

# City of Gliwice

## Key Rating Drivers

**Ratings Affirmed:** Fitch Ratings has affirmed the Polish City of Gliwice's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A-'. The Outlooks are Stable.

**Rating Derivation:** Gliwice's Standalone Credit Profile (SCP) of 'a-' reflects a 'Midrange' Risk Profile and a 'aa' debt sustainability assessment. It also factors in peer comparison in the same rating category. The city's IDRs are not affected by any asymmetric risk or extraordinary support from the Polish state (A-/Stable). The city's IDRs are equal to its SCP and the sovereign ratings.

**Risk Profile - 'Midrange':** Fitch assesses Gliwice's risk profile as 'Midrange', which reflects the combination assessment of four factors at 'Midrange' (revenue robustness, expenditure sustainability and adjustability, and liabilities and liquidity flexibility) one at 'Stronger' (liabilities and liquidity robustness) and one at 'Weaker' (revenue adjustability).

**Stable Revenue:** A majority of the city's revenue sources were stable with sound growth prospects, above the average national GDP growth. Tax revenue is based on moderately cyclical economic activities and benefits from a moderately diversified tax base. The bulk of the remaining revenue is formula-based transfers from the Polish state budget.

**Moderate Spending Flexibility:** Gliwice has a high share of capex and non-cyclical current spending items in its total spending. Gliwice's opex growth has been well below revenue growth, which resulted in a high and stable operating margin (average 15.9% in 2015-2019).

**Low Liabilities Risk:** Gliwice's debt is fully denominated in Polish zloty and has a smooth amortisation profile until 2034. This, together with a high share (99%) of loans from the European Investment Bank (AAA/Stable) mitigates repayment risk. Almost all the city's debt is at fixed rates, which is uncommon among Polish local and regional governments (LRGs), and this eliminates interest-rate risk.

**Good Liquidity:** Although Gliwice has a long record of ample liquidity (one of the highest within Polish LRGs rated by Fitch), we view the city's liabilities and liquidity flexibility as midrange. This reflects lack of emergency liquidity support from upper tiers of government in Poland and the lack of banks rated above 'A+' in the Polish market. Liquidity at end-2019 (PLN60 million of unrestricted cash and a committed liquidity credit line of PLN60 million) by far exceeded the annual debt service.

**Debt Sustainability - 'aa':** Under its rating case for 2020-2024, factoring in the expected economic downturn triggered by the coronavirus pandemic, Fitch projects Gliwice's payback ratio to remain below 9x and the fiscal debt burden below 50% by 2024. In the uncertain global environment, we project a weaker synthetic coverage ratio, although this will remain above 1.4x in 2020-2024. Under the revised projections, Gliwice's debt sustainability score remains in the 'aa' category, underpinning some fiscal resilience to sharp shocks.

**ESG Considerations:** 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

**Upgrade of Sovereign, Payback Improvement:** Payback ratio remaining sustainably lower or equal to 7x under Fitch's rating case, provided the sovereign is also upgraded, would be a reason to upgrade.

**Downgrade of Sovereign, Payback Deterioration:** A sustained rise in the payback ratio above 9x under Fitch's rating case or downgrade of the sovereign would be a reason to downgrade.

## Ratings

### Foreign Currency

Long-Term IDR A-

### Local Currency

Long-Term IDR A-  
National Long-Term rating AA+(pol)

### Outlooks

Long-Term Foreign-Currency IDR Stable  
Long-Term Local-Currency IDR Stable  
National Long-Term rating Stable

## Issuer Profile

Gliwice is a medium-sized city by Polish standards, in the Slaskie region and is part of the Silesia metropolis (more than 2 million inhabitants). The city's economy is well-developed and attractive to investors, as it benefits from the city's location at the crossroads of the main Polish rail and road corridors, and from a well-educated and highly qualified work force.

