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Record high rubles prices on raw materials help Russian regions get through the first year of budget loan restructuring

An analysis of the debt loads of Russian regions

2018 was the first full year of implementation of budget loan restructuring agreements that were concluded in 2017 between the Ministry of Finance of Russia and most Russian regions. In 2018, the Ministry of Finance stopped issuing long-term budget loans while regions restructuring budget loans were obligated to reduce their debt load (the ratio of debt to tax and non-tax revenues - TNTR) by about 2% per year.

The majority of Russian regions reduced their debt in 2018 and most likely fulfilled budget loan restructuring requirements. The total debt reduction for all regions amounted to 5% (RUB 109 bln). This significant result was achieved largely due to the high prices for raw materials and, consequently, the growth in tax revenue.

Figure 1. The majority of Russian regions were able to reduce their debt load in 2018



Sources: Ministry of Finance, ACRA's calculations

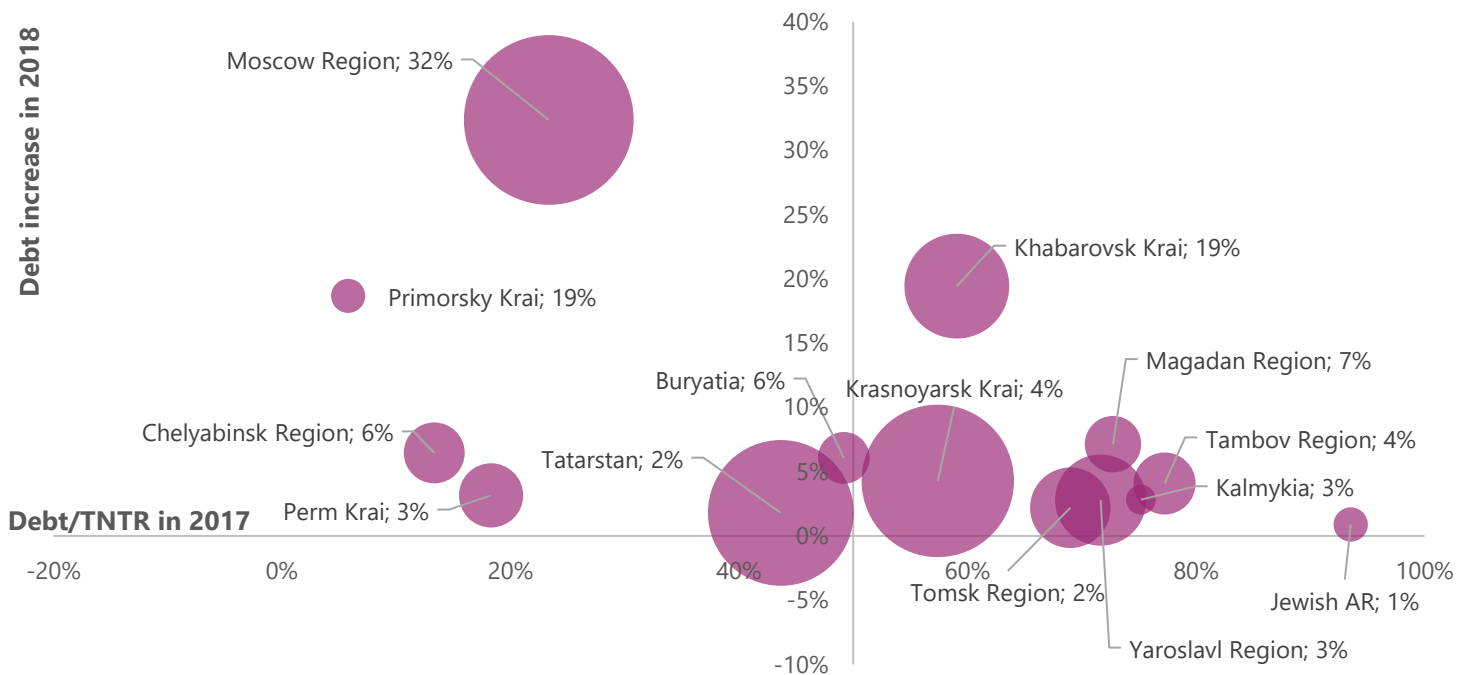
66 regions reduced their total debt by RUB 169 bln, with the [Kemerovo Region \(A-\(RU\), outlook Stable\)](#) leading the way, reducing its debt by RUB 22.6 bln (40%). The debt of 16 regions grew, amounting to RUB 60 bln (half of this figure is accounted for by the [Moscow Region \(AA\(RU\), outlook Stable\)](#)). Three constituent territories saw no change in their total debt. The total debt reduction in 2018 was almost three times higher than in 2017 (RUB -38 bln) and the number of regions that failed to reduce the debt in 2018 halved (16 compared to 31 in 2017).

