

City of Gdansk

Update

Ratings

Foreign Currency Long-Term IDR	A-
Local Currency Long-Term IDR	A-
National Long-Term Rating	AAA(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 2017	31 Dec 2016
Operating revenue (PLNm)	2,805.9	2,537.2
Debt (PLNm)	815.3	905.9
Operating balance/operating revenue (%)	14.07	14.80
Debt service/current revenue (%)	3.90	4.44
Debt/current balance (yrs)	2.1	2.5
Operating balance/interest paid (x)	20.6	15.4
Capital expenditure/total expenditure (%)	14.88	17.84
Surplus (deficit) before debt variation/total rev. (exc. new debt) (%)	1.78	4.08
Current balance/capital expenditure (%)	87.2	72.3

Related Research

- [Institutional Framework for Polish Subnationals \(March 2014\)](#)
- [Interpreting the Financial Ratios in Local and Regional Government Rating Reports \(October 2015\)](#)
- [Polish LRGs Debt Dashboard September 2017 \(September 2017\)](#)
- [Poland – Ratings Navigator \(September 2017\)](#)
- [City of Gdansk \(September 2017\)](#)

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Key Rating Drivers

Ratings Affirmed: The recent affirmation of the City of Gdansk's ratings was based on Fitch Ratings' unchanged view on the city's sound operating performance, as well as its strong debt service and debt payback ratios, which Fitch expects Gdansk to maintain over the medium term. The IDRs also reflect the solid strategic and financial management of Gdansk, which supports the city's strong self-financing capacity for its investment plans.

Sound Operating Performance: In its rating case scenario, Fitch expects Gdansk to continue to demonstrate a solid operating performance in 2018-2020, with an operating balance of around PLN300 million (12%-13% of operating revenue), in line with the 2011-2017 average. This will be underpinned by the city authorities' continued cost control measures and tax revenue increase following an expanding tax base supported by the projected growth of the national economy.

According to the city's authorities, the operating balance was high – and above our expectations – at PLN395 million or 14.1% of operating revenue in 2017 (2011-2016: average of PLN300 million). This result was supported by, among other things, higher-than-budgeted tax revenue, as well as the authorities' continued effective measures to limit opex growth.

Continued Deleveraging: Thanks to sound operating performances and a high level of acquired non-returnable investment grants, the city has reduced its debt to PLN815 million at end-2017 from PLN1,404 million at end-2012. Fitch expects the city's direct debt to return to growth from 2018 following investments, but not to exceed 50% of current revenue over the medium term (end-2017: 29%), which will be in line with the ratings.

Strong Debt Ratios: Fitch projects the city's debt service and debt payback ratios to remain strong in 2018-2020. Debt servicing will be around 30% of the operating balance, and the debt payback (debt/current balance) is likely to increase to three to four years (2017: 2.1 years), which will still be well below the city's final debt maturity (up to 20 years).

High Liquidity: Gdansk has historically had healthy liquidity. During 2017, cash in the city's accounts exceeded debt servicing by more than 3x. The city has a long track record of year-end cash balances exceeding scheduled annual debt service, which is positive for the ratings. Fitch expects the city's liquidity to be partly absorbed by investments in 2018-2019, but it should remain sound.

Wealthy Local Economy: Fitch expects the city's tax revenue to continue to grow in 2018-2019, supported by forecast GDP growth of 3.4% per year. Gdansk is the capital and the largest and wealthiest city of the Pomorskie region, with a well-diversified local economy. The city forms a conurbation with Gdynia and Sopot. Its gross regional product per capita was over PLN66,564 in 2015 (the seventh-highest among Poland's 66 sub-regions, based on the latest available data), and exceeded the national average by 42.3%.

Rating Sensitivities

Ratings Constrained by Sovereign: Gdansk's IDRs are constrained by the Polish sovereign's ratings (A-/Stable), and any change in the sovereign IDRs would be mirrored in those of the city. A negative rating action could result from a sustained deterioration in the operating performance or a significant rise in Gdansk's direct debt, leading to the city's debt payback ratio exceeding eight years.

