

Novosibirsk (City of)

Primary Credit Analyst:

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

Secondary Contacts:

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

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

Table Of Contents

Major Rating Factors

Rationale

Outlook

Comparative Analysis

Economy: Average Wealth Levels, But A Diverse Economy With A Growing Services Sector

Financial Management: Prudent Debt Policies And Ability To Deliver A Moderate Performance

Budgetary Flexibility: Limited Revenue Flexibility And High Payroll And Infrastructure Needs Restrict Spending Flexibility

Budgetary Performance: Revenue Recovery And Cost Control Support A Moderate Budgetary Performance

Debt Burden: Slightly Higher, But Unlikely To Exceed A Moderate 45% Of Operating Revenues Until 2013

Contingent Liabilities: Minor, Due To Healthy Utilities And Low Involvement In The Economy

Financial And Economic Statistics Tables

Related Criteria And Research

Novosibirsk (City of)

Major Rating Factors

Strengths:

- Moderate debt levels and prudent debt management, resulting in a favorable debt profile and good access to bank lending.
- Status as Russia's third largest city, a diverse economy, and expanding services sector.

Weaknesses:

- Low flexibility of revenues and expenditures.
- Modest financial predictability.
- Comparatively low economic productivity and wealth levels.

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

Rationale

The ratings on the Russian City of Novosibirsk are constrained by what Standard & Poor's Ratings Services' regards as the city's limited financial flexibility and predictability and low economic productivity. These constraints are mitigated by Novosibirsk's moderate debt; prudent debt management, resulting in a favorable debt profile; and relatively diverse economy.

Novosibirsk's post-crisis revenue recovery (tax and operating grants) coupled with reasonable cost containment should allow it to report a moderate budgetary performance in 2012-2014, in our view. This is despite some relaxation of spending triggered by a pre-election hike in public salaries and other operating spending in 2011, especially in the fourth quarter of the year. With currently lower pressure on the operating budget, our base-case scenario foresees Novosibirsk reporting operating surpluses of about 2% on average in the medium term.

Continued and expanding capital support from Novosibirsk Oblast and federal budgets via subsidies and loans will likely help the city maintain capital spending at more than 25% of total expenditures. Recovering property markets will also contribute positively to capital revenues. Because of these factors, we think Novosibirsk will have only moderate deficits after capital accounts of some 5% of total revenues in 2012-2013.

For this reason, tax-supported debt is likely stay lower than 45% of consolidated operating revenues through to 2014, which we see as modest by international standards.

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 distributes responsibilities to different layers of government. We still regard Russia's institutional frameworks as "developing and unbalanced" as defined in our criteria (see "The System For Russia's Regions Is Developing And Unbalanced," published Oct. 21, 2011, on RatingsDirect on the Global Credit Portal).

Novosibirsk's economy continues to recover. However, wealth levels are still only slightly above the Russian average. The city's economy suffers from low productivity, especially in the industrial sector, and the state of the municipal infrastructure is poor, with a number of bottleneck issues such as obsolete transport, utilities, and

housing. These constraints are mitigated by Novosibirsk's status as Russia's third largest city and a regional economic center, with important service, transport, and research and development (R&D) sectors, which in our view help support the city's economic potential.

Liquidity

We regard Novosibirsk's liquidity position as "neutral", as defined in our criteria. The city's free cash and committed bank lines comfortably cover its debt service over the next 12 months. However, we qualify its access to financial markets as "limited," by international standards.

We continue to give credit to management's continued prudent policies to extend Novosibirsk's debt profile. After securing several five-year committed bank facilities during 2011, the city's average debt maturity in early 2012 exceeded three years, compared with less than two years in 2010. Our base-case assumption implies that the city is likely to continue such policies and maintain debt service at less than 5% of operating revenues.

Novosibirsk's cash has historically been low, on average, which we consider a credit concern. This is, however, mitigated by the city's access to a wide range of bank facilities. As of mid-April 2012, Novosibirsk had several committed bank lines, 20% of which were undrawn.

