City of Gdansk

The affirmation of the City of Gdansk's ratings reflects Fitch Ratings' expectations that its 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 increases in capex and debt.

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

'Midrange' Risk Profile: Fitch assesses the city's risk profile as 'Midrange', the same as most other Fitch-rated Polish LRGs. 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 (2025-2029) due to lower revenue, higher expenditure, or an unexpected rise in liabilities or debt-service requirements.

New Revenue Framework: The new revenue framework results in a larger share of PIT and CIT in the revenue structure and ties the city's revenue to local economic development. It should stabilise revenue growth, enabling better budget planning. The new law aims to address LRG's individual conditions, by relating the state subsidy to the calculation of financial needs and growth of income tax revenue.

Revenue Adjustability to 'Midrange': The modified revenue-equalisation mechanism ensures a minimal per-capita income and local tax revenue at 80% of the tier average. Additionally, if the calculated financial needs grow faster than income tax revenue, the general subsidy from the state increases. This enables us to revise our revenue adjustability assessment from 'Weaker'.

Financial Profile – 'aa': Our rating case for 2025–2029 projects the payback ratio (net adjusted debt/ operating balance) at 7.8x in 2029 (2024: 3.9x). We forecast the fiscal debt burden (net adjusted debt/operating revenue) at 45% (2024: 26.7%) and the synthetic debt service coverage ratio (SDSCR; operating balance/synthetic debt amortisation, including short-term maturities) at 1.4x (2024: 2.7x).

Improved Operating Performance: We expect a higher operating balance in our rating case than in last year's scenario. Although it is almost the same in 2029 (PLN354 million) as in 2024 (PLN355 million), it is more than PLN80 million more than we projected in the last year of the previous rating case (2028: PLN270 million). The improvement is driven by stable revenue growth due to sound economic prospects and the new revenue law.

Large Capex: We expect Gdansk to implement a PLN4.25 billion capex programme in 2025-2029. Major investment will focus on tram and rail infrastructure in the city. The investment plan also encompasses many medium and small projects, although these will partly depend on the availability of non-returnable capital grants.

Debt to Rise: New borrowing to finance capex will bring net adjusted debt to PLN2.75 billion by end-2029 (end-2024: PLN1.38 billion). Gdansk's PLN1.41 billion direct debt at end-2024 consisted almost entirely of credits from international financing institutions (99%). Interest-rate risk (85% of city's debt is at floating rates) cannot be hedged due to legal restrictions. The adjusted debt at end-2024 includes its PLN240 million obligation to secure funds for its company, Miedzynarodowe Targi Gdanskie S.A., for a share buyout from the external investor.

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)	2024	2029rc
Payback ratio (x)	3.9	7.8
Synthetic coverage (x)	2.7	1.4
Fiscal debt burden (%)	26.7	44.6
Net adjusted debt	1,381	2,750
Operating balance	355	354
Operating revenue	5,167	6,162
Debt service	123	206
Mortgage-style debt annuity	129	256

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

Applicable Criteria

International Local and Regional Governments Rating Criteria (August 2024)

National Scale Rating Criteria (December 2020)

Related Research

Polish Cities' Financial Performance Expected to Stabilise in 2025 (December 2024)

Polish Cities' Diversification of Debt Sources Improves Their Financing Flexibility (June 2024)

Poland (March 2025)

