



RAEX Europe report

Chuvash Republic credit rating

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Credit rating methodology summary

- The region's creditworthiness analysis is based on the assessment of three main groups of factors:
 - 1. Social and economic risks analysis;**
 - 2. Financial risks analysis;**
 - 3. Political risks analysis.**
- The rating score (according to the national scale) is determined as a weighted sum of scores for all integral factors.
- Adjustment of the Country's credit environment rating (CCE) in foreign currency.

Summary of the rating assessment

Initial assignment date 23 June 2017

Assigned credit rating: **BB**

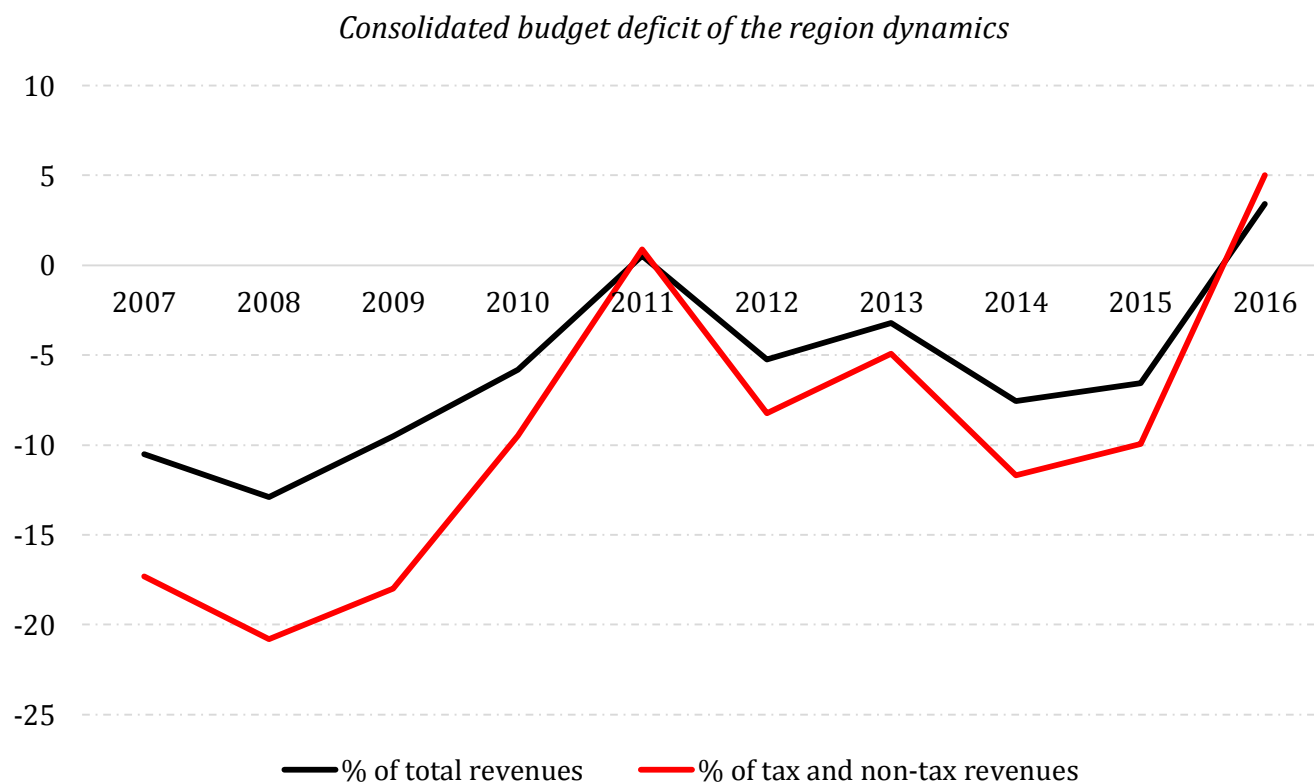
Current rating outlook: **Stable**

Next scheduled revision: 24 November 2017



Positive factors

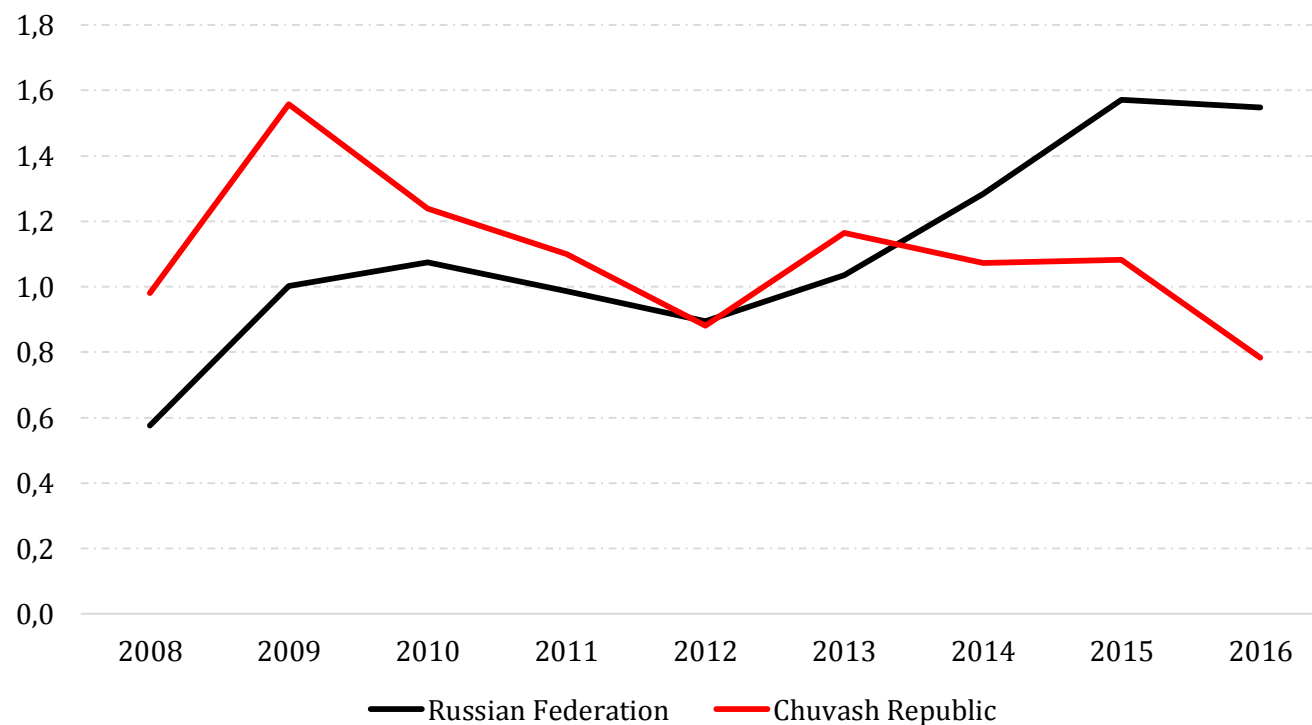
- **Improving fiscal performance** of the region with the consolidated budget surplus equal to 3,4% of total revenues.



Positive factors

- **Moderately low share of debt servicing expenditures at 0,8% of total expenditures of the consolidated budget.**

