

City of Gdansk

Update

Ratings

Foreign Currency Long-Term IDR	A-
Local Currency Long-Term IDR	A-
National Long-Term Rating	AA(pol)

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable
National Long-Term Rating	Stable

Financial Data

City of Gdansk

	31 Dec 14	31 Dec 13
Operating revenue (PLNm)	2,186.1	2,004.9
Debt (PLNm)	1,116.8	1,188.2
Operating balance/ operating revenue (%)	16.63	12.07
Debt service/current revenue (%)	5.15	7.70
Debt/current balance (yrs)	3.4	6.1
Operating balance/ interest paid (x)	8.8	4.4
Capital expenditure/total expenditure (%)	28.27	29.35
Surplus (deficit) before debt variation/total rev. (exc. new debt) (%)	3.89	5.29
Current balance/capital expenditure (%)	43.01	24.47

Related Research

- [Institutional Framework for Polish Subnationals \(March 2014\)](#)
- [Interpreting the Financial Ratios in International Public Finance Reports \(July 2010\)](#)
- [City of Gdansk \(October 2014\)](#)

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Key Rating Drivers

Ratings Upgrade: The City of Gdansk's sound operating performance and prudent financial management, which together with high capital revenue, support strong self-financing capacity for its investment plans, led Fitch to upgrade the city's ratings in March 2015. The upgrade also factored in the stabilisation of direct risk. The Stable Outlook reflects expectations that the strong operating performance will be maintained in the medium term, despite pressure on operating spending.

Opex Growth Under Control: Fitch's base-case scenario expects Gdansk's operating margin to be 13%-14% in the medium term, above the 2011-2013 average. This will be driven by the city's financial flexibility, the city authorities' policy of limiting operating expenditure growth, coupled with growth of tax revenue, supported by projected growth of the national economy.

The city's authorities follow a prudent budgetary and financial policy, which guarantees a solid operating performance despite persistent pressure on operating expenditure. Much of the pressure arises from underfunded responsibilities that were transferred to local governments by the state and from the dominance of rigid spending items. In addition, pressure on the budget comes from maintenance costs of completed investments.

Improved Performance: For 2014, Gdansk posted an exceptionally high operating margin of 16.6% (2013: 12.1%), as the city continued to keep its operating expenditure growth well below operating revenue growth. Fitch notes that the 2014 operating results were supported by a one-off revenue item linked to the execution of property tax receivables under dispute (PLN48m). However, after excluding this revenue, the city's operating balance would have constituted 14.5% of operating revenue, which is still above our expectations.

Self-Funded Capex: Fitch projects that Gdansk's investment spending in 2015-2017 could total PLN2bn (about 25% of annual total expenditure on average), as the city is preparing to roll out investments under the 2014-2020 EU budget. Despite the projected level of capex, Fitch expects the city's recourse to debt to be limited, as Gdansk demonstrates above-average self-financing capacity among the Polish cities rated by Fitch. Over 80% of investment financing may come from capital revenue (EU and state budget grants) and the city's current balance.

Healthy Debt Ratios: Fitch forecasts Gdansk's direct risk to stabilise at PLN1.1bn in 2015-2017, after declining from PLN1.4bn at end-2012. In relative terms, direct risk is set to account for less than 50% of current revenue (2012: 73%). Fitch projects that the city's debt servicing and debt payback ratios will remain healthy in 2015-2017. Debt servicing is expected to be about 35% of the operating balance (excluding premature redemptions) and the debt/current balance ratio below five years, well below the city's average weighted debt maturity of 15 years.

Rating Sensitivities

Improved Operating Performance, Positive: The rating could be upgraded if the city sustainably maintains its operating margin above 15%, accompanied by direct debt below 50% of current revenue.

Debt Payback Deterioration: A negative rating action could result from a sustained deterioration of the operating margin to well below Fitch's expectations and/or a significant rise in Gdansk's direct debt, leading to the city's debt payback ratio (debt/current balance) exceeding 10 years.