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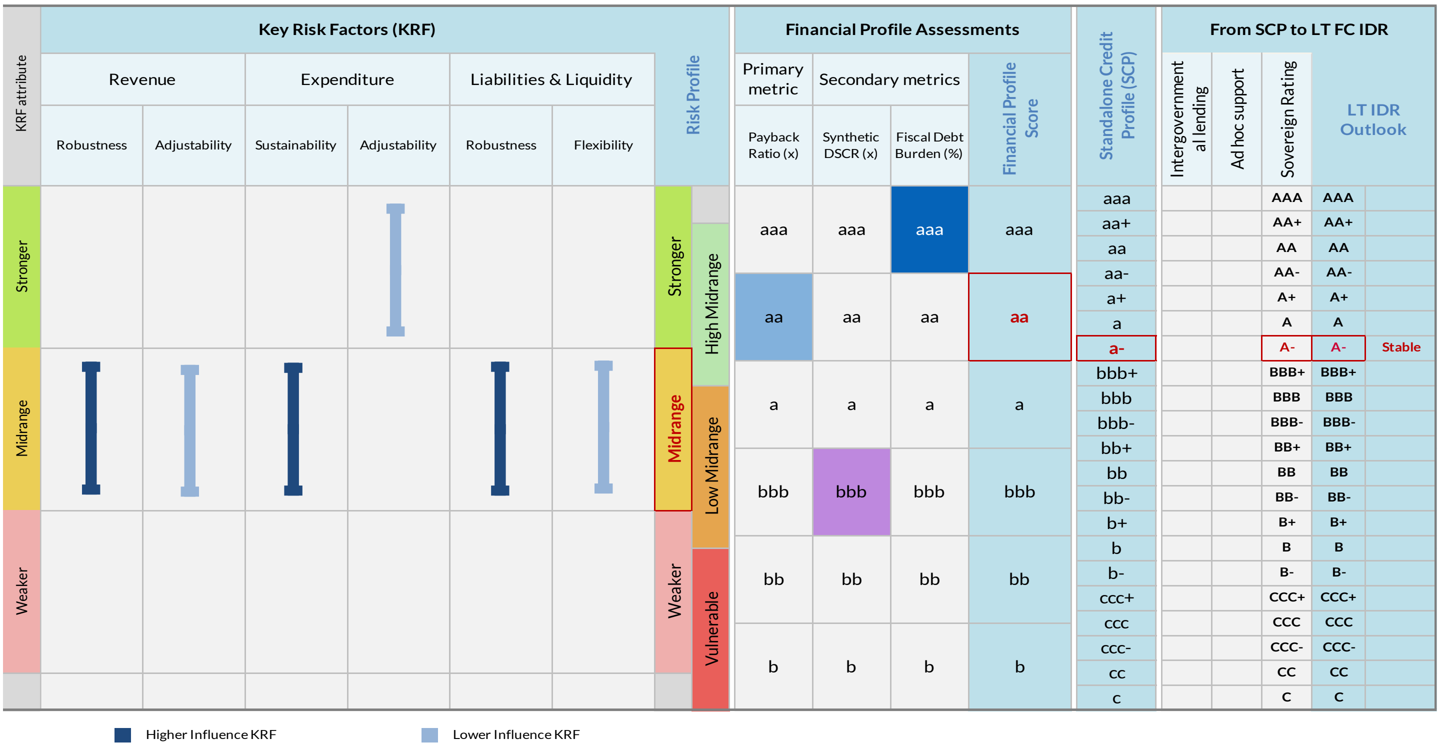
Rating Synopsis

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. The risk profile and debt sustainability assessments, which measure 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. This, together with some additional factors not captured in SCP, such as extraordinary support or rating cap, produces the IDR.

Rating Sensitivities

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.

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.

Issuer Profile

Gdansk is a Polish municipality with county rights. Fitch classifies it as a 'Type B' LRG, as it is required to cover debt service from annual cash flow. Polish LRGs operate under a stable legal system, with central government oversight. They are required to publish budgets, annual and interim reports, and long-term financial projections. These entities use cash accounting for revenue and expenditure. LRGs cannot run a current budget deficit but may have capital deficits. They cannot be declared bankrupt and may receive a state loan if financially distressed, following reparatory measures. However, we cannot discount the possibility of it defaulting on its financial obligations.

The government adopted a new funding law for LRGs in 2024, affecting revenue from 2025. The law increases reliance on nationally collected income taxes, such as PIT and CIT, with state subsidies being supplementary. Income tax distribution is based on taxpayers' actual income. It has introduced the concept of financial needs to determine the new state subsidy, which has replaced the previous general state one. Financial needs consider factors such as equalisation, education, development, ecology, and additional requirements. LRGs currently receive subsidies if financial needs, calculated by legal formulas, exceed income tax revenue growth.

The law modifies the equalisation scheme, whereby LRGs with per-capita tax revenue below 80% of their tier qualify for increased state subsidies, while those exceeding 120% receive reduced PIT and CIT revenue. If income tax revenue grows slower than financial needs, the general subsidy from the state increases.

Gdansk is strategically positioned in northern Poland on the Baltic coast and is an important seaport and hub of the country's fourth-largest metropolitan area, about 340km north-west of the capital, Warsaw (A-/Stable). The city's geographical advantage underscores its importance in domestic and international trade corridors. The tri-city subregion, encompassing Gdansk, Gdynia, and Sopot, generated GDP of PLN102.3 billion in 2022, a 94.5% increase from 2016 and accounting for 53.4% of the Pomorskie Region's total GDP. Moreover, the subregion's GDP per capita in 2022 reached PLN131,947, up by 87.6% from 2016 and ranking it fourth out of Poland's 73 subregions, up from sixth in 2021.

