

# City of Katowice

## Key Rating Drivers

**Ratings Affirmed:** The affirmation reflects Fitch Ratings' unchanged expectation that in view of the economic slowdown triggered by the coronavirus pandemic Katowice will prove resistant to economic shocks and its ratings will remain compatible with the current level.

**Rating Derivation Summary:** We assess Katowice's Standalone Credit Profile (SCP) at 'a-', reflecting a combination of a 'Midrange' risk profile and debt sustainability metrics assessed in the 'aa' category under our revised rating case scenario. The notch-specific SCP at 'a-' also reflects the peer comparison. No other factor affects the ratings and the city's IDRs are equal to its SCP and sovereign ratings.

**Risk Profile - 'Midrange':** Fitch assesses Katowice's risk profile as 'Midrange', which reflects a combined assessment of three 'Midrange', two 'Stronger' and one 'Weaker' factors.

**Stable Revenue, Weak Flexibility:** The city has a record of revenue growth, with CAGR of 6.7% for operating revenue in 2015-2019. Fitch expects Katowice, with its service-driven economy, to remain attractive to investors and inhabitants, supporting a faster rebound after the pandemic. Katowice's ability to generate additional current revenue is limited.

**High Spending Flexibility:** Katowice's operating expenditure includes mainly non-cyclical responsibilities and is closely monitored. The city has room to cut operating expenditure by at least 10%. Its current spending per capita, compared to counties with the lowest opex per capita was higher on average by 38%. The city can reduce or postpone a significant portion of its capex, which we project at 15% of total expenditure in 2020-2024 (2019: 20%)

**Strong Liquidity, Moderate Liabilities Risk:** Katowice has a long record of high liquidity with PLN442 million of cash and liquidity credit line of PLN50 million at end-2019. The city's debt has floating interest rates and 11% of the debt stock at end-2019 was in euros. The city partially mitigates interest rate and foreign-exchange risks by incurring debt with IFIs that has long maturities and thus lower refinancing risk.

**Coronavirus Implications:** Fitch expects an operating balance contraction as a result of coronavirus-related deterioration in economic activity. We expect Katowice's operating balance to contract to around PLN90 million (from PLN215 million in 2015-2019). This is due to expected lower tax revenue and higher current spending (additional cost responsibilities decided by the state in 2H19 and pandemic related).

**Debt Sustainability - 'aa' Category:** Fitch's rating case, including the impact of the coronavirus pandemic, forecasts the 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 debt service coverage ratio, which however will remain above 1.5x in 2020-2024. Under the revised projections, Katowice's debt sustainability score remains in the 'aa' category, underpinning some fiscal resilience to sharp shocks.

**Credit Neutral 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 the Sovereign, Payback Improvement:** Payback ratio sustainably improving towards 5x under Fitch's rating case provided the sovereign would be upgraded would be a reason to upgrade.

**Downgrade of the Sovereign, Payback Deterioration:** Payback ratio sustainably exceeding 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 Rating	AA+(pol)

## Outlooks

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

## Issuer Profile

Katowice is a medium-sized city with a population of about 300,000 located in the Slaskie region and is the region's capital. Its unemployment rate of 1% at end-2019 was one of the lowest among Polish cities (5.2% national average). The local economy is dominated by services.

## Financial Data

City of Katowice (PLNm)	2019	2024 <sup>rc</sup>
Payback (x)	1.7	7.2
Synthetic coverage (x) <sup>a</sup>	7.6	1.6
Actual coverage (x)	3.7	1.5
Fiscal debt burden (%)	17.2	41.4
Net adjusted debt	345	1,000
Operating balance	199	138
Operating revenue	2,007	2,417
Debt service	54	90
Mortgage-style debt annuity <sup>a</sup>	26	87

rc: Fitch's rating-case scenario

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

Source: Fitch Ratings, City of Katowice

## Applicable Criteria

[International Local and Regional Governments Ratings Criteria - Outside the United States \(September 2019\)](#)

[National Scale Ratings Criteria \(July 2018\)](#)

## Related Research

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

[Institutional Framework for Polish Subnationals \(March 2014\)](#)

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## Appendix A: Financial Data

