



State Debt Committee  
of the City of Moscow

MOSFIN  AGENCY

# THE CITY OF MOSCOW: ISSUER'S PROFILE

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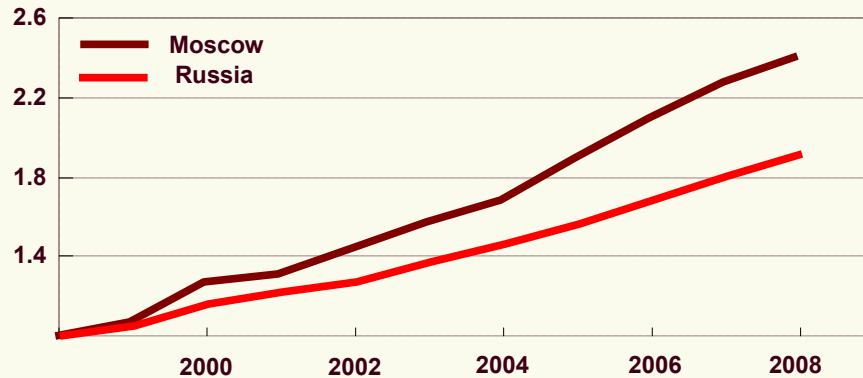
Factors of Credibility  
and  
Results of Debt Management

May 2009



## The City of Moscow Economy

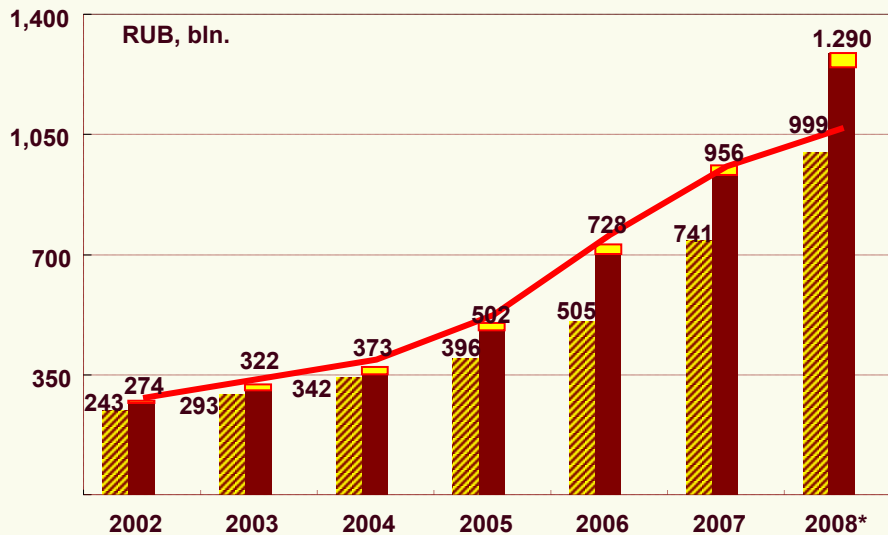
GDP/GCP Growth



In 1998-2008 Moscow's GCP grew by 140%, outperforming the Russian average by 1.5 times.





For the past 10 years City's GDP has grown by more than 9% p.a.

Budget Revenues



In the past 5 years average growth of the City budget revenues has equaled 32%.

Excess of actual revenues over budgeted revenues results from conservative fiscal planning under high oil prices.

-  Budgeted revenues
-  Actual revenues
-  Factual subventions and subsidies
-  2001 index = 1

\* Estimate



## City of Moscow Budget: Actual Execution

	RUB, bln.				
	2004	2005	2006	2007	2008 *
<b>Budget revenue</b>	393.6	522.2	756.9	956.2	1,289.7
<b>Budget expenditure</b>	407.4	503.2	690.5	928.4	1,316.0
<b>Surplus(+) / Deficit(-)</b>	-13.8	19.0	66.4	27.8	-26.3
<b>Financing of deficit from borrowing proceeds</b>	20.1	-12.6	8.8	-0.9	25.4
<b>Other sources of deficit financing</b>	-6.3	-6.4	-75.2	-26.9	0.9

In recent years the City of Moscow has pursued a conservative debt management policy resulting in reduction of debt burden.

