STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

April 18, 2011

Novosibirsk (City of)

Primary Credit Analyst:
Karen Vartapetov, Moscow (7) 495-783-4018; karen_vartapetov@standardandpoors.com

Secondary Contact:
Felix Ejgel, London (44) 20-7176-6780; felix_ejgel@standardandpoors.com

Table Of Contents

Novosibirsk (City of)

Major Rating Factors

Issuer Credit Rating
BB/Stable/--
ruAA/--/--

Weaknesses:
- Low flexibility of revenues and expenditures.
- Modest financial predictability.
- Low economic productivity.

Strengths:
- Moderate debt levels.
- Favorable debt profile.
- Reasonable spending discipline.

Rationale

The ratings on the City of Novosibirsk are constrained by the city's low financial revenues, what we see as limited spending flexibility and modest financial predictability, and low economic productivity.

These constraints are mitigated by Novosibirsk's moderate debt, favorable debt profile, reasonable cost controls that stimulate moderate financial performance, and relatively diverse economy.

Novosibirsk's wealth levels are average by Russian standards. Its economy suffers from low productivity, especially in the industrial sector, and the poor state of municipal infrastructure, with a number of bottleneck issues such as transport, utilities, and housing still to be resolved in the long term. These constraints are mitigated by the city's role as a regional economic center, with important service, transport, and research and development sectors, which we think help support the city's economic potential.

In our view, management efforts throughout 2010 to extend the city's debt profile have resulted in a sharp drop of debt service from 16% of operating revenues in 2009 to 2% in 2011. The figure is likely to be 4%-5% in 2012-2013. Given the city's apparent willingness to shift its debt policy from bank borrowings to issuing medium-term bonds, our base-case scenario envisages further improvement in the existing debt profile.

Despite a crisis-driven rise in tax-supported debt, by March 2011 such debt comprised 25% of consolidated operating revenues, which we see as moderate by international standards. Budgeted borrowings from the federal government will slightly increase debt levels, yet our base-case scenario does not anticipate that the city's debt burden will exceed a moderate 35% of consolidated operating revenues in the medium term.

As with other Russian local and regional governments, Novosibirsk's financial predictability and flexibility is severely limited because the federal government regulates tax rates and shares and the distribution of responsibilities to different layers of government. The intergovernmental system continues to evolve.

Despite existing spending pressures, Novosibirsk management's reasonable spending control, in our view, coupled with some recovery of revenues, is likely to enable the city to continue to deliver moderate operating surpluses and modest deficits after capital accounts in 2011-2012. According to our base-case scenario, a recovering economy, growing inflation, and still strong fiscal grants from the Novosibirsk Oblast budget are likely to result in somewhat stronger, yet still moderate, revenue growth in 2011-2012. Given a budgeted increase in public salaries and rising costs, our base-case scenario now expects a stabilization of operating margins at 3%-5% of operating spending.

Recovering property markets will likely allow Novosibirsk to generate stronger capital revenues in 2011-2012, in our view. Nevertheless, we believe that support from the oblast and federal budgets-–via subsidies and medium-term loans--will be vital for maintaining the city's investment program (with projects such as bridge construction being top priorities) at 23%-25% of total spending. This will result in only moderate deficits after capital accounts in 2011-2013.

Liquidity

Novosibirsk's liquidity position has a "neutral" impact on the ratings. The city's free cash and committed bank facilities comfortably cover Novosibirsk's direct debt repayment needs over the next 12 months.

Despite historically low cash reserves, accounting on average for two-three weeks of budgeted operating spending, the city has access to a wide range of bank facilities. As of mid-March 2011, Novosibirsk had several committed bank lines, with 10% of the available total still not withdrawn. The terms of Novosibirsk's access to bank lending are more favorable than those for higher-rated entities, with a number of local and federal banks reserving internal lending limits for the city. Nevertheless, according to our methodology, we qualify Novosibirsk's access to financial markets as "limited" by international standards because of what we see as a weak domestic bank system and the limited development of Russia's capital market.

The city's earliest principal debt payment is scheduled in April-May 2012.

Outlook

The stable outlook reflects our base-case assumption that, despite spending pressures, Novosibirsk's management will continue to ensure cost controls and thereby deliver moderate operating surpluses. The outlook also factors in the continuation of prudent debt policies ensuring a favorable debt profile.

Our scenario for negative ratings actions assumes that market sentiment would prevent the city from securing access to long-term borrowings, which would in turn lead to a rise in debt service above the levels we currently expect. The pace of operating spending growth would also increase, which would result in continued weakening of the city's operating performance.

In our view, ratings upside is unlikely in the next 12 months unless the city manages to achieve structurally stronger operating balances in 2011, significantly improves its own cash position, and consolidates its cash policies.

