

## Rating-Agentur Expert RA GmbH confirmed at 'BB' the ratings of the Chuvash Republic and withdrew them.

Rating-Agentur Expert RA GmbH confirmed the credit rating of the Chuvash Republic according to the international scale at 'BB' (Sufficient level of creditworthiness) in local currency and at 'BB' (Sufficient level of creditworthiness) in foreign currency, and withdrew the ratings due to the refusal of the Chuvash Republic to maintain ratings. The rating outlook is stable for both ratings which means that in the mid-term perspective the likelihood of the credit rating stability is high.

### MAJOR FACTORS THAT INFLUENCED RATING:

#### Positive factors:

- Moderately low share of debt servicing expenditures at 0,6% of total expenditures of the consolidated budget against a 1,2% average for all Russian regions in 2017;
- Structure of the region's debt, fully formed by local currency, with a high share of long-term loans from the Ministry of Finance of the Russian Federation (MFRF) which are the objects of restructuring and have a non-market interest rate;
- High quality of the regional budget management according to the national definition. The Chuvash Republic was described as a region with "high quality of budget management" by the 2016 results according to the assessment by the MFRF;
- Balanced structure of tax revenues with the largest type representing 39% of consolidated tax revenues in 2017. Furthermore, the share of ten largest taxpayers in total amount of collected taxes was less than 30% in 2017;
- Favorable structure of budget expenditures, with CAPEX at 11,4% of consolidated budget expenditures, close to the national average of 12,3% by the end 2017. This creates additional space for the regional government to cut expenditures in case of a drop in revenues and, therefore, partly offset the risks of debt increase.

#### Restricting factors:

- Deteriorated fiscal performance of the region as the consolidated budget balance returned to a deficit in 2017 after showing a surplus a year before. The deficit of the consolidated budget was equal to 1,0% of total revenues or 1,5% of own budget revenues in 2017 as compared to balance at -0,5% and -0,6% according to aggregated results for all Russian region for the same period;
- The debt load of the region remains moderate and has shown a positive dynamic, with the ratio of the consolidated region's debt to total revenues and to own revenues at 31,5% and 46,9% respectively in 2017;
- Elevated dependence on funds from the higher budget tier. This was evidenced by the share of transfers from the Federal Government budget in total consolidated revenues of the region, which stood at 33% during 2017, well above the 16,5% average for all Russian regions;
- Moderately low level of nominal wages and personal income combined with the elevated share of social payments (mostly pensions) that stood at 26,9% as compared to the 19% country's average in 2016;
- Negative dynamics of the region's dependency ratio, which jumped from 59,9% in 2009

to 76,6% in 2016, which creates the pressure on the budget in the long run.

Negative factors:

- Moderately low level of economic development as evidenced by the gross regional product (GRP) per capita at RUB 212 th in 2016 (equal to 45% of the country average level), coupled with high volatility of key macroeconomic indicators over the last years;
- Low level of investment per capita at RUB 42,1 th (39% of the country's average) in 2017, combined with negative dynamics of investments in fixed capital between 2012 and 2016.

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Reverse trend in current public spending policy which would result in constantly shrinking fiscal deficits;
- Gradual improvement of key macroeconomic indicators coupled with the reduction of volatility of the regional economy.

The following developments could lead to a downgrade:

- Strong adverse changes in the structure of the regional debt by creditors with increasing share of short-term bank loans or bonds;
- Further increase of the fiscal deficit combined with an increase of debt to total regional revenues and regional own revenues ratios.

“The confirmation of the credit ratings of the Chuvash Republic at ‘BB’ are driven by the stable development of the key rating drivers. The ratings are still positively supported by the current structure of government liabilities (with a high share of budget loans), as well as by the low share of debt servicing expenditures and the high level of tax revenues diversification. However, the ratings remain restricted by a moderately high share of transfers in the budget revenues as well as low levels of personal income, per capita investments and GDP. The deterioration of the fiscal position of the regional government in 2017 also contributed negatively to the rating assessment.”  
– Clarified Vladimir Gorchakov, Rating Associate of Rating-Agentur Expert RA GmbH.

Responsible expert: Vladimir Gorchakov, Rating Associate of Rating-Agentur Expert RA GmbH

Reviewer: Gustavo Angel, Rating Associate of Rating-Agentur Expert RA GmbH

Research report on the Chuvash Republic is available at:

[https://raexpert.eu/reports/Research\\_report\\_Chuvash\\_Republic\\_18.05.2018.pdf](https://raexpert.eu/reports/Research_report_Chuvash_Republic_18.05.2018.pdf)

Next scheduled rating publication:-

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**RATING HISTORY:**

| Date       | Review reason  | Rating Score      |                  | Outlook |
|------------|--|-------------------|------------------|---------|
|            |  | National currency | Foreign currency |         |
| 24.11.2017 | Scheduled review of both types of ratings for the region | BB                | BB               | Stable  |
| 23.06.2017 | First assignment of the rating                           | -                 | BB               | Stable  |

## Minute's summary

The rating committee for the Chuvash Republic was held on 9 May 2018. The quorum for the rating committee was present. After the responsible expert presented the factors, which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Methodology for regions. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the voting.

The rating was disclosed to the rated entity prior to the publication and was not changed during the process of coordination.

The following methodology was used for the rating assessment: Methodology for Assigning Credit Ratings to Regions – Short Public Version (from October 2017) can be found under the following link: [https://raexpert.eu/files/Methodology\\_short\\_Regions\\_v3.pdf](https://raexpert.eu/files/Methodology_short_Regions_v3.pdf). Descriptions and definitions of all rating categories can be found under the following link: <http://raexpert.eu/regions/> under the "Rating scale" section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

**This rating is solicited. The rated entity participated in the rating process.**

**All information was provided to the rating service directly by the representative of the government of the Chuvash Republic. Non-profit organization "Assistance Fund for Development of Venture Investment in the Scientific and Technical Sphere of the Chuvash Republic" is the entity, responsible for signing the agreement with the Agency. No other parties participated in the rating assessment.**

Main sources of information: Government of the Chuvash Republic, Ministry of Finance of the Russian Federation, Rosstat, RAEX-Moscow web site.

## Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information as well as non-public information (obtained from the rated entity and/or other third parties) which was considered to be reliable, complete and non-biased. The responsible expert performed rating assessment of the region with information considered as the most reliable and up to date in accordance to the overall position of the region and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

## Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. The experts involved in the rating assessment and revision of the rated entity showed no conflict of interests before initiation of the rating process.

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies from RAEX group.

## Risk warning

The Agency disclaims all liability in connection with any consequences, interpretations, conclusions, recommendations and other actions directly or indirectly related to the conclusions and opinions contained in the Agency's press-release and research report.

This press-release represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

## Office responsible for preparing the rating

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

Rating-Agentur Expert RA GmbH is a credit rating agency established in Germany and therefore shall comply with all applicable regulations currently in force in the European Union.

The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.