Gdansk bucks the national demographic trend with a consistently growing population, of nearly 488,000 by mid-2024, attributed to a positive migration balance. This is a potential indicator of the city's economic attractiveness and quality of life. Gdansk's labour market has been stable with a sizeable workforce in 2024, reflecting a predominantly services-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. Gdansk's unemployment rate of 2.5% at end-2024, remains much lower than the national (5.1%) and regional (4.6%) averages, due to its resilient labour market.

Transport and logistics in Gdansk have grown significantly, with the Lech Walesa International Airport reaching a record 6.7 million passengers in 2024. The seaport ranks second among Baltic ports with a throughput of 77.4 million tonnes in 2024, on grain and fuel transhipments, and which reflects the port's expanding influence. An 11% increase in visitors in 2024 demonstrates Gdansk's popularity as a tourist destination.

Socioeconomic Indicators

	Issuer	Sovereign
Population, mid-2024 (m)	0.488	37.637
GDP per capita, [Tri-city subregion], 2022 (PLN)	131,947	82,079
Average monthly salary, 2023 (PLN)	8,915.97	7,595.30
Inflation, 2024 (%)		4.7
Unemployment rate, 2024 (%)	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

Revenue robustness	Revenue adjustability	Expenditure sustainability	Expenditure adjustability	Liabilities & liquidity robustness	Liabilities & liquidity flexibility	Implied operating environment score	Risk profile
Midrange	Midrange	Midrange	Stronger	Midrange	Midrange	bbb	Midrange

Source: Fitch Ratings

Gdansk's 'Midrange' risk profile is the same as most other rated Polish LRGs. 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 2025-2029 due to lower-than-expected revenue, higher-than-anticipated expenditure, or an unexpected rise in liabilities or debt-service requirements.

Revenue Robustness: Midrange

The city's revenue sources are stable, with growth in revenue following that of national GDP. 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 more than 30% in the same period.

Operating revenue increased by 26% to PLN5,167 million in 2024, driven by a 55% increase in income tax revenue and an 27% growth in transfers. Taxes generated nearly half (49%) of Gdansk's operating revenue in 2024, followed by transfers (33%). The former resulted from high projections of nationally collected PIT and CIT, compensation for underestimated PIT and CIT in 2022, and PLN147 million of one-off additional PIT revenue that led to a higher operating balance as it was received in December 2024 and was not fully reflected in expenditure. Transfers rose primarily due to an increased subsidy that covered a 30% salary rise for teachers.

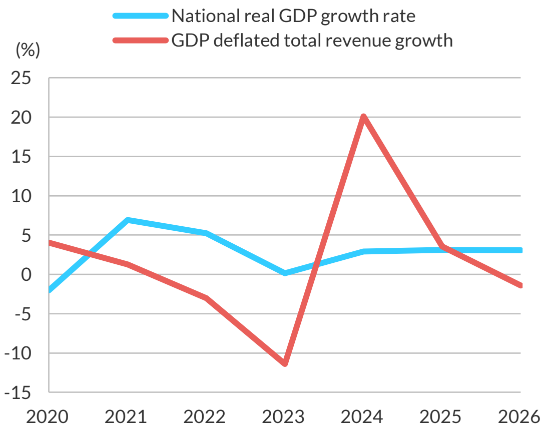
Under the new law, LRG's annual PIT revenue is calculated by multiplying the adjusted income of taxpayers residing within the LRG administrative boundaries for the base year, i.e. two years prior to budgetary year, by a distribution rate for its LRG tier. The adjustment considers average wages and employment. The LRG's CIT income is calculated using the same method, but the adjustment is based on the nominal GDP growth rate. Therefore, any legal changes in the tax system would not affect income tax revenue.

By including LRGs' spending needs in the revenue framework, the new law aims to ensure an equitable fund allocation. Financial needs introduced in the new law are to be primarily funded by the LRGs' higher PIT and CIT revenue than under the previous framework. If they exceed this increase, the general subsidy from the state will make up the shortfall.

We expect tax revenue in our rating case for 2025 to surge by 62% to PLN4,076 million (74% of operating revenue), driven by 81% growth in PIT revenue to PLN2,621 million and 140% growth in CIT to PLN547 million, because of the new law. We expect transfers to fall by 74% to PLN444 million, as Gdansk will not receive the general subsidy in 2025, which was PLN1,183 million in 2024, as the increases in income tax revenue under the new framework exceed the calculated financial needs of Gdansk.

