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Key rating assessment
factors

Key assumptions

ACRA changes outlook of the Belgorod Region to Positive, affirms credit rating and bonds issues at A+(RU)

The outlook on the credit rating of [the Belgorod Region](#) (hereinafter, the Region) has been changed to Positive due to a change in the expected size of the Region's operating balance in 2018 as a result of a continued period of high metal prices. This factor could have a positive impact on the regional budget's relative debt load. The rating is supported by stable budget indicators, a balanced debt structure, and a high level of infrastructure development in the Region.

The Region produces approximately 40% of Russia's iron ore concentrate. The climate is favorable for non-cyclic industries, including agricultural and food industries. This has a limited positive impact on the diversification of the regional economy, which is dependent on the mining sector.

The growth rate of the operating balance is exceeding expectations. In 2017, the Region's tax revenues began to grow and have continued to do so throughout 2018 primarily due to income taxes (mainly in the metal industry). According to ACRA's estimates, by the end of 2018, up to 40% of the regional budget's tax revenues will have been raised via metal ore mining and metal production (tax revenues from these industries more than doubled in 2016). On the one hand, this has increased the dependence of budget revenues on iron ore and metal production. On the other hand, it can lead to the growth of the operating balance to 33% of the Region's regular income, which is significantly higher than ACRA's expectations for 2018. Revenue growth in 2017 was accompanied by an increase in both mandatory and capital expenditures (mainly in the road sector). The planned volume of tax revenues for 2018-2020 will also allow the Region to maintain a relatively high level of capital expenditures and a high ratio of operating balance to regular revenues.

Well-balanced debt in terms of repayment dates and structure puts no excess pressure on debt load indicators. Debt loan estimates are in the low risk category due to a relatively high operating balance and a comfortable debt repayment schedule. The Region will fulfill its obligations under the budget loan restructuring agreements, decreasing the volume of guarantees. As of October 1, such guarantees accounted for 18% of the debt, but they will expire with time and new guarantees will be issued in minimal volumes. In the case of the abovementioned growth in operating balance, the decrease in debt load at the end of 2018-2019 may be more significant than previously expected.

- Maintaining dependence of the Region's economy on the dynamics of its key industries;
- Maintaining a well-balanced debt management policy primarily by raising long-term debt with a regular repayment schedule;
- Gradual reduction in debt load by means of debt repayment.

Potential outlook or rating change factors

The **Positive 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:

- Execution of the regional budget at the end of 2018 with a surplus and the use of the received funds to reduce the debt load;
- Improvement in debt load indicators by means of operating balance growth and/or a decrease in guarantees issued.

A negative rating action may be prompted by:

- Change in debt policy and time structure of debt;
- Higher debt service costs;
- Considerable decrease in tax revenues from the metal industry.

Issue ratings

[Belgorod Region Government, 35011 \(ISIN RU000A0JXTW1\)](#), maturity date: June 11, 2024; issue volume: RUB 4 bln, **A+(RU)**.

Rationale. ACRA is of the opinion that the bond issued by the Belgorod Region has a status of senior unsecured debt. Credit rating of this debt instrument corresponds to the credit rating of the [Belgorod Region](#).

Regulatory disclosure

The credit ratings of the Belgorod Region and bond issued by the Belgorod Region (ISIN RU000A0JXTW1) have 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](#). In the course of assigning a credit rating to the bond issue above, the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation has also been used.

The credit rating of the Belgorod Region and the credit rating of the government bond of the Belgorod Region were published by ACRA for the first time on June 13, 2017, and June 19, 2017, respectively. The credit rating of the Belgorod Region and its outlook and the credit rating of the government bond of the Belgorod Region are expected to be revised within 182 days following the rating action date (December 5, 2018) as per the [2018 Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on the data provided by the Belgorod Region, information from publicly available sources (the RF Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), as well as ACRA's own databases. The credit ratings are solicited, and the Government of the Belgorod Region participated in their 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 Government of the Belgorod Region. No conflicts of interest were discovered in the course of credit rating assignment.

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