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Fitch Ratings affirms Tashkent City at “BB-” level and “stable” forecast

Affirmation of ratings by Fitch Ratings (the “Agency”) reflects a combination of a “weaker level” assessment of the city’s risk profile and an “AA” debt resistance rating according to the rating scenario. The Agency also notes that the city’s issuer default ratings are one step lower than the independent “BB” credit rating due to poor reporting practices and transparency that lags behind international standards.

The Agency estimates Tashkent’s risk profile as corresponding to a “weaker level”. Sources of income from Uzbekistan’s subnational entities are unstable against the background of Uzbekistan’s large-scale fiscal reform over the past four years. Tax revenues are an essential source of revenue for the city budget, but in 2019 its share decreased to 42%.

The ongoing changes in financial regulation in Uzbekistan, resulting in low predictability of revenues, including high dependence on transfers from the weak creditworthiness of the central government, which provide a significant part of the city’s revenues, lead to the assessment of income stability as “weaker level”.

Due to the high centralization and reform of the budget system, the Agency assesses the ability of Tashkent to generate additional income in the event of possible economic downturns as limited.

Inter-budget transfers, according to the Agency’s estimates, are largely discretionary in nature, since the system of budget regulation in the country does not currently have a fixed mechanism for equalizing income. This leads to an assessment of income adaptability “weaker level”.

The Agency evaluates Tashkent’s creditworthiness on a stand-alone basis as “BB,” which reflects a combination of a “weaker level” risk profile assessment and AA debt rating. The rating level of the city also takes into account the comparison with comparable international issuers. As a result, the IDRs of the city are at the “BB-” level.

The continued impact of COVID-19 and a significantly slower economic recovery lasting until 2025 may put pressure on the city’s tax revenue. If the city cannot cut costs in advance or replenish weaker revenues by increasing transfers from the central government, ratings can be downgraded.

It is expected that new borrowings will fund the deficit due to capital expenditures in 2020-2024. Although direct debt is at zero, the city attracts loans through its state-related companies and then provides support for debt servicing. Most of these loans are used to finance the development of the city. Key creditors are local banks, the Islamic Development Bank, and the Fund for Reconstruction and Development of the Republic of Uzbekistan. The liabilities of such state-related companies amounted to UZS 2.4 trillion at the end of 2019, and the Agency includes them in the calculation of the adjusted debt of the city.

Tashkent has a scoring point of assessing the relevance of environmental, social, and government factors (ESG) “4” by the parameter “Data quality and transparency”. Tashkent has weaknesses in terms of the quality and timing of financial data, including concerning transparency of public debt and contingent liabilities. In combination with other factors, this affects the rating.

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