The terms of the city's access to bank lending are more favorable than those of many 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 banking system and the limited development of Russia's capital market.

Outlook

The positive outlook reflects our opinion that Novosibirsk's budgetary performance might exceed our current base-case assumptions for 2012, thanks to strong revenue growth and prudent post-election cost control. Under this scenario, the city's operating surplus would exceed 5% of operating revenues, whereas its deficit after capital accounts would stay lower than 4%-5% of total revenues. A stronger performance might also have a positive effect on the city's borrowing needs and result in a lower debt burden and a better cash position.

We would consider a positive rating action if the city's financial performance reached our upside-case indicators in 2012, which would be evident in January or February 2013. This would also likely result in a somewhat lower debt burden and stronger liquidity.

We could revise the outlook to stable if the city were unable to cope with a rise in operating spending, which would lead to the budgetary performance envisaged in our base-case scenario.

Comparative Analysis

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

In line with its peers', Novosibirsk's fiscal flexibility is constrained. However, like Nizhny Novgorod and unlike other peers, the city allocates the biggest share of budget spending to capital projects, which provides it with some, although restricted, spending flexibility. Novosibirsk's moderate budgetary performance is slightly less solid than

that of Surgut, Ufa, and Nizhny Novgorod.

Novosibirsk's debt is one of the highest among its peers, yet still moderate in the international context. A favorable debt profile, however, puts Novosibirsk on par with Surgut and Nizhny Novgorod.

Table 1

Novosibirsk (City of)--2011 Peer Comparison						
	Novosibirsk (City of)	Bashkortostan (Republic of)	Lipetsk Oblast	Nizhny Novgorod (City of)	Sakha (Republic of)	Surgut (City of)
Issuer credit rating	BB/Positive/--	BB+/Positive/--	BB/Stable/--	BB/Stable/--	BB/Positive/--	BB+/Stable/--
National scale rating	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)	1.75 [2010-2014]	5.57 [2009-2013]	2.26 [2009-2013]	4.61 [2010-2014]	7.04 [2009-2013]	4.81 [2010-2014]
Balance after capital accounts (% of adjusted total revenues)	(5.81)[2010-2014]	(7.61)[2009-2013]	(6.47)[2009-2013]	(3.61)[2010-2014]	(0.79)[2009-2013]	0.65 [2010-2014]
--Year ended Dec. 31, 2011--						
Total adjusted revenues (mil. \$)	1,122.13	3,615.44	1,077.98	823.52	3,792.94	651.08
Transfers received (% of total adjusted revenues)	38.88	25.88	25.57	45.80	46.76	42.09
Modifiable revenues (% of adjusted operating revenues)	35.69	9.32	3.02	27.80	8.31	20.64
Capital expenditures (% of total adjusted expenditures)	28.20	17.98	9.21	36.12	13.48	18.49
Direct debt (at year-end) (million USD)	305.83	362.30	229.12	89.29	323.99	17.29
Direct debt (% of adjusted operating revenues)	34.66	10.53	22.43	15.85	8.86	3.26
Direct debt (% of GDP)	3.08	1.22	2.30	0.58	2.38	0.14
Tax-supported debt (at year-end) (million USD)	305.83	381.70	250.30	89.29	523.17	30.08
Tax-supported debt (% of consolidated operating revenues)	34.66	11.10	24.51	15.85	14.30	5.68
Net financial liabilities (% of consolidated operating revenues)	32.65	(23.48)	17.84	12.39	5.58	(11.19)
Interest (% of operating revenues)	1.60	0.21	1.20	0.25	0.64	0.29
Debt service (% of operating revenues)	21.49	2.50	5.97	9.09	3.43	3.27
Free cash & liquid assets (% of debt service)	9.34	1,385.60	111.61	38.06	254.26	515.99
Population	1,498,921	4,065,993*	1,171,300*	1,275,100*	949,347*	314,594
Share of dependent population (under 15 or over 65 years of age; % of total population)	N.A.	37.60*	39.30*	N.A.	35.90*	N.A.

