

RATING ACTION COMMENTARY**Fitch Affirms Polish City of Gdansk at 'A-'; Outlook Stable**

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Fitch Ratings - Warsaw - 13 Jun 2025: Fitch Ratings has affirmed the Polish City of Gdansk's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) at 'A-'. The Outlooks are Stable. A full list of rating actions is below.

The affirmation reflects our expectations that Gdansk's financial profile will remain in line with the ratings over 2025-2029, with operating performance slightly below 2024 levels, but improving towards the end of the period. We expect an improvement in the operating balance compared with last year's rating case scenario, which will outweigh projected capex and debt increases.

The new local and regional governments' (LRGs) revenue law, effective from 2025, has modified the funding framework, resulting in increased shares of personal income tax (PIT) and corporate income tax (CIT) in revenue, and lower reliance on state transfers. The new law ensures at least minimal growth in income tax revenue and general subsidies relative to the city's financial needs. This is reflected in our expectations of stable revenue expansion.

KEY RATING DRIVERS**Risk Profile: 'Midrange'**

Gdansk's 'Midrange' risk profile reflects the following combination of key risk factors assessments. We have reassessed Revenue Adjustability to 'Midrange' from 'Weaker', with no impact on the overall risk profile.

Revenue Robustness: 'Midrange'

The city's revenue sources are stable, with revenue growth prospects in line with national GDP growth. Taxes are linked to moderately cyclical activities and remain the main revenue source. We project they will rise sharply to 70% of income in 2025-2029, from an average of 44% in 2020-2024. The city's share of income taxes, which constitute 78% of projected tax revenue in 2025, is based on residents' taxable income, directly linking revenue to local development and shielding it from politically driven tax changes. Most transfers are provided by the central government, and will decrease sharply to below 8%, from over 30% over the same period.

Revenue Adjustability: 'Midrange'

Like most rated Polish cities, we have revised this assessment from 'Weaker' due to changes in the equalisation mechanism under the new revenue law, which offsets the city's limited fiscal flexibility. Gdansk now qualifies for equalisation funding if its per capita tax revenue (including PIT, CIT and local taxes) falls below 80% of its LRG tier average. This would result in a higher subsidy from the state. However, we see this as unlikely, as Gdansk is one of only two rated cities, along with Warsaw, which has contributed to this mechanism in 2025, because its per capita tax revenue exceeds 120% of its tier average.

If Gdansk's local economy deteriorates or its financial needs rise more quickly than income tax revenue, it may become eligible for the general subsidy, which it will not receive in 2025. The assessment is limited to 'Midrange' as the adjusted mechanism was recently introduced.

Expenditure Sustainability: 'Midrange'

Gdansk has a record of moderate control of opex growth, which tracks operating revenue growth. The city's main responsibilities are moderately non-cyclical, including education, public transport, municipal services, administration, housing and other. However, the state government decides certain spending items, such as teachers' salaries and minimum wages, which limits the city's financial flexibility. We project high capex at around PLN4.25 billion in total in 2025-2029 (13% of city's expenditure). This will be contingent on EU grants during the EU 2021-2028 budget period, and preferential loans under the National Recovery and Resilience Plan.

Expenditure Adjustability: 'Stronger'

The city's mandatory responsibilities with the least flexibility only account for about 65% of opex, including education, social care and family benefits, administration and public safety. The city strictly controlled spending in recent years, but we expect it could still reduce about 10% of its opex. It also has scope to scale back capex. However, this is largely co-financed with non-refundable grants, limiting flexibility once financing is granted. Overall, we assume the city still has strong affordability to cut spending in response to shrinking revenue.

