

ACRA AFFIRMS AA-(RU) TO THE KRASNODAR KRAI, OUTLOOK STABLE, AND AA-(RU) TO ITS BOND ISSUES

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The credit rating of the **Krasnodar Krai** (hereinafter, the Region) is based on the Region's moderately low debt load, moderately high operational efficiency of the budget, considerable diversification of tax revenues, and a significant volume of funds in the Region's accounts. The rating is constrained by the medium values of some socioeconomic development indicators and the budget's growing need to use accumulated liquidity to finance capital expenditures.

The Region is part of the Southern Federal District and has a population of around 5.8 mln (4% of Russia's population). The Region's gross regional product (GRP) was RUB 3.2 tln (around 3% of the aggregate GRP of Russia's regions) in 2021. According to the Region's estimates, its GRP was RUB 3.5 tln in 2022. The Region is a consistent leader in terms of agricultural production in Russia. It is also a major resort destination for Russians and an important transportation hub.

KEY ASSESSMENT FACTORS

Moderately high budget profile indicators and a growing need to use accumulated funds. The averaged¹ ratio of the current account balance to current revenues for 2020–2024 will amount to 12%. The current account balance will be negative in 2023, which indicates a need to resort to borrowed funds or use accumulated liquidity to finance part of current expenditures.

The share of capital expenditures in total expenditures averaged for 2020–2024 will amount to around 24%. Flexibility of budget expenditures is assessed as high because over the past four years, capital expenditures were, on average, about 75% independently financed by the Region. The share of tax and non-tax revenues (TNTR) averaged for the abovementioned period in the Region's revenues (excluding subventions) will amount to 79%.

The ratio of the modified budget deficit (MBD) to current revenues averaged for 2020–2024 will amount to -11%, while the MBD is expected to be very negative in 2023 due to expected significant growth in the expenditure side of the budget this year. The Region will have to use a considerable part of its accumulated funds held in accounts and raise financing, which according to the latest version of the budget law, will mainly consist of budget loans.

In 2023, the Region expects budget revenues to grow by 2% vs. 2022. This growth is expected due to a 6% increase in tax revenues, in particular, corporate income tax (+6%) and personal income tax (+8%). The Region's budget expenditures are planned to increase by 32% year-on-year, with current expenditures and capital expenditures growing by 27% and 47%, respectively (according to the cash plan). In this case, the deficit may reach record values. The Region intends

¹ Hereinafter, averages are calculated according to the [Methodology for Assigning Credit Ratings to Regions and Municipal Entities of the Russian Federation](#).

to finance the expected deficit using accumulated liquidity as well as borrowings, including budget loans to finance infrastructure projects.

According to budget execution data for seven months of this year, revenues have grown by around 35% year-on-year, while corporate income tax proceeds, personal income tax proceeds, and expenditures have increased by 61%, 13%, and 30% compared to the same period last year, respectively. The current budget surplus stands at an impressive 22% of TNTR, which allows us to expect that the annual deficit may be lower than the current target. Thanks to this, the need to obtain borrowed funds will decline and the Region will be able to retain part of its accumulated liquidity.

Moderately low debt load. In 2022, the Region's debt increased by 13% and stood at RUB 112.6 bln as of January 1, 2023. In 2023, the Region partially redeemed two of its bond issues to a total of RUB 5.5 bln and acquired budget loans worth around RUB 2.3 bln, including a RUB 1.3 bln infrastructure budget loan and a RUB 1 bln loan to replenish the balance of funds in the single budget account for the purpose of advance financing. Therefore, as of September 1, 2023, the Region's public debt amounted to RUB 109.3 bln. The Region's debt is primarily made up of budget loans (83%), and bonds account for the rest.

As of the start of this year, the Region had to repay 6% of its debt (1% as of September 1, 2023) and 12% in 2024.

Due to the attraction of budget loans for capital purposes, ACRA expects the Region's debt load to grow by the end of the year. Excluding the growth of revenues achieved over seven months of this year, the ratio of debt to current revenues may grow from 29% in 2022 to 39%.

The ratio of debt to GRP as of the end of this year will be around 4%, while the ratio of interest expenditures to total budget expenditures averaged for 2020–2024 (excluding subventions) will be 1%.

