FitchRatings

City of Gdansk

The 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 five-year rating horizon. We forecast a deterioration of the payback ratio in the medium term, due to continued high investment expenditure requiring debt finance, coupled with weaker operating performance expectations.

Changes to the local and regional governments' (LRGs) funding mechanism, which started with the Polish Deal tax reform, and still-high inflation will continue to put pressure on the city's operating balance

Key Rating Drivers

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).

Debt Sustainability – 'aa' Category: The city's payback will weaken substantially to above 9x in 2024 (2023: 4.7x), 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 above PLN1,900 million in 2028). The fiscal debt burden ratio is likely to remain below 40% of operating revenue on average, while the city's synthetic debt service coverage ratio is likely to worsen to 1.3x throughout 2024-2028 on average (2.4x in 2023).

Deteriorating Operating Performance: In 2023, Gdansk reported good, albeit declining, operating results, with an operating balance of PLN217 million (2022: PLN324 million), or about 5.3% of operating revenue. Fitch's rating case is for the city's operating balance to continue to decline in 2024 to a low PLN141 million, before it rebounds to an average of around PLN215 million a year, which will still be just below the five-year average of PLN296 million.

Rating Derivation Summary: Gdansk's Standalone Credit Profile (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 LRGs. The city's IDRs are not affected by any other rating factors.

No support factors are taken into consideration of IDR, all asymmetric risks are neutral to the IDR, Gdansk's SCP of 'a-' is at the same level as the sovereign rating of 'A-', no caps and floors are applicable in this case.

Public Finance
Local and Regional Governments
Poland

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 a well-diversified local economy. Unlike the majority of Polish cities, Gdansk's population has been growing, due to positive net migration compensating for the negative birth rate.

Financial Data Summary

(PLNm)	2023	2028rc
Payback ratio (x)	4.7	7.3
Synthetic coverage (x)	2.4	1.4
Actual coverage (x)	2.3	1.6
Fiscal debt burden (%)	24.7	38.3
Net adjusted debt	1,016	1,966
Operating balance	217	270
Operating revenue	4,115	5,128
Debt service	95	164
Mortgage-style debt annuity	92	189

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)

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 Cities – Peer Review 2023 (October 2023)

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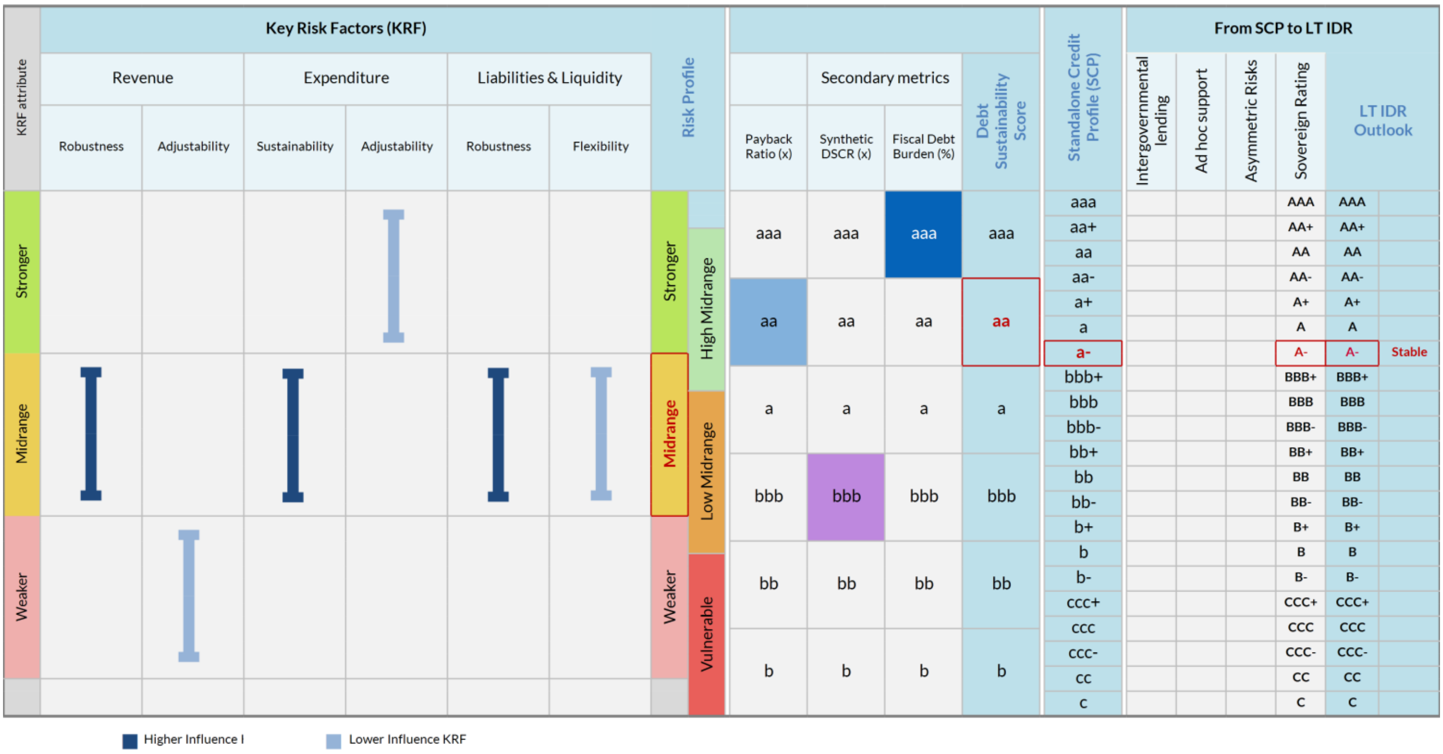
Rating Synopsis

