

FITCH AFFIRMS CITY OF GDANSK AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-Warsaw/London-04 April 2014: Fitch Ratings has affirmed the City of Gdansk's Long-term foreign and local currency Issuer Default Ratings (IDR) at 'BBB+' and National Long-term rating at 'AA-(pol)'. The Outlook is Stable.

KEY RATING DRIVERS

The affirmation reflects Gdansk's continued sound operating performance, which is in line with Fitch's expectations. This can be attributed to prudent financial management and effective monitoring of budget, which results in a high self-funding capacity and healthy debt ratios. The ratings factor in stable debt in 2014-2015. The ratings also take into account projected high, but declining, capital expenditure, persistent pressure on operating expenditure and growing maintenance costs of completed investments.

Fitch expects the city to maintain an operating balance at about 11% of operating revenue in 2014-2015, which will be similar to 2012-2013 average and will allow Gdansk to cover its annual direct debt-service obligations of PLN120m p.a. by about 1.5x-2x. The agency does not expect debt coverage (debt to current balance) to exceed 10 years, which will be well below the city's estimated long-term debt maturity of 14-15 years and positive for the ratings.

Fitch expects Gdansk's capital expenditure to average PLN600m in 2014-2015 (ie, 22% of total spending), as large infrastructure investments approach completion. Although high, this will be lower than in 2011-2013 (about PLN1bn p.a. or 35% of total spending). However, completed investments may put pressure on the city's budget in the medium term, due to growing maintenance costs.

Fitch forecasts Gdansk's debt will stabilise at around PLN1.2bn in 2014-2015, about 60% of current revenue (PLN1.29bn or 64% of current revenue in 2013). The city's debt financing needs should remain limited as capital revenue and the current balance will finance the majority of capital expenditure. The majority of Gdansk's debt was drawn from international financial institutions, allowing the city low funding costs, a long debt maturity and a smooth debt repayment profile.

Like other Polish subnationals, Gdansk has historically faced pressure to increase operating expenditure. This is driven mainly by under-funded responsibilities that were transferred to local governments by the state and inflexible spending on education and social care.

RATING SENSITIVITIES

A downgrade could result from a sustained deterioration in operating performance far below Fitch's expectations or a significant rise in debt resulting in weak debt coverage exceeding 15 years.

The ratings could be upgraded if the city maintains sound operating performance for three consecutive years, with an operating margin well above Fitch's expectations, accompanied by direct risk stabilising at below 60% of current revenue.

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Additional information is available on www.fitchratings.com.

Applicable criteria, 'Tax-Supported Rating Criteria', dated 14 August 2012, and 'International Local and Regional Governments Rating Criteria outside United States', dated 9 April 2013, are available on www.fitchratings.com.

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

International Local and Regional Governments Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=704438

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