

City of Gdansk

Key Rating Drivers

Ratings Affirmed: Fitch Ratings' affirmation of the City of Gdansk's Issuer Default Ratings (IDRs) at 'A-' with Stable Outlook and removal from Rating Watch Negative reflects clarification of the expected impact of the 'Polish Deal' fiscal reform on the city's debt sustainability.

Risk Profile 'Midrange': Fitch assesses the city's Risk Profile as 'Midrange' in line with the majority of other Fitch-rated Polish municipalities. The assessment reflects Fitch's view of a moderately low risk of the city's ability to cover debt service with the operating balance weakening unexpectedly over the scenario horizon due to lower revenue, higher expenditure, or an unexpected rise in liabilities or debt or debt-service requirements.

The assessment considers a combination of four factors at 'Midrange' (revenue robustness, expenditure sustainability, liabilities and liquidity flexibility and robustness), one at 'Stronger' (expenditure adjustability) and one at 'Weaker' (revenue adjustability).

Impact of Tax Reform: Fitch has revised its rating-case assumptions to factor in recent changes stemming from the 'Polish Deal' tax reform, which resulted in lower tax revenue and higher inflation that put pressure on expenditure. We believe that future subsidies from the state budget will be insufficient to compensate for the financial implications of the reform.

Debt Sustainability – 'aa' Category: The city's payback will weaken to above 8x on average in 2025-2026 from 2.3x in 2021, following a weaker operating balance projected under our rating case and an increase in net adjusted debt (to PLN1,812 million in 2026), but still remain compatible with 'aa' debt sustainability. The fiscal debt burden ratio is likely to remain below 45% of operating revenue on average, counterbalancing the city's weaker synthetic debt service coverage ratio, which is likely to worsen to 1.7x on average (6.3x in 2021).

Rating Derivation Summary: Fitch has revised Gdansk's Standalone Credit Profile (SCP) to 'a-' from 'a+'. This reflects a combination of the 'Midrange' Risk Profile and a weaker Debt Sustainability at the lower end of the 'aa' category. The SCP considers the city's positioning against other entities, in particular Polish local and regional governments (LRGs). The city's IDRs are not affected by any other rating factors.

This is a text exhibit 'Summary on Debt Sustainability Text'. See instructions in side pane.

ESG: 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 Upgrade, Improved Payback: The rating could be upgraded if the debt payback ratio remains lower or equal to 7.5x on a sustained basis under Fitch's rating case, provided the sovereign is also upgraded, as the city's IDRs are currently equal to those of the Polish sovereign (A-/Stable).

Sovereign Downgrade, Payback Deterioration: A downgrade of Poland's sovereign ratings or a downward revision of the city's SCP, which could be driven by a deterioration in debt metrics, particularly debt payback rising above 9x on a sustained basis under Fitch's rating case, could lead to a downgrade.

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.

Ratings

Foreign Currency

Long-Term IDR A-

Local Currency

Long-Term IDR A-

National Rating

National Long-Term Rating AAA(pol)

Outlooks

Long-Term Foreign-Currency IDR Stable

Long-Term Local-Currency IDR Stable

National Long-Term Rating Stable

Issuer Profile Summary

Gdansk is the capital of the Pomorskie Region with around 470,600 inhabitants at end-2021. It is the largest and wealthiest city in northern Poland, with a well-diversified local economy. The unemployment rate was 3.0% (Poland: 5.4%) at end-2021.

