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<b>Bigger expenses, smaller opportunities to form a revenue base.....</b>	<b>2</b>
<b>Growing dependence on federal budget transfers.....</b>	<b>3</b>
<b>Low flexibility of the expenditure part of budgets....</b>	<b>4</b>
<b>Budgets in deficit.....</b>	<b>5</b>
<b>Uneven debt burden.....</b>	<b>6</b>
<b>Liquidity is not only a reserve for cash gaps, but a source of additional income as well.....</b>	<b>8</b>
<b>Investments in the development of FEFD regions is the main driver of their future financial stability.....</b>	<b>9</b>

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## A ranking of the regions of the Far Eastern Federal District by level of financial stability

### Analysis of regions' financial stability

- **Bigger expenses, smaller opportunities to form a revenue base.** The regions of the Far Eastern Federal District (FEFD) have large areas and low population density and therefore their needs for per capita budget spending are higher than the national average for Russia. At the same time, the FEFD regions differ considerably in terms of per capita gross regional product (GRP): this indicator lags behind the national average in regions that do not specialize in mining, which limits their ability to form a budget revenue base.
- **Growing dependence on federal budget transfers.** The share of transfers in the income structure of the FEFD regions increased from 30% in 2016 to 44% in 2020, with the exception of the Sakhalin Region, where the share of transfers in 2016–2020 was below the national average.
- **Low flexibility of the expenditure part of budgets.** In 2016–2020, the average share of capital expenditures exceeded the average for Russia only in two regions of the FEFD: the Sakhalin Region and the Chukotka Autonomous Okrug. In the Jewish Autonomous Region, the Amur Region and the Zabaykalsky Krai, the share of capital expenditures was several times lower than the national average.
- **Budgets in deficit.** Over the past nine years, the cumulative result of the execution of FEFD budgets was positive only twice — in 2018 and 2019. Over the past five years, the Khabarovsk Krai, the Republic of Buryatia, the Sakhalin Region, the Jewish Autonomous Region and the Kamchatka Krai recorded the most significant budget deficits.
- **Uneven debt burden.** As of January 1, 2021, the leaders in terms of debt load were the Jewish Autonomous Region, the Zabaykalsky Krai and the Khabarovsk Krai, while the debt of the remaining regions of the FEFD did not exceed 50% of tax and non-tax revenues (TNTR). The lowest debt load was recorded in the Primorsky Krai and the Sakhalin Region.
- **Liquidity is not only a reserve for cash gaps, but a source of additional income as well.** Over the past five years, the Sakhalin Region has annually placed temporarily surplus funds in bank deposits, which generated additional income for this period in the amount of RUB 12.3 bln. In 2019 and 2020, the Primorsky Krai also placed temporarily free funds in deposits. As of January 1, 2021, only the Amur Region had account balances that exceeded average monthly expenses in 2020, and the Republic of Buryatia, Magadan Region and Khabarovsk Krai had the smallest liquidity reserves.
- **Investments in the development of FEFD regions is the main driver of their future financial stability.** When putting together this ranking of FEFD regions, ACRA identified three groups of regions in terms of level of financial stability. Most regions included in the first two groups have a significant volume of investments in fixed capital per capita. In the regions in the third group, which have lower financial indicators, the growth of the tax base is limited by a considerably lower level of investment in fixed capital.