Overall, the city receives PLN533 million (20%) more from income taxes and general subsidy in 2025, compared to 2024, when including the contribution to the equalisation mechanism. We expect revenue to rise at a similar rate to GDP after 2026 based on the stabilising provisions in the new law.

Real Total Revenue and GDP Growth



Source: Fitch Ratings, City of Gdansk

Revenue Breakdown, 2024

	Operating revenue (%)	Total revenue (%)
PIT & CIT	32.4	30.9
Real estate tax	12.8	12.2
Other taxes	3.6	3.4
Transfers	33.4	31.9
Other operating revenue	17.8	16.9
Operating revenue	**100.0**	**95.3**
Interest revenue	-	0.5
Capital revenue	-	4.2
Total revenue	**-**	**100.0**

Source: Fitch Ratings, Fitch Solutions, City of Gdansk

Revenue Adjustability: Midrange

Like for 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.

Under the previous funding law, we based our 'Weaker' assessment on Gdansk's limited ability to generate additional revenue, if needed. The new law does not increase the city's ability to do so in such cases. The share of revenue over which it has influence remains limited, as income tax revenue and most transfers are legally set, and local taxes in cities are capped nationally.

Gdansk contributes to the equalisation mechanism, as it did under the previous law, but the form has changed. In 2024, Gdansk paid PLN73.7 million into this mechanism as operating expenditure. Under the new law, Gdansk's PIT revenue is reduced by the calculated contribution, amounting to PLN104.9 million in 2025. Although this reduces revenue, it does not burden expenditure. However, if the local economy deteriorates, leading to lower PIT and CIT, the contribution will decrease, and the city may become eligible for the state subsidy.

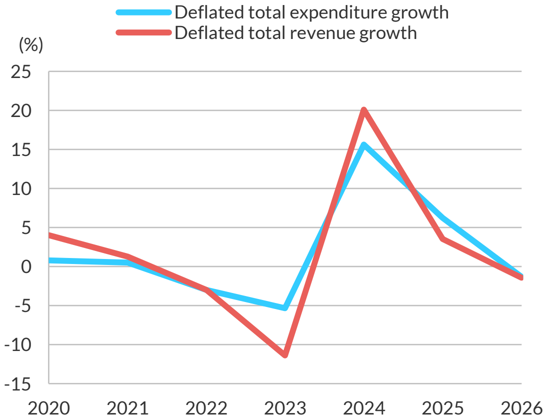
Expenditure Sustainability: Midrange

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 among other items. However, the state government decides certain spending, such as teachers' salaries and minimum wages, which limits the city's financial flexibility. We project high capex at about PLN4.25 billion in 2025-2029 (13% of 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.

In our rating case, we forecast total expenditure to rise slightly faster than total revenue in 2025-2029, due to higher capex. Growth in opex will stay marginally below operating revenue, except for 2025, when we expect large increases in spending on salaries following the planned rises. Post-2025, opex is projected to grow slightly above inflation, as the city may ease its strict spending control of recent years. Capex will fluctuate, but will be higher than in 2020-2024, when it totalled almost PLN3.2 billion.

Easing inflation should help maintain spending control; however, salary increases, particularly in education, driven by central government decisions, are expected to fuel expenditure growth. Education consumes almost 44% of city's operating expenditure. This is moderate among rated Polish cities, but it continues to be a burden for all rated cities.

Real Total Expenditure and Revenue Growth



Source: Fitch Ratings, City of Gdansk

Expenditure Breakdown, 2024

	Operating expenditure (%)	Total expenditure (%)
Education	43.6	37.8
Transport	15.8	13.7
Family and social care	13.0	11.3
Municipal services	9.2	8.0
Other operating expenditure	18.5	16.0
Operating expenditure	**100.0**	**86.8**
Interest expenditure	-	1.0
Capital expenditure	-	12.2
Total expenditure	**-**	**100.0**

Source: Fitch Ratings, Fitch Solutions, City of Gdansk

Expenditure Adjustability: Stronger

The city's mandatory responsibilities with the least flexibility account for about 65% of opex, including education, social care and family benefits, administration and public safety. The city has controlled spending in recent years, but we expect it could still reduce about 10% of 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. We assume the city still has the capacity to cut spending in response to shrinking revenue.

