

**Municipality of  
Aksakovo**

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**Credit Rating of Municipality of Aksakovo**

Date of Rating Committee:	14.12.2018	28.03.2019
Date of Publication:	14.12.2018	29.03.2019
Long-term rating:	<b>BBB-</b> (under review)	<b>BBB-</b>
Outlook:	-	stable
Short-term rating:	<b>A-3</b> (under review)	<b>A-3</b>
Long-term national-scale rating:	<b>A (BG)</b> (under review)	<b>A (BG)</b>
Outlook:	-	stable
Short-term national-scale rating:	<b>A-1 (BG)</b> (under review)	<b>A-1 (BG)</b>

\*For the full rating history, please, see the table at the bottom of the document.

„BCRA – Credit Rating Agency” (BCRA) is the third qualified agency in the EU, registered under the Regulation (EC) 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 the European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

**The BCRA – Credit Rating Agency removes the status "under review" placed in connection with changes in methodology, and affirms the following credit ratings of Aksakovo municipality:**

- **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 by BCRA for assigning of a credit rating to a Municipality is used:**

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

The report has been prepared and the credit rating assigned based on the information, provided by the rated municipality, the Bulgarian National Bank, the National Statistical Institute, the Employment Agency, BCRA`s database, consultants and other sources of public information.

**The political situation** in Bulgaria remains stable. The Government of the Republic of Bulgaria is committed to speeding up the process of joining the euro area by officially submitting a letter of intent. In August 2018, the Council of Ministers approved an Action Plan including measures for realizing Bulgaria's intentions to join the Exchange Rate Mechanism II and the Banking Union, which to take place in July 2019.

In the first half of 2018, the **Bulgarian economy** slowed down to 3.1% (3.6% in 2017). Domestic demand (consumption and investment) contributed positively to GDP dynamics. Backed by the favourable development of the labour market and the growth of lending, household consumption increased by 7.9% on an annual basis in the first half of 2018. Gross fixed capital is significantly accelerating, reporting an annual growth of 8.5% compared to 3.3% for the corresponding period in 2017. On the other hand, net exports had a negative contribution to the GDP growth in the first half of 2018.

The **gross external debt** at the end of August 2018 amounted to EUR 33,805 million or 61.1% of the projected GDP, increasing in nominal terms by EUR 408 million compared to the end of 2017. The share of external debt of the public sector

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decreased to 18.2%, while that of the private sector rose to 81.8% of total external debt.

As of the end of August 2018, the BNB's **international reserves** amounted to EUR 23 960 million and provided 160.7% coverage of the monetary base, a solid buffer used by the central bank to ensure the stability of the currency board.

The **foreign direct investment** flow to the country continues to decrease to 0.4% of GDP for the period January - August 2018, a nominal decline of 71.6% compared to the corresponding period of the past year.

In the first half of 2018, the **labour market** marks a favourable development. Labour incomes in the economy retain their upward trend. In the first half of 2018, the average gross wage in Bulgaria reached BGN 1 101 per month (~EUR 563 per month), nominally increasing by 7.6% compared to the same period in 2017. Annual minimum wage hikes in the country continued to be a major factor for wage growth in some economic activities. Gross base remuneration was raised by 11% to BGN 510 per month from the beginning of 2018, also has an analogous impact on labour costs.

The **price level** in Bulgaria continues to rise. In September 2018, the annual inflation rate (measured by the HICP) reached 3.6%, and the average annual inflation for the last 12 months accelerated to 2.3%.

The prices of market services, backed by the strong domestic demand, maintain their upward dynamics and have a major contribution to the rise in the price level in the country, and additional pro-inflationary pressure is generated by the increase of some administratively regulated prices. Among the external factors, the rise in the price of oil and other major goods on the international markets, which is incorporated in the prices of food and energy goods, has a significant contribution.

**Public finance** indicators are improving, backed by the robust economic activity in recent years. In the period January - August 2018, total budget revenues under the Consolidated Fiscal Programme (CFP) increased by 11.6% compared to the same period of the previous year, with the tax revenues being the main driver. Tax revenues (including social security contributions) grew by 10.0% on an annual basis summing up to 82.3% of total CFP revenues for the period. The steady increase in revenues from income tax and social

security contributions reflected the favourable labour market developments, the increase in the pension contribution by 1 pp, as well as the increase of the minimum wage and the minimum insurable income. Proceeds from indirect taxes were favoured by consumption growth. The budget balance as of August 2018 posted a surplus for BGN 2 388 million or 2.2% of projected GDP, compared to a surplus of BGN 2 151 million or 2.1% of GDP in the corresponding period of 2017. The CFP for 2018 set a budget deficit target at 1.0% of GDP but based on the budget execution so far we expect 2018 to be the third consecutive year with a deficit projected by law but an actual budget surplus achieved.

