

# City of Gdansk

## Key Rating Drivers

**Ratings:** Fitch Ratings affirmed the City of Gdansk's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A-'. The Outlooks are Stable.

**Rating Derivation:** Fitch assesses Gdansk's Standalone Credit Profile (SCP) at 'a+', which results from a 'Midrange' assessment of its Risk Profile and a 'aa' assessment of Debt Sustainability. Gdansk's SCP assessment factors in its profile relative to peers in the same rating category. The city's IDRs are not affected by any asymmetric risk or extraordinary support from the Polish state (A-/Stable). Gdansk's ratings are capped by the sovereign ratings.

**Risk Profile - 'Midrange':** The profile reflects the combined assessment of four key risk factors – revenue robustness, expenditure sustainability, and liabilities and liquidity robustness and flexibility – at 'Midrange', expenditure adjustability at 'Stronger' and revenue adjustability at 'Weaker'.

**Stable Revenue:** The city has stable revenue sources that have growth prospects above national GDP growth. Tax revenue accounts for more than half of Gdansk's operating revenue, of which 93% is not particularly dependent on economic cycles. Current transfers account for 34% of operating revenue, with the majority transfers from the state budget defined by law.

**Flexible Expenditure:** We assume the city has a strong ability to reduce spending in response to shrinking revenue. The city's main responsibilities are moderately non-cyclical. It can reduce or postpone a significant part of its capex and opex as it provides a high level of services and many non-compulsory services to inhabitants, spending about 36% more than cities with the lowest spending per capita.

**Low Liabilities Risk:** Liabilities carry little risk as nearly the whole debt stock consists of long-term loans from international financial institutions with maturities until 2044. However, the majority (73%) of the city's debt has floating interest rates, which exposes the city to interest rate risk, as Polish local governments are not allowed to use derivatives. Gdansk has a long record of high liquidity, which we assume the city will maintain in our rating case scenario.

**Debt Sustainability at 'aa':** Under the rating case, Fitch projects the city's payback ratio to rise in 2020-2021 to above 8x (2019: 2.5x), before it improves to below 7x in 2024. The city's fiscal debt burden ratio will peak following investments in 2022, but still remain strong at 43% before improving to 39% in 2024. The strong fiscal debt burden ratio counterbalances the city's slightly weaker synthetic debt service coverage ratio of 1.7x in 2024.

Fitch expects the city's operating balance to fall in 2020-2021 to around PLN180 million on average (2019: PLN313 million) due to the economic downturn driven by the coronavirus pandemic, and the central government's decisions to cut personal income tax rates and increase teachers' salaries. However, we expect the city's main financial metrics to improve in 2022-2024, as tax proceeds should rebound and most exceptional expenses are not repeated.

**Credit-Neutral ESG Considerations:** The highest level of ESG credit relevance is a score of '3', meaning that ESG issues are credit-neutral or have only a minimal credit impact on the city.

## Rating Sensitivities

**Sovereign Rating Upgrade:** Positive rating action on Poland's IDR could lead to an upgrade, as Gdansk's IDRs are constrained by the sovereign ratings.

**Payback Ratio; Sovereign Downgrade:** The deterioration of the payback ratio above 9x for a sustained period according to Fitch's rating case. Downgrade of the Polish sovereign rating could lead to a downgrade of the city's IDRs.

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on [www.fitchratings.com](http://www.fitchratings.com).

## Ratings

### Foreign Currency

Long-Term IDR A-

### Local Currency

Long-Term IDR A-

### National

Long-Term AAA(pol)

### Outlooks

Long-Term Foreign-Currency IDR Stable

Long-Term Local-Currency IDR Stable

National Long-Term Rating Stable

## Issuer Profile

Gdansk is the capital of the Pomorskie Region in northern Poland, and the largest and wealthiest city in the region. Gdansk's economy is well-diversified and its population growing, unlike the majority of Polish cities.