### City of Katowice

(PLNm)	2016	2017	2018	2019	2020rc	2024rc
Taxes	857	873	925	1,010	969	1,216
Transfers received	528	574	596	694	769	850
Fees, fines and other operating revenues	301	307	317	304	317	351
<b>Operating revenue</b>	<b>1,686</b>	<b>1,754</b>	<b>1,837</b>	<b>2,007</b>	<b>2,055</b>	<b>2,417</b>
Operating expenditure	-1,453	-1,541	-1,644	-1,808	-1,962	-2,279
<b>Operating balance</b>	<b>232</b>	<b>213</b>	<b>193</b>	<b>199</b>	<b>93</b>	<b>138</b>
Interest revenue	7	8	9	8	0	0
Interest expenditure	-10	-11	-11	-12	-12	-35
<b>Current balance</b>	<b>229</b>	<b>210</b>	<b>191</b>	<b>196</b>	<b>81</b>	<b>103</b>
Capital revenue	61	60	113	169	152	140
Capital expenditure	-146	-157	-317	-461	-400	-370
<b>Capital balance</b>	<b>-86</b>	<b>-96</b>	<b>-205</b>	<b>-293</b>	<b>-248</b>	<b>-230</b>
Total revenue	1,753	1,822	1,959	2,184	2,207	2,557
Total expenditure	-1,610	-1,709	-1,972	-2,281	-2,374	-2,684
<b>Surplus (deficit) before net financing</b>	<b>143</b>	<b>113</b>	<b>-13</b>	<b>-97</b>	<b>-167</b>	<b>-127</b>
New direct debt borrowing	0	2	57	98	46	194
Direct debt repayment	-19	-25	-35	-43	-46	-55
Net direct debt movement	-19	-24	22	55	0	139
<b>Overall results</b>	<b>124</b>	<b>90</b>	<b>8</b>	<b>-42</b>	<b>-167</b>	<b>12</b>
<b>Debt</b>						
Short-term debt	0	0	0	0	0	0
Long-term debt	654	625	647	701	701	1,067
<b>Direct debt</b>	<b>654</b>	<b>625</b>	<b>647</b>	<b>701</b>	<b>701</b>	<b>1,067</b>
Other Fitch-classified debt	105	99	91	85	78	53
<b>Adjusted debt</b>	<b>759</b>	<b>723</b>	<b>738</b>	<b>786</b>	<b>779</b>	<b>1,120</b>
Guarantees issued (excluding adjusted debt portion)	4	4	4	4	4	4
Majority-owned GRE debt and other contingent liabilities	195	206	191	186	186	123
<b>Overall adjusted debt</b>	<b>957</b>	<b>934</b>	<b>933</b>	<b>976</b>	<b>969</b>	<b>1,247</b>
Total cash, liquid deposits, and sinking funds	386	475	484	442	274	120
Restricted cash	0	0	0	0	0	0
Unrestricted cash	386	475	484	442	274	120
<b>Net adjusted debt</b>	<b>373</b>	<b>248</b>	<b>255</b>	<b>345</b>	<b>505</b>	<b>1,000</b>
Net overall debt	572	458	450	535	695	1,127
Enhanced net adjusted debt	373	248	255	345	505	1,000
Enhanced net overall debt	572	458	450	535	695	1,127

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

### Rating History

Date	Long-Term Foreign-Currency	Long-Term Local-Currency
19 Jan 07	A-	A-
23 Dec 02	BBB+	A-

Source: Fitch Ratings

### City of Katowice



Source: Fitch Ratings

### Socioeconomic Indicators

	City of Katowice	Poland
Population 2019 (m)	0.294	38.4
Average salary, 2018 (PLN)	5,699	4,835
Unemployment rate, 2019 (%)	1.0	5.2

Source: Fitch Ratings, City of Katowice, Statistics Poland

## Appendix B: Financial Ratios

### City of Katowice

Fiscal performance ratios	2016	2017	2018	2019	2020rc	2024rc
Operating balance/operating revenue (%)	13.8	12.1	10.5	9.9	4.5	5.7
Current balance/current revenue (%)	13.5	11.9	10.4	9.7	3.9	4.3
Operating revenue growth (annual % change)	9.0	4.0	4.8	9.2	2.4	4.0
Operating expenditure growth (annual % change)	10.4	6.1	6.6	10.0	8.5	4.3
Surplus (deficit) before net financing/total revenue (%)	8.2	6.2	-0.7	-4.4	-7.6	-5.0
Total revenue growth (annual % change)	5.6	4.0	7.5	11.5	1.1	3.4
Total expenditure growth (annual % change)	-0.4	6.2	15.4	15.7	4.1	2.8

