

# City of Gliwice

## Key Rating Drivers

**Ratings Affirmed, Outlook Stable:** Fitch Ratings' affirmation of the City of Gliwice's Issuer Default Ratings (IDRs) at 'A-' with Stable Outlook and removal from Rating Watch Negative reflects clarification of the expected impact of the 'Polish Deal' fiscal reform on the city's debt sustainability.

**Risk Profile 'Midrange':** Fitch assesses the city's Risk Profile as 'Midrange' in line with the majority of other Fitch-rated Polish municipalities. 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 due to lower revenue, higher expenditure, or an unexpected rise in liabilities or debt-service requirements.

The assessment considers a combination 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).

**Impact of Tax Reform:** Fitch has revised its rating-case assumptions to factor in the recent changes stemming from the 'Polish Deal' that resulted in lower tax revenue and high inflation that put pressure on expenditure. We believe that the future subsidies from the state budget will be insufficient to compensate for the financial effects of the reform.

**Debt Sustainability: 'aa' Category:** The city's payback ratio will weaken to around 8.3x in 2026 from 2.1x in 2021, following a weaker operating balance in our rating case and an increase in net adjusted debt to PLN665 million in 2026, but it remains compatible with 'aa' debt sustainability. The strong fiscal debt burden ratio at below 50% of operating revenue on average counterbalances the city's weaker synthetic debt service coverage ratio, which is likely to deteriorate to below 2x on average (6.0x in 2021).

**Rating Derivation Summary:** Fitch assesses Gliwice's Standalone Credit Profile (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 currently equal to those of the Polish sovereign (A-/Stable).

**Sovereign Downgrade, Payback Deterioration:** 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.

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](http://www.fitchratings.com).

## Ratings

### Foreign Currency

Long-Term IDR A-

### Local Currency

Long-Term IDR A-

### National Rating

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 Summary

Gliwice is an urban county in the Slaskie region, and it has around 175,100 inhabitants at end-2021. Its economy is well-developed and attractive to investors. The unemployment rate was 3.0% (Poland: 5.4%) at end-2021.

## Financial Data Summary

City of Gliwice		
(PLNm)	2021	2026rc
Payback ratio (x)	2.1	8.3
Synthetic coverage (x)	6.0	1.3
Fiscal debt burden (%)	26.5	42.7
Net adjusted debt	365	665
Operating balance	171	80
Operating revenue	1,378	1,557
Debt service	42	96
Mortgage-style debt annuity	28	64

rc: Fitch's rating-case scenario

Source: Fitch Ratings, Fitch Solutions, City of Gliwice

## Applicable Criteria

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

## Related Research

[Fitch Takes Rating Actions on Polish LGs \(September 2022\)](#)

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## Appendix A: Financial Data

### City of Gliwice

(PLNm)	2018	2019	2020	2021	2022rc	2023rc	2024rc	2025rc	2026rc
<b>Fiscal performance</b>									
Taxes	525	560	565	621	589	625	665	704	738
Transfers received	406	474	556	555	524	511	529	551	580
Fees, fines and other operating revenues	164	171	265	202	213	224	229	234	240
Operating revenue	1,095	1,204	1,387	1,378	1,326	1,360	1,423	1,489	1,558
Operating expenditure	-918	-1,020	-1,203	-1,207	-1,236	-1,264	-1,329	-1,396	-1,477
Operating balance	177	184	184	171	90	96	94	93	81
Interest revenue	3	2	1	1	7	4	0	0	0
Interest expenditure	-10	-8	-9	-9	-23	-30	-31	-33	-34
Current balance	169	178	175	162	74	70	63	60	47
Capital revenue	116	99	198	225	194	101	105	109	103
Capital expenditure	-313	-361	-360	-451	-377	-214	-209	-217	-204
Capital balance	-197	-263	-163	-227	-183	-113	-104	-108	-101
Total revenue	1,213	1,304	1,585	1,603	1,527	1,465	1,528	1,598	1,661
Total expenditure	-1,240	-1,389	-1,573	-1,667	-1,636	-1,508	-1,569	-1,646	-1,715
Surplus (deficit) before net financing	-27	-85	13	-64	-109	-43	-41	-48	-54
New direct debt borrowing	76	75	175	0	135	40	101	106	100
Direct debt repayment	-20	-26	-27	-33	-49	-51	-52	-53	-55
Net direct debt movement	55	49	148	-33	86	-11	49	53	45
Overall results	28	-35	160	-97	-23	-54	8	5	-9
<b>Debt and liquidity</b>									
Short-term debt	0	0	0	0	0	0	0	0	0
Long-term debt	324	373	521	488	574	563	613	665	710
Direct debt	324	373	521	488	574	563	613	665	710
Other Fitch-classified debt	0	0	0	0	0	0	0	0	0
Adjusted debt	324	373	521	488	574	563	613	665	710
Guarantees issued (excluding adjusted debt portion)	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
Overall adjusted debt	492	521	678	651	714	698	814	896	916
Total cash, liquid deposits, and sinking funds	95	60	220	123	99	44	52	56	45
Restricted cash	0	0	0	0	0	0	0	0	0
Unrestricted cash	95	60	220	123	99	44	52	56	45
Net adjusted debt	229	313	301	365	475	519	561	609	665
Net overall debt	397	461	458	529	615	654	762	840	871

