ACRA assigns A+(RU) to the Novosibirsk Region, outlook Stable, and A+(RU) to bond issues

The credit rating was assigned to the Novosibirsk Region (hereinafter, the Region) based on low level of relative debt load amid medium level of economic development indicators versus the national average, and high self-sufficiency of the budget coupled with sufficient flexibility of the budget’s spending side.

The Novosibirsk Region is part of the Siberian Federal District and borders Kazakhstan and four Russian regions. Almost 2% of Russia’s population live in the Region, and around 1.5% of the total GRP of Russian regions is generated in the Region. The Novosibirsk Region is a large scientific center in the Siberian Federal District. According to the Region’s estimates, these activities (scientific research and development) account for 5.5% of GRP of the Novosibirsk Region.

A diversified economy with prospects for commercialization of scientific research results. The Region’s economy is founded upon highly-developed R&D and transportation and logistics segments that make a major contribution to GRP that grows faster than the national average in both nominal and real terms. At the same time, the long-term cycle of R&D results commercialization holds back the regional economy’s development. GRP per capita and per capita income do not exceed 85% of the national average levels.

Highly self-sufficient and moderately flexible budget. The budget’s self-sufficiency is high (87% on average in 2014-2017); at the same time, there is almost no margin for a tax revenues increase from an extensive growth. Diversification of tax revenues by industries is assessed as high. In 2014-2017, the share of mandatory spending reached 74% on average. In the above period, the Region’s operating balance on average amounts to 21% of regular revenues and tended to grow by virtue of the fact that regular revenues increase faster than mandatory spending. In 2018-2019, the operating balance will be around 21%. According to 2014-2016 data and the Region’s 2017 forecast, capital expenditures stand at around 16% of the budget’s spending, which gives ground to conclude that the Region’s capacity to cut spending or redirect funds to current expenses, if necessary, is limited. Capital expenditures are primarily made from the regional budget.

A well-balanced debt structure and a moderate debt load. The Region follows a well-balanced approach in managing debt structure in terms of repayment dates, and uses passive account management mechanism due to which the volume of debt repayment and raise within each year increases. As at year-end 2017, the debt to operating balance ratio will reach 1.79x, and operating balance less interest expenses to debt repayment amount ratio will stand at 1.68x in the current period. ACRA believes that the absolute amount of debt will stay virtually the same (vs figures as at year-end 2016), and its structure will slightly shift to market loans as fiscal loans are partially repaid after debt restructuring. Debt indicators of the Region will be defined rather by the operating balance amount. The Region has to increase socially important spending; that is why, debt-related ratios may significantly deteriorate in the short run in 2018; however, ACRA expects them to recover in 2019.

Significant liquidity. Although the Region has the right to place funds into deposits in compliance with the Budget Code of the Russian Federation, it is not in a position to do so as it raises loans from the Federal Treasury Department to minimize interest expenses. At the same time, the Region has sufficient liquidity to timely perform its expense commitments including interest payments.

Key rating assessment factors
ACRA assigns A+(RU) to the Novosibirsk Region, outlook Stable, and A+(RU) to bond issues

November 9, 2017

Key assumptions

- The share of mandatory spending remains within 75% of the Region’s budget expenses;
- The share of capital expenditures in 2018-2019 will equal or exceed the figures planned for 2017;
- Participation in fiscal loans restructuring program.

Potential outlook or rating change factors

**The Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Growth of the Region’s economy and narrowing the gap between its economic indicators and the national averages;
- Decrease of share of mandatory spending in the Region’s budget.

A negative rating action may be prompted by:

- A slowing GRP growth in the medium term below the national average growth rates;
- Decline in own revenues of the budget by 7% or more from the figures estimated by ACRA;
- Increase of relative debt load.

Issue ratings

**Credit rating rationale.** The below listed bond issues by the Novosibirsk Region, in ACRA’s opinion, have a status of senior unsecured debt, with their credit ratings corresponding to the credit rating of the Novosibirsk Region.

**Key issue properties**

1)  RegS/ ISIN: RU34015ANO0 / RU000A0JU963

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<th>Issue volume / outstanding</th>
<th>RUB 5 bln / RUB 2.25 bln</th>
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<td>Issue date / Repayment date</td>
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2)  RegS/ ISIN: RU34016ANO0 / RU000A0JUR46

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<th>RUB 7 bln / RUB 3.85 bln</th>
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3)  RegS/ ISIN: RU34017ANO0 / RU000A0JWUV3

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4)  RegS/ ISIN: RU34018ANO0 / RU000A0ZYBD3

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<td>Issue date / Repayment date</td>
<td>September 28, 2017 / September 27, 2022</td>
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Rating history

None.

Regulatory disclosure

The credit ratings have been assigned to the Novosibirsk Region and to bonds issued by the Novosibirsk Region (RU000A0JU963, RU000A0JUR46, RU000A0JWUV3, RU000A0ZYBD3) under the national scale for the Russian Federation based on the Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation and the Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities. The Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also applied to assign credit ratings to the above issues.
The credit rating has been assigned to the Novosibirsk Region for the first time. The credit rating and credit rating outlook are expected to be revised within 182 days following the rating action (November 7, 2017).

The credit rating has been assigned to the bonds of the Novosibirsk Region (RU000A0JU963, RU000A0JUR46, RU000A0JWUV3, RU000A0ZYBD3) for the first time. The credit rating is expected to be revised within 182 days following the rating action (November 7, 2017).

The credit rating was assigned based on the data provided by the Novosibirsk Region, information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), as well as ACRA's own databases. The credit rating is solicited, and the Novosibirsk Region participated in its assignment.

No material discrepancies between the data provided and the data officially disclosed by the Novosibirsk Region in its financial report have been discovered.

ACRA provided no additional services to the Novosibirsk Region. No conflicts of interest were discovered in the course of credit rating assignment.
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