

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) is based on the Region's moderately low debt load coupled with low debt refinancing risks, moderately high operational efficiency of the budget, considerable diversification of tax revenues, and a significant volume of funds in the Region's accounts. The rating is constrained by medium values of some socioeconomic development indicators and the budget's growing need to use accumulated liquidity to finance capital expenditures.

The Region is part of the Southern Federal District and has a population of around 5.8 mln (4% of Russia's population). The Region's gross regional product (GRP) was RUB 3.2 tln (around 3% of the aggregate GRP of Russian regions) in 2021. According to the Region's estimates, GRP was RUB 3.5 tln in 2022. 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 high budget profile indicators and growing need to use accumulated funds. The averaged¹ ratio of the current account balance to current revenues for 2019–2023 will amount to 14%, while the current account balance will remain positive in 2023. This indicator shows that the Region can finance around a quarter of the projected volume of capital expenditures without resorting to accumulated liquidity.

The share of capital expenditures in total expenditures averaged for 2019–2023 will amount to around 21%. Flexibility of budget expenditures is assessed as high because over the past four years, capital expenditures were, on average, about 75% independently financed by the Region. The share of tax and non-tax revenues (TNTR) averaged for the abovementioned period in the Region's revenues (excluding subventions) will amount to 79%.

The ratio of the modified budget deficit (MBD) to current revenues averaged for 2019–2023 will amount to -3%, while the MBD is expected to reach a much lower level in 2023 due to expected significant growth in the expenditure side of the budget this year. The Region will have to use a considerable part of its accumulated funds held in accounts and raise financing, which according to the latest version of the budget law will mainly consist of budget loans.

As of the end of last year, the revenue part of the Region's budget had increased by 16% compared to 2021, including a 14% increase in the Region's TNTR. TNTR growth was driven by higher personal income tax proceeds (+18%), taxes on goods and services (+27%), and taxes on total income (+18%). Corporate income tax proceeds remained at the level of 2021. Growth of TNTR was also driven by higher income generated by placing budget funds — this indicator

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

increased by more than four times vs. the previous period. The Region's budget spending increased by approximately a quarter over 2022, with current expenditures increasing by 13% and capital expenditures growing by more than twofold. The budget was executed with a surplus of 3% of TNTR in 2022, which enabled the Region to increase the amount of funds held in its accounts.

According to the current version of the Region's budget law, revenues are expected to decline by 6% in 2023 compared to 2022. This decline is projected due to a possible fall in transfers by almost a quarter coupled with TNTR only increasing by 1%. It is planned that the spending part of the Region's budget will increase by 21% year-on-year, while capital expenditures will grow by 78%. In this case, the deficit may reach 32% of TNTR. The Region intends to finance around half of the expected deficit using accumulated liquidity, while the rest will be covered by borrowings, including budget loans to finance infrastructure projects.

Moderately low debt load and low refinancing risks. As of January 1, 2023, the Region's debt had increased by 13% and stood at RUB 112.6 bln. Growth of the absolute value of debt as of the end of last year was caused by the Region obtaining RUB 17.5 bln in budget loans, the bulk of which (RUB 9.5 bln) was budget loans for financing the Region's infrastructure projects. The remaining part of budget loans was used to finance the short-term commercial debt of the Region and its municipalities. As of the start of 2023, the debt of the Region was primarily made up of budget loans (78%), and bonds accounted for the rest. The debt repayment schedule is balanced and there are no peak repayment periods. This year the Region will repay 6% of its debt, followed by 10% in 2024. More than 68% of the debt is due after 2025.

As of March 1, 2023, the size of debt and repayment schedule were unchanged.

As of the end of 2022, the ratio of debt to current expenditures was 29%. Due to the expected attraction of budget loans for capital purposes, ACRA assumes that the Region's debt load will grow by the end of the year. In the Agency's opinion, the ratio of debt to current revenues may grow to 41%.

The ratio of debt to GRP averaged for 2019–2023 will be around 3%, and the ratio of interest expenditures to total budget expenditures averaged for the same period (excluding subventions) will be 0.7%.

High budget liquidity. The Region meets its expenditure obligations on time and receives income from temporarily free funds — in 2022, interest income exceeded 3% of TNTR. Since the start of 2022, the Region's budget funds held in bank accounts exceeded the average monthly expenses by three times on average. Over the past year, the volume of the Region's liquidity grew by 34% compared to the start of the year. This was due to the budget deficit and partial use of budget loans from the federal budget.

The budget's liquidity ratio (excluding funds of autonomous and budgetary organizations) for 2023 will be around 75%. In ACRA's opinion, accumulated liquidity will be sufficient to finance a significant part of the projected 2023 budget deficit, and also to repay the planned amount of debt in this period.

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.

The largest share of tax revenues in the regional budget is generated by the wholesale and transport (in particular, 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. As of the end of 10M 2022, no significant changes in economic diversification had taken place — the share of wholesale trade was 17% and the share of transport was around 15%.

GRP per capita remains below the national average mainly due to the Region's large population. The ratio of the Region's per capita GRP to the national average per capita GRP was 69% averaged for 2018–2021. The ratio of the averaged monthly salary to the regional subsistence minimum for 2019–2022 exceeded 3.3. Unemployment in the Region was 3.5% in 2022, and it amounted to 4.3% averaged for 2019–2022.

KEY ASSUMPTIONS

- Budget execution as stipulated by the current version of the budget law;
- Attracting infrastructure budget loans in the current year to finance part of the capital expenditures of the forecast period;
- Using free liquidity in the Region's accounts for partial financing of this year's expected deficit;
- Maintaining a conservative debt policy.

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%;
- Reduced need of the budget to use accumulated funds;
- Budget deficit significantly lower than the target in 2023.

A negative rating action may be prompted by:

- Further growth of the Region's debt load coupled with significant growth in the share of short-term debt;
- Increased need for using accumulated liquidity to finance capital expenditures;
- 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 bond issues of 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 Financial Instruments under the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit ratings of the Krasnodar Krai and 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 of the Krasnodar Krai (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.

Disclosure of deviations from approved methodologies. In assigning the credit rating to the Krasnodar Krai, a deviation was made from the [Methodology for Assigning Credit Ratings to Regions and Municipal Entities of the Russian Federation](#) in terms of assessing the GRP per capita indicator. There was no adjustment of the GRP indicator, associated with a decrease in the decile of per capita GRP, due to a one-time lag in the dynamics of this indicator from the country's average values.

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 Administration of the Krasnodar Krai. No conflicts of interest were discovered in the course of credit rating assignment.

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