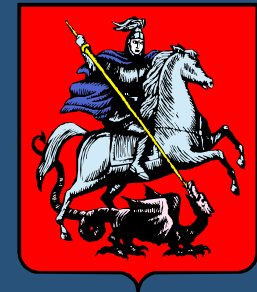


City of Moscow Debt

Sergey Pakhomov

Chairman
City of Moscow State Debt Committee

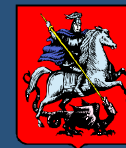


City of Moscow
State Debt
Committee



Section 1

Moscow Economy and Finance



Moscow Economic Highlights

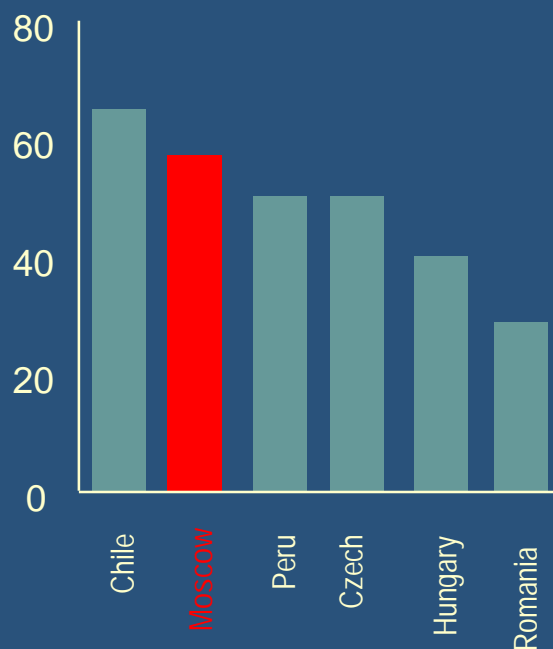
- Moscow is one of Russia's 89 Subjects
- Modern city with 8.54 million of residents accounting for 6% of Russia's total population, generates 20% Russia's GDP
- 44% of financial institutions and 83% of banks are concentrated in Moscow
- Accounts for 38% of Russia's total foreign direct investments
- Unemployment at 1.6% more than five times lower the national average of 9%



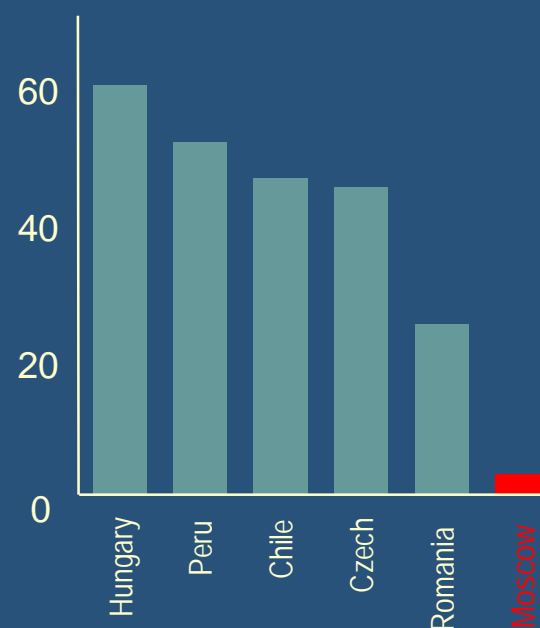


Economy of Moscow and of some other countries

GDP 2001 (US\$ bln.)



Debt percentage of GDP 2001

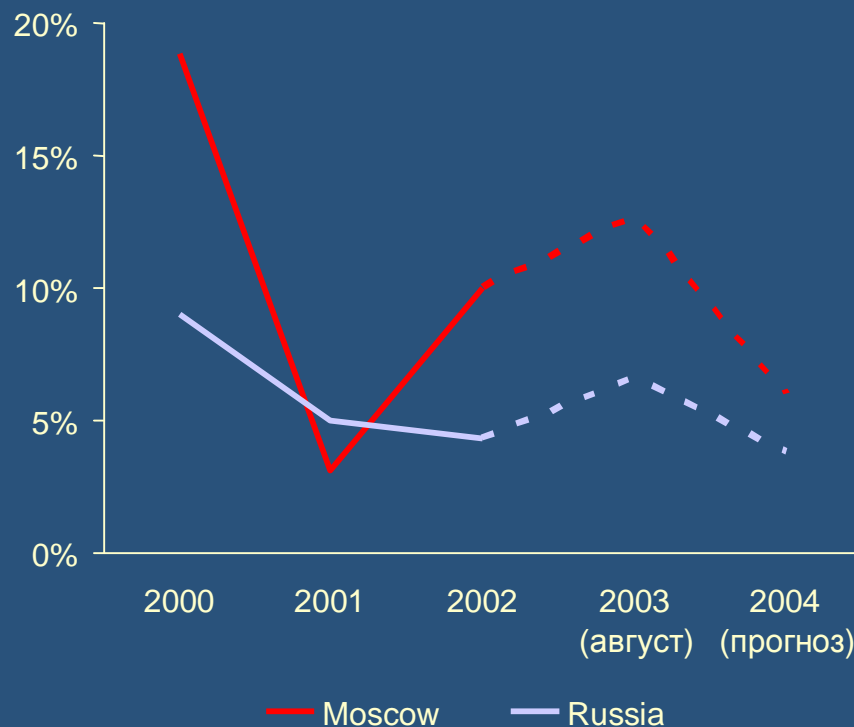


- » Moscow's economy is on a par with more developed countries
- » Low debt level

