

May 22, 2020

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Key rating assessment factors

ACRA affirms AAA(RU) to Yamalo-Nenets Autonomous Okrug, outlook Stable, and AAA(RU) to bond issues

The credit rating of the [Yamalo-Nenets Autonomous Okrug](#) (hereinafter, YaNAO or the Region) is based on its minimal debt load, high self-sufficiency, sustainability and liquidity of the budget, and high performance indicators of the regional economy.

A standalone administrative entity of the Russian Federation, YaNAO is also part of the Tyumen Region¹ located in the Urals Federal District. The Region has the status of the Far North territory with more than half of its area lying beyond the Arctic Circle. In 2018, the Region's GRP amounted to 3.6% of the total GRP of all administrative entities of Russia, and the Region's population was about 0.4% of the Russian population.

The Region is a contributor to the federal budget, accounting for more than 80% of Russia's natural gas output. The Region's economic profile assessment is determined by the high GRP per capita: in 2016–2018, the YaNAO ranked second among Russian regions, as the averaged² value of this indicator was 8.5 times higher than the averaged value for the national economy.

In 2016–2019, the ratio of averaged wage to averaged regional subsistence minimum grew steadily from 5.0x to 5.7x, and the unemployment rate estimated as per the ILO methodology was lower than the national average and shrunk from 3% to 2.2%.

According to the Region's estimates, oil and gas sector generates about 70% of tax revenues.

YaNAO is one of the core contributors to the federal budget. In 2016–2019, an average of 83% of taxes and charges collected in the Region were transferred to the federal budget with just 17% remaining in the consolidated budget of the Region. In 2019, YaNAO's contribution to the Russian budget from the mineral extraction tax amounted to 16% (2nd among Russian regions).

The well-balanced budget with high self-sufficiency and flexibility. The regional budget's operating efficiency is high, as the averaged ratio of current operating balance to current revenues has been sustainably positive and it should amount to 29.7% for the period from 2016 to 2020.

The budget revenues less subventions mostly include internal revenues, and in 2016–2020, the averaged ratio of internal revenues to total revenues less subventions should amount to 95.5%.

The structure of the Region's tax revenues is dominated by property tax revenues, which share should average to 40.2% in 2016–2020; the share of profit tax is expected to reach 36.7% and that of personal income tax — 20.8%. Property tax revenues are more resilient to market changes; therefore, their growth contributes to the stability of budget revenues. The share of profit tax revenues is also high, but such revenues are more volatile and heavily dependent on market conditions.

The regional budget is highly flexible due to the high averaged share of capital expenditures in total expenditures, which is expected to be 23.6% in 2016–2020. More than 90% of capital expenditures are covered by the Region on its own.

¹ A certain share of profit tax revenues collected in the Region goes to the budget of the Tyumen Region and it is set to 29.5% by the agreement between the Tyumen Region and YaNAO.

² Hereinafter, the averages are calculated according to the Methodology for Assigning Credit Ratings to Regional and Municipal Authorities of the Russian Federation.

In view of the unfavorable macroeconomic situation, ACRA expects a decline in tax revenues generated primarily by profit tax collected from oil and gas companies operating in the Region. The sustainable structure of tax revenues, flexibility of budget expenditures, very low debt burden and a significant amount of accumulated liquidity will support the budget amid declining revenues.

Minimum debt burden. At the beginning of 2020, the ratio of debt to current revenues was 7.3%. At the end of 2020, according to ACRA estimates, this ratio should remain low, despite a possible reduction in regional budget revenues.

As of May 1, 2020, the Region's debt portfolio of RUB 16.3 bln was represented by bonds (79.5%) and state guarantees (20.5%). The debt refinancing risk is minimal.

The public debt service costs are not burdensome for the budget: in 2016–2020, the averaged interest expenses should amount to 1.2% of the averaged total budget expenditures less subventions.

The debt burden of municipalities was consistently low in 2016–2019: the ratio of total debt to aggregate tax and non-tax revenues of municipalities amounted to 0.3% in 2019.

The volume of accumulated liquidity is many times greater than the debt. The Region has a significant amount of funds held in budget accounts and deposits, which as of May 1, 2020, was many times higher than the total debt and more than six times higher than the average monthly budget expenditures in 2019.

Key assumptions

- The Region will maintain its socio-economic indicators high;
- Property tax revenues to remain at the level of 2019;
- Profit tax revenues to decline in 2020 by not more than 50% against 2019;
- Personal income tax revenues to decline by not more than 15% against 2019;
- Lower budget expenditures amid shrinking tax and non-tax revenues;
- Use of funds held on budget accounts to cover budget deficit without increasing the debt burden.

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 negative rating action may be prompted by:

- The volume of liquidity going down to the volume of monthly expenditures;
- Higher social spending not supported by the growth in budget revenues;
- A significant change in inter-budget relations in Russia.

Issue ratings

[YaNAO, 35004 \(ISIN RU000A0ZYM47\)](#), maturity date: December 25, 2024, issue volume: RUB 5.5 bln — **AAA(RU)**.

[YaNAO, 35003 \(ISIN RU000A0ZYD55\)](#), maturity date: October 18, 2022, issue volume: RUB 1 bln — **AAA(RU)**.

[YaNAO, 35002 \(ISIN RU000A0JX0Z8\)](#), maturity date: December 6, 2023, issue volume: RUB 20 bln — **AAA(RU)**.

Credit rating rationale. In ACRA's opinion, the above bonds issued by YaNAO are senior unsecured debt instruments, and their credit rating is equal to the rating assigned to [YaNAO](#).

Regulatory disclosure

The credit ratings were assigned to YaNAO and bonds issued by YaNAO (ISIN RU000A0ZYM47, RU000A0ZYD55, RU000A0JX0Z8) 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 bond issues.

The credit ratings assigned to YaNAO and the bonds (ISIN RU000A0ZYM47, RU000A0ZYD55, RU000A0JX0Z8) issued by YaNAO were first published by ACRA on June 27, 2018. The credit ratings of YaNAO and its outlook as well as the credit ratings of its bond issues (ISIN RU000A0ZYM47, RU000A0ZYD55, RU000A0JX0Z8) are expected to be revised within 182 days following the publication date of this press release in accordance with the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on data provided by YaNAO, information from publicly available sources (the RF 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 YaNAO participated in their assignment.

No material discrepancies between data provided and data officially disclosed by YaNAO in its financial reports have been discovered.

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

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