City of Gdansk LT IDR Derivation Summary



Source: Fitch Ratings

The six Key Risk Factors, combined according to their relative importance, collectively represent the Risk Profile of the LRG. Risk Profile and Debt Sustainability assessments, that measures the LRG's debt burden and debt service requirements amid a reasonable economic or financial downturn over the rating horizon, are combined in an SCP. The SCP, together with some additional factors not captured in SCP, such as extraordinary support or rating caps, produces the IDR.

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.

Issuer Profile

Gdansk is an urban county (that is, a municipality with an urban status, additionally fulfilling responsibilities of a county) in Poland, and is classified by Fitch as a 'Type B' local government. This type of local government is required to cover debt service from cash flow annually.

Municipalities in Poland have a stable regulatory regime. Their activities and financial statements are monitored and reviewed by the central administration. They have good disclosure in their accounts: Municipalities are obliged to publish their budgets and annual and interim execution reports, as well as long-term financial projections, on their websites. Their budgets and budget execution reports regarding revenue and expenditure are based on cash accounting. Municipalities in Poland are allowed to administrate public-mission unitary companies. The financials of these local government-related entities are not consolidated in the municipal budget accounts.

Their sources of revenue and the scope of municipal tasks is defined by law. The budgetary revenue and expenditure classification govern the split into current and capital. Municipalities are not allowed to adopt a budget with a current deficit, but there are no restrictions on running capital deficits.

Municipalities may place outstanding cash in deposits with banks established on Polish territory and invest it in treasury bonds or bonds issued by other LRGs. Municipalities can incur short-term debt to cover their liquidity shortages during a year, but this has to be repaid by year-end. Each municipality has to comply with an individual debt limit (see What Investors Want to Know: Polish Subnationals' Debt Regulations, published 31 July 2019).

Municipalities in Poland cannot be declared bankrupt. If a municipality is in financial distress, it can be granted a loan from the state budget, once it implements reparatory proceedings. However, we cannot rule out the possibility of a municipality defaulting on its financial obligations.

The tax reform 'Polish Deal' changes the revenue distribution for Polish municipalities. The new regulation, together with some regulations introduced for the purposes of combatting the pandemic, temporarily allows the adoption of a budget with a current deficit. For details resulting from the tax reform please refer to Polish Deal Reform Will Pressure Ratings of Local Governments, published 12 November 2021.

Gdansk is strategically positioned in northern Poland at the Baltic coast, and serves as a pivotal seaport and central hub of the country's fourth-largest metropolitan area, about 340km north-west of the capital, Warsaw. The city's geographical advantage underscores its importance in domestic and international trade corridors. As a city with county rights, Gdansk's administrative governance, led by an elected city president and council, adeptly navigates municipal and county-level responsibilities, similar to other regional capitals in Poland. The tri-city subregion, encompassing Gdansk, Gdynia, and Sopot, generated a GDP of PLN79.3 billion in 2021, representing a 53.1% increase from 2016 and accounting for 50.3% of the Pomorskie Region's total GDP. Moreover, the subregion's GDP per capita in 2021 reached PLN 103,803, marking a 49.8% growth over 2016 and ranking it sixth out of Poland's 73 subregions.

From a demographic perspective, Gdansk bucks the national trend with a consistently growing population, attributed to a positive migration balance, having reached 486,492 residents by mid-2023. This demographic vitality is a potential indicator of the city's economic attractiveness and quality of life. In terms of employment, Gdansk's labour market has been stable with a sizeable workforce in 2021, reflecting a predominantly service-oriented (more than 80% employed) economy, with above-average wages compared to other major Polish cities. The office real estate sector, despite a recent slowdown in new projects, still commands a leading position in northern Poland, and is fourth-largest in Poland, bolstered by the city's robust economic infrastructure. Notably, Gdansk's unemployment rate, though slightly increased to 2.5% by the end of 2023, remains commendably lower than the national (5.1%) and regional (4.3%) averages, evidencing a resilient labour market.

