

City of Gdansk

Key Rating Drivers

Rating Derivation Summary: Fitch Ratings assesses City of 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 Issuer Default Ratings (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 46% Gdansk's operating revenue, of which more than 90% is not particularly dependent on economic cycles. Current transfers account for almost 40% of operating revenue, with the majority being 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. It spends about 36% more than cities with the lowest expenditure 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 (57%) 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 – 'aa' Category: We project a further weakening of the operating balance in 2021, which will erode debt payback to above 5x (2020: 3.3x). Increasing debt will contribute to debt payback rising above 6x in the medium term. For the secondary metrics, Fitch projects that the fiscal debt burden will peak following investments in 2023, but remain strong at below 43%. The synthetic debt service coverage ratio averages 2x during our rating case. These metrics result in an overall debt sustainability assessment at the upper end of the 'aa' category.

'Polish Deal' Not Included: We have not included the effects of the proposed Polish Deal package in our rating-case projections, as the legislative work has just recently ended (November 16, 2021), which has made it difficult to assess the full effects on the city's budget.

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.

Ratings

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

Outlooks

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

Issuer Profile

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

Financial Data

City of Gdansk (PLNm)	2020	2025rc
Payback (x)	3.3	6.5
Synthetic coverage (x) ^a	4.1	1.9
Fiscal debt burden (%)	23.0	38.1
Net adjusted debt	816	1,614
Operating balance	245	247
Operating revenue	3,543	4,240
Debt service	77	159
Mortgage-style debt annuity ^a	60	129

rc: Fitch's rating-case scenario
^a Fitch's calculation (see Appendix C)
 Source: Fitch Ratings, City of Gdansk

Applicable Criteria

[International Local and Regional Governments Rating Criteria \(September 2021\)](#)
[National Scale Ratings Criteria \(December 2020\)](#)

Related Research

[Poland \(September 2021\)](#)
[Fitch Affirms Polish City of Gdansk at 'A-'; Outlook Stable \(October 2021\)](#)
['Polish Deal' Tax Proposals Would Hit Municipalities' Revenues \(September 2021\)](#)

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Appendix A: Financial Data

City of Gdansk

(PLNm)	2017	2018	2019	2020	2021rc	2025rc
Taxes	1,353	1,483	1,709	1,640	1,714	2,034
Transfers received	946	993	1,164	1,390	1,425	1,588
Fees, fines and other operating revenue	507	503	491	513	537	618
Operating revenue	2,806	2,979	3,364	3,543	3,675	4,240
Operating expenditure	-2,411	-2,621	-3,051	-3,298	-3,446	-3,993
Operating balance	395	358	313	245	229	247
Interest revenue	9	5	3	3	0	0
Interest expenditure	-19	-16	-15	-13	-15	-47
Current balance	384	347	300	236	215	200
Capital revenue	108	298	256	383	159	0
Capital expenditure	-441	-671	-680	-625	-699	-127
Capital balance	-332	-373	-423	-242	-540	-127
Total revenue	2,923	3,281	3,623	3,929	3,835	4,240
Total expenditure	-2,871	-3,307	-3,746	-3,936	-4,160	-4,167
Surplus (deficit) before net financing	52	-26	-123	-6	-325	72
New direct debt borrowing	0	0	300	250	204	31
Direct debt repayment	-91	-94	-94	-65	-52	-112
Net direct debt movement	-91	-94	206	185	152	-81
Overall results	-39	-120	83	179	-174	-9
Debt						
Short-term debt	0	0	0	0	0	0
Long-term debt	815	722	928	1,113	1,265	1,913
Direct debt	815	722	928	1,113	1,265	1,913
Other Fitch-classified debt	13	7	1	29	113	266
Adjusted debt	829	729	929	1,142	1,378	2,179
Guarantees issued (excluding adjusted debt portion)	3	3	3	3	3	3
Majority-owned GRE debt and other contingent liabilities	298	261	214	169	129	83
Overall adjusted debt	1,130	993	1,146	1,314	1,510	2,266
Total cash, liquid deposits and sinking funds	186	186	147	326	153	566
Restricted cash	0	0	0	0	0	0
Unrestricted cash	186	186	147	326	153	566
Net adjusted debt	643	543	782	816	1,225	1,614

rc: Fitch's rating case, based on conservative assumptions. The last year of the rating-case scenario is 2025.

