

City of Gliwice

Key Rating Drivers

Ratings Affirmed: The affirmation of the City of Gliwice's Issuer Default Ratings (IDRs) at 'A-' with Stable Outlook reflects Fitch Ratings' view that the city's financial standings will remain in line with the ratings over the rating horizon (2023-2027) despite a weakened macroeconomic environment and the consequences of the implemented tax reform for the city's budget.

Risk Profile 'Midrange': Fitch assesses Gliwice's risk profile as 'Midrange', in line with other rated Polish cities. 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 forecast horizon due to lower revenue, higher expenditure or an unexpected rise in liabilities or debt-service requirements.

Challenging Budget for 2023: We expect operating revenue to drop to PLN1,342 million in 2023 from PLN1,431 million in 2022. At the same time, maintaining strong cost discipline may be a challenge in the medium term due to high inflation expectations (16.1% in March 2023; Fitch forecasts 10.5% for end-2023), including fuel and energy prices, curbing spending on goods and services.

Insufficient Subsidy: We believe that future subsidies from the state budget will be insufficient to compensate for the financial implications of the 'Polish Deal' tax reform, and will lead to weaker debt metrics, but they will remain in line with the Standalone Credit Profile (SCP).

Debt Sustainability – 'aa' Category: The city's payback ratio will weaken to around 7.8x in 2027 from 2.3x in 2022, following a weaker operating balance in our rating case and an increase in net adjusted debt to PLN834 million in 2027, but it remains compatible with 'aa' debt sustainability. The strong fiscal debt burden ratio at below an average 50% of operating revenue counterbalances the city's weaker synthetic debt service coverage ratio, which is likely to deteriorate to below 2x on average (5.0x in 2022).

Weakening Operating Balance: Gliwice's operating balance, inflated by the additional personal income tax revenue in 2022, increased to PLN189 million in 2022, or 13.2% of operating revenue, from PLN171 million in 2021 (both adjusted for the additional PLN40 million subsidy that was earmarked for 2022, but was received by end-2021). Fitch's rating case expects the city's operating balance to decline in 2023-2027 to a minimum PLN81 million in 2023, and average PLN95 million in 2023-2027, compared with PLN181 million on average in 2018-2022.

Rating Derivation Summary: Fitch assesses Gliwice's SCP at 'a-'. This reflects the combination of the 'Midrange' risk profile and debt sustainability in the 'aa' category. The city's SCP assessment factors in positioning among peers in the same rating category, in particular the peer group of Polish municipalities. The IDRs are not affected by any asymmetric risk or extraordinary support from Poland's central government and they are equal to the city's SCP.

ESG: The highest level of ESG credit relevance is a score of '3', meaning that ESG issues are credit neutral or have only a minimal credit impact on the city.

Rating Sensitivities

Sovereign Upgrade, Improved Payback: The debt payback ratio remaining lower or equal to 7.5x on a sustained basis under Fitch's rating case, provided the sovereign is also upgraded, as the city's IDRs are equal to those of the Polish sovereign (A-/Stable).

Sovereign Downgrade, Payback Deterioration: A downgrade of Poland's 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.

Public Finance

Local and Regional Governments

Poland

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency

Long-Term IDR A-

Local Currency

Long-Term IDR A-

National Rating

National Long-Term Rating AA+

Outlooks

Long-Term Foreign-Currency IDR Stable

Long-Term Local-Currency IDR Stable

National Long-Term Rating Stable

Issuer Profile Summary

Gliwice is an urban county in the Slaskie region, with around 175,100 inhabitants at end-2021. Its economy is well developed and attractive to investors. The unemployment rate was 2.2% (Poland: 5.2%) at end-2022.

