

RANKING OF THE SIBERIAN FEDERAL DISTRICT'S REGIONS BY LEVEL OF FINANCIAL STABILITY

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CONSERVATIVE BUDGET POLICY IS KEY TO FINANCIAL STABILITY**ANALYSIS OF THE FINANCIAL STABILITY OF SFD REGIONS**

- Differences in the economies of the regions of the Siberian Federal District (SFD) determine their different possibilities for forming internal revenues. The largest share of gross regional product (GRP) of the SFD is contributed by mining and manufacturing, however, these industries are concentrated in four of the Federal District's ten regions. In the three regions where there are no large industrial enterprises, GRP per capita is about 40% of the national average, which limits these regions' ability to form the revenue side of the budget.
- The SFD's dependence on transfers from the federal budget is higher than the average for Russia. In 2016–2020, tax and non-tax revenues (TNTR) in SFD regions averaged 73% of their total revenues, which is lower than the national average of 78%.
- SFD regions are characterized by low flexibility of the expenditure side of budgets. According to ACRA's assessments, capital expenditures¹ in the Federal District in 2016–2020 on average amounted to around 8% of total expenditures, while the average for Russia was 12%. The Altai Republic was the only region where the share of capital expenditures (slightly) exceeded the national average.
- Budget execution in the SFD depends on the situation in commodity markets. In 2012–2020, the aggregate indicator for budget execution in the SFD was negative five times and positive four times. The largest deficit was recorded in 2013 (RUB 95 bln, or 21% of TNTR), while the largest surplus was in 2019 (RUB 69 bln, or 9% of TNTR). Three regions contribute the most to the high volatility of financial performance and their economies heavily depend on the extraction and processing of minerals (the Kemerovo Region, Krasnoyarsk Krai, and the Irkutsk Region).
- The debt load of SFD regions is declining. From 2016 to 2020, the ratio of the regions' debt to internal revenues declined from 52% to 42%, largely because

¹ Includes expenses under expense type codes 241, 243, 400, 522, and 821.

the debt of the Krasnoyarsk Krai decreased. Long-term budget loans provided at a preferential interest rate account for the largest share of the regions' debt.

- The Altai Krai is the only region whose account balances cover average monthly expenditures. In the Krasnoyarsk Krai and the Kemerovo Region, the ratio of account balances at the end of 2020 to average monthly expenses was 66% and 55%, respectively. This indicator was below 50% for the other regions.
- Conservative budget policy is the main factor of financial stability. ACRA identified three groups of regions when putting together the ranking of SFD regions by level of financial stability. Most of the regions placed in the first two groups apply conservative budget policy. These regions demonstrate that even in conditions where opportunities for forming the revenue side of the budget are limited, this approach allows the growth of debt load to be contained in the long term.

DIFFERENCES IN THE ECONOMIES OF SFD REGIONS DETERMINE THEIR DIFFERENT POSSIBILITIES FOR FORMING INTERNAL REVENUES

The regions of the SFD differ quite significantly in terms of climate, as well as from the point of view of dominating economic sectors. The SFD is home to enterprises that extract oil, coal and metals, as well as major metallurgical companies, large transport hubs, and significant agricultural areas.

Manufacturing accounts for the largest share of GRP in the SFD (21.1% in 2019). In 2019, production of metals (37.8%) and petroleum products (22.3%) occupied the largest shares in the structure of shipped products of the manufacturing industry of the regions of the SFD. The manufacturing sector makes up the highest share of GRP in the Krasnoyarsk Krai² (36.3%) and the Omsk Region (33.2%). Manufacturing accounts for a mere 2.9% and 0.7% of GRP in the Altai Republic and the Tyva Republic, respectively.