## Bigger expenses, smaller opportunities to form a revenue base

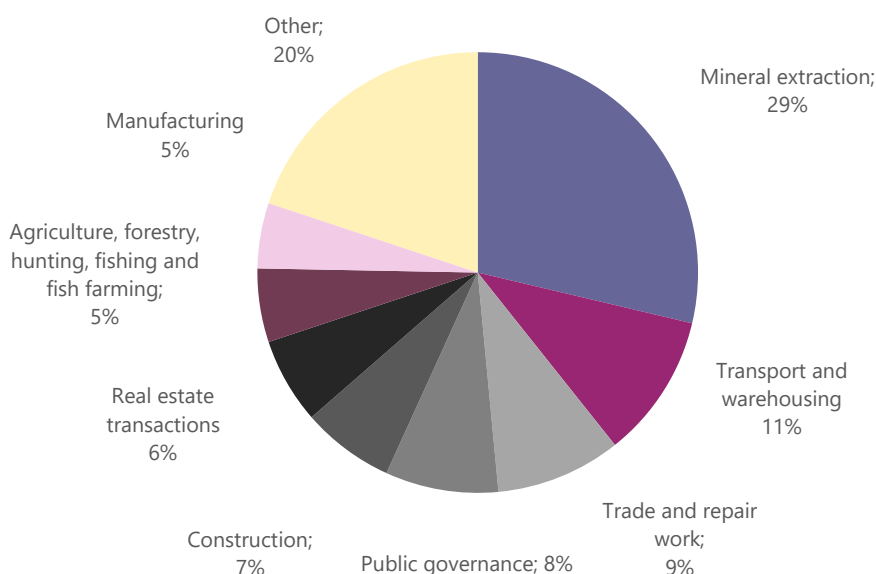
The regions of the FEFD stand out both in terms of area and population density. Six of the ten largest Russian regions in terms of area are located in this federal district (Yakutia, Khabarovsk Krai<sup>1</sup>, Chukotka Autonomous Okrug, Kamchatka Krai, Magadan Region<sup>2</sup>, and Zabaykalsky Krai), as well four of the five regions with the lowest population density (Chukotka Autonomous Okrug, Magadan Region, Yakutia and Kamchatka Krai).

These specifics of the regions of the district lead to the formation of higher (in comparison with the average Russian) requirements for per capita budgetary expenditures. Regional authorities in the FEFD need to provide food and fuel to remote areas and maintain the necessary level of healthcare and education.

The economy of the FEFD is dominated by the mining sector (28.7% of the GRP of the regions of the district in 2019). The most significant share of this industry in the GRP is found in the Sakhalin Region (64.2%), Yakutia (50.6%), the Magadan Region (45.2%) and the Chukotka Autonomous Okrug (39.6%). The structure of the GRP of the regions of the FEFD indicates the dependence of their budgets on the market conditions for minerals (primarily oil, metals and coal).

*For comparison: the share of mineral extraction in the structure of GRP of Russian regions on average amounts to 13.5%; only in the Ural Federal District does this share of this industry in the GRP exceed the FEFD's indicator, amounting to 44.1% in 2019.*

**Figure 1. The largest share of the GRP of the regions of the FEFD comes from the extraction of minerals**



Source: Rosstat<sup>3</sup>

Another important sector for the economy of the district is transportation and warehousing. In 2019, it accounted for 10.6% of the GRP of FEFD regions, which is the largest share among all the federal districts. This sector contributed 17–18% of GRP in the Zabaykalsky Krai, Primorsky Krai, Khabarovsk Krai, and the Jewish Autonomous Region in 2019.

<sup>1</sup> ACRA rating [BB+\(RU\), outlook Stable](#).

<sup>2</sup> ACRA rating [BBB-\(RU\), outlook Stable](#).

<sup>3</sup> Data for 2019.

The share of manufacturing industries in the GRP structure of the regions of the FEFD is the lowest in Russia: in 2019, they accounted for 4.8% of GRP, while on average for the regions of the Russian Federation this share is 16.8%.

In 2019, per-capita GRP for the FEFD was RUB 730,000, which is 13% higher than the national average. However, in a regional context, GRP is unevenly spread — per-capita GRP in the regions that specialize in mineral extraction is several times higher than the national average, while in the other regions it lags behind. For example, in Buryatia GRP per-capita in 2019 amounted to 45% of the national average, while in the Zabaykalsky Krai it stood at 53%, in the Jewish Autonomous Region it was 55%, in the Primorsky Krai and the Khabarovsk Krai it was 13% and 6% lower than the national average, respectively. Low per-capita GRP limits the regions' opportunities to form a revenue base.