Financial Data Summary

City of Gliwice			
(PLNm)	2022	2027rc	
Payback ratio (x)	2.3	7.8	
Synthetic coverage (x)	5.0	1.3	
Fiscal debt burden (%)	30.2	50.6	
Net adjusted debt	432	834	
Operating balance	189	107	
Operating revenue	1,431	1,649	
Debt service	65	135	
Mortgage-style debt annuity	38	81	

rc: Fitch's rating-case scenario

Source: Fitch Ratings, Fitch Solutions, City of Gliwice

Applicable Criteria

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

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

Related Research

[Fitch Affirms Polish City of Gliwice at 'A-'; Outlook Stable \(March 2023\)](#)

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Appendix A: Financial Data

City of Gliwice

(PLNm)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Fiscal performance										
Taxes	525	560	565	621	635	605	660	733	713	745
Transfers received	406	474	556	555	578	508	556	566	626	656
Fees, fines and other operating revenues	164	171	265	202	218	229	230	236	242	248
Operating revenue	1,095	1,204	1,387	1,378	1,431	1,342	1,446	1,535	1,581	1,649
Operating expenditure	-918	-1,020	-1,203	-1,207	-1,241	-1,261	-1,356	-1,440	-1,479	-1,542
Operating balance	177	184	184	171	189	81	90	95	102	107
Interest revenue	3	2	1	1	9	4	1	1	1	1
Interest expenditure	-10	-8	-9	-9	-17	-29	-36	-40	-43	-45
Current balance	169	178	175	162	182	56	55	56	60	63
Capital revenue	116	99	198	225	189	188	153	100	120	120
Capital expenditure	-313	-361	-360	-451	-437	-344	-306	-225	-250	-250
Capital balance	-197	-263	-163	-227	-248	-156	-153	-125	-130	-130
Total revenue	1,213	1,304	1,585	1,603	1,628	1,534	1,600	1,636	1,702	1,770
Total expenditure	-1,240	-1,389	-1,573	-1,667	-1,695	-1,634	-1,698	-1,705	-1,772	-1,837
Surplus (deficit) before net financing	-27	-85	13	-64	-67	-100	-98	-69	-70	-67
New direct debt borrowing	76	75	175	0	20	0	0	0	0	0
Direct debt repayment	-20	-26	-27	-33	-49	0	0	0	0	0
Net direct debt movement	55	49	148	-33	-29	98	108	111	76	69
Overall results	28	-35	160	-97	-95	-2	10	42	6	2
Debt and liquidity										
Short-term debt	0	0	0	0	0	0	0	0	0	0
Long-term debt	324	373	521	488	459	557	666	777	853	922
Intergovernmental debt	0	0	0	0	0	0	0	0	0	0
Direct debt	324	373	521	488	459	557	666	777	853	922
Other Fitch-classified debt	0	0	0	0	0	0	0	0	0	0
Adjusted debt	324	373	521	488	459	557	666	777	853	922
Guarantees issued (excluding adjusted debt portion)	0	0	0	0	0	0	0	0	0	0
Majority-owned GRE debt and other contingent liabilities	168	148	157	163	140	135	201	231	206	206
Overall adjusted debt	492	521	678	651	599	692	867	1,008	1,059	1,128
Total cash, liquid deposits, and sinking funds	95	60	220	123	27	26	36	79	85	88
Restricted cash	0	0	0	0	0	0	0	0	0	0
Unrestricted cash	95	60	220	123	27	26	36	79	85	88
Net adjusted debt	229	313	301	365	432	531	630	698	768	834
Net overall debt	397	461	458	529	572	666	831	929	974	1,040