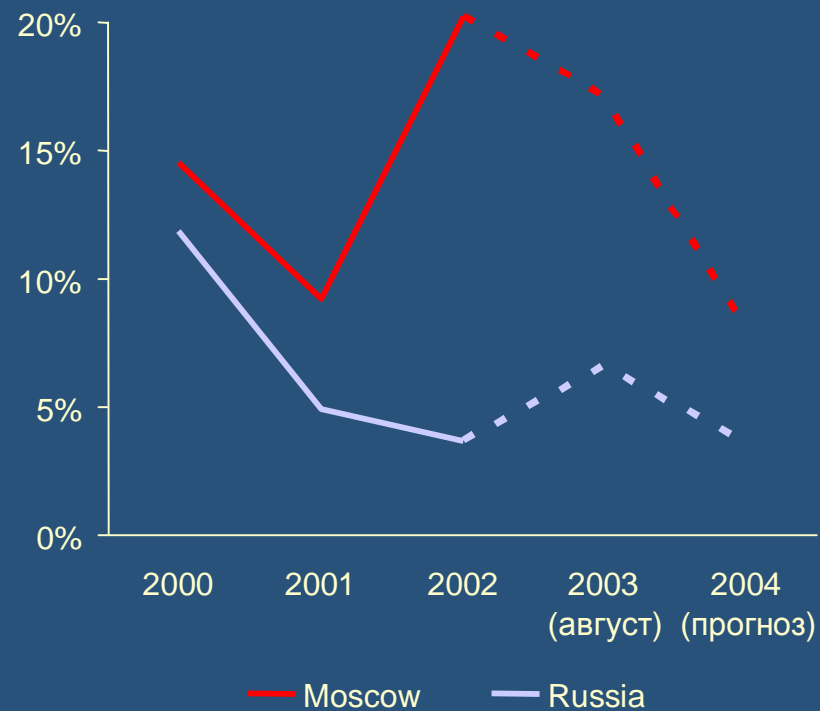


Moscow and Russia key macroeconomic indicators

GDP, GCP growth rates



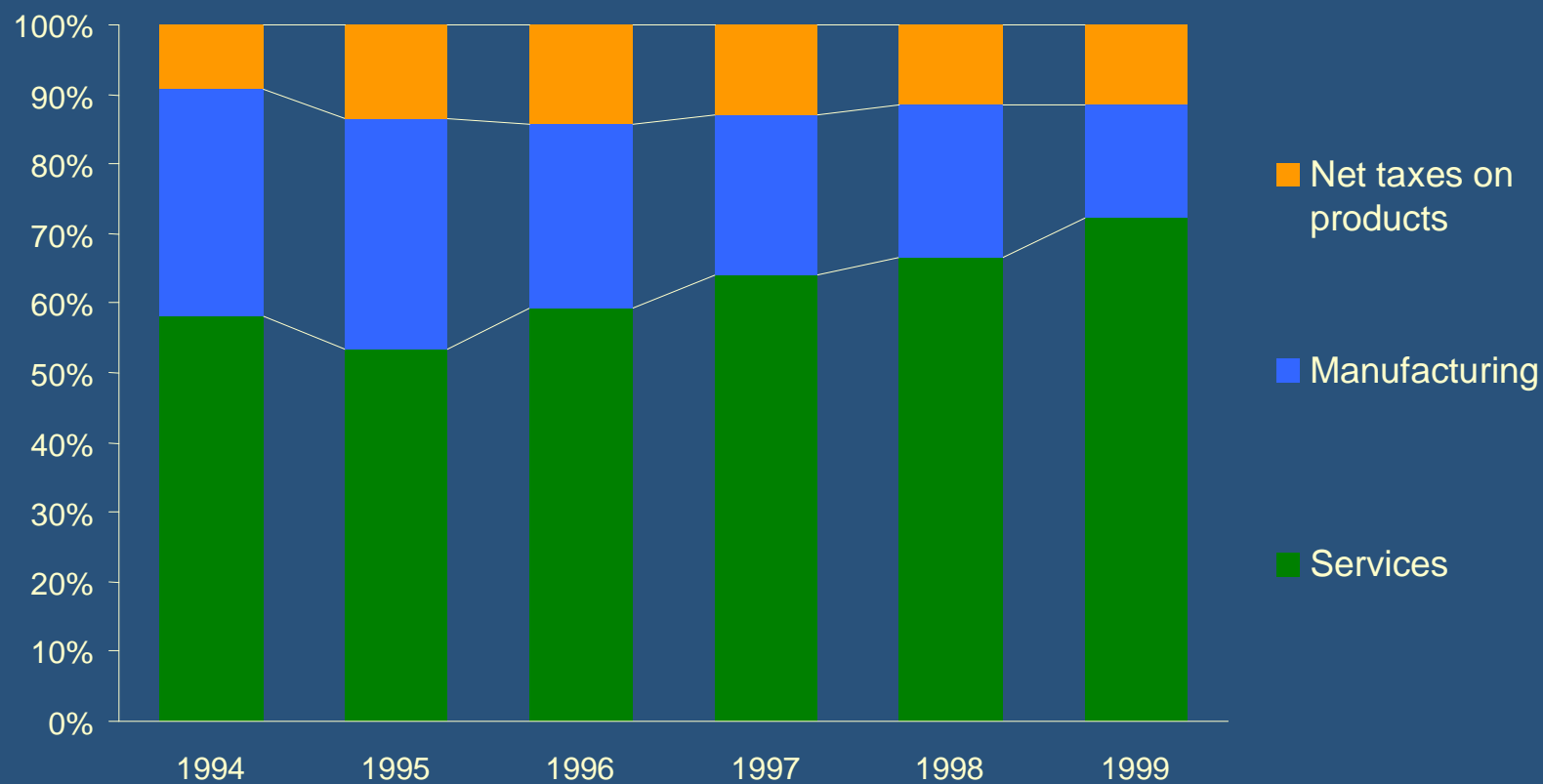
Industrial growth



» High growth rate



Moscow GCP Dynamics



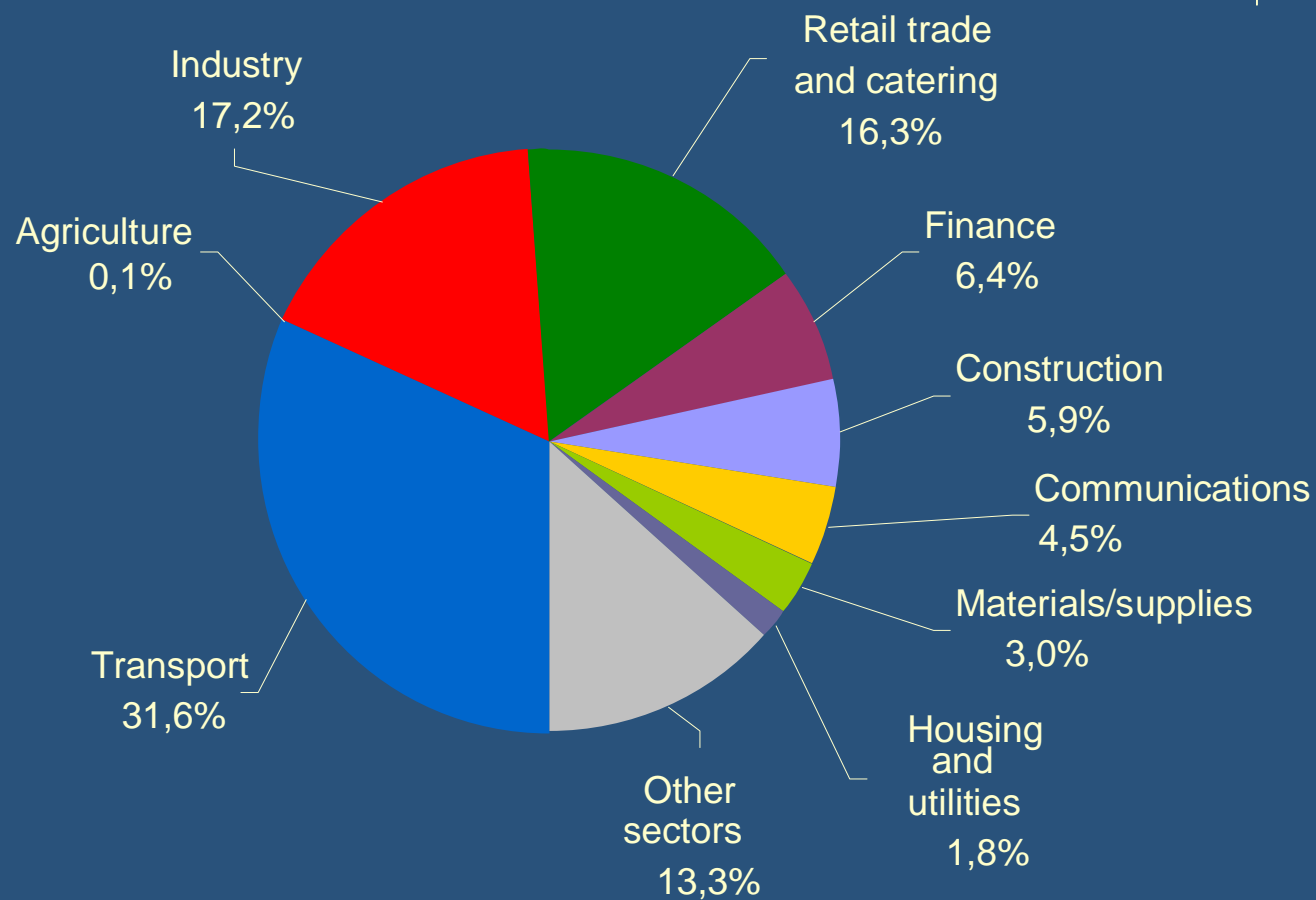
» Service oriented economy

» Service sector growth



