

June 19, 2020

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Key rating assessment factors

ACRA assigns BB+(RU) to the Khabarovsk Krai, outlook Stable, and BB+(RU) to bond issues

The credit rating of the [Khabarovsk Krai](#) (hereinafter, the Region) is based on a moderately high debt load with a high share of short-term debt. The Region is characterized by a low level of liquidity and a budget in significant need of debt financing. However, ACRA notes moderate indicators of regional economic development, which is partly dependent on the budget sector.

The Region is part of the Far Eastern Federal District and is home to about 1.3 million people (1% of Russia's population). According to the Region, its GRP reached RUB 752,1 bln for 2019, which is about 1% of the total GRP of all Russian regions.

High refinancing risks. The Region's debt amounted to RUB 52 bln for 2019, up 6% (RUB 3 bln) from 2018. Due to growth in the Region's tax and non-tax revenues (TNTR), the debt to TNTR ratio decreased slightly (from 66% at the end of 2018 to 65% at the end of 2019).

Short-term bank loans predominate in the Region's debt structure, accounting for 42% of debt as of January 1, 2020. Loans maturing in 2021 accounted for 32%, budget loans for 18%, and bonds for 8%. Guarantees accounted for a small share of the debt portfolio.

The ratio of debt to current income was 52% for 2019 (55% for 2018). ACRA estimates that the Region's debt load could increase to 64% by the end of 2020. This is due to a decrease in TNTR caused by a slowdown in the economy amid pandemic restrictions. The averaged¹ level of interest expenses in 2016-2020 should equal about 3% of total budget expenses (excluding subventions).

Throughout the analyzed period, the Region's debt policy has been characterized by attracting mainly short-term debt. As of June 1, 2020, the Region had to repay or refinance 40% of the debt by the end of the year (RUB 23.2 bln, including budget loans at RUB 1.1 bln, however the probability of postponing repayment on these loans in the future is high). In 2021, the Region is set to repay or refinance 31% (RUB 18.1 bln taking into account budget loans repaid according to the old restructuring schedule).

At the beginning of 2020, the Region did not have open credit lines for more than a year, and the balance on the Treasury account covered only 3% of the debt (RUB 1.6 bln). All this, according to ACRA, indicates extremely high refinancing risks.

At the beginning of 2020, the total debt of the Region's municipalities did not exceed RUB 4 bln, which is equivalent to 18% of their own income.

A moderately weak budget profile in significant need of debt financing. The region has executed its budget with a deficit for the duration of the analyzed period (since 2013). In 2019, it amounted to 4% of TNTR (RUB 3.2 bln), while the Region's TNTR increased by 8% (RUB 6 bln) due to an increase in income tax revenues by 22% (RUB 3.2 bln). In 2020, the planned values for income tax revenues have reduced by 3%, but ACRA expects them to decrease more significantly due to changes in the macroeconomic situation. The growth in TNTR in 2019 was influenced by an increase in revenues from excise duties by 21% (RUB 1.8 bln), which was a result of changes in legislation, as well as by the growth of personal income tax revenues by 7% (RUB 1.9 bln) at the end of the year. In 2019, the corporate property tax decreased by 14% (RUB 2.2 bln) due to changes in the legislation on the taxation of movable property. Transfers in 2019 increased by 14% (RUB 3.8 bln) compared to 2018. Total revenues increased by 9% and expenses by 3%.

The 2020 law on regional budget and planning period for 2021-2022 does not provide for a significant increase in TNTR (by 0.3% this year), however planned expenses should grow by 6% by the end of 2020. According to ACRA, the Region's tax revenues will decrease in 2020,

¹ Hereinafter, averages are calculated according to the Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation.

in which case the Region will reduce budget expenses relative to the planned level and the resulting deficit will be financed by increasing debt.

In 2016-2020, the averaged value of internal revenues in total budget revenues (excluding subventions) should be 75%, with the averaged share of capital expenses in budget expenses (excluding subventions) at 14%. The Region's budget is in significant need of additional debt financing. The averaged value of the modified budget deficit indicator for the above period is expected to be -6%, with the operating efficiency of the budget at less than 1%. ACRA believes that in 2020, the Region could execute its budget with a deficit of about 11% of TNTR.

Moderate economic development indicators with a significant share of the public sector. The non-governmental sector of the Region's economy is diversified. Over the past four years, a significant share of tax revenue (averaged share for 2016-2019 at 21%) has come from transportation-related industries, while trade provided about 13% of the tax revenue. The public sector of the Region's economy, according to ACRA, generated about 23% of tax revenues in 2016-2019. This sector contributes the majority to regional budget revenues.

The Region's averaged GRP per capita was 95% compared to the national average in 2015-2018 (99% in 2013-2016). The ratio of averaged wage values to regional subsistence minimum in 2016-2019 exceeded 300% in the Region.

By the end of 2019, the averaged unemployment rate in the Region for the past four years, calculated according to the ILO methodology, was 4%. Unemployment in the Region is consistently below the national average.

In 2018, the largest enterprises in the Region by revenue were JOINT STOCK COMPANY "FAR-EASTERN GENERATING COMPANY" (electricity production), LLC "RN-VNP" (wholesale fuel), LLC "Nevada-Vostok" (wholesale food), LLC "Transneft-Far East" (oil transportation), LLC "ANB" (wholesale fuel), as well as enterprises of "Independent Oil and Gas Company."

Key assumptions

- Reduction in TNTR in 2020 by 14% compared to 2019;
- Reduction in budget expenses compared to 2019 with a decrease in budget revenues;
- Deficit below 11% of TNTR;
- Emergency financial support from the federal budget if necessary;
- Increase in debt not exceeding 14% in 2020.

Potential outlook or rating change factors

The **Stable outlook** assumes that the credit rating will most likely remain unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Change in debt policy: reduction of short-term debt and the share of debt to be repaid in the planned period 2021-2022.

A negative rating action may be prompted by:

- Lack of liquidity sources to repay (refinance) current debt;
- Inability to reduce budget expenses and a reduction in TNTR in the current year.

Issue ratings

Key issue properties

RegS/ISIN: **RU35007HAB0/RU000A0ZZQ0**

Issue volume/outstanding	RUB 5 bln/RUB 4.073859 bln
Issue date/Repayment date	October 26, 2018/October 24, 2025

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 Khabarovsk Krai.

Regulatory disclosure

The credit ratings have been assigned to the Khabarovsk Krai and the bonds issued by the Khabarovsk Krai (ISIN RU000A0ZZQQ0) under the national scale for the Russian Federation based on the Methodology for Credit Rating 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](#). In the process of the credit rating assignment to the above issues, the [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments on the National Scale for the Russian Federation](#) was also applied.

ACRA has assigned credit ratings to the Khabarovsk Krai and the issue of government securities of the Khabarovsk Krai (ISIN RU000A0ZZQQ0) for the first time. The credit rating of the Khabarovsk Krai and its outlook as well as the credit ratings of the issue of government securities of the Khabarovsk Krai (ISIN RU000A0ZZQQ0) are expected to be revised within 182 days following the publication date of this press release in compliance with the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on the data provided by the Khabarovsk Krai, 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 ratings are solicited and the Administration of the Khabarovsk Krai participated in the rating process.

No material discrepancies between the provided data and the data officially disclosed by the Khabarovsk Krai in its financial statements have been discovered.

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

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