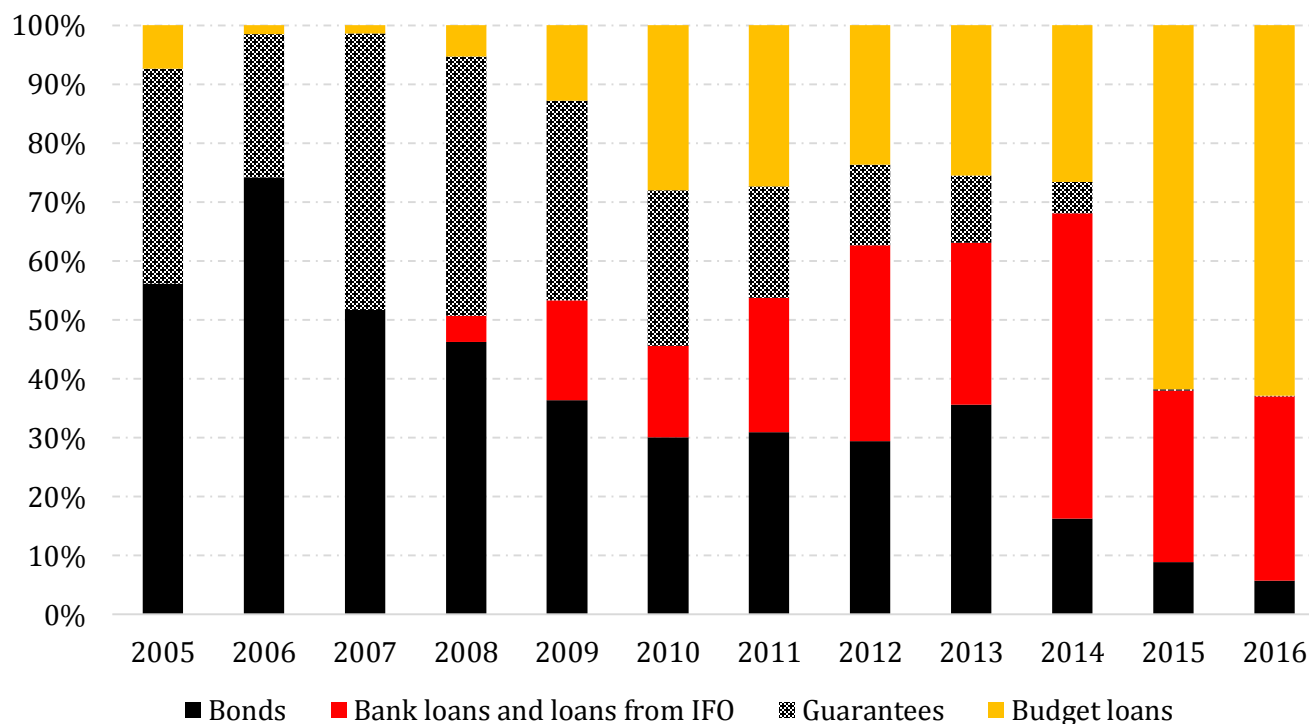
The share of the expenditures of the consolidated budget of the region for debt servicing, % of total expenditures



Positive factors

- **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.

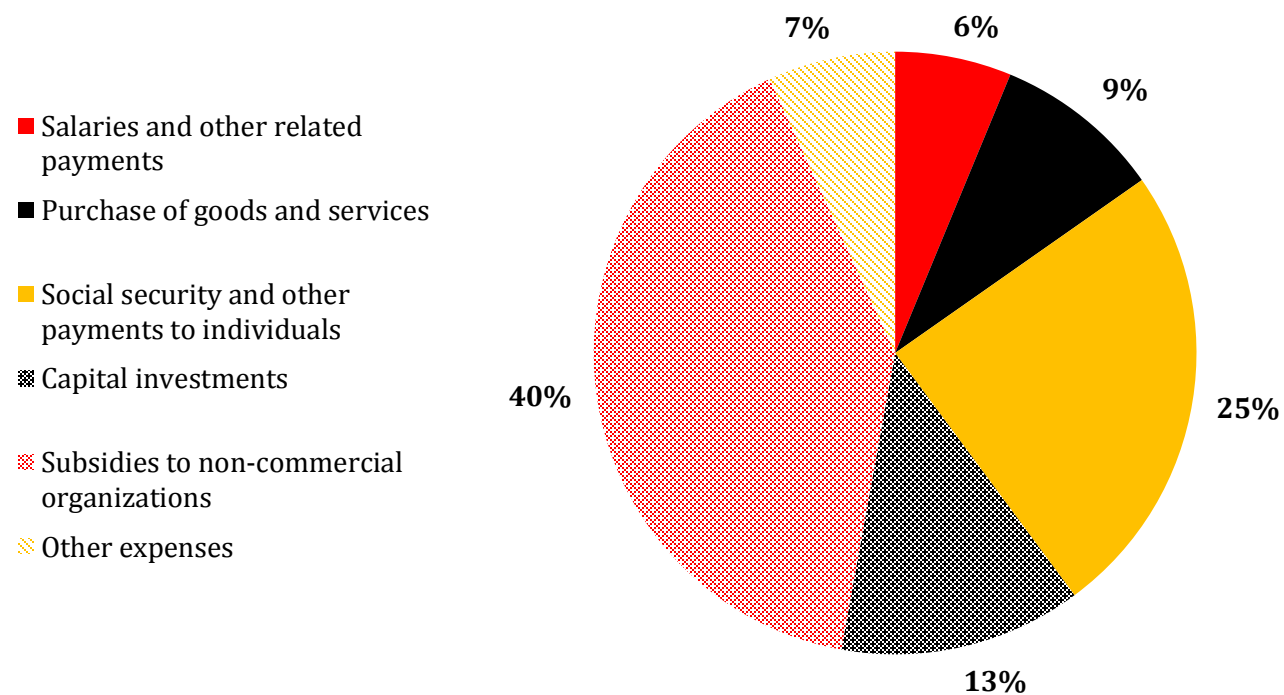
Structure of the consolidated debt of the region



