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ACRA affirms AAA(RU) to Saint Petersburg, outlook Stable, and AAA(RU) to bond issues

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Key rating assessment factors

The credit rating of [Saint Petersburg](#) (hereinafter, the City) is based on the City's well-developed economy, balanced budget structure, low debt load, and high budget liquidity.

Saint Petersburg is a city of federal importance and home to 3.7% of Russia's population. The City's GRP is about 5% of Russia's total gross regional product (GRP).

Low current and projected debt load. As of the end of 2019, the City's debt amounted to 5% of its operating income (according to ACRA's methodology) and was composed exclusively of bond loans with maturities coming in 2022–2026. ACRA estimates that new borrowings to finance the budget deficit as stipulated by the City's budget law and a possible decline in the City's tax and non-tax revenues (TNTR) may result in the City's debt to operating income ratio increasing to 24% in 2020, which corresponds to a low debt load. There are no debt refinancing risks in the medium term. Debt service costs are not burdensome for the City's budget.

High budget liquidity. The City fulfills its expense obligations on time and regularly deposits temporarily free funds with banks and via repo operations secured by Federal bond loans. As of April 1, 2020, the City's temporarily free funds exceeded debt obligations by 1.5x.

Balanced budget structure and sufficient budget discipline. The City's budget is highly self-sustainable. For 2016–2020, the average¹ ratio of TNTR to internal revenues (excluding subventions) should amount to 98%. Capital expenditures should average 19% of total spending (excluding subventions) for the aforementioned period. In 2016–2020, the average current account balance to operating income ratio should equal 12%, and the ratio of the average modified budget deficit to operating income should amount to -6%. These indicators show that operating income is sufficient to cover current expenditures and indicate the need for borrowing to finance capital expenditures.

The City's highly developed economy provides for a diversified tax base. Per-capita GRP in Saint Petersburg is consistently higher than the national average by 30–40%. Tax revenue is highly diversified in terms of sectors: according to ACRA, the average estimate of the maximum share of one industry in the City's tax revenues in 2016–2019 did not exceed 16%. Unemployment is consistently low and did not exceed 2% in the aforementioned period (2016–2019). The average monthly wage was five times higher than the city's subsistence wage in 2019.

Key assumptions

- Decrease in the City's TNTR by 15% in 2020 compared with 2019;
- Lower expenditures should actual income decline compared to target income;
- Maintaining a conservative debt policy;
- Maintaining 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:

- Growth of debt load to higher than 30% of the City's operating income;
- Significant fall in available liquidity.

¹ Hereinafter, averages are calculated according to the Methodology for Assigning Credit Ratings to Regional and Municipal Authorities of the Russian Federation.

Issue ratings

[Saint Petersburg, 35001 \(ISIN RU000A0ZYHX8\)](#); maturity date: May 28, 2025, issue volume: RUB 30 bln — **AAA(RU)**.

[Saint Petersburg, 35002 \(ISIN RU000A0ZYKJ1\)](#); maturity date: December 4, 2026, issue volume: RUB 25 bln — **AAA(RU)**.

Rationale. In ACRA's opinion, the bonds listed above are senior unsecured debt instruments, the credit ratings of which correspond to the credit rating of [Saint Petersburg](#).

Regulatory disclosure

The credit ratings have been assigned to Saint Petersburg and the bonds (RU000A0ZYHX8, RU000A0ZYKJ1) issued by Saint Petersburg 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](#). To assign credit ratings to the above bond issues, the [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation](#) was also applied.

The credit ratings of Saint Petersburg and the bonds (RU000A0ZYHX8, RU000A0ZYKJ1) issued by Saint Petersburg were published by ACRA for the first time on June 27, 2017, December 4, 2017, and December 12, 2017, respectively. The credit ratings of Saint Petersburg and the bonds (RU000A0ZYHX8, RU000A0ZYKJ1) issued by Saint Petersburg are expected to be revised within 182 days following the publication date of this press release as per the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings are based on data provided by Saint Petersburg City Government, 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 Saint Petersburg City Government participated in their assignment.

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

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

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