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Key rating assessment factors

ACRA upgrades the Krasnoyarsk Krai to AA-(RU), changes outlook to Stable, and its bond issues to AA-(RU)

The credit rating of the [Krasnoyarsk Krai](#) (hereinafter, the Region) has been upgraded to reflect the balanced fiscal policy, which allowed the Region to finish 2020 with a budget surplus and partially reduce its total debt. The rating is further supported by the Region's strong economic profile, balanced debt repayment schedule without any refinancing risks in the short term, and significant amount of accumulated liquidity. The credit rating is restrained by the level of debt burden, which exceeds 30% of the current revenues in the forecast period, as well as the dependence of budget revenues on the mining sector, despite the significant diversification of extracted raw materials.

The Region is a part of the Siberian Federal District. The Region's population is nearly 2.9 mln people. According to the Region, its GRP will amount to RUB 2.3 tln for 2019.

The regional budget for 2020 was executed with a surplus, despite a decline in internal revenues. The budget revenues amounted to RUB 288.7 bln, which is 1% (+RUB 3.5 bln) higher than in 2019. Tax and non-tax revenues (TNTR) decreased by 8% (-RUB 20.2 bln). The decrease in internal revenues was caused by an 18% decline in income tax revenues (-RUB 24.4 bln), especially in the metals sector and fossil fuel extraction industry. At the same time, gratuitous transfers to the regional budget grew by 62% (+RUB 22.7 bln). Regional budget expenditures also increased significantly to RUB 288.3 bln, which is 16% (+RUB 39.7 bln) more than in 2019. The most significant growth was in the expenditures for social policy (+RUB 19.3 bln), healthcare (+RUB 11.7 bln), and the national economy (+RUB 6.3 bln). The budget surplus amounted to RUB 0.4 bln.

The Region's budget law¹ provides for a 2% decrease in income tax in 2021 (-RUB 5.3 bln), as well as a decrease in the volume of gratuitous transfers by 23% (-RUB 13.6 bln). Budget expenditures will remain almost unchanged in comparison with 2020 (+RUB 1.4 bln). At the same time, healthcare expenditures are planned to be cut by RUB 11.5 bln, down to the level of 2019, which is almost fully offset by the expected growth in other items of expenditure.

The planned budget deficit will amount to 8% of the income tax (RUB 17.2 bln) and will be financed mostly by raising new debt and by accumulated liquidity by one third.

90% of the forecast 2021 budget deficit can be potentially covered by internal revenues.

The averaged² current account balance to current income ratio for 2017–2021 will be 13%, which is moderately high.

ACRA assesses the share of capital expenses in total expenses as moderately high. The averaged value of this indicator should be about 14% for 2017–2021. The averaged share of TNTR in income should amount to 87% for this period, which indicates a moderately high level according to ACRA's methodology.

ACRA expects the averaged ratio of modified budget deficit to current income to be positive (2%) for 2017–2021, which indicates the sufficiency of internal revenues to finance capital expenditures.

¹ Law of the Krasnoyarsk Krai No. 10-4538 dated December 10, 2020 "On the regional budget for 2021 and the planning period 2022-2023."

² Hereinafter, averages are calculated according to the [Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation](#).

The moderately low debt burden with a smooth repayment schedule. By the end of 2020, the debt of the Region decreased by 6% (RUB 4.6 bln) and as of 01.01.2021, it was equal to RUB 77.4 bln. 72% of the Region's debt portfolio are outstanding bonds; 28% are budget loans. Other debt obligations account for less than 1%.

The debt repayment schedule is balanced, without significant payment peaks. Over the next five years, the Region will have to repay no more than 19% of the debt annually. This year, the Region will have to repay 18% (RUB 14.1 bln).

In 2020, the debt to current income ratio declined to 28%, which indicates a low debt burden. In ACRA's opinion, this figure may grow to 31% by the end of 2021 in view of the need to finance the planned budget deficit. Interest expenses are not burdensome for the Region, with the averaged level for 2017–2021 estimated at about 3% of total budget expenses (excluding subventions).

Since the beginning of 2020, end-of-month account balances were comparable with monthly budget expenditures. ACRA assumes that the most portion of free liquidity will be applied to finance the budget deficit in 2021. Loans from the Federal Treasury and autonomous and budgetary institutions will help avoiding possible cash gaps this year.

