

ACRA AFFIRMS AA(RU) TO THE KRASNOYARSK KRAI, OUTLOOK STABLE, AND AA(RU) TO BOND ISSUES

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The credit rating of the **Krasnoyarsk Krai** (hereinafter, the Region) is based on its low debt load, insignificant refinancing risk, balanced budget indicators, and considerable accumulated liquidity. The rating is also supported by high economic development indicators and, consequently, the strong economic profile of the Region. The rating is constrained by the high dependence of budget revenues on the mining and metalworking sectors of the regional economy.

The Region is part of the Siberian Federal District and has a population of almost 2.9 mln. The largest cities are Krasnoyarsk, Norilsk, and Achinsk. The Region is rich in metal ores and fuel and energy resources. The Region's gross regional product (GRP) amounted to RUB 2.7 tln in 2020. According to the Region's estimates, 2021 GRP will amount to around RUB 3.1 tln.

KEY ASSESSMENT FACTORS

Balanced budget indicators and moderate need to use accumulated funds for capital purposes in the forecast period. The averaged¹ ratio of the current account balance to current revenues remains moderately high, and will amount to 15% for the period from 2019 to 2023. ACRA also assesses the share of capital expenditures in the total expenditures of the Region as moderately high — the averaged value of this indicator will be around 16% for the aforementioned period. Almost two-thirds of capital expenditures are covered by the Region's internal funds. The averaged share of tax and non-tax revenues (TNTR) in the Region's revenues (excluding subventions) will amount to 87%.

ACRA expects the averaged ratio of the modified budget deficit to current revenues to equal 3% in 2019–2023, while the budget's need to use accumulated funds for capital purposes in 2022 will be high due to the deficit budget in 2022 and the significant size of the projected deficit for 2023.

The Region's budget revenues declined by 3% over 11 months of 2022 compared to the same period in 2021, and TNTR fell by 4%. Lower TNTR was largely the result of smaller corporate tax revenues (which declined by more than 25% compared to January–December 2021). At the same time, growth of proceeds from personal income tax (+21%) and mineral extraction tax (+23%) over 11 months of last year, as well significant income received by depositing budget funds, partly compensated for the fall in corporate tax revenues. Transfers increased by 7% over the specified period compared to the indicator as of December 1, 2021. Budget expenditures grew by more than 20%. Nevertheless, the Region's intermediate budget surplus exceeded RUB 25 bln. ACRA expects the 2022 budget deficit to be considerably lower than the one projected by the budget law.

¹ Hereinafter, averages are calculated according to the [Methodology for Assigning Credit Ratings to Regions and Municipal Entities of the Russian Federation](#).

The current version of the Region's budget law for 2023–2025 assumes that the budget will be executed in 2023 with a significant deficit — 15% of the target TNTR. At the same time, it is expected that the budget's income will continue to decline, and amount to around 5% lower than in 2022. The expenditure side of the budget will grow by 4% compared to ACRA's forecast for 2022. Like last year, the deficit for 2023 will largely be covered by previously accumulated liquidity.

Available liquidity will decline due to financing of expected budget deficits. Since the start of 2022, the Region's account balances (excluding funds of autonomous and budgetary institutions) on average have covered monthly budget expenditures by more than 4x. As of January 1, 2022, the volume of funds of the Region's budget (including those placed in deposits) exceeded the size of its debt by almost 1.5x. As of December 1, 2022, the volume of accumulated funds had increased by 16% since the start of the year. In ACRA's opinion, most of the accumulated funds can be used to finance the budget deficits of 2022 and 2023.

ACRA expects that the liquidity ratio of the Region's budget for 2023 (calculated excluding funds of autonomous and budgetary institutions) may exceed 100%.

According to the Region, the budget had no overdue payables as of the date of analysis. The Region places funds in deposits, which allows it to generate interest income. The Region did not receive a loan from the Federal Treasury Department in 2022, but an agreement regarding this was signed. There were no open credit lines as of January 1, 2023.

Insignificant debt refinancing risks and a low debt load. As of January 1, 2022, the Region's debt amounted to RUB 63.3 bln, which was 18% less than in 2020. The debt portfolio is largely made up of bonds (67%), budget loans account for about 33%, and the Region's guarantees have a less than 1% share.

According to preliminary data, the Region's debt amounted to RUB 50.6 bln as of January 1, 2023. The size of debt changed due to the Region repaying bonds and receiving budget loans. The share of bonds in the Region's debt portfolio declined to 57%, while the share of budget loans increased to 43%. Other debt obligations continue to account for less than 1% of debt. According to the current debt repayment schedule, the largest repayments are scheduled for 2023, when the Region needs to repay or refinance 30% of its debt. In 2024, 27% of debt must be repaid. At the same time, the Region's bonds account for most of the medium-term repayments. ACRA notes that in the upcoming years, repayments will be fully covered by funds held in the Region's accounts.

ACRA expects that the ratio of debt to current revenues may have amounted to 15% in 2022, which corresponds to the highest assessment as per ACRA's methodology. According to the Agency's forecast, this indicator will amount to 13% in 2023.

Interest expenses are not burdensome for the Region, as the interest expenses averaged for 2019–2023 do not exceed 2% of total budget expenses (excluding subventions).

The ratio of the Region's debt to GRP is around 2%, which corresponds to a low total debt load as per ACRA's methodology.

The Region participates in the Infrastructure Budget Loans program. There is a possibility that up to RUB 89 bln worth of these loans may be granted to the Region. The timing of the disbursement of these funds is unknown, but such a volume of funds may change the level of the Region's debt load in the long term. Mitigating factors will be the long repayment period and low interest rate on these loans.

The economy's high development indicators are mostly dependent on the metals sector. According to ACRA's estimates, in 2021, about 40% of the Region's tax revenues came from the metals sector and the non-ferrous metal ores mining industry. In 2021, six of the ten largest corporations operating in the Region in terms of revenues were related to the metals sector. This is due to excess profits earned in 2021 by major mining and manufacturing companies

operating in the Region (which are also its largest companies), including MMC Norilsk Nickel PJSC, Polyus Krasnoyarsk JSC, RUSAL Krasnoyarsk JSC, etc.

The Region's GRP per capita averaged for 2017–2020 stood at 145% of the national average. The ratio of averaged wages to the regional subsistence minimum exceeded 350% in 2018–2021. The averaged unemployment rate calculated according to the ILO's methodology totaled 4.5%.

KEY ASSUMPTIONS

- Execution of the spending part of the budget in 2022 as per the intra-annual growth rate of expenditures;
- Revenue and spending parts of the budget executed in 2023 according to the current version of the Region's budget law;
- Using accumulated liquidity to cover the expected budget deficits in 2022 and 2023.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Decline of the budget's need to use accumulated funds;
- Consistently lower concentration of tax revenues on the metals sector.

A negative rating action may be prompted by:

- Stable decline of operational efficiency of the budget coupled with lower revenues;
- Significant increase of the budget's need to use accumulated liquidity to finance capital expenditures;
- Need to resort to significant short-term borrowings;
- Significant decrease of available liquidity and increase of budget expenditures.

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 10.0 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 the **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 Assigning Credit Ratings to Regions and Municipal Entities 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 Financial Instruments under the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit rating of the Krasnoyarsk Krai and the credit ratings of the 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 and the credit ratings of the 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 sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on data provided by the Government of the Krasnoyarsk Krai, information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), and ACRA's own databases. The credit ratings are solicited and the Government of the Krasnoyarsk Krai participated in the rating process.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which were, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

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

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