Liabilities & Liquidity Robustness: 'Midrange'

Gdansk's debt portfolio mostly comprises loans from international financial institutions (99% of direct debt), which ensure a long-term and smooth repayment schedule, with final maturity in 2048. Gdansk's debt increased to PLN1,405 million at end-2024, from PLN1,072 million at end-2023, as the city drew PLN400 million credit from European Investment Bank (EIB; AAA/Stable), the availability period for which was ending. Gdansk's debt is fully zloty denominated, eliminating FX risk but 85% of debt at end-2024 was floating rate, exposing it to interest-rate risk, which cannot be hedged due to legal restrictions.

Municipal companies' debt is moderate, and most are likely to self-service their debt. The adjusted debt includes the city's obligation to secure funds for Miedzynarodowe Targi Gdanskie S.A. to repurchase shares from the Polski Fundusz Rozwoju S.A., acquired to finance investments. These obligations are from two agreements with the fund from 2015 and 2024, with the city's maximum contribution of PLN52.2 million and PLN187.4 million, respectively, at end-2024. We expect the company will require the city's support for the share buyout, and treat it as other Fitch-classified debt. The obligation will reduce as shares are redeemed until 2030 and 2049, respectively.

Liabilities & Liquidity Flexibility: 'Midrange'

This assessment reflects the lack of central government emergency liquidity support, and that there are no banks rated above 'A+' in Poland. Unrestricted cash at end-2024 was PLN264 million and included a PLN100 million deposit at year-end, which the city reported as an outflow from the budget at year-end. End-month cash balances exceeded PLN470 million on average in 2024, while debt service was PLN138 million in 2024 and we forecast it will be PLN184 million in 2025. Gdansk has a liquidity credit line of PLN100 million, provided by Bank Pekao S.A. (BBB/Stable), which it has not used. The city has PLN200 million available under the credit line with EIB signed in 2023.

Financial Profile: 'aa category'

Gdansk's financial profile remains at the lower end of the 'aa' category in our rating case. We expect debt payback (net adjusted debt/operating balance) to weaken to 7.8x in 2029 from 3.9x in 2024, slightly weaker than we projected last year. We anticipate the city's fiscal debt burden (net adjusted debt/operating revenue) will remain 'aaa' at below 45% in 2029 (2024: 27%), and the synthetic debt service coverage ratio (operating balance/synthetic debt amortisation including short-term maturities) at 1.4x (2024: 2.7) in the 'bbb' category.

We expect improved operating performance compared with last year's rating case. It will be below the PLN355 million of 2024 but steadily improving from just under PLN300 million in 2025 to over PLN350 million in 2029. The 2024 result is not directly comparable due to backdated income tax revenue settlements from 2022 under previous law and a PLN147 million one-off PIT payment to the city's budget at end-2024.

Net adjusted debt will almost double in our projection from PLN1,381 million at end-2024 to PLN2,750 million at end-2029 (PLN1,966 million at end-2028 in previous rating case), related to the financing of the extensive capex plan, which we project at around PLN4.25 billion.

DERIVATION SUMMARY

Gdansk's 'a-' Standalone Credit Profile (SCP) is derived from its 'Midrange' risk profile and 'aa' financial profile. The latter reflects debt payback at the weaker end of the 'aa' category, synthetic debt service coverage ratio in the 'bbb' category, and moderate debt corresponding to the 'aaa' category. The SCP considers comparison with peers in the same category and is unaffected by asymmetric risk. The city's IDRs are not influenced by extraordinary state support and are equal to the SCP.

All Gdansk's closest Polish peers have a 'Midrange' risk profile, with the SCP category and notching depending on their debt metrics. Bydgoszcz and Poznan have payback ratios of 5x-6x, leading to a 'a' SCP for the former, while the latter's enhanced expenditure adjustability increases its SCP to 'a+'. Both cities' IDRs are capped at 'A-/Stable' by Poland's ratings, while Gdansk's is equal to the sovereign. Katowice and Szczecin have SCPs of 'bbb+', reflecting weaker payback ratios above 9x, despite similar risk profiles.

