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Key rating assessment  
factors

## ACRA affirms the Republic of Sakha (Yakutia) at A(RU), outlook Negative, and affirms its bonds at A(RU)

The credit rating of the [Republic of Sakha \(Yakutia\)](#) (the Region) is due to the dependence of the regional budget indicators on low-diversified sources of income, the need to maintain a significant amount of mandatory expenditures, and the presence of indirect obligations affecting the debt burden. The negative outlook is due to the potential decrease in the operating balance in 2019, which may affect the budget indicators and the debt load of the Region.

The Republic of Sakha (Yakutia) is a part of the Far-Eastern Federal District and the largest region of Russia in terms of area. 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.

**Tax and non-tax revenues depend on the largest companies operating in the Region, which makes regional budget indicators volatile<sup>1</sup>.** The share of mandatory budget expenditures has been growing slowly, and it may reach 76% of the total expenditures by the end of 2018, while the 2019 forecast provides for an increase to 78%. The 2018 operating balance is expected to be 21% (against 16% a year earlier) against the background of a low basis of 2017, which was due to non-fulfillment of the expected tax revenues. In 2019, the planned income tax revenues will decrease by 13% compared with the performance expected in 2018. This will occur due to the planned reduction in the volume of sales in the diamond mining industry and the reduction of projected budget revenues from an enterprise (a CGT member) whose financial indicators depend on the foreign currency revaluation of deposits. It is also expected that budget revenues generated by dividend payments<sup>2</sup> will decline relative to the level expected in 2018. Since 2017, dividends have become the most important factor supporting the operating balance of the Region, as their volume is on par with the mineral extraction tax and exceeds the property tax. Following the reduction in the share of revenues, the 2019 operating balance may again fall to 16% of regular revenues. A decline in the share of capital expenditures in 2016–2018, on the one hand, has a negative effect on budget figures, but on the other hand, indicates the possibility of reducing capital expenditures in case current expenditures need to be financed.

**The relatively low debt load is burdened by indirect obligations.** The Region does not participate in the budget loans restructuring program. According to ACRA estimates, in 2018, the market component of the debt (mainly bonds) will amount to 65%, and in 2019 it is expected to reach 78%. The absolute debt will change slightly. As of October 01, 2018, the debt repayment schedule (excluding guarantees) provided for refinancing a half of the liabilities over the next 16 months, which will lead to a fall in the debt service ratio from 2.5–2.7x expected by the end of 2018 to 1.5x in 2019. However, the Agency does not assess the current situation as an increase in the refinancing risk in view of the relatively high budget liquidity. According to ACRA estimates, the debt to operating balance ratio will be about 1.4x at the end of 2018. However, the decrease in the operating balance planned in 2019 may lead to an increase in the debt burden above 2x by as early as the end of 2019. Slightly less than a quarter of the debt portfolio includes guarantees issued for the obligations of public sector enterprises in order to support the living of

<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.

<sup>2</sup> A change in the dividend policy of the enterprise that generates the main share of income in the form of dividend generally results in higher budget revenues on this item of non-tax revenues. However, the specifics of dividend payment schedule may lead to a decrease in revenues in 2019 on the backdrop of the high basis of 2018. The data is based on the draft 2019–2021 budget law of the Region.

the population in the Far North territory. Taking into account the social importance and financial condition of public sector enterprises, the Agency considers it appropriate to consider debts of some of them as indirect liabilities of the government. According to ACRA estimates, by the end of 2017, the total debt of such enterprises could reach RUB 20 billion (less guarantees issued). The Agency notes that, by the last available date (October 01, 2018), the Region has managed to reduce significantly the amount of overdue payables, without any additional borrowings.

**Mining industry trends and natural and climatic conditions determine the Region's economy.** The Russian largest diamond deposits giving 90% of the total diamond output of Russia or about a quarter of the world production volume, as well as gold and fossil fuels deposits are located in the Region. The mining industry accounts for up to a half of the Region's GRP. Diamonds and crude oil have the highest share in the mineral production structure. Harsh climate limits the social and economic development in the Region and the diversification of its economy.

## Key assumptions

- Low volatility of gratuitous funding from the federal budget in the forecast period;
- The Region will maintain a well-balanced debt policy in the forecast period, including long-term loans with comfortable maturities.

## Potential outlook or rating change factors

**The Negative outlook** assumes that the rating may be downgraded within the 12 to 18-month horizon.

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

- A countercyclical budget spending policy;
- No overdue payables or overdue payables tending to decline sustainably;
- Growing tax revenues driven by large investment projects.

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

- A failure to collect taxes planned as of the rating analysis date;
- A growth of overdue payables;
- A change in debt policy and temporal debt structure;
- 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 \(Yakutia\)](#).

[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) and the bond of the Republic of Sakha (Yakutia) (ISIN RU000A0ZZ7E6) and the bond of the Republic of Sakha (Yakutia) (ISIN RU000A0ZZNJ2) were first published by ACRA on November 08, 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 days following the rating action date (November 01, 2018) in accordance with the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit rating was assigned based on the data provided by the Republic of Sakha (Yakutia), 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 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 Government of the Republic of Sakha (Yakutia). No conflicts of interest were discovered in the course of credit rating assignment.

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