

## Rating-Agentur Expert RA GmbH assigned 'BB' credit rating to Chuvash Republic according to the international scale. The rating outlook is stable.

Rating-Agentur Expert RA GmbH assigned 'BB' (Sufficient level of creditworthiness) credit rating according to the international scale to the Chuvash Republic. The rating outlook is stable which means that in the mid-term perspective there is a high probability of maintaining the rating score.

### MAJOR FACTORS THAT INFLUENCED RATING:

#### Positive factors:

- Improving fiscal performance of the region with the consolidated budget surplus equal to 3,4% of total revenues or 5,2% of own budget revenues in 2016, which is a significant improvement when compared to a deficit of 6,6% and 9,9% respectively a year ago;
- Moderately low share of debt servicing expenditures at 0,8% of total expenditures of the consolidated budget against a 1,5% average for all Russian regions in 2016;
- 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 which can be rolled over or restructured with high probability;
- Favorable structure of budget expenditures, with CAPEX at 13% of consolidated budget expenditures slightly above the national average of 12,6%. Additionally, salaries and related payments formed only 6,2% of expenditures, well below the national average of 10%. This creates an 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;
- Balanced structure of tax revenues with the largest type representing 37% of regional tax revenues in 2016. Furthermore, the share of ten largest taxpayers in total amount of collected taxes<sup>1</sup> equaled to 25% in the same year;
- Adequate quality of regional budget management according to the national definition. The Chuvash Republic was described as a region with "acceptable quality of budget management" by the 2015 results according to the assessment by the Ministry of Finance of the Russian Federation.

#### Restricting factors:

- Elevated dependence on funds from the higher budget tier. This was evidenced by the share of transfers in total consolidated revenues of the region, which stood at 32,1% in 2016, 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 that stood at 24,6% as compared to the 18,3% country's average in 2015;
- Negative dynamic of the region's dependency ratio<sup>2</sup>, which jumped from 59,9% in 2009 to 74,1% in 2015. This increases the pressure on the budget through the larger public infrastructure expenditures over the following years.

<sup>1</sup> The full name of the indicator is "amount of taxes collected on the territory of the region and transferred to all budget tiers".

<sup>2</sup> Dependency ratio is a measure which shows the number of dependents (aged 0-14 and over the age of 65) to the total population aged from 15 to 64.

#### Negative factors:

- Moderately low level of economic development as evidenced by the gross regional product (GRP) per capita at RUB 202 th in 2015 (equal to 45% of the country average level), coupled with the high volatility of key macroeconomic indicators over the last years;
- Elevated debt load of the region, with the ratio of consolidated debt<sup>3</sup> to total regional revenues and to regional own revenues<sup>4</sup> at 33,6% and 49,5% respectively in 2016, stood above the Russian regions average of 27,4% and 32,8%;
- Extremely negative dynamic of investments in fixed capital between 2012 and 2016 combined with a low level of investment per capita at RUB 40,1 th (40% of the country's average).

#### SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Further consolidation of the fiscal balance combined with a continued decrease of debt to total regional revenues and regional own revenues ratios;
- Gradual improvement of key macroeconomic indicators coupled with the reduction of volatility of the regional economy.

The following developments could lead to a downgrade:

- Reverse trend in current fiscal consolidation process which would result in constantly widening fiscal deficits and government debt increases;
- Strong adverse changes in the structure of the regional debt by creditors with increasing share of short-term bank loans or bonds.

“The ‘BB’ rating of Chuvash Republic was positively supported by the fiscal performance in 2016, current structure of government liabilities with a high share of budget loans, as well as by the low share of debt servicing expenditures and high level of tax revenues diversification.

However, the rating was restricted by elevated level of debt load and moderately high share of transfers in budget revenues. In addition, most of the macroeconomic factors, such as level of economic development, personal income and investments negatively affected the creditworthiness of the region.” – 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 Chuvash Republic is available at:

[https://raexpert.eu/reports/Research\\_report\\_Chuvash\\_Republic\\_23.06.2017.pdf](https://raexpert.eu/reports/Research_report_Chuvash_Republic_23.06.2017.pdf)

Next scheduled rating publication: 24 November 2017. The full rating calendar for regions can be found at <https://raexpert.eu/regions/#conf-tab-5>

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<sup>3</sup> Consolidated debt according to the Agency definition is the sum of debt of the region and debt of all municipalities located on the territory of the region.

<sup>4</sup> Total regional revenues consist of tax, non-tax revenues and transfers from other levels of budgetary system; regional own revenues include only tax and non-tax revenues.

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## Minute's summary

The rating committee for Chuvash Republic was held on 19 May 2017. 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 April 2015) can be found under the following link: <http://raexpert.eu/files/methodology/Methodology-Short-Credit-Ratings-Regions.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 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 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.