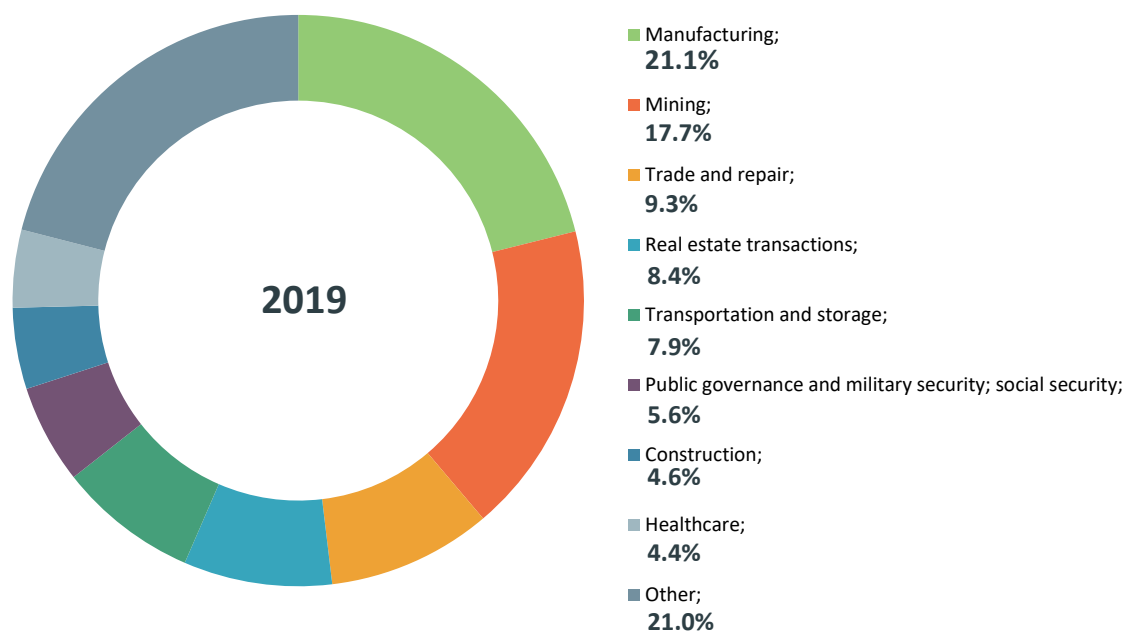
Another significant sector for SFD regions is mining, which contributed 17.7% of GRP in 2019. Oil and natural gas production amounted to 46.6% in the structure of shipped products for this type of economic activity in 2019, while coal accounted for 40.9%, and metal ores — 7.0%. Mining accounts for more than a quarter of GRP in the Irkutsk Region, Kemerovo Region— Kuzbass³, and the Tomsk Region⁴, while in the Krasnoyarsk Krai this segment accounted for 22.4% of GRP in 2019.

² ACRA rating — AA-(RU), outlook Stable.

³ ACRA rating — A-(RU), outlook Stable.

⁴ ACRA rating — BBB(RU), outlook Positive.

Figure 1. Mining and manufacturing is the backbone of the SFD's economy



Source: Rosstat⁵

The GRP structure of half of the regions of the SFD indicates the dependence of their budgets on the situation in the minerals market (primarily oil and coal). From the rest of the industries, we will single out activity related to transportation and storage. In 2019, it accounted for 7.9% of the GRP of the SFD. In the Novosibirsk Region⁶, which is a large transportation center, this sector of the economy in 2019 formed the largest share of GRP — 15.3%.

Agriculture has an insignificant share in the SFD's GRP (4.2% in 2019), but in individual regions it is very significant. The Altai Krai⁷ is the largest region in terms of agricultural production located east of the Ural Mountains and in 2019 ranked 11th for this indicator among all Russian regions.

Given the differences in the structure of the economies of SFD regions, their GRP per capita also differs. In 2019, only in the Krasnoyarsk Krai was GRP per capita higher than the national average, amounting to RUB 938,000 (145% of the national average). The economies of the Irkutsk and Tomsk Regions are dominated by oil production, and their GRP per capita is close to the national average (99.9% and 89% in 2019, respectively). GRP per capita in the Altai Krai, Altai Republic and Tyva Republic stands at around 40% of the national average. Low GRP per capita limits the ability of these regions to form the revenue side of their budgets.

⁵ Data for 2019.

