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Key rating assessment factors

ACRA affirms BBB(RU) to the Volgograd Region, outlook Stable, and BBB(RU) to bond issues

The credit rating of the [Volgograd Region](#) (the Region) is based on the high self-sufficiency of the regional budget and the ratio of debt service costs to operating balance showing the minimum level of risk. The rating is under pressure of the low budget flexibility and the economic indicators (per capita) significantly lower than the national averages.

The Region is located in the South Federal District and borders five other Russian regions and Kazakhstan. 2.5 million people live in the Region. In 2016, the Region's GRP amounted to RUB 743.3 billion (25th place in Russia).

Diversified economy; per capita income below the national average. The Region's economy is based on manufacturing industries (petroleum products, finished metal products, food industry), trade (wholesale and retail) and agroindustry. The per capita income and the per capita GRP equaled to 70.2% (2017) and 64.3% (2016) of the respective national averages. The unemployment rate (according to the ILO methodology) has been declining from 7.2% in 2015 to 6.0% in 2017.

Low budget flexibility. The budget share of tax and non-tax revenues (TNTR) confirms that the budget's self-sufficiency is high. At the same time, a significant share of the mandatory (according to the methodology of ACRA) expenditures indicated the budget's low flexibility. In 2017, the budget was executed with a deficit of 2.0% of TNTR (in 2015–2016, the deficit exceeded 11% of the TNTR). In 2017, the development budget (according to the methodology of ACRA) grew up to 17.5% of budget expenditures (10.0% on average in 2015–2016). In 2017, the overdue accounts payable increased (from RUB 166.9 million as of January 1, 2017 to RUB 741.8 million as of January 1, 2018). In 1Q2018, the accounts payable decreased to RUB 545.3 million. In May 2018, the Law "On the regional budget for 2018 and for the planning period of 2019 and 2020" was amended to include the repayment of previous years' accounts payable in 2018.

Comfortable debt repayment schedule. As of May 01, 2018, the direct debt of the Region included bonds (30.6% of the debt), bank and budget loans (23.0% and 46.5% of the debt, respectively). Over 84% of the debt will be due after 2020 (inclusive). The ratio of debt service costs to operating balance and the ratio of the operating balance net of interest expenses to the payables due in the current year indicate the minimum level of risk.

- The 2018 budget will be executed with a deficit of not more than 1% of TNTR;
- Budget loan restructuring rules of 2017 will be complied with in 2018–2019.

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:

- Growing (relative to national averages) regional economy indicators (per capita GRP, per capita income);
- A significant decline in the debt load.

A negative rating action may be prompted by:

- A significant drop in the operating balance;
- A significant growth in the debt service costs against the operating balance.

Key assumptions

Potential outlook or rating change factors

Issue ratings

[Volgograd Region Government Bond, 2013, 35003 \(ISIN RU000A0JTXF6\)](#), maturity date: 14.06.2018, issue volume: RUB 5 bln — **BBB(RU)**;

[Volgograd Region Government Bond, 2013, 35004 \(ISIN RU000A0JU6P9\)](#), maturity date: 01.11.2018, issue volume: RUB 2 bln — **BBB(RU)**;

[Volgograd Region Government Bond, 2014, 35005 \(ISIN RU000A0JUP89\)](#), maturity date: 13.07.2019, issue volume: RUB 5 bln — **BBB(RU)**;

[Volgograd Region Government Bond, 2015, 35006 \(ISIN RU000A0JVU65\)](#), maturity date: 30.10.2020, issue volume: RUB 5 bln — **BBB(RU)**;

[Volgograd Region Government Bond, 2017, 35007 \(ISIN RU000A0JXSD3\)](#), maturity date: 02.06.2024, issue volume: RUB 10 bln — **BBB(RU)**.

Rationale. In ACRA's opinion, the above bonds issued by the Volgograd Region are senior unsecured instruments, and their credit rating is equal to the rating assigned to the [Volgograd Region](#).

Regulatory disclosure

The credit ratings of the Volgograd Region and the bonds (ISIN RU000A0JTXF6, ISIN RU000A0JU6P9, ISIN RU000A0JUP89, ISIN RU000A0JVU65, ISIN RU000A0JXSD3) issued by the Volgograd 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 the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). In the course of the credit rating process relating to the above bond issues, the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also used.

For the first time, the credit rating assigned to the Volgograd Region was published by ACRA on June 26, 2017. For the first time, the credit ratings assigned to the sovereign bonds (ISIN RU000A0JTXF6, ISIN RU000A0JU6P9, ISIN RU000A0JUP89, ISIN RU000A0JVU65, ISIN RU000A0JXSD3) issued by the Volgograd Region were published by ACRA on June 27, 2017.

The credit rating of the Volgograd Region and its outlook and the credit ratings assigned to the sovereign bonds (ISIN RU000A0JTXF6, ISIN RU000A0JU6P9, ISIN RU000A0JUP89, ISIN RU000A0JVU65, ISIN RU000A0JXSD3) issued by the Volgograd Region are expected to be revised within 182 days following the rating action date (June 07, 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 Administration of the Volgograd 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 Volgograd Region participated in the rating process.

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

ACRA provided no additional services to the Administration of the Volgograd Region. No conflicts of interest were discovered in the course of the credit rating process.

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