June 1, 2020

About a third of regions can avoid debt growth in 2020

Analysis of the liquidity reserve of Russian regions

See ACRA's commentary [The spread of COVID-19 and the fall in oil prices are worsening the economic situation and the creditworthiness of Russian issuers](#).

ACRA has already voiced its expectations regarding a reduction in tax revenues to the budgets of Russian regions in 2020 as a result of the coronavirus pandemic. If regions cannon reduce expenses this year, their budget deficits will increase. How the regions will finance these deficits will depend on whether accumulated liquidity is available at the beginning of the year.

ACRA has identified which regions having difficulty with account balances in 2020[1].

As of January 1, 2020, deposits of Russian Regions, excluding Moscow, amounted to RUB 398 bln (RUB 274 bln a year earlier).

Not all Russian regions have the right to place deposits, and some close deposits at the reporting date. ACRA analyzed how much money the regions had at the beginning of this year, including cash on hand, deposit balances, and account balances in the Federal Treasury. As of January 1, 2020, the total balance of funds of Russian regions, excluding Moscow, amounted to RUB 759 bln rubles, which is RUB 20 bln more than on January 1, 2019. Cash balances increased in 46 regions, including a significant increase (more than 5%) in 39 regions. Balances decreased in the remaining 39 regions, with 31 regions recording decreases by more than 5%.

The graph below shows regions whose account balances at the beginning of the year accounted for more than three-quarters of their average monthly spending over the past year and about one-twelfth or more of their tax and non-tax revenue (TNTR) for 2019 (right scale). According to ACRA, these balances are enough for said regions to avoid significant budget sequestration or debt growth.

The abovementioned regions mainly include commodity producing regions, industrial centers, and regions that have either reduced their debt loads or maintained them at a consistently low level.

All other things being equal, the regions represented in the graph will most likely have more opportunities to prevent debt growth in 2020.

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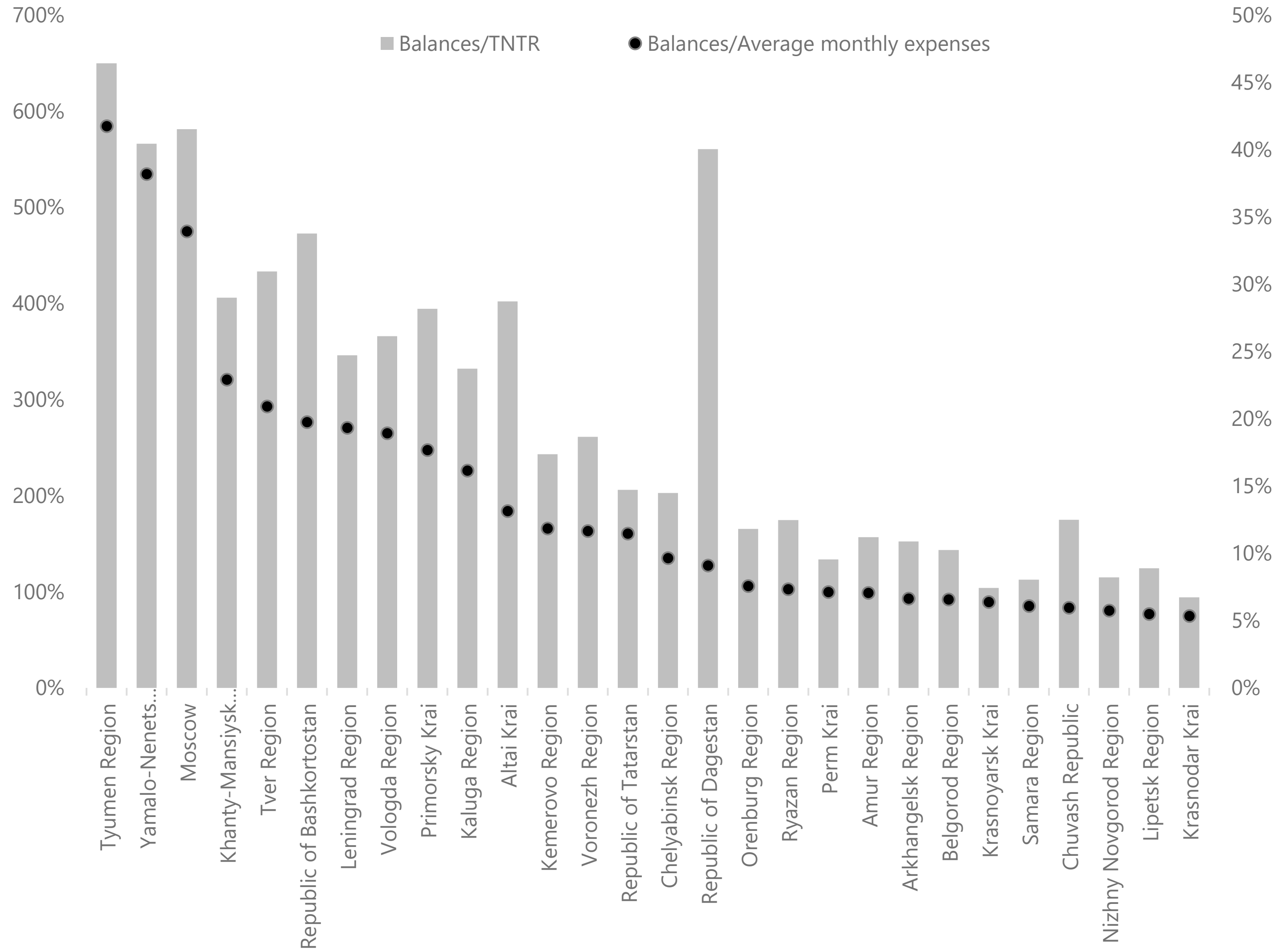
[1] Data from the reporting form 05003320 were used.

Regions with liquidity reserves at the beginning of 2020



Sources: Federal Treasury, Ministry of Finance, ACRA

ACRA notes that 37 regions had balances of less than 5% of TNTR for 2019 at the beginning of this year, and 15 of them had less than 1%. Fourteen regions had balances that were less than 5% of their average monthly expenses for 2019. If there is a significant reduction in the TNTR, these regions will either have to increase debt or find reserves that will reduce costs.

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