High budget liquidity. The Region meets its expenditure obligations on time and receives income from temporarily free funds — interest income exceeded 3% of TNTR in 2022. As of January 1, 2023, the Region's budget funds held in bank accounts exceeded average monthly expenses in 2022 by more than two times. Since the start of this year, the volume of the Region's liquidity has grown by 1.5 times and exceeds current public debt by 14%.

The budget's liquidity ratio (excluding funds of autonomous and budgetary organizations) for 2023 will be around 68%. In ACRA's opinion, accumulated liquidity will be sufficient to finance a significant part of the projected 2023 budget deficit, and also to repay the planned amount of debt in this period.

Diversified economy with development indicators close to the national averages. The main industries that generate the major share of the Region's GRP include transport and storage (large pipelines run across the Region), trade and repairs, and agriculture (the Region is the leader in Russia in terms of agricultural production). Additionally, manufacturing (including the food industry, whose growth prospects are determined by agricultural processing, and oil refining) and services also contribute greatly to the Region's GRP.

The largest share of tax revenues in the regional budget is generated by the wholesale and transport sectors. According to ACRA's estimates, in 2019–2022, these sectors generated about 9% and 13% of the regional budget's tax revenues, respectively.

GRP per capita remains below the national average mainly due to the Region's large population. The ratio of the Region's per capita GRP to the national average per capita GRP was 69% averaged for 2018–2021. The ratio of the averaged monthly salary to the regional subsistence minimum for 2019–2022 exceeded 3.3. Unemployment in the Region was 3.5% in 2022, and it amounted to 4.3% averaged for 2019–2022.

KEY ASSUMPTIONS

- Budget execution as stipulated by the current version of the budget law;
- Attracting infrastructure budget loans in the current year to finance part of the capital expenditures of the forecast period;
- Using free liquidity in the Region's accounts to finance this year's expected deficit;
- Maintaining a conservative debt policy.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Debt to current revenues ratio consistently below 30%;
- Reduced need of the budget to use accumulated funds;
- Budget deficit significantly lower than the target in 2023.

A negative rating action may be prompted by:

- Further growth of the Region's debt load coupled with significant growth in the share of short-term debt;
- Increased need to use accumulated liquidity to finance capital expenditures;
- Significant decrease in budget liquidity.

ISSUE RATINGS

Krasnodar Krai, 35001 (ISIN RU000A0JXYS9), maturity date: August 9, 2024, issue volume: RUB 10.0 bln — **AA-(RU)**.

Krasnodar Krai, 35002 (ISIN RU000A0ZZ8X4), maturity date: June 3, 2025, issue volume: RUB 10.0 bln — **AA-(RU)**.

Krasnodar Krai, 35003 (ISIN RU000A1011B5), maturity date: November 12, 2026, issue volume: RUB 10.0 bln — **AA-(RU)**.

Rationale. In ACRA's opinion, the bond issues of the Krasnodar Krai are senior unsecured debt instruments, the credit ratings of which correspond to the credit rating of the **Krasnodar Krai**.

REGULATORY DISCLOSURE

The credit ratings have been assigned to the Krasnodar Krai and the bond issues of the Krasnodar Krai (RU000A0JXYS9, RU000A0ZZ8X4, RU000A1011B5) under the national scale for the Russian Federation based on the [Methodology for Assigning Credit Ratings to Regions and Municipal Entities of the Russian Federation](#) and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). The [Methodology for Assigning Credit Ratings to Financial Instruments under the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit ratings of the Krasnodar Krai and the government securities of the Krasnodar Krai (RU000A0JXYS9) were published by ACRA for the first time on October 18, 2017. The credit ratings of the government securities of the Krasnodar Krai (RU000A0ZZ8X4, RU000A1011B5) were published by ACRA for the first time on October 17, 2018 and November 12, 2019,

respectively. The credit rating of the Krasnodar Krai and its outlook as well as the credit ratings of the government securities of the Krasnodar Krai (RU000A0JXYS9, RU000A0ZZ8X4, RU000A1011B5) are expected to be revised within 182 days following the publication date of this press release as per the [Calendar of sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on data provided by the Krasnodar Krai, information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), and ACRA's own databases. The credit ratings are solicited and the Administration of the Krasnodar Krai participated in their assignment.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which were, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to the Administration of the Krasnodar Krai. No conflicts of interest were discovered in the course of credit rating assignment.

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