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Key rating assessment  
factors

## ACRA affirms A(RU) to the Republic of Sakha (Yakutia) and its bond issues, changes outlook to Stable

The credit rating of the [Republic of Sakha \(Yakutia\)](#) (hereinafter the Region) is due to the dependence of regional budget indicators on poorly diversified sources of income, the need to maintain a significant amount of mandatory expenses, and indirect obligations affecting the debt load. The change in outlook is due to the expectation that the Region will stabilize its operating balance in 2019 as well as eliminate overdue accounts payable.

The Region is a part of the Far-Eastern Federal District and is the largest region in Russia in terms of area. The Region occupies almost one fifth of Russia's territory and is located in the Far North. The Region is home to 0.7% of Russia's population and accounts for 1.2% of Russia's GRP.

**Tax and non-tax revenues depend on the largest companies operating in the Region, which makes regional budget indicators volatile<sup>1</sup>.** The regional budget depends largely on its main taxpayers, the diamond and oil extraction industries. In 2018, the Region's tax and non-tax revenues (TNTR) increased by 24% compared to its low base in 2017. Income tax revenues provided more than 80% of the increase in TNTR, primarily in the oil and gas sector. For this reason, and as a result of receiving a significant amount of dividends, the Region's operating balance grew to 22% of its regular revenues in 2018. This is substantially higher than the 2017 indicator of 16% and comparable to the 2014-2016 average of 22%. At the end of 2018, there was a 7% surplus of TNTR. Since 2017, dividends have played the most important role in supporting the Region's operating balance. Their volume was equal to tax revenues from mineral extraction and exceeded property tax revenues. ACRA expects that maintaining high dividend payments will allow the Region to maintain its 2019 operating balance at a comparable level, regardless of the forecasted reduction in income tax revenues.

The regional budget's mandatory expenses should average 76% of total expenses in 2016-2019. Capital expenses are fairly low, averaging 10% for the abovementioned period.

**Indirect obligations burden the Region's relatively low debt load.** The Region does not participate in the budget loan restructuring program. Using the 2018 surplus, the Region was able to partially repay debt, reducing it by 2%. The Region's debt to operating balance ratio stood at 1.2 at the end of 2018. ACRA expects this ratio to be at the same level at the end of 2019. Refinancing risk is low, although the debt repayment schedule as of April 1, 2019, stipulates refinancing a quarter of liabilities within the next nine months and the operating balance after interest payments annually exceeds short-term debt by approximately three times. A quarter of the debt portfolio consists of guarantees issued on obligations for public sector enterprises in order to provide support for the population in the regions of the Far North. Considering the social importance and financial condition of the public sector enterprises, ACRA considers it appropriate to take into account the debt of some of those enterprises in the form of indirect government obligations. According to ACRA, the total debt of such enterprises for 2018 could reach up to RUB 27 bln (excluding issued guarantees). ACRA notes that as of the last available date (April 4, 2019) the Region has fully repaid its overdue accounts payable without additional borrowed funds.

**Mining industry trends as well as natural and climatic conditions determine the Region's economy.** The largest Russian diamond deposits, accounting for 90% of the total diamond output of Russia or about a quarter of the world production volume, as well as gold and fossil fuel deposits are located in the Region. The mining industry accounts for

<sup>1</sup> Budget indicators were analyzed excluding the transfers from RusHydro PJSC in 2017–2020 under the program aimed at the attainment of base tariffs in the Far East Federal District.

up to half of the Region's GRP. Diamonds and crude oil have the highest share in the mineral production structure. The Region's harsh climate limits its social and economic development as well as the diversification of its economy.

## Key assumptions

- Absence of sharp fluctuations in gratuitous revenues from the higher budget in the planning period;
- Maintaining high non-tax revenues;
- Maintaining a balanced debt policy over the forecast period with the borrowing of long-term debt and a smooth repayment schedule.

## Potential outlook or rating change factors

**The Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

### A positive rating action may be prompted by:

- Implementation of a countercyclical budget expense policy;
- Growth of tax revenues driven by major investment projects.

### A negative rating action may be prompted by:

- Failure to collect taxes planned as of the rating analysis date;
- Increase in mandatory expenses;
- Occurrence of overdue accounts payable;
- Change in debt policy and temporary debt structure;
- Financial deterioration of public sector enterprises and the need to provide unplanned support.

## Issue ratings

**Credit rating rationale.** The below listed bond issues by the Republic of Sakha (Yakutia), in ACRA's opinion, have a status of senior unsecured debt, with their credit ratings corresponding to the credit rating of the [Republic of Sakha \(Yakutia\)](#).

[Republic of Sakha \(Yakutia\), 35006 \(ISIN RU000A0JUQH4\)](#), maturity date: July 02, 2021, issue volume: RUB 2.5 billion — **A(RU)**.

[Republic of Sakha \(Yakutia\), 35007 \(ISIN RU000A0JVEH8\)](#), maturity date: May 14, 2020, issue volume: RUB 5.5 billion — **A(RU)**.

[Republic of Sakha \(Yakutia\), 35008 \(ISIN RU000A0JWGT6\)](#), maturity date: May 18, 2021, issue volume: RUB 5.5 billion — **A(RU)**.

[Republic of Sakha \(Yakutia\), 35009 \(ISIN RU000A0JXR43\)](#), maturity date: May 16, 2024, issue volume: RUB 5.0 billion — **A(RU)**.

[Republic of Sakha \(Yakutia\), 35010 \(ISIN RU000A0ZZ7E6\)](#), maturity date: May 15, 2025, issue volume: RUB 5.5 billion — **A(RU)**.

[Republic of Sakha \(Yakutia\), 35011 \(ISIN RU000A0ZZNJ2\)](#), maturity date: September 24, 2025, issue volume: RUB 6.0 billion — **A(RU)**.

## Regulatory disclosure

The credit ratings have been assigned to the Republic of Sakha (Yakutia) and to bonds issued by the Republic of Sakha (Yakutia) (ISIN RU000A0JUQH4, ISIN RU000A0JVEH8, ISIN RU000A0JWGT6, ISIN RU000A0JXR43, ISIN RU000A0ZZ7E6, ISIN RU000A0ZZNJ2) under the national scale for the Russian Federation based on the [Methodology for Credit Ratings 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](#). The Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also applied to assign credit ratings to the above issues.

The credit ratings assigned to the Republic of Sakha (Yakutia) and to the bonds of the Republic of Sakha (Yakutia) (ISIN RU000A0JUQH4, ISIN RU000A0JVEH8, ISIN RU000A0JWGT6, ISIN RU000A0JXR43), the bond of the Republic of Sakha (Yakutia) (ISIN

RU000A0ZZ7E6), and the bond of the Republic of Sakha (Yakutia) (ISIN RU000A0ZZNJ2) were published by ACRA for the first time on November 8, 2017, May 31, 2018, and September 26, 2018, respectively.

The credit rating and credit rating outlook of the Republic of Sakha (Yakutia) and the credit ratings of the bonds of the Republic of Sakha (Yakutia) (ISIN RU000A0JUQH4, ISIN RU000A0JVEH8, ISIN RU000A0JWGT6, ISIN RU000A0JXR43, ISIN RU000A0ZZ7E6, ISIN RU000A0ZZNJ2) are expected to be revised within 182 following the publication date of this press release in accordance 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 Sakha (Yakutia), information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), as well as ACRA's own databases. The credit ratings are solicited, and the Government of the Republic of Sakha (Yakutia) participated in their assignment.

No material discrepancies between the data provided and the data officially disclosed by the Republic of Sakha (Yakutia) in its financial report have been discovered.

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

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