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ACRA affirms A+(RU) to the Altai Krai, outlook Stable

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Key rating assessment factors

The credit rating assigned to the [Altai Krai](#) (hereinafter, the Region) is based on the moderately high indicators of the Region's budget profile, low debt load, and high budget liquidity. The rating is limited by the Region's relatively low economic development indicators and the high share of transfers from the federal budget in the Region's income.

The Altai Krai is located in the Siberian Federal District and borders three Russian regions and Kazakhstan. In 2018, the Region was home to 1.6% of the country's population and its GRP (gross regional product) amounted to 0.7% of the total GRP for all regions of the Russian Federation. The Region ranks first among Russian regions to the east of the Ural Mountains in terms of the volume of shipped agricultural products.

Low debt load and high budget liquidity. The ratio of the Region's debt to operating income (calculated according to ACRA's methodology) was 1.8% as of the end of 2019. ACRA expects this indicator to stand at around 3–4% by the end of 2020 and 3–7% by the end of 2021, which corresponds to the minimum risk level. As of January 1, 2020, budget loans repayable by 2034 accounted for 99.75% of the Region's debt obligations, while the insignificant remaining share (0.25%) is made up of Region's government guarantees. As of August 1, 2020, the structure and volume of debt obligations were unchanged. Debt servicing expenses are minimal due to this debt structure (the average level¹ of interest expenses in 2017–2021 should equal less than 0.06% of aggregate budget expenses, excluding subventions). ACRA notes the low likelihood of regional public sector bodies requesting support. The Region's budget is characterized by its high level of liquidity: account balances for regional budget funds exceeded the Region's debts by almost 12x as of the end of August 1, 2020, and exceeded average expenses in H1 2020 by more than 2x.

High dependence of the regional budget on transfers from the federal budget. The averaged share of the Region's internal revenues in its total income (excluding subventions) for 2017–2021 will amount to around 56% and is on a downward trajectory. In 2016–2019, internal revenues grew by 15% and transfers from the federal budget increased 1.5x, primarily due to a 58% increase in budget equalization dotations. In H1 2020, the volume of transfers grew by 1.4x compared to the same period in 2019, while their share in the total volume of regional budget income increased from 46% to 55%. In 2017–2021, the average ratio of the balance of current operations to operating income will amount to 10%, while the ratio of the modified budget deficit to operating income will be negative (-1.3%). These indicators show that operating income is sufficient to cover current expenditures and that the Region needs to borrow or use its accumulated liquidity to fund capital expenditures in the aforementioned period. Averaged capital expenditures in 2016–2021 amount to 16% of aggregate budget expenses; around a quarter of the Region's capital expenditures are financed using transfers from the federal budget.

The economy is diversified, but development indicators lag behind the national averages. The agriculture sector is responsible for a significant part of the Region's GRP, so the average per-capita GRP in comparison to the average national indicator in 2015–2018 was only 42%. Manufacturing enterprises contributed the most to the Region's GRP — 19% in 2018. Retail and repair companies account for 15% of GRP, while agriculture contributes 13%. The largest share of tax revenues is contributed by manufacturing enterprises (around 21% in 2019). In 2015–2019, the average monthly wage to subsistence wage ratio in the Region increased from 2.1x to 2.6x. Unemployment fell from 8.6% in 2016 to 6.1% in 2018, however, this is still higher than the national average for Russia.

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

Key assumptions

- Adhering to a conservative debt policy;
- Tax and non-tax revenues falling by no more than 15% compared to 2019, followed by 10% growth in 2021;
- Reducing budget expenditures if revenues fall below the level stipulated by the budget law;
- Maintaining a high level of budget liquidity.

Potential outlook or rating change factors

The **Stable outlook** assumes that the credit rating will most likely remain unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Faster growth of the Region's economic development indicators;
- Growth of budget self-sufficiency.

A negative rating action may be prompted by:

- Growth of current expenditures without growth of operating income;
- Debt to operating income ratio exceeding 30%;
- Significant fall in available liquidity.

Issue ratings

None.

Regulatory disclosure

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 of the Altai Krai was published by ACRA for the first time on March 19, 2020. The credit rating and its outlook are expected to be revised within 182 days following the publication date of this press release in compliance with the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit rating was assigned based on the data provided by the Government of the Altai Krai, 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 rating is solicited and the Government of the Altai Krai participated in the rating process.

No material discrepancies between the provided data and the data officially disclosed by the Altai Krai in its financial statements have been discovered.

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

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