The share of budget loans in the regions' debt started to decline as a result of the regions beginning to repay restructured loans (5% in 2018 for participants in the program) and the termination of issuance of new budget loans. In 2018, the debt on budget and bank loans decreased slightly (-7% and -5%, respectively), while the debt on securities grew slightly (+0.5%). A small change in the structure of market debt in favor of bond loans meets the procedural requirements for assessing the quality of regional finance management. As a result of the change, higher assessments are assigned to regions with a balanced debt repayment schedule.

The decrease in debt occurs against the backdrop of an increase in tax revenues, one of the main growth factors of which is income tax (+23% on revenues to the budget system for 9 months of 2018 compared to the same period a year earlier). The biggest growth rates in revenues among industries making the maximum contribution to TNTR were demonstrated by the mining sector and related industries. The reason for this was the high ruble price of raw materials and as a result, the leaders in debt reduction were regions that specialize in the mining of such raw materials.

Significant growth in TNTR through 11 months of 2018 facilitated the fulfillment of restructuring requirements, including for several regions that increased their debt in absolute terms by the end of 2018. This worked for those regions whose TNTR growth rate exceeded the rate of debt growth.

Figure 2. Regions* increasing debt in 2018**



* Not including the Tyumen Region because of its insignificant growth in debt load.

** The diameter of the circle corresponds to the size of the region's debt at the end of 2018.

Sources: Ministry of Finance, Federal Treasury, ACRA's calculations

In five regions, debt growth outpaced revenue growth, but in three of them, the debt load was low. Thus, in the [Tyumen Region \(AAA\(RU\), outlook Stable\)](#), with a minimum debt load, the debt increased by 123% due to the provision of guarantees. A similar situation can be seen in Primorsky Krai. Debt in the [Moscow Region \(AA\(RU\), outlook Stable\)](#) is growing from the relatively safe level of 23% (the region is not participating in the restructuring of budget loans).

Khabarovsk Krai significantly increased its market debt and its total debt load, according to ACRA, also increased by 7% in 2018 compared to a year earlier. However, data on the participation of the Khabarovsk Krai in the restructuring program are missing. [The Republic of Mordovia \(B\(RU\), status "Rating under revision: negative"\)](#), who already violated the restructuring agreement in 2017, was unable to reduce its debt in 2018.

It should be noted that the majority of regions were able to meet restructuring requirements and therefore the early repayment of budget loans will not be needed. Several regions were able to exceed the debt reduction plan.

The projected decline in raw material prices will not allow mining regions to maintain this rate of debt reduction. The uncertainty in funding sources for national projects under the new May decrees will not allow other regions to manage budget expenditures. As a result, the rate of regions' debt reduction will slow down in 2019.

Table 1. Changes in regions' debt loads in 2018 (taking in growth of total debt)

