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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, smooth debt repayment schedule, and high share of capital expenditures in the total budget expenditures. The rating is limited by the budget's dependence on the 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). In 2019, the Region's GRP amounted to RUB 570 bln (around 0.6% of the total GRP of Russia's regions). According to the Region's estimates, its GRP reached RUB 590 bln in 2020.

Increased expenditures were funded by higher gratuitous transfers. In 2020, regional budget revenues amounted to RUB 73.3 bln, which is 14% higher than in 2019. Tax and non-tax revenues (TNTR) grew by mere 2% and profit tax revenues decreased by 7%. A reduction in profit tax revenues was completely offset by higher revenues from taxes on goods and services, which grew by 32% against 2019 due to a change in the excise tax distribution. PIT revenues also grew by 6% compared to 2019. In addition, budget transfers increased by 53% up to RUB 23.8 bln, including non-target transfers that grew by more than two times from RUB 2.7 bln to RUB 6.0 bln, which is the highest figure for the entire period under review. The Region's budget expenditures grew by 9% (cf. the country average growth was 15%). Healthcare expenditures grew by almost one and a half times and social policy expenditures — by almost a quarter. The Region's budget deficit amounted to RUB 0.6 bln (slightly over 1% of TNTR).

The regional budget law¹ assumes a 4% increase in TNTR in 2021 against 2020. Total budget revenues should decline by 7% down to RUB 68.3 bln due to a 29% cut in gratuitous transfers. Planned budget expenditures should stay at the level of 2020 but healthcare expenditures are expected to be cut by more than one third. Capital expenditures will be cut most (by 7% against 2020), while current expenditures will slightly increase. The budget deficit is planned at 10% of TNTR and it is expected to be covered by cash accumulated by the Region and new borrowings. According to ACRA's forecast, the 2021 budget deficit will not exceed 15% of TNTR.

The averaged² ratio of current account balance to current revenues for 2017–2021 will be around 13%, which is assessed as moderately high as per ACRA's methodology. The ratio of the averaged modified budget deficit to current revenues could reach -4%. These figures indicate that the Region's current revenues are sufficient to cover current expenditures, although the need for borrowed funds to finance capital expenditures is growing.

The averaged share of internal revenues in the regional budget remains moderately high (76% in 2017–2021). The averaged share of capital expenditures in the total expenditures (excluding subventions) in the above period is estimated at 25%, which indicates that, as per ACRA's methodology, the flexibility of budget expenditures is high.

Low debt load and smooth debt repayment schedule. In 2020, the Region's debt grew by 7% and as of January 1, 2021, it was equal to RUB 13.5 bln. The debt included bonds (47%), budget loans (45%), bank loans (about 7%), and guarantees issued by the Region (less than 1%). The debt repayment schedule is balanced, and there are no periods of

¹ Lipetsk Regional No. 470-OZ dated December 18, 2020 (as amended on March 15, 2021) "On the regional budget for 2021 and for the planning period of 2022 and 2023."

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

significant peak payments. At the beginning of 2021, the Region was to repay annually no more than 19% of its total debt in the next five years, and in 2021, the Region was to repay or refinance 12% of its debt (RUB 1.6 bln). The Region did not borrow the budget loan offered in late 2020 to refinance the budget loan granted to replenish cash.

By April 1, 2021, the Region's debt grew by RUB 0.5 bln, since the Region borrowed a RUB 1.5 bln short-term loan from the Federal Treasury Department and used it to refinance bank loans due in 2022. Therefore, the Region now has to repay RUB 3.1 bln or 22% of its debt in 2021.

At the end of 2020, the ratio of debt to current revenues was 21%, which, as per ACRA's methodology, indicates the low level of debt load. According to ACRA's estimates, this ratio may grow to 27% by the end of 2021 in view of the expected budget deficit and a decline in budget revenues; but the debt load would remain low. Interest expenses are not burdensome for the Region: the averaged interest expenses for 2017–2021 are expected to be about 1% of total budget expenditures (excluding subventions).

The accumulated cash will allow the Region to cover a portion of budget deficit. As of January 1, 2021, the Region's account balances amounted to RUB 4.7 bln. Since the beginning of 2020, end-of-month account balances covered about 85% of the budget's monthly expenditures. However, by the end of this year, the Region may exhaust most of its free liquidity to finance the deficit.

The Region benefits from loans granted by the Federal Treasury Department. In early 2021, the Region had at its disposal three committed but undrawn credit facilities for the total of RUB 2.1 bln with the tenure exceeding one year.

Moderately diversified economy strongly concentrated around the metals industry. According to ACRA's estimates, the averaged share of tax revenues from the metals sector was 36% for 2017–2020. Historically, PAO NLMK has been the Region's largest taxpayer. ACRA notes the potential risks connected with the dependence on a single taxpayer.

The averaged GRP per capita in the Region amounted to 81% of the national average in 2016–2019. The unemployment rate for 2016–2019 did not exceed 4%, but in 2020, it grew to 4.3%. In 2017–2020, the averaged monthly wage was more than three times higher than the averaged regional subsistence minimum.

Key assumptions

- Total budget revenues declining by 10% in 2021;
- Cuts in capital expenditures as planned;
- Budget deficit no higher than 15% of TNTR;
- Debt growth by no more than 21% in 2021 compared to 2020;
- Financing budget deficit with accumulated cash.

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 its current level;
- Budget execution 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;
- Increase in the ratio of debt to current revenues by more than 30%.

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.

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 Lipetsk Region. No conflicts of interest were identified in the course of the credit rating process.

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