The **budget framework for 2019** envisages a deficit under the CFP amounting to 0.5% of GDP, and the updated mid-term forecast reaffirms the balanced budget objectives in 2020 and 2021. The government plans 10% increase in the funds for wages and contributions in the budget sector as from 2019, while the wage hike in the education sector would be 20% in line with the existing government commitment. The minimum wage in the country is scheduled to reach BGN 560 per month. Pensions are set to increase by 5.7% from July 1, 2019, and their maximum amount would reach BGN 1 200. Other measures with an impact on the insurance policy include an increase in the maximum insurable income to BGN 3 000 and an increase of the minimum insurable income for the self-insured persons to BGN 560.

The **government debt** follows a positive downward trend both in nominal terms and as a share of GDP. At the end of August 2018, government debt amounted to BGN 22 320 million (20.6% of projected GDP). The debt decreased nominally by BGN 1 215 million compared to the end of 2017 due to regular repayments and absence of new obligations during the year. The low government debt level is assessed as a positive factor also in comparison with the other EU countries. As of the end of Q2 2018, the consolidated debt of "General Government" sector amounted to BGN 24 815 million or 23.8% of GDP. The country has a significantly lower level of government debt than the Maastricht convergence criterion of 60% and is among the three EU countries with the lowest government debt level, being outpaced only by Estonia and Luxembourg.

**Bulgarian government securities** achieve relatively low **yield** for the region. The yield on the

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long-term benchmark issue (with a maturity of 10Y and 6M), based on actual concluded deals on the secondary market, fell beneath 1% for the first time in January 2018 and reached 0.81% in August, which is the lowest monthly value of the long-term interest rate for convergence assessment purposes reported so far.

**The banking system** remains stable. Liquidity and capital adequacy ratios of the banking system remain high as well as savings from households and non-financial corporations continue to contribute to expanding the amount of banks' deposit base. In line with expectations, however, lending has been more active since the end of 2017, and by the end of June 2018, gross credit portfolio of the banking system annually increased by 6.1% - a record high value for the past five years. Household loans, whose growth accelerated in both consumer and housing loans, contributed most to growth. The structure of bank assets remained dominated by cash on hand and loans. The quality of bank portfolios continues to improve, which is evidenced by the decreasing ratio of the gross non-performing exposures to the gross value of loans, which, however, remains relatively high (8.5%). There have been some structural changes concerning ownership in some banks, a further outflow of the Greek capital and the ongoing consolidation in the system.

The European Central Bank plans to execute asset quality review and stress tests of Bulgarian banks in 2019 to ensure a smooth transition to the Banking Union.

Since 2016, when the overdue liabilities of the municipality increased by 19.2%, in 2017, they declined by 30.0% down to BGN 146.1 thousand (189.9% in 2016). According to the data of the Ministry of Finance, at the end of 2017, the number of municipalities eligible for financial recovery has reduced. With an average collection rate of 70.70% for the country at the end of 2017, 112 municipalities (42.26%) report lower parameters (119 for 2016). The municipalities that meet three or more of the criteria for classification as municipalities in financial difficulties for 2018 are 13 (4.9% of all municipalities), and for 2017, they are also 13 (12.1%). 21 municipalities in 2018 will drop from the list for financial recovery, as is assumed that the adopted measures and recovery plans have led to positive results.

In 2017, the population in the municipality of Aksakovo registered a decline of 1.2%, while the dynamics in the country are more favourable, although remained negative as well.

The population density in the municipality of Aksakovo remained almost unchanged in 2017 compared to the preceding year (at a level of nearly 45), which continues to be significantly lower than the national average.

In terms of unemployment, it should be noted that at the beginning of 2019, the municipality of Varna registered a record-low rate for the last ten years (2.8%).

The production of the companies, operating in the municipality, recorded a growth of 12.6% on an annual basis. A major contributor is the manufacturing companies, holding a major share of 68.2%.

In terms of the surplus for local activities, the indicator is volatile. In 2018, it registered a level of 16.0%, while in the previous year was 27.7%.

The income for local activities retained their positive trend and in 2018, the registered growth was 11.9% compared to the preceding year, including 8.2% increase of own revenues. The tax revenues registered an upward trend as well, which in 2018 reached BGN 2 587 thousand (7.6%).

The income from municipal taxes is dominating the non-tax revenues, holding a share of 19.0% of the income for local activities. The revenues from taxes are volatile and in 2018, they marked a decrease of 13.2%. The decline is in line with the decline in revenues from technical services tax (4.9%), as well as from other municipal taxes (61.8%).

The revenues from property sale retain their upward trend in the past three years, which is not positively assessed, given the volatile and irregular nature as a revenue source.

