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Key rating assessment factors

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

The credit rating of the [Republic of Sakha \(Yakutia\)](#) (hereinafter, the Region) is based on 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 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 Region's budget depends largely on its main taxpayers, the diamond and oil extraction industries. Income tax revenues, amounting in some years to 39% of the Region's tax and non-tax revenues (TNTR), depend on conditions in the main commodity markets. Additional factors that increase the dependence of the Region's budget on the extraction industry is the significant share of dividends from extraction enterprises (13-16% of TNTR in 2017-2019) and mineral extraction taxes (11-17% in 2017-2019). For these reasons, the Region's operating balance is also volatile. However, an increase in transfers in 2019 should compensate for the reduction in TNTR and slightly decrease the operating balance. The operating balance stands at 16-22% of regular revenues for 2016-2019, while the projected value at the end of the current year 21%.

The share of the Region's mandatory expenses should average 76% of total expenses for 2016-2019. Capital expenditures are fairly low, averaging 11% over the previously mentioned period. The share of internal revenue excluding transfers stands at 68%.

**Indirect obligations burden the Region's relatively low debt load.** The Region does not participate in the budget loan restructuring program. ACRA expects the Region's debt to operating balance ratio to be 1.3 at the end of 2019. The risk of refinancing is low as the Region's debt repayment schedule is well structured and its operating balance after interest payment exceeds short-term debt by almost three times annually. Almost a quarter of the debt portfolio consists of guarantees issued on obligations for public sector enterprises in order 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 could reach up to RUB 27 bln for 2018 (excluding issued guarantees). As of the last available date (July 1, 2019), the Region's overdue accounts payable were insignificant, amounting to less than RUB 300 mln.

**Mining industry trends as well as natural and climatic conditions determine the Region's economy.** The Region features gold and fossil fuel deposits as well as Russia's largest diamond deposits, which account for 90% of Russia's total diamond output or about a quarter of the world production volume. The mining industry accounts for 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 its economic diversification.

<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.

## Key assumptions

- Absence of sharp fluctuations in gratuitous revenues from the federal budget in the planned period;
- Maintaining high non-tax revenues;
- Maintaining a balanced debt policy over the forecast period with long-term borrowing 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;
- Build-up of overdue accounts payable;
- Change in debt policy and temporary debt structure in favor of increasing short-term debt;
- Financial deterioration of public sector enterprises and the need to provide unplanned support.

## Issue ratings

[Republic of Sakha \(Yakutia\), 35006 \(ISIN RU000A0JUQH4\)](#), maturity date: July 2, 2021, issue volume: RUB 2.5 bln — **A(RU)**.

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

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

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

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

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

[Republic of Sakha \(Yakutia\), 35012 \(ISIN RU000A100CN3\)](#), maturity date: May 13, 2026, issue volume: RUB 7.0 bln — **A(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 the [Republic of Sakha \(Yakutia\)](#).

## Regulatory disclosure

The credit ratings have been assigned to the Republic of Sakha (Yakutia) and bonds issued by the Republic of Sakha (Yakutia) (RU000A0JUQH4, RU000A0JVEH8, RU000A0JWGT6, RU000A0JXR43, RU000A0ZZ7E6, RU000A0ZZNJ2, RU000A100CN3) 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 bonds issued by the Republic of Sakha (Yakutia) (RU000A0JUQH4, RU000A0JVEH8, RU000A0JWGT6, RU000A0JXR43, RU000A0ZZ7E6, RU000A0ZZNJ2, RU000A100CN3) were published by ACRA for the first time on November 8, 2017, November 8, 2017, November 8, 2017, November 8, 2017, November 8, 2017, May 31, 2018, September 26, 2018, and May 16, 2019, respectively.

The credit rating and credit rating outlook of the Republic of Sakha (Yakutia) and the credit ratings of the bonds issued by the Republic of Sakha (Yakutia) (RU000A0JUQH4, RU000A0JVEH8, RU000A0JWGT6, RU000A0JXR43, RU000A0ZZ7E6, RU000A0ZZNJ2, RU000A100CN3) are expected to be revised within 182 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 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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