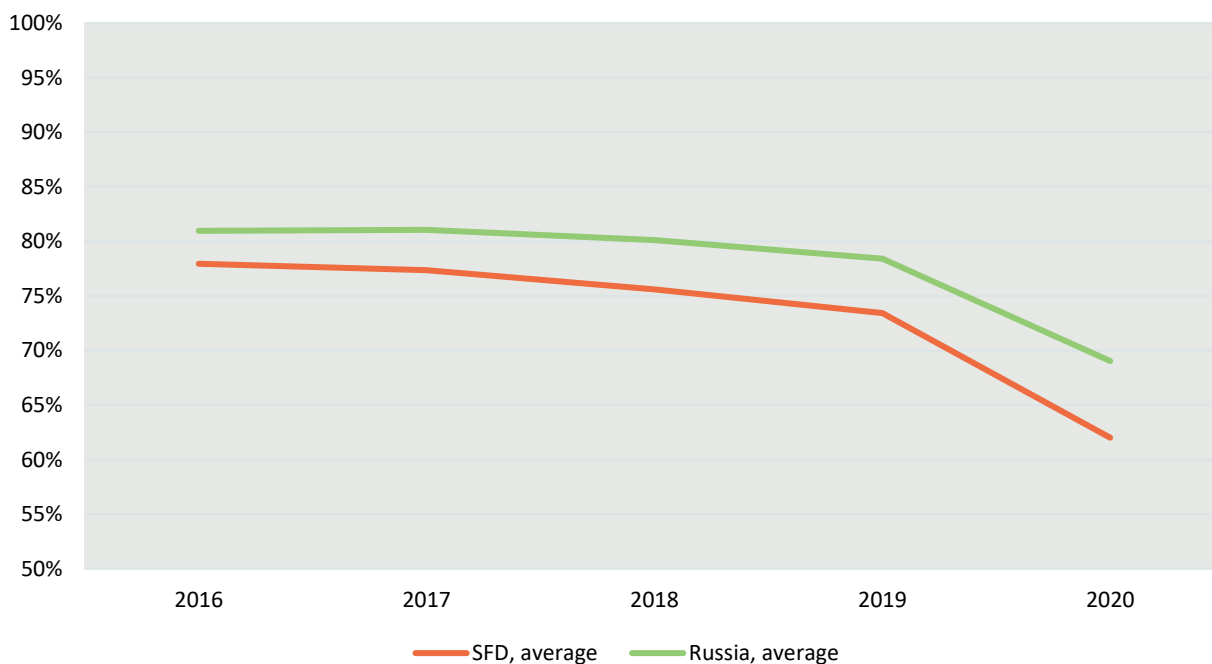
⁶ ACRA rating — AA-(RU), outlook Stable.

⁷ ACRA rating — A+(RU), outlook Stable.

DEPENDENCE ON FEDERAL BUDGET TRANSFERS IN THE SFD IS HIGHER THAN THE AVERAGE FOR RUSSIA

In 2016–2020⁸, the share of internal revenues (TNTR) in SFD regions averaged 73% of their total revenues, which is lower than the average for Russia (78%).

Figure 2. The share of TNTR in the total revenues of SFD regions in 2016–2020 declined from 78% to 62%



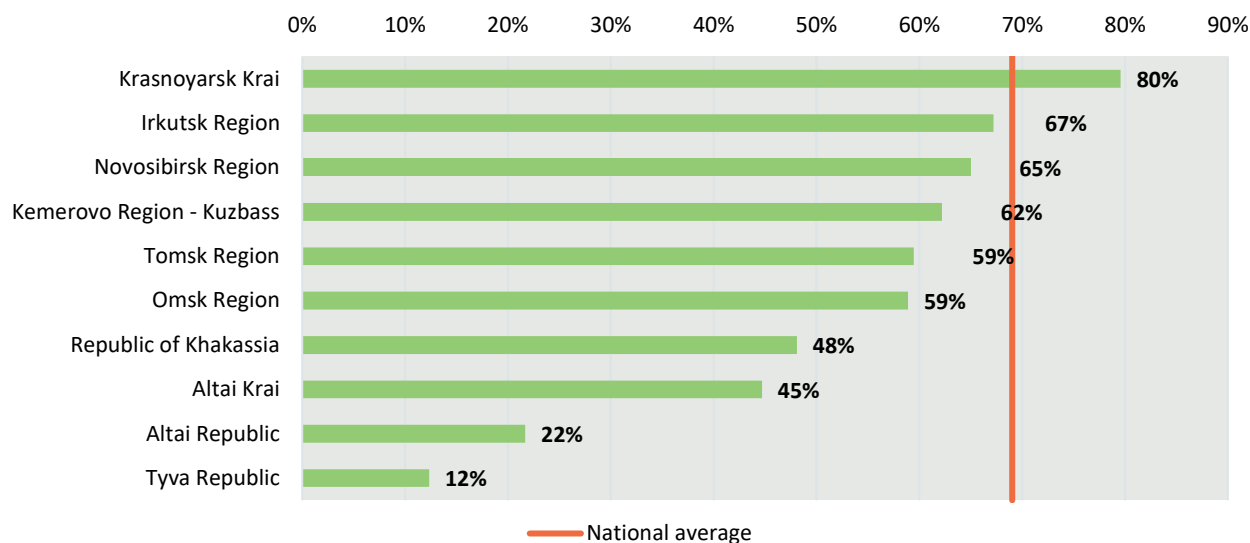
Sources: Treasury of Russia, ACRA

Over the past five years, the SFD has experienced a declining share of TNTR in revenues, a trend that is also characteristic of other Federal Districts. The most pronounced decline of internal revenues was recorded in 2020, which was due to lower internal revenues resulting from the imposition of quarantine measures to fight against the coronavirus and lower commodities prices on the one hand, and higher transfers from the federal budget to implement anti-pandemic measures and compensate lost income, on the other hand.

