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Regions can return FTD loans next year and thereby save around RUB 1.65 bln

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Refinancing treasury loans using budget loans: who will save money and how much?

New aspects of budget legislation

At the end of last week, the State Duma passed amendments to the Budget Code of the Russian Federation, which mean that in 2020 there will be a break from a well-established tradition: the bank debt of the country's regions will not increase at the end of the year. Loans provided by the Federal Treasury Department (FTD) will be refinanced by budget loans that must be repaid by July 1, 2021. Therefore, the maturity of these loans has in fact been extended by seven months.

We decided to work out which Russian regions will be able to save money thanks to this measure and how much.

According to the Ministry of Finance of Russia, the volume of budget loans had grown by RUB 191 bln as of November 11, 2020 (this is in fact the amount of loans provided by the FTD), while banking borrowings as of the same date had declined by RUB 172 bln. These figures are comparable as throughout the year regions usually take out FTD loans to save on interest expenses¹.

Regions were supposed to return their FTD loans on November 25 and then take out new loans at the end of January/start of February. In other words, regions would have resorted to bank loans for around two months.

Most regions are limited in terms of the rate at which they can borrow from banks (Bank of Russia key rate +1%), and the interest on the loan would be comparatively low at 5.25% per annum. Regions would have paid banks around RUB 1.65 bln for the use of credit facilities for two months, with just over half this sum due this December and the remaining part to be paid next January. On the one hand, this is not that much, given that regions spent RUB 58.4 bln on interest payments over nine months of 2020. Yet on the other hand, saving money on any sorts of expenses is a priority in the context of strong growth in expenses and declining tax and non-tax revenues.

In addition, according to Cbonds, 39% of purchases of credit facilities announced by regions have been unsuccessful since the last lowering of the key rate. It is possible that banks find the lending rate unappealing and regions could have faced a situation in which it would be difficult to refinance FTD loans using bank loans. If this really is the case, then the amendments to budget legislation are very timely.

Regions can take out FTD loans that are no larger than one-twelfth of their income (excluding targeted transfers), i.e. the larger the size of tax and non-tax revenues and dotations, the larger a loan can be. If a region places funds in deposits then it cannot receive FTD loans. This is logical as it is not possible to receive cheap money from the FTD and then place it in a bank deposit to generate interest.

According to our assessment, 41 regions had received FTD loans as of November 1, 2020, with the Moscow Region, the Sverdlovsk Region, the Rostov Region, and the Novosibirsk Region borrowing the most — an estimated RUB 33 bln, RUB 15

¹ Some regions that do not have revolving credit lines cannot do this; others use FTD loans to finance cash gaps instead of saving money on interest.

bln, RUB 10 bln, and RUB 9 bln, respectively. In absolute terms, these regions will save the most on interest expenses.

The law does not stop regions from taking out another tranche of budget loans in January 2021. If they can indeed take advantage of this, then they will be able to save twice.

Table 1. Regions that are assumed to have used FTD loans as of November 1, 2020, RUB bln

Region	Volume of budget loans	Estimated volume of FTD loans*
Moscow Region	48	33
Sverdlovsk Region	34	15
Rostov Region	21	10
Novosibirsk Region	26	9
Nizhny Novgorod Region	27	8
Irkutsk Region	15	8
Perm Krai	15	7
Stavropol Krai	21	6
Khabarovsk Krai	15	6
Voronezh Region	18	5
Murmansk Region	14	5
Volgograd Region	26	5
Arkhangelsk Region	19	5
Udmurt Republic	24	5
Omsk Region	20	5
Republic of Komi	11	5
Tomsk Region	12	4
Republic of Buryatia	6	4
Tula Region	12	4
Ulyanovsk Region	13	4
Lipetsk Region	9	3
Kirov Region	18	3
Kursk Region	8	3
Magadan Region	7	3
Smolensk Region	19	3
Republic of Karelia	11	3
Kaliningrad Region	13	3
Tambov Region	6	2
Oryol Region	7	2
Republic of North Ossetia – Alania	9	2
Kabardino-Balkarian Republic	7	2
Ivanovo Region	10	2
Novgorod Region	12	2
Republic of Khakassia	15	2
Pskov Region	4	2
Tyva Republic	3	2
Republic of Ingushetia	3	1
Nenets Autonomous Okrug	1	1
Karachay-Cherkess Republic	4	1
Republic of Kalmykia	2	1
Republic of Adygea	2	1

* From volume of budget loans.

Sources: Ministry of Finance of Russia, ACRA

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