ACRA AFFIRMS AA(RU) TO THE KRASNOYARSK KRAI, OUTLOOK POSITIVE, AND AFFIRMS AA(RU) TO ITS 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 risks, moderately high ratio of the current account balance to the current revenues of the Region, high flexibility of budget expenditure 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 economy.

The Positive outlook has been maintained due to the Agency's expectations that liability refinancing risks will decline further due to the reduction in the share of commercial debt in the Region's debt portfolio by the end of this year.

The Region is part of the Siberian Federal District and has a population of almost 2.9 mln. Its 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 3.1 tln in 2021. According to the Region's estimates, GRP amounted to around RUB 3.3 tln in 2022.

KEY ASSESSMENT FACTORS

Significant flexibility of budget expenditures coupled with moderately high operational efficiency. According to ACRA's projections, the averaged[1] ratio of the current account balance to current revenues will be 15% in 2020–2024, while the current account balance is expected to be positive in both 2023 and 2024. This situation indicates that current revenues are sufficient to finance all current expenditures and a significant share of capital expenditures

The Region's budget is characterized by high flexibility of budget expenditures. The averaged ratio of capital expenditures in total budget expenditures (excluding subventions) will be around 20% for 2020–2024. Almost two-thirds of capital expenditures are covered by the Region's internal revenues. The averaged share of tax and non-tax revenues (TNTR) in the Region's revenues (excluding subventions) for the same period will be over 88% according to ACRA's forecast.

The averaged ratio of the modified budget deficit to current revenues will be around -1% in 2020–2024, while the budget's need to use accumulated funds for capital purposes is assessed as moderate. The Agency made a positive adjustment to this indicator in view of the significant volume of accumulated liquidity and the expected low debt load of the Region this year.

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

The budget deficit at the end of 2022 was just over 1% of TNTR and was covered mainly using funds in the Region's accounts.

According to the updated parameters of the Region's budget, by the end of 2023, budget revenues are expected to increase by 11% compared to 2022. At the same time, TNTR may grow by around 17%, mainly due to higher corporate income tax revenues. Around 2% of expected TNTR will be generated by depositing the budget's funds. According to the adjustments, transfers will decline by 20% year-on-year. Budget expenditures will grow by 9% year-on-year in 2023, while the Region plans to increase its capital expenditures by around a quarter compared to last year. The Region expects to finish this year with a surplus of 1% of TNTR, which will allow it to considerably increase funds held in accounts.

According to the draft budget law for 2024–2026, TNTR will fall by 7% in 2024 compared to the projected indicators for 2023. The volume of transfers is expected to be 18% lower than this year, which will lead to the Region's total budget revenues declining by 9%. Budget expenditures will grow by 5% and there will be a deficit of 16% of TNTR. The Region plans to cover around 40% of this deficit using borrowings, while the remainder will be financed at the expense of accumulated funds.

Over 10M 2023, the Region's expenditures have increased by 11% compared to the same period in 2022. TNTR growth has exceeded 17%, mainly thanks to corporate income tax revenues increasing by 28%. Personal income tax revenues, taxes for the use of natural resources, and property taxes have also demonstrated considerable growth compared to the same period last year — +11%, +19%, and +10%, respectively. At the same time, the volume of transfers has declined by 23% over the aforementioned period, compared to 10M 2022. The spending part of the Region's budget has grown by 7%, and an intermediate budget surplus of more than RUB 50 bln has been recorded.

Funds in accounts are sufficient to finance future budget deficits. At the end of 2022, funds held in the Region's accounts had declined by 19% due to the financing of the budget deficit. However, accumulated liquidity, in ACRA's opinion, should be sufficient to cover most of the total budget deficit of the forecast period of 2024–2026. If the 2023 budget is executed with a surplus, then account balances may increase compared to their levels at the end of 2022.

Since the start of 2023, balances in the Region's accounts have covered monthly budget expenditures by more than three times on average. ACRA expects the liquidity ratio of the Region's budget for 2023 to exceed 140%.

The Region's budget had no overdue payables as of October 1, 2023. The Region places funds in deposits, which allows it to generate interest income. The Region has received a small loan from the Federal Treasury Department so far in 2023.

