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Key rating assessment factors

ACRA affirms B(RU) to the Republic of Mordovia, outlook Stable, and B(RU) to bond issue

The credit rating of the [Republic of Mordovia](#) (hereinafter, the Region) is based on the Region's very high debt load with high risks of refinancing debt obligations in the short term and the positive balance of current operations amid declining share of internal budget revenues. The rating is restricted by the moderately low economic profile, lack of free liquidity, high debt service costs, and negative modified deficit forecasted for 2021.

The Republic of Mordovia is part of the Volga Federal District. It has a population of 0.8 million (0.5% of the total population in Russia). The Region's GRP was RUB 263 bln in 2019 (0.3% of the total GRP of Russian regions). According to the Region's estimates, its GRP amounted to RUB 260 bln in 2020.

Very high debt load with high risks of refinancing debt obligations. In 2020, the Region's debt declined by 4% (RUB 2.0 bln) to RUB 49.1 bln as of January 1, 2021. The debt includes budget loans (54%), short-term bank loans due in 2021 (42%), and the Region's bond issue (the rest of the debt).

In 2020, the debt repayment schedule became more uneven than in 2019: as of January 1, 2021, the Region was to repay 52% of its debt this year, of which bank loans exceeded 80%. At the same time, the due dates of budget loans were extended until 2029 (with a consistent repayment of loans in this period) thanks to the additional agreements with the Ministry of Finance of Russia. Although the repayment schedule has deteriorated, the volume of the Region's debt should not exceed RUB 50.0 bln by the end of 2021. In ACRA's opinion, budget deficit may result in a breach of new agreements with the Ministry of Finance of Russia; however, the practice of budgetary coercive measures suggests that no one-off repayment of restructured budget loans will not occur (regardless that such liability is established for non-compliance with the annual reductions in the volume of regional debt).

As of March 1, 2021, a portion of bank loans (RUB 3.0 bln) was refinanced by other bank loans due in 2022. In the remaining period of this year, the Region will have to repay or refinance 46% of its debt (RUB 22.4 bln). From April to October, the Region will have to repay or refinance an amount comparable to 50–100% of its monthly internal revenue, which indicates high refinancing risks.

The Region's debt to current revenue will be, according to ACRA's forecast, very high (over 100%) in the next two years. The current version of the budget law¹ assumes a reduction in budget revenues due to falling gratuitous transfers, which may push up the ratio of debt to current revenue in 2021.

The ratio of debt to tax and non-tax revenues (hereinafter, TNTR) of the Region decreased in 2020 to 195% (211% in 2019). According to ACRA's estimates, this year this ratio may decrease to 189%, but, at the same time, remain critically high.

Interest expenses are substantial: the ratio of averaged² interest expenses to total expenses excluding subventions in 2017–2021 should be about 5%.

The ratio of the Region's debt to GRP in 2019 (the last year available for analysis) has decreased. ACRA notes that this is due to a change in the methodology used by Rosstat for calculating GRP, as well as a decrease in the absolute value of the Region's debt.

¹ Law of the Republic of Mordovia dated Nov. 26, 2020 No. 90-3 (as amended on Mar. 4, 2021) "On the republican budget of the Republic of Mordovia for 2021 and the planned period of 2022 and 2023."

² Hereinafter, averages are calculated according to the [Methodology for Assigning Credit Ratings to Regional and Municipal Authorities of the Russian Federation](#).

The aggregate debt burden of municipalities in 2020 decreased by 7 p.p. compared to 2019, but it still exceeds 100%.

Lack of free liquidity. As of January 1, 2021, the volume of free funds held on the Region's accounts covered only 2% of the volume of short-term debt. In 2020, average monthly balances covered on average 8% of the Region's average monthly expenditures.

As of January 1, 2021, the Region had no committed but undrawn credit lines. The Region uses short-term loans granted by the Federal Treasury Department to finance possible cash deficits.

