

City of Gdansk

Key Rating Drivers

Ratings Affirmed: Affirmation of the City of Gdansk’s ratings reflects Fitch Ratings’ continued view that the city’s operating performance and debt ratios will remain in line with peers rated ‘A-’ over the medium term, despite pressures on the city’s budget stemming from increasing prices, continued macroeconomic spillover from the war in Ukraine and the implementation of the Polish Deal tax reform.

Risk Profile ‘Midrange’: Fitch assesses Gdansk’s risk profile as ‘Midrange’, in line with other Fitch-rated Polish cities. The risk profile (or debt tolerance) reflects a moderate risk of the city’s operating balance shrinking over the medium term to levels that are insufficient to cover debt service or of annual debt service rising above expectations.

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: We continue to believe that the future subsidies from the state budget will be insufficient to compensate for the financial implications of the Polish Deal reform. This will lead to weaker city debt metrics, although they will remain commensurate with the current Standalone Credit Profile (SCP) of ‘a-’.

Debt Sustainability – ‘aa’ Category: The city’s payback will weaken substantially to above 14x in 2023 (2022:2.3x), before it begins improving back towards 7x in the medium term, following a weaker operating balance projected under our rating case and an increase in net adjusted debt (to PLN1,400 million in 2027). The fiscal debt burden ratio is likely to remain below 35% of operating revenue on average, while the city’s synthetic debt service coverage ratio is likely to worsen to 1.5x throughout 2025-2027 on average (5.0x in 2022).

Deteriorating operating performance: In 1H23 Gdansk reported good, albeit declining operating results, with an operating balance of PLN258 million (end-1H22:PLN289 million), or about 12% of operating revenue. Fitch’s rating case expects the city’s operating balance to continue to decline in 2023 to a low PLN72 million, before it rebounds to an average of around PLN180 million a year, which will still be just below 60% of the four-year average of PLN315 million.

Rating Derivation Summary: Gdansk’s SCP of ‘a-’ reflects a combination of the ‘Midrange’ Risk Profile and a 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.

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: A debt payback ratio remaining lower than or equal to 7.5x on a sustained basis under Fitch’s rating case could lead to an upgrade, provided the sovereign is also upgraded, as the city’s IDRs are equalised with 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 deterioration in debt metrics, particularly debt payback rising above 9x on a sustained basis under Fitch’s rating case would be rating negative. A downgrade of Poland’s sovereign ratings would also be rating negative.

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 486,340 inhabitants at end-2022. It is the largest and wealthiest city in northern Poland, with a well-diversified local economy. The unemployment rate was 2.3% (Poland: 5.2%) at end-2022.

Financial Data Summary

City of Gdansk			
(PLNm)	2022	2027rc	
Payback ratio (x)	2.3	7.1	
Synthetic coverage (x)	5.0	1.5	
Actual coverage (x)	3.7	1.3	
Fiscal debt burden (%)	17.9	29.7	
Net adjusted debt	744	1,412	
Operating balance	324	198	
Operating revenue	4,159	4,755	
Debt service	89	157	
Mortgage-style debt annuity	65	130	

rc: Fitch’s rating-case scenario
Source: Fitch Ratings, Fitch Solutions, Gdansk,

Applicable Criteria

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

[National Scale Rating Criteria \(December 2020\)](#)

Related Research

[Fitch Affirms Poland at ‘A-’; Outlook Stable \(June 2023\)](#)

[Polish Cities Face Funding Uncertainty and Rising Costs \(October 2023\)](#)

[Polish Municipalities – peer review 2023 \(October 2023\)](#)

Analysts

Maurycy Michalski
+48 22 103 3027
maurycy.michalski@fitchratings.com

Marcin Lipecki
+48 22 103 3042
marcin.lipecki@fitchratings.com

Appendix A: Financial Data

City of Gdansk

(PLNm)	2019	2020	2021	2022	2023rc	2024rc	2025rc	2026rc	2027rc
Fiscal performance									
Taxes	1,709	1,640	1,916	1,955	1,930	2,060	2,286	2,214	2,323
Transfers received	1,164	1,390	1,430	1,457	1,136	1,307	1,335	1,491	1,572
Fees, fines and other operating revenues	491	513	625	748	792	798	818	839	860
Operating revenue	3,364	3,543	3,971	4,159	3,858	4,164	4,440	4,544	4,755
Operating expenditure	-3,051	-3,298	-3,591	-3,836	-3,786	-3,998	-4,247	-4,354	-4,557
Operating balance	313	245	379	324	72	166	192	191	198
Interest revenue	3	3	0	31	34	2	2	2	2
Interest expenditure	-15	-13	-9	-37	-60	-77	-78	-71	-66
Current balance	300	236	371	318	46	92	117	122	134
Capital revenue	256	383	221	311	284	122	189	191	227
Capital expenditure	-680	-625	-567	-603	-626	-520	-326	-329	-392
Capital balance	-423	-242	-346	-292	-342	-398	-137	-138	-164
Total revenue	3,623	3,929	4,192	4,501	4,176	4,288	4,631	4,737	4,985
Total expenditure	-3,746	-3,936	-4,167	-4,475	-4,472	-4,594	-4,651	-4,753	-5,015
Surplus (deficit) before net financing	-123	-6	25	26	-296	-306	-20	-16	-30
New direct debt borrowing	300	250	4	11	0	0	0	0	0
Direct debt repayment	-94	-65	-52	-52	0	0	0	0	0
Net direct debt movement	206	185	-49	-41	136	584	-81	-81	-79
Overall results	84	179	-24	-15	-161	278	-101	-97	-109
Debt and Liquidity									
Short-term debt	0	0	0	0	0	0	0	0	0
Long-term debt	928	1,113	1,065	1,024	1,159	1,743	1,663	1,582	1,503
Direct debt	928	1,113	1,065	1,024	1,159	1,743	1,663	1,582	1,503
Other fitch-classified debt	1	29	104	0	0	0	0	0	0
Adjusted debt	929	1,142	1,168	1,024	1,159	1,743	1,663	1,582	1,503
Guarantees issued (excluding adjusted debt portion)	3	3	6	213	315	422	394	375	356
Majority-owned GRE debt and other contingent liabilities	224	169	146	121	83	41	34	30	21
Overall adjusted debt	1,156	1,315	1,320	1,358	1,557	2,206	2,090	1,987	1,880
Total cash, liquid deposits, and sinking funds	147	326	303	280	120	398	297	200	91
Restricted cash	0	0	0	0	0	0	0	0	0
Unrestricted cash	147	326	303	280	120	398	297	200	91
Net adjusted debt	782	816	865	744	1,040	1,346	1,366	1,382	1,412
Net overall debt	1,009	989	1,017	1,078	1,438	1,808	1,793	1,787	1,789

