STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Research

Capital City of Moscow Downgraded To 'BBB-' After Similar Action On Russia; 'ruAAA' Rating Affirmed; Outlook Negative

Primary Credit Analyst:
Alexandra Balod, Moscow (7) 495-783-4096; alexandra.balod@standardandpoors.com

Secondary Contact:
Boris Kopeykin, Moscow (7) 495-783-4062; boris.kopeykin@standardandpoors.com

OVERVIEW

- On April 25, 2014, we lowered our long-term foreign currency rating on the Russian Federation to 'BBB-' from 'BBB'.
- Under our criteria, we do not currently rate Russian local and regional governments above the sovereign, and we consequently cap the long-term ratings and outlook on the City of Moscow at the level of our long-term ratings and outlook on Russia.
- We are therefore lowering our long-term rating on Moscow to 'BBB-' and affirming our 'ruAAA' Russia national scale rating on the city.
- The negative outlook on Moscow reflects that on Russia.

RATING ACTION

On April 28, 2014, Standard & Poor's Ratings Services lowered its long-term issuer credit rating on Russia's capital city of Moscow to 'BBB-' from 'BBB'. At the same time, we affirmed our 'ruAAA' Russia national scale rating on the city. The outlook remains negative.

As defined in EU CRA Regulation 1060/2009 (EU CRA Regulation), the ratings on Moscow are subject to certain publication restrictions set out in Art 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Calendar Of 2014 EMEA Sovereign, Regional, And Local Government Rating Publication Dates: First-Quarter Update," published April 3, 2014, on RatingsDirect). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case, the deviation has been caused by the events described in the following Rationale.

RATIONALE

The rating action on Moscow follows our downgrade of the Russian Federation on April 25, 2014 (see "Russia Foreign Currency Ratings Lowered To 'BBB-/A-3' On Risk Of Marked Deterioration In External Financing; Outlook Neg").

The long-term foreign currency and local currency ratings on Moscow primarily reflect our long-term foreign currency sovereign credit rating on the Russian Federation. We cap the long-term rating on Moscow at our long-term foreign currency sovereign rating on Russia because we believe that Russian local and regional governments (LRGs), including Moscow, cannot be rated above the sovereign (see "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013.). We base our view on our assessment of the framework for intergovernmental relationships between the central government and LRGs in Russia.

In accordance with our criteria, we assess Moscow's indicative credit level (ICL) at 'bbb+'. The ICL is not a rating but a means of assessing an LRG's intrinsic creditworthiness under the assumption that there is no sovereign rating cap. The ICL results from the combination of our assessment of an LRG's individual credit profile and the effects we see of the institutional framework in which it operates.

The 'bbb+' ICL factors in Moscow's position as Russia's economic, administrative, and financial center, with above average wealth in an international comparison. The city's low debt, "very positive" liquidity, and only limited contingent liabilities also support the rating. Its moderate budgetary flexibility and budgetary performance, which we expect to gradually deteriorate over the next few years, are neutral for the city's creditworthiness, in our view.

The ICL also reflects our views of Russia's "developing and unbalanced" institutional framework, under which distribution of revenues and expenditures largely depends on central government decisions, and Moscow's "negative" financial management, given the emerging nature of long-term planning and limited predictability of budget policy that we see.

Under our upside scenario, Moscow's ICL could improve if we revised our assessment of Russia's institutional framework upward, with all other things remaining equal under our base-case scenario.

Alternatively, we could revise our assessment of Moscow's ICL downward by one level if the city's budgetary performance weakened as a result of a significant reduction in tax revenues and insufficient use of the spending flexibility that we currently expect in our base case.

OUTLOOK

The negative outlook on Moscow reflects that on Russia.

We could revise the outlook on Moscow to stable if we revised our outlook on the sovereign to stable and we thought the city continued to perform according to our base-case scenario.

We would likely lower our rating on Moscow if we lowered the rating on Russia, all other things remaining equal. Apart from following a sovereign downgrade, we could lower our rating on the city if the ICL deteriorated to below 'bbb-'. However, given the currently strong ICL at 'bbb+', we regard this scenario as highly unlikely.

KEY SOVEREIGN STATISTICS

- Russia Foreign Currency Ratings Lowered To 'BBB-/A-3' On Risk Of Marked Deterioration In External Financing; Outlook Neg, April 25, 2014

RELATED CRITERIA AND RESEARCH

Related Criteria

- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010
- Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009

Related Research

- International Local And Regional Governments Default And Transition Study: 2012 Saw Defaults Spike, March 28, 2013
- Public Finance System Overview: Russian System For Regional Governments Is Developing And Unbalanced, Nov. 12, 2012

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts. The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook.

RATINGS LIST

Downgraded

	To	From
Moscow (City of)		
Issuer Credit Rating	BBB-/Negative/--	BBB/Negative/--
Senior Unsecured	BBB-	BBB

Ratings Affirmed

Moscow (City of)	
Issuer Credit Rating	
Russia National Scale	ruAAA/--/--
Senior Unsecured	ruAAA

Additional Contact:

International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com

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