All SFD regions receive budget equalization payments. The share of dotations in total transfers from the federal budget to the SFD is comparable to the average for Russia.

⁸ Hereinafter, the Republic of Buryatia and the Zabaykalsky Krai, which were part of the SFD until November 2018, are retrospectively included in the Far Eastern Federal District.

Figure 3. In 2020, the share of TNTR exceeded the Russian average in a single SFD region



Sources: Treasury of Russia, ACRA

In 2020, out of all the regions in the analyzed Federal District, only one — the Krasnoyarsk Krai — had a share of internal revenues that exceeded the national average. In 2016–2019, the share of internal revenues was higher than the national average, not only in the Krasnoyarsk Krai, but also in the Irkutsk and Novosibirsk Regions. This indicator was comparable to the average for Russia in the Tomsk and Kemerovo Regions.

The smallest share of internal revenues among SFD regions in 2016–2020 was recorded by the Altai Republic and the Tyva Republic (around 20%), which is due to their low economic development indicators. Half of the federal budget transfers received by these regions are budget equalization payments.

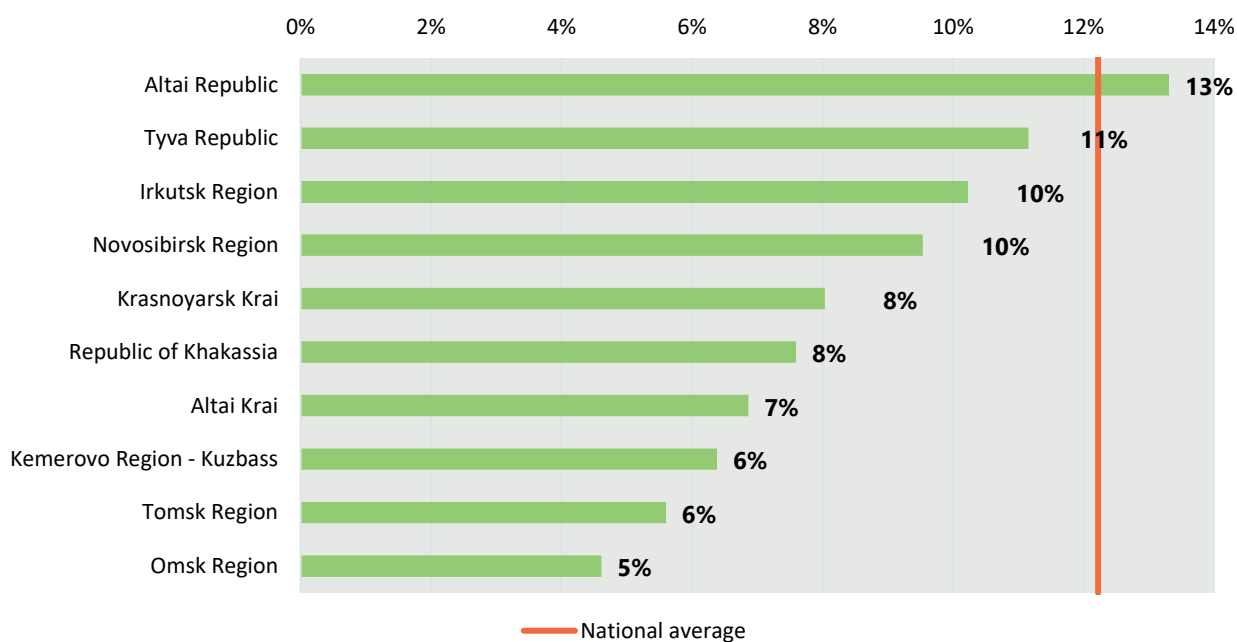
In absolute terms, the Altai Krai is one of the largest recipients of transfers from the Federal Budget in the SFD. The region also leads in terms of the size of received budget equalization payments.

LOW FLEXIBILITY OF THE EXPENDITURE SIDE OF BUDGETS

The flexibility of a budget's expenditure side is an important factor that ensures budget stability in the event of possible deterioration in the economic situation. The level of capital expenditures is usually used to assess it. In a number of cases, part of planned expenditures — unlike payment of salaries, social benefits and expenses to support current operations of state-funded companies — can be attributed to future periods, which allows costs to be reduced amid falling revenues.

