

November 17, 2017

ACRA assigns AA+(RU) to the Republic of Tatarstan, outlook Stable

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Key rating assessment factors

The credit rating was assigned to [the Republic of Tatarstan](#) (hereinafter, the Republic, or the Region) based on the regional economy's development level that is significantly ahead of the national average figures, high level of control over budget spending and high share of the development budget in the spending structure as well as long-term structure of the direct debt of the Republic (comprising fiscal loans) and minimal risk associated with its servicing. The ability of the Republic's authorities to provide targeted financial aid to companies and financial institutions of strategic importance for the economy or those with significant dependence on the Region's budget constitute a limiting factor for the credit rating.

The Republic of Tatarstan is part of the Volga Federal District and borders eight regions of Russia. The Republic's population is 3.885 mln people, with 40% (1.56 mln) live in the Kazan agglomeration. There are two special economic zones (SEZ) in the Republic: Alabuga (industrial production profile) and Innopolis (technology and innovation profile). Four towns in the Region have a status of priority social and economic development areas.

The Region is significantly ahead of the rest of the country in terms of economic development. The share of mining of fossil fuels in the gross regional product is 20.8%, with manufacturing enterprises accounting for 18.9%, and trade and construction industries accounting for 14.6% and 9.4% of GRP, respectively (average figures in 2014-2015). Petrochemicals production, chemical industry, vehicle production, food industry and manufacturing of machinery and various equipment are the core of the Republic's manufacturing industry. Since 2006, the Region's GRP growth has been either significantly higher than the aggregate GRP growth of the Russian regions, or matched it. Investments are substantially more intensive than the national average level (1.45x in 2013-2016). Exports from the Republic average 42% of GRP, of which mineral products account for 77%, and petrochemicals and machinery sectors account for 13% and 9%. The Region has low unemployment, and the demographic situation demonstrates positive trends.

A well-balanced budget with high self-sufficiency of revenues and high control over spending. According to 2014-2017 data, tax and non-tax revenues average 88% of the Republic's budget revenues (excluding subventions). According to ACRA estimates, the development budget accounted for around 41% of the regional budget's spending in the above period. The amount of per capita tax and non-tax revenues in the Republic's budget substantially (1.66x) exceeds the average figures in the Volga Federal District, while per capita healthcare and social security spending roughly equal the average figures for the Volga Federal District. ACRA positively assesses the strategy being implemented by the regional authorities, which allows preserving flexibility of the Republic's budget, financing development of the regional economy and social infrastructure, and which creates no excessive social security imbalance for the federal district's population.

In 2016, the share of corporate income tax revenues in the tax and non-tax revenues in the Region's budget was 38%, with personal income tax accounting for 23%, excise duties (beer, alcoholic beverages and petrochemicals) accounting for 18%, and the share of property tax was 14%. Excise duty revenues increased by 72% in 2016. More than half of that growth (plus RUB 7.8 bln) is attributable to middle distillates (the Region's share in the total amount of middle distillates excise duties collected in Russia was around 45% in 2016).

Obligations of enterprises fully or partially owned by the Republic affect the Region's debt load assessment. ACRA takes into account that the Region's authorities are capable of providing targeted financial aid to companies and financial institutions of strategic importance for the Republic's economy or to those with a significant dependence on its budget.

The Republic's government debt (totaling RUB 93.4 bln) comprises fiscal loans (91% of the total debt) already restructured (RUB 79.1 bln), or subject to restructuring in 2017, and guarantees (RUB 8.6 bln, expiring in 2034) that the Republic issued in favor of Kamaz PTC covering its obligations to the federal budget. If the Republic's authorities agree to restructuring of fiscal loans that have not yet been restructured (RUB 5.7 bln), the planned repayment amount in 2018-2019 will be around RUB 0.28 bln a year (less than 0.4% of the operating balance).

The Republic owns equity stakes in the leading companies of the region. As at January 1, 2017, the aggregate value of stakes owned by the Region (in terms of net assets) was RUB 416.3 bln. The Republic's budget receives no significant revenues in form of dividends (their share did not exceed 0.2% of tax and non-tax revenues in 2014-2016). It shall be noted, however, that the Region provides no income tax benefits to large taxpayers, as doing so would result in lower revenues of the budget.

High liquidity of the budget. In particular periods, the available balance on the single account of the Republic matches the current month expenses. Following 2017 results, the Region expects to have a surplus of over RUB 2 bln to be used to finance the deficit expected in 2018.

Key assumptions

- Capability (if necessary) of the Region's authorities to provide financial aid to companies and financial institutions of strategic importance for its economy or those with significant dependence on its budget;
- GRP growth rate is above 3% a year in 2018-2019;
- the Region's fixed investments are maintained above 30% of GRP in 2018-2019;
- Budget deficit is below 2% of tax and non-tax revenues in 2018-2019;
- The development budget share in the total spending is above 37% in 2018-2019.

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:

- Annual growth of tax and non-tax revenues exceeding 4.5%;
- Higher transparency and predictability of relationships between the Republic and companies (including financial institutions) of strategic importance for its economy and those with significant dependence on its budget.

A negative rating action may be prompted by:

- A significant decrease of the operating balance;
- A substantial cut of capital expenditures (the development budget).

Issue ratings

None.

Rating history

None.

Regulatory disclosure

The credit rating has been assigned to the Republic of Tatarstan 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](#).

The credit rating has been assigned to the Republic of Tatarstan for the first time. The credit rating and credit rating outlook are expected to be revised within 182 days following the rating action (November 15, 2017).

The credit rating was assigned based on the data provided by the Republic of Tatarstan, 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 Republic of Tatarstan participated in its assignment.

No material discrepancies between the data provided and the data officially disclosed by the Republic of Tatarstan in its financial report have been discovered.

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

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