Positive factors

- **Favorable structure of budget expenditures**, with CAPEX at 13% of consolidated budget expenditures slightly above the national average of 12,6%.

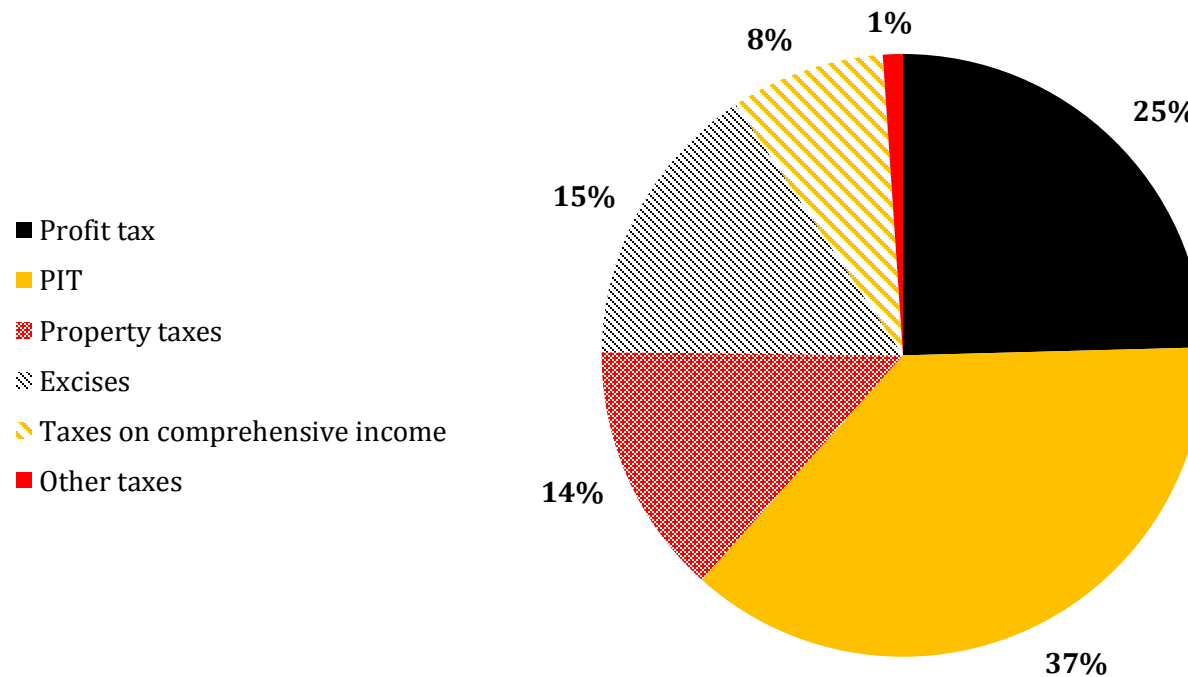
The structure of the expenditures of the consolidated budget of the region, 2016, %



Positive factors

- **Balanced structure of tax revenues** with the largest type representing 37% of regional tax revenues in 2016;
- **Adequate quality of regional budget management** according to the national definition;

