

ACRA AFFIRMS AAA(RU) TO THE REPUBLIC OF TATARSTAN, OUTLOOK STABLE

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The credit rating of the [Republic of Tatarstan](#) (hereinafter, the Region) is based on the Region's moderately low debt load and insignificant debt refinancing risks, a strong budget profile with strong operational efficiency, and an insignificant need to use accumulated liquidity to finance capital expenditures. High economic development indicators provide additional support to the Region's rating.

The Region is part of the Volga Federal District and is home to 4 mln people. According to the Region's assessments, its gross regional product (GRP) amounted to RUB 3,689 bln in 2022.

KEY ASSESSMENT FACTORS

Strong budget profile with a low need to use accumulated funds. The averaged¹ ratio of the balance of current operations to current revenues for 2019–2023 will amount to 33%. According to ACRA's expectations, the balance of current operations will remain positive in 2023, which is an indication of the sufficiency of current revenues to finance current expenditures and corresponds to the highest assessment of the operational efficiency of the budget (as per the Agency's methodology).

The averaged share of capital expenditures in total expenditures for 2019–2023 will exceed 43%, which, according to ACRA's methodology, corresponds to the highest level of flexibility of budget expenditures. Capital expenditures are mostly funded by the Region at its own expense. The averaged share of tax and non-tax revenues (TNTR) in the Region's revenues (excluding subventions) for the same period will be 82%.

The ratio of the modified budget deficit averaged over 2019–2023 to current revenues will be -2%. This indicates that the Region finances its capital expenditures mainly from budget revenues, but it may need to use some previously accumulated funds for these purposes.

In 2022, the Region's budget revenues increased by 27% compared to 2021, while the Region's TNTR increased by more than 30%. TNTR grew mainly due to higher corporate income tax (+39% vs. the year before) as a result of higher proceeds from companies in the oil production and refining industry. Proceeds from personal income tax, taxes on goods and services, and property tax also recorded significant growth compared to 2021, while income generated by depositing budget funds increased by almost four times. The expenditure side of the Region's budget also recorded significant year-on-year growth (+35%), including current expenditures growing by 12% and capital expenditures increasing by more than 1.5 times. In 2022, the budget deficit amounted to 3% of TNTR and was financed by obtaining infrastructure loans.

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

According to the current version of the Region's budget law, TNTR is expected to decrease by 23% in 2023 compared to last year mainly due to an expected decline of corporate income tax by 38% compared to actual execution for 2022. Transfers may fall by 28%, and as a result of this, the Region's budget revenues will decline by 24% vs. 2022. It is expected that the budget's expenses will decrease by 20%, including capital expenditures, which the Region plans to decrease by almost twofold compared to last year. However, current expenditures will increase by approximately 15%. The anticipated deficit of 10% of TNTR will be covered using accumulated liquidity.

Moderately low debt load and non-commercial nature of debt. As of the end of 2022, the Region's debt had grown by 7% compared to 2021 and amounted to RUB 103.5 bln. Debt increased due to the attraction of infrastructure budget loans aimed at financing part of the increased capital expenditures of the Region, which contributed to the formation of the budget deficit last year. At the same time, the volume of guarantees issued by the Region decreased mostly due to a change in the approach for accounting the residual value of this type of obligations. As of January 1, 2023, the Region's debt portfolio was 95% made up of budget loans, while around 5% of it was government guarantees provided in 2005 for liabilities of **KAMAZ (ACRA rating A+(RU), outlook Stable)** to the federal budget. The debt repayment schedule is smooth and refinancing risks are absent in the short term due to the non-commercial nature of debt. Over the next two years, the Region will have to repay around 1% of its debt and only RUB 87 mln worth of budget loans need to be repaid in 2023.

As of the end of 2022, the ratio of the Region's debt to current revenues amounted to 26%. In 2023, this indicator may rise to 37% in line with the current version of the Region's budget law due to the expected decline of current revenues. At the same time, the debt load will correspond to a moderately low level (according to the Agency's methodology).

Interest expenses are not burdensome for the Region — averaged for 2019–2023 they will not exceed 0.1% of total budget expenditures (excluding subventions). The ratio of averaged debt to GRP of the Region will be 3%.

The volume of accumulated liquidity is comparable to its volume last year. Since the beginning of 2022, the budget account balances of the Region were on average 1.5 times higher than its monthly expenses. As of January 1, 2023, accumulated liquidity exceeded the indicator as of the start of the year by more than 14%. A large part of accumulated funds may be used to cover this year's budget deficit. Due to this, the Region's budget liquidity ratio (according to ACRA's methodology) will amount to 113% as of the end of 2023.

In the medium term, the Agency doubts that companies and financial institutions that are strategically important to the Region's economy or significantly depend on its budget will need targeted financial support.

The Region does not use credit lines as an instrument of its own liquidity. A contract between the Region and the Federal Treasury Department has been concluded on the provision of short-term budget loans in 2023.

The Region's economy is developed and moderately focused on the extraction of commodities. ACRA's calculations show that the oil and gas industry generated the maximum share (around 23%) of tax revenues in 2018–2021 (averaged over this period). The wholesale and retail trade sector generated around 12% of tax revenues, and the manufacturing sector formed approximately another 22%.

The averaged per capita GRP of the Region for 2017–2020 was 108% of the national average. The averaged monthly wage to subsistence minimum ratio in the Region exceeded 350% in 2018–2021. The unemployment rate averaged for 2018–2021 and calculated according to the ILO's methodology was low at 3.0%. The unemployment rate was 2.6% in 2021.

KEY ASSUMPTIONS

- 2023 budget to be executed in line with the Region’s budget law;
- Using accumulated funds to cover the projected budget deficit;
- No need for additional debt financing to cover current expenditures;
- No need to fulfil state guarantees this year.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

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

A negative rating action may be prompted by:

- The need to provide extraordinary support to state sector companies and financial organizations;
- Substantial changes in inter-budget relations in Russia;
- The need to fulfil the state guarantees to the Russian Ministry of Finance;
- 2022 budget deficit exceeding available liquidity.

ISSUE RATINGS

There are no outstanding issues.

REGULATORY DISCLOSURE

The credit rating has been assigned to the Republic of Tatarstan 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 credit rating of the Republic of Tatarstan was published by ACRA for the first time on November 17, 2017. The credit rating and its outlook 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 rating was assigned based on data provided by the Government of the Republic of Tatarstan, 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 rating is solicited and the Government of the Republic of Tatarstan participated in its assignment.

In assigning the credit rating, 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 Government of the Republic of Tatarstan. No conflicts of interest were discovered in the course of credit rating assignment.

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