Appendix A

City of Gdansk					
(PLNm)	2013	2014	2015	2016	2017
Taxes	1,022.4	1,113.2	1,175.3	1,223.5	1,353.2
Transfers received	600.4	608.6	638.1	819.1	945.6
Fees, fines and other operating revenue	382.1	464.3	451.3	494.6	507.1
Operating revenue	2,004.9	2,186.1	2,264.7	2,537.2	2,805.9
Operating expenditure	-1,763.0	-1,822.5	-1,893.2	-2,161.8	-2,411.0
Operating balance	241.9	363.6	371.5	375.4	394.9
Financial revenue	8.5	6.0	4.2	6.0	8.5
Interest paid	-55.4	-41.5	-29.1	-24.4	-19.2
Current balance	195.0	328.1	346.6	357.0	384.2
Capital revenue	747.9	541.1	447.8	250.8	108.4
Capital expenditure	-796.8	-762.8	-612.2	-493.8	-440.6
<i>Capital balance</i>	-48.9	-221.7	-164.4	-243.0	-332.2
Surplus (deficit) before debt variation	146.1	106.4	182.2	114.0	52.0
New borrowing	60.0	0.0	0.0	0.0	0.0
Debt repayment	-99.6	-71.5	-122.4	-88.5	-90.6
<i>Net debt movement</i>	-39.6	-71.5	-122.4	-88.5	-90.6
Overall results	106.5	34.9	59.8	25.5	-38.6
Debt					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	1,188.2	1,116.8	994.4	905.9	815.3
Direct debt	1,188.2	1,116.8	994.4	905.9	815.3
+ Other Fitch classified debt – pre-financing	141.5	68.6	25.7	19.5	13.3
Direct risk	1,329.7	1,185.4	1,020.1	925.4	828.6
- Cash, liquid deposits, sinking fund	208.3	171.4	193.4	223.2	185.6
Net direct risk	1,121.4	1,014.0	826.7	702.2	643.0
Guarantees and other contingent liabilities	20.4	20.4	0.4	0.4	3.4
Net indirect debt (public sector entities exc. gteed amount)	451.0	401.0	360.0	312.6	332.3
Net overall risk	1,592.8	1,435.4	1,187.1	1,015.2	978.7
Memo for direct debt:					
% in foreign currency	1.0	0.6	0.2	0.0	0.0
% issued debt	18.0	14.8	11.6	9.6	7.1
% fixed interest rate debt	23.9	21.2	20.1	21.5	0.0

Source: Issuer and Fitch calculations

Related Criteria

[International Local and Regional Governments
Rating Criteria – Outside the United States
\(April 2016\)](#)
[National Scale Ratings Criteria \(March 2017\)](#)

Appendix B

City of Gdansk

	2013	2014	2015	2016	2017
Fiscal performance ratios					
Operating balance/operating revenue (%)	12.07	16.63	16.40	14.80	14.07
Current balance/current revenue ^a (%)	9.69	14.97	15.28	14.04	13.65
Surplus (deficit) before debt variation/total revenue ^b (%)	5.29	3.89	6.71	4.08	1.78
Overall results/total revenue (%)	3.86	1.28	2.20	0.91	-1.32
Operating revenue growth (annual % change)	n.a.	9.04	3.60	12.03	10.59
Operating expenditure growth (annual % change)	n.a.	3.37	3.88	14.19	11.53
Current balance growth (annual % change)	n.a.	68.26	5.64	3.00	7.62
Debt ratios					
Direct debt growth (annual % change)	n.a.	-6.01	-10.96	-8.90	-10.00
Interest paid/operating revenue (%)	2.76	1.90	1.28	0.96	0.68
Operating balance/interest paid (x)	4.4	8.8	12.8	15.4	20.6
Direct debt servicing/current revenue (%)	7.70	5.15	6.68	4.44	3.90
Direct debt servicing/operating balance (%)	64.08	31.08	40.78	30.07	27.80
Direct debt/current revenue (%)	59.01	50.95	43.83	35.62	28.97
Direct risk/current revenue (%)	66.04	54.08	44.96	36.39	29.44
Direct debt/current balance (yrs)	6.09	3.40	2.87	2.54	2.12
Net overall risk/current revenue (%)	79.11	65.48	52.32	39.92	34.77
Direct risk/current balance (yrs)	6.82	3.61	2.94	2.59	2.16
Direct debt/GDP (%)	4.16	3.91	3.23	-	-
Direct debt per capita (PLN)	2,572	2,423	2,152	1,952	1,757
Revenue ratios					
Operating revenue/budget operating revenue (%)	102.49	108.84	107.64	116.00	109.06
Tax revenue/operating revenue (%)	51.00	50.92	51.90	48.22	48.23
Modifiable tax revenue/total tax revenue (%)	34.60	35.56	32.81	31.70	31.21
Current transfers received/operating revenue (%)	29.95	27.84	28.18	32.28	33.70
Operating revenue/total revenue ^b (%)	72.61	79.98	83.36	90.81	96.00
Total revenue ^b per capita (PLN)	5,977	5,929	5,880	6,022	6,299
Expenditure ratios					
Operating expenditure/budget operating expenditure (%)	99.08	100.42	103.60	110.23	104.38
Staff expenditure/operating expenditure (%)	41.20	40.77	40.14	36.68	34.19
Current transfer made/operating expenditure (%)	12.21	12.61	13.55	13.28	15.68
Capital expenditure/budget capital expenditure (%)	94.05	90.40	82.26	108.10	76.19
Capital expenditure/total expenditure (%)	29.35	28.27	23.04	17.84	14.88
Capital expenditure/local GDP (%)	2.79	2.67	1.99	-	-
Total expenditure per capita (PLN)	5,876	5,853	5,751	5,967	6,382
Capital expenditure financing					
Current balance/capital expenditure (%)	24.47	43.01	56.62	72.30	87.20
Capital revenue/capital expenditure (%)	93.86	70.94	73.15	50.79	24.60
Net debt movement/capital expenditure (%)	-4.97	-9.37	-19.99	-17.92	-20.56