*\* Preliminary results, City of Moscow Finance Department*



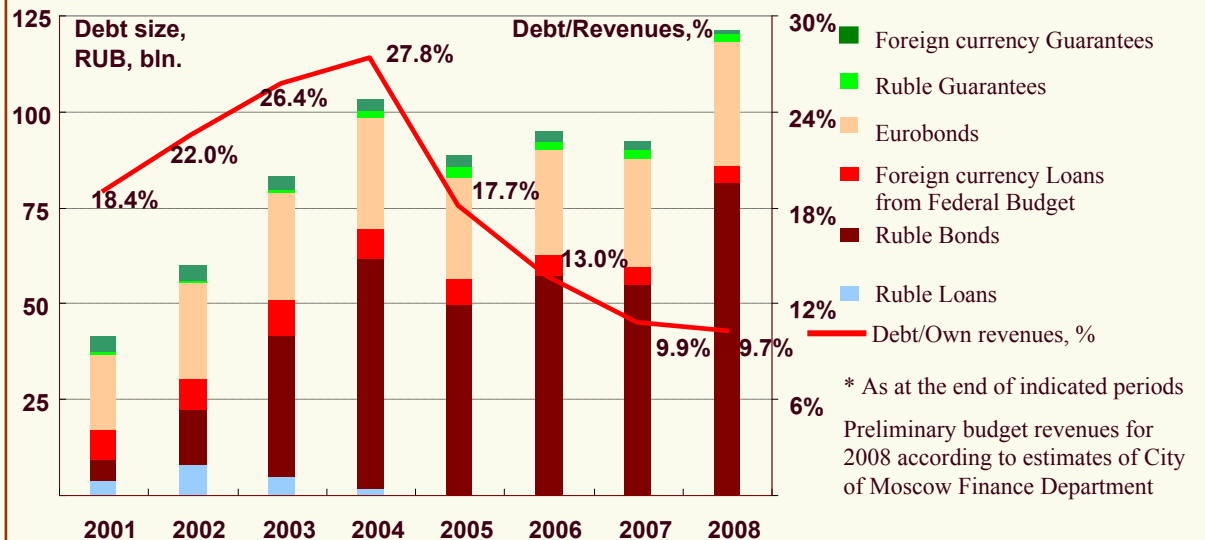
## City of Moscow Debt Structure

As of 1 January 2009 City's debt equaled RUB 121.5 bln.

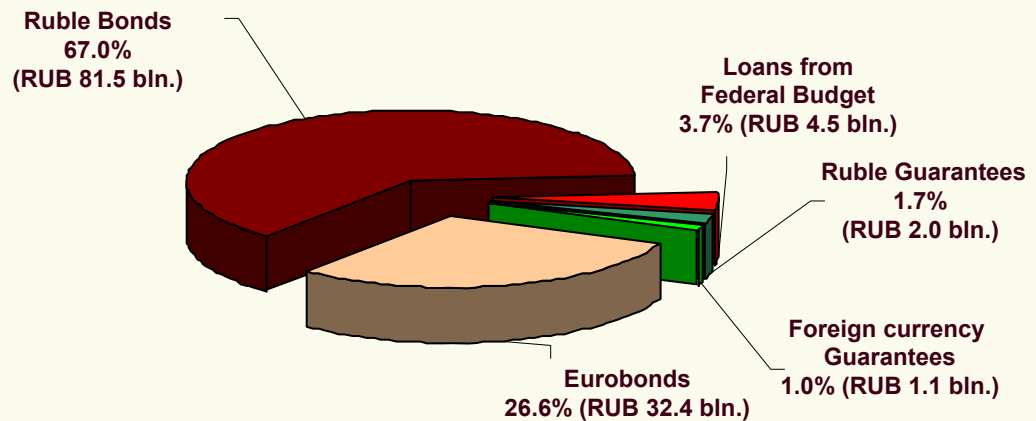
Low debt burden:  
Debt/Own revenues < 10%.

By January 2009 proportion of liquid instruments (i.e. Ruble bonds and Eurobonds) in City's overall debt equaled 93.7%.