Composition of budget revenues

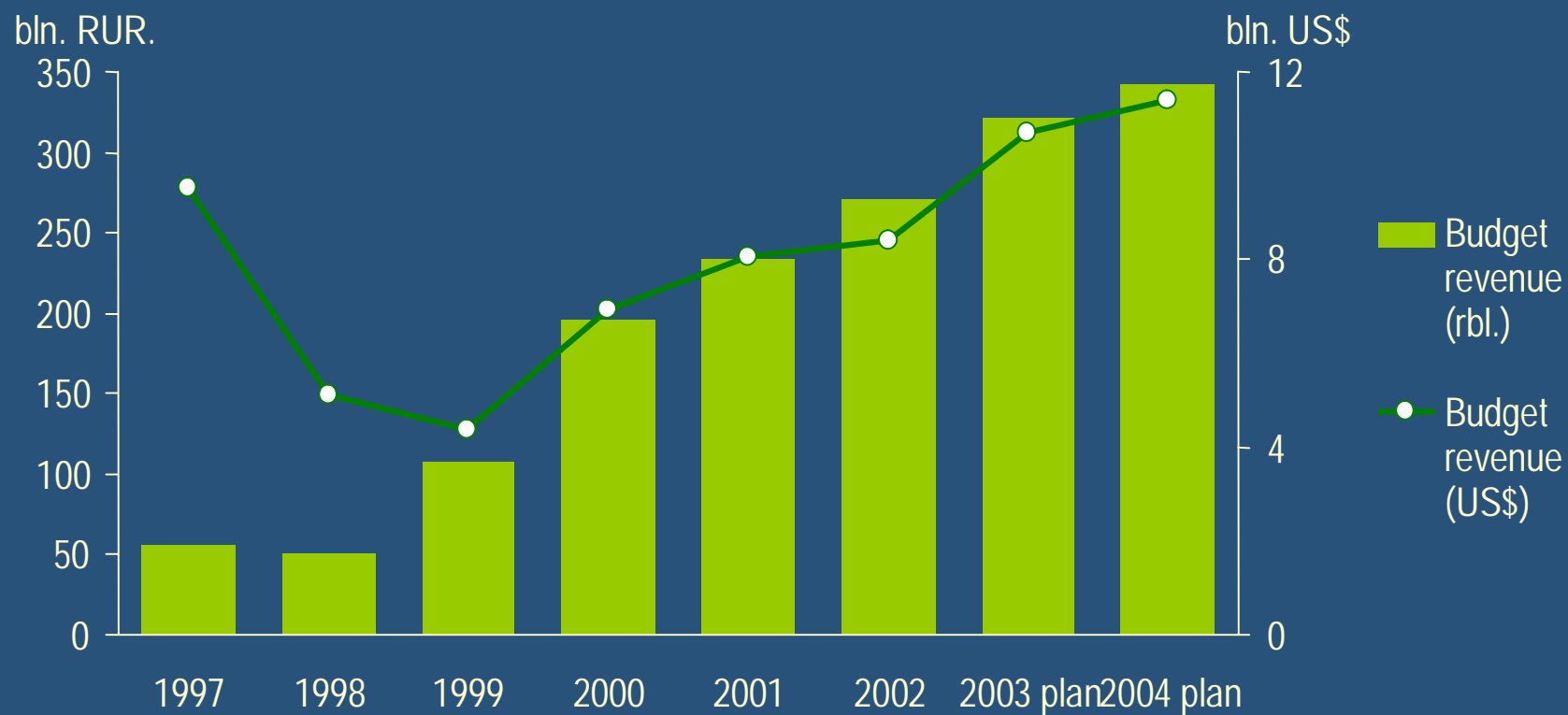
As at January 1, 2002



» budget revenues are diversified



Dynamics of budget revenues



» stable budget revenues



Section 2

City of Moscow indebtedness

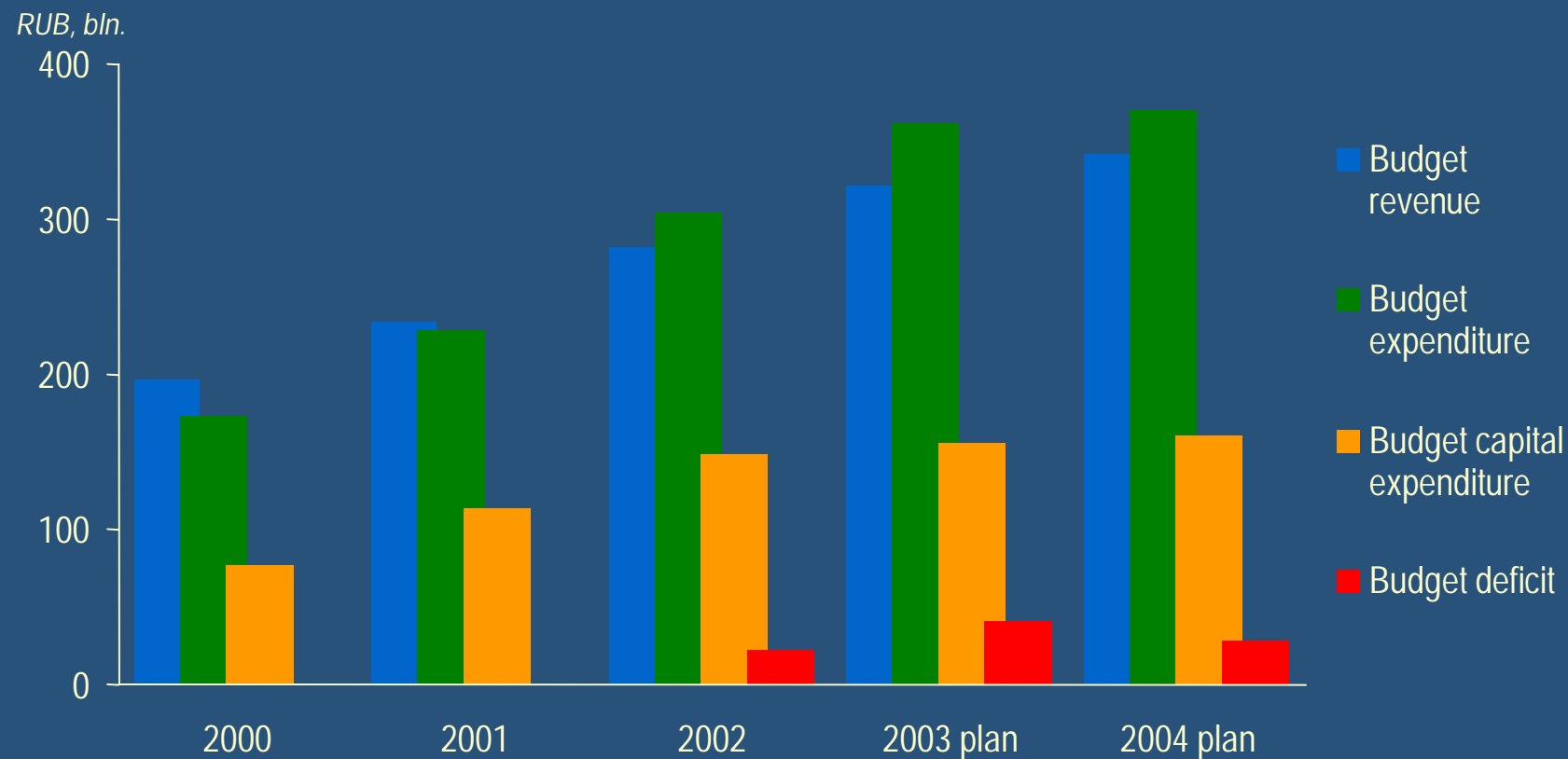


City of Moscow Economy and Indebtedness

- GCP of US\$ 89 billion (2003 E) – 20% Russia GDP
- Budget revenue of US\$ 10.7 billion (2003 E)
- Total current debt at US\$ 2 billion (September 2003) accounts for 19.3% of budget revenue and 2.3% of GCP
- Current credit rating: S&P – **BB** (upgraded 06.12.02); Moody's – **Ba2** (upgraded 17.12.02); Fitch – **BB+** (upgraded 23.10.03)