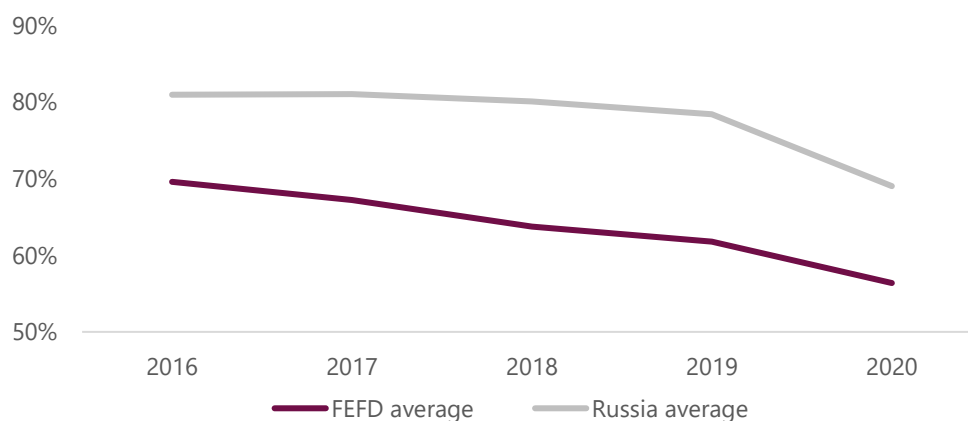
### Growing dependence on federal budget transfers

In 2016–2020<sup>4</sup>, the share of internal revenues (tax and non-tax revenue, TNTR) in the regions of the FEFD averaged 64% of their total revenues, which is considerably lower than the average indicator for Russia (78%). Over the past five years, the FEFD has experienced a trend that is characteristic of the other federal districts — a decline in the share of TNTR in revenues. But on average for Russia, the share of TNTR declined by 12 pps (from 81% in 2016 to 69% in 2020), while in the FEFD it fell by 14 pps (from 70% to 56%).

In Russia as a whole, the decrease in the share of TNTR in total revenues was observed mainly in 2020 and was associated with additional transfers from the federal budget to implement measures to fight against the coronavirus pandemic and compensate for lost income. Unlike other regions of the Russian Federation, the growing dependence of regional budgets on the federal budget in the FEFD is not only associated with the pandemic.

Out of all the regions of the federal district, only the Sakhalin Region's share of internal revenues exceeded the national average (83%–96% in 2016–2020). In addition, the Sakhalin Region is the only region in the FEFD that does not receive budget equalization payments.

**Figure 2. The share of TNTR in total revenues of the FEFD regions is gradually falling**



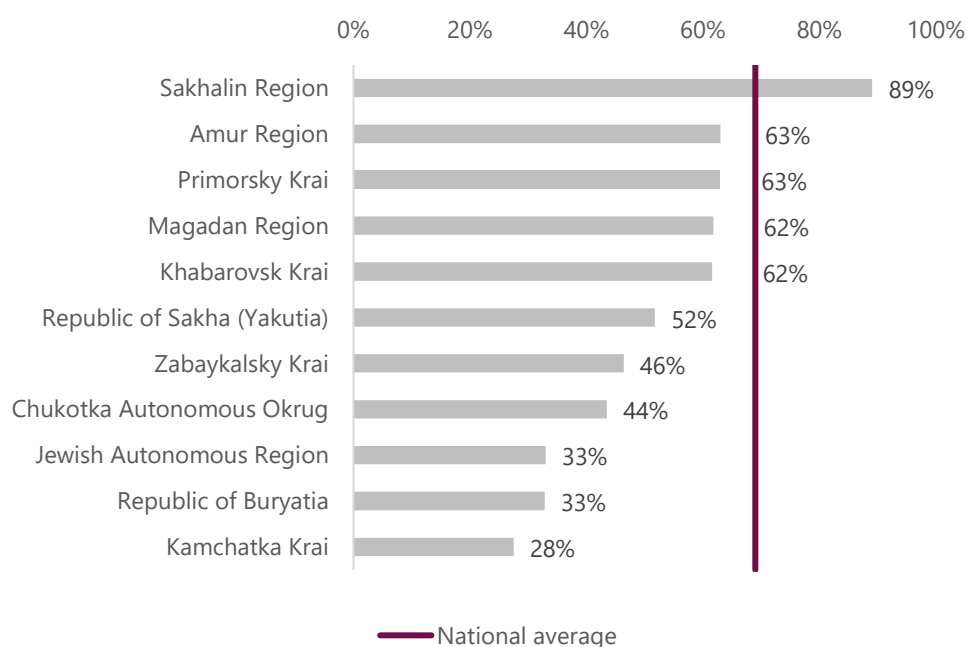
Sources: Treasury of Russia, ACRA

<sup>4</sup> Hereinafter, the Republic of Buryatia and the Zabaykalsky Krai, which were part of the Siberian Federal District until November 2018, are retrospectively included in the FEFD.