City of Moscow debt: Structure and Size\*



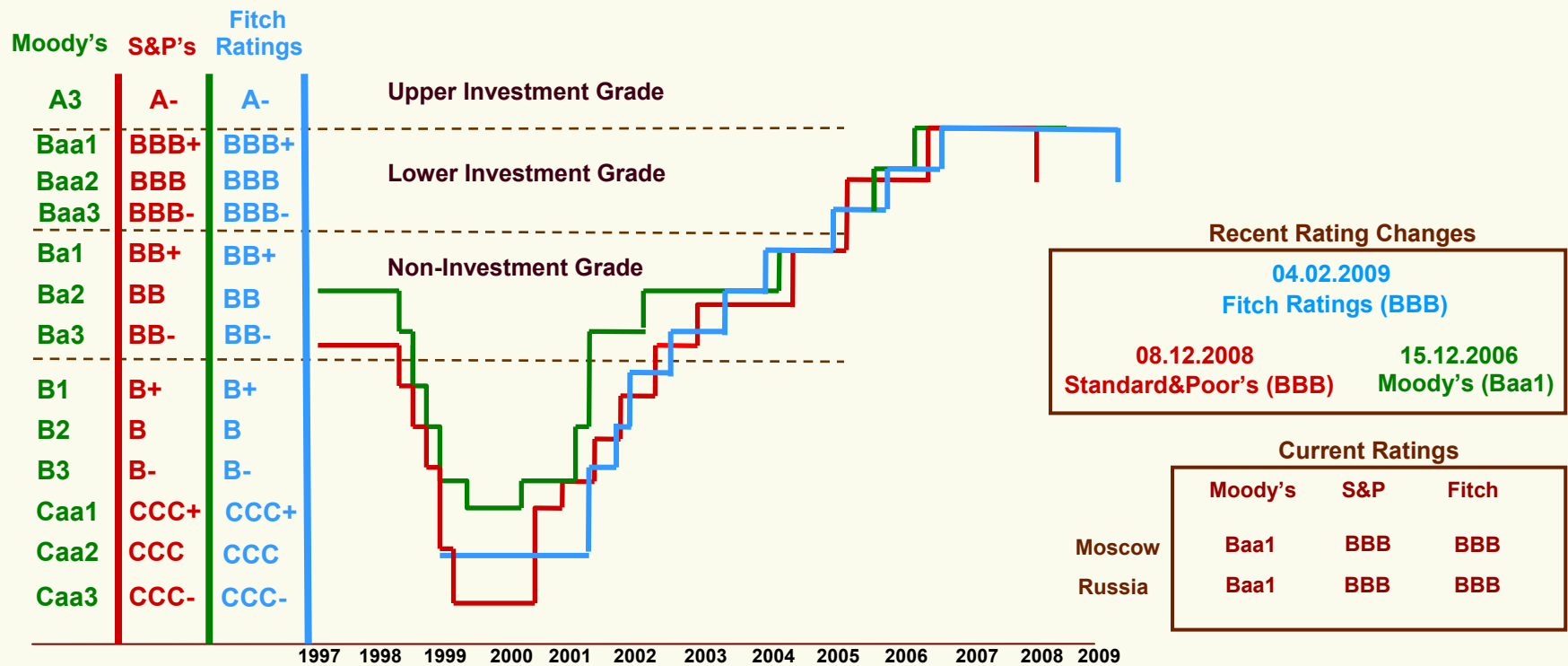
Debt Structure of 1 January, 2009





## City of Moscow Credit Ratings

### Dynamics of the City of Moscow Credit Ratings

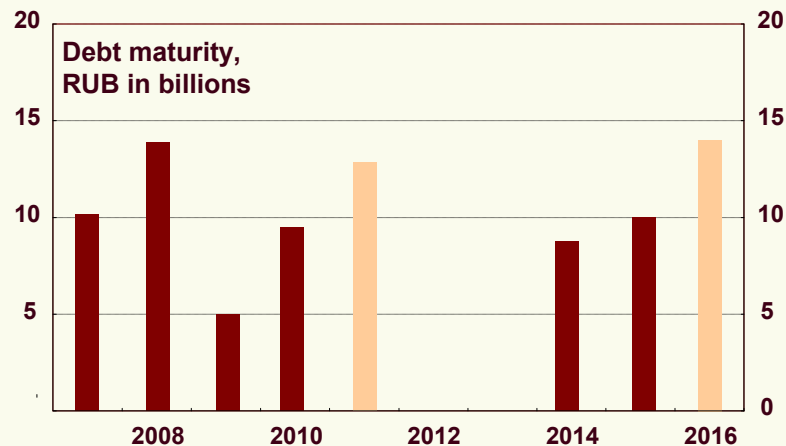


In 2008-2009 two agencies - Standard&Poor's and Fitch Ratings - estimating the impact of global crisis on Russia's economy downgraded its sovereign credit ratings by one notch. City of Moscow ratings were lowered by one notch respectively.

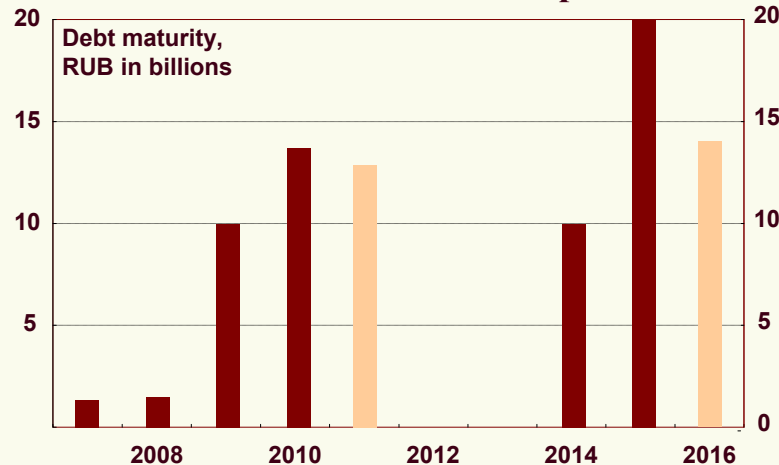


## Ruble Bond Swaps

Debt Profile Before Swaps



Debt Profile After Swaps



In February-March 2007 Moscow swapped its short-term bonds due 2007-2008 for bonds maturing in 2009-2015. Deal's value was RUB 22.4 bln. at market price.

Results of swap deals:

- Debt due 2007-2008 was almost refinanced
- Average maturity of bond portfolio was increased from 3.7 to 5.4 years
- Almost half of City bonds have maturities of 7 years or longer
- City's debt was reduced by RUB 728 mln.
- About 90% of all Ruble bonds are in four issues ranging from RUB 10 to 20 bln.



