

June 27, 2018

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Key rating assessment
factors

ACRA assigns AA-(RU) to the Irkutsk Region, outlook Stable, and AA-(RU) to bond issue

The credit rating assigned to the [Irkutsk Region](#) (hereinafter, the Region) is based on the significant structural changes in the regional economy, which have a positive impact on the dynamics of budget revenues, as well as the debt load indicators corresponding to the minimum risk levels. The credit rating of the Region is limited to a high proportion of mandatory budget expenses.

The Irkutsk Region is located in the Siberian Federal District and borders five other regions of the Russian Federation. The southeastern border of the Region runs along Lake Baikal, which is the world's largest natural reservoir of fresh water. 2.4 million people live in the Region, and the gross regional product (GRP) is RUB 1.068 trillion (1.54% of the total Russian GRP in 2016).

Fast growing regional economy undergoing crucial structural changes. In 2010–2016, the Region's GRP increased by 34.7%, while the accumulated growth of the total GRP of the Russian regions was only 17.4%. The growth in the regional economy was accompanied by major structural changes: actually, a new powerful industry appeared in the Region — the oil production industry. The contribution of this industry to the GRP increased from 5.3% in 2009 (no more than 4.5% before 2008) to 26.2% in 2016. In 2017, 3.7% of all Russian oil was produced in the Region (6th place among oil producing regions of Russia), while in 2008 the Region's share was less than 0.1% of total oil produced in Russia (24th place).

In addition to the mining sector, the regional GRP is contributed by the manufacturing industry (12.3% of the regional GRP in 2016), transport and communications (11.8%), construction (6.3%), agriculture (6%) and electric power industry (5.6%). 9.2% and 7.3% of the regional GRP accounted for trade (wholesale and retail) and services segments, respectively. Metal production dominates the structure of manufacturing industries (23.5% of the output in 2017), production of chemicals and petroleum products (about 18%), paper and paper products (13.4%), timber processing (9.3%), food products (7.6%). In the Region, an aircraft building company operates, which plans to begin batch production of a new generation Russian passenger airplane in 2019.

The share of mineral extraction tax in the total amount of taxes and fees increased from 1.9% in 2013 to 34.6% in 2017. The share of taxes and fees collected in the Region but relating to the federal budget increased from 33.5% (average figure for 2011–2013) to 58% in 2017.

In 2009–2017, the GRP per capita increased from 84% to 97% relative to the average Russian level.

Despite the fact that per capita personal incomes in the Region decreased from 82% of the national average in 2009 to 70% in 2017 (as per capita incomes grew by 1.6 times against the national average growth of 1.9 times), the personal income tax revenues consistently stood at about 89% against the national average, while the aggregate revenue tax collectibles amounted to 94%. In ACRA's opinion, the dynamics of tax revenues more accurately reflects the level of well-being of the population in the Region.

Flexible budget policy. The Region's budget is characterized by a high degree of self-sufficiency. Consolidation of tax revenues coming from the oil industry within the regional budget allows the Region to redirect the positive financial result of oil companies into the regional economy through budget expenditures.

The average share of mandatory (according to the ACRA methodology) expenditures is 78% of the total budget expenditures. Five out of the past ten years, the Region's budget was executed with a surplus (up to 12.7% of tax and non-tax revenues, TNTR), which was generally used to repay debt obligations. A significant budget deficit was seen (similarly to the overwhelming number of Russian regions) in 2013–2015, when the general economic recession coincided with the need to execute the May decrees for increasing the salaries in the public sector. The regional budget was one of the first budgets in Russia to recover after the crisis of 2014–2015: as early as in 2016, the budget surplus was 2%, which allowed the Region to reduce the amount of debt.

In 2017, the Region's TNTR included 43% of income tax revenues. The shares of personal income tax and property tax amounted to 28.3% and 13.9%, respectively.

The growth in the regional budget revenues led to a significant increase in the development budget from RUB 12.4 bln in 2015 to RUB 21.1 bln in 2017. ACRA positively assesses the application of a significant share of growing TNTR for the purposes of the development budget: on the one hand, it allows the Region to maintain budget flexibility and, on the other hand, it contributes to the regional infrastructure and the social and investment attractiveness of the Region.

The regional authorities pursue an effective policy to identify inefficient or excessive costs, including that at the level of subordinate organizations, and also to increase revenues from certain types of taxes and fees (for example, application of RFID nail tags contributed to a decrease in the illegal logging and an increase in the relevant revenues of the regional budget).

Balanced debt policy. As of June 01, 2018, the state debt of the Region was represented by bonds (39.7% of all debt obligations, RUB 5 bln) due in 2019–2021 and budget loans (60.3%, RUB 7.586 bln), 80% of which are restructured and are repayable in 2018–2024 and the remaining 20% are repayable in 2025–2034. As of January 1, 2018, the Region had a debt on bank loans obtained in December 2017, but those loans were prepaid in January–February 2018.

The ratio of debt to operating balance and the ratio of debt service costs to operating balance correspond, according to the ACRA methodology, to the minimum level of risk.

The existing level of budget liquidity allows the Region to cover expenditures timely, without recourse to short-term bank loans or increasing overdue accounts payable.

Key assumptions

- The Region will maintain a positive trend for the main types of tax revenues;
- The 2018 regional budget will be executed with a surplus or a deficit of not more than 0.5% of TNTR.

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:

- Higher share of capital expenditures within the regional budget;
- The TNTR growth rate exceeding the inflation rate in 2018–2019.

A negative rating action may be prompted by:

- Higher mandatory expenditures, not supported by a similar growth in budget revenues;
- A breach of the budget loan restructuring rules of 2017.

Issue ratings

Credit rating rationale. In ACRA's opinion, the below bond issued by the Irkutsk Region is a senior unsecured debt instrument, and its credit rating is equal to the rating assigned to the Irkutsk Region.

Key issue properties1) RegS / ISIN: **RU34001IRK0 / RU000A0JX314**

Issue volume / outstanding	RUB 5 bln / RUB 5 bln
Issue date / maturity date	December 26, 2016 / December 25, 2021

Regulatory disclosure

The credit ratings have been assigned to the Irkutsk Region and to the bond issued by Irkutsk Region (ISIN RU000A0JX314) 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 a credit rating to the above issue.

ACRA has assigned credit ratings to the Irkutsk Region and to the bond issued by Irkutsk Region (ISIN RU000A0JX314) for the first time. The credit rating of the Irkutsk Region and its outlook as well as the credit rating of the bond issue of the Irkutsk Region (ISIN RU000A0JX314) are expected to be revised within 182 days after the rating action date (June 25, 2018) in accordance with the [2018 calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on the data provided by the Irkutsk Region, information from publicly available sources (the RF 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 Government of the Irkutsk Region participated in their assignment.

No material discrepancies between the data provided and the data officially disclosed by the Irkutsk Region in its financial reports have been discovered.

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

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