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Key rating assessment  
factorsACRA affirms AA(RU) to the Chelyabinsk Region,  
outlook Stable

The credit rating of the [Chelyabinsk Region](#) (hereinafter, the Region) is due to the low level of debt burden, moderately high operational efficiency of budget, and high flexibility of budget expenditures. The rating is constrained by regional economy indicators, some of which do not surpass national average levels, as well as by the dependence of budget revenues on the metal industry.

The Chelyabinsk Region is located in the Ural Federal District. 3.5 mln people live in the Region, which is just over 2% of the Russian population. In 2018, the Region's GRP amounted to RUB 1.474 trln or about 1.7% of the total GRP of Russian regions.

**The expected budget deficit will not affect the assessment of the Region's budget profile.** Last year, tax and non-tax revenues (TNTR) decreased by 2% (RUB 2.8 bln), and transfers from the federal budget increased by 32% (RUB 9.3 bln) compared to 2018. As a result, total budget revenues increased by 4% (RUB 6.5 bln) in 2019, and expenditures increased by 12% (RUB 19.3 bln). The regional budget deficit for 2019 amounted to 1% (RUB 1.0 bln) of TNTR.

TNTR declined mainly due to lower profit tax revenues in the metals sector. In total, profit tax revenues decreased by 11% (RUB 5.8 bln). The growth in personal income tax revenues amounted to 6% (RUB 2.8 bln), and excise tax revenues grew by 30% (RUB 2.5 bln).

The regional budget law provides that TNTR and expenditures should grow in 2020 by 2% and 16%, respectively. According to ACRA's projections for 2020, tax revenues will decline. The Agency expects that in this case, the Region may reduce the budget expenditures and cover the resulting deficit by both budget account balances and market borrowings.

The regional budget's operational efficiency is high. Its averaged<sup>1</sup> value for 2016–2019 is 23%. According to ACRA's forecast for 2020, the averaged value of the indicator may drop to 19% due to the expected budget deficit. The share of internal revenues in the budget remains moderately high: the averaged share of internal revenues for 2016–2020 should amount to 83%. The averaged share of capex in the total expenditures of the Region (excluding subventions) is estimated at 28% for the period 2016–2020.

Since 2017, the averaged ratio of modified budget deficit to current revenues has been positive. In 2019, the ratio amounted to 4%. ACRA expects the ratio to decrease to -1% in 2020 due to an increase in the budget deficit. Nevertheless, this, together with a low debt burden, indicates that the need for borrowing to finance capital expenditures is low.

**The debt burden is to remain low regardless of expectedly significant increase in debt.** At the end of 2019, the Region's debt amounted to RUB 16.0 bln, which is 4% (RUB 0.6 bln) lower than in 2018. At the same time, the ratio of debt to current revenues did not change and amounted to 10%. According to the regional budget law, the Region's debt should grow by 71% (RUB 11.3 bln) in 2020, but the debt load should remain low at 17%.

According to ACRA estimates, after a possible decrease in the Region's internal revenues accompanied by the debt exceeding the levels planned by the law, the ratio of debt to current revenues may increase to 21% by the end of 2020, which also indicates a low level of debt load.

As of January 1, 2020, the Region's debt was represented by budget loans (55%) and guarantees (45%). The share of interest expenses in the total budget expenditures has been at a consistently low level (less than 1%). According to the debt repayment schedule, in 2020, the Region is to repay / refinance 7% of its debt obligations

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

For details, see out analytical comment [Support measures for regional budgets](#) published on April 21, 2020.

(RUB 1.1 bln), in 2021 — 13% (RUB 2.1 bln). However, due to certain regional support measures adopted by the Russian Ministry of Finance, the Region will probably not have to repay the planned amount of budget loans this year. In case the Region has to pay under its guarantees, the total of debt repayments may amount to mere 2% (RUB 250 mln) of the debt portfolio.

By January 1, 2020, the volume of liquid funds held in the Region's accounts increased by 25% y-o-y. At the beginning of 2020, account balances were higher than the entire volume of the debt portfolio. According to the current version of the budget law, account balances should be used to some extent to finance future shortages.

As of May 1, 2020, the Region's debt was RUB 14.7 bln, or RUB 1.2 bln less than that seen at the beginning of the year, as the volume of guarantees issued declined.

**The moderately diversified economy focused on the metals sector.** According to ACRA's estimates, up to 40% of tax revenues comes to the regional budget from metalworking industries. According to the data for 2018, 16 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.

ACRA notes the risks associated with the projected decrease in the regional budget revenues coming from metals sector, on the backdrop of a changing macroeconomic situation. At the same time, the Agency believes that the budget and debt policies will allow the Region to overcome the short-term decrease in TNTR (by 15% against the level of 2019) without a change in the credit quality.

In 2015–2018, the Region's averaged GRP per capita amounted to 75% of the country average. The local unemployment rate decreased steadily in 2016–2019 and reached 5.1% in 2019, which is about 2% less than in 2016. 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 15% in 2020 compared to 2019;
- Current expenses growing by 5% against 2019, capital expenditures to remain at the level of 2019;
- No need to repay, in 2020, budget loans restructured in 2017;
- Regional debt to grow to 21% of current revenues 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:

- Zero budget deficit in 2020;
- Higher budget liquidity;
- GRP per capita outrunning the national average.

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

- A significant decrease in the budget operating efficiency amid a stronger need for debt financing;
- Debt burden surpassing 30% of current revenues;
- A significant decline in liquidity.

## 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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