

RatingsDirect®

Novosibirsk (City of)

Primary Credit Analyst:

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

Secondary Contact:

Alexandra Balod, Moscow (7) 495-783-4096; Alexandra_Balod@standardandpoors.com

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Novosibirsk (City of)

Major Rating Factors

Strengths:

- Moderate debt.
- Neutral liquidity supported by prudent debt management resulting in favorable debt profile and good access to bank lending.
- Strong budgetary performance, supported by reasonable cost control.

Weaknesses:

- Low flexibility of revenues and expenditures.
- Modest financial predictability.
- Low economic productivity and wealth by international standards.

Issuer Credit Rating

BB/Positive/--

Russia National Scale

ruAA/--/--

Rationale

The ratings on Novosibirsk are constrained by what Standard & Poor's Ratings Services sees as limited financial flexibility and predictability, mostly resulting from Russia's developing and unbalanced public finance system, and low economic productivity. These constraints are mitigated by Novosibirsk's moderate debt, "neutral" liquidity supported by prudent debt management, and the city's improved budgetary performance achieved through cost discipline.

Novosibirsk's post-crisis revenue recovery in taxes and operating grants, coupled with reasonable cost containment, allowed the city to improve its 2012 budgetary performance to a solid operating surplus of 5.7% of operating revenues and only modest deficits after capital accounts of about 2% of operating revenues. Despite the ongoing spending pressure coming from the need to raise public sector pay, continued operating support from the Novosibirsk Oblast and the ability of the city's management to control spending demonstrated in 2012 and first quarter 2013 will likely enable the city to maintain the improved financial indicators it has achieved over the medium term.

Continued and expanding capital support from Novosibirsk Oblast and the federal budget via subsidies and loans will probably continue because over 55% of the oblast's population lives in the city, making it the primary target of the oblast's budget investments. For this reason, we think Novosibirsk will report only modest deficits after capital accounts of less than 5% of total revenues in 2013-2015, and tax-supported debt that will likely remain below 40% of consolidated operating revenues, which we see as modest by international standards.

Like other Russian local and regional governments (LRGs), Novosibirsk's financial predictability and flexibility is limited because the federal government regulates tax rates and shares and distributes responsibilities to different layers of government. We still regard Russia's institutional framework as "developing and unbalanced" (see "Public Finance System Overview: Despite Some Progress, Structural Problems Persist In Russian Municipalities,") published on Oct. 11, 2012, on RatingsDirect).

The city's fairly poor economy suffers from low productivity--especially in the industrial sector--and the inadequate

state of municipal infrastructure, with a number of bottleneck issues such as obsolete transport, utilities, and housing. These constraints are mitigated by the diversified nature of Novosibirsk's economy and its role as a regional economic center, with important service, transport, and research and development sectors, which in our view could boost the city's economic potential.

Liquidity

We see Novosibirsk's liquidity as "neutral" according to our criteria. The city's free cash and committed bank lines will likely comfortably cover its debt service over the next 12 months.

We consider that management's continued prudent policies have allowed Novosibirsk to significantly improve its debt profile over the last few years. In 2013, the city is planning to place a long-term bond and/or extend existing bank loans coming due in the second half of the year. Such policies should allow the city to contain debt service at less than 7% on average over the next three years.

Novosibirsk's cash has historically been low, which remains a rating constraint. Despite the recent improvement in budgetary performance, the city's cash holdings were still below 100% of expected debt service needs for the next 12 months.

But the city's good management of committed bank facilities helps mitigate this. The terms of the city's access to bank lending are more favorable than those for many higher-rated entities. Most major Russian banks operating in the region have expressed willingness to extend existing medium- to long-term facilities or provide new ones, reserving internal lending limits for the city.

Nevertheless, according to our methodology, we universally qualify access of Russian LRGs to financial markets as "limited" by international standards because of what we see as a weak domestic banking system and the limited development of Russia's capital market.

Outlook

The positive outlook reflects our opinion of the increased likelihood that Novosibirsk will continue its budgetary and liquidity policies over the next 18-24 months, despite spending pressure and a cycle of elections starting in 2014. The outlook also factors in higher chances of improving liquidity thanks to the city's stronger cash generation capacity.

We could consider an upgrade if we were to see more certainty that the city is continuing its currently prudent debt and expenditure policies over the next 18-24 months, in particular after the upcoming mayoral elections. In the shorter term, stronger operating margins envisaged in our upside-case scenario could trigger positive actions. Stronger margins would likely mitigate low cash holdings and improve our assessment of Novosibirsk's liquidity.

We would revise the outlook to stable if we saw that the city's management might change its existing financial policies over the next 18-24 months. Weakening budgetary performance that prevented improvements in the city's liquidity could also result in negative rating actions.

Comparative Analysis

Novosibirsk's economy is more diversified than that of most peers, including the cities of Nizhny Novgorod and especially oil-rich Surgut, and benefits from developed service and transport sectors. In terms of wealth, Novosibirsk compares well to Ufa and Irkutsk Oblast but is slightly poorer than Nizhny Novgorod, Surgut, and Krasnoyarsk Krai.

