

## ACRA AFFIRMS AA+(RU) TO THE MOSCOW REGION, OUTLOOK POSITIVE, AND AA+(RU) TO BOND ISSUES

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The credit rating of the **Moscow Region** (hereinafter, the Region) is based on the Region's highly developed economy, stable budget indicators, moderately low debt load, and sufficient budget liquidity.

The Positive outlook on the Region's credit rating stems from the improvement of budget profile indicators amid expected high growth of tax and non-tax revenues (TNTR) in 2021–2023. In this period, the score for the share of TNTR may reach a maximum; however, currently, it is a rating restraining factor, along with a fairly high volume of expected budget deficit, which affects a number of calculated indicators.

The Moscow Region is a large, industrially developed region whose contribution to Russia's economy is significant. In 2020, the Region's gross regional product (GRP) amounted to RUB 5.3 tln, or 5.6% of Russia's total GRP. According to the Region, its GRP reached RUB 6.1 bln in 2021 and RUB 6.7 tln in 2022. The Region ranks second in the country by population (5% of the total).

### KEY ASSESSMENT FACTORS

**Moderately low debt load and sufficient budget liquidity.** In 2022, the Region's budget debt load remained almost unchanged and amounted to 37% of current revenues. At the same time, the debt structure has changed after the restructure of bank loans and the receipt of budget loans in support of certain infrastructure projects. As a result, the maximum share of debt fell on budget loans (60%), the share of bonds was 36%, and that of bank loans was 4% of the debt. In January of this year, loans were repaid at the expense of the Federal Treasury Department). At the end of 2023, the ratio of debt to current revenues, according to ACRA's expectations, will grow due to the need to cover the planned budget deficit, but this growth will not affect the Region's credit rating.

The ratio of averaged<sup>1</sup> debt to GRP has been consistently below 5%. The ratio of averaged interest expenses to total budget expenditures, excluding subventions, will be less than 2% in 2019–2023, which indicates that interest expenses are not burdensome for the regional budget. As of January 1, 2023, 15 /12% of the Region's debt obligations were to be repaid/refinanced in 2023 and 2024, respectively.

Liquidity available to the Region is sufficient to cover its expenditures, including interest payments. As a result of an impressive increase in expenditures in December 2022 against monthly average expenditures, the amount of funds held in the Region's accounts has shrunk significantly. Nonetheless, the amount held in such accounts throughout 2022 allowed the Region to earn 2% of its TNTR. This year, the Region expects a noticeable volume of interest

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

income, and in January, the volume of the Region's liquidity has increased by more than twofold. The liquidity ratio (as per ACRA's methodology) amounted to 64% in 2022; this year, it will not exceed 20% in view of a significant planned budget deficit and depleted account balances by the beginning of 2023.

**Self-sufficient budget with a flexible spending structure.** The Region's internal revenues are consistently high. The averaged ratio of tax and non-tax revenues to budget revenues (excluding subventions) will equal about 89% for 2019–2023. The averaged share of capital expenditures in the Region's total expenditures, excluding subventions, should equal 23% for this period. A significant share of capital expenditures is covered by the Region on its own.

According to ACRA's methodology, the averaged ratio of the balance of current operations to current revenues will equal 15% for 2019–2023, while the ratio of the average modified budget deficit to current revenues will be -6%. This indicates that the Region's current revenues are sufficient to cover its current expenditures, as well as the need to borrow funds to finance capital expenditures.

The regional budget law provides for a budget deficit of 10% of TNTR in 2023, which is planned to be covered by attracting debt. According to the budget law, TNTR will grow by 8% in 2023, including gross income tax revenues (+28%), corporate income tax revenues (+13%), and personal income tax revenues (+7%). The Region's expenditures will grow by 5%; after a slight increase in 2022, capital expenditures will decline insignificantly, while current expenses will grow.