## Financial Data

City of Gliwice		
(PLNm)	2019	2024rc
Payback (x)	1.7	8.2
Synthetic coverage (x) <sup>a</sup>	7.4	1.4
Actual coverage (x)	5.4	1.0
Fiscal debt burden (%)	26.0	48.9
Net adjusted debt	313	698
Operating balance	184	85
Operating revenue	1,204	1,426
Debt service	34	82
Mortgage-style debt annuity <sup>a</sup>	25	63

rc: Fitch's rating-case scenario

<sup>a</sup> Fitch's calculation (see Appendix C)

Source: Fitch Ratings, City of Gliwice

## Applicable Criteria

[International Local and Regional Governments Rating Criteria \(Oct 2020\)](#)

[National Scale Ratings Criteria \(Jun 2020\)](#)

## Related Research

[Coronavirus Lowers Polish Municipalities' Rating Headroom \(April 2020\)](#)

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## Appendix A: Financial Data

### City of Gliwice

(PLNm)	2016	2017	2018	2019	2020rc	2024rc
Taxes	452	486	525	560	554	666
Transfers received	358	385	406	474	513	566
Fees, fines and other operating revenue	166	163	164	171	176	194
<b>Operating revenue</b>	<b>976</b>	<b>1,034</b>	<b>1,095</b>	<b>1,204</b>	<b>1,243</b>	<b>1,426</b>
Operating expenditure	-813	-872	-918	-1,020	-1,147	-1,341
<b>Operating balance</b>	<b>163</b>	<b>162</b>	<b>177</b>	<b>184</b>	<b>96</b>	<b>85</b>
Interest revenue	3	2	3	2	0	0
Interest expenditure	-4	-5	-10	-8	-9	-29
<b>Current balance</b>	<b>161</b>	<b>159</b>	<b>169</b>	<b>178</b>	<b>87</b>	<b>56</b>
Capital revenue	77	107	116	99	100	28
Capital expenditure	-294	-237	-313	-361	-360	-111
<b>Capital balance</b>	<b>-217</b>	<b>-130</b>	<b>-197</b>	<b>-263</b>	<b>-260</b>	<b>-83</b>
<b>Total revenue</b>	<b>1,056</b>	<b>1,143</b>	<b>1,213</b>	<b>1,304</b>	<b>1,343</b>	<b>1,454</b>
<b>Total expenditure</b>	<b>-1,111</b>	<b>-1,113</b>	<b>-1,240</b>	<b>-1,389</b>	<b>-1,516</b>	<b>-1,481</b>
<b>Surplus (deficit) before net financing</b>	<b>-55</b>	<b>30</b>	<b>-27</b>	<b>-85</b>	<b>-173</b>	<b>-27</b>
New direct debt borrowing	2	2	76	75	204	78
Direct debt repayment	-8	-18	-20	-26	-27	-53
Net direct debt movement	-6	-17	55	49	177	25
<b>Overall results</b>	<b>-61</b>	<b>13</b>	<b>28</b>	<b>-35</b>	<b>4</b>	<b>-2</b>
<b>Debt</b>						
Short-term debt	0	0	0	0	0	0
Long-term debt	285	269	324	373	550	735
<b>Direct debt</b>	<b>285</b>	<b>269</b>	<b>324</b>	<b>373</b>	<b>550</b>	<b>735</b>
Other Fitch-classified debt	0	0	0	0	0	0
<b>Adjusted debt</b>	<b>285</b>	<b>269</b>	<b>324</b>	<b>373</b>	<b>550</b>	<b>735</b>
Guarantees issued (excluding adjusted debt portion)	0	0	0	0	0	0
Majority-owned GRE debt and other contingent liabilities	187	174	168	148	181	150
<b>Overall adjusted debt</b>	<b>472</b>	<b>443</b>	<b>492</b>	<b>521</b>	<b>731</b>	<b>885</b>
Total cash, liquid deposits, and sinking funds	79	87	95	60	62	37
Restricted cash	0	0	0	0	0	0
Unrestricted cash	79	87	95	60	62	37
<b>Net adjusted debt</b>	<b>206</b>	<b>182</b>	<b>229</b>	<b>313</b>	<b>488</b>	<b>698</b>
<b>Net overall debt</b>	<b>389</b>	<b>356</b>	<b>396</b>	<b>461</b>	<b>669</b>	<b>848</b>

rc: Fitch's rating case, based on conservative assumptions. The last year of the rating-case scenario is 2024  
Source: Fitch Ratings, City of Gliwice