Like its peers, Novosibirsk's fiscal flexibility is constrained. However, in line with Nizhny Novgorod and unlike other peers, 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 is on a par with that of Nizhny Novgorod, but stronger than Surgut, Ufa, Tomsk Oblast, and Krasnoyarsk Krai.

Novosibirsk's financial management practices have been improving, and given the continuity of policies might put the city ahead of other rated cities, except for Surgut. Novosibirsk's debt management practices, including those for committed facilities' management, are by far the most sophisticated in its peer group.

The city has some of the highest debt among peers, yet levels are still moderate in an international context.

Novosibirsk's "neutral" liquidity is similar to other 'BB'-rated peers and slightly below in 'BB+'-rated entities, whose liquidity we assess as "positive." Our assessment is driven by Novosibirsk's modest cash position. Like in Nizhny Novgorod and Tomsk Oblast, Novosibirsk's free cash position has been weaker than that in higher rated local governments, such as Surgut city, Krasnoyarsk krai and Irkutsk oblast in which free cash fully covers debt service needs.

Financial And Economic Statistics Tables

Table 1

City of Novosibirsk--2012 Peer Comparison							
	Novosibirsk (City of)	Chelyabinsk Oblast	Irkutsk Oblast	Krasnoyarsk Krai	Surgut (City of)	Tomsk Oblast	Ufa (City of)
Issuer Credit Rating (foreign currency)	BB/Positive/--	BB+/Stable/--	BB+/Stable/--	BB+/Stable/--	BB+/Stable/--	BB/Stable/--	BB-/Positive/--
National Scale Rating	ruAA/--/--	ruAA+/--/--	ruAA+/--/--	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)	5 [2011-2015]	11.19 [2011-2015]	6.84 [2011-2015]	11.18 [2010-2014]	3.09 [2011-2015]	1.59 [2011-2015]	2.74 [2010-2014]
Balance after capital accounts (% of adjusted total revenues)	(3.28)[2011-2015]	(4.03)[2011-2015]	0.73 [2011-2015]	(5.19)[2010-2014]	0.25 [2011-2015]	(2.32)[2011-2015]	(2.94)[2010-2014]

Table 1

City of Novosibirsk--2012 Peer Comparison (cont.)							
--Year ended Dec. 31, 2012--							
Total adjusted revenues (Mil. \$)	1,170.65	3,179.73	3,197.94	4,532.25	611.65	1,370.69	617.11
Transfers received (% of total adjusted revenues)	38.96	17.75	17.69	19.77	42.63	24.3	50.69
Modifiable revenues (% of adjusted operating revenues)	30.66	6.98	3.88	7.13	21.84	6.03	29.83
Capital expenditures (% of total adjusted expenditures)	26.8	23.75	10.63	13.09	14.47	14.11	27.76
Direct debt (at year-end) (Mil. \$)	337.67	149.65	83.89	884.28	26.53	315.27	79.58
Direct debt (% of adjusted operating revenues)	36.3	5.09	2.81	21.36	4.92	24.83	16.95
Direct debt (% of GDP)	3.08*	0.57	0.36	2.25	0.2	2.75	N.A.
Tax-supported debt (at year-end) (Mil. \$)	343.28	149.65	83.89	924.33	44.76	333.85	267.06
Tax-supported debt (% of consolidated operating revenues)	36.9	5.09	2.81	22.33	8.3	26.3	56.87
Net financial liabilities (% of consolidated operating revenues)	33.87	(2.62)	(17.78)	8.48	(8.48)	19.87	54.45
Interest (% of operating revenues)	1.65	0.14	0.13	1.02	0.26	0.78	0.93
Debt service (% of operating revenues)	17.79	2.78	2.62	4.24	1.44	10.22	2.65
Free cash & liquid assets (% of debt service)	17.07	277.04	786.28	326.42	1,161.13	62.85	91.16
Population	1,485,632*	3,477,900*	2,426,200*	N.A.	312,600*	N.A.	N.A.

Table 1

City of Novosibirsk--2012 Peer Comparison (cont.)							
Share of dependent population (under 15 or over 65 years of age; % of total population)	N.A.	N.A.	38.60*	N.A.	29.90*	N.A.	N.A.
Unemployment rate (%)	N.A.	6.70*	9.20*	N.A.	4*	N.A.	N.A.
Nominal GDP per capita (unscaled)	7,076.02*	7,198.11*	8,667.80*	N.A.	39,722.38*	N.A.	N.A.
GDP per capita (% of national average)	57.53*	58.52*	70.47*	N.A.	322.93*	N.A.	N.A.
Real GDP Growth (%)	5*	5.80*	6.40*	N.A.	5*	N.A.	N.A.
Total revenues (% of GDP)	11.31*	12.03	13.68	11.53	4.7	11.97	N.A.

*Figures for 2011 N.A.--Not available.

