

**Municipality of
Aksakovo**

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Credit rating of Municipality Aksakovo	Initial Rating	Update	Update	Review
Date or 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
National-scale long-term rating:	A- (BG)	A (BG)	A (BG)	A (BG)
Outlook:	stable	stable	stable	stable
National-scale short-term rating:	A-1 (BG)	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 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 entirely 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) retains the assigned ratings to Municipality of Aksakovo as follows:

- **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 (https://www.bcra-bg.com/files/Municipality_Methodology_2014_en.pdf).

BCRA uses information provided by the rated municipality, Ministry of Finance, National Statistical Institute, 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.

During 2016, the growth rate of the economy in Bulgaria accelerates, as from 3.6% in 2015, it reaches 3.9% in 2016. In the first half of 2017 the economy in the country increases by 3.7% compared to the same period of 2016.

The started after 2013 uptrend in the reserve assets of the BNB is confirmed, which is a solid buffer for guaranteeing the stability of the currency board.

During 2016, Direct foreign investment flows decrease to 1.4% reaching the lowest value for the last five years. The preliminary data report that the decline in the investment flows continue in the first half of 2017.

The data for the labour market in the first half of 2017 report high indicators for economic activity and employment of the population. The trend in labour incomes remains increasing. The employment rate reaches its pre-crisis levels (6-7%).

Since June 2017, the total average annual changes in prices have increasing positive values and reach 0.6% as of the end of September.

The state budget balance improves. The deficit in the size of 2.3% of GDP in 2015 reduces to 1.2% of GDP as of the end of 2016 (envisaged size of 1.9% in the Law on the State Budget of the Republic of Bulgaria).

The budget balance on Consolidated Fiscal Programme in the draft budget for 2018 is a 1.0% GDP deficit. The government continues its policy of gradual consolidation and achieve a balanced budget in 2020. During the forecast period no substantial changes are planned in the tax policy.

The government debt (27.4% of GDP at the end of 2016, 23.6% of the forecast GDP at the end of September 2017) continues to be a positive factor for Bulgaria¹. The Ministry of Finance expects a decline in the government debt to 22.3% of GDP as of the end of 2018 and reaching 20.0% at the end of 2020.

For the period of updating, the banking system remains stable in the country and is characterized by:

- Retention of the substantial share of foreign capital in total capital in the banking system;
- The assets in the banking system continue to increase in the last two completed years and in the first half of 2017;
- The ascending trend in the profit remains in the banking system, observed in the previous three years as well. In the mid-2017, the reported profit by the banks reports a substantial move down compared to a year earlier (a decline of 14.6% in nominal value compared to substantial growth of 53.7% as of Q2 2016), as it should be taken in consideration that the indicated is not due to negative trends with regard to the generated income and/or expenses of the bank, and is a result of the circumstance that in the first half of 2016 a substantial part of the realized incomes has a single character (more than 150 million BGN are added as a result of the completion of the transaction for Visa Europe);
- In 2016 and first half of 2017, the uptrend in borrowed funds in the form of deposits retains (excluding credit institutions);

- After delay in the fall in lending in 2015, in 2016 there is a slight positive change in the size of given loans and advance payments to non-financial sector (0.6% on a yearly basis), and in the first half of 2017 the registered growth accelerates to 3.4% compared to the same period for 2016. The Ministry of Finance foresees this process to continue in the period 2017-2020;
- The non-performing loans decrease to 12.9% of gross credit portfolio as of the end of 2016 (14.5% as of 2015). A continuous improvement in the quality of the portfolio is observed in the first half of 2017 (by nearly 2 p.p. in comparison with a year earlier), as the level of non-performing exposures remains relatively high – 12.1% of gross credit portfolio;
- High levels of liquidity and capital adequacy continue to be reported.

For the favorable state of the banking sector indicate the results of the held asset quality review and stress tests for sustainability of banks in Bulgaria in 2016. The results are announced in August 2016 and show that the banking sector is stable, well capitalized, and public support for banks with state resources is not needed.

The size of the own incomes of the municipalities in the country increases for six consecutive year in 2016, as for this period the cumulative growth is 40.2%, and for the last year – 9.5%, compared to 4.0% for the previous year. The uptrend remains the same, defined with the incomes from local taxes and fees, as their rates are, respectively, 15.7% and 5.4% and exceed the reported for the previous year (5.2% and 2.2%). The ownership incomes increase – 4.6%, compared to 6.8% for 2015.