The transport and logistics domain in Gdansk has grown significantly, with the Lech Walesa International Airport reaching a record 5.9 million passengers in 2023, as the sector recovered and highlighting growth potential following the pandemic. Likewise, the seaport's ascent to the second position among Baltic ports with a record throughput of 81.0 million tonnes in 2023, driven by marked increases in grain and fuel transhipments, reflects the port's expanding influence in the region. The rebound in tourism, with an 11% increase in visitors in 2023, demonstrates Gdansk's resurgence as a tourist destination, due to the city's cultural appeal and economic diversity.

Socioeconomic Indicators

	Issuer	Sovereign
Population, mid-2023 (m)	0.5	37.7
GDP per capita, 2021 (tri-city subregion) (PLN)	103,803.0	69,263.0
GRP growth, 2021 (tri-city subregion) (%)	22.4	12.6
Inflation, 2023 (%)	-	11.4
Unemployment rate, 2023 (%)	2.5	5.1

Source: Fitch Ratings, national statistics, City of Gdansk

Risk Profile Assessment

Risk Profile: Midrange

Fitch assesses Gdansk's risk profile at 'Midrange', reflecting the combination of assessments:

Risk Profile Assessment

Risk Profile	Revenue Robustness	Revenue Adjustability	Expenditure Sustainability	Expenditure Adjustability	Liabilities & Liquidity Robustness	Liabilities & Liquidity Flexibility
Midrange	Midrange	Weaker	Midrange	Stronger	Midrange	Midrange

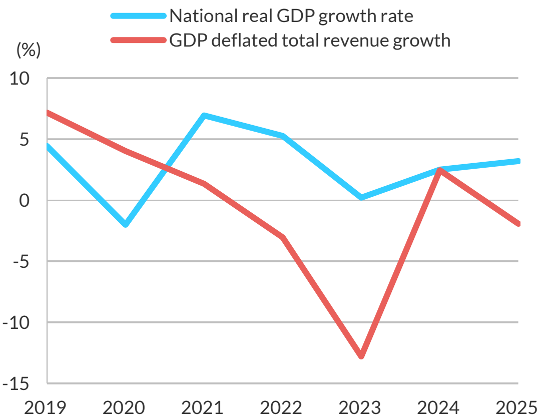
Source: Fitch Ratings

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 expectation. The risk profile combines our assessment of one 'Weaker' (revenue adjustability) key risk factor, one 'Stronger' (expenditure adjustability) key risk factor and four other at 'Midrange' (revenue and expenditure robustness and liabilities and liquidity framework).

Revenue Robustness: Midrange

We assess Gdansk's revenue robustness as unchanged at 'Midrange' in view of the city's stable revenue sources, with revenue growth prospects in line with national GDP growth. Tax revenue accounted for over 46% of Gdansk's operating revenue in 2023, and is based on moderately cyclical economic activities. Personal income tax accounted for almost 22% of operating revenue, followed by local taxes at more than 20%; and corporate income tax, a more volatile revenue item, at just above 4%. Current transfers accounted for 33% of operating revenue in 2023, the majority of which were transfers from the Polish state budget. These transfers are not subject to discretionary changes as the majority of them are defined by law.

Real Total Revenue and GDP Growth



Source: Fitch Ratings, City of Gdansk

Revenue Breakdown, 2023

	Operating revenue (%)	Total revenue (%)
Personal income tax	21.9	20.6
Real estate tax	12.8	12.1
Corporate income tax	4.3	4.1
Other taxes	6.8	6.4
Transfers	33.1	31.1
Other operating revenue	21.1	19.9
Operating revenue	**100.0**	**94.2**
Interest revenue	-	0.5
Capital revenue	-	5.3
Total revenue	-	**100.0**

Source: Fitch Ratings, Fitch Solutions, City of Gdansk

Revenue Adjustability: Weaker

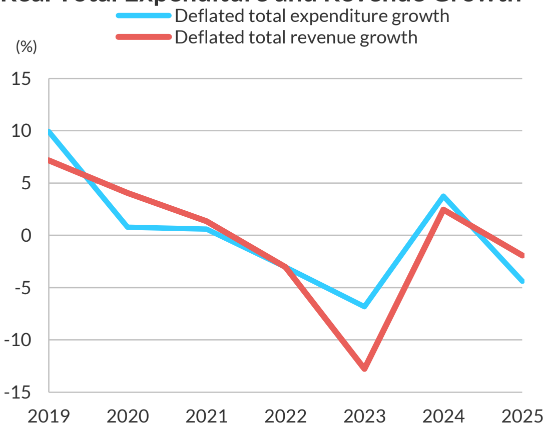
This assessment reflects Gdansk's limited ability to generate additional revenue. This is in line with our assessment for all Fitch-rated Polish local and regional governments (LRG), as income tax rates and current transfers are set by the central government, which significantly limits LRGs' flexibility in increasing revenue. Gdansk has also limited flexibility on local taxes, as rates are constrained by ceilings set within national tax regulation. In our view, additional revenue using discretionary tax leeway would cover less than 50% of an expected revenue decline in an economic downturn.