In 2018, albeit the minimum pace, the upward trend of the current revenues for local activities and co-financing ended and registered a decline of 1.8%. The downward trend in wage and social security expenditures has been interrupted, and in 2018 they increased by 14.2% on an annual basis. There was a decrease in maintenance costs of 5.2% on an annual basis.

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In 2018, the municipality of Aksakovo reported capital expenditures at the amount of BGN 3 842 thousand, a rise of ~150%. One should note that the rate is the largest registered investment growth for the municipality in the last several years.

The structure of the expenditures by functions is still dominated by the costs for spatial planning, accounting of 7.9% share, mostly unchanged compared to the preceding year. Second, as a share are the costs for common state services, a rate of 16.5%, which is declining by 1.9 pp on an annual basis.

The investments in education amount at BGN 741 thousand and account for 19.2% of the total capital expenditures. The major investments are made in "Project, author's supervision and execution of construction work for Repair and reconstruction of a fence of kindergarten "Druzha" and construction of extension and additional storey to the existing building of kindergarten "My Childhood".

The current development costs registered a decline of 5.0% on an annual basis but we should take into account that the level reached in 2017 is the highest registered one. As in the preceding year, the costs for cleaning services are the largest share – 68.7% (63.9% in 2017), reporting a slight growth of 1.7%.

Next are the costs for construction, repair and maintenance of the street network (a share of 12.0%), which are significantly lower on an annual basis (a decline of 28.4%).

The capital expenditures by function for 2018 are at the amount of BGN 2 549 thousand – 66.4% of the total capital expenditures. Most funds were invested in water supply and sewerage (64.5% of investments in the function). Their growth multiplies compared to the previous period.

Their increase compared to the previous year amounts to 16.4%, as BGN 504 thousand are spent on renovation of the regional landfill for non-hazardous waste. The municipality spent BGN 1,267 thousand for completion of domestic sewerage and replacement of part of the water supply network in the Ignatievo town - stage 1.

The comparative analysis shows that in most indicators the municipality of Aksakovo outpaces both the group of its direct competitors (municipalities with a similar population and the national average). According to the other

indicators, the municipality is close to the average for the country and the reference group.

Mayor of Aksakovo municipality is Eng. Atanas Stoilov (PP GERB). Deputy Mayors remain Ruska Ilieva and Eng. Krasimira Diankova.

The collection of the main revenue items in 2018 is as follows: real estate tax – 67.17%, waste tax – 71.0% and vehicle tax – 75.0%. The total collection rate for the year amounts at 71.0%.

The municipality has signed a loan agreement with UniCredit Bulbank at the amount of BGN 5,000 thousand with a term of 10 years, a two-year grace period, and an interest rate of 1%.

BCRA prepares a financial forecast of the municipality for the period 2018-2020. The obtained results show that in case of development, similar to the forecast, the municipality will preserve a sound financial situation.

*Favourable impact on the rating of the municipality can have an increase in own revenues, the lack of arrears, a stable increase in tax revenues, debt reduction.*

*A significant increase in debt and arrears, as well as the realisation of a negative operating result, could have a negative impact.*

**Main Financial Indicators**

<i>(in BGN)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Income for local activities, incl.	11 371 731	10 168 709	7 262 670
Own revenues	6 180 492	5 710 568	4 646 839
- Tax revenues	2 587 020	2 404 954	2 119 548
- Non-tax revenues	3 593 472	3 305 614	2 750 584
Subsidies and transfers for local activities	5 191 239	4 456 141	2 615 831
Capital Expenditures	3 841 546	1 534 967	1 303 369
Operating result	738 421	236 302	1 972 387
Operating result before interests	765 989	276 685	2 038 072
Result from investment activity	1 078 330	2 577 859	-663 252
Deficit/surplus for local activities	1 816 751	2 814 161	1 309 135

**Resume of the Minutes of the Rating Committee:**

*The members of the Rating Committee reviewed the credit rating report of the Municipality of Aksakovo and discussed the changes in the factors determining the credit rating.*

*The development of the companies, operating in the municipality, the positive operating result, the favourable positioning of the municipality compared to other municipalities were pointed out as well as the lack of overdue liabilities.*

*Given the specific risk profile and the situation of the general legal regulation of the municipalities in Bulgaria, the awarded basic rating is BBB-. The long-term national-scale rating A (BG) and the short-term national-scale rating A-1 (BG) are awarded based on the positioning of the municipality compared to the other municipalities in Bulgaria.*

**CREDIT RATING**

**Municipality of Aksakovo**

Long-term / Short-term rating: **BBB-/A-3 (outlook: stable)**

National-scale rating: **A (BG)/ A-1 (BG) (outlook: stable)**

**March 2019**

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*Rating History*

Credit rating of Municipality of Aksakovo	Initial rating	Review	Review	Review
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)