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The Tyumen Region

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Key rating assessment factors

Credit rating components	
Institutional factor	
Final assessment	0.05
Regional economy	
Assessment prior to adjustment	0.19
Final assessment	0.20
Budget structure and budget discipline	
Final assessment	0.27
Debt load	
Assessment prior to adjustment	0.20
Final assessment	0.20
Budget liquidity	
Final assessment	0.15
Credit rating	AAA(RU)
Outlook	Stable

The economy of [the Tyumen Region](#) (hereinafter, the Region) (excluding autonomous okrugs) is based on the manufacturing industry dominated by oil refinery, oil production, and oil and gas machine building. A significant role is also played by transportation, communications, construction and agroindustry sectors. Large investment projects in oil and gas chemistry, oil refinery, oil production, pharmaceutical and agriculture industries are being implemented in the Region. The gross regional product (GRP) per capita is significantly (1.41 times) higher than the national average.

Well-balanced budget with a high degree of flexibility and self-sufficiency. Tax and non-tax revenues account for about 96% of the total revenues of the Region (excluding subventions received in 2014–2016 and expected in 2017). 69% of tax and non-tax revenues comes from income tax. On average, 58% of the income tax revenues of the regional budget are transfers from KhMAO-Yugra and YaNAO. The share of mandatory (in terms of the ACRA methodology) expenditures in the budget makes up 60% on average, which reflects a sufficient degree of control over the budget expenditures. The operational balance of the regional budget averaged 39% of the regular income, therefore the budget is considered to be well-balanced. The share of capital expenditures (development budget) averaged 30%. The regional budget is used to finance capital expenditures both in the south of the Region and in the territory of autonomous okrugs. Due to the high flexibility of the budget, in the periods of declining revenues, the Region has adjusted its expenditures (mainly road maintenance financed from non-earmarked revenues), which allowed it to keep the budget surplus.

The single account balance stably exceeds the amount of debts. The Region's debt ratios indicate minimum risk levels. The direct debt of the Region (excluding guarantees) consists of budget loans maturing in 2025–2034, and its share is less than 0.8% of the operating balance sheet. As of the beginning of 2016 and 2017, the budget balances (including deposits) exceeded 30% of the forthcoming expenditures.

Key assumptions

- The agreement between the governments of the Tyumen Region and KhMAO and YaNAO to remain effective at least until December 31, 2020;
- Current proportions for allocation of income tax revenues collected in KhMAO and YaNAO between the budgets of the autonomous districts and the Tyumen Region to remain unchanged.

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 negative rating action may be prompted by:

- A substantial decline in operational balance surplus;
- A significant change in the inter-budget relations in the Russian Federation.

Brief information about the Region

The Tyumen Region is located in the Urals Federal District. The Region includes the Khanty-Mansiysk Autonomous Okrug-Yugra (KhMAO-Yugra) and the Yamal-Nenets Autonomous Okrug (YaNAO), which are same-level administrative subjects of the Russian Federation.

About 1.48 million people live in the Tyumen Region (3.66 million people in total, including KhMAO-Yugra and YaNAO). About a half of the Region's population (excluding the okrugs) resides in Tyumen.

Rating assessment factors

Institutional factor

The boundaries of the Tyumen Region were established by the Order of the Presidium of the USSR Supreme Council dated August 14, 1944, according to which the Region includes two national okrugs (KhMAO-Yugra and YaNAO). There is an agreement between the governments of the Tyumen Region and the autonomous okrugs (the effective date is January 01, 2005, the validity period is five years; the agreement may be prolonged for the next five years by the consent of the parties; the current prolongation shall be valid until December 31, 2020; such agreement is permitted by Part 4 Article 66 of the Constitution of the Russian Federation), which regulates, among other things, the regional social, infrastructure and investment programs for the benefit of the entire population of the Region (including the okrugs).