After two consecutive years of substantial growth (21.0% for 2013 and 20.8% for 2014), in 2015 a decline of 2.0% is observed in the incomes from sale of municipal property, and in 2016 the decline is 19.4%. This, however, is a negative factor with view of the single character of this source of income.

After growth of 15.3% for 2014, over the next year the level of the expenses for local activities and financing the state remains unchangeable (growth below 1%). With the largest share in their structure (47.6%) remain the maintenance expenses, which report an increase of 4.8% on a yearly basis. In 2016, the expenses for local activities and financing decrease by 9.3%.

¹ The maximum permissible value of the Maastricht convergence criterion is 60%

 <p>BCRA CREDIT RATING AGENCY</p>	<p>CREDIT RATING Municipality of Aksakovo Long-term/ short-term rating: BBB-/A-3 (outlook: stable) National-scale ratings: A (BG)/ A-1 (BG) (outlook: stable) March 2018</p>
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After two consecutive years of reduction of the overdue liabilities of the municipalities, in 2015 their increase is observed (19.2% on a yearly basis) and their size reaches 189.9 million BGN (159.3 million BGN at the end of 2014). As of the end of 2016, the overdue liabilities slightly decrease to 184.4 million BGN.

At the end of 2017, the overdue liabilities on budgets are 146.1% million BGN. They are formed by 143 municipalities (53% out of the total number of municipalities). Over 46% - or 122 municipalities of all – end the fourth quarter of 2017 without budget overdue liabilities. A decline of the overdue liabilities report 34% (89 municipalities), as the total size of the decrease of the overdue liabilities compared to the end of 2016 is 51.2 million BGN for the same period 24% of the municipalities (78 municipalities) increase their overdue liabilities within a year totally by 12.9 million BGN.

In 2016, Municipality of Aksakovo continues to be characterized by a positive change in the population (0.3%), less than the previous year, unlike the average for the country for which the change is negative (-0.6%). The population density remains lower compared to the average for the country (by 31.0% for 2016).

The share of active population remains very close to the average for the country. A positive factor is the higher share of under active population in Aksakovo compared to the average for Bulgaria.

After substantial growth in 2015, in 2016 the output of the companies in Municipality of Aksakovo reports a decline of 1.4%. Leading industry with a share of 67.8% is manufacturing. During the period the investments in FTA of the companies in the municipality continue to reduce, with a lower growth rate (8.7%). The decline is in line of the sector Agriculture, Forestry and Fisheries (AFF) (a 67.7% decline). By this indicator manufacturing is a lead indicator (by a share of 58.3%), which, however, is characterized by substantial growth (118.0% on a yearly basis).

In 2017, Municipality of Aksakovo reports a positive result from operating activity in the size of 236 thousand BGN, which is 4.1% of the own incomes for the same period. This result is by 88.0% less compared to the realized in the previous year. The result from investment activity is also positive, as a result of which the municipality reports a positive net cash flow (2 814 thousand BGN).

In 2017, the incomes for local activities of Municipality of Aksakovo increase substantially – by 40.0%, in line of the own incomes (growth 22.9%), as well as subsidies and transfers (growth 70.4%). The increase in tax incomes come to 13.5%. To a great extent, it is due to the lead item – real estate tax, which increases – 32.1%.

The non-tax incomes of Municipality of Aksakovo increase by 30.8% on a yearly basis, and the main item are the taxes with a share of 69.2% of the non-tax incomes. The incomes from taxes are characterized by a substantial growth of 32.1%, which is a positive factor. The incomes from sales of real estate report substantial growth of 63.4% on a yearly basis in line of sales of intangible fixed assets (a multiple increase), as well as sale of land (67.7%), while the tangible fixed assets report a decline of 25.3%. At the end of 2017, Municipality of Aksakovo reports overdue liabilities in the amount of 9.6 thousand BGN, which is a substantial improvement compared to the period a year ago when 353.5 thousand BGN is reported.