### Debt ratios

Primary metrics						
Payback ratio (x)	1.6	1.2	1.3	1.7	5.4	7.2
Secondary metrics						
Fiscal debt burden (%)	22.1	14.1	13.9	17.2	24.6	41.4
Synthetic debt service coverage ratio (x)	8.3	11.3	10.0	7.6	2.4	1.6
Actual debt service coverage ratio (x)	7.9	5.9	4.2	3.7	1.6	1.5

### Other debt ratios

Liquidity coverage ratio (x)	16.8	16.5	14.5	12.5	9.2	2.7
Direct debt maturing in one year/total direct debt (%)	4.0	0.0	0.0	6.6	0.0	0.0
Direct debt (annual % change)	-2.3	-4.5	3.6	8.4	-0.1	15.0
Apparent cost of direct debt (interest paid/direct debt) (%)	1.6	1.7	1.7	1.7	1.7	3.5

### Revenue ratios

Tax revenue/total revenue (%)	48.9	47.9	47.2	46.2	43.9	47.6
Current transfers received/total revenue (%)	30.1	31.5	30.4	31.8	34.8	33.2
Interest revenue/total revenue (%)	0.4	0.4	0.4	0.4	0.0	0.0
Capital revenue/total revenue (%)	3.5	3.3	5.7	7.7	6.9	5.5
GDP deflated total revenue growth (annual % change)	5.4%	2.2%	5.4%	9.3%	-1.2%	-

### Expenditure ratios

Staff expenditure/total expenditure (%)	36.2	34.7	32.0	31.0	-	-
Current transfers made/total expenditure (%)	9.2	9.8	9.9	9.5	-	-
Interest expenditure/total expenditure (%)	0.6	0.6	0.5	0.5	0.5	1.3
Capital expenditure/total expenditure (%)	9.1	9.2	16.1	20.2	16.8	13.8
GDP deflated total expenditure growth (annual % change)	-0.6%	4.3%	13.2%	13.4%	1.8%	-

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

### Debt Sustainability Ratios:

**Payback:** Net adjusted debt/operating balance (x)

**Fiscal debt burden:** Net adjusted debt/operating revenue (%)

**Synthetic DSCR:** Operating balance/mortgage style debt annuity; Fitch's synthetic calculation (x; see Appendix C)

## 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.

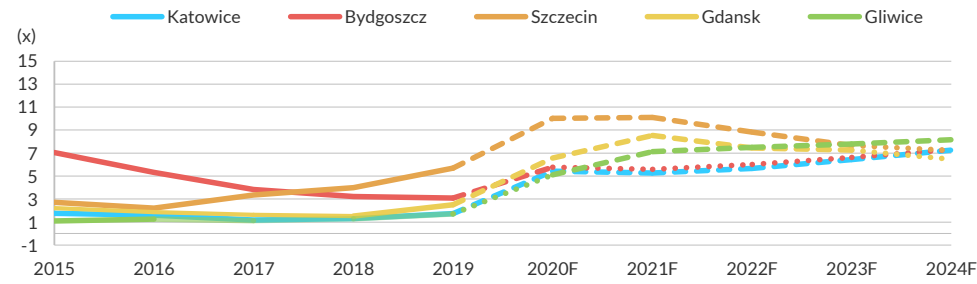
### Mortgage-Style Debt Annuity Calculation

	2019	2024rc
Net adjusted debt (PLNm)	345	1,000
Apparent cost of debt (%)	1.7%	3.5%
Amortisation period (years)	15	15
<b>Mortgage-style debt annuity (PLNm)</b>	<b>26</b>	<b>87</b>

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

Appendix D: Rating Cases Comparisons

Fitch-Rated Polish Cities' Rating Case Scenarios - Payback



Source: Fitch Ratings, Fitch-rated cities

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