^a Includes financial revenue

^b Excluding new borrowing

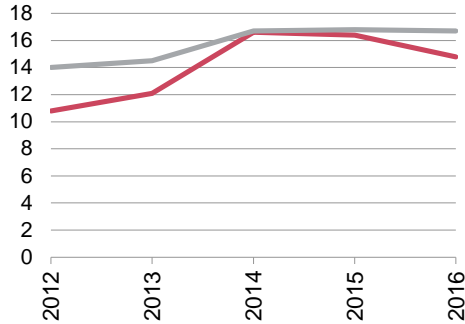
n.a.: not available

Source: Issuer and Fitch calculations

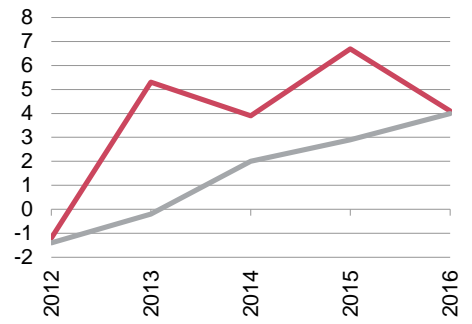
Appendix C
City of Gdansk

Peer Comparison

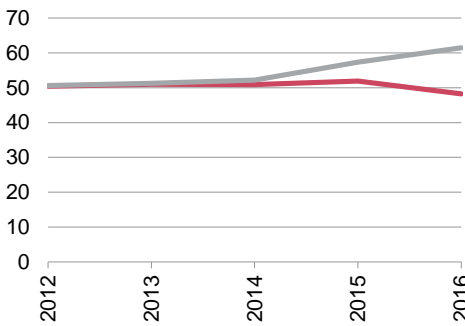
Operating Balance
% Operating Revenue



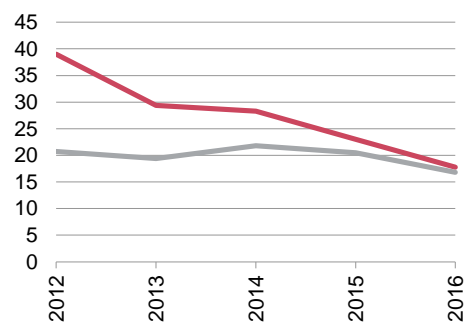
Surplus (Deficit)
% Total Revenue



Taxes
% Operating Revenue



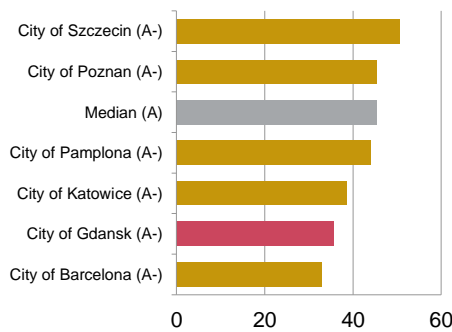
Capital Expenditure
% Total Expenditure



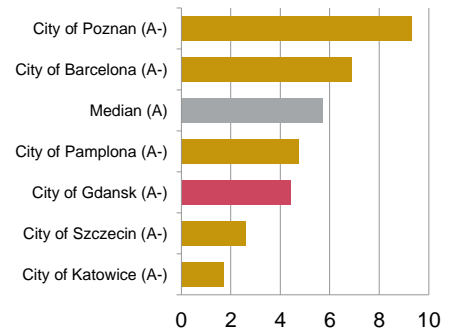
— City of Gdansk

— A- Peer Group Median

Debt
To Current Revenue (%) 2016



Debt Servicing
To Current Revenue (%) 2016



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