International peers are Romania's City of Bucharest and the Italian Metropolitan City of Milan. Both have 'Midrange' risk profiles and 'aa' financial profiles. Their payback ratios are also in the middle of the 'aa' category, resulting in an 'a' SCP for Bucharest and 'a-' for Metropolitan City of Milan. The cities' IDRs are capped by the sovereign IDRs (Romania: BBB-/Negative for Bucharest and Italy: BBB/Positive for Milan).

National Ratings

Gdansk's National Rating is 'AAA(pol)', the highest option that is equivalent to a Long-Term Local Currency IDR of 'A-'.

KEY ASSUMPTIONS

Qualitative assumptions:

Risk Profile: 'Midrange'

Revenue Robustness: 'Midrange'

Revenue Adjustability: 'Midrange'

Expenditure Sustainability: 'Midrange'

Expenditure Adjustability: 'Stronger'

Liabilities and Liquidity Robustness: 'Midrange'

Liabilities and Liquidity Flexibility: 'Midrange'

Financial Profile: 'aa'

Asymmetric Risk: 'N/A'

Support (Budget Loans): 'N/A'

Support (Ad Hoc): 'N/A'

Rating Cap (LT IDR): 'N/A'

Rating Cap (LT LC IDR) 'N/A'

Rating Floor: 'N/A'

Quantitative assumptions - Issuer Specific

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 2020-2024 published figures and 2025-2029 projected ratios. The key assumptions for the scenario include:

- Annual average 3.6% increase in operating revenue, as CAGR of 12.7% in tax revenue offsets 22.1% CAGR decline in transfers due to the changes in the LRG funding framework. Tax revenue following 2025 should be mostly linked to GDP growth and inflation, while transfers will fall in 2025 due to the new law, before rising in line with GDP in the following four years.
- Average annual increase in opex of 3.8%, as we expect inflation to fall to 2.5% from 2027 and the city to keep tight control of spending.
- Negative net capital balance on average at PLN518 million, considering the city's investment plan and expected non-returnable capital grants covering a similar portion of capex as in 2020-2024.
- Average cost of debt rising to 5.5% a year in 2025-2029 from 3.9% a year in 2020-2024 and new debt at a minimum maturity of 15 years. The cost increase reflects projected interest rates staying above the very low levels of 2020-2022. It also includes the low-interest loans from Bank Gospodarstwa Krajowego S.A. (A-/Stable) under the National Recovery and Resilience Plan.

Issuer Profile

Gdansk is the capital of Pomorskie Region with a well-diversified local economy. Together with Gdynia and Sopot, the city forms a conurbation with 760,179 inhabitants (source: Central Statistical Office in Poland). The conurbation's gross regional product per capita was above PLN131,947 in 2022 and exceeded the national by over 60%. Unlike most Polish cities, Gdansk's population has been growing (488,651 at end-2024 vs. 463,754 at end 2016), due to positive net migration compensating for the negative birth rate.

Fitch classifies Gdansk - like all Polish LRGs - as type B as it covers debt service from its cash flow annually.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

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

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The debt payback ratio remaining lower than or equal to 7.5x on a sustained basis under Fitch's rating case, provided the sovereign was also upgraded, as the city's IDRs are equal with those of the Polish sovereign

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>.

DISCUSSION NOTE

Committee date: 11 June 2025

There was an appropriate quorum at the committee and the members confirmed that they were free from recusal. It was agreed that the data was sufficiently robust relative to its materiality. During the committee no material issues were raised that were not in the original committee package. The main rating factors under the relevant criteria were discussed by the committee members. The rating decision as discussed in this rating action commentary reflects the committee discussion.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Gdansk, City of	LT IDR	A-	Affirmed	A-
	LC LT IDR	A-	Affirmed	A-
	Natl LT	AAA(pol)	Affirmed	AAA(pol)

PREVIOUS

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APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[International Local and Regional Governments Rating Criteria \(pub. 17 Aug 2024\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

Gdansk, City of

EU Issued, UK Endorsed

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