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## REPO Operations

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### **Direct REPO operations**

In April 2008 Moscow State Debt Committee has started placing temporarily free budget funds at MICEX Stock Exchange collateralized by City's Ruble bonds. During 2008 the Committee held 19 auctions and placed RUB 70 bln. at 4.4–10% p.a. for 12–30 days.

*Affected by global financial crisis as well as by new tight monetary regulations imposed by the Central Bank, many Russian banks faced lack of liquidity and reduced their bond buying limits. Direct REPO operations provide banks holding the City bonds with extra source of short-term liquidity.*

### **Reverse REPO operations**

Since 2009 City of Moscow has been able to raise and lend funds through REPO operations.

*Reverse REPO operations with City bonds is efficient liquidity management tool for banks.*



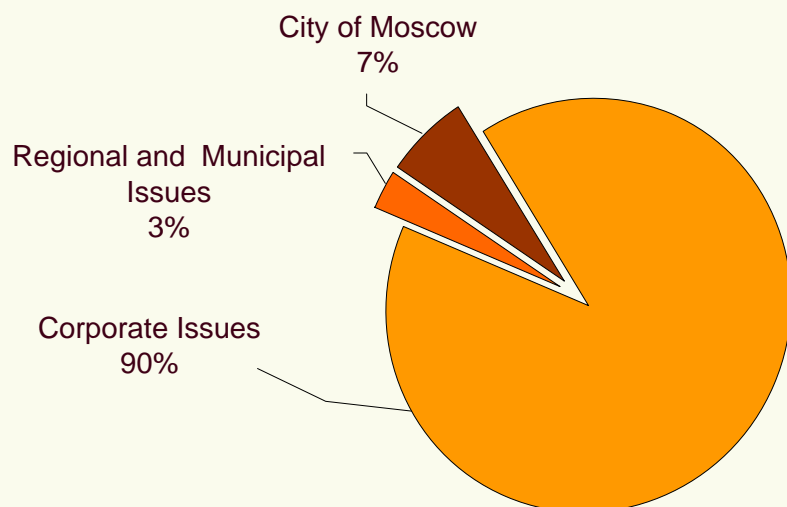
## 2008 Execution of Moscow Borrowing Program

### Bonds Placed

Issue	Repayment Date	Placed in 2008	Yield
27041	30/07/2010	1.271	6.85%
32045	27/06/2012	6.718	7.33%
31046	25/07/2009	10.000	7.00%
32049	14/06/2017	1.961	6.96%
25050	18/12/2011	7.795	7.41%
TOTAL		27.745	

Despite capital market slump, in 2008 Moscow placed bonds with maturities from 1.5 to 9.5 years

### Primary Bond Placements in 2008



City of Moscow bonds accounted for 7% (RUB 27.7 bln.) of total primary bond placement in Russia (excluding federal bonds)

Average yield at placement equaled 7.17% p.a.  
Average maturity equaled 3.04 years.





## City of Moscow Debt Indicators By the End of 2008

		RUB, bln.
	Maximum level	2008 *
<b>Budget Indicators</b>		
Budget revenue		1,289.7
Budget expenditure		1,316.0
Deficit(-) / Surplus(+)		-26.3
<b>Debt Indicators</b>		
Debt size		121.5
Debt repayment		8.2
Debt service (interest)		7.3
<b>Debt Burden</b>		
Debt / Own budget revenue	100%	9.7%
Debt service / Budget expenditure	15%	0.6%
(Debt repayment + Debt service) / Budget revenue	15%	1.2%
Debt repayment / Operating balance	50%	1.5%