Source: Fitch Ratings, Fitch Solutions, City of Gdansk

Appendix B: Financial Ratios

City of Gdansk

	2019	2020	2021	2022	2023rc	2024rc	2025rc	2026rc	2027rc
Fiscal performance ratios									
Operating balance/operating revenue (%)	9.3	6.9	9.6	7.8	1.9	4.0	4.3	4.2	4.2
Current balance/current revenue (%)	8.9	6.7	9.3	7.6	1.2	2.2	2.6	2.7	2.8
Operating revenue growth (annual % change)	12.9	5.3	12.1	4.8	-7.2	7.9	6.6	2.4	4.7
Operating expenditure growth (annual % change)	16.4	8.1	8.9	6.8	-1.3	5.6	6.3	2.5	4.7
Surplus (deficit) before net financing/total revenue (%)	-3.4	-0.2	0.6	0.6	-7.1	-7.1	-0.4	-0.3	-0.6
Total revenue growth (annual % change)	10.4	8.5	6.7	7.4	-7.2	2.7	8.0	2.3	5.2
Total expenditure growth (annual % change)	13.3	5.1	5.9	7.4	-0.1	2.7	1.2	2.2	5.5
Debt ratios									
Primary metrics									
Payback ratio (x) (Net adjusted debt to operating balance)	2.5	3.3	2.3	2.3	14.5	8.1	7.1	7.3	7.1
Secondary metrics									
Fiscal debt burden (%) (Net Debt-to-operating revenue)	23.2	23.0	21.8	17.9	27.0	32.3	30.8	30.4	29.7
Synthetic debt service coverage ratio (x)	5.3	4.0	6.3	5.0	0.7	1.3	1.5	1.5	1.5
Other debt ratios									
Liquidity coverage ratio (x)	4.6	5.1	11.6	7.1	3.1	2.0	3.6	3.1	2.5
Direct debt maturing in one year/total direct debt (%)	7.0	4.7	4.9	5.1	0.0	0.0	0.0	0.0	0.0
Direct debt (annual % change)	28.6	20.0	-4.4	-3.9	13.2	50.4	-4.6	-4.9	-5.0
Apparent cost of direct debt (interest paid/direct debt) (%)	1.9	1.2	0.8	3.5	5.5	5.3	4.6	4.4	4.3
Revenue ratios									
Tax revenue/total revenue (%)	47.2	41.8	45.7	43.4	46.2	48.0	49.4	46.7	46.6
Current transfers received/total revenue (%)	32.1	35.4	34.1	32.4	27.2	30.5	28.8	31.5	31.5
Interest revenue/total revenue (%)	0.1	0.1	0.0	0.7	0.8	0.1	0.0	0.0	0.0
Capital revenue/total revenue (%)	7.1	9.8	5.3	6.9	6.8	2.9	4.1	4.0	4.6
Expenditure ratios									
Staff expenditure/total expenditure (%)	26.2	27.2	28.9	29.4	-	-	-	-	-
Current transfers made/total expenditure (%)	10.8	12.6	12.7	14.0	-	-	-	-	-
Interest expenditure/total expenditure (%)	0.4	0.3	0.2	0.8	1.4	1.7	1.7	1.5	1.3
Capital expenditure/total expenditure (%)	18.1	15.9	13.6	13.5	14.0	11.3	7.0	6.9	7.8

Source: Fitch Ratings, Fitch Solutions, City of Gdansk

Appendix C: Data Adjustments

Net Adjusted Debt Calculations

Gdansk's direct debt was PLN1,024 million at end-2022, down from PLN1,065 million at end-2021. Net adjusted debt corresponds to the difference between adjusted debt and the year-end available cash that Fitch views as "unrestricted" (PLN280 million at end-2022). The city's net adjusted debt was PLN744 million at end-2022, compared with PLN865 million in 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)	2022	2027 ^{rc}
Net adjusted debt	744	1,412
Apparent cost of debt (%)	3.5	4.3
Amortisation period, years	15	15
Mortgage-style debt annuity	65	130

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.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. 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. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

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.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2023 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.