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Key rating assessment
factors

ACRA affirms B(RU) to the Republic of Mordovia and its bonds, with the status “Rating under revision: developing”

The credit rating of the [Republic of Mordovia](#) (hereinafter, the Republic, or the Region) is based on its weak economic profile, high leverage and shortage of liquidity, as well as moderate budget profile indicators.

The status “Rating under revision: developing” indicates ACRA’s opinion regarding the uncertainty around sources to repay (refinance) a substantial portion of the Region’s debt in 2020.

The Republic of Mordovia is part of the Volga Federal District; it has a population of 0.8 million (0.55% of the total population in Russia); the Region estimated its 2019 GRP at RUB 246 bln (0.3% of the total GRP of Russian regions).

Moderately low economic profile assessment. The averaged¹ GRP per capita of the Republic totaled 52% as compared to the country average for 2014-2017. The averaged wage to regional subsistence wage exceeded 250% in 2015-2018. By the combination of the above two factors (GRP and wage figures), the economic profile of the Region qualifies for the third category at the initial assessment stage.

The unemployment in the Region averaged for the last four years including 2019 stood at 5.4% as per the ILO calculation methodology.

The private sector in the Republic is well diversified. In the last four years, the highest share of tax revenues, according to ACRA estimates, was at or below 7%, while being generated by different industry each year (agriculture, construction, and finance). At the same time, the share of the public sector in total tax revenues is high (around 25% each year), and therefore, the Region’s economic profile qualifies for the fourth category in the final assessment.

High leverage and deficit of liquidity. The debt to current revenues ratio of the Republic equaled 1.37x in 2019 (it was 1.7x as of the end of 2018). ACRA assumes that this ratio will decline to 1.27x by the end of 2020. In 2019, the debt declined by 9% or RUB 5.1 bln due to expiry of guarantees worth RUB 1.7 bln, while the direct debt declined by RUB 3.4 bln driven by proceeds of RUB 1.9 bln from the sale of equity stakes as well as budget surplus totaling RUB 1.4 bln. As of the end of 2019, the debt to tax and non-tax revenues ratio of the Region equaled 211%.

The Republic will have to repay 33% of its debt in 2020, which primarily comprises commercial loans. As at the time of analysis, the Region had no open credit lines, and the available balance on its accounts was insignificant. In view of the above, ACRA notes that refinancing risks are extremely high. ACRA expects the Republic’s government to enter into an agreement with the Federal Treasury Department to provide short-term liquidity, which will be used to refinance debt, as well as enter into loan agreements with commercial banks.

The averaged interest expenses in 2016-2020 will be around 6% of the total budget expenses excluding subventions.

The total debt of municipal entities exceeds the total of their own revenues.

Budget surplus is driven by an increase in transfers. In 2019, the Republic’s budget was a surplus budget for the first time in a long period: expenses declined 6%, while revenues were up 15%. The increase in revenues was driven by higher transfers (up 40%), while the tax and non-tax revenues grew only 2%. As a result, the share of tax and non-tax revenues in the

¹ Hereinafter, the averaging method was used as defined in the Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation.

Region’s total revenues declined from 68% to 61% in 2019. The share of capital expenditures in total budget expenses excluding subventions equaled 8% in 2019.

The current transactions balance was mostly negative in the analyzed period, which indicates a need to raise new debt to finance current expenses. The modified budget deficit to current revenues ratio of the Region has been consistently negative.

ACRA believes that the Republic’s balance could reach a minor surplus of around 3% of tax and non-tax revenues in 2020, while the potential to reduce leverage will depend on the success of the privatization program, or support from the federal government.

Key assumptions

- If necessary, the federal budget will provide urgent financial support;
- A 5% decrease in debt in 2020.

Potential outlook or rating change factors

The “**Rating under revision: developing**” status assumes that the rating may be upgraded or downgraded within the next 90 days.

Removal of the “Rating under revision: developing” status as well as affirmation or upgrade of the credit rating may be prompted by:

- New sources to repay (refinance) the current portion of the Republic’s debt;
- Higher share of own revenues and lower leverage;
- Changes in the debt repayment schedule (which would decrease the share of the short-term debt and the share of debt maturing in 2021-2022);
- Increase in the current balance of the Republic;
- Higher share of capital expenditures of the Region’s budget.

Removal of the “Rating under revision: developing” status as well as downgrade of the credit rating may be prompted by:

- Lack of liquidity sources to repay (refinance) the current debt.

Issue ratings

[Republic of Mordovia Government Bond, 2015 \(ISIN RU000A0JVV49\)](#), maturity date: October 14, 2020, issue volume: RUB 3 bln — **B(RU)**;

[Republic of Mordovia Government Bond, 2016 \(ISIN RU000A0JWSQ7\)](#), maturity date: September 3, 2021, issue volume: RUB 5 bln — **B(RU)**.

Rationale. The above listed bond issues of the Republic of Mordovia, in ACRA’s opinion, are senior unsecured instruments and their credit rating is equal to the rating assigned to the [Republic of Mordovia – B\(RU\)](#).

Regulatory disclosure

The credit ratings have been assigned to the Republic of Mordovia and the bonds (RU000A0JVV49, RU000A0JWSQ7) issued by the Republic of Mordovia under the national scale for the Russian Federation based on the Methodology for Credit Rating Assignment to Regional and Municipal Authorities of the Russian Federation, and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). In the process of the credit rating assignment to the above issues, the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also used.

The credit rating of the Republic of Mordovia and the credit ratings of the bonds (RU000A0JVV49, RU000A0JWSQ7) issued by the Republic of Mordovia were published by ACRA for the first time on November 8, 2017.

The credit rating of the Republic of Mordovia and its outlook as well as the credit ratings of the bonds (ISIN RU000A0JVV49, RU000A0JWSQ7) issued by the Republic of Mordovia are expected to be revised within 90 days following the publication date of this press release in compliance with the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on the data provided by the Republic of Mordovia, information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, the Federal Tax Service, the Commercial Case File, the Federal Treasury),

as well as ACRA’s own databases. The credit ratings are solicited, and the Government of the Republic of Mordovia participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by the Republic of Mordovia in its financial statements have been discovered.

ACRA provided no additional services to the Government of the Republic of Mordovia. No conflicts of interest were discovered in the course of credit rating assignment.

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