

April 29, 2019

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## Key rating assessment factors

## Key assumptions

## Potential outlook or rating change factors

## Issue ratings

# ACRA affirms A-(RU) to Nizhny Novgorod, outlook Stable, and A-(RU) to bond issue

The credit rating of [Nizhny Novgorod](#) (hereinafter, Nizhny Novgorod, or the City) is due to its high debt load, effective liquidity management, the relatively low flexibility of budget expenses (the share of capital expenses is high due to support from higher-level budgets), and relatively high economic indicators.

Nizhny Novgorod is the administrative center of the Nizhny Novgorod Region and the Volga Federal District. It ranks fifth in Russia in terms of population with over 1.25 million people. Nizhny Novgorod is a major transportation hub of the Volga Federal District and one of the largest industrial centers of Russia.

**Irregular maturities and lease obligations worsen the City's high debt load.** The City's debt load is high; ACRA estimates the debt to operating balance ratio to be 2.7 by the end of 2019. Obligations on vehicle leasing contracts contribute to the debt burden but the City accounts for this leasing in its capital investments. The debt repayment schedule is uneven due to the regular use of short-term bank loans. The City refinances a significant part of its debt annually. The operating balance (excluding interest expenses) does not exceed debt repayment and is estimated to be at 0.6 by the end of 2019. Effective liquidity management partially offsets this factor.

**The City's budget lacks flexibility as a result of high mandatory expenses and expenses co-financed by higher-level budgets.** The City's proprietary revenues (excluding subventions) are relatively high at 66% in 2016-2019. A part of those revenues falls on the source regulated by regional legislation, according to which 3% of the personal income tax subject to the regional budget is transferred to the budgets of urban districts. Mandatory expenses account for a significant share of budget expenses (77%), which prevents the City from managing expenses and limits the operating balance. Despite the fact that the City's capital expenses are relatively high at an average of 22%, they are not flexible because they are financed in large part by transfers from higher-level budgets. The potential structural change in budget expenses (capital expenses should reduce to 12-15% as the FIFA World Cup has ended) will be offset by an increase in proprietary revenues as transfers covering capital expenses decrease.

- Stable budget policy in terms of income tax revenue;
- Decrease in capital expenses along with a decrease in the transfers that cover them.

**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:**

- Higher tax revenues caused by increasing tax base, not accompanied by a corresponding increase in mandatory expenses;
- Lower mandatory expenses while maintaining the current level of tax revenues;
- Longer maturities on borrowed funds and a smoother repayment schedule.

**A negative rating action may be prompted by:**

- Lower budget self-sufficiency caused by a proprietary revenue shortage;
- Changes in regional legislation (i.e. redistribution of personal income tax revenues in favor of the Nizhny Novgorod Region);
- Higher interest expenses relative to the City's operating balance;
- Higher debt load.

[Nizhny Novgorod, 34002 \(ISIN RU000A0ZYJ00\)](#), maturity date: December 5, 2022, issue volume: RUB 5 bln — **A-(RU)**.

## Regulatory disclosure

**Rationale.** In ACRA's opinion, the above bond issued by Nizhny Novgorod is a senior unsecured debt instrument, and its credit rating is equal to the rating assigned to [Nizhny Novgorod — A-\(RU\)](#).

The credit ratings of Nizhny Novgorod and the bond (ISIN RU000A0ZYJ00) issued by Nizhny Novgorod have been assigned 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 Analytical Credit Rating Agency within the Scope of Its Rating Activities](#). In the course of assigning the credit rating to the bond issue above, the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also used.

The credit rating of Nizhny Novgorod and the bond (ISIN RU000A0ZYJ00) issued by Nizhny Novgorod were published by ACRA for the first time on November 21, 2017, and November 29, 2017, respectively.

The credit rating of Nizhny Novgorod and its outlook, as well as the credit rating of the bond (ISIN RU000A0ZYJ00) issued by Nizhny Novgorod are expected to be revised within 182 days following the publication date of this press release in compliance with the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on the data provided by Nizhny Novgorod, 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 ratings are solicited, and the Administration of Nizhny Novgorod participated in the rating process.

Disclosure of deviations from methodologies: the average nominal wage was used to estimate the monetary income of the city's population.

No material discrepancies between the provided data and the data officially disclosed by Nizhny Novgorod in its financial statements have been discovered.

ACRA provided no additional services to the Administration of Nizhny Novgorod. No conflicts of interest were discovered in the course of credit rating process.

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