Yakutia receives the largest volume of transfers in absolute terms: in 2020, the region was allocated RUB 97.2 bln, of which RUB 51.6 bln were budget equalization payments. Among all the regions of the Russian Federation, Yakutia is traditionally one of the leaders in terms of the volume of these dotations, which is not unusual given its vast territory (about 18% of Russia's territory is in Yakutia) and the low transport accessibility of its northern regions.

The Kamchatka Krai has the smallest share of internal revenues among the regions of the FEFD (TNTR in 2016–2020 accounts for less than a third of total revenues), which is largely due to the structure of the regional economy, where the main share falls on fishing. Budget equalization payments make up a significant part of transfers to the budget of the Kamchatka Krai. In 2020, their share in the total revenues of the region amounted to 45% — the highest figure among all Russian regions.

**Figure 3. In 2020, only one region of the FEFD was the share of TNTR higher than the average for Russia**



Sources: Treasury of Russia, ACRA

Budget equalization payments account for 37% of all transfers from the federal budget received by the regions of the FEFD in 2020. The average for Russia was 19%.

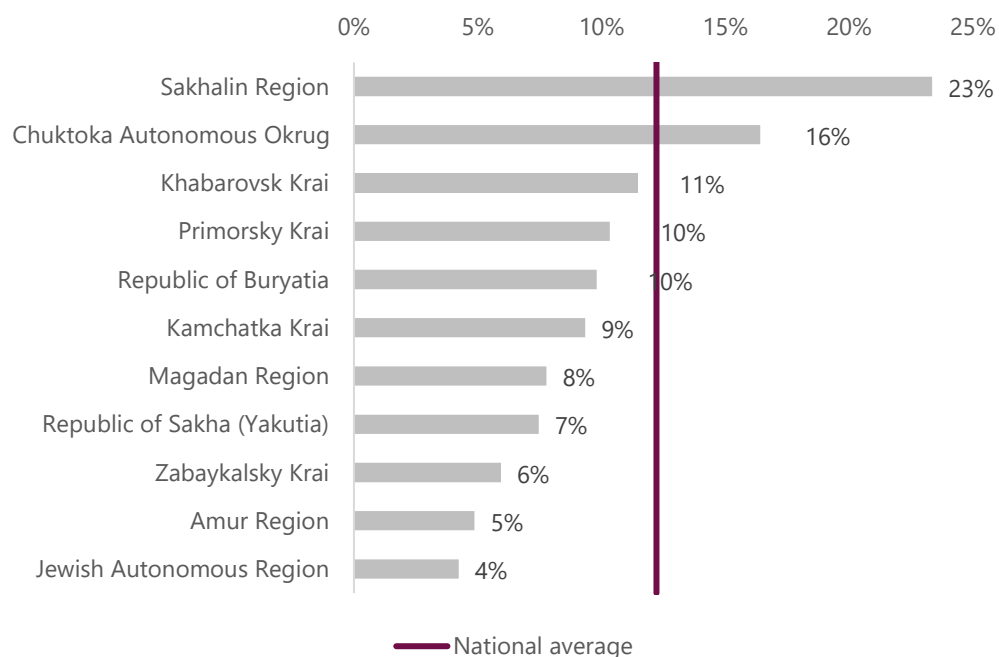
### Low flexibility of the expenditure part of budgets

An important factor which ensures a budget's resilience against a possible deterioration in the economic situation is the flexibility of its expenditure part, which is often estimated using the level of capital expenditures.

In a number of cases, part of planned expenditures — as opposed to salary payments, social benefits and expenses for maintaining the current activities of budgetary organizations — can be carried over to future periods, which makes it possible to reduce expenses in the event of a drop in revenues.

According to ACRA's estimates, capital expenditures<sup>5</sup> in the FEFD (excluding the Sakhalin Region) in 2016–2020 averaged about 9% of total expenditures, in contrast to the national average of 12%. In the Sakhalin Region, the average indicator for the specified period was 23%; a high level of capital expenditures was also observed in the Chukotka Autonomous Okrug (16%). In other regions of the FEFD, the share of capital expenditures was below the national average, and the lowest was in the Jewish Autonomous Region (4%), the Amur Region (5%), and the Zabaykalsky Krai (6%).