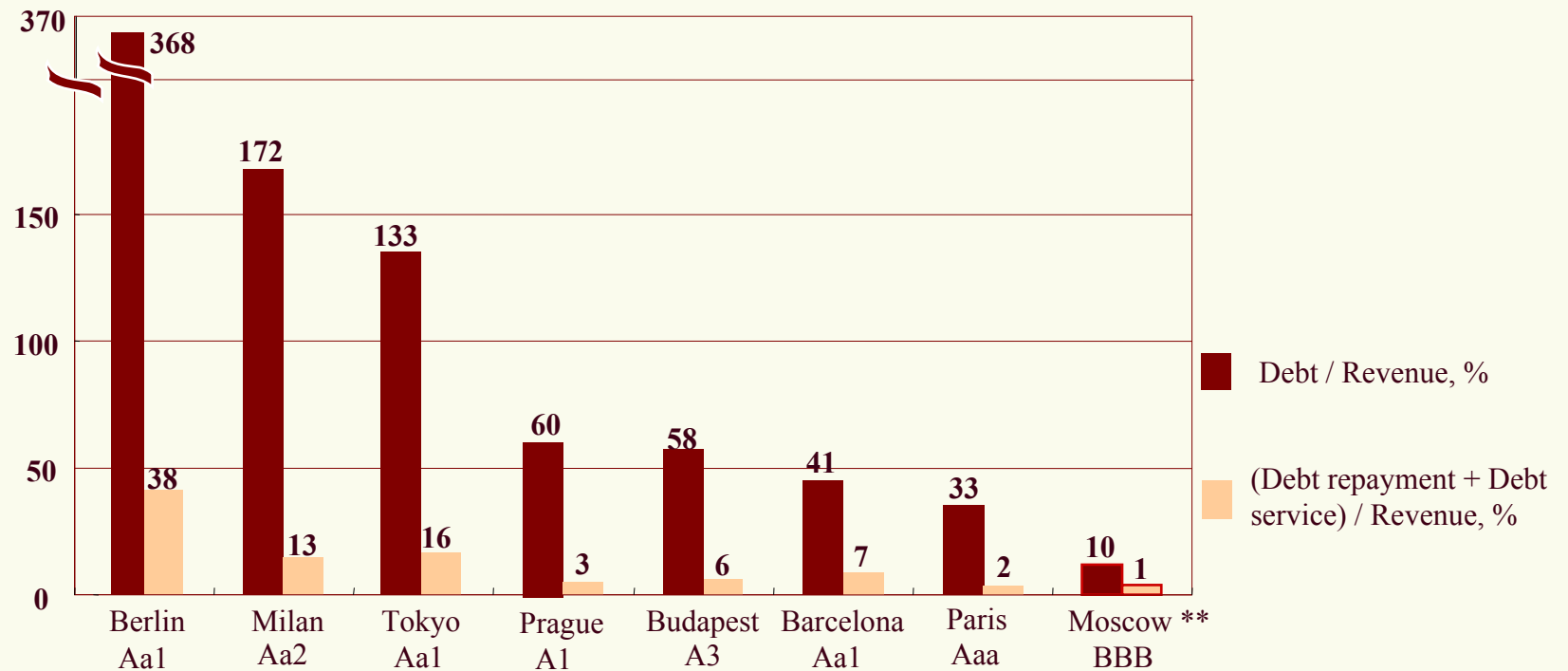
City's current debt burden is far below maximum levels set by Federal and City laws. This allows Moscow to satisfy its borrowing needs without impairing credibility.

\* Preliminary data for 2008 according to estimates of City of Moscow Finance Department



## Debt Comparative Analysis

Debt Indicators and Credit Ratings \*



Debt burden of Moscow (BBB) is much lower than, for instance, debt burden of Berlin (Aa1), Prague (A1) or Paris (Aaa).

\* Source: Moody's Investors Service, 2007

\*\* City of Moscow debt is as of 1 January, 2009



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# Global Crisis And City of Moscow Debt Policy



## Market Conditions

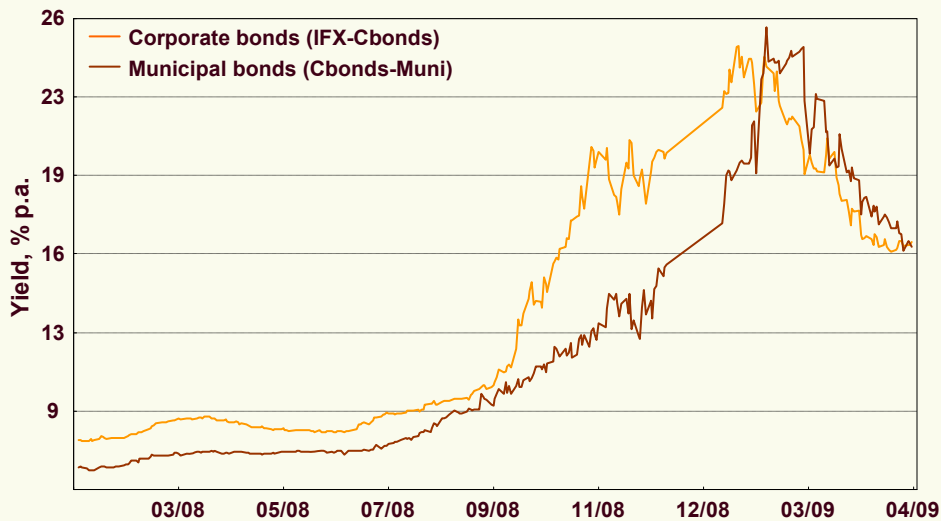
Global crisis has negatively affected commodity markets.

Dependence of Russian economy on commodity prices reflected in Ruble devaluation, reduction of economic activity and capitalization of Russian enterprises.

### USD/RUB, Stock and Oil Prices



### Cbonds Yield Index



Destabilisation of global financial markets has widened risk premiums and pushed up interest rates on Russian debt market, including Ruble bond market.

