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## ACRA assigns AAA(RU) to Saint Petersburg, outlook Stable

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### Key rating assessment factors

The credit rating of [Saint Petersburg](#) is based on the well-developed regional economy, balanced budget structure, sufficient budgetary discipline, low projected debt burden, and excessive budget liquidity.

St. Petersburg is a city of federal importance located in the North-Western Federal District and bordering the Leningrad Region. Saint Petersburg is number 4 in terms of population, as 5.2 million people or 3.5% of the Russian population live in the city. The 2015 GRP of the city amounted to RUB 3 trillion, or 4.5% of the aggregate GRP of the Russian Federation.

**Well-developed regional economy forms a diversified tax base for the budget.** GRP per capita is consistently 30-40% higher than the national average GRP. ACRA expects that, in the foreseeable future, the GRP growth rate will slightly exceed the Russian average rate. About 60% of annual GRP is generated by sectors "Trade and Repair," "Services" and "Processing Industries" in approximately equal proportion, which is estimated by ACRA as a good diversification of the regional economy.

**Balanced budget structure and sufficient budgetary discipline.** The city budget is characterized by a high self-sufficiency (own income is 96% on the average). The volume of compulsory expenditures is about 72%, while the city's operational balance is 20% of the regular income, which is estimated by ACRA as a sufficient level of budgetary discipline. The city budget may be subject to pressure due to increased compulsory expenditures for the transport sector and increased subsidies to educational institutions. ACRA estimates that in 2018-2019, the volume of compulsory expenditures will grow by 3-4%. The increase in budget expenditures anticipated in 2017-2019 may reduce the assessment of budgetary discipline to 'moderate.'

**Low projected debt burden.** There is virtually no debt burden on the municipal budget. ACRA estimates that the debt to operating balance ratio will be 1.62 at the end of 2017 (after the planned bond issue in 2017), with further growth to 3.0 in 2019. Debt service costs will not be burdensome on a three-year planning horizon. In ACRA's opinion, the debt burden on the municipal budget will ensure a low risk level at the end of 2017.

**Excessive budget liquidity.** Start-of-month balances (including deposits) are consistently higher than monthly expenditures, creating a significant reserve of liquidity. In 2014-2016, the city administration has regularly conducted budget accounts tenders, earning an annual average of RUB 5.1 billion. ACRA assesses the city budget liquidity as 'excessive' and expects that, irrespective of the imminent financing the budget deficit, the budget liquidity will not become lower than 'high' in the forecast period.

**Key assumptions**

- The economic growth rate will remain sustainably higher than that the national average;
- The budget spendings will remain stable, with CapEx at 20%;
- Low debt burden, taking into account treasury bonds issue;
- High budget liquidity.

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

- A decelerating economic growth;
- Debt burden increase to over 2.6 against the operating balance of the budget.

**Issue ratings**

None.

**Regulatory disclosure**

The credit rating has 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 the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

A credit rating has been assigned to Saint Petersburg for the first time. The credit rating and its outlook are expected to be revised within 182 days following the rating action (June 26, 2017).

The assigned credit rating is based on the data provided by Saint Petersburg, 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 Saint Petersburg City Administration participated in its assignment.

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

ACRA provided no additional services to Saint Petersburg City Administration. No conflicts of interest were discovered in the course of credit rating assignment.

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