## Financial Data

City of Gdansk		
(PLNm)	2019	2024rc
Payback (x)	2.5	6.5
Synthetic coverage (x) <sup>a</sup>	5.2	1.7
Actual coverage (x)	2.9	1.5
Fiscal debt burden (%)	23.2	39.2
Net adjusted debt	782	1,578
Operating balance	313	244
Operating revenue	3,364	4,027
Debt service	109	162
Mortgage-style debt annuity <sup>a</sup>	60	141

rc: Fitch's rating-case scenario

<sup>a</sup> Fitch's calculation (see Appendix C)

Source: Fitch Ratings, City of Gdansk

## Applicable Criteria

[International Local and Regional Governments Rating Criteria \(Sep 2020\)](#)

[National Scale Ratings Criteria \(Jun 2020\)](#)

## Related Research

[Coronavirus Lowers Polish Municipalities' Rating Headroom \(Apr 2020\)](#)

[Poland \(Oct 2020\)](#)

## Analysts

Maurycy Michalski

+48 22 330 6701

[maurycy.michalski@fitchratings.com](mailto:maurycy.michalski@fitchratings.com)

Michal Ochijewicz

+48 22 338 6285

[micha.ochijewicz@fitchratings.com](mailto:micha.ochijewicz@fitchratings.com)

## Appendix A: Financial Data

### City of Gdansk

(PLNm)	2016	2017	2018	2019	2020rc	2024rc
Taxes	1,224	1,353	1,483	1,709	1,676	2,026
Transfers received	819	946	993	1,164	1,297	1,433
Fees, fines and other operating revenue	495	507	503	491	514	568
<b>Operating revenue</b>	<b>2,537</b>	<b>2,806</b>	<b>2,979</b>	<b>3,364</b>	<b>3,487</b>	<b>4,027</b>
Operating expenditure	-2,162	-2,411	-2,621	-3,051	-3,300	-3,783
<b>Operating balance</b>	<b>375</b>	<b>395</b>	<b>358</b>	<b>313</b>	<b>187</b>	<b>244</b>
Interest revenue	6	9	5	3	0	0
Interest expenditure	-24	-19	-16	-15	-35	-83
<b>Current balance</b>	<b>357</b>	<b>384</b>	<b>347</b>	<b>300</b>	<b>152</b>	<b>161</b>
Capital revenue	251	108	298	256	350	45
Capital expenditure	-494	-441	-671	-680	-948	-122
<b>Capital balance</b>	<b>-243</b>	<b>-332</b>	<b>-373</b>	<b>-423</b>	<b>-598</b>	<b>-77</b>
<b>Total revenue</b>	<b>2,794</b>	<b>2,923</b>	<b>3,281</b>	<b>3,623</b>	<b>3,837</b>	<b>4,072</b>
<b>Total expenditure</b>	<b>-2,680</b>	<b>-2,871</b>	<b>-3,307</b>	<b>-3,746</b>	<b>-4,283</b>	<b>-3,988</b>
<b>Surplus (deficit) before net financing</b>	<b>114</b>	<b>52</b>	<b>-26</b>	<b>-123</b>	<b>-446</b>	<b>84</b>
New direct debt borrowing	0	0	0	300	555	50
Direct debt repayment	-89	-91	-94	-94	-65	-79
Net direct debt movement	-89	-91	-94	206	490	-29
<b>Overall results</b>	<b>26</b>	<b>-39</b>	<b>-120</b>	<b>83</b>	<b>44</b>	<b>55</b>
<b>Debt</b>						
Short-term debt	0	0	0	0	0	0
Long-term debt	906	815	722	928	1,418	2,088
<b>Direct debt</b>	<b>906</b>	<b>815</b>	<b>722</b>	<b>928</b>	<b>1,418</b>	<b>2,088</b>
Other Fitch-classified debt	20	13	7	1	0	0
<b>Adjusted debt</b>	<b>925</b>	<b>829</b>	<b>729</b>	<b>929</b>	<b>1,418</b>	<b>2,088</b>
Guarantees issued (excluding adjusted debt portion)	0	3	3	3	0	0
Majority-owned GRE debt and other contingent liabilities	312	298	261	214	275	275
<b>Overall adjusted debt</b>	<b>1,238</b>	<b>1,130</b>	<b>993</b>	<b>1,146</b>	<b>1,693</b>	<b>2,363</b>
Total cash, liquid deposits, and sinking funds	223	186	186	147	191	510
Restricted cash	0	0	0	0	0	0
Unrestricted cash	223	186	186	147	191	510
<b>Net adjusted debt</b>	<b>702</b>	<b>643</b>	<b>543</b>	<b>782</b>	<b>1,227</b>	<b>1,578</b>
<b>Net overall debt</b>	<b>1,015</b>	<b>945</b>	<b>808</b>	<b>999</b>	<b>1,502</b>	<b>1,853</b>

rc: Fitch's rating case, based on conservative assumptions. The last year of the rating case scenario is 2024.