According to the agreement, 29.5% of the income tax revenues collected in KhMAO-Yugra and YaNAO go to the Region's budget to finance the above programs.

According to Par. 4 Art. 4 of the agreement, in case the government of KhMAO-Yugra and/or YaNAO takes a decision to decrease the profit tax rate for certain types of taxpayers, such decrease shall be made on account of the profit tax that goes to the budget of a relevant okrug. However, the above provision is not complied with, as okrugs transfer to the Region's budget 29.5% of the profit tax actually collected (i.e. less tax benefits), and not the normative amount of profit tax. According to ACRA estimates, the revenues not received by the Region's budget due to the above non-compliance amounted to RUB 11.4 billion in 2015 and 4.1 billion in 2016.

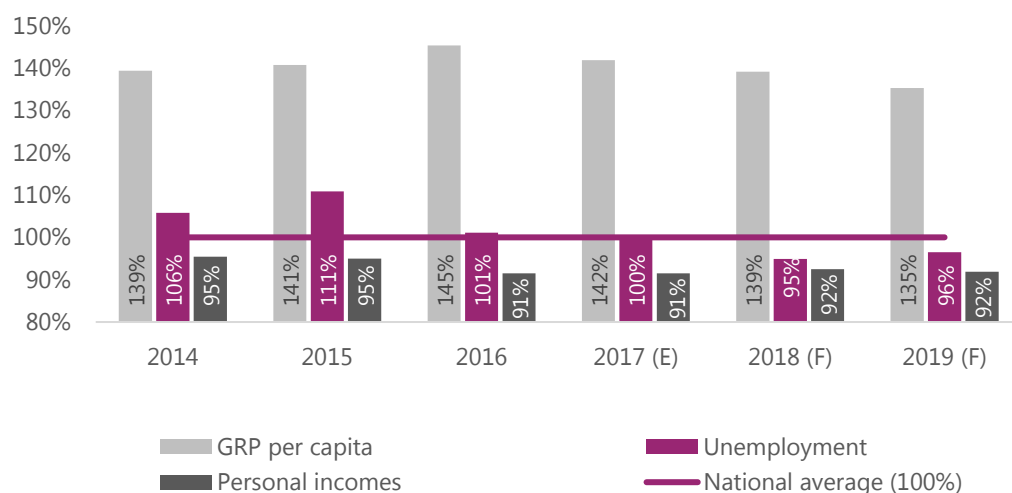
ACRA expects that the above agreement between the governments of the Region and the autonomous okrugs will remain valid at least until December 31, 2020.

ACRA also expects that profit tax collected in KhMAO-Yugra and YaNAO will be distributed in the current proportions between the budgets of the Region and the autonomous okrugs.

Well-developed industry sector

The GRP per capita is significantly (1.41 times) higher than the national average. The per capita income is about 7% lower in the Region than the national average. At the same time, the nominal monthly salary in the Region is 5% higher than the national average. The rate of unemployment is rather stable, and it was equal to 5.6% in 2016 (as per ILO methodology).

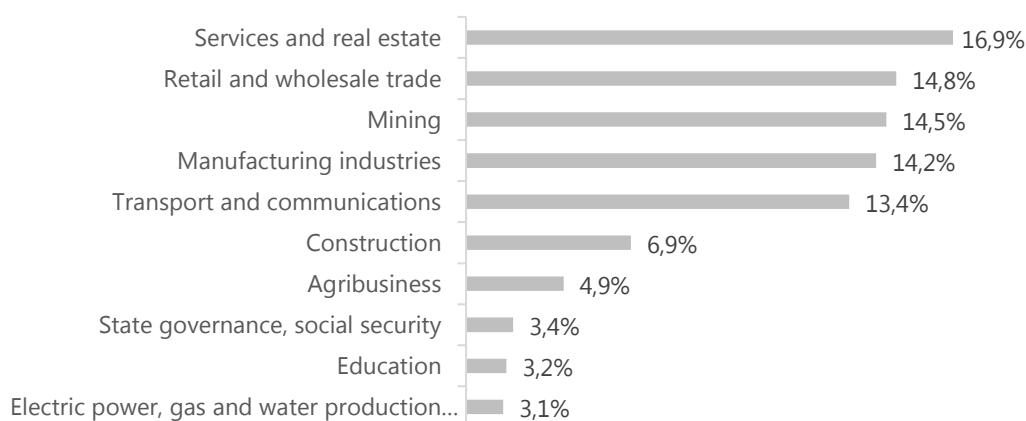
Figure 1. Region's economy indicators against national average (100%)



