

ACRA AFFIRMS AA(RU) TO THE CHELYABINSK REGION, OUTLOOK STABLE, AND AA(RU) TO BOND ISSUES

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The credit rating of the **Chelyabinsk Region** (hereinafter, the Region) is based on the Region's low debt load, smooth debt repayment schedule, significant size of funds held in accounts, and the budget's minor need to use accumulated liquidity to finance capital expenditures. The rating is constrained by the Region's economic development indicators, some of which are below national averages, as well as the regional budget's dependence on revenues generated by the dominant industry.

The Chelyabinsk Region is located in the Ural Federal District. Three and a half million people live in the Region, which is just over 2% of the Russian population. The Region's GRP amounted to RUB 1.546 tln in 2019 or about 1.7% of the total GRP of Russia's regions.

KEY ASSESSMENT FACTORS

Balanced budget indicators and little need to use accumulated funds. The averaged¹ ratio of the balance of current operations to current revenues of the Region in 2018–2022 will amount to 22%. The balance of current operations will remain positive in 2021, which indicates that current revenues are sufficient to finance current expenditures.

The averaged share of capital expenditures in total expenditures for 2018–2022 will amount to around 32%, which corresponds to the highest level of flexibility of budget expenditures according to ACRA's methodology. On average, capital expenditures are 75% financed by the Region using its own revenues.

The averaged share of tax and non-tax revenues (TNTR) in the Region's revenues (excluding subventions) will amount to 80% in 2021 (the indicator for 2020 was 76%). On the one hand, this is due to a predicted decline in the volume of transfers, and on the other hand, it is related to a significant increase in internal revenues.

The ratio of the modified budget deficit to current revenues for 2018–2022 will amount to -2%, which is considerably higher than the indicator for 2017–2020 (-8%). This is mainly due to surplus profits from the metals industry. Nevertheless, ACRA notes that the Region's budget still has a minor need for using accumulated funds to finance capital expenditures.

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

Over 8M 2021, the Region's revenues exceeded revenues recorded in the same period in 2020 by more than 40%. The budget's TNTR in this period increased by 65% compared to 2020 — profit tax grew by more than 2.5 times, taxes on total income increased by 58%, and personal income tax increased by 14%. The size of transfers from the federal budget was practically unchanged compared to the same period in 2020, along with budget expenses (growth amounted to around 0.5%). The intermediate budget surplus for the aforementioned period was 33% of TNTR received over the first eight months of the year (a year earlier there was a deficit of just under 10% of TNTR).

According to the Region's projections, this year TNTR may increase by 48% at the same time as transfers declining by 17% compared to last year's indicator. In ACRA's opinion, budget expenditures will match expenditures in 2020. Should this happen, the Region will execute the budget with a surplus, which will enable it to increase its account balances by the end of the year.

Low debt load and a smooth debt repayment schedule. As of October 1, 2021, the Region's debt had declined by RUB 0.5 bln since the start of the year and stood at RUB 25.2 bln. The absolute value of debt has fallen this year due to the write-off of some of the Region's state guarantees. As of October 1, 2021, the bulk of debt (56%) is made up of budget loans, 28% of the debt portfolio is bonds, while the remainder is the Region's state guarantees. The Region's debt repayment schedule is well balanced, and there are no significant peak repayment periods. Over the next four years, the Region will have to repay or refinance 25% of its debt. RUB 0.7 bln (around 3% of total debt) must be repaid by the end of 2021.

In 2021, the Region applied to participate in the program for the provision of infrastructure budget loans from the federal budget in accordance with the adjusted limits, and also plans to take part in the infrastructure construction program organized by JSC "DOM.RF" (ACRA rating [AAA\(RU\)](#), [outlook Stable](#)).

As of the end of 2020, the ratio of the Region's debt to its current revenues was 15%. ACRA expects this indicator to decline to 11% in 2021, which corresponds to a low debt load according to the Agency's methodology. Interest expenditures are not a burden on the Region's budget — interest expenditures averaged for 2018–2022 will not exceed 0.2% of total budget expenditures (excluding subventions).

Available liquidity will grow thanks to higher tax revenues. Since the beginning of 2021, the Region's account balances have covered monthly budget expenditures by more than 70% on average. As of October 1, 2021, the amount of accumulated funds exceeded RUB 40 bln; in ACRA's opinion, they may be used to finance future deficits. As of July 1, 2021, the Region had no overdue accounts payable. The Region places accumulated liquidity in deposits that generate interest income. The Region did not have any open undrawn credit lines due in more than a year at the start of 2021.

Moderately diversified economy with high concentration on the metals industry. According to ACRA's calculations, more than 30% of the Region's tax revenues may come from metalworking sector, and this share may even increase by the end of 2021. In 2020, eight of the ten largest companies in the Region in terms of revenues operated in areas related to the metals industry. The largest companies in the Region are MMK PJSC, ChelPipe PJSC, and ChMK PJSC.

In 2016–2019, the Region's averaged GRP per capita amounted to 71% of the national average. The averaged unemployment rate for 2017–2020 was 6.2%. In 2020, unemployment in the Region (according to the ILO's methodology) was 6.8%. In 2020, the average monthly salary in the Region was more than three times higher than the regional subsistence minimum.

KEY ASSUMPTIONS

- Execution of the revenue side of the budget in line with the Region's projected parameters;
- 2021 expenses at the same level as 2020 expenses;
- Free liquidity accumulating in the Region's accounts;
- Absolute debt declining by at least 4% in 2021 compared to 2020.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

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

A positive rating action may be prompted by:

- Higher diversification of the economy;
- Lack of need to use accumulated funds to finance capital expenditures.

A negative rating action may be prompted by:

- Operating balance declining below 20% of the volume of current revenues;
- Debt to current revenues ratio exceeding 30%;
- Significant decline in available liquidity coupled with increased spending.

ISSUE RATINGS

Chelyabinsk Region, 35001 (ISIN RU000A102FV5), maturity date: November 30, 2027, issue volume: RUB 7 bln — **AA(RU)**.

Chelyabinsk Region, 35002 (ISIN RU000A102L61), maturity date: December 17, 2027, issue volume: RUB 8 bln — **AA(RU)**.

Chelyabinsk Region, 35003 (ISIN RU000A102L79), maturity date: December 17, 2027, issue volume: RUB 8 bln — **AA(RU)**.

Rationale. In the Agency's opinion, the bonds of the Chelyabinsk Region are senior unsecured debt instruments, the credit ratings of which correspond to the credit rating of the Chelyabinsk Region.

REGULATORY DISCLOSURE

The credit ratings of the Chelyabinsk Region and the bond issues of the Chelyabinsk Region (ISIN RU000A102FV5, RU000A102L61, RU000A102L79) have been assigned 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 Individual Issues of Financial Instruments on the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit ratings of the Chelyabinsk Region and the bond issues of the Chelyabinsk Region (ISIN RU000A102FV5, RU000A102L61, RU000A102L79) were published by ACRA for the first time on December 26, 2017, December 1, 2020, December 21, 2020, and December 21, 2020,

respectively. The credit rating and its outlook, as well as the credit ratings of the government securities of the Chelyabinsk Region, 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 Chelyabinsk Region, 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 Government of the Chelyabinsk Region participated in their assignment.

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

ACRA provided no additional services to the Government of the Chelyabinsk Region. No conflicts of interest were discovered in the course of credit rating assignment.

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