ACRA

MUNICIPALITIES | 22.02.2022

ACRA AFFIRMS A-(RU) TO NIZHNY NOVGOROD, CHANGES OUTLOOK TO STABLE, AND A-(RU) TO BOND ISSUE

ELENA ANISIMOVA
Senior Director – Head of Sub-sovereign Ratings Group
+7 (495) 139 04 86
elena.anisimova@acra-ratings.ru

MAXIM PERSHIN
Expert, Sub-sovereign Ratings Group
+7 (495) 139 04 85
maxim.pershin@acra-ratings.ru

PRESS RELEASE

The credit rating of Nizhny Novgorod (hereinafter, Nizhny Novgorod, or the City) is based on the City's relatively high economy indicators, and limited flexibility of budget expenditures.

The credit rating outlook has been changed to reflect ACRA's opinion on the impossibility to reduce the refinancing risks significantly in the short-term period.

Nizhny Novgorod is the administrative center of the Nizhny Novgorod Region and the Volga Federal District (VFD). It is Russia's fifth largest city, with a population of over 1.25 million. Nizhny Novgorod is a major transportation hub of the VFD and one of Russia's largest industrial centers.

KEY ASSESSMENT FACTORS

Remaining refinancing risks. After the Nizhny Novgorod Region granted to the City a RUB 5.1 bln budgetary loan due in 2026, the City's debt repayment schedule has changed significantly. At the same time, as of January 1, 2022, the share of debt subject to repayment (refinancing) in the current year was 61%. Nizhny Novgorod has sufficient liquidity and committed credit lines available to refinance the majority of its obligations, but available resources are short-term. In the current conditions, debt refinancing with long-term or medium-term instruments is unlikely.

The City's debt load expected at the end of this year should not exceed 40% of current revenues or 70% of tax and non-tax revenues (TNTR). The substantial difference between these indicators is due to a large amount of revenues represented by transfers, which are historically typical of budgets of municipal entities (ME).

Interest expenses are not burdensome: annual payments are at or below 4% of expenditures, excluding subventions. At the same time, in the current market environment, the risks of growing interest expenses are obvious.

The ratio of City's debt to gross municipal product (GMP) is not calculated due to the absence of GMP. According to ACRA's estimates, this ratio might be much lower than 20%.

To acquire public transport vehicles, Nizhny Novgorod usually enters into lease agreements, which can be viewed as an indirect debt load.

Moderate level of budget liquidity. The average monthly balances held in the City's budget accounts do not cover a significant amount of its monthly expenses or a significant share of its debt, which is typical for MEs. To replenish account balances, the City borrows, if possible, loans from the Federal Treasury Department (FTD). In addition, Nizhny Novgorod uses funds from municipal organizations. In order to refinance the current amount of debt, the City has, in addition to account balances, a significant amount of undrawn credit limits, which, however, are short-term (the City must repay them by the end of this year).

At the end of the year, the estimated liquidity ratio of the municipal budget should amount to about 10%.

High self-sufficiency and limited flexibility of the municipal budget due to the high share of capital expenditures funded by the regional budget. In 2021, budget revenues increased by 20%, including TNTR – by 16% and transfers – by 22%. The increase in TNTR was caused by a 13% increase in personal income tax revenues, as well as a 59% increase in total income tax revenues due to consistent changes in the distribution proportions for this type of tax revenues between the regional and municipal budgets, and legislative changes at the federal level.

In 2022, TNTR are expected to grow by 6%, including 6% for personal income tax, 12% for total income tax, and 20% for property taxes (due to an increase in the tax base). The current version of the City Budget Decision includes a 7% decrease in transfers, however, at the time of analysis, these data were no longer relevant, and this year, the volume of transfers may exceed that in the previous year.

The City's expenditures grew by 19% in 2021; in 2022, they are expected to grow by 2%. Due to changes in transfers, ACRA is of the opinion that expenditures will increase more significantly. However, the City expects budget execution in 2022 to be deficit-free.

The averaged[1] ratio of current operations balance to current revenues for 2018–2022 will amount to 12.80%. Over the entire period under review, the City's balance of current operations is positive.

The averaged share of TNTR excluding subventions for 2018–2022 will equal 60.8%, which is rather high for a ME.

The averaged ratio of capital expenditures to total expenditures is very high (about 45%), but it is mostly backed by transfers.

The ratio of averaged modified budget deficit to averaged current revenues is slightly negative.

Relatively high level of economic development. Nizhny Novgorod is one of the largest industrial centers in the VFD. The average accrued nominal wage covering all entities in the City is almost four times higher than the subsistence minimum in the Nizhny Novgorod Region. The unemployment rate calculated according to the International Labor Organization's methodology is low in the Nizhny Novgorod Region. The official unemployment rate in the City is almost equal to that observed at the regional level.

The City's GMP is not calculated. The annual GRP of the Nizhny Novgorod Region is about 77–78% of the national average.

In 9M 2021, the volume of goods, works and services manufactured and provided by large and medium enterprises in the Manufacturing Industries segment has grown by almost 32% y-o-y. In 2020, this volume decreased by 2.1% y-o-y.

KEY ASSUMPTIONS

- Stable budget policy of the Nizhny Novgorod Region with respect to allocation of personal income tax revenues and a portion of total income tax revenues;
- Maintaining the sufficient ratio of current operations balance to current revenues;
- Continued practices of making leasing contracts to finance the development of the City's transport infrastructure.

[1] Hereinafter, averages are calculated according to the Methodology for Assigning Credit Ratings to Regions and Municipal Entities of the Russian Federation.

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:

- A decline in the share of debt due in the current or next year to or below 40% and a change in the debt policy in favor of long-term financial instruments;
- A significant growth in budget liquidity;
- A growth in the City's revenues outrunning its expenditures.

A negative rating action may be prompted by:

- Materialization of refinancing risks in the short term;
- Lower share of TNTR in the budget caused by a shortage in internal revenues;
- Changes in the regional laws increasing the share of personal income tax revenues and a portion of total income tax revenues in favor of the Nizhny Novgorod Region;
- A growth in the City's current budget expenditures not supported by a growth in revenues;
- Higher debt load.

ISSUE RATINGS

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

Rationale. In ACRA's opinion, the bond issued by Nizhny Novgorod is a senior unsecured debt instrument, and its credit rating is equal to the credit rating of Nizhny Novgorod.

REGULATORY DISCLOSURE

The credit ratings were assigned to Nizhny Novgorod and the bond issued by Nizhny Novgorod (ISIN RU000A0ZYJ00) under the national scale for the Russian Federation based on the Methodology for Assigning Credit Ratings to Regions and Municipal Entities 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 the credit rating to the above issue.

The credit ratings of Nizhny Novgorod and the bond issued by Nizhny Novgorod (ISIN RU000A0ZYJ00) 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 issued by Nizhny Novgorod (ISIN RU000A0ZYJ00) are expected to be revised within 182 days following the publication date of this press release as per the Calendar of sovereign credit rating revisions and publications.

The credit ratings were assigned based on 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 their assignment.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

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

(C) 2022
Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.ru

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bln. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website — www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website — www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.