Comparative Analysis

Novosibirsk's economy is more diverse than that of most of its peers, especially Nizhny Novgorod, Surgut, and Vologda Oblast, and benefits from developed service and transport sectors.

In line with its peers, Novosibirsk's fiscal flexibility is constrained. However, except for Nizhny Novgorod, the city allocates the biggest share of budget spending to capital projects, which provides it with some, albeit restricted, spending flexibility. Novosibirsk's budgetary performance compares favorably with those of its peers, but is better

861417 | 301138103

than in Vologda Oblast and Sverdlovsk Oblast.

The city's debt level is one of the highest among its peers, yet still moderate in an international context. A recent extension of debt maturities puts Novosibirsk on a par with the cities of Surgut and Nizhny Novgorod.

Table 1

Novosibirsk (City of)--2010 Peer Comparison

	Novosibirsk (City of)	Krasnodar Krai	Lipetsk Oblast	Nizhny Novgorod (City of)
Issuer credit rating (local currency)	BB/Stable/--	BB/Stable/--	BB/Stable/--	BB-/Positive/--
Issuer credit rating (foreign currency)	BB/Stable/--	BB/Stable/--	BB/Stable/--	BB-/Positive/--
National scale ratings	ruAA/--/--	ruAA/--/--	ruAA/--/--	ruAA-/--/--
--Five-year averages (two years of actual data, current budget, and two years of Standard & Poor's forecast)--				
Operating balance (% of adjusted operating revenues)	3.8	4.4	9.8*	7.8
Balance after capital accounts (% of adjusted total revenues)	(4.3)	(2.4)	(3.0)*	(5.2)
--Year ended Dec. 31, 2010--				
Total adjusted revenues	970,510,024.2	4,164,407,528.0	969,016,104.5	671,630,000.0
Transfers received (% of total adjusted revenues)	36.0	33.1	26.8	39.4
Modifiable revenues (% of adjusted operating revenues)	34.8	5.9	3.0	21.2
Capital expenditures (% of total adjusted expenditures)	22.7	18.6	12.6	20.5
Direct debt (at year-end)	209,290,000.0	647,086,358.5	152,814,710.8	50,580,000.0
Direct debt (% of adjusted operating revenues)	25.4	16.2	16.2	7.8
Direct debt (% of GDP)	n.a.	2.1	1.6	N.A.
Tax-supported debt (at year-end)	209,290,000.0	647,086,358.5	152,814,710.8	50,580,000.0
Tax-supported debt (% of consolidated operating revenues)	25.4	16.2	16.2	7.8
Net financial liabilities (% of consolidated operating revenues)	23.4	6.0	11.4	6.7
Interest (% of operating revenues)	1.9	0.4	1.3	0.2
Debt service (% of operating revenues)	42.3	0.5	6.6	11.2
Free cash & liquid assets (% of debt service)	4.8	2,270.5	71.5	9.8
Population	1,409,137*	5,151,300*	1,160,600*	1,280,400¶
Unemployment rate (%)	N.A.	7.2*	5.6*	N.A.
Nominal GDP per capita (unscaled)	7,000.00	6,429.4¶	7,137.1*	8,000.00

*Figures for 2009. ¶ Figures for 2008. N.A.--Not available.

Economy

The economy of Novosibirsk -- Russia's third-largest city – is average in terms if its wealth levels. It continues to be constrained by low productivity, especially in its obsolete industrial sector. Moreover, the poor state of municipal infrastructure remains a long-term challenge, with such still-to-be-resolved issues as the construction of a new bridge and the development of a metro system imposing long-term constraints on the city's development.

These constraints are mitigated by an expanding services sector, transport and research and development activities (concentrated in the local cluster of the Russian Academy of Science) which are likely to support the city's economic potential. The economy is also relatively diverse by Russian standards, with the 10 largest enterprises accounting for about 5% of both total employment and tax revenues. This enabled the city to post only a moderate drop in output in 2009 and report some growth in 2010.

Management And Organizational Structure

Vladimir Gorodetsky is serving as mayor of Novosibirsk for a third term and has a majority government.

The city administration's transparency is relatively high, while its financial and management skills are improving.

Servicing significant debt in the past, and working with a large number of banks, Novosibirsk has never defaulted on its obligations and enjoys a good reputation among Russian banks. However, we note that debt management is dependent on specific members of staff, and still needs to be institutionalized.

Novosibirsk's management has demonstrated some ability to manage costs by differentiating its spending policies under different revenue forecasts. Coupled with personnel spending, debt service remains the city's key expenditure priority.

Financial Flexibility And Budgetary Performance

The city's revenue flexibility is weak, with limited leeway over operating revenues. Spending flexibility is constrained by rising pay-roll spending, but some spending control is in place, in our view.

