

## Responsible Expert:

Vladimir Gorchakov  
Rating Associate

## For further information contact:

Rating-Agentur Expert RA GmbH  
Walter-Kolb-Strasse 9-11,  
60594 Frankfurt am Main, Germany  
+49 (69) 3085-45-00  
E-mail: [info@raexpert.eu](mailto:info@raexpert.eu)  
[www.raexpert.eu](http://www.raexpert.eu)

## Rating

Credit rating of the region – LC	<b>BB</b>
Outlook	<b>Stable</b>
Credit rating of the region – FC	<b>BB</b>
Outlook	<b>Stable</b>

## Main Economic Indicators of the Chuvash Republic

Macro indicators	2014	2015	2016
Total reg. debt, RUB bn	14,1	16,3	16,4
Nominal GRP, RUB bn	237,4	250,4	259,9*
Real GRP growth, %	0,2	-2,7	0,2*
Total reg. debt/own cons. rev., %	49,0	55,7	49,5
Deficit (surplus)/own cons. rev., %	-11,7	-9,9	5,0
Total reg. debt/GRP, %	5,9	6,5	6,3*
Deficit (surplus)/GRP, %	-1,4	-1,2	0,6
External debt, USD bn	0,0	0,0	0,0
Development indicators	2015		
GRP per capita, RUB th	202,4		
Default indicator	24.11.2017		
5Y Gov Bond Yield, %	8,3		

Source: RAEX (Europe) calculations based on data from the Government of the Chuvash Republic, Ministry of Finance of the Russian Federation, Rosstat, Chonds. \*Assessment for 2016 by the government of the Chuvash Republic.

## Summary

The credit rating confirmation of the Chuvash Republic at 'BB' in foreign currency and the assignment of 'BB' in local currency were driven by the stable performance of the key rating drivers. The ratings remain positively supported by the fiscal performance in 2016 and in 1H 2017, 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 moderately high share of transfers in the budget revenues as well as elevated debt load despite the positive dynamics during 2017.

**Key industries' performance improved, while levels of personal income and investments remain moderately low.** As mentioned in our previous report<sup>1</sup>, the Chuvash Republic has a medium-sized economy with moderately low level of GRP per capita as compared to the country's average and main industries oriented to the domestic market.

Dynamics of key economic metrics during the 1H 2017 showed a better performance than the country's average. Industrial output grew by 3,0%, agriculture and retail sector by 1,5% and 1,9% as compared to a national average of 2,0%, 0,2% and -0,3% for each industry, respectively (see graph 1).

In addition, after several years of slowdown, the dynamics of investments in fixed assets returned to a positive trend showing a 5,6% growth in 1H 2017 as compared to the country's average of 4,8%. However, the Agency will keep on watch the 2017 results, following the extremely negative performance of the construction industry in the region during 1H 2017. The index of construction activity stood at -23,4% as compared to 0,2% for the country average. In addition, the per capita level of investments in fixed capital remains significantly below the country's average and we do not expect significant improvement of this ratio in the mid-term perspective.

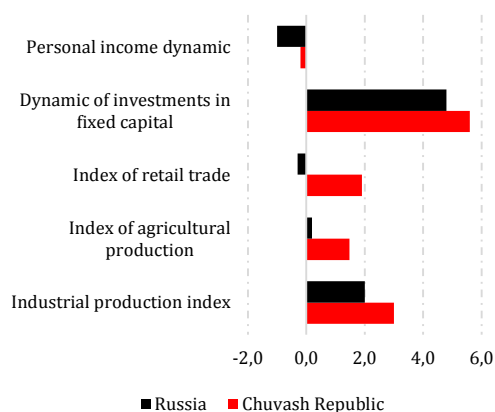
The personal income declined by 0,2% in 1H 2017 as compared to the same period of 2016. In our view, this keeps the Chuvash Republic within the group of the Russian regions having moderately low level of personal income as compared to the country's average. Together with the long-

<sup>1</sup> [https://raexpert.eu/reports/Research\\_report\\_Chuvash\\_Republic\\_23.06.2017.pdf](https://raexpert.eu/reports/Research_report_Chuvash_Republic_23.06.2017.pdf)