According to ACRA's assessments, capital expenditures in the SFD in 2016–2020 averaged around 8% of total expenditures, while the average for Russia as a whole was 12%. Only in the Altai Republic did the share of capital expenditures slightly exceed the national average. Given the low share of capital expenditures in SFD regions, the ability to reduce them during periods of crisis is limited.

Figure 4. In almost all SFD regions the average share of capital expenditures in total expenditures in 2016–2020 was lower than the national average



Sources: Treasury of Russia, ACRA

DEPENDENCE OF SFD REGIONS' BUDGET EXECUTION ON COMMODITY MARKET TRENDS

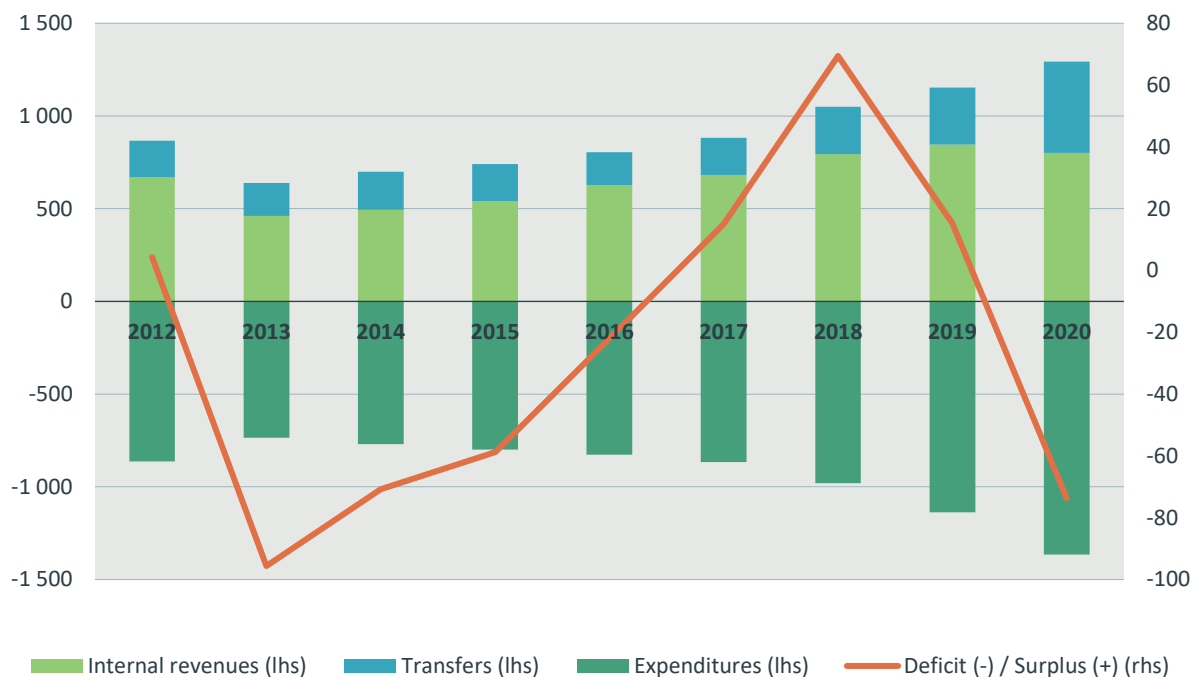
In 2012–2020, the aggregate annual financial result of budget execution by SFD regions was negative five times and positive four times. The largest deficit was recorded in 2013 (RUB 95 bln, or 21% of TNTR), while the largest surplus was in 2019 in 2019 (RUB 69 bln, or 9% of TNTR).

The high volatility of the financial result is mainly determined by the three regions whose economies are significantly dependent on the extraction and processing of minerals (the Kemerovo Region, the Krasnoyarsk Krai, and the Irkutsk Region). Changes in prices for minerals, primarily metals and coal, affect both the profits of companies selling these products and the volume of profit tax revenues. For example, in 2020, on the back of falling coal prices, the profit tax revenues of the Kemerovo Region's budget were more than two times lower than in 2018, when coal prices were high. As a result, the region's budget deficit exceeded RUB 41 bln, while in 2018, it recorded a RUB 36 bln surplus.

In 2016–2020, only four SFD regions executed, on average⁹, their budgets with a surplus: the Altai Krai (7.6%), the Tyva Republic (7.1%), the Krasnoyarsk Krai (0.7%), and the Kemerovo Region (0.2%). The Republic of Khakassia (-13.0%) and the Tomsk Region (-8.9%) had the most significant budget deficits relative to their internal revenues over the past five years.

