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Key rating assessment factors

ACRA affirms AA-(RU) to the Chelyabinsk Region, changes outlook to Positive

The outlook on the credit rating of the [Chelyabinsk Region](#) (hereinafter, the Region) has been changed to Positive because the regional budget balance and liquidity have increased. The rating is supported by a substantial decrease in the indirect debt of the Region. The rating is under pressure from economic development indicators (on per capita basis), which are significantly below the national average figures.

The Chelyabinsk Region is located in the Ural Federal District. 3.5 mln people live in the Region, of them 1.6 mln live in the Chelyabinsk agglomeration.

The Region's debt dropped by 1.83 times (RUB 12.9 bln) in 2017. The decrease in the debt is a result of bank loan repayments (amounting to RUB 4.88 bln) and the expiration guarantees issued (amounting to RUB 8.68 bln). As of June 01, 2018, the Region's debt included budget loans (RUB 9.67 bln, of which 86.3% will be due in 2018-2024 and the remaining loans will be due through 2034 inclusive) and state guarantees (RUB 5.59 bln, expiration dates: until 2021).

Well-balanced budgetary policy. In 2017, for the first time in five years, the regional budget was executed with a surplus of 6.8% of tax and non-tax revenues (TNTR): budget revenues grew by 8.7% (of which 8.2% came from TNTR) and budget expenditures increased by 3.3%. This year, the dynamics of budgetary indicators remains positive: in 4M2018, the TNTR increased by 14.9% y-o-y, while expenditures grew by mere 6.5%.

High liquidity allows the Region to place temporarily free funds on deposits, thus increasing non-tax revenues. In 2017, income from funds management exceeded debt servicing costs. As of June 01, 2018, the amount of deposited funds exceeded the debt of the Region (including guarantees issued).

- The Region will maintain its well-balanced debt and budget policies;
- The 2017 budget loan restructuring rules will not change in 2018–2019;
- The 2018 budget will be executed with a deficit of not more than 5%.

The **Positive outlook** assumes that the rating will most likely change within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Growing or stable development budget (capital expenditures);
- Region's GRP and personal incomes growing faster than the national averages.

A negative rating action may be prompted by:

- A substantial decrease of the operating balance;
- A substantial increase debt load and debt servicing costs.

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 the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

The credit rating assigned to 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 rating action date (June 22, 2018) in accordance with the [2018 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.

Key assumptions

Potential outlook or rating change factors

Regulatory disclosure

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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