We expect that with improving revenue, some non-mandatory spending may increase faster as it has been controlled in recent years. However, we believe that Gdansk's ability to further reduce non-mandatory spending, if needed, is still higher than in most rated Polish cities. We expect the city's authorities keep tight control on spending as evidenced by a stable operating balance in recent years, and despite the challenges related to limited PIT revenue and high inflation.

Staff costs, a relatively inflexible expenditure item, were below average compared to other rated cities, averaging 30% of total expenditure in 2020-2024, but this increased to 34% in 2024 from 27%-29% in 2020-2023. This was primarily driven by substantial increases in the minimum wage and a 30% rise in teachers' salaries decided by the central government in 2024, leading to pressure to raise other staff remuneration. Salaries in the education sector account for 64% of total salary-related spending. We project staff costs will average 36% of total expenditure from 2025-2029.

Liabilities and 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.

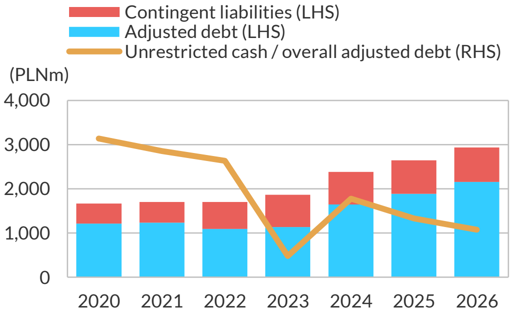
Municipal companies' debt is moderate, and most are likely to self-service their debt. The adjusted debt includes the city's obligation to secure funds for Miedzynarodowe Targi Gdanskie S.A. to repurchase shares from the Polski Fundusz Rozwoju S.A., acquired to finance investments. These obligations 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 decline as shares are redeemed until 2030 and 2049, respectively.

Fixed-rate debt typically undergoes five-year re-fixing, mitigating risk . In May 2025, Gdansk switched from fixed to floating interest rates on two tranches of EIB fixed-rate loans, totalling PLN195 million (at the rate revision date). This brought the share of floating-rate debt to 99% and will also result in an increase of the city's total cost of debt. It further exposes the city to interest-rate volatility, though we see the risk as limited due to Fitch's expectation of falling nominal interest rates. Additionally, the city employs conservative fiscal strategies, earmarking reserves that exceed its debt servicing requirements, mitigating the potential effect of interest-rate fluctuations.

The indirect risk relates to the debt of government-related entities (GREs), which have implemented debt-financed investments. This amounted to PLN398 million at end-2024. This excludes the debt of companies, which we view as self-sustaining and not requiring support. The city supports companies through capital injections. The GRE debt will fluctuate between PLN369 million and PLN409 million from 2025 to 2028 and we expect it to rise to PLN785 million in 2029, when the public transport company, Gdańskie Autobusy i Tramwaje Sp. z o.o. (BBB+/Stable), is expected to obtain about PLN400 million in new debt to purchase trams.

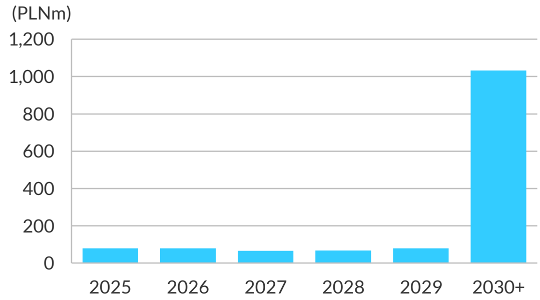
The city guarantees the debt of Port Czystej Energii Sp. z o.o., to finance the solid waste facility, as the investment has been concluded in an SPV. The city expects the guarantee to be revoked a year after commissioning of the plant, which occurred in March 2025. However, we continue to include the guarantee until this happens. The debt repayments will be primarily financed from the gate fees and the sale of energy and heat.

Overall Adjusted Debt Structure



Source: Fitch Ratings, City of Gdansk

Debt Maturity Profile



Source: Fitch Ratings, City of Gdansk

Liabilities and 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 year-end budget. End-month cash balances exceeded PLN470 million on average in 2024, while debt service was PLN123 million in 2024; 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.

Debt Analysis

	2024
Fixed rate (% of direct debt)	15
Debt in foreign currency (% of direct debt)	0
Apparent cost of debt (%)	4.5
Weighted average life of debt (years)	10.4

Source: Fitch Ratings, City of Gdansk

Liquidity

(PLNm)	2024
Total cash, liquid deposits and sinking funds	264
Restricted cash	0
Cash available for debt service	264
Undrawn committed credit lines	200

Source: Fitch Ratings, City of Gdansk

Financial Profile Assessment

Financial Profile: 'aa' category

Financial Profile Score 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

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.

