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ACRA assigns A(RU) to the Republic of Sakha (Yakutia), outlook Stable, and A(RU) to bond issues

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Key rating assessment factors

The credit rating was assigned to the [Republic of Sakha \(Yakutia\)](#) (hereinafter, the Republic, or the Region) based on low debt load coupled with medium fiscal discipline and control amid objectively low diversification of the economy.

The Republic of Sakha (Yakutia) being part of the Far-Eastern Federal District is the largest region of Russia in terms of territory. The Republic occupies almost one fifth of Russia's territory and is located in the Extreme North area. 0.7% of Russia's population live in the Region, and around 1.2% of the total GRP of Russian regions is generated in the Region. 90% of Russian diamonds (around a quarter of global production) are mined in the Republic.

Mining industry behavior and natural and climatic conditions determine the Region's economy. The largest diamond deposits, as well as gold and fossil fuels deposits are located in the Republic. The mining industry accounts for up to a half of the Region's GRP. Diamond mining and extraction of crude oil have the highest share in the mineral production structure. Harsh climate limits social and economic development in the Region as well as diversification of its economy.

Fiscal discipline is driven by high mandatory spending and industry concentration of tax revenues. Limited diversification of the economy bears risks for the budget: according to ACRA estimates, around a half of tax revenues of the Region's budget and 80% of corporate income tax revenues are generated by the mineral production sector. However, the effective practice of levelling-off ruble-denominated revenues of the largest mining company enables mitigating fluctuations related to economic environment and other factors. Mandatory spending is high: it amounted to 72% of expenses in 2014-2017 on average, due to which the operating balance never exceeded 23% of regular revenues in the above period. According to ACRA estimates, the average operating balance level can decline to 18% in 2018-2019. In view of high mandatory spending, capital expenditures of the budget are low. Their average share in the total budget spending was 12% in 2014-2017 (since 2015, the major share of capital expenditures are made by the Region on its own account). In the medium term, capital expenditures may decrease as the program for resettlement from condemned buildings is nearing its end. Taking into consideration the industry specifics of annual capital expenditures of the Republic, the spending cut by reducing capital expenditures will not exceed 1% of the total budget spending.

Debt load on the Region's budget corresponds to the minimum risk; it is, however, compounded by the need to support public sector enterprises. Debt load estimates correspond to the minimum risk category taking into account that amortizing bonds and fiscal loans prevail in the debt structure, and that debt repayment schedule (in view of the planned restructuring of fiscal loans) provides for no refinancing. As at year-end 2017, the Republic's debt will equal 1.09x of the operating balance. The 2017 operating balance after interest payments exceeds the debt repayment amount five times. The current cost of debt of the Republic is assessed as unburdensome. The debt portfolio is laden with guarantees issued for the benefit of public sector enterprises in order to support population of the Extreme North territories. ACRA expects that the share of guarantees will account for 26% of the debt portfolio as at the end of the year. Considering social importance and financial position of public sector enterprises, the Agency deems expedient to record debt of some of them as secondary obligations of the government. According to ACRA estimates, the debt of such enterprises equaled RUB 12.4 bln as at year-end 2016.

High liquidity. In accordance with the Budget Code of the Russian Federation, the Region's administration has no right to have deposits with banks. The Region has necessary liquidity to timely perform expenditure commitments including interest payments. However, as the balances on budget's accounts as at month start are predominantly below current month expenses, the Region may require financing to cover expected cash gaps which it closes by short-term loans from the Federal Treasury Department to add funds to budget accounts. The amount of loans raised from the Federal Treasury Department in 2016 was insignificant, and in 2017, loan utilization equaled around a quarter of monthly own revenues of the budget.

Key assumptions

- The Region's economy continues to depend on the behavior of the key mineral production industry;
- Pursuing a countercyclical budget spending policy;
- Non-repayable receipts from a higher budget in 2019 are maintained at the 2018 level;
- Maintaining a well-balanced debt policy in the forecast period including raising long-term debt with a comfortable repayment schedule;
- Restructuring of fiscal loans.

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:

- Increase of share of manufacturing with high added value;
- Growth of tax revenues as a result of financial position improvement of large taxpayers and launch of large investment projects.

A negative rating action may be prompted by:

- Change in the debt policy and repayment structure of the debt;
- Decline of tax and non-tax revenues in the prevailing industry and inability to lower the mandatory spending of the budget;
- Deterioration of financial position 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).

Key issue properties

1) RegS/ ISIN: **RU35005RSY0/ RU000A0JTVM6**

| | |
|-----------------------------|---------------------------------------|
| Issue volume / outstanding | RUB 2.5 bln / RUB 0.75 bln |
| Issue date / Repayment date | April 24, 2013/ April 24, 2018 |

2) RegS/ ISIN: **RU35006RSY0/ RU000A0JUQH4**

| | |
|-----------------------------|-----------------------------------|
| Issue volume / outstanding | RUB 2.5 bln / RUB 1.25 bln |
| Issue date / Repayment date | July 2, 2014/ July 2, 2021 |

3) RegS/ ISIN: **RU35007RSY0/ RU000A0JVEH8**

| | |
|-----------------------------|------------------------------------|
| Issue volume / outstanding | RUB 5.5 bln / RUB 4.25 bln |
| Issue date / Repayment date | May 21, 2015 / May 14, 2020 |

4) RegS/ ISIN: **RU35008RSY0/ RU000A0JWGT6**

| | |
|-----------------------------|------------------------------------|
| Issue volume / outstanding | RUB 5.5 bln / RUB 5.5 bln |
| Issue date / Repayment date | May 18, 2016 / May 18, 2021 |

5) RegS/ ISIN: **RU35009RSY0/ RU000A0JXR43**

| | |
|-----------------------------|------------------------------------|
| Issue volume / outstanding | RUB 5.0 bln / RUB 5.0 bln |
| Issue date / Repayment date | May 18, 2017 / May 18, 2024 |

Rating history

None.

Regulatory disclosure

The credit ratings have been assigned to the Republic of Sakha (Yakutia) and to bonds issued by the Republic of Sakha (Yakutia) (RU000A0JTVM6, RU000A0JUQH4, RU000A0JVEH8, RU000A0JWGT6, RU000A0JXR43) 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 rating has been assigned to the Republic of Sakha (Yakutia) for the first time. The credit rating and credit rating outlook are expected to be revised within 182 days following the rating action (November 3, 2017).

The credit rating has been assigned to the bonds of the Republic of Sakha (Yakutia) (RU000A0JTVM6, RU000A0JUQH4, RU000A0JVEH8, RU000A0JWGT6, RU000A0JXR43) for the first time. The credit rating is expected to be revised within 182 days following the rating action (November 3, 2017).

The credit rating was 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 rating is solicited, and the Republic of Sakha (Yakutia) participated in its 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 Republic of Sakha (Yakutia). No conflicts of interest were discovered in the course of credit rating assignment.

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