rc: Fitch's rating-case scenario

Source: Fitch Ratings, Fitch Solutions, City of Gliwice

## Appendix B: Financial Ratios

### City of Gliwice

	2018	2019	2020	2021	2022rc	2023rc	2024rc	2025rc	2026rc
<b>Fiscal performance ratios</b>									
Operating balance/operating revenue (%)	16.1	15.3	13.2	12.4	6.8	7.1	6.6	6.3	5.2
Current balance/current revenue (%)	15.4	14.8	12.6	11.8	5.6	5.1	4.4	4.0	3.0
Operating revenue growth (annual % change)	5.9	10.0	15.2	-0.7	-3.7	2.6	4.6	4.6	4.6
Operating expenditure growth (annual % change)	5.3	11.1	18.0	0.3	2.5	2.3	5.1	5.0	5.8
Surplus (deficit) before net financing/total revenue (%)	-2.3	-6.5	0.8	-4.0	-7.1	-2.9	-2.7	-3.0	-3.3
Total revenue growth (annual % change)	6.2	7.5	21.5	1.1	-4.7	-4.1	4.3	4.6	3.9
Total expenditure growth (annual % change)	11.5	12.0	13.2	6.0	-1.9	-7.8	4.1	4.9	4.2
<b>Debt ratios</b>									
<b>Primary metrics</b>									
Payback ratio (x) (net adjusted debt to operating balance)	1.3	1.7	1.6	2.1	5.3	5.4	6.0	6.5	8.3
<b>Secondary metrics</b>									
Fiscal debt burden (%) (net debt-to-operating revenue)	20.9	26.0	21.7	26.5	35.8	38.2	39.4	40.9	42.7
Synthetic debt service coverage ratio (x)	9.0	7.3	7.9	6.0	2.1	1.9	1.7	1.6	1.3
<b>Other debt ratios</b>									
Liquidity coverage ratio (x)	8.8	8.2	6.7	9.3	3.0	2.4	1.6	1.6	1.4
Direct debt maturing in one year/total direct debt (%)	8.0	7.2	6.3	6.7	8.5	8.6	7.9	7.3	0.0
Direct debt (annual % change)	20.6	15.2	39.6	-6.3	17.6	-1.9	8.9	8.5	6.8
Apparent cost of direct debt (interest paid/direct debt) (%)	3.3	2.3	2.1	1.8	4.3	5.3	5.3	5.2	5.0
<b>Revenue ratios</b>									
Tax revenue/total revenue (%)	43.3	42.9	35.6	38.7	38.6	42.7	43.5	44.1	44.4
Current transfers received/total revenue (%)	33.5	36.3	35.1	34.6	34.3	34.9	34.6	34.5	34.9
Interest revenue/total revenue (%)	0.2	0.1	0.0	0.0	0.5	0.3	0.0	0.0	0.0
Capital revenue/total revenue (%)	9.6	7.6	12.5	14.0	12.7	6.9	6.9	6.8	6.2
<b>Expenditure ratios</b>									
Staff expenditure/total expenditure (%)	31.2	30.1	29.2	30.3	-	-	-	-	-
Current transfers made/total expenditure (%)	8.8	8.4	7.6	7.8	-	-	-	-	-
Interest expenditure/total expenditure (%)	0.8	0.6	0.6	0.6	1.4	2.0	2.0	2.0	2.0
Capital expenditure/total expenditure (%)	25.2	26.0	22.9	27.1	23.0	14.2	13.3	13.2	11.9

rc: Fitch's rating-case scenario

Source: Fitch Ratings, Fitch Solutions, City of Gliwice

## Appendix C: Data Adjustments

### Net Adjusted Debt Calculations

Gliwice's direct debt was PLN488 million at end-2021, down from PLN521 million at end-2020. Net adjusted debt corresponds to the difference between adjusted debt and the year-end available cash that Fitch views as "unrestricted" (PLN163 million at end-2021 or PLN123 million if we deduct the one-off subsidy received in December 2021). The city's net adjusted debt was PLN365million (with the subsidy not considered) at end-2021, compared with PLN301 million in 2020, as it did not draw new debt while the cash balance decreased at end-2021.

### 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 Polish local and regional governments' debt sustainability.

### Mortgage-Style Debt Annuity Calculation

(PLNm)	2021	2026 <sup>rc</sup>
Net adjusted debt	365	665
Apparent cost of debt, %	1.8	4.9
Amortisation period, years	15	15
Mortgage-style debt annuity	28	64

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 and cash 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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