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Key rating assessment factors

ACRA affirms AA(RU) to the Chelyabinsk Region, outlook Stable

The credit rating of the [Chelyabinsk Region](#) (hereinafter, the Region) is based on the Region's low debt load, smooth debt repayment schedule, and financial profile assessment. The rating is limited by regional economic indicators, some of which are below national averages, as well as by the dependence of budget revenues on the metal 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. According to the Region, its GRP amounted to RUB 1.502 tln in 2019 or about 1.7% of the total GRP of Russian regions.

A significant increase in transfers partially compensates for the decline in internal budget revenues. According to the Region, the decrease in internal budget revenues in 2020 relative to 2019 will amount to 11% (down RUB 14.8 bln). The increase in transfers by more than 70% by the end of 2020 will help the Region avoid a fall in total budget revenues, as they should increase by 7% by the end of the year. However, along with revenue growth, the Region forecasts a significant increase in expenses by the end of 2020, by 30% (RUB 52.9 bln) compared to of 2019. According to the Region, the budget deficit in 2020 will amount to 34% of tax and non-tax revenues (RUB 41.2 bln). The Region plans to finance the resulting deficit mainly by attracting debt financing and partly with accumulated liquidity.

ACRA believes that the high flexibility of budget expenses could allow the Region to reduce the projected deficit, for example, by reducing the volume of capital expenses relative to the projected volume. However, the Region's low debt load (even if the estimated budget parameters are met) will allow the Region to finance part of the possible deficit without a downgrade in the debt load assessment.

The share of operating balance in current income in the Region's budget is high. For 2017–2021, the averaged¹ value of this figure should be about 19%. The share of internal revenues in the budget remains moderately high, with the averaged share for 2017–2021 estimated at 81%. The averaged share of capital expenses in total expenses (excluding subventions) is estimated as high at 31% for 2017–2021.

Since 2017, the ratio of averaged modified budget deficit to current revenues has been positive. In 2019, the ratio amounted to 4%. ACRA expects the ratio to decrease to -6% in 2020 due to the budget deficit. This indicates that the need for borrowing to finance capital expenses is growing.

Debt load should remain low. Since the beginning of 2020, the Region's debt has decreased by 12% (down RUB 2 bln) and as of October 1, 2020, amounted to RUB 14 bln. The Region's debt is made up of budget loans (63%) and guarantees (37%). The debt repayment schedule is balanced with no periods of significant peak payments. In September 2020, the Region signed additional agreements with the Ministry of Finance on budget loans restructured in 2017. As a result, the debt repayment period has been extended to 2029. In addition, there are no payments on budget loans this year.

According to the current repayment schedule, the Region will have to pay no more than 9% of the debt annually in the next five years. In the next two years, it will need to repay 7% of the debt portfolio. As of October 1, 2020, the Region had no debt payments until the end of this year.

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

At the end of 2019, the Region's debt to current income ratio was 10%. According to ACRA, this figure may grow to 25% by the end of 2020 due to the expected growth of budget expenses without any one-time revenue increases. However, the amount of debt may increase to RUB 42 bln due to financing a possible deficit. Interest expenses are not burdensome for the Region. The ratio of averaged interest expenses to averaged budget expenses (excluding subventions) for 2017–2021 should be less than 1%.

Account balances at the beginning of 2020 exceeded all of the Region's debt. Since the beginning of 2019, account balances have exceeded monthly expenses by an average of 2x. According to the Region, three-quarters of liquid funds will be used to finance this year's deficit.

Moderately diversified economy focused on the metals sector. According to ACRA's estimates, up to 40% of tax revenues comes from metalworking industries. According to data for 2019, 15 of top 20 regional enterprises (in terms of revenue) belonged to the metals industry. The largest companies in the sector are PJSC MMK, PJSC ChTPZ, and PJSC ChMK.

In 2015–2018, the Region's averaged GRP per capita amounted to 75% of the national average. The averaged unemployment rate for 2016–2019 was 5.6%. In 2019, the average monthly salary was more than three times higher than the regional subsistence minimum.

Key assumptions

- Internal revenues declining by no more than 11% in 2020 compared to 2019;
- Increase in transfers by 71% compared to 2019;
- Increase in expenses by no more than 30% compared to 2019;
- Budget deficit not exceeding 34% of internal revenues;
- Increase in debt to 25% of current income in 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:

- Budget deficit significantly lower than planned in 2020;
- Maintained budget liquidity;
- GRP per capita outrunning the national average.

A negative rating action may be prompted by:

- Budget deficit above 34% of internal revenues in 2020;
- Debt load surpassing 30% of current revenues;
- Significant decline in liquidity.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating was assigned 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 credit rating of the Chelyabinsk Region was first published by ACRA on December 26, 2017. The credit rating and credit rating outlook are expected to be revised within 182 days following the publication date of this press release in accordance with the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit rating was assigned based on the 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), as well as ACRA's own databases. The credit rating is solicited, and the Government of the Chelyabinsk Region participated in its assignment.

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

ACRA provided 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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