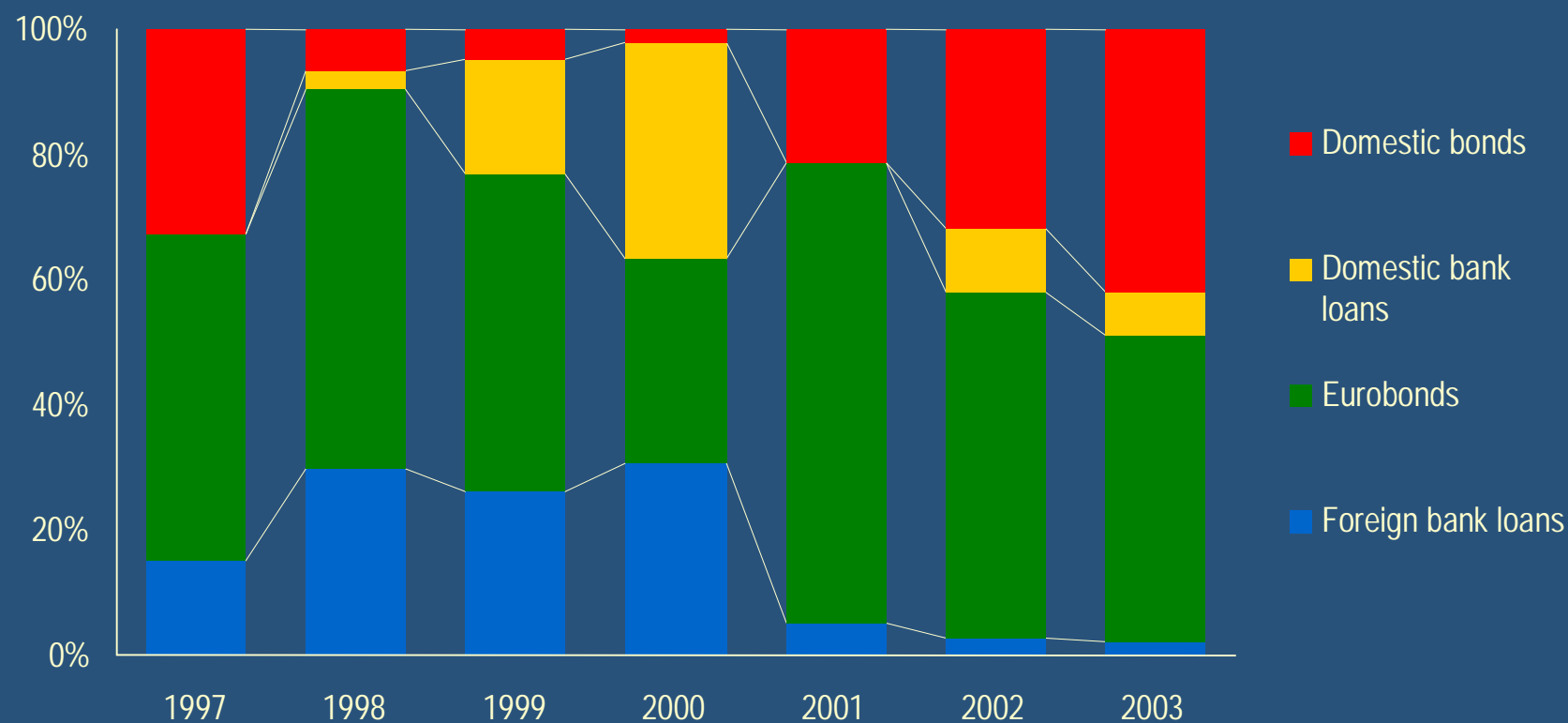
City budget capital expenditure



» capital expenditure is partly financed by borrowings



City of Moscow Debt Structure *



* Debt managed by City of Moscow State Debt Committee



Section 3

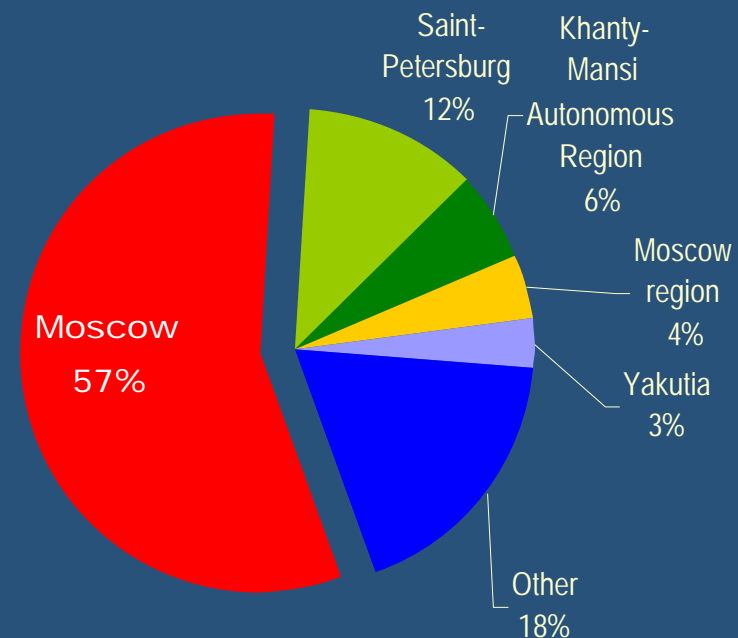
Development of Moscow Domestic Bond Market



Moscow Bonds and Russian Capital Market

Moscow – the largest Russian regional bond issuer (present market share – RUB 38 bln or 57% of all registered issues of Sub-Federal bonds)

Regional Market Share



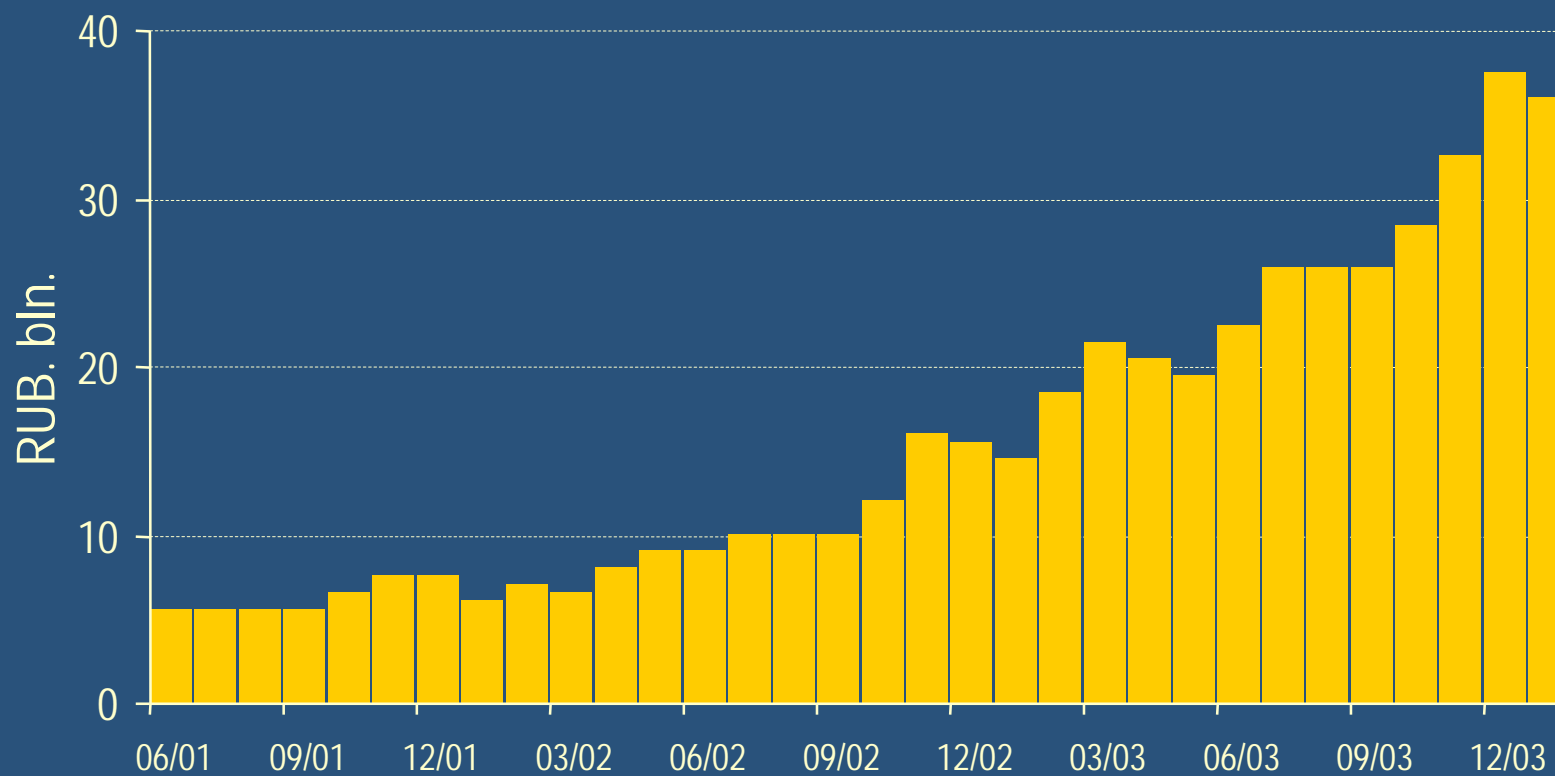


Domestic Bond Market Development

- Total volume of bonds in circulation – RUB 38 bln
- Number of underwriters and market-makers – 23 institutions
- Yield spreads of the most liquid issues – 1-2% over Federal bonds
- Domestic debt daily average turnover on MICEX (since 2003) – RUB 377 mln