Financial Data Summary

City of Gdansk

(PLNm)	2021	2026rc
Payback ratio (x)	2.3	8.5
Synthetic coverage (x)	6.3	1.2
Fiscal debt burden (%)	21.8	42.2
Net adjusted debt	865	1,812
Operating balance	379	212
Operating revenue	3,971	4,291
Debt service	61	217
Mortgage-style debt annuity	61	173

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

Applicable Criteria

[International Local and Regional Governments Rating Criteria \(September 2021\)](#)

Related Research

[Fitch Takes Rating Actions on Polish LGs \(September 2022\)](#)

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Appendix A: Financial Data

City of Gdansk

(PLNm)	2018	2019	2020	2021	2022rc	2023rc	2024rc	2025rc	2026rc
Fiscal performance									
Taxes	1,483	1,709	1,640	1,916	1,812	1,896	2,036	2,137	2,239
Transfers received	993	1,164	1,390	1,430	1,329	1,215	1,267	1,278	1,318
Fees, fines and other operating revenues	503	491	513	625	653	687	702	718	735
Operating revenue	2,979	3,364	3,543	3,971	3,794	3,798	4,005	4,133	4,291
Operating expenditure	-2,621	-3,051	-3,298	-3,591	-3,479	-3,575	-3,797	-3,926	-4,079
Operating balance	358	313	245	379	315	223	208	207	212
Interest revenue	5	3	3	0	20	20	0	0	0
Interest expenditure	-16	-15	-13	-9	-40	-73	-83	-83	-80
Current balance	347	300	236	371	295	171	125	123	132
Capital revenue	298	256	383	221	145	281	328	320	331
Capital expenditure	-671	-680	-625	-567	-659	-678	-564	-551	-570
Capital balance	-373	-423	-242	-346	-514	-397	-237	-231	-239
Total revenue	3,281	3,623	3,929	4,192	3,959	4,099	4,332	4,453	4,622
Total expenditure	-3,307	-3,746	-3,936	-4,167	-4,179	-4,325	-4,444	-4,560	-4,729
Surplus (deficit) before net financing	-26	-123	-6	25	-219	-227	-112	-108	-107
New direct debt borrowing	0	300	250	4	-	-	-	-	-
Direct debt repayment	-94	-94	-65	-52	-	-	-	-	-
Net direct debt movement	-94	206	185	-49	152	175	94	108	103
Overall results	-120	84	179	-24	-67	-52	-18	0	-4
Debt and liquidity									
Short-term debt	0	0	0	0	0	0	0	0	0
Long-term debt	722	928	1,113	1,065	1,217	1,392	1,486	1,594	1,697
Direct debt	722	928	1,113	1,065	1,217	1,392	1,486	1,594	1,697
Other Fitch-classified debt	7	1	29	104	297	343	310	294	278
Adjusted debt	729	929	1,142	1,168	1,514	1,734	1,796	1,888	1,975
Guarantees issued (excluding adjusted debt portion)	3	3	3	6	-	-	-	-	-
Majority-owned GRE debt and other contingent liabilities	261	224	169	146	146	146	146	146	146
Overall adjusted debt	993	1,156	1,315	1,320	1,660	1,880	1,942	2,034	2,121
Total cash, liquid deposits, and sinking funds	186	147	326	303	236	184	167	167	163
Restricted cash	0	0	0	0	0	0	0	0	0
Unrestricted cash	186	147	326	303	236	184	167	167	163
Net adjusted debt	543	782	816	865	1,278	1,550	1,629	1,721	1,812
Net overall debt	808	1,009	989	1,017	1,424	1,696	1,775	1,867	1,958

