

Fitch Affirms Polish City of Gdansk at 'BBB+'; Outlook Stable

Fitch Ratings-Warsaw/London/Moscow-03 October 2014: Fitch Ratings has affirmed the Polish City of Gdansk's Long-term foreign and local currency Issuer Default Ratings (IDR) at 'BBB+' and its National Long-term rating at 'AA-(pol)'. The Outlook is Stable.

KEY RATING DRIVERS

The affirmation reflects Gdansk's continued sound operating performance which, together with its high capital revenue and healthy liquidity, supports a strong self-financing capacity for the city's investment plans. The ratings also factor in stable levels of direct debt for 2014-2016. The ratings further take into account projected high, but declining, capital expenditure, persistent pressure on operating expenditure and growing maintenance costs of completed investments.

Fitch base case scenario expects Gdansk's operating balance to be at 11% of operating revenue in the medium term, which would be in line with the 2012-2013 average. This will be driven by the city's financial flexibility, the city authorities' policy to limit operating expenditure growth and projected growth of income and property tax revenue, supported by an expansion of Gdansk's tax base. In 2013, Gdansk posted an operating margin of 12.1% (2012: 10.8%), which was above our expectations.

Fitch expects Gdansk's capital expenditure to start declining as large infrastructure investments approach completion. These large investments should remain high at PLN850m in 2014 (30% of total expenditure) before falling below PLN500m by 2016 (20% of total expenditure). However, completed investments may put pressure on the budget in the medium term, due to growing maintenance costs.

Fitch forecasts Gdansk's direct debt to stabilise at PLN1.2bn in 2014-2016, accounting for less than 60% of current revenue (2013: PLN1.2bn or 59%). This is because a majority of the city's projected capital expenditure may be financed by capital revenue and the current balance, which is likely to limit Gdansk's debt financing needs. Most of Gdansk's debt is from international financial institutions, providing the city with low funding costs, long debt maturity and a smooth debt repayment profile.

Fitch projects the city's debt servicing and debt payback ratios will remain healthy in 2014-2016. Debt servicing is expected to be about 40% of the operating balance (excluding premature redemptions) and the debt-to-current balance ratio at six years, well below the city's average weighted debt maturity of 15 years.

The city's authorities follow a prudent budgetary and financial policy, which guarantees solid operating performance despite persistently high pressure on operating expenditure. Much of the operating expenditure pressure arises from underfunded responsibilities that were transferred to local governments by the State and from the dominance of rigid spending items such as education and social care.

RATING SENSITIVITIES

The ratings could be upgraded if the city maintains sound operating results with the operating margin in line with 2013 results, while direct risk declines relative to current revenue.

A downgrade could result from a sustained deterioration in operating performance far beyond Fitch's expectations or a significant rise in debt, resulting in a weak debt payback ratio exceeding 15 years.

Contact:

Primary Analyst
Maurycy Michalski
Associate Director
+48 22 330 67 01
Fitch Polska S.A.
16 Krolewska Street
Warsaw 00-103

Secondary Analyst
Dorota Dziedzic
Director
+48 22 338 62 96

Committee Chairperson
Vladimir Redkin
Senior Director
+7 495 956 9901

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com. Małgorzata Socharska, Warsaw, Tel: +48 22 338 62 81, Email: Malgorzata.Socharska@Fitchratings.com.

Additional information is available on www.fitchratings.com.

Applicable criteria, 'Tax-Supported Rating Criteria', dated 14 August 2012, and 'International Local and Regional Governments Rating Criteria outside United States', dated 23 April 2014, are available on www.fitchratings.com.

Applicable Criteria and Related Research:

[Tax-Supported Rating Criteria](#)

[International Local and Regional Governments Rating Criteria](#)

Additional Disclosure

[Solicitation Status](#)

THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.