reported. At the end of same period, on average for country the amount of debt as a percentage of planned revenues, equalization subsidy and other transfers for local activities is almost unchanged compared to the same period of previous year. It should be taken into account that it is not so much the amount of debt that is essential as whether the repayments are properly planned and budgeted.

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Regarding municipalities' investment activity (share of the investment expenditures in total ones) on an annual basis there is a decrease. Number of municipalities with a higher than national average level is 127, 10 more compared to corresponding period of previous year.

Share of overdue budget liabilities of annual amount of expenditures at national level as of 09.2020 is 1.7%, which is slight increase on annual basis, as of 09.2019 the value of indicator was 1.6%.

At the end of 2020 third quarter amount of municipalities' overdue liabilities is BGN 139.7 million, which is a slight decrease of ~ 3% compared to middle of the year, but increase of ~ 12% on annual basis.

In 2020 **Aksakovo Municipality** reported positive operating result of BGN 1,580 thousand, which is almost three times higher than previous year. This increase is mainly due to growth of current revenues. Result of investment activity is also positive, amounting to BGN 118 thousand. Complex impact of both indicators is expressed in positive net cash flow amounting to BGN 1,698 thousand.

Own revenues generated by the municipality in 2020 amounted to BGN 8,000 thousand, which is an increase of 18.1%. Both tax and non-tax revenues contribute to this increase.

Significant increase of 15.6% was registered in tax revenues. Main contribution is made by real estate tax (growth 25.4%, BGN 268 thousand), as well as vehicle tax (5.8%, BGN 62 thousand). Both taxes together account for 71.1% in both last years. Reported increase in revenues from real estate tax stems from increase in amount of tax for town of Aksakovo, town of Ignatievo, village of Lyuben Karavelovo and village of Kichevo. Another factor is improvements on properties, as well as mobilization of municipal administration to improve collection.

Structure of non-tax revenues is dominated by fee revenues, which form 29.5% of municipality's own revenues and are characterized by an annual growth of 8.3%. Leading, as in previous years, are revenues from municipal waste tax with share of 67.1% (61.3% for 2019), with increase of 18.6%.

Current expenses of municipality in 2020 marked slight decline of 3.0%. Maintenance, forming predominant share of current expenses, decreased by 4.6%, reaching BGN 4,842 thousand.

In 2020 downward trend in debt service costs is maintained. During this period level of indicator is lowest since 2017. For 2020 the ratio under art. 32, para. 1 of Public Finance Law<sup>1</sup> amounts to 4.59%, which is significantly lower than the maximum required level of 15%.

It should be noted that overdue liabilities of the municipality by the end of 2020 are BGN 122,006, which is a decrease of 64.8% on annual basis. There is also decrease in ratio of overdue liabilities to the amount of own revenues and Total equalization subsidy<sup>2</sup> to 1.4%, compared to 4.5% a year earlier.

In 2020 Aksakovo Municipality realized capital expenditures in the amount of BGN 3,385 thousand, which is 52.4% lower than previous year, when investments of BGN 7,117 thousand were made. It should be noted, however, that capital expenditures in 2019 are highest at least since 2013.

Distribution of costs by function shows that no significant changes in their structure are observed. Funds for public works remain leading (53.0%, 44.8% for 2019). Municipality has allocated most resources. Distribution of investments by function is dominated by costs for construction, repair and maintenance of street network in the amount of BGN 694 thousand, which, however, represents a decrease of 44.3% compared to previous year. One of significant infrastructure projects implemented by the municipality is rehabilitation of streets in town of Aksakovo under the "Rural Development Program" with total budget of BGN 1,330,000.

<sup>1</sup> Art. 32. (1) "Annual amount of municipal debt payments for each municipality in each separate year may not exceed 15 per cent of the average annual amount of own revenues and total equalization subsidy for last three years, calculated on basis of data from annual reports for implementation of municipal budget."

<sup>2</sup> Total equalization subsidy.

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At present, mayor of Aksakovo municipality is Eng. Atanas Stoilov (GERB), and this is his sixth mandate in office.

burden, and permanent contraction in own source revenues.

### Perspective

**Stable** outlook for Aksakovo Municipality ratings reflects the opinion of BACR that despite overall unfavourable financial and economic development in country caused by COVID-19 pandemic, Aksakovo Municipality will maintain positive results achieved in 2020. In view of this perspective, BACR believes that in next analysed period the municipality will maintain a relatively stable performance.

Repayment of overdue debts, development of large-scale infrastructure projects, significant growth of own revenues can have **positive** impact on municipality rating.

Rating may be **negatively** affected by increase in overdue liabilities, significant increase in debt

### Main Financial Indicators in BGN

	(BGN)	2020	2019	2018	2017	2016
Income for Local Activities, incl.		11,803,952	9,465,530	11,371,731	10,168,709	7,262,670
Own revenues:		7,989,846	6,768,050	6,180,492	5,710,568	4,646,839
- tax revenues		3,438,996	2,975,685	2,587,020	2,404,954	2,119,548
- non-tax revenues		4,550,850	3,792,365	3,593,472	3,305,614	2,750,584
Subsidies and transfers for local activities		3,814,106	2,697,480	5,191,239	4,456,141	2,615,831
Capital expenditures funded by central budget		3,384,800	7,117,269	3,841,546	1,534,967	1,303,369
Operating result		1,580,171	401,176	738,421	236,302	1,972,387
Operating result before interests payment		1,618,022	428,838	765,989	276,685	2,038,072
Result from investment activity		118,230	-4,981,690	1,078,330	2,577,859	-663,252
Deficit/Surplus for local activities		1,698,401	-4,580,514	1,816,751	2,814,161	1,309,135

### Summary of minutes of Rating Committee

On 18.02.2021 meeting of Rating Committee of BACR - CREDIT RATING AGENCY AD (BACR) was held, at which result of regular review of Aksakovo Municipality credit rating was considered. Members of Rating Committee discussed number of rating factors included in rating model and analysed in rating report, according to Methodology for assigning a credit rating to municipality.

Stable financial performance of municipality during analysed period (2020), which was marked by COVID-19 pandemic, was discussed. It was commented that despite it, municipality has managed to maintain its sustainable development. It was noted, however, that it is largely due to increased tax revenues, resulting in large part from increased tax rates for some of settlements in municipality. It was also reported that municipality continues to be characterized by a relatively low debt burden.

**Rating History of Aksakovo Municipality**

<b>Date of Rating Committee:</b>	<b>04.02.2015**</b>	<b>25.02.2016</b>	<b>16.03.2017</b>	<b>29.03.2018</b>
<b>Date of Publication:</b>	<b>06.02.2015**</b>	<b>26.02.2016</b>	<b>17.03.2017</b>	<b>30.03.2018</b>
<b>Long-term Rating:</b>	<b>BB+</b>	<b>BBB-</b>	<b>BBB-</b>	<b>BBB-</b>
<b>Outlook:</b>	<b>stable</b>	<b>stable</b>	<b>stable</b>	<b>stable</b>
<b>Short-term Rating:</b>	<b>B</b>	<b>A-3</b>	<b>A-3</b>	<b>A-3</b>
<b>Long-term National-scale Rating:</b>	<b>A-(BG)</b>	<b>A (BG)</b>	<b>A (BG)</b>	<b>A (BG)</b>
<b>Outlook:</b>	<b>stable</b>	<b>stable</b>	<b>stable</b>	<b>stable</b>
<b>Short-term National-scale Rating:</b>	<b>A-1 (BG)</b>	<b>A-1 (BG)</b>	<b>A-1 (BG)</b>	<b>A-1 (BG)</b>

\*\*Initial Rating