In 2017, Municipality of Aksakovo reports substantial growth of the expenses for local activities and financing state activities – 23.5%, compared to 3.2% for 2016 and 11.9% for 2015. The increase is mainly in line of the public utility expenses which increase by 57.9% on a yearly basis. As a result of the dynamics the share of the public utility expenses also increases reaching 57.5% (45.0% for 2016) at expense of almost all other functions. Second in importance in 2017 are the expenses for total state services whose share decreases by 7.4 p.p. to 18.4%.

In 2017, the current public utility expenses increase for second consecutive year as the reported annual growth is 51.7%, and the share of these expenses is 54.0%. With the biggest weight (63.9%) are cleanliness expenses, which increase by over 150% compared to the previous year and come to 2 009 thousand BGN. The increase is related to the regional waste depot facilities on the territory of the municipality and carried out by Municipality of Varna (which is a user of the depot facilities) a major infrastructure project, and as a result of the project – cleaning the terrain and growing the landfilled waste. Next in importance are the current expenses for construction, repairs and maintenance of the street network (a share of 16.0%), and a decline of 27.1%.

The capital expenses by the function increase for third consecutive year as the reported annual growth is 79.0%, and the cumulative for this period – over 350%. The major part (64.7%) are spent on activities of waste management. 641 thousand BGN of the amount is directed for recultivation of the regional depot for non-hazardous waste of the Municipalities of Varna and Aksakovo and violated terrains with solid waste on the land of Vaglen village on the territory of the municipality.

The comparative analysis prepared by BCRA compares main financial indicators of Municipality of Aksakovo (calculated per capita) with the average for the country, and with municipalities with similar population. Regarding the overall incomes and incomes for local activities, the municipality has a position around or below the average for the two groups. The same applies for the capital expenses. Concerning the own incomes Aksakovo takes a favourable position. The structure of the own incomes is characterized by a higher share of the local taxes and fees in a comparative aspect which is a positive factor.

The Mayor of Municipality of Aksakovo during the period of updating is Eng. Atanas Stoilov (PP GERB), elected at the last local elections in the autumn of 2015. The Municipal Council continues to be composed of 17 members. Deputy mayors continue to be Ruska Ilieva and Eng. Krasimira Dyankova. The achieved collection of real estate tax in 2017 is 67.1%, and domestic waste tax - 68.0%.

BCRA makes a financial forecast of the municipality for the period 2018-2020. The results show that in development similar to the forecast, Municipality of Aksakovo will realize a positive operating result in the entire forecast period. The free cash flow is also positive.

As long as the rating of Municipality of Aksakovo is limited by the sovereign rating of Bulgaria, favourable influence on the rating might cause stable increase in own incomes and growth in the shares of the tax incomes and incomes from taxes, increase in collection of the main income items, realization of key infrastructure projects.

The rating could be negatively affected by growth in the overdue liabilities, deterioration of the structure of incomes for local activities, formation of a negative operating result.

Main financial indicators in BGN

(BGN)	2017	2016	2015
Incomes for local activities, incl.	10 168 709	7 262 670	2 543 421
Own incomes	5 710 568	4 646 839	4 260 408
- tax incomes	2 404 954	2 119 548	1 816 121
- non-tax incomes	3 305 614	2 750 584	2 555 293
Subsidies and transfers for local activities	4 456 141	2 615 831	-1 716 987
Capital expenses with budgetary funds	1 534 967	1 303 369	1 231 138
Operating result	236 302	1 972 387	268 047
Operating result before interests	276 685	2 038 072	328 974
Result from investment activity	2 577 859	-663 252	-3 484 174
Deficit/surplus for local activities	2 814 161	1 309 135	-3 216 127

Resume of the Minutes of the Rating Committee:

The members of the Rating Committee reviewed the credit rating report of Municipality of Aksakovo and discussed the factors, determining the credit rating. The focus was on the demographic characteristics of the municipality, the achieved results by the companies in the municipality. The substantial reduction in the overdue liabilities, positive operating result, growth in tax incomes, financing capital expenses, as well as the results from the forecast for a third-year period.

With view to the specific risk profile of the municipality and the state of legal regulation of municipalities in Bulgaria, the base rating is assigned to BBB-. The national-scale long-term rating A (BG) and the short-term A-1 (BG) were assigned on the basis of the position of the rating characteristics of the municipality in a comparative aspect compared to the other municipalities in Bulgaria.