rc: Fitch's rating-case scenario

Source: Fitch Ratings, Fitch Solutions, City of Gdansk

Appendix B: Financial Ratios

City of Gdansk

	2018	2019	2020	2021	2022rc	2023rc	2024rc	2025rc	2026rc
Fiscal performance ratios									
Operating balance/operating revenue (%)	12.0	9.3	6.9	9.6	8.3	5.9	5.2	5.0	5.0
Current balance/current revenue (%)	11.6	8.9	6.7	9.3	7.7	4.5	3.1	3.0	3.1
Operating revenue growth (annual % change)	6.2	12.9	5.3	12.1	-4.5	0.1	5.4	3.2	3.8
Operating expenditure growth (annual % change)	8.7	16.4	8.1	8.9	-3.1	2.8	6.2	3.4	3.9
Surplus (deficit) before net financing/total revenue (%)	-0.8	-3.4	-0.2	0.6	-5.5	-5.5	-2.6	-2.4	-2.3
Total revenue growth (annual % change)	12.3	10.4	8.5	6.7	-5.5	3.5	5.7	2.8	3.8
Total expenditure growth (annual % change)	15.2	13.3	5.1	5.9	0.3	3.5	2.8	2.6	3.7
Debt ratios									
Primary metrics									
Payback ratio (x) (net adjusted debt to operating balance)	1.5	2.5	3.3	2.3	4.1	6.9	7.8	8.3	8.5
Secondary metrics									
Fiscal debt burden (%) (net debt-to-operating revenue)	18.2	23.2	23.0	21.8	33.7	40.8	40.7	41.6	42.2
Synthetic debt service coverage ratio (x)	8.3	5.3	4.0	6.3	2.8	1.4	1.3	1.2	1.2
Other debt ratios									
Liquidity coverage ratio (x)	5.0	4.6	5.1	11.6	6.7	3.3	2.2	1.8	1.8
Direct debt maturing in one year/total direct debt (%)	13.0	7.0	4.7	4.9	0.0	0.0	0.0	0.0	0.0
Direct debt (annual % change)	-11.5	28.6	20.0	-4.4	14.3	14.4	6.8	7.3	6.5
Apparent cost of direct debt (interest paid/direct debt) (%)	2.0	1.9	1.2	0.8	3.5	5.6	5.8	5.4	4.9
Revenue ratios									
Tax revenue/total revenue (%)	45.2	47.2	41.8	45.7	45.8	46.3	47.0	48.0	48.4
Current transfers received/total revenue (%)	30.3	32.1	35.4	34.1	33.6	29.6	29.2	28.7	28.5
Interest revenue/total revenue (%)	0.1	0.1	0.1	0.0	0.5	0.5	0.0	0.0	0.0
Capital revenue/total revenue (%)	9.1	7.1	9.8	5.3	3.7	6.9	7.6	7.2	7.2
Expenditure ratios									
Staff expenditure/total expenditure (%)	27.6	26.2	27.2	28.9	-	-	-	-	-
Current transfers made/total expenditure (%)	12.4	10.8	12.6	12.7	-	-	-	-	-
Interest expenditure/total expenditure (%)	0.5	0.4	0.3	0.2	1.0	1.7	1.9	1.8	1.7
Capital expenditure/total expenditure (%)	20.3	18.1	15.9	13.6	15.8	15.7	12.7	12.1	12.1

rc: Fitch's rating-case scenario

Source: Fitch Ratings, Fitch Solutions, City of Gdansk

Appendix C: Data Adjustments

Net Adjusted Debt Calculations

Gdansk's direct debt was PLN1,065 million at end-2021, down from PLN1,113 million at end-2020. Net adjusted debt corresponds to the difference between adjusted debt and the year-end available cash that Fitch views as "unrestricted" (PLN417 million at end-2021 or PLN303 million if we deduct the one-off subsidy received in December 2021). The city's net adjusted debt was PLN865 million (with the subsidy not considered) at end-2021, compared with PLN816 million in 2020, as it did not draw new debt while the cash balance decreased at end-2021.

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 LRGs' debt sustainability.

Mortgage-Style Debt Annuity Calculation

(PLNm)	2021	2026 ^{rc}
Net adjusted debt	865	1,812
Apparent cost of debt, %	0.8	4.9
Amortisation period, years	15	15
Mortgage-style debt annuity	61	173

rc: Fitch's rating-case scenario

Source: Fitch Ratings, City of Gdansk

Specific Adjustments

Fitch deducted the PLN114 million one-off additional subsidy that the city received in December 2021 from the 2021 accounts (together with the respective cash adjustment) and added it to the budgeted current transfers and cash in 2022. This was because the subsidy aims to cover income tax revenue shortfalls resulting from the introduction of the 'Polish Deal' tax reform in 2022. Another reason was to smooth operating revenue and allow for better comparison in 2020-2023.

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