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ACRA affirms A(RU) to the Sverdlovsk Region, changes outlook to Positive, and affirms A(RU) to bond issues

Leading analysts:

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

Dmitry Kulikov, Associate Director
+7 (495) 139-0492
dmitry.kulikov@acra-ratings.ru

Key rating assessment factors

ACRA has changed the credit rating outlook of the [Sverdlovsk Region](#) (hereinafter, the Region) due to expected changes in the structure of budget expenses and increased budget liquidity. The region's average level of economic development negatively affects its rating.

The Sverdlovsk Region is a part of the Urals Federal District, bordering seven other administrative entities of the Russian Federation. The Region's population is about 4.3 million people. According to the Region, its GRP amounted to RUB 2.2 trln in 2018.

The 2018 surplus could allow the Region to maintain its debt load and possibly change the structure of budget expenses. The Region finished 2018 with a budget surplus of 3.6% in tax and non-tax revenues (TNTR), which amounts to around RUB 8 bln. Revenues and expenditures for the year increased by 17.2% and 11.6%, respectively. Taxes on profits (+25%, RUB 17 bln), TNTR (+11.3%, RUB 7.1 bln), and gratuitous funding (+41%, RUB 7.6 bln) were the main drivers behind the increase in budget revenues. The basis for the growth in expenditures was an increase in transfers to lower budgets by RUB 8 bln (one-third of the expenditure increase), as well as budget allocations to "National Economy," "Social Policy," and "Education" budget sections (a total of RUB 11.6 bln, 46% of the expenditure increase). Revenue growth allowed the Region to increase its operating balance, which reached 22% of the budget's regular revenues by the end of 2018. Last year's surplus could become the basis for deficit financing in 2019 according to ACRA's base case scenario for the reduction of ruble prices on commodities and goods markets. In addition, ACRA expects the Regions operating balance to fall to 16% of regular revenues while maintaining the current level of financing for capital expenditures. ACRA also expects an increase in budget discipline and control by the end of 2019 if the Region can stabilize its mandatory expenditures.

The Region's debt loan reflects a comparatively low risk level. Although the increased operating balance in 2018 allowed the Region to lower the budget's relative debt load from 2.5 to 1.3, ACRA expects it to grow to 2.0 by the end of 2019 due to the potential need for deficit financing. Low debt costs and a flexible repayment schedule compensate for this growth. As of February 1, 2019, the Region's debt is almost equally distributed between bonds, bank loans, and budget loans. As the Region repays budget loans, the share of market debt could increase to 75% by the end of 2019.

- Execution of the 2019 budget with a deficit no higher than 4% TNTR;
- Intense slowdown in the growth rates of tax on profit revenues;
- 2019 deficit financing primarily via debt instruments;
- Maintaining current budget liquidity levels.

Key assumptions

Potential outlook or rating change factors

The **Positive outlook** assumes that the rating will most likely change within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Steady increase in budget discipline and control;
- Execution of the 2019 budget with a surplus.

A negative rating action may be prompted by:

- Execution of the 2019 budget with a deficit higher than 4% TNTR;
- Change in debt load profile;

- Nonfulfillment of the expected TNTR levels and a reduction in operating balance with the inability to reduce capital expenditures.

Issue ratings

[Sverdlovsk Region, 35003 \(ISIN RU000A0JWZ77\)](#), maturity date: November 15, 2024, issue volume: RUB 5 bln — **A(RU)**.

[Sverdlovsk Region, 35004 \(ISIN RU000A0ZYDU3\)](#), maturity date: October 22, 2025, issue volume: RUB 10 bln — **A(RU)**.

[Sverdlovsk Region, 35005 \(ISIN RU000A0ZZQH9\)](#), maturity date: October 23, 2026, issue volume: RUB 5 bln — A(RU).

Rationale. ACRA is of the opinion that the above bonds issued by the Sverdlovsk Region are senior unsecured debt instruments, the credit ratings of which are equal to that of the [Sverdlovsk Region](#).

Regulatory disclosure

The credit ratings of the Sverdlovsk Region and bonds (ISIN RU000A0JWZ77, ISIN RU000A0ZYDU3, RU000A0ZZQH9) issued by the Sverdlovsk Region were 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 Analytical Credit Rating Agency within the Scope of Its Rating Activities](#). Over the course of the credit rating assignment to the bond issues above, 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 Sverdlovsk Region and the credit ratings of the government bonds (RU000A0JWZ77, RU000A0ZYDU3, RU000A0ZZQH9) issued by the Sverdlovsk Region were first published by ACRA on September 8, 2017, October 24, 2017, October 24, 2017, and October 18, 2018, respectively. The credit rating of the Sverdlovsk Region and its outlook, as well as the credit ratings of the government bonds (RU000A0JWZ77, RU000A0ZYDU3, RU000A0ZZQH9) issued by the Sverdlovsk Region are 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 ratings were assigned based on the data provided by the Sverdlovsk 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 ratings are solicited, and the Sverdlovsk Regional Government participated in the rating process.

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

ACRA provided no additional services to the Sverdlovsk Regional Government. No conflicts of interest were discovered in the course of credit rating process.

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

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