The Polish Ministry of Finance recently introduced proposals for significant reform of local government financing. These include categorising local governments so as to allocate funds based on individual needs, abolishing the 'Janosikowe' financial adjustment mechanism, and changing the sources of local government funding and the subsidy system. One key aspect is that local government shares of PIT and CIT would be calculated based on taxable income, not affected by tax reliefs or exemptions, making them less sensitive to changes in tax legislation. The details are expected to be revealed during 2024, with implementation from 2025.

Expenditure Sustainability: Midrange

This assessment reflects an historical pattern of operating expenditure growth tracking operating revenue growth. The city has a record of moderate control over operating expenditure growth. Fitch assesses the expenditure sustainability of the city as 'Midrange', in line with the majority of cities in Poland. The city's main responsibilities are moderately non-cyclical, including education, public transport, municipal services, administration, housing, culture, sport, as well as public safety.

Real Total Expenditure and Revenue Growth



Source: Fitch Ratings, City of Gdansk

Expenditure Breakdown, 2023

	Operating expenditure (%)	Total expenditure (%)
Education	45.1	37.9
Transport and connectivity	21.7	18.3
Social Assistance	13.5	11.4
Municipal services	9.1	7.7
Public administration	7.2	6.0
Culture and heritage preservation	3.0	2.5
Other operating expenditure	0.4	0.2
Operating expenditure	**100.0**	**84.0**
Interest expenditure	-	0.9
Capital expenditure	-	15.1
Total expenditure	**-**	**100.0**

Source: Fitch Ratings, Fitch Solutions, City of Gdansk

Expenditure Adjustability: Stronger

The city's mandatory responsibilities with the least spending flexibility only account for about 65% of operating expenditure, including education, social care, administration and public safety. Additionally, the city spends, on average, 36% more than urban counties with the lowest spending per capita, which could be reduced if needed.

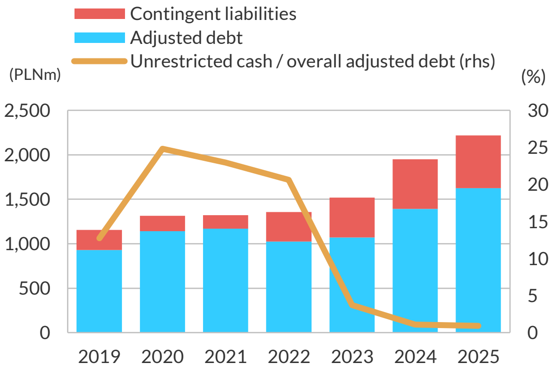
The city could reduce about 10% of its operating expenditure, as it partially did in previous years. It also has scope to scale back capex, which represents a high share of total spending (18% on average in the past 10 years). Overall, we assume the city still has strong affordability to cut spending in response to shrinking revenue.

Liabilities and Liquidity Robustness: Midrange

Gdansk's debt portfolio comprises loans from international financial institutions, which ensure a long-term and smooth repayment schedule, with a final debt maturity in 2047. The repayment structure leads to low refinancing risk, with debt repayment at no more than 7% of the debt stock annually.

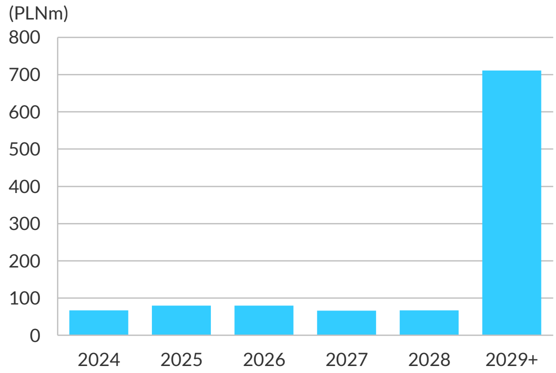
As of end-2023, fixed-rate obligations constituted 35% of the city's debt composition. However, a substantial portion of this debt is scheduled for re-fixing of interest rates at the conclusion of 2024 and midway through 2025, initiating a new five-year term in accordance with the lending agreements. This scenario exposes the city to interest rate volatility, as Polish municipalities are not allowed to use derivatives. Notwithstanding this vulnerability, the city employs conservative fiscal strategies, earmarking reserves that exceed its debt servicing requirements, thus mitigating potential interest rate fluctuations. All debt is in local currency, resulting in zero foreign-exchange risk. Indirect risk is low.