**The Region enjoys a high level of economic diversification and a favorable geographic location.**

The dominant industry is the food industry (about 25% of industrial production), which is not related to pro-cyclical industries. The regional budget's tax revenues do not depend on one large taxpayer or a group of large taxpayers. Historically, the maximum share of a single taxpayer / industry in tax revenues is less than 4% / 15–16%, respectively. Proximity to Moscow guarantees a stable market for products manufactured in the Region and demand for labor resources. This ensures a low unemployment rate and relatively high average wages compared to the subsistence minimum in the Region: in 2021, the average wage exceeded the subsistence minimum by four times. For the entire period of observations (since 2013), the Region's real GRP dynamics were higher than national averages (except two cases), and the manufacturing sector production rates significantly exceeded national averages almost each year. The Moscow Region is one of the few regions of the Russian Federation where the population is growing; this factor will determine the trajectory of its economic growth. The population growth is mainly based on the migration inflow. The share of the able-bodied population in the Region annually exceeds the national average, which also has a positive effect on the economy of the Moscow Region.

## KEY ASSUMPTIONS

- Execution of the budget in 2023 in accordance with the budget law.
- Maintaining sufficient budget liquidity.

## POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Positive outlook** assumes that the rating will highly likely be upgraded within the 12 to 18-month horizon.

**A positive rating action may be prompted by:**

- The averaged share of TNTR exceeding 90%;
- Debt load declining below 30% of current revenues;
- Growing indicators of budget liquidity or a significant decline in budget deficits coupled with any of the above conditions.

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

- Growth in current budget expenses without a corresponding increase in revenues;
- Debt load exceeding 55% of current revenues;
- Persistently low volume of available liquidity;
- Significant reduction in the average maturity of market debt.

**ISSUE RATINGS**

The Moscow Region, 35010 (ISIN RU000A0JX0B9), maturity date: November 21, 2023, issue volume: RUB 25 bln — **AA+(RU)**.

The Moscow Region, 34012 (ISIN RU000A100XP4), maturity date: October 8, 2024, issue volume: RUB 25 bln — **AA+(RU)**.

The Moscow Region, 34013 (ISIN RU000A101988), maturity date: December 20, 2024, issue volume: RUB 14 bln — **AA+(RU)**.

The Moscow Region, 34014 (ISIN RU000A101WL3), maturity date: July 8, 2025, issue volume: RUB 28 bln — **AA+(RU)**.

The Moscow Region, 35015 (ISIN RU000A102CR0), maturity date: November 10, 2026, issue volume: RUB 30 bln — **AA+(RU)**.

The Moscow Region, 35016 (ISIN RU000A102G35), maturity date: November 30, 2027, issue volume: RUB 30 bln — **AA+(RU)**.

**Rationale.** In the Agency's opinion, the bonds of the Moscow Region are senior unsecured debt instruments, the credit ratings of which correspond to the credit rating of the **Moscow Region**.

**REGULATORY DISCLOSURE**

The credit ratings have been assigned to the Moscow Region and the bonds (ISIN RU000A0JX0B9, RU000A100XP4, RU000A101988, RU000A101WL3, RU000A102CR0, RU000A102G35) issued by the Moscow 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 **Methodology for Assigning Credit Ratings to Financial Instruments on the National Scale for the Russian Federation** was also applied to assign credit ratings to the above issues.

The credit ratings of the Moscow Region and the bonds (ISIN RU000A0JX0B9, RU000A100XP4, RU000A101988, RU000A101WL3, RU000A102CR0, RU000A102G35) issued by the Moscow Region were published by ACRA for the first time on December 12, 2016, December 12, 2016, October 9, 2019, December 23, 2019, July 8, 2020, November 12, 2020, and December 2, 2020, respectively. The credit rating of the Moscow Region and its outlook and the credit ratings of the bonds (ISIN RU000A0JX0B9, RU000A100XP4, RU000A101988, RU000A101WL3, RU000A102CR0, RU000A102G35) issued by the Moscow Region are 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 ratings were assigned based on data provided by the Moscow 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 ratings are solicited, and the Government of the Moscow Region participated in their assignment.

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

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

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