**Figure 4. In almost all regions of the FEFD, the average share of capital expenditures in total expenditures in 2016–2020 was lower than the national average**



Sources: Treasury of Russia, ACRA

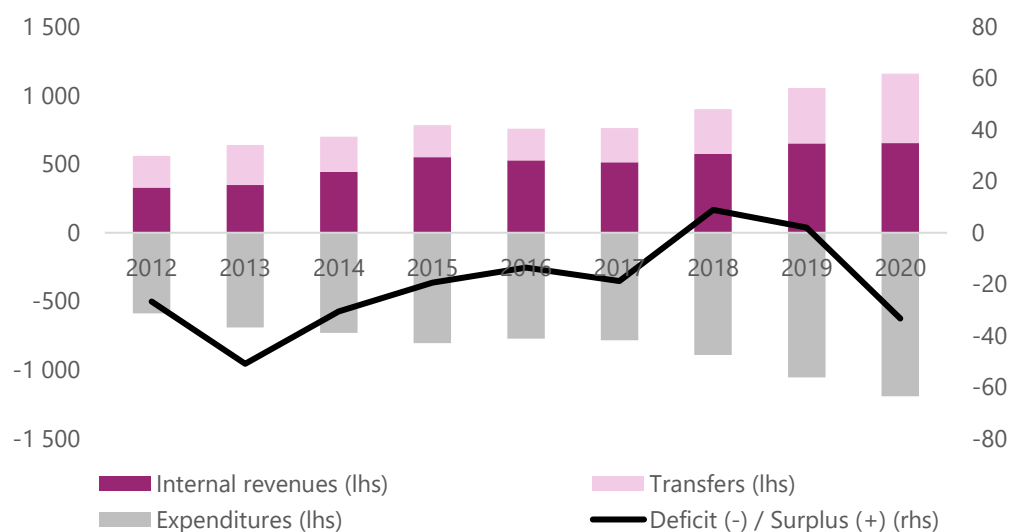
## Budgets in deficit

Limited opportunities to increase revenues and high current expenditures explain the deficit nature of budgets of the regions of the FEFD. Over the past nine years, the cumulative execution of the budgets of the FEFD regions has been positive only twice — in 2018 and 2019. The need to cover budget deficits leads to a higher debt load and lower account balances of regions.

Only three FEFD regions had an aggregate budget surplus in the period from 2016 to 2020: the Chukotka Autonomous Okrug (the 5-year average ratio of budget execution to TNTR was 6%), Amur Region (4%), and the Primorsky Krai (3%). At the opposite end of the spectrum were the regions whose budget deficits have been the most significant over the past five years: the Khabarovsk Krai (on average 8% of TNTR), Republic of Buryatia (5%), Sakhalin Region, Jewish Autonomous Region, and the Kamchatka Krai (4% each).

<sup>5</sup> Includes expenses by expense type codes 241, 243, 400, 522, 821.