Overall Adjusted Debt Structure



Source: Fitch Ratings, City of Gdansk

Direct Debt Maturity Profile, End-2023



Source: Fitch Ratings, City of Gdansk

Liabilities and Liquidity Flexibility: Midrange

Fitch assesses the city's liquidity framework as 'Midrange' due to moderate counterparty risk, as banks providing liquidity in Poland are rated between 'BBB-' and 'A+'. Additionally, emergency liquidity support is absent from the upper tiers of government in Poland. However, Gdansk has a long history of high liquidity. In 2023, liquidity exceeded the 2023 annual debt service of PLN95 million by almost 4.5x. Liquidity in 2023 equalled over PLN320 million, on average, as month-end cash, and included a committed liquidity credit line of up to PLN100 million, provided by Bank Pekao S.A. (BBB/Stable). While surplus cash balances reduced notably through 2023 (end-2023: PLN57 million; end-2022: PLN280 million), due to a strategic choice to use cash for capex rather than accruing interest-bearing debt, our rating case indicates that the city's liquidity will consistently remain sound throughout the five-year rating horizon.

Our rating case projects an average liquidity coverage ratio (operating balance plus unrestricted cash/debt service in the current year) of 4.9x over 2024-2028, versus an average of 11x over 2019-2023.

Debt Analysis

	2023
Fixed rate (% of direct debt)	35
Debt in foreign currency (% of direct debt)	0
Apparent cost of debt (%)	4
Weighted average life of debt (years)	9.2

Source: Fitch Ratings, City of Gdansk

Liquidity

(PLNm)	2023
Total cash, liquid deposits and sinking funds	57
Restricted cash	0
Cash available for debt service	57
Undrawn committed credit lines	100

Source: Fitch Ratings, City of Gdansk

Debt Sustainability Assessment

Debt Sustainability: 'aa' category

Debt Sustainability Metrics Summary

	Primary metric	Secondary metrics	
	Payback Ratio (x)	Coverage (x)	Fiscal debt burden (%)
aaa	X ≤ 5	X >= 4	**X ≤ 50**
aa	**5 < X ≤ 9**	2 ≤ X < 4	50 < X ≤ 100
a	9 < X ≤ 13	1.5 ≤ X < 2	100 < X ≤ 150
bbb	13 < X ≤ 18	**1.2 ≤ X < 1.5**	150 < X ≤ 200
bb	18 < X ≤ 25	1 ≤ X < 1.2	200 < X ≤ 250
b	X > 25	X < 1	X > 250

Note: Yellow highlights show metric ranges applicable to Issuer
Source: Fitch Ratings

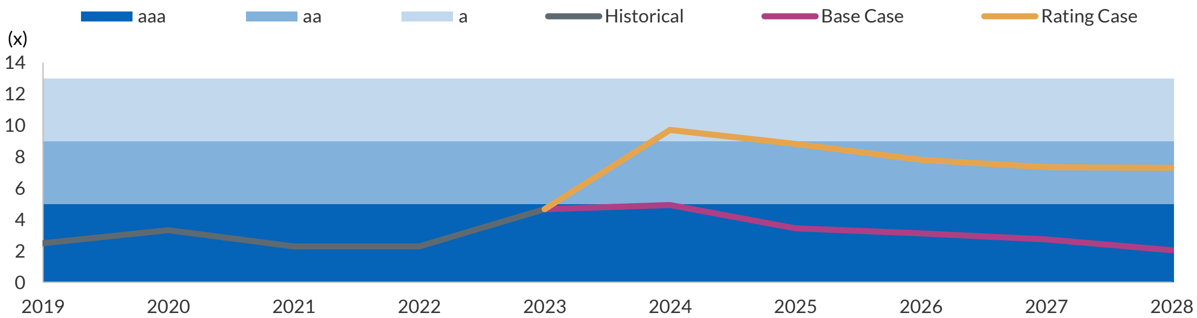
Under its rating case for 2024–2028, Fitch projects the city's payback ratio will rise to above 9x in 2024 (2023: 4.7x) and then return towards 7x by 2028. The deterioration of the payback ratio stems from the investment-driven debt increase and the expected reduction of the operating balance in the medium term, due to continued inflationary pressure and the constant changes to the LRGs' funding system introduced by the Polish Deal reform in 2022. Fitch's rating case projects that the fiscal debt burden will increase to 38% in 2028 (2023: 25%). We expect the city's synthetic debt service coverage ratio will weaken to an average 1.3x during 2024–2028, from a strong five-year average of 4.6x. However, all of the above ratios result in an unchanged overall debt sustainability assessment at 'aa'.