Table 2

City of Novosibirsk--Economic Statistics			
	2012	2011	2010
Population (000) as of Jan. 1	1,498.9	1,475.1	1,465.0
Population growth (%)	1.6	0.7	4.9

Table 3

City of Novosibirsk--Financial Statistics								
	2015bc	2015uc	2014bc	2014uc	2013bc	2013uc	2012a	2011a
Operating revenues	35,867.0	36,683.0	33,623.0	34,129.0	31,212.0	31,613.0	28,837.7	26,683.5
Operating expenditures	33,670.0	33,658.0	31,438.0	31,462.0	29,366.0	29,384.0	27,208.7	26,473.1
Operating balance	2,197.0	3,025.0	2,185.0	2,667.0	1,846.0	2,229.0	1,629.0	210.4
Operating balance (% of adj. operating revenues)	6.1	8.3	6.5	7.8	5.9	7.1	5.7	0.8
Capital revenues	10,000.0	10,000.0	9,000.0	9,000.0	8,000.0	8,000.0	7,452.3	7,247.9
Capital expenditures (capex)	13,000.0	13,500.0	12,000.0	12,000.0	10,500.0	10,500.0	9,961.2	10,396.6
Balance after capital accounts	(803.0)	(475.0)	(815.0)	(333.0)	(654.0)	(271.0)	(879.9)	(2,938.3)
Balance after capital accounts (% of adj. total revenues)	(1.8)	(1.0)	(1.9)	(0.8)	(1.7)	(0.7)	(2.4)	(8.7)
Net budget loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance after debt repayment and onlending	(2,981.0)	(2,653.0)	(1,415.0)	(933.0)	(4,869.0)	(4,486.0)	(5,534.9)	(8,244.3)
Balance after debt repayment and onlending (% of adj. total revenues)	(6.5)	(5.7)	(3.3)	(2.2)	(12.4)	(11.3)	(15.3)	(24.3)
Gross borrowings	2,800.0	2,000.0	1,800.0	1,500.0	5,000.0	5,500.0	5,875.0	8,275.0
Balance after borrowings	(181.0)	(653.0)	385.0	567.0	131.0	1,014.0	340.1	30.7
Balance after borrowings (% of adj. total revenues)	(0.4)	(1.4)	0.9	1.3	0.3	2.6	0.9	0.1

Table 3

City of Novosibirsk--Financial Statistics (cont.)								
Total revenues (% of GDP)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	11.3
Modifiable revenues (% of adj. operating revenues)	15.2	14.9	15.4	15.2	15.7	15.5	30.7	35.7
Operating revenue growth (%)	6.7	9.1	7.7	9.4	8.2	9.6	8.1	8.1
Operating expenditure growth (%)	7.1	7.1	7.1	7.1	7.9	8.0	2.8	11.0
Direct debt (outstanding at year-end)	13,075.0	12,475.0	12,453.0	12,653.0	11,253.0	11,753.0	10,467.7	9,247.7
Direct debt (% of adjusted operating revenues)	36.5	34.0	37.0	37.1	36.1	37.2	36.3	34.7
Direct debt (% of GDP)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	3.1
Tax-supported debt (% of consolidated operating revenues)	37.2	34.7	37.6	37.7	36.5	37.7	36.9	35.8
Interest (% of adjusted operating revenues)	2.1	2.1	2.5	2.5	2.4	2.5	1.7	1.6
Debt service (% of adjusted operating revenues)	8.2	8.0	4.3	4.3	15.9	15.8	17.8	21.5
Debt-service coverage ratio (%)	1.0	1.3	2.1	2.4	0.5	0.6	0.4	0.1
Free cash and liquid assets (% of adjusted operating expenditures)	3.6	5.4	4.4	7.8	3.4	6.4	3.2	2.0
Free cash and liquid assets (% of debt service)	41.1	61.5	97.3	169.0	20.2	37.9	17.1	9.3

bc--S&P base case. uc--S&P upside case. a--Actual. N.A.--Not available.

Table 4

Summary Of Published Rating Factor Scores*	
Institutional framework	Developing and unbalanced
Financial management	Negative
Liquidity	Neutral
Indicative credit level	BB-/BB+
Overriding factors	-

*Standard & Poor's assigns scores across eight main rating factors, of which we publish three.

Related Criteria And Research

- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010
- Public Finance System Overview: Despite Some Progress, Structural Problems Persist In Russian Municipalities, Oct. 11, 2012,

Ratings Detail (As Of April 30, 2013)

Novosibirsk (City of)

Issuer Credit Rating	BB/Positive/--
<i>Russia National Scale</i>	ruAA/--/--
Senior Unsecured	
<i>Russia National Scale</i>	ruAA
Senior Unsecured	BB

Issuer Credit Ratings History

11-Nov-2011	BB/Positive/--
30-Mar-2011	BB/Stable/--
29-Oct-2010	BB-/Positive/--

Ratings Detail (As Of April 30, 2013) (cont.)

28-May-2010		BB-/Stable/--
15-Apr-2009		BB-/Negative/--
30-Mar-2011	<i>Russia National Scale</i>	ruAA/--/--
21-Mar-2008		ruAA/--/--
26-Mar-2007		ruA+/--/--

Default History

None

Population

1,523,000 (1 Jan 2013; Novosibirsk estimate)

Per Capita GDP

\$8,800 (2012; Standard & Poor's estimate)

Current Government

Mayor Vladimir Gorodetsky is serving his 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

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