Appendix A

Figure 1
City of Gdansk

(PLNm)	2010	2011	2012	2013	2014
Taxes	875.6	943.1	971.7	1,022.4	1,113.2
Transfers received	512.8	545.0	591.1	600.4	608.6
Fees, fines and other operating revenue	378.1	358.4	365.0	382.1	464.3
Operating revenue	1,766.5	1,846.5	1,927.8	2,004.9	2,186.1
Operating expenditure	-1,574.0	-1,600.4	-1,719.4	-1,763.0	-1,822.5
Operating balance	192.5	246.1	208.4	241.9	363.6
Financial revenue	4.6	6.9	5.6	8.5	6.0
Interest paid	-30.8	-42.2	-71.2	-55.4	-41.5
Current balance	166.3	210.8	142.8	195.0	328.1
Capital revenue	257.0	227.9	1,000.5	747.9	541.1
Capital expenditure	-559.8	-900.7	-1,180.1	-796.8	-762.8
Capital balance	-302.8	-672.8	-179.6	-48.9	-221.7
Surplus (deficit) before debt variation	-136.5	-462.0	-36.8	146.1	106.4
New borrowing	360.0	526.3	155.8	60.0	0.0
Debt repayment	-217.6	-252.7	-54.1	-99.6	-71.5
Net debt movement	142.4	273.6	101.7	-39.6	-71.5
Overall results	5.9	-188.4	64.9	106.5	34.9
Debt					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	853.6	1,127.2	1,227.4	1,188.2	1,116.8
Direct debt	853.6	1,127.2	1,227.4	1,188.2	1,116.8
+ Other Fitch-classified debt – pre-financing	0.0	210.0	177.0	141.5	68.6
Direct risk	853.6	1,337.2	1,404.4	1,329.7	1,185.4
- Cash, liquid deposits, sinking fund	107.4	142.1	172.2	208.0	208.3
Net direct risk	746.2	1,195.1	1,232.2	1,121.7	977.1
Guarantees and other contingent liabilities	1.2	1.2	20.8	20.4	20.4
Net indirect debt (public sector entities exc. gteed amount)	55.6	52.5	407.0	390.7	390.7
Net overall risk	803.0	1,248.8	1,660.0	1,532.8	1,388.2
Memo for direct debt (%)					
In foreign currency	3.0	1.9	1.3	1.0	0.6
Issued debt	14.2	26.2	22.3	18.0	14.8
Fixed interest rate debt	1.7	9.8	25.8	23.9	21.2

Source: Issuer and Fitch calculations

Related Criteria

[International Local and Regional Governments
Rating Criteria – Outside the United States
\(April 2014\)](#)

[Tax-Supported Rating Criteria \(August 2012\)](#)

Appendix B

Figure 2
City of Gdansk

	2010	2011	2012	2013	2014
Fiscal performance ratios					
Operating balance/operating revenue (%)	10.90	13.33	10.81	12.07	16.63
Current balance/current revenue ^a (%)	9.39	11.37	7.39	9.69	14.97
Surplus (deficit) before debt variation/total revenue ^b (%)	-6.73	-22.20	-1.25	5.29	3.89
Overall results/total revenue (%)	0.29	-9.05	2.21	3.86	1.28
Operating revenue growth (annual % change)	n.a.	4.53	4.40	4.00	9.04
Operating expenditure growth (annual % change)	n.a.	1.68	7.44	2.54	3.37
Current balance growth (annual % change)	n.a.	26.76	-32.26	36.55	68.26
Debt ratios					
Direct debt growth (annual % change)	n.a.	32.05	8.89	-3.19	-6.01
Interest paid/operating revenue (%)	1.74	2.29	3.69	2.76	1.90
Operating balance/interest paid (x)	6.3	5.8	2.9	4.4	8.8
Direct debt servicing/current revenue (%)	14.03	15.91	6.48	7.70	5.15
Direct debt servicing/operating balance (%)	129.04	119.83	60.12	64.08	31.08
Direct debt/current revenue (%)	48.20	60.82	63.48	59.01	50.95
Direct risk/current revenue (%)	48.20	72.15	72.64	66.04	54.08
Direct debt/current balance (yrs)	5.1	5.3	8.6	6.1	3.4
Net overall risk/current revenue (%)	45.34	67.38	85.86	76.13	63.33
Direct risk/current balance (yrs)	5.1	6.3	9.8	6.8	3.6
Direct debt/GDP (%)	3.56	4.23	4.29	-	-
Direct debt per capita (PLN)	1,852	2,445	2,668	2,572	2,417
Revenue ratios					
Operating revenue/budget operating revenue (%)	108.50	106.33	103.7	102.49	108.84
Tax revenue/operating revenue (%)	49.57	51.08	50.40	51.00	50.92
Modifiable tax revenue/total tax revenue (%)	32.80	33.62	36.94	34.60	35.56
Current transfers received/operating revenue (%)	29.03	29.52	30.66	29.95	27.84
Operating revenue/total revenue ^b (%)	87.10	88.72	65.71	72.61	79.98
Total revenue ^b per capita (PLN)	4,399	4,515	6,378	5,977	5,916
Expenditure ratios					
Operating expenditure/budget operating expenditure (%)	104.53	100.04	102.54	99.08	100.42
Staff expenditure/operating expenditure (%)	40.06	41.88	40.56	41.20	40.77
Current transfer made/operating expenditure (%)	11.66	12.4	12.12	12.21	12.61
Capital expenditure/budget capital expenditure (%)	204.53	247.11	115.38	94.05	90.40
Capital expenditure/total expenditure (%)	23.5	32.21	39.01	29.35	28.27
Capital expenditure/local GDP (%)	2.33	3.38	4.13	-	-
Total expenditure per capita (PLN)	5,168	6,065	6,576	5,876	5,840
Capital expenditure financing					
Current balance/capital expenditure (%)	29.71	23.40	12.10	24.47	43.01
Capital revenue/capital expenditure (%)	45.91	25.30	84.78	93.86	70.94
Net debt movement/capital expenditure (%)	25.44	30.38	8.62	-4.97	-9.37

