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Lead analysts:

Maxim Parshin, Senior Analyst
+7 (495) 139-0480, ext. 225
maxim.parshin@acra-ratings.ru

Maxim Pershin, Expert
+7 (495) 139-0485
maxim.pershin@acra-ratings.ru

Key rating assessment factors

ACRA affirms AAA(RU) to the Tyumen Region, outlook Stable

The credit rating of the [Tyumen Region](#) (hereinafter, the Region) is based on the strong indicators of the regional economy, the Region's minimal debt load and high budget liquidity. The rating is supported by a highly flexible budget with a large share of capital expenditures funded internally, and substantial financial reserves.

The Tyumen Region is located in the Ural Federal District. The Region includes the Khanty-Mansiysk Autonomous Okrug-Yugra (KhMAO-Yugra) and the Yamalo-Nenets Autonomous Okrug (YaNAO), which are also full-fledged subjects of the Russian Federation. The Region's population is 1.5 million (1% of the population of the Russian Federation), not including the population of the autonomous okrugs. In 2019, the Region's gross regional product (GRP), excluding the autonomous okrugs, amounted to 1.3% of the total GRP for all regions of the Russian Federation.

The Region's socioeconomic indicators are high. The Region's GRP per capita is high, and the average¹ of this indicator exceeded the national average by 1.3x in 2016–2019.

In 2017–2020, the averaged wage to averaged regional subsistence minimum ratio grew sustainably and exceeded 4x in 2020, while the unemployment rate calculated as per ILO methodology was lower than the national average.

The regional economy benefits from the hydrocarbon production and processing sectors, which generate most of the tax revenues. In 2020, the share of revenues from the downstream sector declined. A significant share of tax revenues is contributed by companies from the public sector, R&D, construction, wholesale, and land and pipeline transport sectors.

There is an agreement between the public authorities of the Tyumen Region and the autonomous okrugs, which regulates regional social, infrastructure and investment programs and is intended to benefit the entire population of the Region, including residents of KhMAO-Yugra and YaNAO. According to this agreement, 29.5% of income tax revenues collected in KhMAO-Yugra and YaNAO are transferred to the Region's budget to fund the abovementioned programs. The agreement will remain in force until December 31, 2025.

The 2020 budget was executed with a significant deficit since expenditures grew and corporate income tax revenues declined. The Region's tax and non-tax revenues (TNTR) decreased by 26% y-o-y. The main reason was a 35% drop in the corporate income tax revenues. Despite the growth in gratuitous transfers (164%), the Region's total revenues decreased by 22%. At the same time, expenses grew by 7%. As a result, the 2020 budget was executed with a deficit of 27% of TNTR, which was covered mainly by liquidity accumulated by the Region.

In 2020, the averaged current account balance to current revenues declined by 13 p.p. y-o-y down to 18%, and this ratio is not expected to change in 2021. In 2020, the ratio of averaged modified budget deficit to current revenues became negative (-5.6%), and it is expected to be -5.0% in 2021. This indicates that the Region's current revenues are still sufficient to cover its current expenditures, but to finance capital expenditures, the Region has to borrow or use accumulated liquidity.

Budget expenditures are highly flexible: the share of capital expenditures in total expenditures (excluding subventions) averaged for 2017–2021 will amount to 27%. The

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

Region finances internally about 95% of its capital expenditures, which, in ACRA's opinion, is an additional reserve for cost reduction.

The share of internal revenues in the total budget revenues (excluding subventions) is high since, when averaged for the period from 2017 to 2021, the share is expected to equal 96%.

The Region's Budget Law² provides for a 12% decrease in corporate income tax revenues in 2021 compared to 2020 and a 42% decrease compared to 2019, which will continue to have a negative impact on the TNTR. In 2021, the volume of gratuitous transfers will decrease by 31% to RUB 12 bln, following which total revenues will decrease by 13% and total expenditures by 14%. However, given a high expenditure base, the budget will be executed with a deficit of 24% of TNTR, most of which will be covered by borrowings, when necessary.

ACRA is of the opinion that, regardless a decline in the TNTR, the Region's budget will be supported by highly flexible budget expenditures, very low debt load, and a significant amount of accumulated liquidity.

Minimal debt load. In 2020, the ratio of debt to current revenues amounted to 2%, which is minimal. As of January 1, 2021, the Region's debt was RUB 2.8 bln, which included a budget loan (12% of the debt), which is to be repaid in the period from 2025 to 2034, and the rest of the debt was represented by the guarantees issued by the Region for obligations of regional enterprises. By March 1, 2021, the volume and profile of the Region's public debt had not changed, and the debt servicing costs are not burdensome for the regional budget.

As follows from the Region's Budget Law, the public debt will grow to RUB 21 bln in 2021; nevertheless, the debt load will remain low and will not affect the credit rating of the Region.

The volume of accumulated liquidity is many times greater than liabilities. The Region holds a large volume of funds in its budget accounts and deposits, which, as of March 1, 2021, was several times higher than the total debt and more than three times higher than the Region's monthly average expenses in 2020.

Key assumptions

- Revising budget expenditures if the TNTR drop by over 32% against the planned figure in 2021;
- Reducing capital expenditures in the event of reduced budget revenues;
- Financing most of this year's budget deficit with borrowed funds;
- Executing the 2021 budget with a deficit not exceeding 24% of TNTR;
- The planned growth in the public debt to 15% of current expenditures in 2021;
- Maintaining the agreement between the public authorities of the Tyumen Region and the autonomous okrugs and retaining the current distribution proportion of profit tax revenues collected in KhMAO-Yugra and YaNAO.

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:

- Change in budget expenditures management policy in favor of increasing current expenditures;

² Law of the Tyumen Region dated Dec. 04, 2020 No. 99 "On the regional budget for 2021 and for the planned period of 2022 and 2023" (adopted by the Tyumen Region Duma on Nov. 26, 2020).

- Decrease in liquidity below monthly budget expenditures;
- Substantial changes in the inter-budget relations in the Russian Federation.

Issue ratings

None.

Regulatory disclosure

The credit rating was assigned to the Tyumen Region under the national scale for the Russian Federation based on the [Methodology for Credit Rating 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 Tyumen Region was published by ACRA for the first time on November 21, 2017. The credit rating of the Tyumen Region and its outlook 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 rating was assigned based on data provided by the Government of 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 Government of the Tyumen Region 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 Government of the Tyumen Region. No conflicts of interest were discovered in the course of credit rating assignment.

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

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