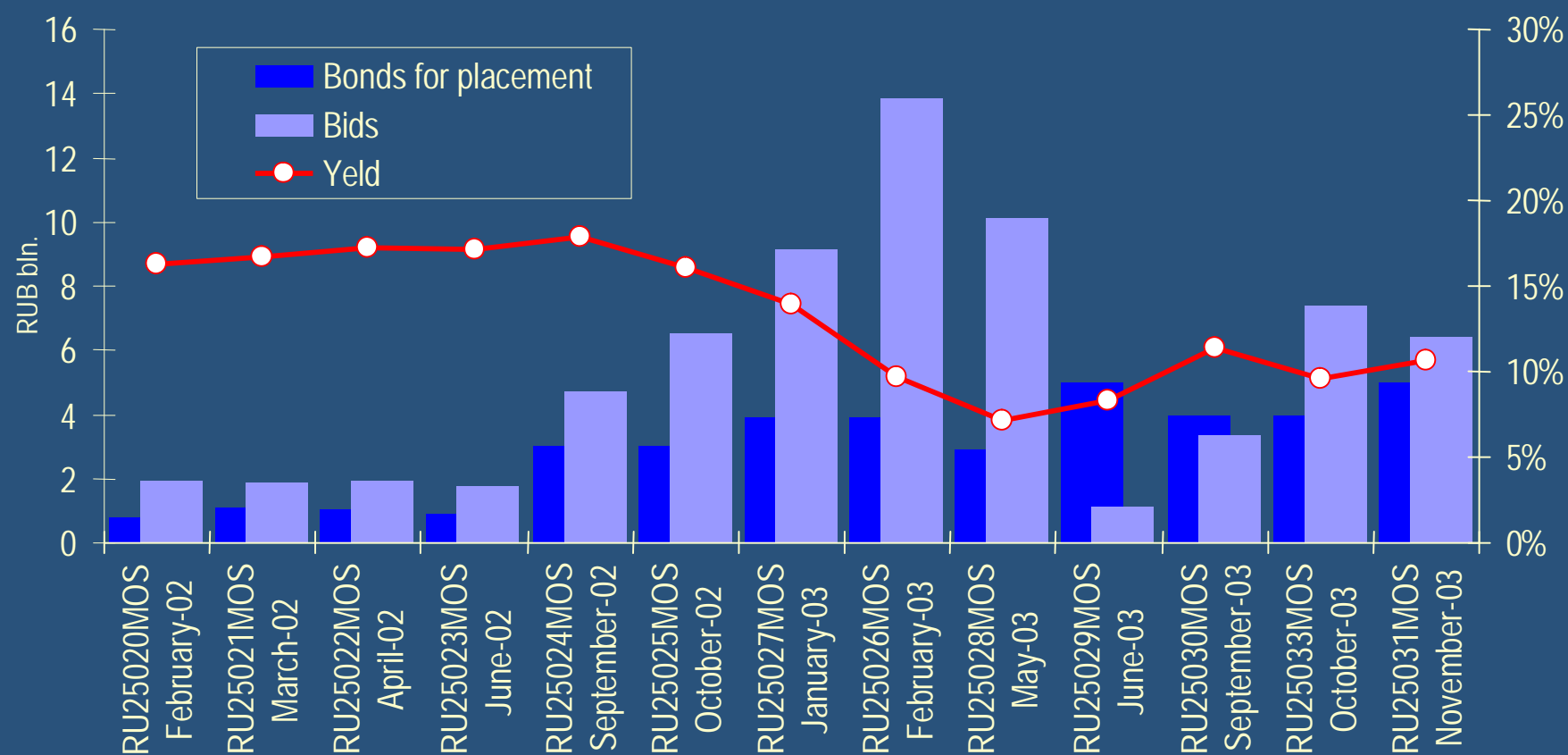


Dynamics of Moscow Domestic Bonds Circulation



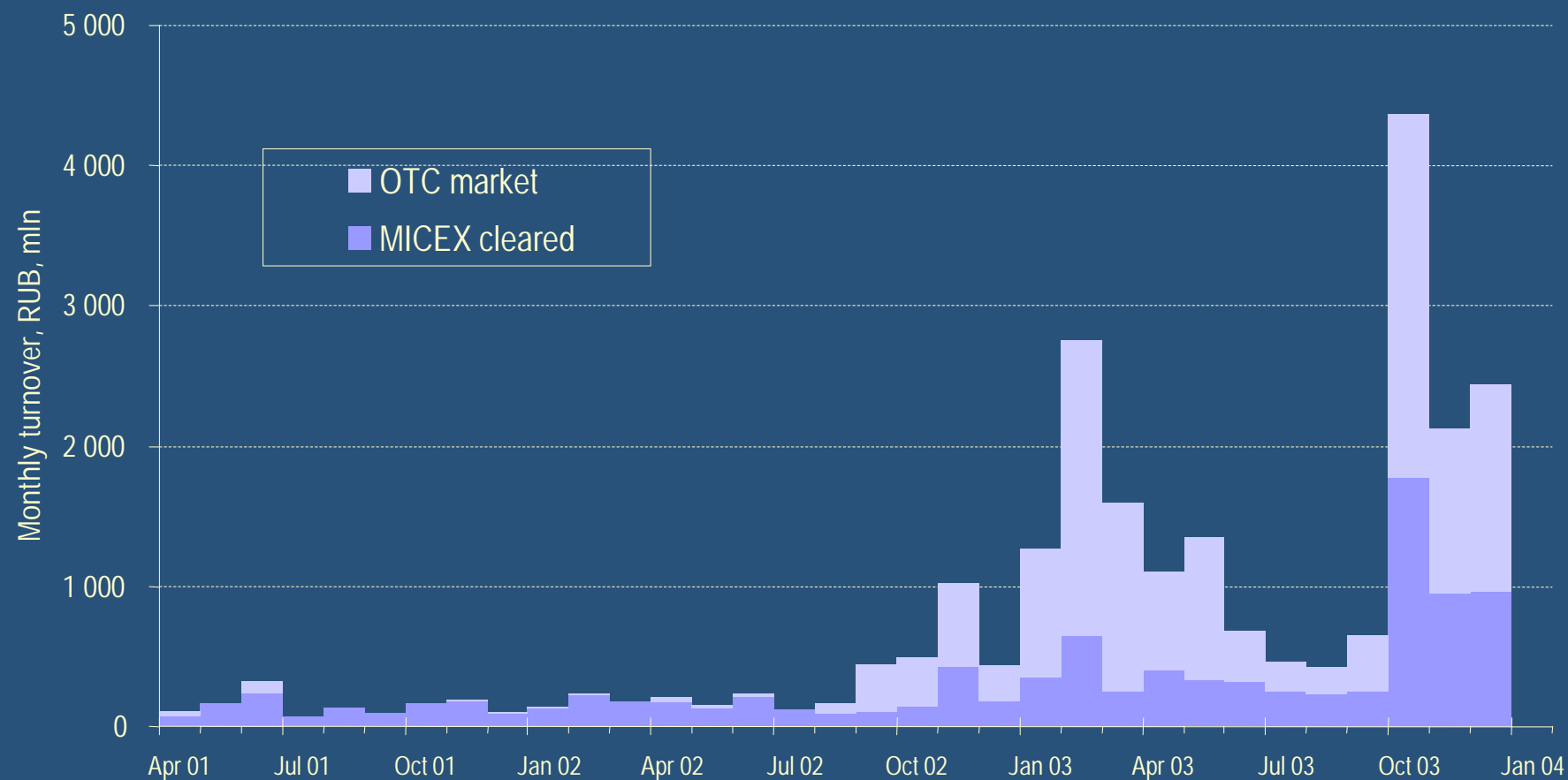


Moscow Domestic Bonds Auctions in 2002 – 2003



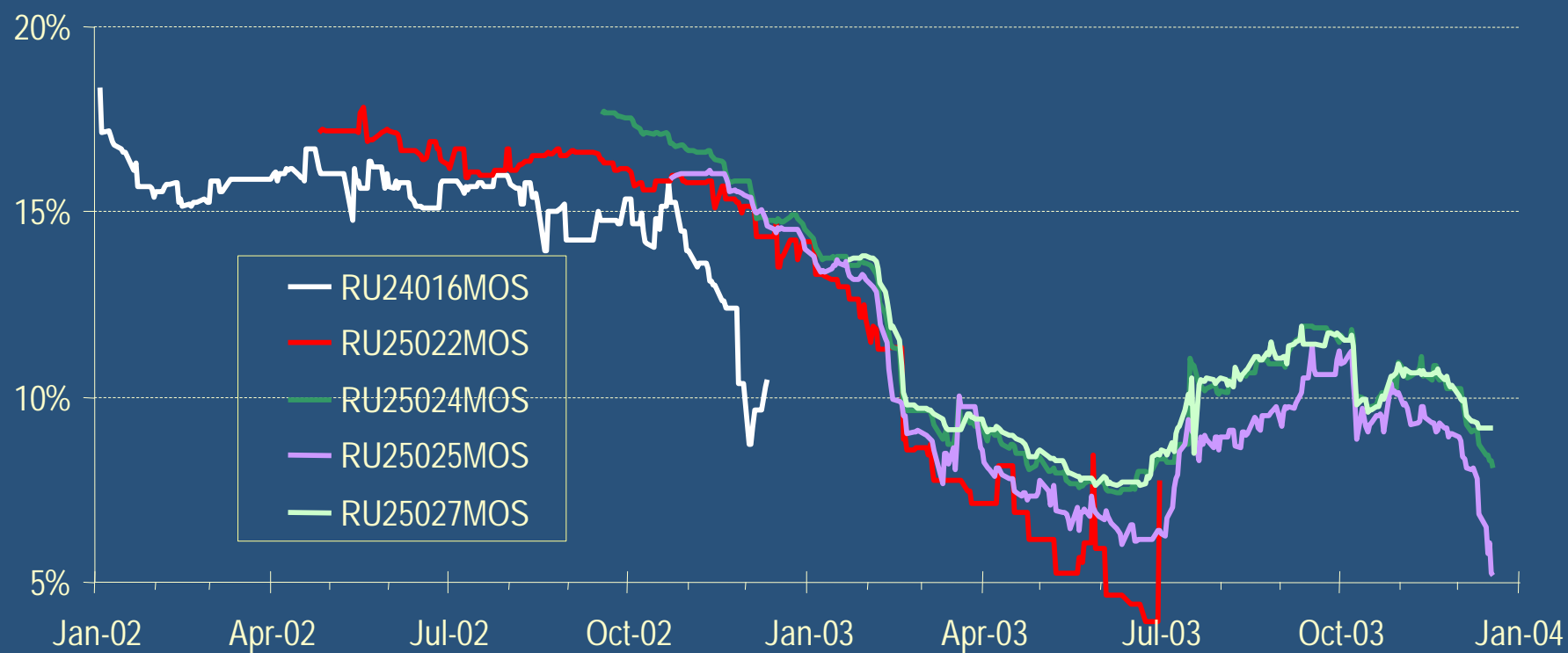


Moscow Domestic Bonds: Turnover Dynamics on MICEX





Moscow Domestic Bonds: Yield Reduction in 2002 – 2003





Development of Moscow Domestic Bond Market in 2003

- Volume of bonds in circulation has increased by 2.6 times
- Auction sales has grown by more than 2.8 times
- Number of Authorized Underwriters and Market-makers for Moscow domestic bonds has grown by 1.4 times
- Demand for Moscow domestic bonds at auctions has grown by 3 times
- Stock exchange bond turnover has increased, liquidity of bonds has remained high



Section 4

City of Moscow Debt Management Strategy



Debt Management Strategy

- Timely and full debt service and repayment
- Keeping debt size within safe limits to avoid difficulties with its service and redemption
- Diversification of debt instruments and markets
- Maximum transparency of Moscow budget and debt obligations
- Efficient debt management. Goal: debt optimization, reduction of debt service expenditure
- Long-term planning of debt profile and on-line debt control



Moscow Government Debt Management Guidelines

The Government approved guidelines address the following issues:

- budget planning policy in relation to:
 - long term planning of debt size, structure and profile
 - setting safe debt limits
- procedure for debt origination and debt management operations
- rules for debt accounting
- functioning of debt payment system



Debt Safety Ratio For The City of Moscow

- Annual current and future debt repayments should not exceed the “**capital resource**” of the City budgets for corresponding years
- “**Capital resource**” is operational surplus of the City budget: City’s current revenue always exceeds current expenditure



Goals of Moscow Debt Management Strategy

- Obtaining necessary funds for development while maintaining debt size at a safe level
- Increased transparency of debt and predictability of City's debt management
- Growing share of domestic bonds in debt structure
- Predominance of bonds as debt instruments
- Bond market development, increased market liquidity and domestic debt duration
- Diversification of debt instruments
- Active debt management and even distribution of debt service and debt repayment through future years to prevent excessive strain on the City's budget