Table 1

Novosibirsk (City of)--2011 Peer Comparison (cont.)						
Unemployment rate (%)	N.A.	9.00*	4.50*	1.20*	8.80*	N.A.
Nominal GDP per capita (unscaled)	7,076.02	6,128.89*	7,015.56*	10,053.62*	12,622.90*	39,470.64
GDP per capita (% of national average)	57.53	54.21*	62.05*	88.92*	111.64*	320.89
Real GDP Growth (%)	5.00	3.70*	N.A.	11.40*	2.60*	5.00
Total revenues (% of GDP)	11.31	12.18	10.83	5.32	27.87	5.24
*Figures for 2010. N.A.--Not available.						

Economy: Average Wealth Levels, But A Diverse Economy With A Growing Services Sector

Novosibirsk's economy is average in terms of wealth levels and constrained by low productivity, especially in its obsolete industry sector. Moreover, the poor state of municipal infrastructure remains the city's long-term challenge, with projects such as the construction of a new bridge, development of the subway transport system, and obsolete housing stock imposing long-term constraints on the city's development.

These constraints are somewhat mitigated by the city's expanding services sector, transport, and R&D activities, which are concentrated in the local cluster of the Russian Academy of Science and are likely to support the city's economic potential. This has been demonstrated by the 14.7% growth of total output and 24.2% of investment in 2011 (both figures are for large and midsize enterprises in current prices). For this reason we expect Novosibirsk's growth levels to slightly exceed the national average.

The city's economy is also relatively diverse by Russian standards, with the 10 largest enterprises contributing about 5% of total employment and 3% of its budget revenues. This enabled the city to post only a moderate drop in output in 2009 and report a solid economic recovery in 2011-2012.

Financial Management: Prudent Debt Policies And Ability To Deliver A Moderate Performance

Vladimir Gorodetsky is serving as Novosibirsk's mayor for a third term and enjoys a majority government. The transparency of the city administration's information is relatively high, while its financial and management skills are improving, in our view.

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

The city's management has demonstrated its ability to manage costs during a recession, yet it relaxed spending controls under preelection pressure in 2011. Along with personnel spending, debt service remains the city's key priority relative to other expenditure programs.

Budgetary Flexibility: Limited Revenue Flexibility And High Payroll And Infrastructure Needs Restrict Spending Flexibility

The city's revenue flexibility is weak, and it has limited leeway over operating revenues. Spending flexibility is constrained by rising pay-roll spending and high infrastructure needs.

Novosibirsk's non-tax revenues and minor local taxes are its only means of generating extra revenue. However, the city relies more on its share of personal income tax receipts from the oblast, which will likely stay stable in the medium term. Together with continued, strong operating support from the oblast, these receipts will likely support the city's revenue levels.

Like other Russian cities, Novosibirsk has low spending flexibility. This is owing to a high share of public salaries, which is likely to increase to about 60% of operating spending following the rise of public-sector salaries in 2011 and in light of similar plans for 2012.

During the recession Novosibirsk displayed the ability to stick to spending discipline, which somewhat mitigates the rigidity of its spending budget. The city's flexibility on the capital expenditure side is slightly higher, with spending approaching a solid 30% of total expenditures in 2011 to meet infrastructure needs. This could represent a target for potential cost-cutting measures in the event of stress, in our view.

Budgetary Performance: Revenue Recovery And Cost Control Support A Moderate Budgetary Performance

We expect Novosibirsk to continue to deliver a moderate budgetary performance in the medium term.

