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Key rating assessment factors

Key assumptions

Potential outlook or rating change factors

ACRA affirms A(RU) to Kursk Region, outlook Stable, and A(RU) to bond issue

The credit rating of the [Kursk Region](#) (hereinafter, the Region) is based on a low debt load and a relatively high budget discipline. The rating is restricted by a medium development level of the regional economy.

The Kursk Region is located in the Central Federal District, bordering Ukraine and five regions of Russia. 0.8% of Russia's population live in the Region. The Region's GRP amounts to 0.5% of the total GRP of Russia. The Region is part of the Central Black Earth Region. A part of the Kursk Magnetic Anomaly is located in the Region.

A low debt load coupled with a conservative debt policy, comfortable debt repayment schedule and high liquidity. As of January 1, 2019, the Region's debt included restructured budget loans (57%), bonds (14%) and bank loans (29%). Throughout the year, the Region regularly attracts short-term budget loans through the Office of the Federal Treasury (OFT) in order to save on interest expenses, which temporarily changes the debt structure. As of January 1, 2019, the volume of unused credit limits exceeds the Region's average monthly expenses for 2018. The relative debt load as of the end of 2018 is 65% of the operational balance (which corresponds to a low risk level), and is forecast to amount to 84% of the operational balance in 2019 (which also corresponds to a low risk level). Interest payments and principal debt refinanced annually are not burdensome.

Budget discipline indicators depend on the federal government's support to the agricultural industry. The share of own revenues in the Region's budget will average 74% of the total revenues (excluding subventions) in 2016-2019. Federal subsidies supporting agricultural producers, which the Region has no independent control over and constituting no reserve for cutting capital expenditures in favor of the current expenses, have an impact on the budget structure. As they decline slowly (due to the gradual repayment of subsidized loans), the volume of expenses, attributable to capital ones, is decreasing. At the end of 2018, capital expenditures amounted to 17% with their volume at the end of 2019 projected at 17%. In 2016 and 2017, the ratio was 22-26%.

Moderate economic indicators restrict the rating. Amid a sufficient level of economic diversification and tax revenues (the manufacturing sector accounts for about 20%, agroindustry accounts for about 18%, and mining sector accounts for 8-11% of the annual GRP), the Region's GRP per capita and per capita income are low (around 68% and 84% of the national average in the period from 2014 to 2017).

- Conservative debt policy will be maintained;
- Volume of federal support to the Region's agribusiness will gradually start to decline;
- Mandatory budget expenses will not exceed 75%.

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 :

- Growing operational balance;
- Growing budget liquidity;
- Accelerated growth of the Region's socio-economic development indicators.

A negative rating action may be prompted by:

- Higher share of the Region's mandatory expenses;
- Growth in current expenses given the need to finance them through new borrowings.

Issue ratings

[The Kursk Region, 35001 \(ISIN RU000A0ZYCD1\)](#), maturity date: October 12, 2025, issue volume: RUB 4 bln (outstanding volume: RUB 1.3 bln) — A(RU).

Rationale. In ACRA's opinion, the above bond issued by the Kursk Region is senior unsecured debt instrument, and its credit rating is equal to that of the [Kursk Region](#).

Regulatory disclosure

The credit ratings have been assigned to the Kursk Region and the bond issued by the Kursk Region (ISIN RU000A0ZYCD1) under the national scale for the Russian Federation based on the [Methodology for Credit Rating Assignment to Regional and Municipal Authorities of the Russian Federation](#), and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#). In the process of credit rating assignment to the above issue, the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also applied

For the first time, the credit rating of the Kursk Region and credit rating of government securities of the Kursk Region (ISIN RU000A0ZYCD1) were published by ACRA on September 1, 2017, and October 10, 2017, respectively. The credit rating of the Kursk Region and its outlook as well as the credit rating of government securities issued by the Kursk Region (ISIN RU000A0ZYCD1) are expected to be revised within 182 days following the publication date of this press release in compliance with the [Calendar of planned sovereign credit rating revisions and publications](#).

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

No material discrepancies between the provided data and data officially disclosed by the Kursk Region in its financial report have been discovered.

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

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