### Rating History

Date	Long-Term Foreign-Currency IDR	Long-Term Local-Currency IDR
20 May 2016	A-	A-
07 Feb 2012	BBB+	BBB+
11 Dec 2008	BBB	BBB

Source: Fitch Ratings

### Socioeconomic Indicators

	City of Gliwice	Poland
Population, 2019 (m)	0.179	38.4
Average salary, 2018 (PLN)	5,451	4,835
Unemployment rate, 2019 (%)	2.3	5.2

Source: Fitch Ratings, Statistics Poland

## Appendix B: Financial Ratios

### City of Gliwice

Fiscal performance ratios	2016	2017	2018	2019	2020rc	2024rc
Operating balance/operating revenue (%)	16.7	15.7	16.1	15.3	7.7	6.0
Current balance/current revenue (%)	16.5	15.4	15.4	14.8	7.0	3.9
Operating revenue growth (annual % change)	12.0	5.9	5.9	10.0	3.2	3.9
Operating expenditure growth (annual % change)	10.6	7.2	5.3	11.1	12.5	4.3
Surplus (deficit) before net financing/total revenue (%)	-5.2	2.6	-2.3	-6.5	-12.9	-1.9
Total revenue growth (annual % change)	-25.4	8.2	6.2	7.5	3.0	3.9
Total expenditure growth (annual % change)	-18.4	0.2	11.5	12.0	9.1	4.2

### Debt ratios

#### Primary metrics

Payback ratio (x)	1.3	1.1	1.3	1.7	5.1	8.2
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#### Secondary metrics

Fiscal debt burden (%)	21.1	17.6	20.9	26.0	39.3	48.9
Synthetic debt service coverage ratio (x)	10.6	11.7	9.0	7.4	2.5	1.4
Actual debt service coverage ratio (x)	13.9	7.0	5.9	5.4	2.6	1.0

### Other debt ratios

Liquidity coverage ratio (x)	25.8	10.4	8.8	8.2	4.2	1.5
Direct debt maturing in one year/total direct debt (%)	6.4	7.5	8.0	7.2	4.9	3.5
Direct debt (annual % change)	-1.9	-5.8	20.6	15.2	47.4	3.5
Apparent cost of direct debt (interest paid/direct debt) (%)	1.5	1.7	3.3	2.3	2.2	4.0

### Revenue ratios

Tax revenue/total revenue (%)	42.8	42.5	43.3	42.9	41.3	45.8
Current transfers received/total revenue (%)	33.9	33.7	33.5	36.3	38.2	38.9
Interest revenue/total revenue (%)	0.2	0.1	0.2	0.1	-	-
Capital revenue/total revenue (%)	7.3	9.4	9.5	7.6	7.4	1.9

### Expenditure ratios

Staff expenditure/total expenditure (%)	31.8	32.8	31.2	30.1	-	-
Current transfers made/total expenditure (%)	8.1	8.8	8.8	8.4	-	-
Interest expenditure/total expenditure (%)	0.4	0.4	0.8	0.6	0.6	2.0
Capital expenditure/total expenditure (%)	26.4	21.3	25.2	26.0	23.7	7.5

rc: Fitch's rating case, based on conservative assumptions. The last year of the rating-case scenario is 2024

Source: Fitch Ratings, City of Gliwice

## Appendix C: Data Adjustments

### 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 city's debt sustainability.

### Mortgage-Style Debt Annuity Calculation

	2019	2024rc
Net adjusted debt (PLNm)	313	698
Apparent cost of debt (%)	2.3%	4.0%
Amortisation period (years)	15	15
<b>Mortgage-style debt annuity (PLNm)</b>	<b>25</b>	<b>63</b>

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

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