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## Key rating assessment factors

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

The credit rating of the [Kursk Region](#) (hereinafter, the Region) is based on the Region's low debt load and moderately high budget profile. The rating is limited by the Region's medium level of economic development.

The Region is a part of the Central Federal District and borders five other regions of Russia as well as Ukraine. The Region is home to 0.8% of Russia's population and accounts for about 0.5% of the country's total gross regional product (GRP). The Region's territory includes part of the Kursk Magnetic Anomaly.

**Conservative debt policy and balanced budget liquidity management.** The Region adheres to a conservative debt policy and has maintained a low-risk debt load over the past four years. In 2020, the ratio of the Region's debt to its current revenues (as per ACRA's methodology) increased from 15% to 18%. According to ACRA's estimates, by late 2021, this ratio should amount to about 20%. As of May 1, 2021, the Region's debt consisted of bonds (11%) and budget loans (89%). Taking into account the Region's low debt load, the amount of repayments is low in absolute terms, and the refinancing risk is minimal. Debt servicing costs are not burdensome for the Region's budget due to the high share of budget loans in the total debt — the ratio of averaged<sup>1</sup> interest expenses to averaged aggregate budget expenditures (excluding subventions) should be 0.3% in 2017–2021. The Region has a sufficient amount of internal liquidity in order to meet its obligations in a timely manner. As of May 1, 2021, the Region's account balances exceeded average monthly budget expenses for 2020 by 1.5 times.

**Moderately strong budget profile.** In 2020, the Region's tax and non-tax revenues (TNTR) declined by 2.6% compared to 2019, however, total revenues increased by 7% due to growth in transfers from the federal budget. The budget's expenses in 2020 increased by 9%, while the budget deficit amounted to RUB 0.6 bln (1.4% of TNTR).

The law on the Region's 2021 budget for foresees execution of the budget with a deficit of RUB 5.1 bln (11.5% of TNTR). This deficit will mainly be financed by funds in the Region's accounts, which were accumulated in previous years.

The averaged share of the Region's internal revenues in its total revenues (excluding subventions) should equal 73% in 2017–2021. The averaged ratio of the current account balance to current revenues for this period should amount to 6%, and the ratio of the average modified budget deficit to average current revenues could be negative at -2%. These figures indicate that the Region's current revenues are high enough to cover current expenses and that there may be a need to attract debt financing for capital expenses. The average share of capital expenses in total expenses (excluding subventions) should stand at 16% in 2017–2021.

**Moderate economic development indicators.** Despite the sufficient level of economic diversification and tax revenues (the maximum share of tax revenues comes from the iron ore mining segment: on average 25% in 2017–2020), the Region's GRP per capita is low and amounted to about 70% of the national average in 2019. Wages exceeded the regional subsistence minimum (for the working population) by 3.3 times in 2020, and the unemployment rate in the Region in 2020 was lower than the national average.

<sup>1</sup> Hereinafter, averages are calculated according to the Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation.

## Key assumptions

- Maintaining a conservative debt policy;
- Decreased expenses if actual revenues are lower than planned;
- Maintaining liquidity at a sufficient level.

## 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:

- Increased operational efficiency of the budget with no need for debt financing;
- Continued growth in internal budget liquidity;
- Faster growth rates of socio-economic development.

### A negative rating action may be prompted by:

- Decrease in available liquidity;
- Debt to current revenues ratio exceeding 30%;
- Growing current budget expenses, and no increase in current revenues.

## Issue ratings

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

**Rationale.** In the Agency's opinion, the bond listed above is a senior unsecured debt instrument, the credit rating of which corresponds to the credit rating 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 Ratings 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](#). 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 the credit rating to the above issue.

The credit rating of the Kursk Region and the credit rating the bond issued by the Kursk Region (RU000A0ZYCD1) were published by ACRA for the first time 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 the bond issued by the Kursk Region (ISIN RU000A0ZYCD1) are expected to be revised within 182 days following the publication date of this press release as per the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned 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), and ACRA's own databases. The credit ratings are solicited, and the Administration of the Kursk 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 Administration of the Kursk Region. No conflicts of interest were discovered in the course of credit rating assignment.

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