

## Fitch affirms Republic of Komi at 'BB'; outlook stable

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Fitch Ratings has today affirmed the Russian Republic of Komi's Long-term foreign and local currency ratings at 'BB' respectively, while affirming the region's Short-term foreign currency rating at 'B'. The agency has also affirmed its at 'AA-(rus)'. All the Long-term rating Outlooks are Stable.

The ratings take into account the region's high revenue concentration in few companies, and its dependence on prime natural resource extraction. This dependence renders it exposed to price and demand fluctuations of commodities, particularly coal, oil and gas, under the currently worsened economic environment. However, the ratings also reflect the region's above-national average economic profile, stable budgetary performance, and moderate direct risk. The Stable Outlook reflects Fitch's expectation that the Republic of Komi is likely to report an operating margin of 9%-10% at end-2009, while maintaining its debt at a manageable level.

The region's per capita GRP was 25.5% above the national average in 2007; however, by end-2008 the global economic turmoil negatively affected the region's extraction industry, leading to a 6.4% yoy drop in industrial output in Q109, although this moderated to 3% yoy drop for H109. Slow economic recovery is forecasted by the region's administration in Q409 and 2010.

The region's budgetary performance was sound in 2008 with an operating margin of 14.5% (2007: 15.6%). Capex increased to 17.2% of the total expenditure by end-2008 from 13.4% in 2007, leading it to post a moderate deficit before debt variation of RUB0.9bn. In Q109 tax revenues decreased, but were offset by the federal transfers and tightened operating expenditure, which stabilised the region's budgetary performance. Taxes amounted to 83.7% of operating revenue in 2008 (2007: 82.6%), although fiscal concentration remains high, with the top ten companies averaging 36.8% of total tax revenue in 2006-2007.

The region's direct risk decreased to 7.7% of current revenue in 2008 from 9.9% in 2007, and was 100% composed of domestic bonds, with smooth repayment up to 2015. In H109 the region borrowed RUB2.5bn of short-term bank loans following a revenue shortfall. Direct risk is expected to be stable at RUB5.3bn by end-2009, while its contingent liabilities are moderate and strictly controlled. Fitch will monitor the refinancing of bank loans maturing in H110

The Republic of Komi is located in the northwest of Russia. Komi's 959,000 people account for 0.7% of the national population and the region contributes 0.9% of the national GDP. (Fitch-Reuters)