June 10, 2019

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ACRA upgrades the **Lipetsk Region** to **AA(RU)**, outlook **Stable**, and bonds issued by the Lipetsk Region to **AA(RU)**

The credit rating of the Lipetsk Region (hereinafter, the Region) has been upgraded on the growing internal revenues, which allowed the Region to decrease its debt load. The regional budget's liquidity and discipline indicators are high, which is also positive for the credit rating. The rating is under pressure from the low diversification of the regional economy and the economic indicators being below the national averages.

The Region is located in the Central Federal District, bordering six other regions. 1.1 million people live in the Region. According to the Region's estimates, its gross regional product (GRP) amounted to RUB 539 bln in 2018.

Key rating assessment factors

The debt load has decreased on budget surplus; budget account balances have been growing. In 2018, the Region's public debt fell by 9% (RUB 1.4 bln). The debt to operating balance ratio has been steadily declining (down to 0.5 in 2018). According to the current budget law of the Region, the ratio is not expected to exceed 0.7 in 2019, which indicates the low level of credit risk.

As of June 1, 2019, the total debt of the Lipetsk Region amounted to RUB 13 bln and included bonds (45%), budget loans (50%), and an insignificant amount of bank loans and guarantees; the annual share of debt refinancing did not exceed 23%. At the end of 2019, the operating balance after interest payments is expected to be almost four times higher than the debt service costs (the risk is minimal). As of May 1, 2019, the budget account balances covered more than 60% of the total debt.

The budget discipline and control indicators are high. The budget expenditures are covered by the Region on its own: the average share of internal revenues, excluding subventions, will amount to 82% for 2016–2019. The share of capital expenditures is about 24% of the total expenditures and is financed mostly (by about 60%) from the Region's own sources. At the same time, the share of mandatory expenditures is not high: 62% on average over the above period.

In 2018, the Region's tax and non-tax revenues (TNTR) grew by 19%, with more than a half of the increase coming from income tax paid by metal companies. This led to a significant increase in the operating balance. Given the expected decline in metal prices, in 2019, the operating balance is likely to return to the level of 2017, which, on the other hand, indicates a significant flexibility of budget expenditures.

In 2018, the budget surplus amounted to 12% of the TNTR, while the budget account balances reached RUB 10.1 bln.

Key assumptions

- The budget liquidity will remain high;
- The TNTR will decline by not more than 11% in 2019;
- The debt policy will remain conservative.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to18-month horizon.

A positive rating action may be prompted by:

- Certain economic indicators growing up to the national average levels.

A negative rating action may be prompted by:

- Changes in the debt policy and the debt repayment schedule;
- Falling tax revenues, and impossibility to cut mandatory expenditures.

Issue ratings

Lipetsk Region Government Bond, 2018, 35010 (ISIN RU000A0ZZR33), maturity date — October 21, 2025, issue volume — RUB 3 bln, — **AA(RU)**;

Lipetsk Region Government Bond, 2013, 35008 (ISIN RU000A0JTVZ8), maturity date — April 17, 2020, issue volume — RUB 3 bln, — **AA(RU)**.

Credit rating rationale. In ACRA's opinion, the above bonds are senior unsecured debt instruments, and their credit ratings are on par with the credit rating of the Lipetsk Region.

Regulatory disclosure

The credit ratings were assigned to the Lipetsk Region and the bonds (ISIN RU000A0ZZR33, RU000A0JTVZ8) issued by the Lipetsk Region 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. To assign credit ratings to the bond issues above, ACRA also used the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation.

The credit ratings assigned to the Lipetsk Region and the bonds (ISIN RU000A0ZZR33, RU000A0JTVZ8) issued by the Lipetsk Region were first published by ACRA on July 7, 2017, October 24, 2018, and July 12, 2017, respectively. The credit rating of the Lipetsk Region and its outlook and the credit ratings of the bonds issued by the Lipetsk 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 Administration of the Lipetsk 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 Administration of the Lipetsk Region participated in their assignment.

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

ACRA provided no additional services to the Administration of the Lipetsk Region. No conflicts of interest were discovered in the course of credit rating assignment and affirmation.

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