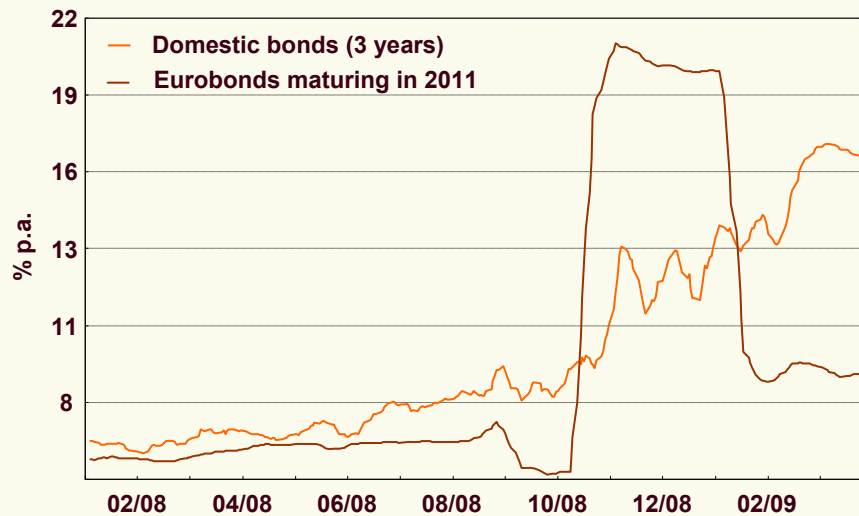


## Market Conditions (Continued)

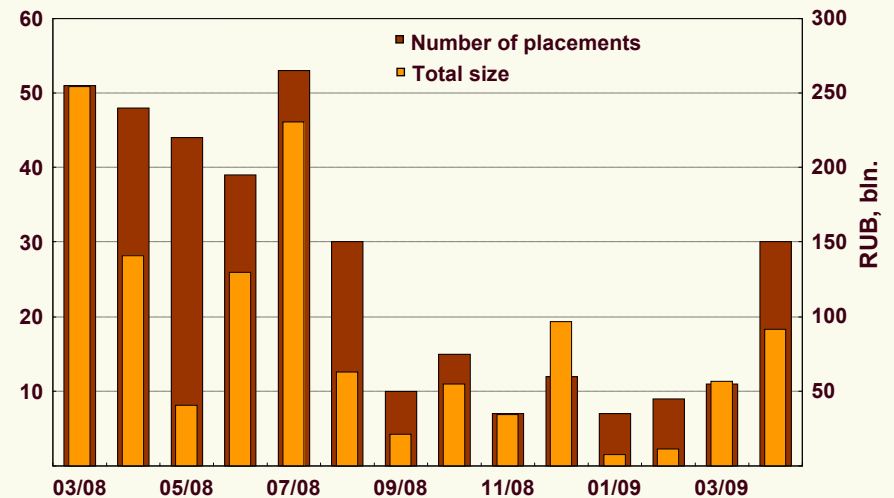
Global financial crisis sharply reduced investors' activity on Russian bond market.

### Three-year Yield Index:

#### Moscow Ruble Bonds Vs Moscow Eurobonds



### Primary Bond Market Placement In Russia\*



Prices of Moscow bonds have also been negatively affected by financial crisis



## 2008-2009 City of Moscow Budget Revenues: Comparison

RUB, bln.

Sources	2008 (Estimates)		2009 год (Forecast*)	
	Amount	Proportion	Change	Amount
<b>Tax revenues</b>	<b>1,129</b>	<b>87.6%</b>		
<b>Corporate profit tax, including: **</b>	<b>614</b>	<b>47.6%</b>	<b>-20.5%</b>	<b>488</b>
Oil & Gas enterprises	160	12.4%	-20.4%	137
Financial institutions (banks)	68	5.3%	-24.1%	52
Other	386	29.9%	-19.9%	309
<b>Income tax</b>	<b>398</b>	<b>30.9%</b>	<b>-9.4%</b>	<b>361</b>
<b>Other taxes</b>	<b>117</b>	<b>9.1%</b>	<b>-14.0%</b>	<b>166</b>
<b>Non-tax revenues</b>	<b>119</b>	<b>9.2%</b>	<b>-20.0%</b>	<b>34</b>
<b>Federal transfers</b>	<b>42</b>	<b>3.3%</b>	<b>-60.9%</b>	<b>16</b>
<b>TOTAL:</b>	<b>1,290</b>	<b>100.0%</b>	<b>-17.4%</b>	<b>1,065</b>

Primary sources of Moscow Budget revenues are Corporate profit tax (48%) and Personal income tax (31%). Impact of low oil prices on corporate profits has been partly compensated by ruble devaluation. Decreased earnings in private sector of economy have been partly offset by revenue growth in state sector.

\* Estimates of Special State Unitary Enterprise MOSFINAGENCY, should **not** be viewed as official Moscow Government data

\*\* Forecast of Corporate profit tax employs research data from Goldman Sachs u Renaissance Capital.



## City of Moscow Borrowing Strategy For the Period Up To 2011

### Bond Placement Strategy\*

Maturity	RUB, thousands		
	Year 1	Year 2	Year 3
2009			
2010	15,000,000		
2011		15,000,000	
2012	15,000,000		15,000,000
2013		20,000,000	
2014	20,000,000		20,000,000
2015		25,000,000	
2016	30,000,000		30,000,000
2017		25,000,000	
2018			30,000,000
2019	30,000,000		
2020			
2021			30,000,000

\* Figures can be amended subject to changes in budgetary policy and market conditions

### Base Scenario

Key element of City's Borrowing strategy is concentration of liquidity in large bond issues.

