

## ACRA AFFIRMS BBB(RU) TO THE NOVGOROD REGION, OUTLOOK STABLE

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The credit rating of the **Novgorod Region** (hereinafter, the Region) is based on the moderate indicators of the Region's budget profile and the regional economy, as well as a moderately low debt load coupled with an irregular debt repayment schedule and average budget liquidity.

The Novgorod Region is located in the North-Western Federal District and borders four other regions of the Russian Federation. In 2019, 0.4% of Russia's population lived in the Region; its gross regional product (GRP) was 0.3% of Russia's total GRP. The main railroads and highways connecting Moscow, St. Petersburg, and the Baltic countries pass through the Region.

### KEY ASSESSMENT FACTORS

**Moderately low debt load and uneven debt repayment schedule.** According to ACRA's assessments, by the end of 2021 the Region's debt may increase to 54% of its current revenues (as per ACRA's methodology) due to new loans to finance the budget deficit as stipulated by the law on the budget. As a result, the Region's debt load will remain at a moderately low level.

As of August 1, 2021, the Region's debt was made up of budget loans and bank loans (66% and 34%, respectively). Debt servicing expenses are not a burden on the regional budget due to the high share of budget loans in the Region's debt structure (the ratio of averaged<sup>1</sup> interest expenses to total budget expenses will amount to less than 2% in 2018–2022, excluding subventions).

By the end of this year, the Region will have to repay or refinance less than 1% of its debt, followed by 37% in 2022, including all bank debt. In 2021, the Russian Government restructured a budget loan provided to the Region in 2020 in order to refinance a Federal Treasury Department loan. In addition, the Region's bank debt will be substituted by a budget loan. According to ACRA's assessment, the size of the budget loan will not exceed 40% of the Region's commercial debt.

These measures will partially reduce the Region's debt refinancing risks. However, due to the practice of attracting bank loans, the maturity of which does not exceed one-and-a-half years, the share of bank debt, assessed by ACRA as short-term, will remain significant.

**Average budget liquidity.** The Region has liquidity that allows it to meet its expense commitments on time, including interest payments. As of August 1, 2021, account balances exceeded average monthly budget expenses for 6M 2021 by 1.7x.

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

**Moderate budget profile indicators.** The averaged share of tax and non-tax revenues (TNTR) (excluding subventions) for 2018–2022 in the Region’s total revenues will amount to 70%. The averaged ratio of the current account balance to current revenues will equal 4% for this period, while the ratio of the modified budget deficit to current revenues will be -6%. These indicators show that current revenues are sufficient to cover current expenses and that the Region needs to resort to borrowing only in order to finance capital expenses. Average capital expenses in 2018–2022 account for 15% of total budget expenses and are mainly financed by transfers from the federal budget.

The Region’s budget law provides for execution of the budget with a deficit of 8% of TNTR in 2021. In H1 2021, the Region’s revenues exceeded revenues received in the same period in 2020 by 24%, TNTR increased by 38%, and expenses grew by 7%. The intermediate budget surplus for 6M 2021 was RUB 1.9 bln, while a year earlier a deficit of RUB 1 bln was recorded.

**Diversified economy with a developed chemical industry.** The largest local enterprise is PJSC Acron, a fertilizer manufacturer that generates about 40% of the total shipped products of the Region’s manufacturing sector. Tax revenues from the chemical industry equaled 6–15% of the Region’s tax revenues for 2016–2019. In 2020, the share of revenues from this industry declined to 4%. Other major sectors of the Region’s economy are transport and trade, as well as wood processing and the production of paper and paper products. The Region’s GRP per capita in 2019 was 71% of the national average. The average salary in the Region exceeded the regional subsistence minimum by 2.6x in 2020. Unemployment in the Region was lower than the national average in 2016–2019, and in 2019 it amounted to 3.6%. In 2020, the Region’s unemployment grew to 5.8%, matching the national unemployment level.

## KEY ASSUMPTIONS

- Execution of the budget in line with the budget law;
- Decrease in budget expenses if actual revenues are lower than planned.

## 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:

- Improvement in the debt repayment schedule (reduced refinancing risk in relation to a substantial share of debt within two years);
- Achieving a stable ratio of debt and current income below 50%;
- Stable growth of budget liquidity.

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

- Increase in current expenses not supported by an increase in current budget revenues.

## ISSUE RATINGS

None.

## REGULATORY DISCLOSURE

The credit rating has been assigned to the Novgorod Region 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 Novgorod Region was published by ACRA for the first time on July 27, 2018. The credit rating of the Novgorod Region is 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 Novgorod Region, 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 Novgorod Region participated in its assignment.

In assigning the credit rating, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

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

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