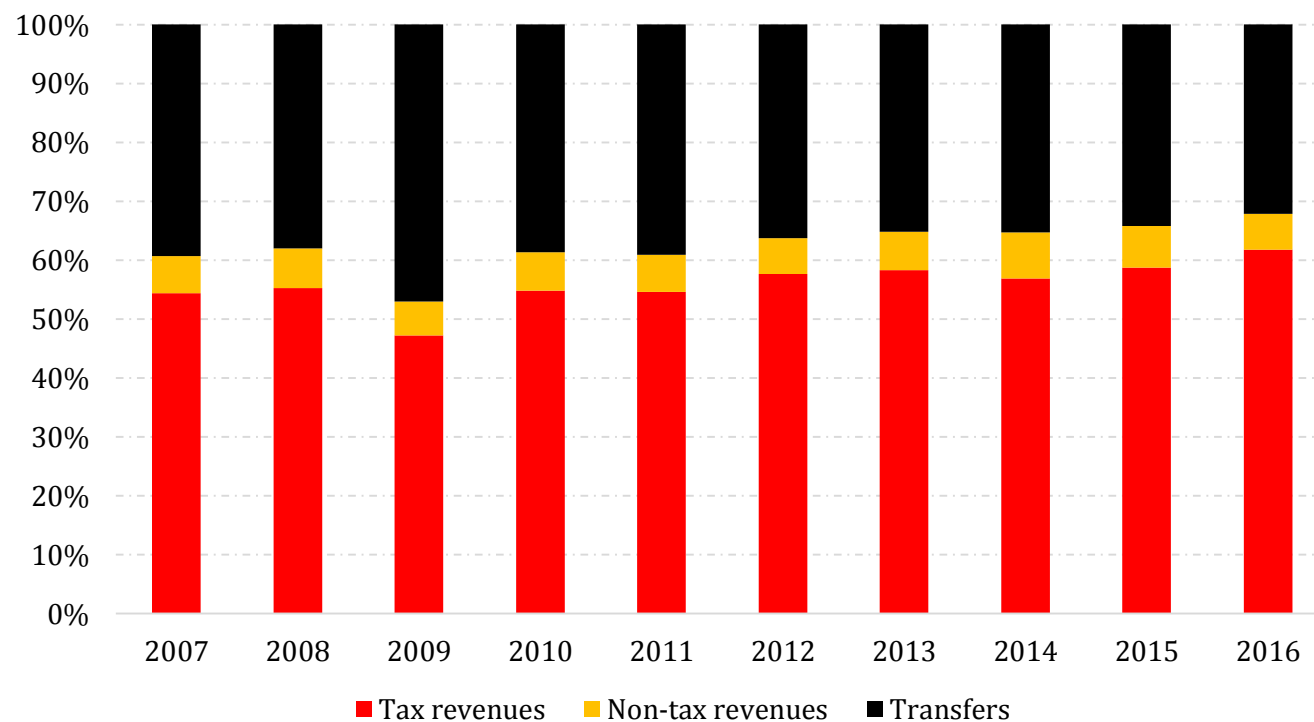
Structure of the tax revenues of the consolidated budget of the region, 2016, %



Restricting factors and risks

- **Elevated dependence on funds from the higher budget tier** with the share of transfers in total consolidated revenues of the region stood at 32,1% in 2016;