Guidelines Determining Debt Management Strategy

- Maintenance of current budget proportions (“Capital resource” level equals 22% of budget revenues)
- Even debt repayment schedule for 4 – 7 year period
- $\text{Annual debt repayments} / \text{Budget revenues} = 10\%$
- $\text{Annual debt repayments} / \text{Capital resource} = 50\%$
- Debt maturity – from 3 to 7 years



Section 5

Conclusion



Attractiveness of Moscow Bonds to Investors

- Moscow has growing and diversified economy
- Low debt fully controlled by the City Government
- High credit rating constrained by the Sovereign ceiling
- Advanced debt management system providing day-to-day debt control
- Unstained credit history: since 1997 Moscow State Debt Committee has made due payments of interest and principal for the total of over RUB 120 bln
- Highly liquid and fast growing domestic bond market



Borrowing Targets for 2004

- RUB 28.9 bln – Domestic bonds
- RUB 4.1 bln – Domestic loans
- USD 450 mln – Foreign debt



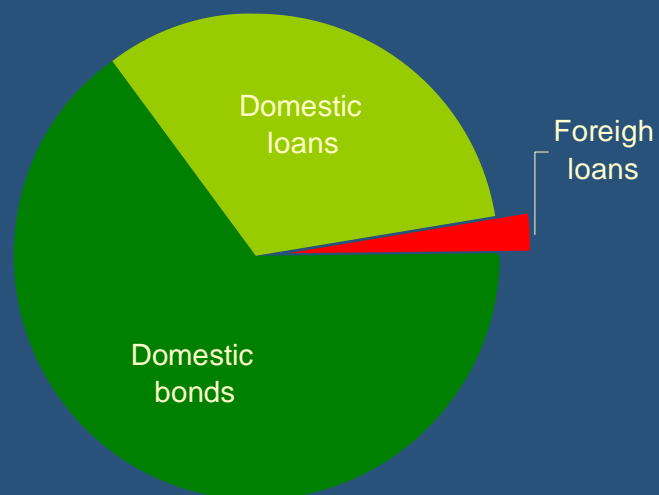
Goals of City of Moscow Debt Management up to 2006

- Maintenance of Annual Budget Deficit at RUB 20 – 30 bln
- Substantial increase of domestic debt (up to 70% of total debt or RUB 100 – 110 bln)
- Raising of RUB 125 bln on domestic market (of which 80% rouble bonds)
- Placement of rouble bonds for 7 years in 2004 and up to 10 years in perspective (depending on market situation)
- Refinancing Euro 400 Eurobond in 2006
- Issuance of amortizing bonds



Borrowing Programme

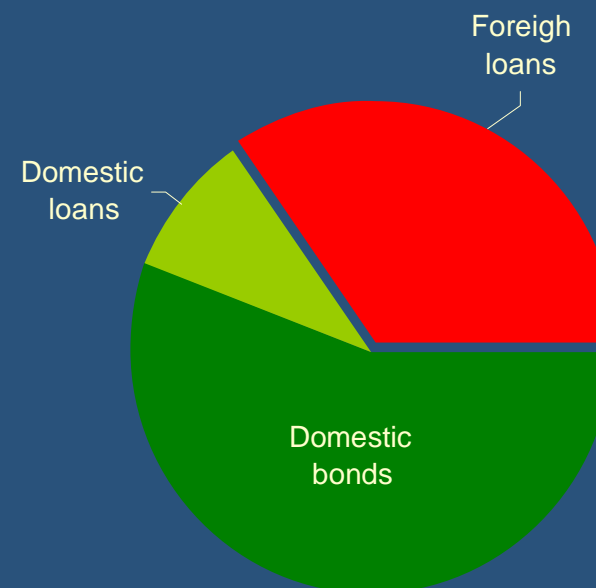
2003



Total:

- Raised – RUB 37.5 bln.
- Repaid – RUB 17.4 bln.

2004



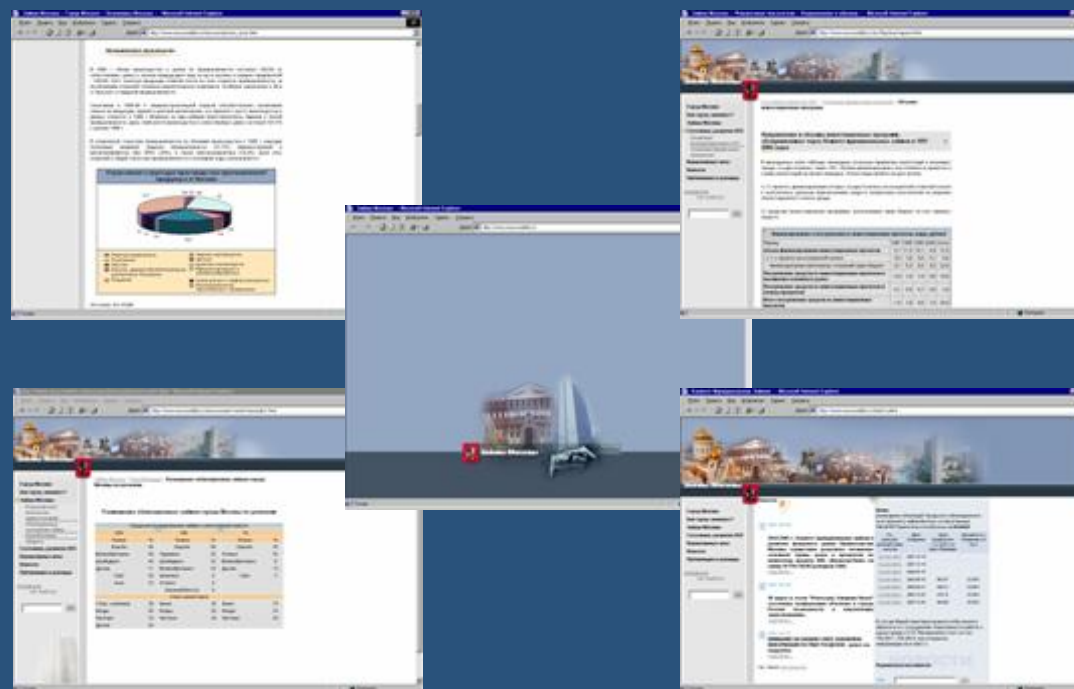
Total:

- Raised – RUB 44.3 bln.
- Repaid – RUB 23.7 bln.



Debt Obligations of the City of Moscow in the Internet

- Information on debt obligations of the City of Moscow can be found on the WEB:



<http://www.MoscowDebt.ru/>