⁹ Five-year average ratio of budget surplus/deficit to TNTR.

Figure 5. The financial result of budget execution by SFD regions is highly volatile, RUB bln



Sources: Treasury of Russia, ACRA

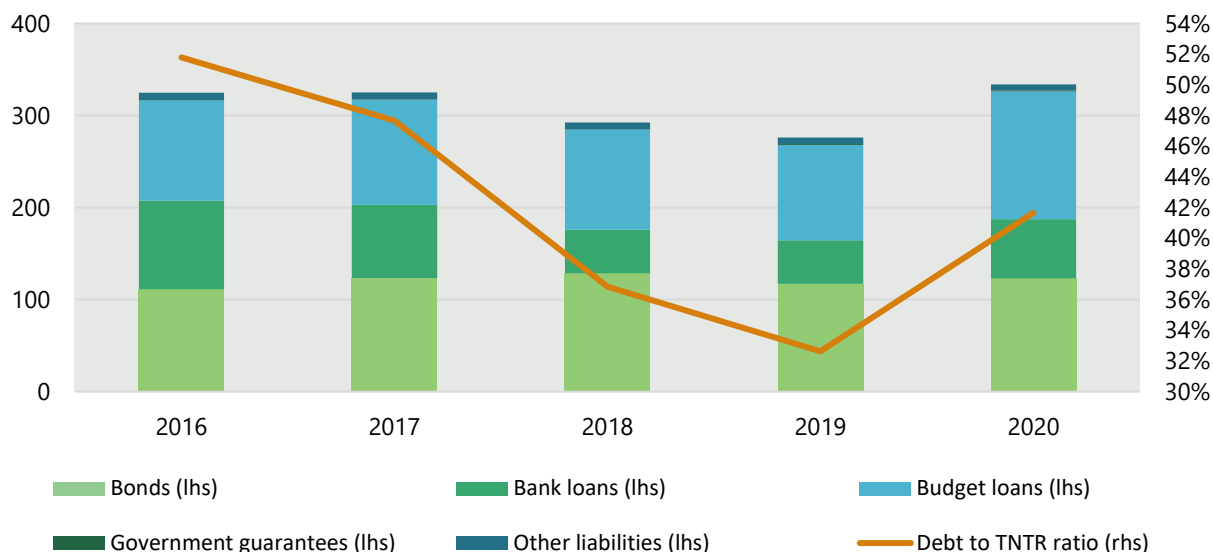
THE DEBT LOAD OF SFD REGIONS IS DECLINING

In the period from 2016 to 2020, the aggregate public debt of SFD regions grew by 3% in absolute terms (+RUB 9 bln), however, the ratio of debt to internal revenues declined from 52% to 42%. The debt structure is dominated by budget loans (42% as of January 1, 2021). Bonds and bank loans account for 37% and 19%, respectively; the remaining share of debt includes government guarantees and other debt obligations.

As of January 1, 2021, the Republic of Khakassia and the Tomsk Region had the highest debt loads (their debt to TNTR ratios were 137% and 93%, respectively). For the Omsk and Kemerovo Regions, this ratio exceeded 50% (65% and 60%, respectively). The lowest debt load was observed in the Altai Krai (3%).

Budget loans are present in the debt of all regions of the SFD. As of January 1, 2021, the lowest shares of budget loans were observed in the Krasnoyarsk Kai (28%) and the Tomsk Region (29%). In the Altai Krai, on the contrary, almost the entire volume of debt obligations is represented by budget loans. The terms of budget loans include longer repayment periods and a lower interest rate (0.1% per annum), which makes them an extremely attractive debt instrument.