**Figure 5. In 2012–2020, most of the FEFD regions executed their budgets with a deficit, RUB bln**



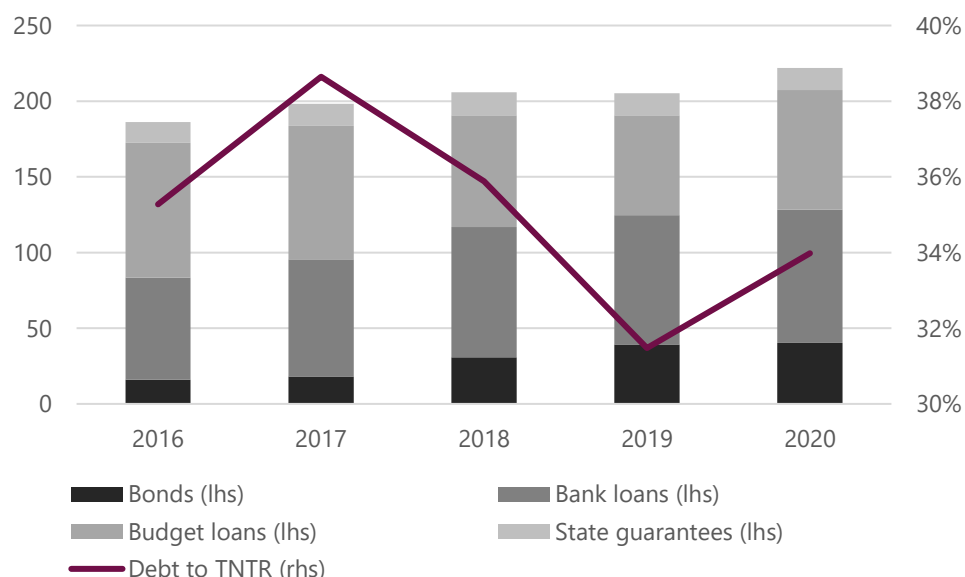
Sources: Treasury of Russia, ACRA

### Uneven debt burden

From 2016 to 2020, the public debt of the FEFD regions increased in absolute terms by 19% (RUB 35.9 bln), and the debt to TNTR ratio decreased from 35% to 34%. The debt structure is dominated by bank loans (40% as of January 1, 2021), budget loans and bonds account for 36% and 18%, respectively, while the rest are government guarantees.

The debt burden is distributed among the FEFD regions unevenly. As of January 1, 2021, the highest debt was observed in the Jewish Autonomous Region (the ratio of debt to TNTR was 79%), the Zabaykalsky Krai (74%), and the Khabarovsk Krai (69%). In other regions of the FEFD, public debt did not exceed 50% of TNTR. The lowest debt burden was observed in the Primorsky Krai (5%) and the Sakhalin Region (6%).

**Figure 6. In 2016–2020, the debt of the FEFD regions grew slower than internal revenues, RUB bln**



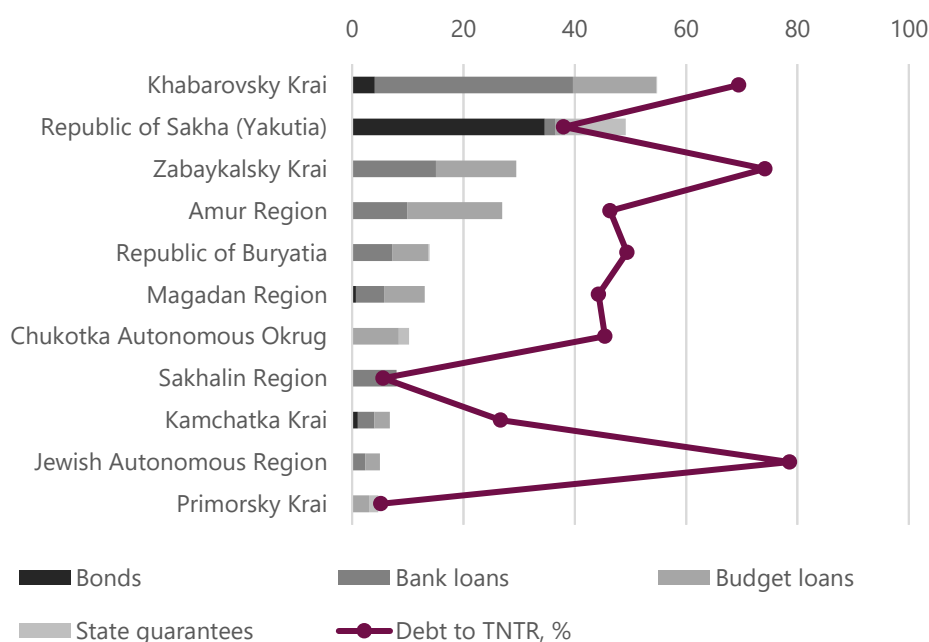
Sources: Russian Ministry of Finance, Treasury of Russia, ACRA

The debt structure of the FEFD regions is similarly heterogeneous: only four entities have outstanding bonds (Yakutia, Kamchatka Krai, Khabarovsk Krai and Magadan Region), but only in Yakutia bonds account for a significant part of the debt portfolio (70%), while in other regions, it does not exceed 15%.