Source: Fitch Ratings, Fitch Solutions, City of Gliwice

Appendix B: Financial Ratios

City of Gliwice

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Fiscal performance ratios										
Operating balance/operating revenue (%)	16.1	15.3	13.2	12.4	13.2	6.0	6.2	6.2	6.5	6.5
Current balance/current revenue (%)	15.4	14.8	12.6	11.8	12.6	4.2	3.8	3.7	3.8	3.8
Operating revenue growth (annual % change)	5.9	10.0	15.2	-0.7	3.9	-6.2	7.8	6.2	3.0	4.3
Operating expenditure growth (annual % change)	5.3	11.1	18.0	0.3	2.9	1.6	7.5	6.2	2.7	4.3
Surplus (deficit) before net financing/total revenue (%)	-2.3	-6.5	0.8	-4.0	-4.1	-6.5	-6.1	-4.2	-4.1	-3.8
Total revenue growth (annual % change)	6.2	7.5	21.5	1.1	1.6	-5.8	4.3	2.3	4.0	4.0
Total expenditure growth (annual % change)	11.5	12.0	13.2	6.0	1.7	-3.6	3.9	0.4	3.9	3.7
Debt ratios										
Primary metrics										
Payback ratio (x) (net adjusted debt to operating balance)	1.3	1.7	1.6	2.1	2.3	6.6	7.0	7.3	7.5	7.8
Secondary metrics										
Fiscal debt burden (%) (net debt-to-operating revenue)	20.9	26.0	21.7	26.5	30.2	39.6	43.6	45.5	48.6	50.6
Synthetic debt service coverage ratio (x)	9.0	7.3	7.9	6.0	5.0	1.5	1.4	1.4	1.4	1.3
Other debt ratios										
Liquidity coverage ratio (x)	8.8	8.2	6.7	9.3	4.8	1.4	1.4	1.4	1.6	1.4
Direct debt maturing in one year/total direct debt (%)	8.0	7.2	6.3	6.7	10.5	8.7	7.2	6.2	0.0	0.0
Direct debt (annual % change)	20.6	15.2	39.6	-6.3	-5.9	21.3	19.6	16.7	9.8	8.1
Apparent cost of direct debt (interest paid/direct debt) (%)	3.3	2.3	2.1	1.8	3.5	5.7	5.9	5.5	5.3	5.1
Revenue ratios										
Tax revenue/total revenue (%)	43.3	42.9	35.6	38.7	39.0	39.4	41.3	44.8	41.9	42.1
Current transfers received/total revenue (%)	33.5	36.3	35.1	34.6	35.5	33.1	34.8	34.6	36.8	37.1
Interest revenue/total revenue (%)	0.2	0.1	0.0	0.0	0.5	0.3	0.1	0.1	0.1	0.1
Capital revenue/total revenue (%)	9.6	7.6	12.5	14.0	11.6	12.3	9.6	6.1	7.1	6.8
Expenditure ratios										
Staff expenditure/total expenditure (%)	31.2	30.1	29.2	30.3	31.1	-	-	-	-	-
Current transfers made/total expenditure (%)	8.8	8.4	7.6	7.8	8.2	-	-	-	-	-
Interest expenditure/total expenditure (%)	0.8	0.6	0.6	0.6	1.0	1.8	2.1	2.4	2.4	2.5
Capital expenditure/total expenditure (%)	25.2	26.0	22.9	27.1	25.8	21.1	18.0	13.2	14.1	13.6

Source: Fitch Ratings, Fitch Solutions, City of Gliwice

Appendix C: Data Adjustments

Net Adjusted Debt Calculations

Gliwice had direct debt of PLN459 million at end-2022, down from PLN488 million at end-2021. Net adjusted debt corresponds to the difference between adjusted debt and the year-end available cash that Fitch views as “unrestricted” (PLN27 million at end-2022). The city’s net adjusted debt was PLN432 million (with the subsidy not considered) at end-2022, compared with PLN365 million in 2021, as it did draw new debt while the cash balance decreased at end-2022.

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 local and regional governments’ debt sustainability.

Mortgage-Style Debt Annuity Calculation

(PLNm)	2022	2027rc
Net adjusted debt	432	834
Apparent cost of debt, %	3.5	5.0
Amortisation period, years	15	15
Mortgage-style debt annuity	28	81

Source: Fitch Ratings, City of Gliwice

Specific Adjustments

Fitch deducted the PLN40 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 received in 2022. This was because the subsidy is aimed at covering income tax revenue shortfalls from the introduction of the ‘Polish Deal’ tax reform from 2022. Another reason was to smooth operating revenue and allow for better comparison in 2020-2023.

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