Source: Rosstat, the Tyumen Region, ACRA estimates

The Region's GRP is well-diversified: according to preliminary data for 2016, the share of industry sector in the GRP is about 30% (13.1% for manufacturing industries). Real estate, lease and services form over 17% of the GRP, while in 2013, their share was about 9.2%, and 29.2% of the GRP was generated by manufacturing industries. Such change in the GRP profile was caused by organizational changes in major regional enterprises.

Figure 2. GRP profile by industry (2016)



Source: Rosstat, the Tyumen Region, ACRA estimates

The profile of products/services generated by the manufacturing industries is dominated by oil refinery products, with the share of 76.6% in the total products/services for 2016.

Table 1. Major corporate taxpayers of the Tyumen Region (2016)

Enterprise	Estimated share*
RN-Uvatneftegaz LLC	7.1%
RN-Holding JSC	5.0%
SIBUR Holding PJSC	1.2%
NIPIGAZ JSC	1.0%
Transneft-Siberia JSC	0.8%
Antipinsky Oil Refinery JSC	0.8%
SUENCO PJSC	0.6%

* The share in tax and non-tax budget revenues in 2016.

Source: the Tyumen Region

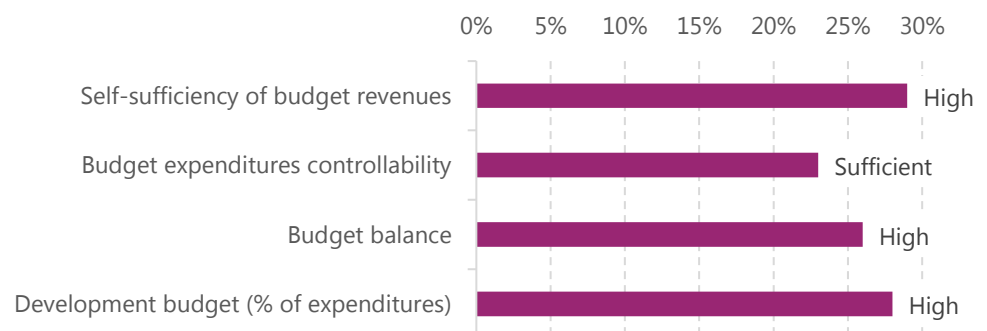
The largest taxpayer in the Region is Rosneft Oil Company PJSC, represented by its subsidiaries RN-Uvatneftegaz LLC and RN-Holding JSC. According to ACRA estimates, the share of Rosneft Oil Company PJSC in the tax and non-tax revenues of the Region does not exceed 12.5%.

The Region hosts large investment projects in oil and gas chemistry, oil refinery, oil production, pharmaceuticals and agribusiness. One such project is Western Siberian Petrochemical Complex for deep refinery of hydrocarbons into polyolefin products. The complex is expected to be commissioned in 2020 and to reach the project capacity by 2024. The project is aimed at creation of a high-profitable enterprise issuing high-demand products. The project will also contribute to cleaner environment and minimize transportations of propane, which will be used as a raw material in polyethylene and polypropylene manufacture.

In 2016, the employment profile was dominated by wholesale and retail trade (18.0%), construction (14.2%) and manufacturing industries (11.8%). The population has been growing due to natural and immigration factors.