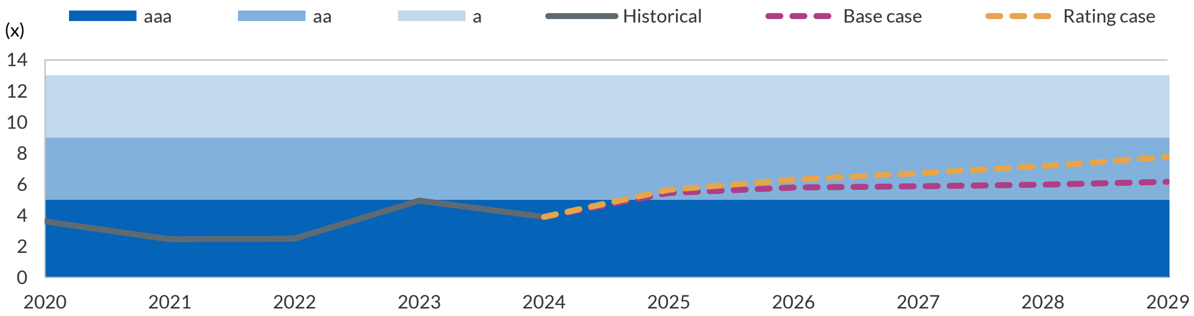
We expect improved operating performance compared with last year's rating case. It will be below the PLN355 million of 2024 but steadily improving from just under PLN300 million in 2025 to over PLN350 million in 2029. The 2024 result is not directly comparable due to backdated income tax revenue settlements from 2022 under the 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 about PLN4.25 billion.

Gdansk's operating balance, which is one of the factors determining the payback ratio, increased to PLN355 million in 2024 from PLN217 million in 2023. We expect the operating balance to remain broadly stable at an average of PLN325 million in 2025–2029, above the PLN215 million average in 2024–2028 in the previous rating case, and above the 2020–2024 average of about PLN304 million.

We envisage a large investment programme of close to PLN4.25 billion in 2025–2029 (increase from PLN2.65 billion under the previous review), consisting of many small and medium-sized projects, but also including large projects related to construction of a tram line and tram depot, as well as a rail line construction in the city. Gdansk will prioritise investments for which it can obtain external non-returnable financing, and we expect grants from the EU and the state to cover about 30% of the planned capex.

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 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 a CAGR 12.7% in tax revenue offsets a 22.1% CAGR decline in transfers due to the changes in the LRGs funding framework. Tax revenue rise following 2025 should be stable, 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 a tight control on spending.
- Negative net capital balance on average at PLN518 million, considering the city's investment plan and an 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 BGK under the National Recovery and Resilience Plan.

Scenario Assumptions Summary

Assumptions	Five-year historical average	2025 - 2029 average Base case	2025 - 2029 average Rating case
Operating revenue growth (%)	9.0	3.7	3.6
Tax revenue growth (%)	8.1	12.8	12.7
Current transfers received growth (%)	8.2	-21.9	-22.1
Operating expenditure growth (%)	9.5	3.7	3.8
Net capital expenditure (average per year; m)	-360	-518	-518
Apparent cost of debt (%)	2.8	5.1	5.2

Outcomes	2024	2029 Base case	2029 Rating case
Payback ratio (x)	3.9	6.2	7.8
Synthetic coverage ratio (x)	2.7	1.8	1.4
Fiscal debt burden (%)	26.7	41.2	44.6

Source: Fitch Ratings, City of Gdansk

SCP Positioning and Peer Comparison

Analytical Outcome Guidance

Risk Profile	Financial Profile					
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

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).

Peer Comparison

	Risk Profile	Financial Profile Score	SCP	Extraordinary Support	Sovereign Rating	LT IDR	National Rating
Gdansk, City of	Midrange	aa	a-	n.a.	A-	A-/Stable	AAA(pol)
Bydgoszcz, City of	Midrange	aa	a	n.a.	A-	A-/Stable	AAA(pol)
Poznan, City of	Midrange	aa	a+	n.a.	A-	A-/Stable	n.a.
Katowice, City of	Midrange	a	bbb+	n.a.	A-	BBB+/Stable	AA+(pol)
Szczecin, City of	Midrange	a	bbb+	n.a.	A-	BBB+/Stable	AA+(pol)
Bucharest, City of	Midrange	aa	a	n.a.	BBB-	BBB-/Negative	n.a.
Metropolitan City of Milan	Midrange	aa	a-	n.a.	BBB	BBB/Positive	n.a.

