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ACRA assigns A+(RU) to the Belgorod Region, outlook Stable

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Key rating assessment factors

The credit rating of the [Belgorod Region](#) (hereinafter, the "Region") is determined by highly developed metals and mining and agribusiness sectors of the regional economy, federal support of the agricultural industry, well-balanced debt load in terms of repayment dates and its structure, and high level of infrastructure.

The Region produces approximately 40% of the Russian iron-ore concentrate; the only hot briquetted iron plant in Russia is situated in the Region. The Belgorod Region ranks second among Russia's regions in terms of absolute amount of gross value added in the agricultural industry producing some 4% of the Russian agricultural output.

Advantageous natural resources and climate conditions. A portion of the large iron-ore basin (Kursk Magnetic Anomaly) is located in the Region. Favorable climate allows for development of the agricultural (the Belgorod Region is a leading meat producer among Russian regions) and therefore, food industries.

Sufficiently diversified economy compensates for cyclical influence of the mining industry on Region's gross regional product (GRP). Although GRP's dynamics closely correlates with iron ore prices while linked industries (iron ore extraction and production of metals) generate a third of the industrial output, non-cyclical industries have a positive effect on Region's economy diversification: highly developed agricultural industry (approx. 20% of GRP) and food industry (up to a half of the total industrial production). The maximum dependence of the Region's budget on tax revenue from linked industries (iron ore extraction and production of metals) makes up 17% of tax revenue which is assessed by ACRA as neutral.

Fiscal discipline indicators are driven by sufficient level of proprietary income and federal subsidies of the agricultural industry. High level of fiscal discipline is reached largely owing to federal support of the agricultural industry (the average co-financing share of the Region was at 16% in 2014-2016) amid losing a share of income tax from agribusiness enterprises due to the benefits applied according to federal laws. In 2017-2019, tax revenue growth from metals and mining companies will have additional positive effect on fiscal indicators due to the end of the period when historical losses are written off. Additional revenue will be primarily spent on road construction and social infrastructure development. Taking into account industry specifics of the Region's annual capital expenditure, the reserve to cut costs of the Region by using it will not exceed 1% of the total fiscal spending.

Well-balanced debt in terms of repayment dates and structure puts no excess pressure on debt load indicators. Debt loan estimates correspond to low risk category due to a relatively high operating balance and a comfortable debt repayment schedule (the Region's annual repayment amounts will not exceed one fifth of its total financial debt in 2017-2019). ACRA also points to the fact that guarantees making up 28% of the Region's debt were issued by the Belgorod Region to develop its predominant industry, i.e. agricultural sector.

Sufficient liquidity. Region's administration has no legal right to hold deposits with banks; it has, however, a sufficient level of liquidity to perform its expenditure obligations in a timely manner including interest payments. Current month expenses mainly exceed cash balances on budget accounts as at month start. The Region was covering its short-term liquidity needs in rare cases of planned cash gaps by short-term loans from Federal Treasury Department.

Key assumptions

- Maintaining dependence of the Region's economy on the dynamics of its key industries;
- Maintaining moderate share of the Region's mandatory fiscal expenditures (approx. 60%);
- Maintaining significant federal support of the Region's agribusiness sector;
- Maintaining well-balanced debt management policy by mainly raising long-term debt with regular amortization schedule.

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:

- Increased share of higher added value products followed by monetization of agricultural output growth results;
- Increased level of budget's own liquidity.

A negative rating action may be prompted by:

- Substantially lower support of agricultural enterprises by federal budget resulting in higher regional budget expenses;
- Changes in debt management policy and time structure of the debt;
- Higher debt servicing costs.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has 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](#).

A credit rating has been assigned to the Belgorod Region for the first time. The credit rating and its outlook are expected to be revised within 182 days following the rating action (June 9, 2017).

The assigned credit rating is based on the data provided by the Belgorod 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 solicited, and the Belgorod Region participated in its 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 Belgorod Region. No conflicts of interest were discovered in the course of credit rating assignment.

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