

ACRA AFFIRMS AA-(RU) TO THE KRASNODAR KRAI, OUTLOOK STABLE, AND AA-(RU) TO BOND ISSUES

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The credit rating of the **Krasnodar Krai** (hereinafter, the Region) reflects the Region's moderately low debt load, low debt refinancing risk in the medium term, stable budget indicators, moderately high diversification of tax revenues, and high internal budget liquidity. The rating is constrained by medium values of some socioeconomic development indicators.

The Region is part of the Southern Federal District. The Region accounts for nearly 4% of Russia's population and around 3% of the aggregate GRP of Russian regions. The Region is a consistent leader in terms of agricultural production in Russia. It is also a major resort destination for Russians and an important transportation hub.

KEY ASSESSMENT FACTORS

Moderately low debt load and low refinancing risk. At the end of 2021, the ratio of the Region's debt to current revenues (according to ACRA's methodology) amounted to 29%. According to ACRA's estimates, by the end of 2022, this ratio may reach 32%, which indicates a moderately low debt load. The ratio of Region's averaged¹ debt to GRP will be about 3%.

As of January 1, 2022, the Region's debt included budget loans (71% of the Region's debt obligations) and bonds (29%). The debt repayment schedule (as of the above date) indicates low refinancing risk. In 2022–2023, the annual volume of repayment (refinancing) does not exceed 7% of the Region's total debt. The high share of budget loans in the Region's debt means that debt servicing costs are not burdensome for the regional budget (the averaged level of interest expenses in 2018–2022 will be around 1% of total budget expenses, excluding subventions).

High budget liquidity. The Region meets its obligations on time and places temporarily available funds in bank deposits. As of January 1, 2022, the Region's budget funds held in bank accounts exceeded average monthly expenses over 2021 by more than twofold.

Stable budget profile indicators. The averaged share of tax and non-tax revenues (TNTR) in total revenues (excluding subventions) in 2018–2022 will be around 80%. The averaged ratio of the current account balance to current revenues (according to ACRA's methodology) for this period will be 13%, while the ratio of the averaged modified budget deficit to current revenues will be 4%. These indicators show that current revenues are sufficient to cover current expenses and finance capital expenses. Averaged capital expenses in 2018–2022 will amount to 16% of total budget expenses (excluding subventions). The Region finances capital expenses primarily with internal funds, which allows it to consider these expenses as a possible reserve for reducing expenses should regional budget revenues decrease.

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

In 2021, the Region's budget revenues grew by 15% and expenditures – by 3%. The budget surplus amounted to 12% of TNTR and was allocated to replenish account balances. The Region's budget law for 2022 stipulates a 17% increase in expenditures and a 5% decrease in revenues, as well as budget deficit of 16% of TNTR. The intermediate budget surplus for the first two months of 2022 amounted to about RUB 2 bln against a deficit of around RUB 6 bln in the same period of 2021.

Diversified economy with development indicators close to the national averages. The major share of the Region's GRP is generated by sectors such as transport and communications (large pipelines run across the Region), trade and repairs, and agriculture (the Region is the leader in Russia in terms of agricultural production). Additionally, manufacturing (including the food industry, whose growth prospects are determined by agricultural processing, and oil refining) and services also contribute greatly to the Region's GRP. Tax revenues from this sector are uneven, which is due to the specifics of tax legislation and the presence of consolidated groups of taxpayers in the Region. The largest share of tax revenues in the regional budget is generated by the wholesale and transport (including pipeline transport) sectors. According to ACRA's estimates, in 2018–2021, these sectors generated about 13% and 18% of the regional budget's tax revenues, respectively. GRP per capita remains below the national average (72% in 2020). Unemployment in the Region fell from 5.7% in 2020 to 5.0% in 2021. In 2021, the average monthly salary (for the working-age population) in the Region exceeded the regional subsistence minimum by three times.

KEY ASSUMPTIONS

- Budget execution as stipulated by the budget law.
- Maintaining a conservative debt policy.
- Maintaining high budget liquidity.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Debt to current revenues ratio falling below 30%;
- Increased flexibility of budget expenses;
- Reduction in the gap between the Region's economic indicators and the national averages.

A negative rating action may be prompted by:

- Decrease in the budget's self-sufficiency;
- Debt to current revenues ratio exceeding 50%;
- Capital expenses declining below 10%;
- Significant decrease in budget liquidity.

ISSUE RATINGS

Krasnodar Krai, 35001 (ISIN RU000A0JXYS9), maturity date: August 9, 2024, issue volume: RUB 10.0 bln — AA-(RU).

Krasnodar Krai, 35002 (ISIN RU000A0ZZ8X4), maturity date: June 3, 2025, issue volume: RUB 10.0 bln — AA-(RU).

Krasnodar Krai, 35003 (ISIN RU000A1011B5), maturity date: November 12, 2026, issue volume: RUB 10.0 bln — AA-(RU).

Rationale. In ACRA's opinion, the bond issues of the Krasnodar Krai are senior unsecured debt instruments, the credit ratings of which correspond to the credit rating of the [Krasnodar Krai](#).

REGULATORY DISCLOSURE

The credit ratings have been assigned to the Krasnodar Krai and the bonds issued by the Krasnodar Krai (RU000A0JXYS9, RU000A0ZZ8X4, RU000A1011B5) 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 Individual Issues of Financial Instruments on the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit rating of the Krasnodar Krai and credit rating of the government securities of the Krasnodar Krai (RU000A0JXYS9) were published by ACRA for the first time on October 18, 2017. The credit ratings of the government securities (RU000A0ZZ8X4, RU000A1011B5) were published by ACRA for the first time on October 17, 2018 and November 12, 2019, respectively. The credit rating of the Krasnodar Krai and its outlook as well as the credit ratings of the government securities of the Krasnodar Krai (RU000A0JXYS9, RU000A0ZZ8X4, RU000A1011B5) 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 Krasnodar Krai, 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 Administration of the Krasnodar Krai participated in their assignment.

In assigning the credit ratings, 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 Administration of the Krasnodar Krai. No conflicts of interest were identified in the course of credit rating assignment.

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