n.a.: Not available

^a Includes financial revenue

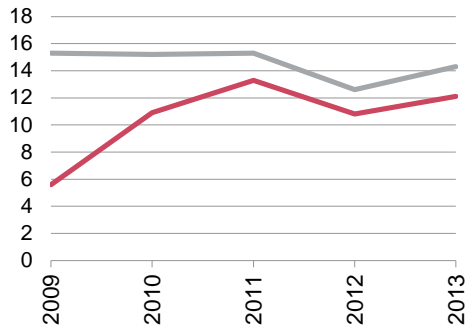
^b Excluding new borrowing

Source: Issuer and Fitch calculations

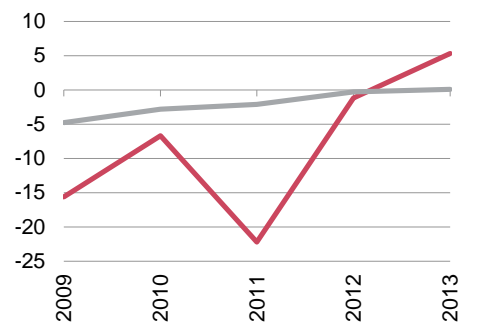
Appendix C
City of Gdansk

Peer Comparison

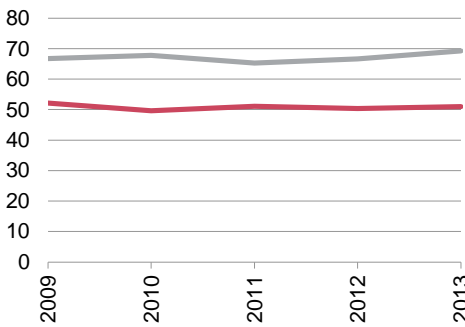
Operating Balance
% Operating Revenue



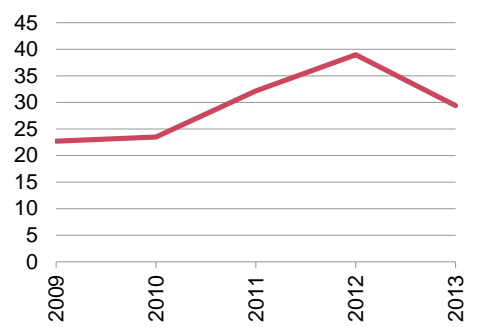
Surplus (Deficit)
% Total Revenue



Taxes
% Operating Revenue



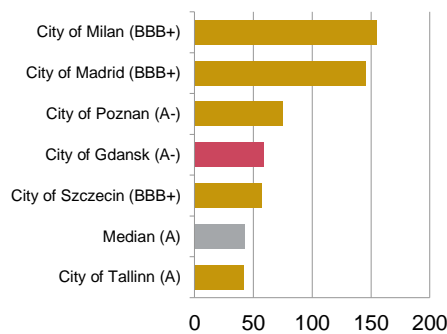
Capital Expenditure
% Total Expenditure



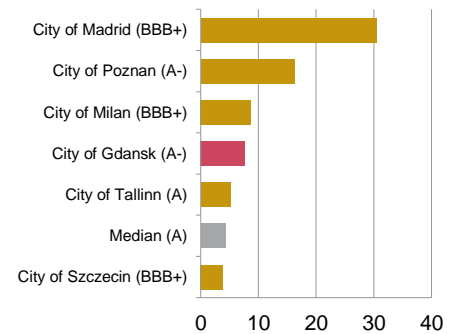
— City of Gdansk

— A- Peer Group Median

Debt
To Current Revenue (%) 2013



Debt Servicing
To Current Revenue (%) 2013



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