We expect the operating balance to deteriorate to PLN215 million, on average, for 2024-2028 from almost PLN300 million, on average, over 2019-2023, mainly due to inflationary increases of acquired goods and services, as well as growth pressure on salaries driven by increasing minimum wages, among other things. The level of revenue from income taxes is determined by Ministry of Finance forecasts, and the share of income taxes is distributed to the LRGs in 12 equal instalments.

The city is expected to incur capex of almost PLN3 billion over 2024-2028. The robust investment plan will lead to budgetary deficits on average 4% in 2024–2028 (2023: 6.2%), with a peak of 7.6% in 2024. Gdansk will continue to prioritise investments for which it can obtain external non-returnable financing.

Despite its sizeable capex, for the past five years the city was able to maintain its debt at a stable PLN1 billion. We expect direct debt to grow throughout our rating case to just below PLN2 billion by end-2028, due to high capex and a lower operating balance resulting from increasing spending.

Payback Ratio - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, City of Gdansk

Fitch's rating case is a 'through-the-cycle' scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on 2019-2023 figures and 2024-2028 projected ratios. The key assumptions for the scenario include:

- An annual average 4.5% increase in operating revenue, including tax revenue CAGR 7.5% and transfers received CAGR 3.4%, driven by the anticipated rebound of the Polish economy.

- An annual average 4.5% increase in operating spending, due to inflationary increases of municipal services provision costs, as well as growth pressure on salaries, driven by increased minimum wages.
- Net capex PLN318 million on average, lower than the PLN355 million in 2019-2023, as the city's investments are yet to pick up pace.
- Average cost of debt increasing to 5.3% annually in 2024-2028 from 2.3% in 2019-2023, due to higher policy rates.

Scenario Assumptions Summary

		2024-2028 average	
Assumptions	**5-year historical average**	**Base case**	**Rating case**
Operating revenue growth (%)	6.7	4.9	4.5
Tax revenue growth (%)	4.9	7.7	7.5
Current transfers received growth (%)	6.5	3.6	3.4
Operating expenditure growth (%)	8.3	4.0	4.5
Net capital expenditure (average per year; m)	-355	-318	-318
Apparent cost of debt (%)	2.3	4.5	5.3

		2028	
Outcomes	**2023**	**Base case**	**Rating case**
Payback ratio (x)	4.7	2.0	7.3
Overall payback ratio (x)	6.7	3.0	8.9
Actual coverage ratio (x)	2.3	3.8	1.6
Synthetic coverage ratio (x)	2.4	5.4	1.4
Fiscal debt burden (%)	24.7	19.0	38.3

Source: Fitch Ratings, City of Gdansk

SCP Positioning and Peer Comparison

SCP Positioning Table

Risk Profile	Debt Sustainability					
Stronger	aaa or aa	a	bbb	bb	b	
High Midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low Midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
Suggested analytical outcome (SCP)	**aaa**	**aa**	**a**	**bbb**	**bb**	**b**

Source: Fitch Ratings

Gdansk compares well with other Polish cities in terms of risk profile ('Midrange') and debt sustainability ('aa'). Issuers with a payback ratio between 7.5x and 9.0x have SCPs of 'a-' and their IDRs are equalised but not capped by the sovereign ratings. The distinction between the notch-specific SCP takes into consideration secondary metrics, especially the synthetic coverage, which defines the refinancing risk and differences in the socio-economic profiles. Katowice which has 'bbb+' SCP have higher (worse) reference payback ratios above 10x, which justifies lower SCP, despite the same risk profile.

Gdansk's international peers are Italian cities, such as Busto Arsizio or Milan, which have similar 'Midrange' risk profiles. However, the Italian entities have higher assessment of the revenue adjustability ('midrange' for Busto Arsizio) and liabilities and liquidity robustness ('Stronger') risk factors. The latter is due to them borrowing under national prudential regulation (including borrowing only for capex, debt-amortising structures and no foreign-currency debt exposure), and their IDRs are capped by the Italian sovereign IDRs at 'BBB'; thus, comparability is limited.

Another international peer is the City of Bucharest, which 'Midrange' risk profile consist of same assessment of risk factors as in case of Gdansk. The city has more monogamous revenue structure with 92% coming from PIT, over which it also does not have control. Similarly to Gdansk, it has higher affordability to reduce expenditure than its national peers, resulting in the 'Stronger, assessment of expenditure adjustability.

For both mentioned Italian cities, as well as for Bucharest, the 'aa' DS score result in the SCP of 'a'. This is driven primarily by the payback ratio being in the lower (better) than in case of Gdansk and other Polish cities with SCP of 'a-'.

