

June 17, 2020

Lead analysts:

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

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

Key rating assessment factors

ACRA affirms BBB(RU) to the Novgorod Region, outlook Stable

The credit rating of the [Novgorod Region](#) (hereinafter, the Region) is based on the Region's moderate economic development indicators and budget profile, as well as medium debt load coupled with an irregular debt repayment schedule and average budget liquidity.

The Novgorod Region is located in the North-Western Federal District and borders four other regions of the Russian Federation. In 2018, 0.4% of Russia's population lived in the Region; its gross regional product (GRP) was 0.3% of Russia's total GRP. The main railroads and highways connecting Moscow, St. Petersburg, and the Baltic countries pass through the Region.

Medium debt load and significant refinancing risk. The Region's debt to current income ratio fell from 52% at the end of 2018 to 45% at the end of 2019. This is due to an increase in income tax revenues and current transfer revenues. According to ACRA, at the end of 2020, due to a possible reduction in tax and non-tax revenues (TNTR) and new loans to finance the budget deficit, debt to current income in the Region could increase to 62%, indicating a moderate level of debt load according to ACRA's methodology. At the end of 2020, budget loans should account for 56% of the Region's debt obligations, while bank loans should account for 44%. In 2020, there are no risks of debt refinancing and in 2021, the Region will have to repay or refinance all of its bank debt. Repayment is scheduled to take place in stages over the course of the year, which partially reduces the refinancing risk. Debt servicing expenses are not a burden on the regional budget due to the high share of budget loans in the Region's debt structure (the average level¹ of interest expenses in 2016–2020 should amount to less than 2% of total budget expenses excluding subventions).

Average budget liquidity. The Region has enough liquidity to meet its expense commitments on time, including interest payments. As of May 1, 2020, account balances exceeded average monthly budget expenses by 1.2x for the four-month period in 2020. The Region's government may borrow a short-term loan from the Federal Treasury Department to cover possible cash gaps.

Moderate budget profile indicators. The average share of TNTR (excluding subventions) for 2016–2020 in the Region's total revenues should amount to 73%. The averaged ratio of the current account balance to current income should equal 6% for this period, while the ratio of the modified budget deficit to current income should be -2%. These indicators show that current income is enough to cover current expenses and that the Region needs to resort to borrowing only in order to finance capital expenses. Average capital expenses in 2016–2020 account for 13% of total budget expenses and are 30–40% financed by transfers from the federal budget.

Diversified economy with a developed chemical industry. The largest local enterprise is PJSC Acron, a fertilizer manufacturer that generates about 40% of the total shipped products of the Region's manufacturing sector. Tax revenues from the chemical industry equal 6-15% of the Region's tax revenues for 2016-2019. Other major sectors of the Region's economy are transport and trade, as well as wood processing and the production of paper and paper products. The Region's GRP per capita in 2018 was 75% of the national average. The average salary in the Region exceeded the regional subsistence minimum by 2.7x in 2019. The unemployment rate in the Region is lower than the national average. This may lead to a shortage of personnel and a possible increase in social spending given the decrease in and the aging of the Region's population.

¹ Hereinafter, averages are calculated according to the Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation.

Key assumptions

- Decrease in TNTR in 2020 by no more than 15% of the 2019 level;
- Decrease in budget expenses if actual revenues are lower than planned.

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:

- Improvement in the commercial debt repayment schedule (reduced refinancing risk in relation to a substantial share of debt within one year);
- Lower relative debt load;
- Stable growth of budget liquidity.

A negative rating action may be prompted by:

- Increase in current expenses not supported by an increase in current budget revenues.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned to the Novgorod Region under the national scale for the Russian Federation based on the Methodology for Credit Rating 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](#).

The credit rating of the Novgorod Region was published by ACRA for the first time on July 27, 2018. The credit rating of the Novgorod Region is 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 rating was assigned based on data provided by the government of the Novgorod 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 rating is unsolicited, and the government of the Novgorod Region participated in its assignment.

No material discrepancies between the provided data and data officially disclosed by the government of the Novgorod Region in its financial reports have been discovered.

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

(C) 2020

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

The 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 bln. 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.

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.