## Fitch Affirms Novosibirsk Region at 'BBB-'; Outlook Stable25 Apr 2014 11:32 AM

Fitch Ratings-Moscow-25 April 2014: Fitch Ratings has affirmed Russian Novosibirsk Region's Long-term foreign and local currency Issuer Default Ratings (IDRs) at 'BBB-', with Stable Outlooks, and Short-term foreign currency IDR at 'F3'. The agency has also affirmed the region's National Long-term rating at 'AA+(rus)' with a Stable Outlook.

The region's outstanding RUB5bn senior unsecured domestic bond's ratings have been affirmed at 'BBB-' and 'AA+(rus)'.

KEY RATING DRIVERS

The affirmation reflects Fitch's expectation that the region will gradually restore its operating performance from 2014 onwards, as well as the region's low direct risk and well-diversified economy. The ratings also factor in a significant increase of the region's indebtedness in 2013 and continuous pressure on operating expenditure.

Fitch expects the recovery of the region's operating performance from 2014 onwards to be supported by the administration's commitment to optimise operating expenditure. In 2013 the region's operating balance declined to 4.4% of operating revenue, from 14.6% in 2012, driven by a deceleration of tax base growth and pressure on operating expenditure as a result of salary increases for public employees mandated by the federal government. Despite the deterioration the operating balance exceeded debt servicing needs in 2013 by 2x.

Slower operating revenue growth along with high capex led to a widening of the region's deficit before debt variation to 16.3% of total revenue in 2013 (2012: 4.3%). The deficit was largely covered by new debt. Fitch expects the deficit before debt variation will narrow to 8%-9% in 2014, supported by an improved operating balance and capex cuts.

Fitch expects the region's direct risk will continue to rise, but remain moderate at around 40% of current revenue by 2016. In 2013 direct risk accounted for a manageable 27% of current revenue which, however, represented a significant increase from 13% a year earlier. Its debt payback (direct risk to current balance) also deteriorated sharply to 7.8 years in 2013 from 0.9 years in 2014.

The region faces RUB9.2bn in maturing debt obligations in 2014, which corresponds to 31% of total debt stock. The risk is, however, mitigated by RUB10.4bn of revolving committed credit lines with banks, which fully cover the region's refinancing needs for 2014.

The administration aims to lengthen and even out the maturity profile of the region's direct risk. It plans to issue a domestic bond with a seven-year maturity in 2014. Its committed credit lines with banks have maturities ranging from three to seven years. Fitch expects that debt coverage will match the region's debt maturity over the medium term, supported by a recovery of the current balance and, decelerated direct risk growth.

The regional economy is well-diversified by sectors and company, supporting a stable tax base. In 2013, gross regional product (GRP) increased by 3.2% yoy, outpacing the weak national average of 1.3%. The administration expects that, over the medium-term, economic growth will continue to outperform the national economy.

The ratings are weighed down by the evolving nature of the institutional framework for local and regional governments (LRGs) in Russia. It has a shorter track record of stable development than many of its international peers. The predictability of Russian LRGs' budgetary policy is constrained by frequent reallocation of revenue and expenditure responsibilities within government tiers.

RATING SENSITIVITIES

Consistently weak budgetary performance leading to deterioration of debt coverage above 10 years would lead to a negative rating action.

An upgrade, although not likely in the near term, would result from sustained stronger operating balances of 15% of operating revenue, leading to debt coverage being aligned with the average maturity of the region's debt portfolio.

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Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable criteria, 'Tax-Supported Rating Criteria', dated 14 August 2012, and 'International Local and Regional Governments Rating Criteria outside United States', dated 23 April 2014, are available on [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**
[Tax-Supported Rating Criteria](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)
[International Local and Regional Governments Rating Criteria - Effective from 9 April 2013 – 23 April 2014](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=704438)

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