As of January 1, 2021, bank loans were in the debt portfolios of almost all regions of the FEFD, except for the Primorsky Krai and the Chukotka Autonomous Okrug. The highest shares of bank debt are in the Khabarovsk Krai (65%), the Republic of Buryatia (52%) and the Zabaykalsky Krai (51%). Since the maturity of bank loans, as a rule, does not exceed three years, the high share of bank debt in the portfolio structure creates increased risks of debt refinancing for the regions, and in the long term, bears significant interest rate risks.

With the exception of the Sakhalin Region, all FEFD regions have budget loans. In Yakutia, the share of budget loans is low (less than 4% of the portfolio), and in five regions (Chukotka Autonomous Okrug, Primorsky Krai, Amur Region, Magadan Region, and Jewish Autonomous Region), it exceeded 50% as of January 1, 2021. The budget loan terms include a long repayment period and a preferential interest rate (0.1% p. a.), which makes them an extremely attractive debt instrument.

**Figure 7. As of January 1, 2021, the highest debt burden was observed in the Jewish Autonomous Region, Zabaykalsky Krai, and Khabarovsk Krai, RUB bln**



Sources: Russian Ministry of Finance, Treasury of Russia, ACRA

### Liquidity is not only a reserve for cash gaps, but a source of additional income as well

Budget resilience to possible cash gaps is largely ensured by account balances. In addition, regions who receive fewer transfers have the opportunity to manage their temporarily free funds by placing them in bank deposits.

Of all FEFD regions, only the Sakhalin Region has annually placed temporarily surplus funds in bank deposits over the past five years, which brought it additional income of RUB 12.3 bln. However, the account balances of the region have

significantly decreased over this period as the region was forced to finance its budget deficits. At the end of 2016, the account balances of the Sakhalin Region amounted to RUB 20.8 bln, which is 1.3 times higher than the aggregate cash balances of all other FEFD regions. However, according to ACRA's estimates, at the end of 2020, the account balances of the Sakhalin Region amounted to RUB 2.7 bln.

In 2019 and 2020, the Primorsky Krai also began to place temporarily surplus funds in bank deposits. By the end of 2020, the account balances of the region had increased by 1.3 times compared to 2016. The rest of the regions did not deposit cash in banks in the period from 2016 to 2020.

According to ACRA's estimates, as of January 1, 2021, only the Amur Region's account balances exceeded its average monthly expenses. The increase in TNTR, which was also facilitated by the step-by-step commissioning of the Power of Siberia gas pipeline project and related infrastructure, allowed the region to increase account balances by more than five times in 2020 compared to 2018. The Chukotka Autonomous Okrug and the Primorsky Krai also have a significant reserve of cash.

The lowest ratios of account balances to average monthly expenses in 2020 were demonstrated by the Republic of Buryatia (4%), the Magadan Region (6%), and the Khabarovsk Krai (11%). This increases the risks of possible cash gaps for these regions, as well as their dependence on external sources of liquidity.

### Investments in the development of FEFD regions is the main driver of their future financial stability

In assessing the financial stability of the FEFD regions and compiling the ranking, the Agency took into account the following factors:

- Budget self-sufficiency (average ratio of TNTR to total revenues in 2016–2020);
- Flexibility of budget expenditures (average share of capital expenses in total expenditures in 2016–2020);
- Budget deficit ratio (average ratio of deficit/surplus to TNTR in 2016–2020);
- Debt load (debt to TNTR ratio as of January 1, 2021);
- Internal liquidity ratio (ratio of account balances as of January 1, 2021 to average monthly expenditures in 2020).

**Table 1. ACRA's ranking of the FEFD regions by financial stability factors**

Region	Budget self-sufficiency	Flexibility of budget expenditures	Budget deficit ratio	Debt load	Internal liquidity ratio
Republic of Buryatia	9	5	10	8	11
Republic of Sakha (Yakutia)	6	8	4	4	6
Primorsky Krai	2	4	3	1	3
Khabarovsk Krai	3	3	11	9	9
Amur Region	4	10	2	7	1
Kamchatka Krai	11	6	7	3	8
Magadan Region	5	7	6	5	10



Sakhalin Region	1	1	9	2	7
Jewish AR	8	11	8	11	5
Chukotka AO	10	2	1	6	2
Zabaykalsky Krai	7	9	5	10	4