Source: Fitch Ratings, City of Gdansk

City of Gdansk



Source: Fitch Ratings

Socioeconomic Indicators

	Gdansk	Poland
Population (2020, m)	0.471	38.3
Average salary (2019, PLN)	6,154	5,182
Unemployment rate (2020, %)	3.5	6.2

Source: Fitch Ratings, Statistics, Poland

Appendix B: Financial Ratios

City of Gdansk

Fiscal performance ratios	2017	2018	2019	2020	2021rc	2025rc
Operating balance/operating revenue (%)	14.1	12.0	9.3	6.9	6.2	5.8
Current balance/current revenue (%)	13.6	11.6	8.9	6.6	5.8	4.7
Operating revenue growth (annual % change)	10.6	6.2	12.9	5.3	3.7	2.5
Operating expenditure growth (annual % change)	11.5	8.7	16.4	8.1	4.5	2.7
Surplus (deficit) before net financing/total revenue (%)	1.8	-0.8	-3.4	-0.2	-8.5	1.7
Total revenue growth (annual % change)	4.6	12.3	10.4	8.5	-2.4	1.8
Total expenditure growth (annual % change)	7.1	15.2	13.3	5.1	5.7	0.3
Primary metrics						
Payback ratio (x)	1.6	1.5	2.5	3.3	5.3	6.5
Secondary metrics						
Fiscal debt burden (%)	22.9	18.2	23.2	23.0	33.3	38.1
Synthetic debt service coverage ratio (x)	7.8	8.4	5.2	4.1	2.5	1.9
Actual debt service coverage ratio (x)	3.6	3.3	2.9	3.2	3.4	1.6
Other debt ratios						
Liquidity coverage ratio (x)	5.6	5.0	4.6	5.1	8.3	5.2
Direct debt maturing in one year/total direct debt (%)	11.5	13.0	7.0	4.7	-	-
Direct debt (annual % change)	-10.0	-11.5	28.6	20.0	13.6	-4.1
Apparent cost of direct debt (interest paid/direct debt) (%)	2.2	2.0	1.9	1.2	1.2	2.4
Revenue ratios (%)						
Tax revenue/total revenue	46.3	45.2	47.2	41.7	44.7	48.0
Current transfers received/total revenue	32.4	30.3	32.1	35.4	37.1	37.4
Interest revenue/total revenue	0.3	0.1	0.1	0.1	0.0	0.0
Capital revenue/total revenue	3.7	9.1	7.1	9.8	4.2	0.0
Expenditure ratios (%)						
Staff expenditure/total expenditure	28.7	27.6	26.2	27.2	-	-
Current transfers made/total expenditure	13.2	12.3	10.8	12.5	-	-
Interest expenditure/total expenditure	0.7	0.5	0.4	0.3	0.4	1.1
Capital expenditure/total expenditure	15.3	20.3	18.1	15.9	16.8	3.1

rc: Fitch's rating case, based on conservative assumptions. The last year of the rating-case scenario is 2025.

Source: Fitch Ratings, City of Gdansk

Appendix C: Data Adjustments

Net Adjusted Debt

Fitch included the debt of the city's municipal company Port Czystej Energii – aimed at financing the solid waste thermal neutralisation facility – into “Other Fitch-classified debt” as the investment has been concluded in the special-purpose vehicle structure. The facility is currently in construction phase and will not be fully operational until 2024.

Gdansk's adjusted debt was PLN1,142 million at end-2020. Net adjusted debt corresponds to the difference between adjusted debt and the year-end available cash viewed as “unrestricted” by Fitch (PLN326 million). Gdansk's net adjusted debt amounted to PLN816 million at end-2020 (compared with PLN782 million at end-2019).

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 Polish local and regional governments' debt sustainability.

Mortgage-Style Debt Annuity Calculation

(PLNm)	2020	2025rc
Net adjusted debt	816	1,614
Apparent cost of debt (%)	1.2	2.4
Amortisation period (years)	15	15
Mortgage-style debt annuity	60	129

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

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