According to our base-case scenario, the city's recovering economy, increasing inflation, and still strong fiscal grants from the oblast are likely to result in moderate operating revenue growth in 2012-2014, exceeding inflation levels. Importantly, due to the ongoing federal payroll taxation reforms, our base-case forecast for the city's personal income tax revenues remains conservative. Recovering property markets are likely to allow Novosibirsk to generate stronger capital revenues in 2012-2013, as was the case in the past two years. Nevertheless, we believe that the role of the oblast and federal budgets will be key in supporting the city's investment program, construction of a new bridge, and subway. Should this support erode, the city might face severe spending pressures.

Due to the cycle of federal elections (parliamentary and presidential), the city's management somewhat relaxed its grip on operating spending (wages, subsidies, repair, and maintenance), which weakened its operating performance in 2011. Yet in the past the city demonstrated its willingness and ability to adjust spending to revenue growth. This will likely allow Novosibirsk to continue posting operating margins of about 2% of operating spending in the medium term.

The city's capital program will likely represent about 25% of total spending until priority infrastructure projects are finished, in particular, the new bridge that is due for completion in 2014. We anticipate the capital program to be cofinanced with subsidies and loans from higher-tier governments. Consequently, we estimate that Novosibirsk will post only moderate deficits after capital accounts of about 5%-6% of revenues in 2012-2014 on average.

The continuation of strong grants and tax revenues, fueled by continually economic growth, resulted in budgetary

surpluses in the first quarter of 2012. The continuation of this trend, coupled with prudent cost control, may improve the city's budgetary performance in 2012, leading to financial indicators that exceed our base-case assumptions.

Debt Burden: Slightly Higher, But Unlikely To Exceed A Moderate 45% Of Operating Revenues Until 2013

Novosibirsk's tax-supported debt, which mostly consists of direct debt and marginal nonguaranteed debt of government-related entities, is moderate in the international context. We don't believe tax-supported debt will exceed 45% of consolidated operating revenues in the medium term.

Despite a recent hike, in early 2012, the city's tax-supported debt stood at 35% of consolidated operating revenues and consisted of bank loans and federal budget loans. Owing to the city's willingness to maintain its capital program in 2012-2013, we anticipate a further modest rise of debt, followed by stabilization in 2014, in our base-case scenario.

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

Contingent Liabilities: Minor, Due To Healthy Utilities And Low Involvement In The Economy

Novosibirsk's contingent liabilities are low, due to negligible involvement in the economy and the municipal companies' insignificant payables (less than 4% of total revenues as of year-end 2011) and debt (1% of total revenues).

Financial And Economic Statistics Tables

Table 2

Novosibirsk (City of)--Financial Statistics								
--Year ended Dec. 31--								
(Mil. RUB)	2014bc	2014uc	2013bc	2013uc	2012bc	2012uc	2011	2010
Operating revenues	33,941.00	35,707.00	31,311.00	32,538.00	29,022.00	29,772.00	26,683.50	24,675.90
Operating expenditures	33,352.00	31,735.00	30,695.00	29,796.60	28,753.00	27,957.00	26,473.10	23,850.80
Operating balance	589.00	3,972.00	616.00	2,741.40	269.00	1,815.00	210.40	825.10
Operating balance (% of adj. operating revenues)	1.74	11.12	1.97	8.43	0.93	6.10	0.79	3.34
Capital revenues	9,200.00	9,000.00	8,500.00	8,500.00	8,000.00	7,700.00	7,247.90	4,557.90
Capital expenditures (capex)	11,200.00	13,000.00	11,000.00	12,000.00	10,800.00	11,000.00	10,396.60	7,001.50
Balance after capital accounts (% of adj. total revenues)	(3.27)	(0.06)	(4.73)	(1.85)	(6.84)	(3.96)	(8.66)	(5.54)
Net budget loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Balance after debt repayment and onlending	(2,411.00)	(1,028.00)	(2,884.00)	(1,758.60)	(3,231.00)	(2,185.00)	(8,244.30)	(11,603.50)
Balance after debt repayment and onlending (% of adj. total revenues)	(5.59)	(2.30)	(7.24)	(4.29)	(8.73)	(5.83)	(24.30)	(39.69)
Gross borrowings	2,500.00	1,500.00	3,000.00	2,000.00	3,000.00	2,500.00	8,275.00	11,023.70

