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Research Update:

Russian City of Novosibirsk 'BB+' And 'ruAA+' Ratings Affirmed And Then Withdrawn

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Table Of Contents

Rating Action

Rationale

Key Statistics

Ratings Score Snapshot

Key Sovereign Statistics

Related Criteria And Research

Research Update:

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Rating Action

On March 25, 2016, Standard & Poor's Ratings Services affirmed its 'BB+' long-term issuer credit rating and 'ruAA+' Russia national scale rating on Russia's City of Novosibirsk. We subsequently withdrew the ratings because the rating engagement was not renewed. At the same time, we withdrew our 'BB+' and 'ruAA+' issue ratings on the city's senior unsecured bonds.

At the time of the withdrawal, the outlook was negative.

Rationale

At the time of withdrawal, the ratings on Novosibirsk were constrained by what we see as city's relatively weak economy and Russia's volatile and unbalanced institutional framework, which limits the city's budgetary flexibility at our weak assessment. These constraints are mitigated by Novosibirsk's satisfactory management quality and reasonable cost control, which results in average budgetary performance, adequate liquidity, low debt, and very low contingent liabilities (for more details please see "Russian City of Novosibirsk 'BB+' And 'ruAA+' Ratings Affirmed; Outlook Negative, published Sept. 25, 2015, on RatingsDirect).

At the time of withdrawal the negative outlook on Novosibirsk solely mirrored that on Russia.

Key Statistics

Table 1

City of Novosibirsk Financial Statistics

	--Fiscal year ending Dec. 31--					
(Mil. RUB)	2013	2014	2015	2016bc	2017bc	2018bc
Operating revenues	29,820	32,544	30,627	32,914	34,810	36,820
Operating expenditures	28,632	30,169	29,695	31,399	33,317	35,266
Operating balance	1,188	2,375	932	1,514	1,493	1,554
Operating balance (% of operating revenues)	4.0	7.3	3.0	4.6	4.3	4.2
Capital revenues	9,677	5,438	3,873	3,871	4,034	4,207
Capital expenditures	13,511	9,180	6,758	6,700	6,500	6,500
Balance after capital accounts	(2,645)	(1,367)	(1,954)	(1,315)	(973)	(738)
Balance after capital accounts (% of total revenues)	(6.7)	(3.6)	(5.7)	(3.6)	(2.5)	(1.8)
Debt repaid	4,215	1,350	2,178	3,200	2,250	3,287

Table 1

City of Novosibirsk Financial Statistics (cont.)

(Mil. RUB)	--Fiscal year ending Dec. 31--					
	2013	2014	2015	2016bc	2017bc	2018bc
Balance after debt repayment and onlending	(6,860)	(2,717)	(4,132)	(4,515)	(3,223)	(4,025)
Balance after debt repayment and onlending (% of total revenues)	(17.4)	(7.2)	(12.0)	(12.3)	(8.3)	(9.8)
Gross borrowings	6,515	2,930	3,757	4,600	3,400	4,100
Balance after borrowings	(345)	213	(375)	85	177	75
Operating revenue growth (%)	3.4	9.1	(5.9)	7.5	5.8	5.8
Operating expenditure growth (%)	5.2	5.4	(1.6)	5.7	6.1	5.8
Modifiable revenues (% of operating revenues)	30.4	29.4	30.4	30.2	30.2	30.2
Capital expenditures (% of total expenditures)	32.1	23.3	18.5	17.6	16.3	15.6
Direct debt (outstanding at year-end)	12,768	14,348	15,958	17,358	18,508	19,321
Direct debt (% of operating revenues)	42.8	44.1	52.1	52.7	53.2	52.5
Tax-supported debt (% of consolidated operating revenues)	40.1	41.4	48.2	48.7	49.1	48.5
Interest (% of operating revenues)	1.9	3.0	3.2	3.8	4.1	4.3
Debt service (% of operating revenues)	16.1	7.2	10.3	13.5	10.6	13.2

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. RUB--Russian ruble. bc--Base case: reflects Standard & Poor's expectations of the most likely scenario.

Table 2

City of Novosibirsk Economic Statistics

	--Fiscal year ending Dec. 31--					
	2013	2014	2015	2016bc	2017bc	2018bc
Population (annual average)	1,535,909	1,557,499	1,571,700	1,581,000	1,590,200	1,599,400
Population growth (%)	1.6	1.4	0.9	0.6	0.6	0.6
GDP per capita (RUB)	427,846	455,165	465,642	486,583	520,365	549,759
Officially registered unemployment rate (%)	0.5	0.4	0.7	0.8	0.7	0.6

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. Sources typically include national statistical offices, Eurostat, and Experian Ltd. RUB--Russian ruble. bc--Base case: reflects Standard & Poor's expectations of the most likely scenario.

Ratings Score Snapshot

Table 3

City of Novosibirsk Ratings Score Snapshot

Key Rating Factors	
Institutional framework	Volatile and unbalanced
Economy	Weak
Financial management	Satisfactory
Budgetary flexibility	Weak
Budgetary performance	Average
Liquidity	Adequate
Debt burden	Low
Contingent liabilities	Very low

*Standard & Poor's ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of Standard & Poor's "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the government's foreign currency rating.

Key Sovereign Statistics

Russia's 'BB+' Foreign Currency And 'BBB-' Local Currency Ratings Affirmed; Outlook Negative - March 18, 2016

Related Criteria And Research

Related Criteria

- General Criteria: Standard & Poor's National And Regional Scale Mapping Tables - January 19, 2016
- Criteria - Governments - International Public Finance: Methodology: Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign - December 15, 2014
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments - June 30, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19, 2013
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs - October 15, 2009

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria and Research').

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