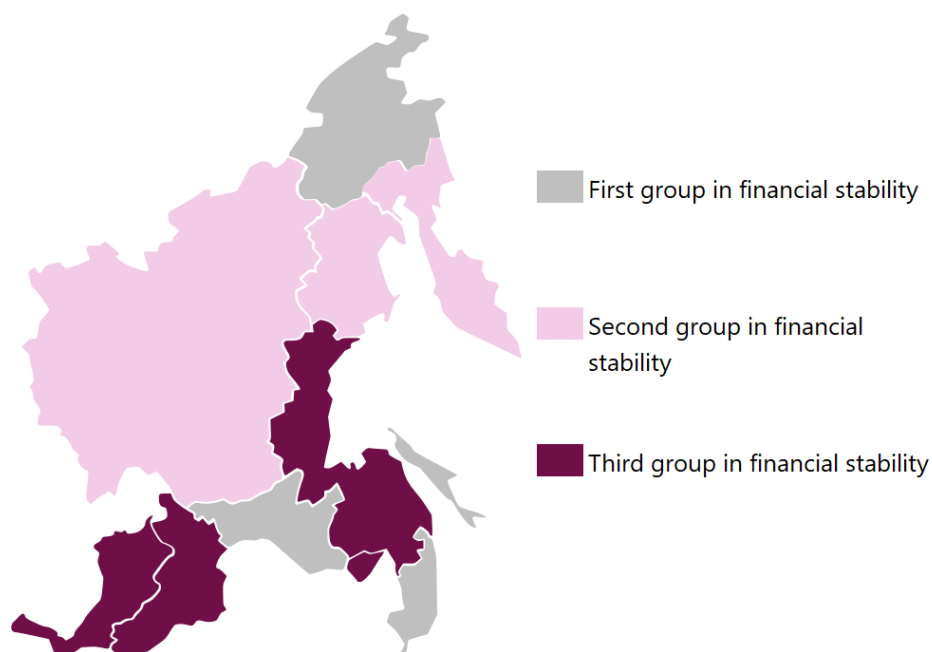
Source: ACRA

As seen from *Table 1*, the FEFD regions may be placed into three groups by their financial stability.

The Agency includes the Sakhalin Region, Primorsky Krai, Chukotka Autonomous Okrug and Amur Region in the first group. The Sakhalin Region demonstrates a low debt burden, high level of budget self-sufficiency, and high share of capital expenditures. The Primorsky Krai has a low debt burden and relatively high values for other indicators. The high level of financial stability of the Chukotka Autonomous Okrug is ensured by a restrained budget policy and a high level of its own liquidity. The Amur Region, in turn, has managed to significantly increase its internal revenues in recent years thanks to the implementation of large projects related to the transportation and processing of natural gas, which made it possible to reduce the debt burden and increase account balances.

All regions in the first group are characterized by a high level of investment in fixed assets, with the exception of the Primorsky Krai. However, this region is located in the most favorable climatic zone and has a more developed transport and social infrastructure compared to the rest of the FEFD regions, which partly explains the lower need for fixed capital investments.

**Figure 8: FEFD regions grouped by financial stability**



Source: ACRA

*For more information about investments in the Far Eastern Federal District, see ACRA's research*

*[Far Eastern Federal District — long-term debt financing needed](#) dated September 3, 2019.*

The second group includes the Republic of Sakha (Yakutia), Kamchatka Krai and the Magadan Region. Similar to the first group, investments in fixed assets are quite high in these regions, but the budget, debt burden and liquidity metrics are slightly lower than those of the regions in the first group. The implementation of projects for the development of new fields will allow Yakutia to increase its tax base in the coming years, which may positively affect the financial performance of the region due to a possible decrease in the debt burden and an increase in the level of its budget liquidity. The high dependence of the Kamchatka Krai on transfers from the federal budget is offset by a relatively low level of debt burden. The financial stability of the Magadan Region is negatively affected by the low level of liquidity and significant amount of payables.

The third group includes the Zabaykalsky Krai, Khabarovsk Krai, Jewish Autonomous Region, and Republic of Buryatia. These regions are characterized by a high debt burden and a low level of budget liquidity; the growth of their tax base is constrained by a significantly lower volume of investments in fixed assets compared to other FEFD regions.

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