Subject to stabilization of financial markets, Moscow plans to issue large "benchmark" bonds with maturities 3, 5, 10 and 15 years.

### Bond Issuance Plans For 2009–2011

Maturity	RUB, thousands		
	2009	2010	2011
2009			
2010	20,000,000		
2011	20,000,000	15,000,000	
2012	15,000,000	30,000,000	25,000,000
2013		45,000,000	30,000,000
2014			40,000,000
2015			

\* Figures can be amended subject to changes in budgetary policy and market conditions

### Crisis scenario

Under crisis scenario, to reduce debt interest payments Moscow has temporarily continued issuance of bonds with short- and mid-term duration (for up to 3 years).

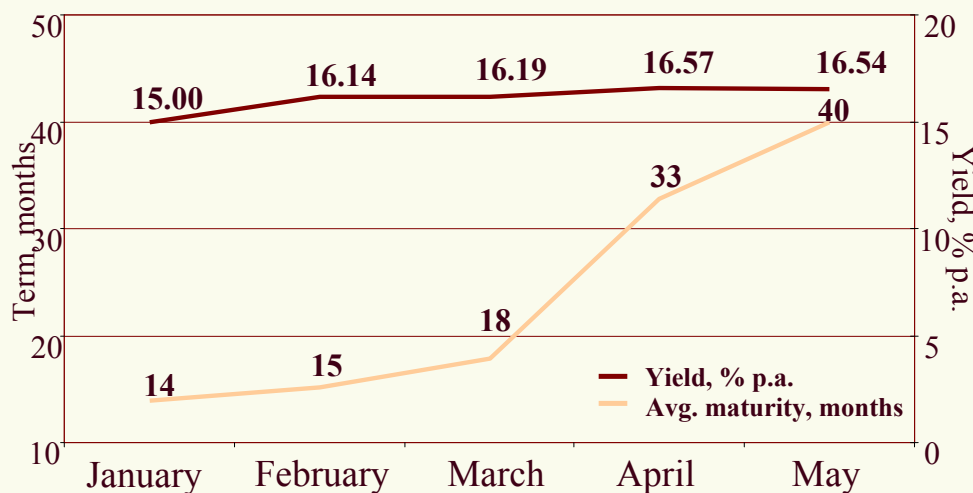


## City of Moscow Bond Placement in 2009

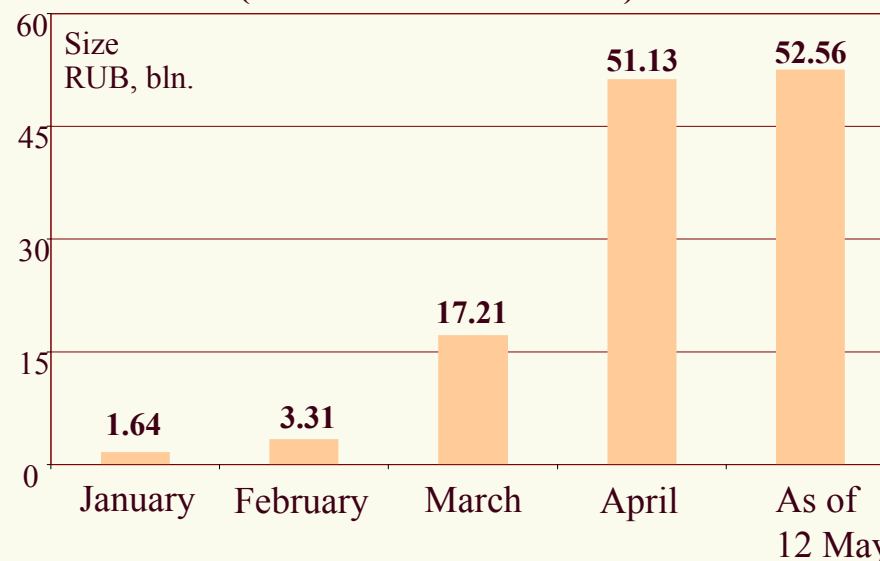
2009 City Borrowing Program stipulates raising of RUB 54.2 bln. on domestic capital market.

Since 2009 Moscow State Debt Committee has placed bonds for over RUB 50 bln. on domestic bond market.

Parameters of Bond Issuance



City of Moscow Borrowings  
(cumulative distribution)



As of 12 May, 2009 there were 11 City of Moscow domestic bond issues in circulation for the total of RUB 130.9 bln.

Average maturity of bonds placed on domestic market is 3.04 years. Average yield to maturity is 16.41%.