Source: Fitch Ratings, City of Gdansk

Long Term Rating Derivation

From SCP to LT FC IDR: Factors Beyond the SCP

SCP	Sovereign LT FC IDR	Support			Rating Cap	Leeway above Sovereign (notches)	LT FC IDR
		Intergovern. Financing	Ad hoc Support	Floor			
a-	A-	-	-	-	-	-	A-

Source: Fitch Ratings, City of Gdansk

Fitch assesses Gdansk's SCP at 'a-', which results from a 'Midrange' assessment of the city's risk profile and 'aa' financial profile score. The latter reflects debt payback in the weaker end of 'aa' category, SDSCR in a 'bbb' category, and moderate debt corresponding to a '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.

National Ratings

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

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 www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Appendix A: Financial Data

City of Gdansk

(PLNm)	2020	2021	2022	2023	2024	2025rc	2026rc	2027rc	2028rc	2029rc
Fiscal performance										
Taxes	1,640	1,916	1,955	1,886	2,521	4,076	4,219	4,346	4,467	4,588
Transfers received	1,390	1,430	1,457	1,361	1,728	445	457	471	484	497
Fees, fines and other operating revenues	513	625	748	868	918	957	993	1,022	1,049	1,077
Operating revenue	3,543	3,971	4,159	4,115	5,167	5,478	5,670	5,838	6,000	6,162
Operating expenditure	-3,298	-3,591	-3,836	-3,897	-4,812	-5,183	-5,359	-5,514	-5,661	-5,808
Operating balance	245	379	324	217	355	295	311	324	339	354
Interest revenue	3	0	31	24	26	18	10	8	8	8
Interest expenditure	-13	-9	-37	-43	-56	-94	-102	-103	-106	-115
Current balance	236	371	318	198	325	218	219	229	242	247
Capital revenue	383	221	311	230	229	360	313	315	311	363
Capital expenditure	-625	-567	-603	-700	-678	-870	-837	-769	-826	-949
Capital balance	-242	-346	-292	-470	-449	-510	-524	-454	-515	-586
Total revenue	3,929	4,192	4,501	4,369	5,422	5,856	5,993	6,161	6,319	6,533
Total expenditure	-3,936	-4,167	-4,475	-4,640	-5,546	-6,147	-6,298	-6,386	-6,592	-6,872
Surplus (deficit) before net financing	-6	25	26	-272	-124	-291	-305	-225	-273	-339
New direct debt borrowing	250	4	11	100	400	414	378	249	341	430
Direct debt repayment	-65	-52	-52	-52	-67	-166	-96	-70	-72	-90
Net direct debt movement	185	-49	-41	48	333	248	282	180	269	340
Overall results	179	-24	-15	-223	209	-43	-23	-45	-4	1
Debt and Liquidity										
Short-term debt	0	0	0	0	0	0	0	0	0	0
Long-term debt	1,113	1,065	1,024	1,072	1,405	1,653	1,935	2,115	2,384	2,724
Intergovernmental debt	0	0	0	0	0	0	0	0	0	0
Direct debt	1,113	1,065	1,024	1,072	1,405	1,653	1,935	2,115	2,384	2,724
Other Fitch-classified debt	99	173	70	61	240	231	222	214	195	175
Adjusted debt	1,212	1,238	1,094	1,133	1,645	1,884	2,157	2,328	2,579	2,899
Guarantees issued (excluding adjusted debt portion)	3	6	213	358	398	393	369	344	319	294
Majority-owned GRE debt and other contingent liabilities	451	456	396	377	338	369	407	383	409	785
Overall adjusted debt	1,667	1,700	1,703	1,868	2,380	2,647	2,933	3,055	3,307	3,978
Total cash, liquid deposits, and sinking funds	326	303	280	57	264	221	198	152	148	149
Restricted cash	0	0	0	0	0	0	0	0	0	0
Unrestricted cash	326	303	280	57	264	221	198	152	148	149
Net adjusted debt	886	935	813	1,077	1,381	1,664	1,960	2,176	2,431	2,750
Net overall debt	1,340	1,397	1,423	1,811	2,117	2,426	2,736	2,903	3,158	3,829
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 (%)	57	55	53	65	85	-	-	-	-	-