The moderately high concentration on the metals sector determines the Region's economic profile. The Region's averaged GRP per capita for 2015–2018 stood at 134% of the national average. ACRA notes that the Region's per capita GRP grew faster than the national average in 2014–2018. The ratio of averaged wages to regional subsistence minimum exceeded 350% in 2016–2019. Averaged unemployment calculated according to the ILO methodology totaled 4.9% for the same period. The regional unemployment rate reached its peak value of 8.3% in June–August 2020, but in September–November, it decreased to 5.8%. This indicates a gradual return to the average values of previous years.

ACRA estimates that the metallurgy and non-ferrous metals mining sectors have accounted for 30% to 40% of the Region's tax revenues in the past. The Region's two largest taxpayers work in these sectors. Fossil fuel extraction contributes up to 15% of tax revenues.

Key assumptions

- In 2021, the TNTR declining by no more than 3% y-o-y in the base case scenario and 12% y-o-y in the stress scenario (in case tax collections from PJSC "MMC "Norilsk Nickel" decline significantly due to compensation penalties);
- Reduced social budget expenses;
- The 2021 budget deficit less than 8% of the TNTR;
- The forecasted budget deficit is covered by the accumulated cash.

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:

- The debt to current income ratio consistently below 30%;
- Maintaining a positive modified budget deficit;
- Increase in internal revenues.

A negative rating action may be prompted by:

- Sharp increase in short-term debt;
- Sudden need for debt financing;
- Significant decrease in current budget expenditures;
- Significant increase in the budget deficit leading to a noticeable increase in debt load.

Issue ratings

[Krasnoyarsk Krai, 35016 \(ISIN RU000A0ZZM87\)](#), maturity date: September 12, 2025, issue volume: RUB 12 bln — **AA-(RU)**.

[Krasnoyarsk Krai, 35015 \(ISIN RU000A0ZZC48\)](#), maturity date: June 26, 2025, issue volume: RUB 12 bln — **AA-(RU)**.

[Krasnoyarsk Krai, 35014 \(ISIN RU000A0ZYFB8\)](#), maturity date: October 31, 2024, issue volume: RUB 7.8 bln — **AA-(RU)**.

[Krasnoyarsk Krai, 34013 \(ISIN RU000A0ZYCM2\)](#), maturity date: October 3, 2024, issue volume: RUB 10 bln — **AA-(RU)**.

[Krasnoyarsk Krai, 34012 \(ISIN RU000A0JWXF0\)](#), maturity date: October 25, 2023, issue volume: RUB 18.231 bln — **AA-(RU)**.

Rationale. In ACRA's opinion, the bonds listed above are senior unsecured debt instruments, the credit ratings of which correspond to the credit rating of [Krasnoyarsk Krai](#).

Regulatory disclosure

The credit ratings have been assigned to the Krasnoyarsk Krai and bonds issued by the Krasnoyarsk Krai (RU000A0ZZM87, RU000A0ZZC48, RU000A0ZYFB8, RU000A0ZYCM2, RU000A0JWXF0) under the national scale for the Russian Federation based on the [Methodology for Credit Rating 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](#). In the process of credit ratings assignment to the above issues, the [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation](#) was also used.

The credit rating of the Krasnoyarsk Krai and the credit ratings of bonds issued by the Krasnoyarsk Krai (RU000A0ZZM87, RU000A0ZZC48, RU000A0ZYFB8, RU000A0ZYCM2, RU000A0JWXF0) were published by ACRA for the first time on October 9, 2017, September 21, 2018, July 2, 2018, November 7, 2017, October 10, 2017, and October 10, 2017, respectively.

The credit rating of the Krasnoyarsk Krai and its outlook as well as the credit ratings of bonds issued by the Krasnoyarsk Krai (RU000A0ZZM87, RU000A0ZZC48, RU000A0ZYFB8, RU000A0ZYCM2, RU000A0JWXF0) are expected to be revised within 182 days following the publication date of this press release as per the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on data provided by the Krasnoyarsk Krai Government, 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 Krasnoyarsk Krai Government participated in the rating process.

No material discrepancies between the provided data and data officially disclosed by the Krasnoyarsk Krai in its financial report have been discovered.

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

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