

May 31, 2019

Lead analysts:

Elena Anisimova, Associate Director
+7 (495) 139-0486
elena.anisimova@acra-ratings.ru

Maxim Pershin, Senior Analyst
+7 (495) 139-0485
maxim.pershin@acra-ratings.ru

Key rating assessment factors

Key assumptions

ACRA affirms BBB(RU) to the Volgograd Region and its bond issues, changes outlook to Positive

The change in outlook to the credit rating of the [Volgograd Region](#) (hereinafter, the Region) is due to the reduction in the Region's debt load at the end of 2018 and the expected change in the Region's debt repayment schedule. The Region's credit rating is limited by the low flexibility of budget expenses, low levels of liquidity, and regional development levels (per capita) that are far below the national average.

The Volgograd Region is part of the Southern Federal District and borders Kazakhstan. 2.5 million people live in the region and its 2018 GRP amounted to RUB 860 bln.

Reduced debt load and expected debt refinancing. In 2019, the Region is expected to repay only 6% of its actual debt as of January 1, 2019. In 2020, however, the Region plans to repay 27% of its debt, about one fifth of its tax and non-tax revenues (TNTR) for 2018. Budget loans make up about half of the Region's debt structure. Therefore, the long-term debt profile will depend on possible budget loan maturity extensions at the end of 2019, as well as the terms for refinancing bank debt. In 2018, growth in TNTR allowed the Region to reduce absolute debt by 4% and the debt to operating balance ratio to two. If the Region executes its budget according to the current version of the regional budget law, the debt to operating balance ratio could grow to 2.3x by the end of the year amidst a reduction in operating balance. Due to the growth in TNTR, the Region's debt to TNTR ratio is well below the level established by the additional agreements with the Ministry of Finance on budget loan restructuring. The Region's interest expenses are not burdensome.

Low flexibility of budget expenses. The Region's TNTR grew by 17% in 2018 (corporate income tax (CIT) and personal income tax (PIT) made the biggest contributions; the growth in PIT was due to a change in tax distribution in favor of the regional budget). In 2018, the Region executed its budget with a 4% TNTR surplus. The current version of the budget law assumes an increase in the Region's TNTR by only 2% in 2019 as a result of the planned reduction of CIT revenues. However, because the deduction regulations on PIT to municipal budgets continue to decline, regional budget revenues will increase quantitatively and the pace of regional budget execution on PIT makes it possible to assume its revenue execution at a level higher than inflation. According to ACRA, TNTR should average 72% of revenues in 2016-2019 (excluding subventions); mandatory (according to ACRA's methodology) expenses should be comparably high at 75%. Capital expenses are low; however, they should double in 2019 due to an increase in federal transfers. Possible structural changes in the budget leading to growth in capital expenses will not change the assessment of the Region's budget flexibility because these expenses will be co-financed.

In ACRA's opinion, the steady decline in the regional budget's overdue accounts payable has a positive effect on the Region's creditworthiness assessment.

A diversified economy with per capita income below the national average. The Region's economy is based on manufacturing industries (petroleum products, finished metal products, food industry), trade (wholesale and retail), and the agricultural industry. Socioeconomic development indicators (per capita income, per capita GRP, and unemployment) lag behind the national averages.

- Budget execution without a deficit in 2019;
- A double in transfers to finance capital expenses.

Potential outlook or rating change factors

The Positive outlook assumes that the rating will most likely change within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Maturity extensions for budget loans and bank debt;
- Reduction in mandatory expenses leading to an increase in operating balance;
- Significant reduction in debt load (debt to operating balance ratio).

A negative rating action may be prompted by:

- Nonfulfillment of budget revenues and the inability to reduce mandatory expenses for 2018;
- Significant reduction in operating balance;
- Increase in accounts payable.

Issue ratings

[Volgograd Region Government Bond, 2014, 35005 \(ISIN RU000A0JUP89\)](#)

Maturity date – July 13, 2019, issue volume – RUB 5 bln, **BBB(RU)**;

[Volgograd Region Government Bond, 2015, 35006 \(ISIN RU000A0JVU65\)](#)

Maturity date – October 30, 2020, issue volume – RUB 5 bln, **BBB(RU)**;

[Volgograd Region Government Bond, 2017, 35007 \(ISIN RU000A0JXSD3\)](#)

Maturity date – June 2, 2024, issue volume – RUB 10 bln, **BBB(RU)**.

Rationale. In ACRA's opinion, the above bonds issued by the Volgograd Region are senior unsecured instruments, and their credit ratings are equal to the rating assigned to the [Volgograd Region](#).

Regulatory disclosure

The credit ratings of the Volgograd Region and the bonds (ISIN RU000A0JUP89, RU000A0JVU65, RU000A0JXSD3) issued by the Volgograd Region were 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 the credit rating process relating to the above bond issues, the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also used.

The credit rating assigned to the Volgograd Region was published by ACRA for the first time on June 26, 2017. The credit ratings assigned to the sovereign bonds issued by the Volgograd Region (ISIN RU000A0JUP89, RU000A0JVU65, RU000A0JXSD3) were published by ACRA for the first time on June 27, 2017.

The credit rating of the Volgograd Region and its outlook and the credit ratings assigned to the sovereign bonds (ISIN RU000A0JUP89, RU000A0JVU65, RU000A0JXSD3) issued by the Volgograd 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 and confirmed based on the data provided by the Administration of the Volgograd 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 Administration of the Volgograd Region participated in the rating process.

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

ACRA provided no additional services to the Administration of the Volgograd Region. No conflicts of interest were discovered in the course of the credit rating process.

(C) 2019

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
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.

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. 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.