	Debt/TNTR 2017	Debt increase 2018	Debt variation. RUB mln 2018	Debt, RUB mln end-2018
Kemerovo Region, A-(RU), outlook Stable	50%	-40%	-22.614	33.377
Komi Republic, BBB(RU), outlook Stable	60%	-26%	-10.147	28.403
Rostov Region	32%	-25%	-9.876	29.161
Samara Region, AA-(RU), outlook Positive	51%	-15%	-9.636	54.756
Krasnodar Krai, A(RU), outlook Stable	78%	-6%	-8.980	140.169
Yamalo-Nenets Autonomous Okrug, AAA(RU), outlook Stable	16%	-33%	-8.432	16.841
Belgorod Region, A+(RU), outlook Positive	66%	-17%	-6.742	33.020
Irkutsk Region, AA-(RU), outlook Stable	16%	-34%	-6.304	12.281
Astrakhan Region	97%	-20%	-5.552	22.205
Arkhangelsk Region	79%	-13%	-5.368	35.549
Saint Petersburg, AAA(RU), outlook Stable	7%	-14%	-4.743	30.100
Khanty-Mansiysk Autonomous Okrug - Ugra, AAA(RU), outlook Stable	11%	-25%	-4.695	14.400
Moscow, AAA(RU), outlook Stable	2%	-13%	-4.348	30.000
Republic of Karelia	124%	-17%	-4.264	20.723
Stavropol Krai	61%	-11%	-3.905	32.951
Vologda Region	47%	-13%	-3.160	20.672
Novosibirsk Region, A+(RU), outlook Stable	44%	-6%	-2.916	44.220
Sverdlovsk Region, A(RU), outlook Stable	39%	-4%	-2.810	72.793
Republic of Khakasia	136%	-11%	-2.767	21.846
Orenburg Region (A(RU), outlook Positive	46%	-10%	-2.578	24.437
Omsk Region	77%	-6%	-2.538	42.441
Voronezh Region	49%	-7%	-2.500	30.990
Republic of Dagestan	51%	-20%	-2.397	9.796
Saratov Region	83%	-5%	-2.372	47.958
Volgograd Region, BBB(RU), outlook Stable	89%	-4%	-2.266	51.093
Udmurt Republic	94%	-4%	-1.926	47.014
Republic of Bashkortostan	14%	-11%	-1.918	16.235
Kabardino-Balkar Republic	124%	-15%	-1.868	10.325
Ryazan Region, A-(RU), outlook Positive	66%	-6%	-1.543	22.818
Kostroma Region, BBB-(RU), outlook Stable	135%	-7%	-1.530	20.460
Bryansk Region	47%	-12%	-1.451	10.297
Kaluga Region	71%	-5%	-1.434	28.744
Lipetsk Region, AA-(RU), outlook Positive	38%	-9%	-1.415	14.987
Nenets Autonomous Okrug	20%	-40%	-1.325	2.000
Chuvash Republic	53%	-9%	-1.211	12.910
Republic of Sakha (Yakutia), A(RU), outlook Negative	46%	-2%	-1.181	50.635
Tver Region, BBB+(RU), outlook Stable	62%	-4%	-1.034	24.611
Ivanovo Region	88%	-6%	-957	15.809
Nizhny Novgorod Region	64%	-1%	-940	75.087
Kirov Region	91%	-4%	-923	25.133
Tula Region	35%	-4%	-736	17.940
Zabaykalsky Krai	91%	-3%	-730	27.555
Republic of Crimea	9%	-16%	-670	3.643
Kamchatka Krai	22%	-11%	-524	4.049
Leningrad Region	4%	-12%	-454	3.457
Kaliningrad Region	71%	-2%	-432	22.150
Chukotka Autonomous Okrug	97%	-3%	-292	10.401
Tuva Republic	49%	-13%	-291	1.984
Amur Region	72%	-1%	-262	27.404
Murmansk Region, BBB+(RU), outlook Stable	38%	-1%	-223	18.760
Republic of North Ossetia – Alania	89%	-2%	-222	9.069

Oryol Region	107%	-1%	-206	18.135
Karachay-Cherkess Republic	91%	-4%	-197	5.332
Chechen Republic	44%	-4%	-192	4.679
Smolensk Region	100%	-1%	-191	29.309
Ulyanovsk Region	64%	-1%	-172	24.940
Mari El Republic	81%	-1%	-169	13.284
Republic of Adygea	42%	-4%	-145	3.675
Novgorod Region, BBB(RU), outlook Stable	75%	-1%	-136	15.621
Vladimir Region	11%	-3%	-135	4.027
Republic of Ingushetia	68%	-5%	-113	2.139
Altai Krai	4%	-4%	-77	1.934
Pskov Region	102%	0%	-54	16.318
Penza Region, BBB+(RU), outlook Stable	63%	0%	-17	20.209
Kursk Region, A(RU), outlook Stable	26%	0%	-4	9.260
Kurgan Region	93%	0%	0	16.587
Sevastopol	0%	0%	0	0
Altai Republic	45%	0%	0	1.510
Sakhalin Region	0%	0%	0	0
Jewish Autonomous Region	94%	1%	46	5.257
Republic of Kalmykia	75%	3%	108	3.957
Perm Region	18%	3%	564	18.441
Tomsk Region, BBB(RU), outlook Stable	69%	2%	622	28.994
Tambov Region, BBB+(RU), outlook Positive	77%	4%	675	17.216
Republic of Buryatia	49%	6%	687	11.998
Primorsky Krai	6%	19%	819	5.203
Magadan Region, BBB-(RU), outlook Stable	73%	7%	950	14.250
Yaroslavl Region	72%	3%	1.008	37.174
Chelyabinsk Region, AA-(RU), outlook Positive	13%	6%	1.008	16.615
Republic of Tatarstan, AA+(RU), outlook Stable	44%	2%	1.670	94.987
Tyumen Region, AAA(RU), outlook Stable	1%	123%	1.976	3.576
Krasnoyarsk Krai, A(RU), outlook Positive	57%	4%	4.267	103.901
Republic of Mordovia, B(RU), status: Rating under revision: negative	226%	12%	6.227	56.217
Khabarovsk Krai	59%	19%	7.991	49.099
Moscow Region, AA(RU), outlook Stable	23%	32%	31.499	128.810

Sources: Ministry of Finance, Federal Treasury, ACRA's calculations

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