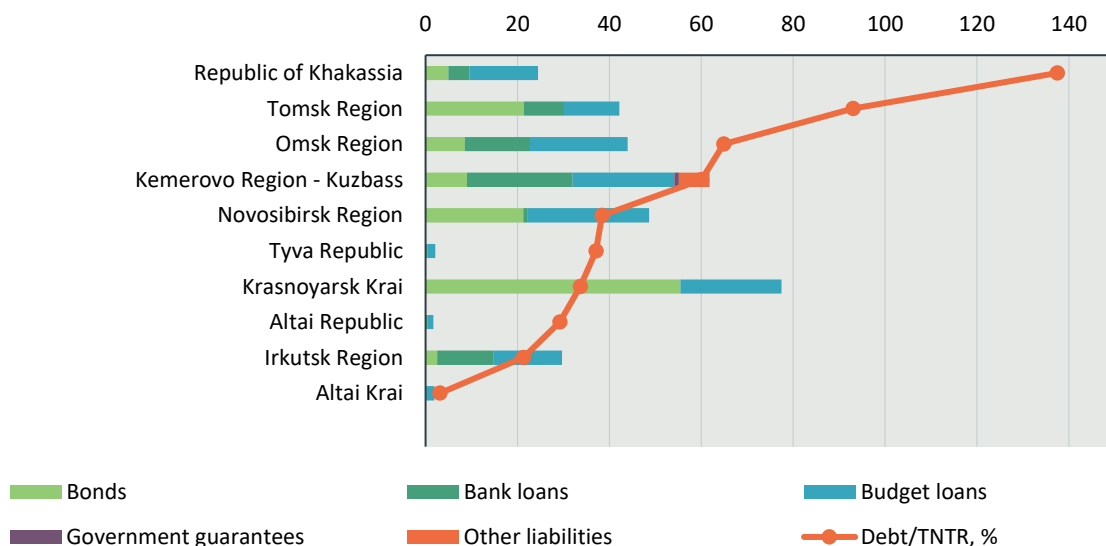
Figure 6. In 2016–2020, SFD regions had managed to decrease their debts against internal revenues, RUB bln



Sources: Russian Ministry of Finance, Treasury of Russia, ACRA

Seven regions have outstanding bonds: the Krasnoyarsk Krai, the Tomsk, Novosibirsk, Kemerovo, Omsk and Irkutsk Regions, and the Republic of Khakassia. As of January 1, 2021, for the Krasnoyarsk Krai, the share of bonds in its debt structure was 72%, for the Tomsk and Novosibirsk Regions — 51% and 44%, respectively. For other regions, the share did not exceed 20%. The Tomsk Region, in addition to exchange-traded bonds, also issues bonds offered to individuals.

Figure 7. As of January 1, 2021, the Republic of Khakassia had the highest debt load, RUB bln



Sources: Russian Ministry of Finance, Treasury of Russia, ACRA

As of January 1, 2021, bank loans were present in the debt portfolios of almost all regions of the SFD, except for the Altai and Krasnoyarsk Krai. The Irkutsk (41%), Kemerovo (37%) and Omsk (32%) Regions have the highest shares of bank debt. Since bank loan maturities usually do not exceed three years, the high share of bank debt in the portfolios increases debt refinancing risks and, in the long term, bears significant interest rate risks for the regions.

ACCOUNT BALANCES ARE SUFFICIENT TO COVER MONTHLY AVERAGE EXPENDITURES IN ONLY ONE SFD REGION

An important factor that increases budget resilience to possible cash gaps is the availability of sufficient account balances. Along with borrowings, regional authorities can also use account balances to cover budget deficits. Moreover, regions that receive low federal transfers can place their temporarily free funds in bank deposits, and starting from 2021, after the consolidation of budget balances in the Single Treasury Account, any region of the Russian Federation may earn additional interest income from these deposits.

The total account balances of SFD regions as of the end of 2020 exceeded the amount of account balances as of end of 2016 by almost three times, mainly due to an increase in balances in the Kemerovo Region, and the Krasnoyarsk and Altai Krai. Account balances decreased over the specified period in four regions (the Tyva Republic, the Republic of Khakassia, the Altai Republic, and the Tomsk Region).

Account balances vary by region. The Altai Krai and the Krasnoyarsk Krai account for 40% and 29% of the total account balances of all SFD regions.

It is worth noting that in 2016–2020, only the Altai Krai's annual account balances exceeded the average monthly budget expenditures in the corresponding year. For the Krasnoyarsk Krai and the Kemerovo Region, the ratio of account balances at the end of 2020 to average monthly expenditures in 2020 was 66% and 55%, respectively. For other regions, this ratio was less than 50%.

The Omsk and Irkutsk Regions and the Republic of Khakassia had the lowest ratios of account balances as of January 1, 2021 to average monthly expenditures in 2020 (10%, 8%, and 2%, respectively). A small reserve of liquidity increases the risks of possible cash gaps for these regions and increases their dependence on external sources of liquidity.

Over the past five years, only two regions of the SFD have been placing temporarily free funds in bank deposits. The Kemerovo Region began to place funds in deposits in 2017 and the Krasnoyarsk Krai started doing this in 2019. Despite possessing significant account balances, the Altai Krai could not place funds on bank deposits due to the high share of federal budget transfers in its total revenues.