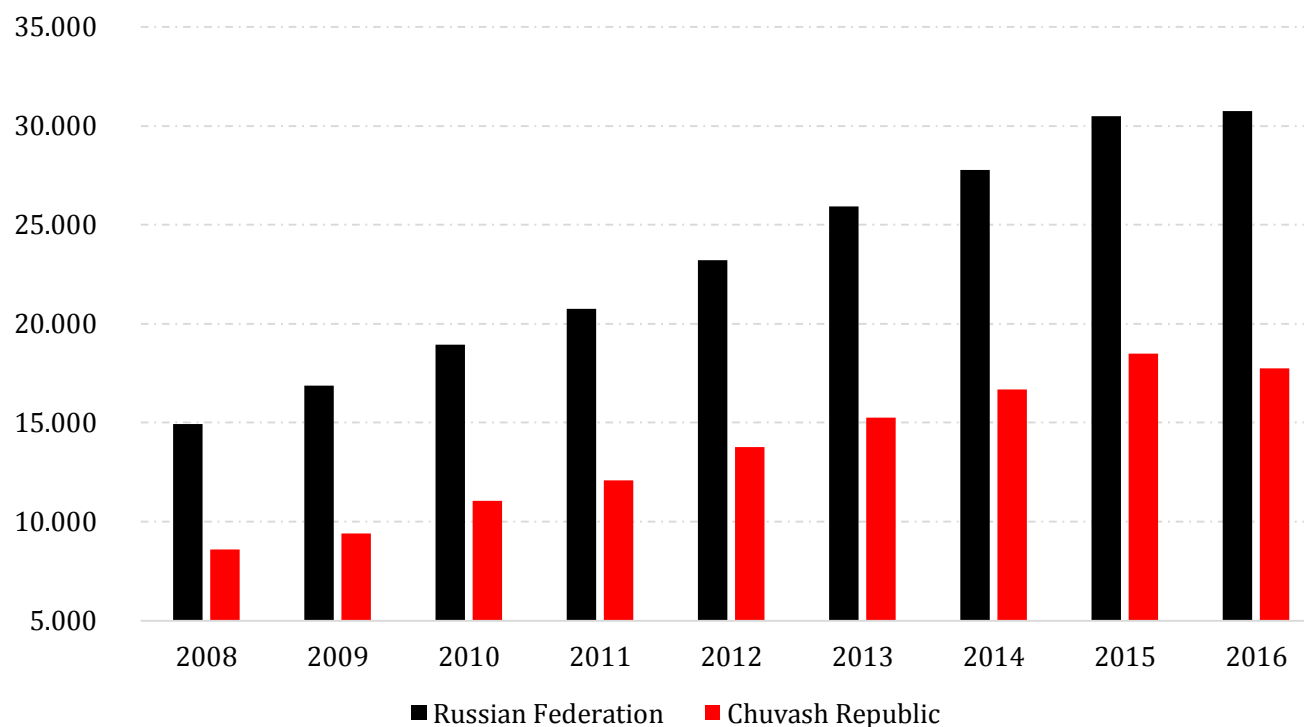
Structure of the revenues of the consolidated budget of the region, %



Restricting factors and risks

- **Negative dynamic of the region's dependency ratio**, which jumped from 59,9% in 2009 to 74,1% in 2015.
- Moderately low level of **nominal wages and personal income**;

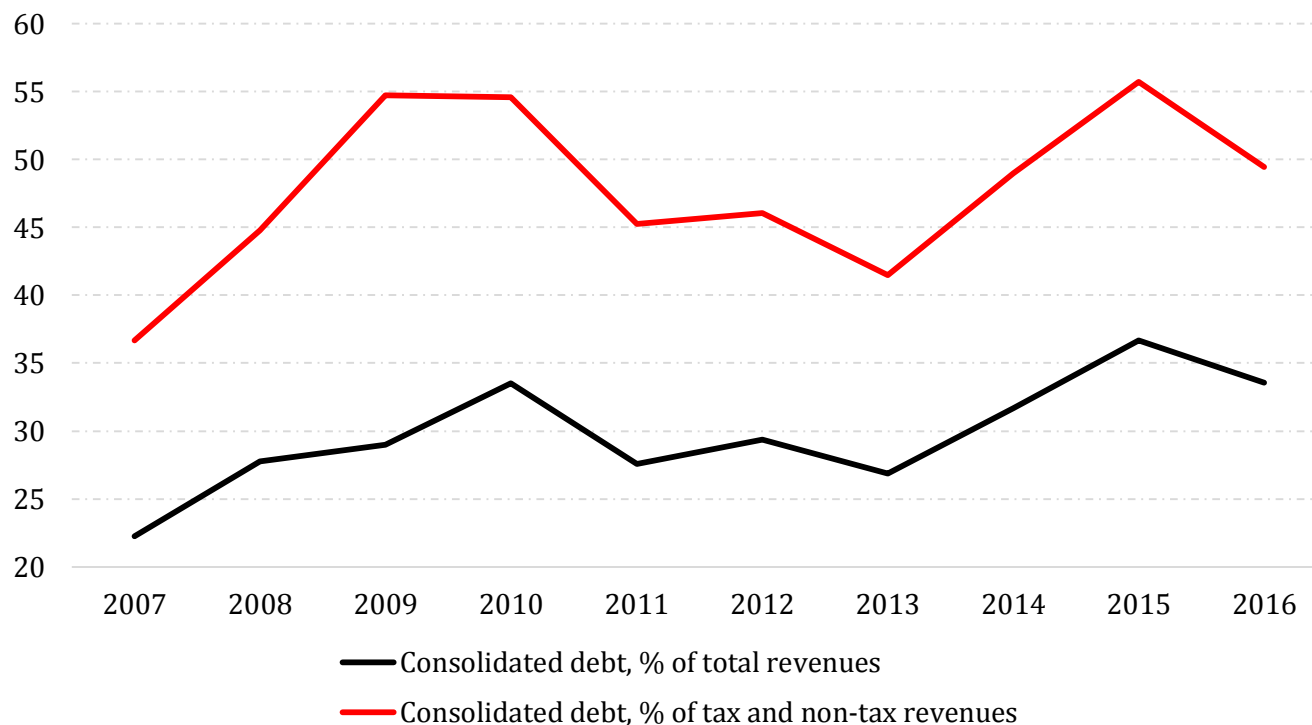
Net personal income in current prices, RUB