## City of Moscow Budget Credibility Stress Test

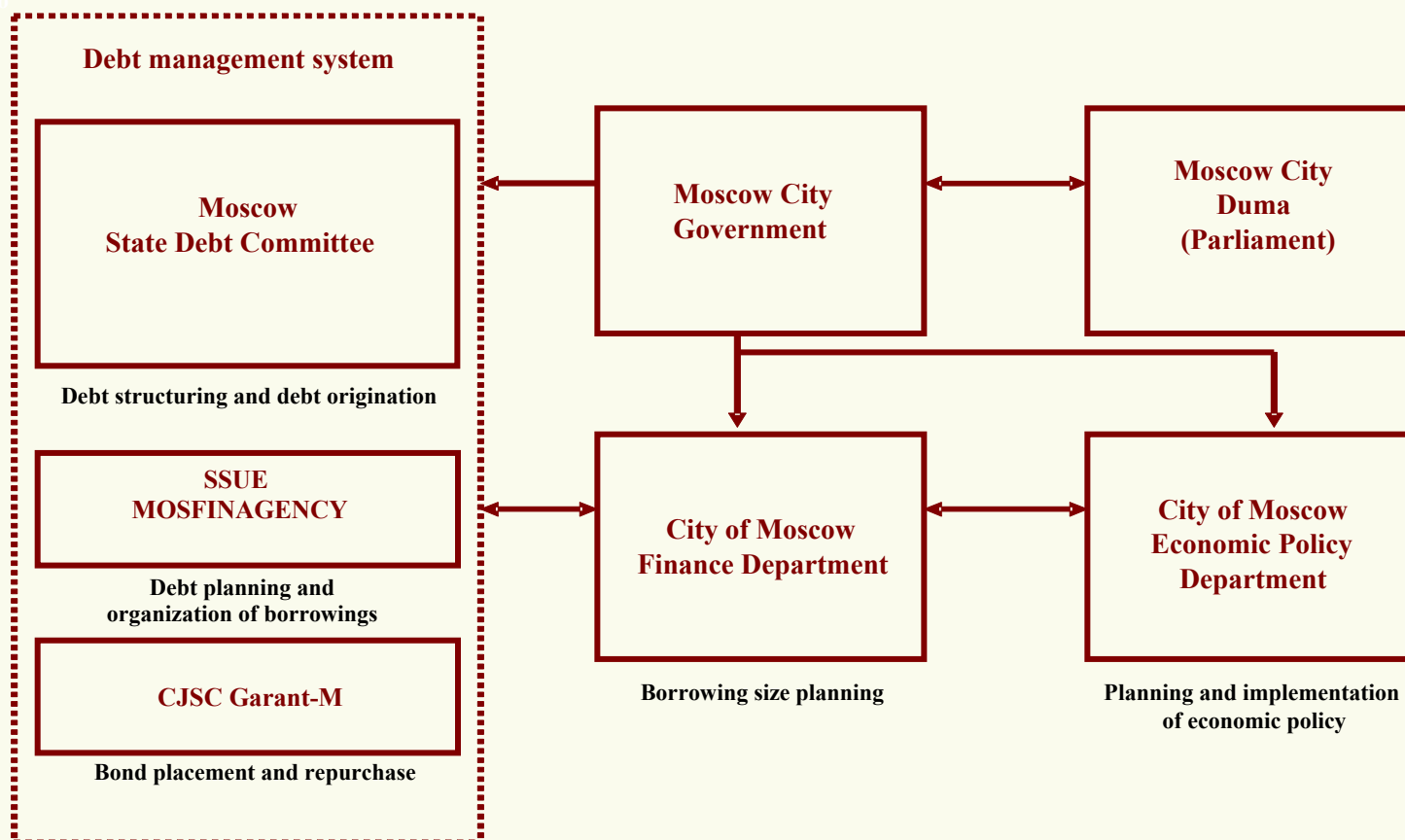
Stress testing reveals that in 2009 City's debt indicators will stay within safe range even in case of threefold increase of new debt issuance.

	RUB, bln.			
	Maximum level	2009	2010	2011
<b>Budget Articles</b>				
<b>Budget revenue</b>		1,065.0	1,224.8	1,433.0
<b>Budget expenditure</b>		1,284.9	1,309.9	1,529.7
<b>Deficit(-) / Surplus(+)</b>		-219.9	-85.1	-96.7
<b>Sources of financing budget deficit:</b>				
Borrowing proceeds		103.2	51.2	58.9
Other sources		116.7	33.9	37.8
<b>Debt Parameters</b>				
<b>Debt size *</b>		255.5	309.4	368.5
Debt repayment		21.0	46.1	50.9
Debt service (interest)		21.8	35.7	40.7
<b>Debt Burden</b>				
Debt / Own Budget revenue	<b>100%</b>	24%	25%	26%
Debt service / Budget expenditure	<b>15%</b>	2%	3%	3%
(Debt repayment + Debt service) / Budget revenue	<b>15%</b>	4%	7%	6%
Debt repayment / Operating balance	<b>50%</b>	24%	18%	19%



## City of Moscow Borrowing And Debt Management System

Borrowing System and Debt Management System ensure raising of funds for financing City’s capital expenditure and programs of economic development at affordable debt service cost without damaging short- and long-term credibility of Moscow





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## Informational Resources

Department of Finance of the City of Moscow



[www.findep.mos.ru](http://www.findep.mos.ru)

City of Moscow Government



[www.mos.ru](http://www.mos.ru)

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