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Sell-Offs to Be Key for City Coffers

By Roland Oliphant

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Mayor-in-waiting Sergei Sobyanin will push forward with the divestment of city assets, possibly yielding $10 billion per year, and bring more competition to the construction and utilities markets, but he is unlikely to review controversial deals done by his predecessor, analysts said.

“We don’t see any immediate credit implications that affect the rating of Moscow following the change of the city’s mayor,” said Alexander Proklov, a senior analyst at Moody’s rating agency.

“We do not see any changes in the short term,” said Felix Ejgel of Standard & Poor’s, which is maintaining its rating of the city at BBB.

Sobyanin, who is set to be confirmed by the Moscow City Duma on Thursday, will inherit the strongest regional economy in the country. Moscow’s annual budget is 1.25 trillion rubles, or just over $40 billion. It accounts for about 20 percent of the country’s gross domestic product and is the most popular destination in Russia for international investors.

The city is running a 190 billion ruble budget deficit in 2010, according to City Hall's web site, but its bond issues are successful and it is expected to have no trouble in narrowing the gap or raising extra debt in the future.

With a BAA1 rating and a stable outlook, Moody's puts the city on par with the Russian Federation itself.

About 848 billion rubles ($27 billion), or 80 percent of city's revenue, comes from corporate profit tax and personal income tax — both of which are set by the federal government. That means Sobyanin has little chance to restructure his revenue streams.

"That's one of the key factors why we think the rating and outlook is stable. The new mayor can't increase or decrease key tax rates, nor can he introduce new taxes or abolish old ones," Proklov said.

One area where Sobyanin will have room to maneuver is the city's vast and unwieldy property and real estate portfolio.

The city government controls an empire of companies that could be transformed into private entities.

Assets include so-called state unitary enterprises, like the Moscow metro, and joint stock companies that the city directly or indirectly controls through shareholder stakes. These include pharmacies, an oil refinery, the Atlant-Soyuz airline and Bank of Moscow — in which it holds a total of 69 percent. Ejgel estimates that the city's holdings include "several hundred companies."

First Deputy Prime Minister Igor Shuvalov said Oct. 8 that selling assets belonging to cities such as Moscow and St. Petersburg could generate 300 billion rubles a year, which is comparable to what the federal privatization program expects.

One of former Mayor Yury Luzhkov's last acts in office was to approve a program of privatization to 2013. The document, dated Sept. 14 and published on City Hall's web site, lists 30 state unitary enterprises and 29 joint stock companies that the government wants to privatize or sell its stakes in by 2013.

The list includes a 50 percent stake in the Radisson SAS hotel — which alone is estimated at $60 million — as well as a 20 percent stake in Moskva-Krasniye Kholmy, which owns Swissotel, and 26 percent in Avia-Bizness-Terminal, which operates Vnukovo 3.

Repeated calls to the city property department went unanswered Tuesday and Wednesday. Other city officials denied any knowledge of impending property sales. "It is all at the level of rumors. I can't tell you anything," said a spokeswoman for the Moscow City debt department.

"The question of the policy of managing our shares is not a political question; it is economic," said Yevgeny Kozlov, assistant to the chief of the city finance department.

It is widely assumed that Sobyanin will continue Luzhkov's policy of divestment. "They've chosen between 10 and 20 strategic companies that they want to maintain control of, and some others they want to keep a stake in. But the rest they may gradually divest," said Ejgel of

Standard & Poor’s.

While the strategy of divestment is intended to rationalize asset management and boost the private sector, funds generated will also help Sobyanin with one of his other major tasks received from President Dmitry Medvedev: improving infrastructure to reduce congestion.

“Even though the budget is large, there is a lack of long-term financial planning which does not allow the city to use funds effectively,” Ejgel said. “To raise funds for infrastructure they will probably either sell some assets, improve spending efficiency or raise debt.”