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Key rating assessment
factors

ACRA affirms AA(RU) to the Lipetsk Region, outlook Stable, and AA(RU) to bond issues

The credit rating of the [Lipetsk Region](#) (hereinafter, the Region) is based on the Region's low debt load and a moderately high share of internal revenues and capital expenses. The rating is limited by the budget's dependence on its largest taxpayer.

The Lipetsk Region is part of the Central Federal District. The Region is home to 1.1 million people (around 1% of Russia's population). According to the Region's estimates, its GRP amounted to RUB 600 bln in 2019 (around 0.7% of the total GRP of Russia's regions).

Increased transfers offset decreased internal revenues. In 8M 2020, regional budget revenues increased by 9% compared to the same period in 2019, while tax and non-tax revenues (TNTR) decreased by 7%. A 21% reduction in income tax revenues compared to last year greatly contributed to the reduction in TNTR. Taxes on total income decreased by 13% and property tax revenues by 1%. However, transfers have increased by 80% throughout 2020 compared to the same period last year. As a result, the interim deficit was less than 1% of TNTR.

The regional budget law¹ assumes a 4% reduction in TNTR in 2020 compared to 2019, with planned expenses increasing by 16%. Income tax revenues will see the largest reduction, down 14% by the end of the year compared to last year. However, the planned increase in revenue from taxes on goods and services by 46% should effectively smooth out the decrease in income tax revenues. An increase in transfers by 53% in 2020 will allow for a 10% increase in total budget revenues and partially offset growth in budget expenses. The planned deficit should amount to 16% of TNTR at the end of the year.

ACRA forecasts that tax revenues may decrease more significantly in 2020 than anticipated by the regional budget law. ACRA expects that in this case, the Region can reduce budget expenses by reducing capital and current expenses relative to last year. ACRA estimates that the Region will finance its year-end deficit of 15% of TNTR partly with accumulated liquidity and partly by increasing debt.

The ratio of current account to current income may decrease significantly to 2% by the end of 2020 (down from 12% last year) due to a significant increase in current expenses. The averaged² ratio of these indicators for 2017–2021 will be about 10%, which will allow it to remain at a moderately high level according to ACRA's methodology. The ratio of the averaged modified budget deficit to current income could reach -7%. These figures indicate that the Region's current income is sufficient to cover current expenses, but also point to the growing need to borrow funds to finance capital expenses.

The regional budget's internal revenues remain moderately high. The averaged share of internal revenues for 2017–2021 should be 78%, while the averaged share of capital expenses in the total expenses (excluding subventions) should be 24%.

The debt load assessment will remain high despite a significant increase in debt. For 9M 2020, debt increased by RUB 4.2 bln and as of October 1, 2020, amounted to RUB 16.8 bln. This increase was the result of attracting a treasury loan of RUB 3.2 bln, which the Region will have to repay by the end of November this year. The Region's debt is made up of budget loans (56%) and bonds (44%). Guarantees account for less than 1% of total debt. The debt repayment schedule is balanced, and there are no periods of significant peak payments. If the current repayment schedule for restructured budget loans remains

¹ Lipetsk Regional No. 318-OZ, dated December 17, 2019, (ed. from August 27, 2020) "On the regional budget for 2020 and for the planning period of 2021 and 2022."

² Hereinafter, averages are calculated according to the [Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation](#).

unchanged in 2021–2024, the Region will have to pay no more than 16% of its debt annually. As of October 1, 2020, the Region will have to repay 29% of its debt (RUB 4.9 bln) by the end of this year.

According to ACRA, debt to current income may increase to 25% by the end of 2020 due to the expected growth of budget expenses without a one-time increase in revenue. However, the debt load assessment, according to ACRA's methodology, will remain high. Interest expenses are not burdensome for the Region, with the averaged level for 2017–2021 expected to be about 1% of total budget expenses (excluding subventions).

Since the beginning of 2019, account balances at the end of the month averaged about 100% of the budget's monthly expenses. However, the Region could use most of its free liquidity by the end of this year to finance a possible deficit.

The Region and the Federal Treasury have signed budget loan agreements for 2020, with the last loan being provided in June of this year. As of October 1, 2020, the volume of credit lines opened but not used by the Region for a period of more than one year is RUB 1 bln.

Moderately diversified economy strongly concentrated around the metals industry.

According to ACRA, the averaged share of tax revenues from the metal sector was 39% for 2016–2019. Historically, PAO NLMK has been the Region's largest taxpayer. ACRA notes the materialized risks in connection with the expected decrease in the Region's budget revenues from metal sector companies, given the changing macroeconomic situation.

The average GRP per capita in the Region was 87% of the average national level in 2015–2018. Unemployment in the Region in 2016–2019 did not exceed 4%. In 2019, the average monthly wage was more than three times higher than the regional subsistence level.

Key assumptions

- Internal revenues declining by no more than 9% in 2020 compared to 2019;
- Reduced capital and current expenses compared to 2019;
- Increase in the total amount of expenses for 2020 by no more than 10% compared to 2019;
- Budget deficit no higher than 15% of TNTR;
- Debt growth by no more than 18% in 2020 compared to 2019.

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:

- Budget liquidity maintained at a high level;
- Debt load maintained at its current level;
- Budget executed without a deficit for the year.

A negative rating action may be prompted by:

- Operational efficiency of the budget decreasing below 10% combined with an increased need for debt financing;
- Decrease in available liquidity.

Issue ratings

[Lipetsk Region Government Bond, 35010 \(ISIN RU000A0ZZR33\)](#), maturity date: October 21, 2025, issue volume: RUB 3 bln — **AA(RU)**;

[Lipetsk Region Government Bond, 34011 \(ISIN RU000A1013T3\)](#), maturity date: November 21, 2024, issue volume: RUB 2.5 bln — **AA(RU)**;

[Lipetsk Region Government Bond, 34012 \(ISIN RU000A102598\)](#), maturity date: September 16, 2025, issue volume: RUB 2.5 bln — **AA(RU)**.

Rationale. In ACRA's opinion, the bonds listed above are senior unsecured debt instruments, the credit ratings of which correspond to the credit rating of the [Lipetsk Region](#).

Regulatory disclosure

The credit ratings were assigned to the Lipetsk Region and the bonds issued by the Lipetsk Region (RU000A0ZZR33, RU000A1013T3, RU000A102598) 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](#). In the course of assigning credit ratings to the bond issues above, the [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation](#) has also been used.

The credit ratings assigned to the Lipetsk Region and the bonds issued by the Lipetsk Region (RU000A0ZZR33, RU000A1013T3, RU000A102598) were first published by ACRA on July 7, 2017, October 24, 2018, November 21, 2019, and September 15, 2020, respectively. The credit rating of the Lipetsk Region and its outlook and the credit ratings of the bonds issued by the Lipetsk Region 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 ratings are based on data provided by the Lipetsk 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 ratings are solicited, and the Administration of the Lipetsk Region participated in their assignment.

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

ACRA provided no additional services to the Administration of the Lipetsk Region. No conflicts of interest were identified in the course of the credit rating process.

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