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

Appendix B: Financial Ratios

City of Gdansk

	2020	2021	2022	2023	2024	2025rc	2026rc	2027rc	2028rc	2029rc
Fiscal performance ratios (%)										
Operating balance/operating revenue	6.9	9.6	7.8	5.3	6.9	5.4	5.5	5.6	5.7	5.8
Current balance/current revenue	6.7	9.3	7.6	4.8	6.3	4.0	3.9	3.9	4.0	4.0
Operating revenue annual growth	5.3	12.1	4.8	-1.1	25.6	6.0	3.5	3.0	2.8	2.7
Operating expenditure annual growth	8.1	8.9	6.8	1.6	23.5	7.7	3.4	2.9	2.7	2.6
Surplus (deficit) before net financing/total revenue	-0.2	0.6	0.6	-6.2	-2.3	-5.0	-5.1	-3.7	-4.3	-5.2
Total revenue annual growth	8.5	6.7	7.4	-2.9	24.1	8.0	2.3	2.8	2.6	3.4
Total expenditure annual growth	5.1	5.9	7.4	3.7	19.5	10.8	2.5	1.4	3.2	4.2
Debt ratios										
Primary metrics										
Payback ratio (x) (net adjusted debt to operating balance)	3.6	2.5	2.5	5.0	3.9	5.6	6.3	6.7	7.2	7.8
Secondary metrics										
Fiscal debt burden (%) (net debt-to-operating revenue)	25.0	23.5	19.6	26.2	26.7	30.4	34.6	37.3	40.5	44.6
Synthetic debt service coverage ratio (x)	3.7	5.8	4.6	2.2	2.7	1.7	1.6	1.6	1.5	1.4
Other debt ratios										
Liquidity coverage ratio (x)	5.1	11.6	7.1	5.3	3.3	2.2	2.7	3.0	2.8	2.4
Direct debt maturing in one year/total direct debt (%)	4.7	4.9	5.1	6.2	11.8	0.0	0.0	0.0	0.0	0.0
Direct debt (annual % change)	20.0	-4.4	-3.9	4.7	31.1	17.7	17.0	9.3	12.7	14.3
Apparent cost of direct debt (interest paid/direct debt) (%)	1.2	0.8	3.5	4.1	4.5	6.2	5.7	5.1	4.7	4.5
Revenue ratios (%)										
Tax revenue/total revenue	41.8	45.7	43.4	43.2	46.5	69.6	70.4	70.5	70.7	70.2
Current transfers received/total revenue	35.4	34.1	32.4	31.2	31.9	7.6	7.6	7.6	7.7	7.6
Interest revenue/total revenue	0.1	0.0	0.7	0.6	0.5	0.3	0.2	0.1	0.1	0.1
Capital revenue/total revenue	9.8	5.3	6.9	5.3	4.2	6.2	5.2	5.1	4.9	5.6
Expenditure ratios (%)										
Staff expenditure/total expenditure	27.2	28.9	29.4	31.8	33.9	-	-	-	-	-
Current transfers made/total expenditure	12.6	12.7	14.0	15.6	17.7	-	-	-	-	-
Interest expenditure/total expenditure	0.3	0.2	0.8	0.9	1.0	1.5	1.6	1.6	1.6	1.7
Capital expenditure/total expenditure	15.9	13.6	13.5	15.1	12.2	14.2	13.3	12.0	12.5	13.8

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

Appendix C: Data Adjustments

Net Adjusted Debt Calculations

Net adjusted debt corresponds to the difference between adjusted debt at the year-end and available cash viewed as unrestricted by Fitch.

The adjusted debt includes direct debt and other Fitch-classified debt. Gdansk's direct debt increased to PLN1,405 million at end-2024 from PLN1,072 million at end-2023. Other Fitch-classified debt includes city's PLN240 million obligations to secure funds for its municipal company Miedzynarodowe Targi Gdanskie S.A. to repurchase shares from the Polski Fundusz Rozwoju S.A. based on the two agreements with the fund. Therefore, the city's adjusted debt at end-2024 was PLN1,645 million.

Gdansk's net adjusted debt increased to PLN1,381 million at end-2024 from PLN1,077 million at end-2023. The change results from the adjusted debt increase exceeding the rise in unrestricted cash to PLN265 million from PLN57 million at end-2023. In our rating case, we expect net adjusted debt to go up to PLN2,750 million at end-2029, following the investments partially financed with debt and gradual decline of other-Fitch classified debt.

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