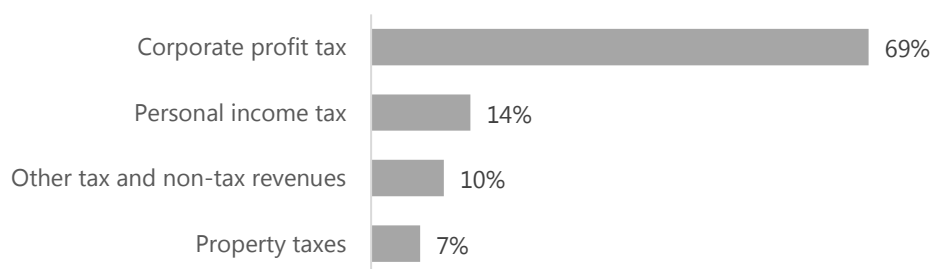
Well-balanced budget with a high degree of flexibility and self-sufficiency

The revenues side of the Region's budget is highly self-sufficient: the share of tax and non-tax revenues amounted to about 96% of the total budget revenues in 2014–2017 (except subventions, according to actual figures for 2014–2016 and estimated figures for 2017).

Figure 3. Budget discipline and control

Source: the RF Ministry of Finance, the Tyumen Region, ACRA estimates

69% of tax and non-tax revenues of the Region comes from the profit tax.

Figure 4. Tax and non-tax revenues (averaged for 2014–2016)

Source: the RF Ministry of Finance, the Federal Tax Service, the Tyumen Region, ACRA estimates

On average, 58% of budget revenues relating to profit tax comes from KhMAO-Yugra and YaNAO.

Table 2. Geographic profile of tax and non-tax revenues of the Tyumen Region (RUB bln)

Category	2014	2015	2016
Revenues, total	137,0	128,4	117,9
Profit tax	102,4	89,3	74,7
Including			
Region's south territories	46,3	35,5	31,7
KhMAO-Yugra	40,3	42,1	27,4
YaNAO	15,8	11,8	15,6

Source: the RF Ministry of Finance, the Federal Tax Service, the Tyumen Region, ACRA estimates

The profit tax dynamics is characterized by a moderate volatility (the average amount of taxes collected in 2014-2017 is RUB 87.2 billion, the variation coefficient is 13.5%). Due to the high flexibility of the budget, during the periods of declining revenues, the Region adjusted its expenditures (mainly road maintenance expenses financed from non-earmarked revenues), which allowed to maintain the budget surplus.

The share of mandatory (according to the ACRA methodology) expenditures in the budget is 60% on average, which corresponds to a sufficient degree of control over budget expenditures.

The operating balance of the Region's budget averaged 39% of the regular revenues, which is an indicator of the high-balanced budget.

The share of capital expenditures (development budget) averaged 30%. The regional budget finances capital expenditures both in the south of the Region and in the autonomous regions. The newly created infrastructural and social facilities provide services to the population of the Tyumen Region, including the autonomous okrugs. Some facilities are normally transferred to balance sheets of the okrugs, which reduces the current expenses of the regional budget.

The budget surplus amounted to 6.7% of tax and non-tax revenues (+RUB 9.1 billion) in 2014, 10% (+RUB 12.8 billion) in 2015, and 2.9% (+RUB 3.4 billion) in 2016.

The budget deficit approved for 2017 is 13.2% (-RUB 16.5 billion), but according to ACRA estimates, this figure may decrease to at least 4.7% (-RUB 5.97 billion). As of November 01, 2017, the Region's budget was executed with a surplus of RUB 18.96 billion. The budget deficit approved for 2017 is planned to be financed from the single account balances (including deposits).

Single account balance has consistently exceeded liabilities

The liabilities of the Region are subject to a minimum risk. As of October 01, 2017, the Region's portfolio of liabilities included guarantees issued (80.3%) and direct liabilities (19.7%). The direct liabilities of the Region (excluding guarantees) include budget loans maturing in 2025–2034, and they amount to 0.8% of the operating balance.

