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Key rating assessment
factors

ACRA assigns BB+(RU) to the Republic of Khakassia, outlook Stable, and BB+(RU) to bond issues

The credit rating assigned to the [Republic of Khakassia](#) (hereinafter, the Region) is under pressure of high debt load, low budget balance, and the economy indicators below Russian averages. The rating is supported by the diversified regional economy, sufficient budget self-sufficiency, and the ratio of debt service costs to operating balance showing moderate risks.

The Republic of Khakassia is a part of the Siberian Federal District and borders four other administrative regions of Russia. About 0.54 million people live in the Region (0.37% of Russian population, 72nd place). In 2016, the gross regional products (GRP) of the Region amounted to RUB 182.4 billion (0.26% of the aggregate GRP of all Russian regions, 68th place).

Resource-based economy, with moderate per capita incomes and GRP. The regional economy is based on the electric power industry (Sayano-Shushenskaya HPP and Mainskaya HPP), aluminum industry (RUSAL group) and coal mining sector (SUEK group), which, in aggregate, generate about 30% of the regional GRP. In August 2009, a major accident occurred in the Sayano-Shushenskaya HPP. The restoration work was completed in November 2014. Sayano-Shushenskaya HPP is a branch of PJSC RusHydro, so the accident did not lead to a significant drop in tax revenues coming from the electricity sector to the regional budget: in 2010–2015, profit tax revenues from this sector fluctuated in the range of RUB 0.96-1.2 billion. In 2016, the profit tax revenues from the electric power industry started to grow fast and, in 2017, amounted to RUB 1.87 billion. The average per capita income of the population of the Republic is about 68% of the national average, while the per capita GRP is 73% of the national average.

High budget self-sufficiency and low budget balance. The share of own revenues (in terms of the ACRA methodology) in budget revenues (excluding subventions) averaged 73% in 2015–2017, which indicates a sufficient degree of budget self-sufficiency.

The share of mandatory (in terms of the ACRA methodology) expenditures was 67% of the budget expenditures in 2015–2017, which indicates a moderate degree of control over budget expenditures.

The operational balance of the regional budget averaged 13% in 2015–2017, which corresponds to a low degree of budget balance. ACRA expects that in 2018 the operating balance will grow to 15%.

The structure of tax and non-tax revenues (TNTR) of the Region is dominated by profit tax and personal income tax (30.8% and 27.3% of TNTR, respectively, in 2017). The main payers of profit tax are the electric power industry, financial companies and the mining sector (34%, 22.5% and 18.6% of the profit tax revenues, respectively, in 2017). Non-ferrous metals industry account for about 3.5% of profit tax revenues in 2016 and 2017.

In 2013–2016, the regional budget was executed with a significant deficit, with the maximum deficit seen in 2016 (43% of the Region's TNTR). The budget deficit approved for 2018 is 7% of the TNTR. The deficit increased in 2013–2015 due to a decrease in profit tax revenues (in particular, from the coal mining sector — from RUB 1.6 billion in 2012 to less than RUB 120 million in 2013 and 2014) and an increase in budget expenditures caused by implementation of the presidential May decrees in terms of increasing salaries in the budget sector. Not early than 2016, the budget revenues from profit tax returned to the level of 2012.

In 1H2018, the consolidated budget of the Region expects an additional inflow of RUB 5 billion of personal income tax from an individual (as of April 1, 2018, RUB 2 billion

have already been transferred). The funds will be applied, among other purposes, to repay overdue payables.

High debt load and sufficiently long repayment schedule. As of April 01, 2018, the debt profile of the Region included bonds (36%) and budget loans (64%). In 2018, the ratio of debt service costs to operational balance (according to the ACRA methodology) corresponds to a moderate risk, while the ratio of operating balance less interest expenses to debt maturing in the current period corresponds to a high risk.

The key change in the structure of the regional debt occurred in 2017, when short-term bank loans were refinanced by budget loans with an interest rate of 0.1% and a seven-year repayment schedule. This has significantly improved the structure of the regional debt in terms of maturity and costs (budget savings from lower commercial debt service costs may exceed RUB 1 billion at the end of 2018).

Budget loans were granted to refinance bank loans on the condition that the regional budget is supervised by the Federal Treasury. Debt service costs are included into the most important group of expenses, so the treasury supervision will not affect the debt service obligations. On the other hand, the supervision will not push up the Region's revenues in the short term.

Key assumptions

- In 2018, the regional budget deficit will not exceed 8% of TNTR;
- In 2018–2019, budget loan restructuring rules will remain similar to those in 2017;
- The 2018 budget deficit will be compensated and budget loans will be replaced with bank loans under interest rates that will not drive the debt service costs.

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:

- Region's TNTR outrunning the inflation in 2018–2019;
- Budget deficit going below 5% of the TNTR in 2018;
- Regional economy metrics (GRP per capita, per capita income) growing faster than the national averages.

A negative rating action may be prompted by:

- GRP growth rate declining due to negative market effects on the key branches of regional economy;
- Budget deficit exceeding 10%;
- A breach of budget loan restructuring rules;
- An increase of overdue budget payables.

Issue ratings

Credit rating rationale. The below listed bond issues by the Republic of Khakassia, in ACRA's opinion, have a status of senior unsecured debt, with their credit ratings corresponding to the credit rating of the Republic of Khakassia — BB+(RU).

Key issue properties

1) RegS / ISIN: **RU35003HAK0 / RU000A0JU8R1**

Issue volume	RUB 3 bln
Issue date / Maturity date	October 29, 2013 / October 27, 2020

2) RegS / ISIN: **RU35004HAK0 / RU000A0JUXW9**

Issue volume	RUB 2.5 bln
Issue date / Maturity date	June 03, 2015 / October 27, 2019

3) RegS / ISIN: **RU35005HAK0 / RU000A0JVUH4**

Issue volume	RUB 2 bln
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Issue date / Maturity date	October 13, 2015 / October 11, 2020
4) RegS / ISIN: RU35006HAK0 / RU000A0JWXQ7	
Issue volume	RUB 5 bln
Issue date / Maturity date	November 03, 2016 / November 02, 2023

Rating history

No.

Regulatory disclosure

The credit ratings have been assigned to the Republic of Khakassia and to bonds issued by the Republic of Khakassia (ISIN RU000A0JU8R1, ISIN RU000A0JUXW9, ISIN RU000A0JVUH4, ISIN RU000A0JWXQ7) 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.

ACRA has assigned credit ratings to the Republic of Khakassia and to bond issues of the Republic of Khakassia (ISIN RU000A0JU8R1, ISIN RU000A0JUXW9, ISIN RU000A0JVUH4, ISIN RU000A0JWXQ7) for the first time.

The credit rating of the Republic of Khakassia and its outlook as well as the credit ratings of bond issues of the Republic of Khakassia (ISIN RU000A0JU8R1, ISIN RU000A0JUXW9, ISIN RU000A0JVUH4, ISIN RU000A0JWXQ7) are expected to be revised within 182 days after the rating action date (May 08, 2018) in compliance with the [2018 calendar of planned sovereign credit rating revisions and publications](#).

The credit rating was assigned based on the data provided by the Republic of Khakassia, 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 rating is solicited, and the Government of the Republic of Khakassia participated in its assignment.

No material discrepancies between the data provided and the data officially disclosed by the Republic of Khakassia in its financial report have been discovered.

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

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