Table 2

Novosibirsk (City of)--Financial Statistics (cont.)								
Balance after borrowings	89.00	472.00	116.00	241.40	(231.00)	315.00	30.70	(579.80)
Balance after borrowings (% of adj. total revenues)	0.21	1.06	0.29	0.59	(0.62)	0.84	0.09	(1.98)
Total revenues (% of GDP)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	11.31	10.96
Modifiable revenues (% of adj. operating revenues)	19.54	20.29	19.98	20.43	20.43	20.58	35.69	34.84
Operating revenue growth (%)	8.40	14.04	7.89	12.11	8.76	11.57	8.14	6.91
Operating expenditure growth (%)	8.66	3.39	6.75	3.63	8.61	5.61	10.99	6.47
Direct debt (outstanding at year-end)	15,047.70	12,547.70	13,547.70	12,047.70	11,547.70	11,047.70	9,247.70	6,278.70
Direct debt (% of adjusted operating revenues)	44.33	35.14	43.27	37.03	39.79	37.11	34.66	25.44
Direct debt (% of GDP)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	3.08	2.35
Tax-supported debt (% of consolidated operating revenues)	45.22	35.70	44.23	37.64	40.65	37.78	34.66	25.44
Interest (% of adjusted operating revenues)	2.95	2.41	2.80	2.48	2.15	2.05	1.60	1.86
Debt service (% of adjusted operating revenues)	5.90	5.21	6.00	5.56	4.56	4.40	21.49	42.33
Debt-service coverage ratio (%)	0.79	2.60	0.80	1.96	0.67	1.85	0.11	0.12
Free cash and liquid assets (% of adjusted operating expenditures)	1.53	4.93	1.37	3.66	1.06	3.04	2.02	2.12
Free cash and liquid assets (% of debt service)	25.49	84.04	22.42	60.40	23.04	65.01	9.34	4.84

RUB--Russian ruble. bc--S&P base case. uc--S&P upside case. dc--S&P downside case. N.A.--Not available.

Table 3

Novosibirsk (City of)--Economic Statistics				
	--As of Jan. 1--			
	2012	2011	2010	2009
Population	1,498,921	1,475,136	1,464,988	1,397,191
Population growth (%)	1.61	0.69	4.85	0.48

Table 4

Novosibirsk (City of)--Summary Of Published Rating Factor Scores*	
Institutional framework	Developing and unbalanced
Financial management	Negative
Liquidity	Neutral
Indicative credit level	BB-/BB+
Overriding factors	None

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

Related Criteria And Research

- The System For Russia's Regions Is Developing And Unbalanced, published Oct. 21, 2011
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

Ratings Detail (As Of April 30, 2012)	
Novosibirsk (City of)	
Issuer Credit Rating	BB/Positive/--
<i>Russia National Scale Rating</i>	ruAA/--/--
Issuer Credit Ratings History	
11-Nov-2011	BB/Positive/--
30-Mar-2011	BB/Stable/--
29-Oct-2010	BB-/Positive/--
28-May-2010	BB-/Stable/--
15-Apr-2009	BB-/Negative/--
21-Mar-2008	BB-/Stable/--
30-Mar-2011	<i>Russia National Scale Rating</i> ruAA/--/--
21-Mar-2008	ruAA/--/--
26-Mar-2007	ruA+/--/--
Default History	
None	
Population	1,487,029 (as of year-end 2011; Novosibirsk estimate)
Per Capita GDP	\$8,000 (2011; Standard & Poor's estimate)
Current Government	
Mayor Vladimir Gorodetsky is serving for a third term and enjoys 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

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.