Source: Fitch Ratings, City of Gdansk

### Rating History

Date	Long-Term Foreign-Currency	Long-Term Local-Currency
27 Mar 15	A-	A-
21 Nov 07	BBB+	BBB+
20 Dec 04	BBB	BBB

Source: Fitch Ratings

### City of Gdansk



Source: Fitch Ratings

### Socioeconomic Indicators

	City of Gdansk	Poland
Population, 2019 (m)	0.471	38.4
Average salary, 2018 (PLN)	5,642	4,835
Unemployment rate, 2019 (%)	2.3	5.2

Source: Fitch Ratings, Statistics Poland

## Appendix B: Financial Ratios

### City of Gdansk

Fiscal performance ratios	2016	2017	2018	2019	2020rc	2024rc
Operating balance/operating revenue (%)	14.8	14.1	12.0	9.3	5.4	6.1
Current balance/current revenue (%)	14.0	13.6	11.6	8.9	4.4	4.0
Operating revenue growth (annual % change)	12.0	10.6	6.2	12.9	3.7	4.0
Operating expenditure growth (annual % change)	14.2	11.5	8.7	16.4	8.2	3.9
Surplus (deficit) before net financing/total revenue (%)	4.1	1.8	-0.8	-3.4	-11.6	2.1
Total revenue growth (annual % change)	2.8	4.6	12.3	10.4	5.9	2.8
Total expenditure growth (annual % change)	5.7	7.1	15.2	13.3	14.3	0.7

### Debt ratios

#### Primary metrics

Payback ratio (x)	1.9	1.6	1.5	2.5	6.6	6.5
-------------------	-----	-----	-----	-----	-----	-----

#### Secondary metrics

Fiscal debt burden (%)	27.7	22.9	18.2	23.2	35.2	39.2
Synthetic debt service coverage ratio (x)	6.6	7.8	8.4	5.2	1.8	1.7
Actual debt service coverage ratio (x)	3.3	3.6	3.3	2.9	1.9	1.5

### Other debt ratios

Liquidity coverage ratio (x)	5.0	5.6	5.0	4.6	3.3	4.3
Direct debt maturing in one year/total direct debt (%)	10.0	11.5	13.0	7.0	3.7	3.8
Direct debt (annual % change)	-8.9	-10.0	-11.5	28.6	52.8	-1.4
Apparent cost of direct debt (interest paid/direct debt) (%)	2.6	2.2	2.0	1.9	3.0	3.9

### Revenue ratios

Tax revenue/total revenue (%)	43.8	46.3	45.2	47.2	43.7	49.8
Current transfers received/total revenue (%)	29.3	32.4	30.3	32.1	33.8	35.2
Interest revenue/total revenue (%)	0.2	0.3	0.1	0.1	0.0	0.0
Capital revenue/total revenue (%)	9.0	3.7	9.1	7.1	9.1	1.1

### Expenditure ratios

Staff expenditure/total expenditure (%)	29.6	28.7	27.6	26.2	-	-
Current transfers made/total expenditure (%)	10.7	13.2	12.3	10.8	-	-
Interest expenditure/total expenditure (%)	0.9	0.7	0.5	0.4	0.8	2.1
Capital expenditure/total expenditure (%)	18.4	15.3	20.3	18.1	22.1	3.1

rc: Fitch's rating case, based on conservative assumptions. The last year of the rating case scenario is 2024.  
Source: Fitch Ratings, City of Gdansk

## Appendix C: Data Adjustments

### Synthetic Coverage Calculation

Fitch's synthetic coverage calculation assumes a mortgage-style amortisation over 15 years of the entity's net adjusted debt, using its average cost of debt. This synthetic calculation is used to assess the city's debt sustainability.

### Mortgage-Style Debt Annuity Calculation

	2019	2024rc
Net adjusted debt (PLNm)	782	1,578
Apparent cost of debt (%)	1.9%	3.9%
Amortisation period (years)	15	15
<b>Mortgage-style debt annuity (PLNm)</b>	<b>60</b>	<b>141</b>

rc: Fitch's rating-case scenario.  
Source: Fitch Ratings, City of Gdansk

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://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.

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.