As of early 2016 and 2017, the Region's budget balance (including deposits) exceeded 30% of the forthcoming expenditures. Liquidity management techniques employed by the regional government have resulted in extra income, which amounted to 3.6% of tax and non-tax revenues in 2015–2016 and is expected to be 3.0% in 2017.

ACRA revealed no risks associated with debts of enterprises belonging to the extended state-run sector.

Adjustments

A positive adjustment to the assessment of the regional economy (for social infrastructure).

Issue ratings

None.

Rating history

None.

Regulatory disclosure

The credit rating has been 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 Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

A credit rating has been assigned to the Tyumen Region for the first time. The credit rating and its outlook are expected to be revised within 182 days following the rating action date (November 20, 2017).

The assigned credit rating is based on the data provided by the Tyumen 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 Tyumen Region Government participated in its assignment.

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

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

Appendix

Table 1. Regional economy indicators

	2014	2015	2016	2017 (ACRA est.)	2018 (ACRA est.)
GRP per capita					
RUB	564,681	624,683	661,500	689,000	724,700
% of national average	139.4%	140.7%	145.0%	140.9%	138%
Per capita income					
RUB	26,509	28,937	28,116	29,381	30,849
% of national average	95%	95%	91%	91%	92%
Unemployment (ILO methodology)					
%	5.5%	6.2%	5.6%	5.3%	5.3%
% of national average	106%	111%	101%	95%	90%

Source: the Tyumen Region, Rosstat, ACRA estimates

Table 2. Consolidated budget financials of the Tyumen Region, RUB mln

	2014	2015	2016	2017 (ACRA est.)
Budget revenues	144,416	136,619	126,083	134,526
Tax and non-tax revenues	137,001	128,373	117,928	126,951
Corporate profit tax	102,401	89,302	74,683	82,567
Personal income tax	17,055	17,440	18,226	20,198
Sales tax	3,420	3,634	5,545	4,984
Property tax	7,418	8,504	9,992	10,490
Other non-tax revenues	6,708	9,492	9,482	1,654
Gratuitous transfers	7,414	8,246	8,156	7,575
Budget expenditures	135,289	123,793	122,658	134,608
Mandatory expenditures (as per ACRA methodology)	81,189	73,648	76,001	82,791
Capital expenditures (development budget)	39,829	38,025	33,285	43,453
Interest expenses	6	0	0	0
Other expenses	14,265	12,119	13,373	8,364
Surplus / Deficit	9,127	12,826	3,425	-82
Surplus / Deficit / Non-tax revenue	6.7%	10.0%	2.9%	-0.1%

Source: the RF Ministry of Finance, the Tyumen Region, ACRA estimates

Table 3. Budget ratios of the Tyumen Region

	2014	2015	2016	2017 (ACRA est.)
Share of own* revenues	97.2%	96.7%	96.4%	97.1%
Share of mandatory* expenditures	60.0%	59.5%	62.0%	61.5%
Ratio of operating balance to regular* revenues, %	41.4%	42.3%	35.1%	34.1%
Share of capital* expenditures	29.4%	30.7%	27.1%	32.3%

* According to ACRA methodology.

Source: the RF Ministry of Finance, the Tyumen Region, ACRA estimates

Table 4. Consolidated debt indicators of the Tyumen Region, RUB mln

	01.01.2014	01.01.2015	01.01.2016	01.01.2017	01.01.2018 (ACRA est.)
Bonds	0	0	0	0	0
Bank loans	0	0	0	0	0
Budget loans	319	319	321	321	321
Guarantees	400	0	819	1,768	1,310
Region's debt, total	719	319	1,140	2,089	1,631

Source: the RF Ministry of Finance, the Tyumen Region, ACRA estimates

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