Peer Comparison

	Risk profile	Primary metric (x)	SCP	IDR
City of Gdansk	Midrange	7.3	a-	A-
City of Gliwice	Midrange	7.5	a-	A-
City of Plock	Midrange	7.9	a-	A-
City of Katowice	Midrange	10.1	bbb+	BBB+
City of Warsaw	High Midrange	10.0	a+	A-
City of Busto Arsizio	Midrange	6.1	a	BBB
City of Bucharest	Midrange	5.1	a	BBB-

Source: Fitch Ratings

Long Term Rating Derivation

From SCP to IDR: Factors Beyond the SCP

SCP	Sovereign	Support: Intergovern. Financing	Support: Ad-hoc Support	Support: Floor	Asymmetric Risks	Cap	Notches above the Sovereign	IDR
a-	A-	-	-	-	-	A-	-	A-

Source: Fitch Ratings

Fitch assesses Gdansk's SCP at 'a-', which results from a 'Midrange' assessment of the city's risk profile and 'aa' assessment of debt sustainability, stemming from a payback ratio at the lower end of the 'aa' category, and a moderate debt level corresponding with the 'aaa' category. Gdansk's SCP assessment factors in the city's comparison with national and international peers in the same rating category. The city's Issuer Default Ratings (IDRs) are not affected by any other rating factors.

National Ratings

Gdansk's National Rating of 'AAA(pol)' is the highest possible under Fitch's National Rating scale. This rating is well positioned among the municipalities' portfolio. Being one of the largest cities in Poland and a regional capital and also having SCP equal to the sovereign's IDR justifies the upper end of suggested mapping for 'A-'.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores..

Appendix A: Financial Data

City of Gdansk

(PLNm)	2019	2020	2021	2022	2023	2024rc	2025rc	2026rc	2027rc	2028rc
Fiscal performance										
Taxes	1,709	1,640	1,916	1,955	1,886	2,328	2,362	2,452	2,558	2,703
Transfers received	1,164	1,390	1,430	1,457	1,361	1,344	1,484	1,531	1,570	1,609
Fees, fines and other operating revenues	491	513	625	748	868	750	746	770	805	816
Operating revenue	3,364	3,543	3,971	4,159	4,115	4,423	4,592	4,753	4,933	5,128
Operating expenditure	-3,051	-3,298	-3,591	-3,836	-3,897	-4,281	-4,410	-4,528	-4,678	-4,859
Operating balance	313	245	379	324	217	141	182	225	255	270
Interest revenue	3	3	0	31	24	0	0	0	0	0
Interest expenditure	-15	-13	-9	-37	-43	-62	-93	-90	-93	-96
Current balance	300	236	371	318	198	79	89	135	162	173
Capital revenue	256	383	221	311	230	290	215	191	187	177
Capital expenditure	-680	-625	-567	-603	-700	-725	-536	-478	-467	-442
Capital balance	-423	-242	-346	-292	-470	-435	-322	-287	-281	-265
Total revenue	3,623	3,929	4,192	4,501	4,369	4,713	4,806	4,944	5,120	5,305
Total expenditure	-3,746	-3,936	-4,167	-4,475	-4,640	-5,069	-5,039	-5,096	-5,239	-5,396
Surplus (deficit) before net financing	-123	-6	25	26	-272	-356	-232	-152	-119	-92
New direct debt borrowing	300	250	4	11	100	388	312	233	186	159
Direct debt repayment	-94	-65	-52	-52	-52	-67	-81	-81	-67	-68
Net direct debt movement	206	185	-49	-41	48	321	231	152	119	91
Overall results	84	179	-24	-15	-223	-35	-1	0	0	-1
Debt and Liquidity										
Short-term debt	0	0	0	0	0	0	0	0	0	0
Long-term debt	928	1,113	1,065	1,024	1,072	1,393	1,624	1,777	1,895	1,986
Intergovernmental debt	0	0	0	0	0	0	0	0	0	0
Direct debt	928	1,113	1,065	1,024	1,072	1,393	1,624	1,777	1,895	1,986
Other Fitch-classified debt	1	29	104	0	0	0	0	0	0	0
Adjusted debt	929	1,142	1,168	1,024	1,072	1,393	1,624	1,777	1,895	1,986
Guarantees issued (excluding adjusted debt portion)	3	3	6	213	368	410	376	344	312	281
Majority-owned GRE debt and other contingent liabilities	224	169	146	121	78	148	218	198	178	158
Overall adjusted debt	1,156	1,315	1,320	1,358	1,518	1,951	2,218	2,318	2,385	2,425
Total cash, liquid deposits and sinking funds	147	326	303	280	57	21	20	21	21	20
Restricted cash	0	0	0	0	0	0	0	0	0	0
Unrestricted cash	147	326	303	280	57	21	20	21	21	20
Net adjusted debt	782	816	865	744	1,016	1,372	1,604	1,756	1,874	1,966
Net overall debt	1,009	989	1,017	1,078	1,461	1,930	2,198	2,298	2,364	2,405
Memo:										
Debt in foreign currency/direct debt (%)	0	0	0	0	0	-	-	-	-	-
Issued debt/direct debt (%)	0	0	0	0	0	-	-	-	-	-
Floating interest rate debt/direct debt (%)	89	57	55	53	65	-	-	-	-	-