The increased volume of gratuitous transfers has made it possible to finance growing budget expenditures. At the end of 2020, budget revenues of the Region amounted to RUB 51.9 nlb, which is 25% higher than in 2019. The increase was mainly caused by gratuitous transfers. In particular, non-target transfers almost doubled (from RUB 5.8 bln to RUB 10.1 bln), which is the historic maximum for the Region for the entire period of ACRA's observations. TNTR also increased by 4%, but this increase was insufficient to finance the budget expenditures, which increased by 25% in 2020. The most significant increase was observed in health care expenditures (by more than 1.5 times) and social policy (more than a quarter). The budget surplus amounted to RUB 1.8 bln (about 7% of TNTR).

The current version of the republican budget law assumes a reduction in budget expenditures and a decrease in revenues in 2021, which will be mainly due to a decrease in the volume of gratuitous transfers. The planned budget surplus will amount to 1% of TNTR.

ACRA believes that the uncertainty of the situation around the coronavirus pandemic may prevent the Region from reducing budget expenditures to the planned level, which may result in a budget deficit by the end of the year.

The share of internal budget revenues of the Region has remained moderate and is expected to amount to 59% in 2017–2021. The share of capital expenditures in the total expenditures of the Region (excluding subventions) will increase from 12% to 15%, while the average share of capital expenditures for the period from 2017 to 2021 is expected to remain at about 13%.

The averaged ratio of the balance of current operations and current revenues will be 6%, and the ratio of the averaged modified budget deficit to current revenues is expected to be at -2%.

Moderately low economic profile assessment. In 2016-2019, the Region's average GRP per capita was 51% of the national average. The ratio of averaged wages to the regional subsistence minimum in 2017–2020 amounted to 3.0. The rate of unemployment calculated according to ILO methodology is consistently low (5.4% in 2020).

The Region's non-government sector is well diversified. According to ACRA's estimates, over the last four years, the highest share of tax revenues (about 10.6%) was generated by wholesale trade. The government sector's share in total tax revenues remains high (around 25% each year).

Key assumptions

- Urgent financial support from the federal budget if necessary;
- Attracting short-term credit resources to refinancing debt and finance the budget deficit.

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:

- New sources to repay (refinance) the current portion of debt;
- Changes in the debt repayment schedule (which would decrease the share of the short-term debt and the debt maturing in 2020-2021);
- Growing volume of free cash and longer debt repayment period.

A negative rating action may be prompted by:

- Materialization of risks of short-term debt refinancing;
- Breach of newly budget loan restructuring agreements made with the RF Ministry of Finance, in terms of debt reduction in 2021;
- Unexpected fall in budget revenues or surge in budget expenditures.

Issue ratings

[Republic of Mordovia Government Bond, 2016 \(ISIN RU000A0JWSQ7\)](#), maturity date: September 3, 2021, issue volume: RUB 5 bln — **B(RU)**.

Rationale. In ACRA's opinion, the bond listed above is senior unsecured debt instruments, the credit ratings of which correspond to the credit rating of the [Republic of Mordovia, i.e., B\(RU\)](#).

Regulatory disclosure

The credit ratings have been assigned to the Republic of Mordovia and bond (RU000A0JWSQ7) issued by the Republic of Mordovia 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](#). In the process of the credit rating assignment to the above issue, 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 of the Republic of Mordovia and the credit ratings of bond (RU000A0JWSQ7) issued by the Republic of Mordovia were published by ACRA for the first time on November 8, 2017.

The credit rating of the Republic of Mordovia and its outlook as well as the credit rating of bond (RU000A0JWSQ7) issued by the Republic of Mordovia are expected to be revised within 182 days following the publication date of this press release in compliance with the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on the data provided by the Republic of Mordovia, information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, the Federal Tax Service, the Commercial Case File, the Federal Treasury), as well as ACRA's own databases. The credit ratings are solicited, and the Government of the Republic of Mordovia participated in their assignment.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to the Government of the Republic of Mordovia. No conflicts of interest were discovered in the course of credit rating assignment.

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