Novosibirsk's revenue flexibility remains week, with only non-tax revenues and minor local taxes presenting a means of extra-revenue generation. However, reliance on more stable personal income tax (PIT) rather than corporate profit tax (as is the case with Russia's regional governments) as well as strong operating grants from the oblast have supported the city's revenue levels, allowing it to post a modest recovery in 2010.

As with other Russian cities, Novosibirsk's spending flexibility is low. Flexibility is undermined by a high level of public salaries, which is likely to rise further to about 60% of operating spending following a budgeted rise in public sector pay in 2011. Nevertheless, the city's demonstrated ability to stick to spending targets mitigates the rigidness of the spending budget. Flexibility on the capital side is slightly greater, with capital spending reaching 23%-25% of total expenditures in 2010-2011. In our view, this could present possibilities for cost-cutting.

Budgetary performance

We expect Novosibirsk to continue to deliver moderate budgetary performance over the medium-term.

In our base-case scenario, a recovering economy, growing inflation, and still strong fiscal grants from the oblast budget are likely to result in some moderate revenue growth in 2011-12. Importantly, due to ongoing federal reform of pay-roll taxation, our base-case forecast remains conservative on the PIT side. As in 2010, recovering property markets are likely to allow Novosibirsk to generate stronger capital revenues in 2011-2012. Nevertheless, we believe that the role of the oblast and federal budgets will be key in supporting the city's investment program (including such projects as the new bridge and the metro).

Given the budgeted rise of public salaries and rising costs, our base-case scenario expects the stabilization of operating margins at 3%-5% of operating spending, a moderate level by international standards. This assumption factors in the continuation of cautious budgetary policies and moderate revenue flow. The conservative 2011-2013 city budget justifies some further confidence in such developments, at least in the medium-term.

With expected co-financing -- both in terms of subsidies and loans -- from higher-tier governments, the city's capital program is likely to expand in nominal terms but stabilize in relative terms in 2011-2013, accounting for 23%-25% of total spending. This will result in only moderate deficits after capital accounts of 4%-6% of revenues over the medium term.

Liquidity, Debt Management, Debt Burden, And Contingent Liabilities

We regard Novosibirsk's liquidity position as having a 'neutral' impact on the ratings. The city's free cash and committed bank facilities comfortably cover direct debt repayment needs over the next 12 months.

Despite historically low cash reserves, accounting on average for two-three weeks of budgeted operating spending, the city has secured a wide range of bank facilities. As of mid-March 2011, Novosibirsk had a number of committed bank facilities, with Russian ruble 0.7 billion not withdrawn (10% of the total available). The terms of Novosibirsk's access to bank lending are favorable compared with those for higher-rated entities, with a number of local and federal banks reserving lending limits for the city.

Efforts throughout 2010 to extend the city's debt profile and cut interest rates resulted in the average debt maturity exceeding 2.7 years. This in turn resulted in a sharp drop in projected debt service from 16% of operating revenues in 2009 to 2% in 2011 and 4%-5% in 2012.

In view of favorable market sentiment, the city has explicitly stated that it wants to increase the proportion of bonds (with maturities over three years) in its debt stock. Given that legal approval of the bond issue by the federal Ministry of Finance is expected in April 2011 and that that the city is set to obtain a new budget loan in the course of the year, our base-case scenario suggests low debt service in 2011-2013.

The earliest principal debt payment on one of the city's bank loans in scheduled in April-May 2012.

Debt burden

Novosibirsk's tax-supported debt is moderate in an international context and is not likely to exceed 35% of consolidated operating revenues in the medium term.

Despite a crisis-driven rise in tax supported debt, in March 2011 such debt stood at 25% of consolidated operating revenues, which we see as moderate by international standards. The city's tax-supported debt consists of bank loans and a federal budget loan. With a further federal budget loan expected, our base-case scenario envisages a slight rise of debt levels in 2011, followed by a slight decline in 2012-2013. We do not expect the city's debt burden to exceed a moderate 35% of consolidated operating revenues.

The city does not issue guarantees, and is not planning to do so in the next three years.

Contingent liabilities

Novosibirsk's contingent liabilities are low due to negligible involvement in the economy, zero guaranteed debt, and insignificant past-due payables of both municipal companies (less than 5% of total revenues as of year-end 2010) and the city itself.