Restricting factors and risks

- **Moderately low level of economic development** as evidenced by the gross regional product (GRP) per capita at RUB 202 th in 2015;
- **Elevated debt load** of the region, with the ratio of consolidated debt to total regional revenues at 33,6% in 2016;

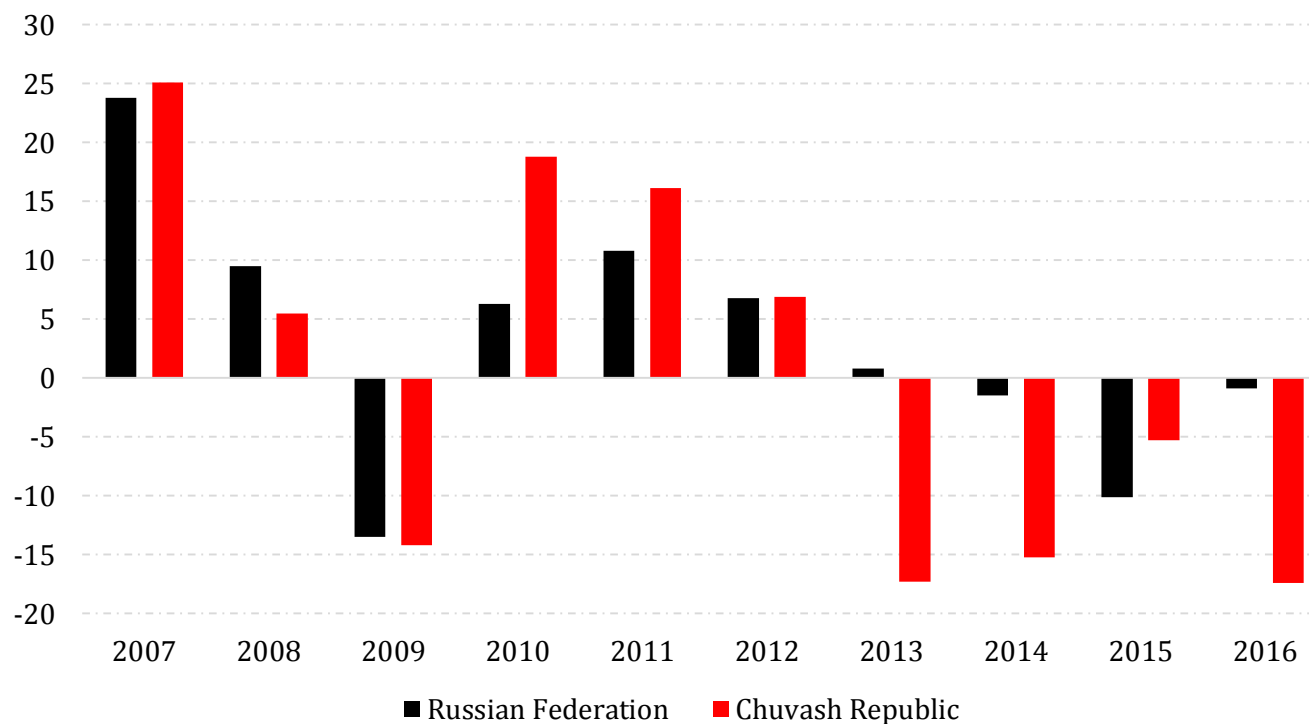
Debt metrics of the region



Restricting factors and risks

- **Negative dynamic of investments in fixed capital** between 2012 and 2016 combined with a low level of investment per capita.