## Disclaimer

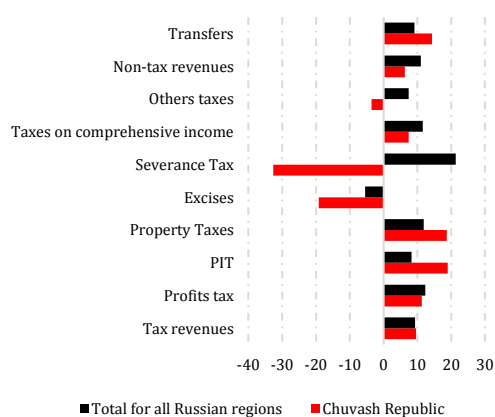
The Agency disclaims all liability in connection with any consequences, interpretations, conclusions, recommendations and other actions directly or indirectly related to the conclusions and opinions contained in the Agency's Research Reports. This Report represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

**Graph 1:** Dynamic of the key economic metrics in real terms in 1H 2017 (to 1H 2016), %



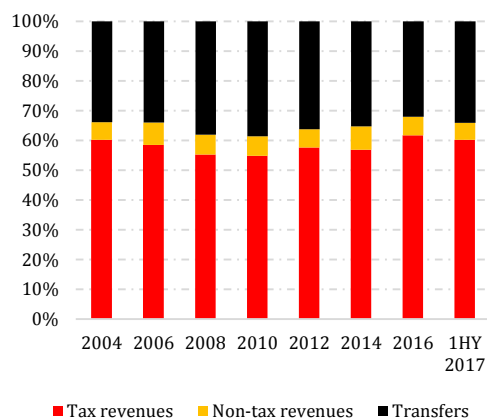
Source: RAEX (Europe) calculations based on data from the Rosstat

**Graph 2:** Dynamics of the key components of consolidated budget revenues in nominal terms in 1H 2017 (to 1H 2016), %



Source: RAEX (Europe) calculations based on data from the Ministry of Finance of the Russian Federation

**Graph 3:** The Chuvash Republic's consolidated budget revenues structure, %



Source: RAEX (Europe) calculations based on data from the Ministry of Finance of the Russian Federation

term demographic risks, this creates a strong adverse effect on the personal income tax base and, therefore, on the creditworthiness assessment.

**Budget revenues dynamics and structure remain favorable.** The Chuvash Republic keeps showing positive dynamics on key items of the consolidated budget revenues in 1H 2017. Tax revenues increased by 9,6% y-o-y in nominal terms as compared to 9,3% for all Russian regions (see graph 2) mostly due to the growth of corporate profit tax and personal income taxes, which together account for around 40% of the consolidated budget revenues. In addition, the growth of tax revenues was supported by property tax, which increased by 18,7% in the 1H 2017.

After two years of reduction, the federal government of the Russian Federation provided more transfers to all Russian regions in 1H 2017 as compared to the same period of the last year. Incoming transfers of the Chuvash Republic's consolidated budget increased by 14,3% in this period, which led to the increase of the transfers' share in total revenues of the region (see graph 3). The Agency expects that the Chuvash Republic's dependence on funds from the higher budget tier remains elevated in the mid-term despite the positive dynamics in the previous years.

In addition, the structure of tax revenues of the consolidated budget keeps positively affecting the regional creditworthiness with no tax type representing more than 50% of total tax revenues.

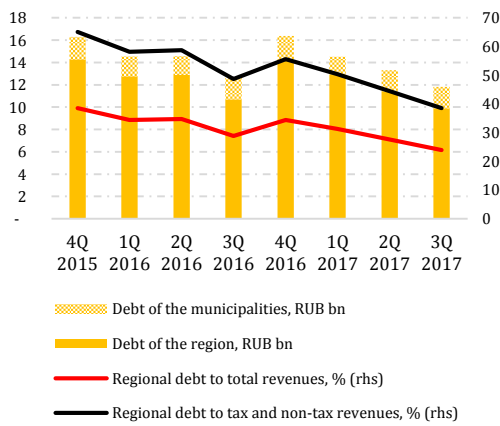
**Fiscal surplus and the quality of budget management support the region's creditworthiness.** The regional authorities increased its public spending in the 1H 2017. Total spending of the consolidated budget of the Chuvash Republic raised by 11,7% in nominal terms as compared to the 1H 2016, while total spending of all Russian regions increased only by 6,3%. This affected the creditworthiness assessment negatively, as opposed to our previous assessment where we observed a reduction of the public expenditures (see our previous research report). However, the budget's balance remained positive at 8,5% of total revenues of the consolidated budget or 12,8% of its own revenues in 1H 2017. Taking into account the regions' usual practice of increasing public spending towards the end of the year, we keep on watch the full year results for the fiscal balance, however, we expect that it will remain positive.

