ACRA

REGIONS

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ACRA AFFIRMS AAA(RU) TO THE REPUBLIC OF TATARSTAN, OUTLOOK STABLE

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PRESS RELEASE

The credit rating of the Republic of Tatarstan (hereinafter, the Region, or Tatarstan) is based on the Region's moderately low debt load with minimal refinancing risks, high economic indicators, strong budget profile, and liquidity high enough to cover possible deficits.

The Region is part of the Volga Federal District and is home to 3.9 million people, 2.7% of the Russian population. In 2019, the gross regional product (GRP) of the Region reached RUB 2,796 bln. According to the Region, the 2020 GRP amounted to RUB 2,588 bln.

KEY ASSESSMENT FACTORS

Strong budget profile with a low need to use free liquidity. The averaged[1] ratio of current operations balance to current revenues for 2018–2022 will amount to 28%. The balance of current operations will remain positive in 2021, which is an indication of sufficiency of current revenues to finance current expenditures and corresponds to the highest grade in the assessment of the operating efficiency of the budget (as per ACRA's methodology).

The averaged share of capital expenditures in total expenditures for 2018–2022 will amount to about 38%, which, according to ACRA's methodology, corresponds to a high level of flexibility in budget expenditures. Capital expenditures are mostly funded by the Republic of Tatarstan at its own expense.

The averaged share of tax and non-tax revenues (TNTR) in the Region's revenues (excluding subventions) will amount to 84% at the end of 2021, which is higher than it was in 2020 due to a decrease in the volume of transfers from the federal budget.

The ratio of the modified budget deficit averaged over 2018–2022 to current revenues will be less than -1%. This suggests that the Region finances its capital expenditures mainly from budget revenues, but it may need to use some accumulated liquidity.

For seven months of this year, the volume of budget revenues of the Republic is 20% higher than revenues for the same period of 2020. The TNTR increased by 40% y-o-y: profit tax and income tax revenues grew by more than one and a half times, gross income tax revenues grew by 68%, and property tax revenues — by 27%. Transfers decreased by 34% compared to the same period of last year. As of August 1, 2021, budget expenditures remained at the last year's level, and the intermediate budget surplus amounted to more than 12% of TNTR, or about RUB 18.0 bln (a year earlier, the deficit equaled to RUB 11.0 bln).

[1] Hereinafter, averages are calculated according to the Methodology for Assigning Credit Ratings to Regions and Municipal Entities of the Russian Federation.

Based on the current estimates of the Republic, this year, TNTR may grow by 10%, while the volume of transfers will decrease by 30% against the previous year. It is assumed that the budget expenditures will be cut by 5%. The expected deficit of 6% of TNTR will be fully funded by account balances. Taking into account the growth rate of tax revenues, the actual budget revenue growth rate may turn out to be much higher than the estimates of the Region. At the same time, budgetary expenditures may be reduced less significantly.

Non-commercial debt with minimal refinancing risks. As of August 1, 2021, the Region's debt amounted to RUB 97.4 bln, which is RUB 0.8 bln less than at the beginning of the year. This decrease is explained by the currency revaluation of the Region's state guarantees. Historically, most of the debt (about 89%) is represented by budget loans, the remainder is guarantees provided in 2005 for certain liabilities of KAMAZ (ACRA's rating: A+(RU), outlook Stable) to the federal budget. The debt repayment schedule is smooth, without any significant peaks. In the next two years, the Republic will have to repay 0.4% of the debt annually (RUB 390 mln). The bulk of repayments falls on the period after 2025.

At the end of 2021, the ratio of debt to current revenues of the Republic will be 36%, which corresponds to a moderately low level of debt load (as per ACRA's methodology). Interest expenses are not burdensome for the Region: interest expenses averages for 2018–2022 will not exceed 0.03% of total budget expenditures (excluding subventions).

Since the beginning of 2021, the Republic's budget balances have covered about 70% of monthly expenses. The volume of available funds has decreased, which is caused by the need to finance the significant deficit of the previous year. Currently, the volume of available liquidity is gradually returning to the level of 2020. The interim budget surplus allows the Republic to continue accumulating funds this year.

In the medium term, ACRA doubts that companies and financial institutions that are strategically important to the Region’s economy or significantly depend on its budget will need targeted financial support.

The Region's economy is developed and moderately focused on the extraction of commodities. ACRA’s calculations show that the oil and gas industry generated the maximum share (around 25%) of tax revenues in 2017–2020 (averaged over this period). This share declined in 2020 due to volatile commodity prices in H1 2020 and a shrink in the tax base of oil producing companies. The wholesale and retail trade sector generated around 12% of tax revenues, and the manufacturing sector formed another 20%. The averaged per capita GRP of the Region was 110% of the national average.

ACRA notes that the Region’s real and per capita GRP in 2014–2019 grew faster than the average for Russia. The averaged monthly wage to subsistence minimum ratio in the Region exceeded 350% in 2017–2020. The unemployment rate averaged for 2017–2020 and calculated according to the ILO’s methodology was 3.5%.

KEY ASSUMPTIONS

- A 3% increase in budget revenues and an insignificant decline in expenditures as compared to 2020;
- Applying accumulated funds to cover possible budget deficits;
- No need for additional debt financing;
- No need to fulfil state guarantees this year.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the credit rating will most likely remain unchanged within the 12 to 18-month horizon.

A negative rating action may be prompted by:

- A need to provide extraordinary support to state sector companies and financial organizations;
- Substantial changes in inter-budget relations in Russia;
- A need to fulfil the state guarantees issued to the Ministry of Finance of Russia;
- The 2021 budget deficit exceeding the Region's account balances.

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 Assigning Credit Ratings to Regions and Municipal Entities 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 of the Republic of Tatarstan was published by ACRA for the first time on November 17, 2017. The credit rating of the Republic of Tatarstan and its outlook are expected to be revised within 182 days following the publication date of this press release as per the Calendar of sovereign credit rating revisions and publications.

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

In assigning the credit rating, 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 Tatarstan. No conflicts of interest were discovered in the course of credit rating assignment.

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