Dynamics of investment in fixed capital in real terms, y-o-y, %



Forecast and sensitivity

- **Stable outlook** - high probability of maintaining the rating;

The following developments could lead to an **upgrade**:

Consolidation of the fiscal balance

Decrease of debt metrics

Improvement of key macroeconomic indicators

Reduction of volatility of the regional economy

The following developments could lead to a **downgrade**:

Reverse trend in fiscal consolidation process

Increase of debt load

Widening of fiscal deficits

Increasing share of short-term bank loans or bonds

Thank you for your attention!

For more detailed information please see:

Press-release and Research Report on the Chuvash Republic published 23 June 2017 on the official website of the Agency

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

Rating-Agentur Expert RA GmbH assigned 'BB' (Sufficient level of according to the international scale to the Chuvash Republic. The means that in the mid-term perspective there is a high probability

MAJOR FACTORS THAT INFLUENCED RATING:

Positive factors:

- Improving fiscal performance of the region with the consols 3.4% of total revenues or 5.2% of own budget revenues improvement when compared to a deficit of 6.6% and 9.9% consolidated budget against a 1.5% average for all Russian
- Moderately low share of debt servicing expenditures at 0.7 consolidated budget against a 1.5% average for all Russian
- Structure of the region's debt, fully formed by local currency term loans from the Ministry of Finance of the Russian Federation or restructured with high probability;
- Favorable structure of budget expenditures, with CAPEX expenditures slightly above the national average of 12, related payments formed only 6.2% of expenditures, well 10%. This creates an additional space for the regional growth case of a drop in revenues and, therefore, partly offset the
- Balanced structure of tax revenues with the largest type revenues in 2016. Furthermore, the share of ten largest collected taxes¹ equaled to 25% in the same year;
- Adequate quality of regional budget management according Chuvash Republic was described as a region with "management" by the 2015 results according to the assessment of the Russian Federation.

Restricting factors:

- Elevated dependence on funds from the higher budget level of transfers in total consolidated revenues of the region 2016, well above the 16.5% average for all Russian region
- Moderately low level of nominal wages and personal income share of social payments that stood at 24.6% as compared in 2015;
- Negative dynamic of the region's dependency ratio², which 74.1% in 2015. This increases the pressure on the budget structure, expenditures over the following years.

Chuvash Republic
Credit Rating – Region

23 June 2017

Research Report on Chuvash Republic

23 June 2017

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Summary

The 'BB' rating of Chuvash Republic is positively supported by the Region's positive fiscal performance in 2016, adequate 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 the elevated debt load and moderately high share of transfers in budget revenues. In addition, most of the macroeconomic factors, such as the level of economic development, personal income and investments negatively affected the creditworthiness of the region.

Rating:
Credit rating of the region: **BB**
Outlook: **Stable**

Main Economic Indicators of Chuvash Republic

Major Indicators	2014	2015	2016
Total reg. debt, RUB bn	14.1	16.3	16.4
nominal GDP, RUB bn	237.4	236.4	239.6*
Real GDP growth, %	6.2	-2.7	6.2*
Total reg. debt/consolidated revenues, %	49.8	50.7	49.5
nom. cons. exp., %	-11.7	-6.9	1.8
Total reg. debt/GDP, %	5.9	6.9	6.9*
Deficit (surplus)/GDP, %	-1.4	-1.2	0.6
External debt, USD bn	0.0	0.0	0.0
Development indicators	2015		
GDP per capita, RUB bn	282.4		
Depth indicator	23.86 2017		
DI on Budget Public, %	8.1		

* DI on Budget Public, %

Source: RAEX (Rating) calculations based on data from the Government of Chuvash Republic, Ministry of Finance of Chuvash Republic, Federal Statistical Service, Chuvash Republic for 2016 by the government of Chuvash Republic.