rc – rating case
Source: Fitch Ratings, City of Gdansk

Appendix B: Financial Ratios

City of Gdansk

	2019	2020	2021	2022	2023	2024rc	2025rc	2026rc	2027rc	2028rc
Fiscal performance ratios (%)										
Operating balance/operating revenue	9.3	6.9	9.6	7.8	5.3	3.2	4.0	4.7	5.2	5.3
Current balance/current revenue	8.9	6.7	9.3	7.6	4.8	1.8	2.0	2.8	3.3	3.4
Operating revenue annual growth	12.9	5.3	12.1	4.8	-1.1	7.5	3.8	3.5	3.8	4.0
Operating expenditure annual growth	16.4	8.1	8.9	6.8	1.6	9.9	3.0	2.7	3.3	3.9
Surplus (deficit) before net financing/total revenue	-3.4	-0.2	0.6	0.6	-6.2	-7.6	-4.8	-3.1	-2.3	-1.7
Total revenue annual growth	10.4	8.5	6.7	7.4	-2.9	7.9	2.0	2.9	3.6	3.6
Total expenditure annual growth	13.3	5.1	5.9	7.4	3.7	9.2	-0.6	1.1	2.8	3.0
Debt ratios										
Primary metrics										
Payback ratio (x) (net adjusted debt/operating balance)	2.5	3.3	2.3	2.3	4.7	9.7	8.8	7.8	7.3	7.3
Secondary metrics										
Fiscal debt burden (%) (net debt/operating revenue)	23.2	23.0	21.8	17.9	24.7	31.0	34.9	37.0	38.0	38.3
Synthetic debt service coverage ratio (x)	5.3	4.0	6.3	5.0	2.4	1.1	1.1	1.3	1.4	1.4
Actual debt service coverage ratio (x)	2.9	3.2	6.2	3.7	2.3	1.1	1.1	1.3	1.6	1.6
Other debt ratios										
Liquidity coverage ratio (x)	4.6	5.1	11.6	7.1	5.3	1.5	1.2	1.4	1.7	1.8
Direct debt maturing in one year/total direct debt (%)	7.0	4.7	4.9	5.1	6.2	0.0	0.0	0.0	0.0	0.0
Direct debt (annual % change)	28.6	20.0	-4.4	-3.9	4.7	29.9	16.6	9.4	6.7	4.8
Apparent cost of direct debt (interest paid/direct debt) (%)	1.9	1.2	0.8	3.5	4.1	5.0	6.1	5.3	5.1	5.0
Revenue ratios (%)										
Tax revenue/total revenue	47.2	41.8	45.7	43.4	43.2	49.4	49.1	49.6	50.0	51.0
Current transfers received/total revenue	32.1	35.4	34.1	32.4	31.2	28.5	30.9	31.0	30.7	30.3
Interest revenue/total revenue	0.1	0.1	0.0	0.7	0.6	0.0	0.0	0.0	0.0	0.0
Capital revenue/total revenue	7.1	9.8	5.3	6.9	5.3	6.2	4.5	3.9	3.7	3.3
Expenditure ratios (%)										
Staff expenditure/total expenditure	26.2	27.2	28.9	29.4	31.8	-	-	-	-	-
Current transfers made/total expenditure	10.8	12.6	12.7	14.0	15.6	-	-	-	-	-
Interest expenditure/total expenditure	0.4	0.3	0.2	0.8	0.9	1.2	1.8	1.8	1.8	1.8
Capital expenditure/total expenditure	18.1	15.9	13.6	13.5	15.1	14.3	10.7	9.4	8.9	8.2

rc – rating case
Source: Fitch Ratings, City of Gdansk

Appendix C: Data Adjustments

Net Adjusted Debt Calculations

Gdansk's direct debt was PLN1,072 million at end-2023, up from PLN1,024 million at end-2022. Net adjusted debt corresponds to the difference between adjusted debt and the year-end available cash that Fitch views as 'unrestricted' (end-2023: PLN57 million). The city's net adjusted debt was PLN1,016 million at end-2023 (end-2022: PLN744 million).

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)	2023	2028rc
Net adjusted debt	1,016	1,966
Apparent cost of debt (%)	4.1	5.0
Amortisation period, years	15	15
Mortgage-style debt annuity	92	189

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.

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