Low debt load and declining risks of refinancing liabilities. The Region's debt declined by 20% in 2022 and amounted to RUB 50.6 bln. Bonds accounted for around 57% of the Region's debt portfolio, while budget loans accounted for 43%. Other debt liabilities accounted for less than 1% of debt. According to the debt repayment schedule at the beginning of the year, the largest volume of repayments (30%) of debt was scheduled for 2023; 27% of the debt was subject to repayment in 2024.

As of November 1, 2023, the Region's debt had declined by 9% to RUB 46.1 bln. So far this year, the Region has repaid RUB 12.6 bln of bonds and raised RUB 8.1 bln of budget loans, most of which are budget loans to finance infrastructure projects. Therefore, the share of budget loans increased to 65% of debt, while bonds declined to 35%. It is expected that by the end of this year, the share of budget loans will increase to 71%, which, due to their long-term nature, will lead to a further reduction in refinancing risks. According to the current debt repayment schedule, the Region has to repay 5% of its debt by the end of this year, and 30% and 14% in 2024 and 2025, respectively. Debt was fully covered by funds held in the Region's accounts as of the start of 2023.

The Region's ratio of debt to current revenues amounted to 15% in 2022, which corresponds to a low debt load. According to the Agency's forecast, this indicator will decline to 13% by the end of this year.

Interest expenses are not burdensome for the Region, as interest expenses averaged for 2020–2024 stand at around 1% of total budget expenses (excluding subventions). The ratio of the Region's debt to projected GRP for 2023 will not exceed 2%.

The economy's high development indicators are largely dependent on the metals sector. The Region's economy depends heavily on the metal extraction and processing sector, which in separate years has accounted for up to 50% of the tax proceeds for the Region's budget. According to ACRA's calculations, the averaged share of the Region's tax proceeds from the metals sector for 2019–2022 exceeded 40%. A considerable share (around 16%) came from activities for the extraction of fuel and energy minerals. The largest companies operating in the Region are MMC Norilsk Nickel PJSC, Polyus Krasnoyarsk JSC, RUSAL Krasnoyarsk JSC, etc.

The Region's GRP per capita averaged for 2018–2021 stood at 136% of the national average. The ratio of averaged wages to the regional subsistence minimum exceeded 350% in 2019–2022. In 2022, unemployment in the Region declined to 2.7%, while in June to August 2023 it stood at 2.0%. The averaged unemployment rate calculated according to the ILO's methodology was 3.5%.

KEY ASSUMPTIONS

- Execution of the income and expenditure sides of the budget in 2023 in line with the parameters in the Region's updated forecast;
- Execution of the budget parameters in 2024 as per the current draft of the budget law for 2024–2026;
- Growth in the share of non-commercial debt in the Region's debt portfolio.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Positive outlook** assumes that the rating will highly likely be upgraded within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Growth in the share of internal revenues in total revenues, excluding subventions;
- Further decline of debt refinancing risks due to a higher share of non-commercial debt;
- Consistently lower concentration of tax revenues on the metals sector.

A negative rating action may be prompted by:

- Ratio of debt to current revenues exceeding 30% due to raising commercial debt;
- Significant decline in the budget's operational efficiency;
- Significant increase in the budget's need to use accumulated liquidity due to the higher volume of the projected budget deficit.

ISSUE RATINGS

Krasnoyarsk Krai, 34013 (ISIN RU000A0ZYCM2), maturity date: October 3, 2024, issue volume: RUB 10.0 bln — **AA(RU)**.

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

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

Krasnoyarsk Krai, 35016 (ISIN RU000A0ZZM87), maturity date: September 12, 2025, issue volume: RUB 12 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 the bond issues of the Krasnoyarsk Krai (ISIN RU000A0ZYCM2, RU000A0ZYFB8, RU000A0ZZC48, RU000A0ZZM87) 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 bond issues of the Krasnoyarsk Krai (ISIN RU000A0ZYCM2, RU000A0ZYFB8, RU000A0ZZC48, RU000A0ZZM87) were published by ACRA for the first time on October 9, 2017, October 10, 2017, November 7, 2017, July 2, 2018, and September 21, 2018, respectively.

The credit rating of the Krasnoyarsk Krai and its outlook and the credit ratings of the bond issues of the Krasnoyarsk Krai (ISIN RU000A0ZYCM2, RU000A0ZYFB8, RU000A0ZZC48, RU000A0ZZM87) 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.

PRESS RELEASE

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