The Chuvash Republic showed moderately low share of CAPEX by the end of 1H 2017 as compared to its regional peers: 6,4% of total expenditures of the consolidated budget. However, due to the high seasonality of these expenditures and based on the 2016 dynamic we expect that the share of

**Disclaimer**

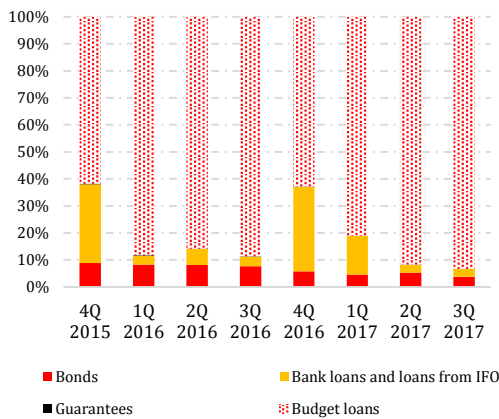
The Agency disclaims all liability in connection with any consequences, interpretations, conclusions, recommendations and other actions directly or indirectly related to the conclusions and opinions contained in the Agency's Research Reports. This Report represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

**Graph 4: The Chuvash Republic's debt metrics**



Source: RAEX (Europe) calculations based on data from the Ministry of Finance of the Russian Federation

**Graph 5: The Chuvash Republic's debt structure**



Source: RAEX (Europe) calculations based on data from the Ministry of Finance of the Russian Federation

these expenditures will be elevated by the end 2017 as compared to the national peers.

In addition, according to the recent results of the assessment by the Ministry of Finance of the Russian Federation regarding the quality of the regional budget management for 2016, the Chuvash Republic was described as a region with “high quality of budget management”. This assessment is an improvement as compared to a year ago when it was categorized as “proper quality”.

**Debt load remains moderately high despite the positive dynamics, while the structure of debt is favorable.** The Chuvash authorities supported the declining trend of the debt level during the 9M 2017: the total amount of consolidated debt of the region (the sum of debt of the regional and municipal authorities) decreased by 28% as compared to the beginning of the year or by 6,5% as compared to 3Q 2016 (see graph 4).

This led to the improvement of key debt metrics. The ratio of non-consolidated region's debt to total revenues dropped from 34,5% in 4Q 2016 to 24% in 3Q 2017, while the ratio of non-consolidated region's debt to own revenues declined from 55,5% to 39,6% for the correspondent periods. The Agency considers this as a positive trend. However, the later metric still remains above the average regional ratio of 32%. In addition, we expect that the debt metrics can be deteriorated by the end of the year, due to the high probability of raising new debt in the 4Q 2017.

At the same time, the debt load remains mitigated by the low share of debt servicing expenditures in total expenditures and the favorable creditors' structure. The share of debt servicing expenditures was as low as 0,7% in 1H 2017, as compared with 1,5% country average figures. In addition, more than 90% of the debt as of 3Q 2017 was formed by the loans issued by the Ministry of Finance of the Russian Federation, which are mostly long term and can be rolled over or restructured with a high probability (see graph 5). In addition, all liabilities of the region remain nominated in RUB, eliminating any currency risks.

**Important note for regional ratings**

This research report shall be treated as a supplementary part of the published press-release included in the following link:

<https://raexpert.eu/reports/Press release Chuvash Republic 24.11.2017.pdf>

Both documents shall be treated as essential parts of each other.

For further information on the factors, their weights, methodologies, risks and limitations of these ratings, and other regulatory disclosures, please refer to the press-release and the website of the Agency.

**Disclaimer**

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 Research Reports. This Report 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.