

May 27, 2019

Lead analysts:

Elena Anisimova, Associate Director  
+7 (495) 139 04 86  
elena.anisimova@acra-ratings.ru

Maxim Pershin, Senior Analyst  
+7 (495) 139 04 85  
maxim.pershin@acra-ratings.ru

Key rating assessment  
factors

## ACRA upgrades the Belgorod Region to AA-(RU) and changes outlook to Stable, upgrades bond issue to AA-(RU)

The credit rating of [the Belgorod Region](#) (hereinafter, the Region) has been upgraded due to a decline in the debt load of the Region, which is a result of a decrease in the absolute debt and an increase in the operating balance (thanks to a prolonged period of high metal prices), and a change in the internal liquidity of the Region's budget. The rating is supported by stable budget discipline indicators, a balanced debt structure, and a well-developed infrastructure in the Region. The rating is limited by the regional economy indicators that do not exceed the country averages.

About 40% of Russia's iron ore concentrate is produced in the Region. The local climate is favorable for non-cyclic sectors, including agricultural and food industries. This has a limited positive impact on the diversification of the regional economy, which is dependent on the mining sector.

**The debt load has declined sharply.** The 2018 regional budget was executed with a surplus, and a significant amount of guarantees has expired, which allowed the Region to reduce the debt by RUB 6.7 bln (16.5% of the total debt). Coupled with an increase in the operating balance, this led to a decrease in the debt-to-operating balance ratio from 1.4x in 2017 to 1.0x in 2018. By the end of this year, the ratio is expected to be about 1.25x. In 2019, the operating balance after interest charges is expected to exceed the amount of short-term debt by almost five times. The debt reduction rate demonstrated by the Region is much higher than that stipulated by the agreements with the Ministry of Finance of Russia.

As of May 1, 2019, the Region's debt amounted to RUB 30 bln (including 35% for bonds, 31% for budget loans, 14% for bank loans, and 20% for guarantees). The maximum share of debt refinancing (28%) will fall on 2020. According to the current version of the Region's budget law, the total amount of guarantees to be issued is small.

The budget deficit planned for the current year will be covered by account balances, including deposits.

**Liquidity accumulated in 2018 will allow the Region to finance a potential budget deficit in 2019.** In 2018, tax and non-tax revenues (TNTR) increased by 21% (from RUB 60.6 bln to RUB 73.5 bln), with more than a half of the increase coming from income tax paid by metal companies. As a result, the budget was executed with a surplus of RUB 8.1 bln (11% of TNTR), while the budget account balance amounted to RUB 10.1 bln. The operating balance grew by 24% as calculated in accordance with ACRA's methodology.

The Region has been financing its budgetary expenditures without any external borrowings: in 2016–2019, the annual average share of internal revenues (excluding subventions) is expected to reach 80%. Capital expenditures of the Region make up about 19% of expenses and are financed mainly at its own expense. At the same time, the share of mandatory expenses is moderate (in the specified period, it is expected to be 63%). According to ACRA's estimates, such structure of expenses will not change in the medium term.

## Key assumptions

- The Region's economy will depend on the trends in the key local industries;
- TNTR will decline by not more than 5% in 2019 against 2018;
- Maintaining a well-balanced debt management policy primarily by raising long-term loans with a regular repayment schedule;
- Gradual reduction in the debt load through sustainable repayments.

## 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:

- Growing operating balance amid, among other things, declining share of mandatory expenditures;
- Improvement in debt load indicators amid growing operating balance and/or decreasing volume of guarantees issued along with repayment of debt obligations.

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

- Change in debt policy and time structure of debt;
- Higher debt service costs;
- Considerable decrease in tax revenues from the metal industry;
- 2019 Budget deficit exceeding 10% of TNTR.

## Issue ratings

[Belgorod Region Government, 35011 \(ISIN RU000A0JXTW1\)](#), maturity date: June 11, 2024; issue volume: RUB 4 bln — **AA-(RU)**.

**Rationale.** ACRA is of the opinion that the bond issued by the Belgorod Region has a status of senior unsecured debt. Therefore, the credit rating of this debt instrument corresponds to the credit rating of the [Belgorod Region](#).

## Regulatory disclosure

The credit ratings of the Belgorod Region and the bond issued by the Belgorod Region (ISIN RU000A0JXTW1) have 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](#). In the course of assigning a credit rating to the bond issue above, the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was applied.

The credit ratings of the Belgorod Region and the government bond issued by the Belgorod Region were first published by ACRA on June 13, 2017, and June 19, 2017, respectively. The credit rating of the Belgorod Region and its outlook and the credit rating of the government bond of the Belgorod 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 were assigned based on the data provided by the Belgorod Region, information from publicly available sources (the RF 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 Government of the Belgorod Region participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by the Belgorod Region in its financial report have been discovered.

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

(C) 2019

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)  
75, Sadovnicheskaya embankment, Moscow, Russia  
[www.acra-ratings.com](http://www.acra-ratings.com)

Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bn. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – [www.acra-ratings.com/criteria](http://www.acra-ratings.com/criteria).

No credit rating and/or credit rating outlook is regulated by the Central Bank of the Russian Federation, unless distributed so that such credit rating and/or credit rating outlook is in the public domain.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – [www.acra-ratings.com](http://www.acra-ratings.com). Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.