Table 2

Novosibirsk (City of)--Financial Statistics

	--Year ended Dec. 31--						
	2013bc	**2012bc**	**2011bc**	**2010**	**2009**	**2008**	**2007**
Operating revenues	34,962.4	30,687.0	27,426.6	24,675.9	23,081.9	23,646.6	22,154.8
Operating expenditures	33,266.5	29,578.0	26,276.0	23,850.8	22,402.4	22,071.7	19,605.6
Operating balance	1,695.9	1,109.0	1,150.6	825.1	679.5	1,574.9	2,549.2
Operating balance (% of adj. operating revenues)	4.9	3.6	4.2	3.3	2.9	6.7	11.5
Capital revenues	7,500.0	6,500.0	5,500.0	4,557.9	3,015.0	6,851.2	5,647.6
Capital expenditures (capex)	9,700.0	9,000.0	8,000.0	7,001.5	5,453.5	9,632.0	5,937.3
Balance after Capital accounts	(504.1)	(1,391.0)	(1,349.4)	(1,618.5)	(1,759.0)	(1,205.9)	2,259.5
Balance after capital accounts (% of adj. total revenues)	(1.2)	(3.7)	(4.1)	(5.5)	(6.7)	(4.0)	8.1
Net budget loans	0.0	0.0	0.0	0.0	0.0	(42.1)	0.0
Balance after debt repayment and onlending	(1,504.1)	(2,391.0)	(1,349.4)	(11,603.5)	(4,858.7)	(1,470.3)	(668.7)
Balance after debt repayment and onlending (% of adj. total revenues)	(3.5)	(6.4)	(4.1)	(39.7)	(18.6)	(4.8)	(2.4)
Gross borrowings	1,300.0	2,500.0	2,000.0	11,023.7	4,600.0	2,200.0	740.0
Balance after borrowings	(204.1)	109.0	650.6	(579.8)	(258.7)	729.7	71.3
Balance after borrowings (% of adj. total revenues)	(0.5)	0.3	2.0	(2.0)	(1.0)	2.4	0.3
Total revenues (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Modifiable revenues (% of adj. operating revenues)	100.0	100.0	100.0	34.8	36.4	41.7	43.0
Operating revenue growth (%)	13.9	11.9	11.2	6.9	(2.4)	6.7	49.2
Operating expenditure growth (%)	12.5	12.6	10.2	6.5	1.5	12.6	40.0
Direct debt (outstanding at year-end)	10,078.0	9,778.0	8,278.0	6,278.7	5,240.0	3,739.5	1,846.0
Direct debt (% of adjusted operating revenues)	28.8	31.9	30.2	25.4	22.7	15.8	8.3
Direct debt (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tax-supported debt (% of consolidated operating revenues)	29.5	32.5	30.6	25.4	22.7	15.8	8.3
Interest (% of adjusted operating revenues)	2.0	2.1	2.0	1.9	2.2	1.1	1.2
Debt service (% of adjusted operating revenues)	4.9	5.3	2.0	42.3	15.7	2.4	14.5
Debt-service coverage ratio (%)	1.4	1.1	3.1	0.1	0.3	3.3	0.9
Free cash and liquid assets (% of adjusted operating expenditures)	3.2	4.3	4.4	2.1	2.0	1.8	3.1
Free cash and liquid assets (% of debt service)	62.7	77.5	211.7	4.8	12.6	71.8	19.2

bc--Base case. f--Forecast. b--Budgeted. e--Estimated. N.A.--Not available

Table 3

Novosibirsk (City of)--Economic Statistics

	2011f	**2010f**	**2009**	**2008**	**2007**
Population (at year-beginning)	1,475,119	1,464,971	1,397,191	1,390,513	1,391,918
Population growth (%)	0.7	4.9	0.5	(0.1)	(0.1)

f--Novosibirsk forecast.

Ratings Detail (As Of April 18, 2011)*	
Novosibirsk (City of)	
Issuer Credit Rating	BB/Stable/--

Ratings Detail (As Of April 18, 2011)***(cont.)**		
		ruAA/--/--
Issuer Credit Ratings History		
30-Mar-2011	*Foreign Currency*	BB/Stable/--
29-Oct-2010		BB-/Positive/--
28-May-2010		BB-/Stable/--
15-Apr-2009		BB-/Negative/--
21-Mar-2008		BB-/Stable/--
26-Mar-2007		B+/Positive/--
30-Mar-2011	*Local Currency*	BB/Stable/--
29-Oct-2010		BB-/Positive/--
28-May-2010		BB-/Stable/--
15-Apr-2009		BB-/Negative/--
21-Mar-2008		BB-/Stable/--
26-Mar-2007		B+/Positive/--
22-Dec-2006		B/Positive/--
30-Mar-2011	*Russia National Scale Rating*	ruAA/--/--
21-Mar-2008		ruAA-/--/--
26-Mar-2007		ruA+/--/--
Default History		
None		
Population		1,409,137 (2010 average; Novosibirsk estimate)
Per Capita GDP		$7,000 (S&P estimate)
Current Government		
Mayor Vladimir Gorodetsky is serving a third term and has majority support in the local council.		
Election Schedule		
Mayoral: Last: 2009 Next: 2014 City Council: Last: April 2010 Next: April 2015		

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com

Additional Contact:
International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com