CONSERVATIVE BUDGET POLICY IS KEY TO FINANCIAL STABILITY

When assessing the financial stability of SFD regions and compiling the ranking, ACRA took into account the following factors¹⁰:

- Budget self-sufficiency (average ratio of TNTR to total revenues in 2016–2020);
- Flexibility of budget expenditures (average share of capital expenditures in total expenditures in 2016–2020);
- Budget deficit ratio (average ratio of deficit/surplus to TNTR in 2016–2020);
- Debt load (debt to TNTR ratio as of January 1, 2021);

¹⁰ Factors are identical to those applied in [A ranking of the regions of the Far Eastern Federal District by level of financial stability](#). Factor score ranges vary by federal district.

- Internal liquidity ratio (ratio of account balances as of January 1, 2021 to monthly average expenditures in 2020).

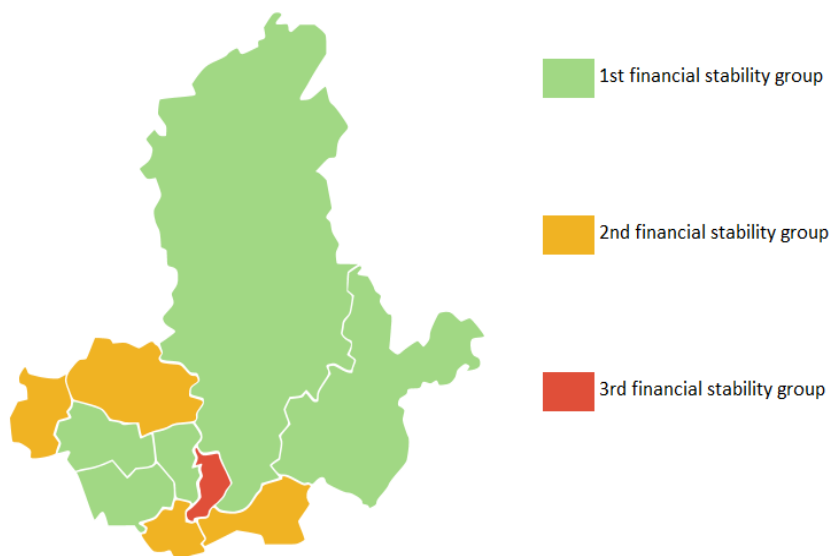
Table 1. ACRA's financial stability ranking of SFD regions

REGION	BUDGET SUFFICIENCY	SELF-FLEXIBILITY OF BUDGET EXPENDITURES	BUDGET DEFICIT RATIO	DEBT LOAD	INTERNAL LIQUIDITY RATIO
Tyva Republic	18%	11%	7%	37%	27%
Altai Krai	54%	7%	8%	3%	204%
Krasnoyarsk Krai	84%	8%	1%	34%	66%
Irkutsk Region	79%	10%	-2%	21%	8%
Kemerovo Region — Kuzbass	77%	6%	0%	60%	55%
Novosibirsk Region	80%	10%	0%	38%	14%
Omsk Region	71%	5%	-2%	65%	10%
Tomsk Region	74%	6%	-9%	93%	14%
Altai Republic	21%	13%	-3%	29%	19%
Republic of Khakassia	66%	8%	-13%	137%	2%

Source: ACRA

As seen from *Table 1*, SFD regions may be placed into three groups by their financial stability.

The Agency includes the Altai Krai, the Irkutsk, Kemerovo and Novosibirsk Regions, and the Krasnoyarsk Krai in the first group. The Altai Krai has an extremely low debt load, significant account balances, and takes a conservative approach to budget execution, which ensures the high financial stability of the region. The budget indicators of the Irkutsk and Kemerovo Regions and the Krasnoyarsk Krai are highly volatile depending on the trends in commodity markets, which is compensated by a conservative budgetary policy: in periods of high revenues from commodity exports, these regions reduce their debt load and accumulate significant reserves that can be used during downturns in commodity markets. The diversified economy of the Novosibirsk Region ensures the stability of its budget indicators, which, along with a conservative debt policy, evidences the high financial stability of this region.

Figure 8. SFD regions grouped by financial stability

Source: ACRA

The second group includes the Altai and Tyva Republics, and the Omsk and Tomsk Regions. Despite having limited tax bases for the formation of internal revenues, the Altai and Tuva Republics have maintained a moderate debt load, which contributes to higher financial stability of these regions. The Omsk Region has a higher debt load and a lower liquidity relative to its budget expenditures. In 2016–2020, the Tomsk Region executed its annual budgets with a deficit, and as a result its debt load grew to a high level.

ACRA's third group only includes the Republic of Khakassia. This region is characterized by an extremely high debt load and low budget liquidity, which is largely due to the high budget deficit over the past five years.

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