

City of Katowice

Key Rating Drivers

Fitch Ratings expects the City of Katowice's operating performance and debt ratios to remain in line with those of 'BBB+' peers over the medium term. This is despite pressure on the city's budget stemming from increasing prices, continued macroeconomic spill over from the war in Ukraine and the implementation of the Polish Deal tax reform.

Fitch assesses Katowice's Standalone Credit Profile (SCP) at 'bbb+', which results from a 'Midrange' risk profile and 'a' debt sustainability. The SCP also factors in the city's favourable comparison with national and international peers in the same rating category. The IDRs are not affected by any other rating factor and are equal to the SCP.

Risk Profile – 'Midrange': Fitch assesses Katowice's risk profile to be in line with that of other Fitch-rated Polish cities. This reflects Fitch's view of a moderately low risk of the issuer's ability to cover debt service with the operating balance weakening unexpectedly over the scenario horizon (2023-2027) due to lower revenue, higher expenditure, or an unexpected rise in liabilities or debt-service requirements.

The risk profile combines our assessment of one 'Weaker' (revenue adjustability) key risk factor, one 'Stronger' (expenditure adjustability) key risk factor and four other factors at 'Midrange' (revenue and expenditure robustness and liabilities and liquidity framework).

Debt Sustainability – 'a' Category: Fitch's rating-case assumptions factor in the central government's 2022 decision to cut personal income tax, income tax distribution to local and regional governments (LRGs) under the Polish Deal, high inflation and the economic slowdown in 2023. We project a further weakening of the operating balance in 2023-2027 and increased debt, which will erode debt payback to above 9.9x on average (2022: 2.6x) in the medium term. However, despite weakening, the debt metrics will remain in line with the current SCP.

Weaker Operating Performance: Fitch's rating case expects the operating balance to decline further in 2023 to a low of PLN34 million (2022: PLN182 million), as the city received compensation for lower personal income tax revenue in 2023 already in 2022. We then expect the operating balance to rebound to an average of PLN80 million, which will still be just below 43% of the last five-year average of PLN184 million.

Capex to Remain High: Fitch' rating case expects capex to stay high in 2023, as the city is finalising EU 2014-2020 budget co-financed projects, leading to a budget deficit of above 11% of total revenue under our rating case.

Elevated Debt from Investments: We expect adjusted debt to exceed PLN980 million by end-2024, from PLN822 million at end-2022, under the current investment plan, which will fall in the final years of our rating horizon compared with 2018-2023. Potential new capex will depend on the city's self-financing capacity and the availability of funds under the new EU budget and the New Generation Fund.

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

Debt Metrics: Debt payback ratio at below or equal to 9x on a sustained basis under Fitch's rating case could lead to an upgrade. Conversely, a downward revision of the SCP, which could be driven by deterioration in debt metrics, particularly debt payback exceeding 10.5x on a sustained basis under the rating case, would lead to a downgrade.

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 BBB+

Local Currency

Long-Term IDR BBB+

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

Katowice is a medium-sized city with a population of around 282,000 and is the capital of Poland's Slaskie region. The local economy is dominated by services.

Financial Data Summary

City of Katowice

(PLNm)	2022	2027rc
Payback ratio (x)	2.6	10.2
Synthetic coverage (x)	4.1	1.1
Actual coverage (x)	2.2	0.7
Fiscal debt burden (%)	19.7	28.0
Net adjusted debt	475	761
Operating balance	182	75
Operating revenue	2,411	2,720
Debt service	84	112
Mortgage-style debt annuity	44	68

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

Applicable Criteria

National Scale Rating Criteria (December 2020)
International Local and Regional Governments Rating Criteria (September 2021)

Related Research

Poland (January 2023)
Polish Municipalities - Peer Review (December 2022)
City of Katowice (September 2019)

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Appendix A: Financial Data

City of Katowice

(PLNm)	2019	2020	2021	2022	2023rc	2024rc	2025rc	2026rc	2027rc
Fiscal performance									
Taxes	1,010	996	1,127	1,142	1,137	1,293	1,430	1,385	1,450
Transfers received	694	788	802	871	640	722	737	834	882
Fees, fines and other operating revenues	304	316	348	398	418	420	410	399	389
Operating revenue	2,007	2,100	2,277	2,411	2,194	2,435	2,576	2,618	2,720
Operating expenditure	-1,808	-1,950	-2,079	-2,229	-2,161	-2,353	-2,496	-2,540	-2,645
Operating balance	199	150	197	182	34	81	80	78	75
Interest revenue	8	2	0	25	20	13	10	8	7
Interest expenditure	-12	-8	-5	-35	-50	-53	-44	-37	-33
Current balance	196	144	192	172	4	41	47	49	50
Capital revenue	169	283	203	192	283	104	42	49	63
Capital expenditure	-461	-476	-377	-439	-572	-231	-83	-98	-105
Capital balance	-293	-192	-174	-248	-289	-127	-41	-49	-42
Total revenue	2,184	2,386	2,479	2,627	2,497	2,551	2,628	2,675	2,791
Total expenditure	-2,281	-2,434	-2,461	-2,703	-2,783	-2,637	-2,623	-2,675	-2,783
Surplus (deficit) before net financing	-97	-48	18	-76	-285	-86	6	0	8
New direct debt borrowing	98	108	75	9	0	0	0	0	0
Direct debt repayment	-43	-46	-47	-49	0	0	0	0	0
Net direct debt movement	55	62	27	-41	86	94	-38	-54	-46
Overall results	-42	14	45	-116	-200	8	-32	-54	-39
Debt and Liquidity									
Short-term debt	0	0	0	0	0	0	0	0	0
Long-term debt	701	770	797	758	844	937	900	846	800
Direct debt	701	770	797	758	844	937	900	846	800
Other fitch-classified debt	85	78	71	64	57	50	43	36	29
Adjusted debt	786	848	868	822	901	987	943	882	828
Guarantees issued (excluding adjusted debt portion)	4	3	3	3	3	2	2	2	2
Majority-owned GRE debt and other contingent liabilities	186	186	181	209	213	223	226	214	199
Overall adjusted debt	976	1,038	1,052	1,034	1,117	1,213	1,171	1,097	1,029
Total cash, liquid deposits, and sinking funds	442	456	501	384	185	192	160	106	68
Restricted cash	0	67	48	37	0	0	0	0	0
Unrestricted cash	442	389	453	347	185	192	160	106	68
Net adjusted debt	345	460	416	475	716	795	783	776	761
Net overall debt	535	649	599	687	932	1,021	1,011	991	962

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

Appendix B: Financial Ratios

City of Katowice

	2019	2020	2021	2022	2023rc	2024rc	2025rc	2026rc	2027rc
Fiscal performance ratios									
Operating balance/operating revenue (%)	9.9	7.1	8.7	7.6	1.5	3.3	3.1	3.0	2.8
Current balance/current revenue (%)	9.7	6.9	8.4	7.1	0.2	1.7	1.8	1.9	1.8
Operating revenue growth (annual % change)	9.2	4.6	8.4	5.9	-9.0	11.0	5.8	1.6	3.9
Operating expenditure growth (annual % change)	10.0	7.9	6.6	7.2	-3.1	8.9	6.1	1.8	4.1
Surplus (deficit) before net financing/total revenue (%)	-4.4	-2.0	0.7	-2.9	-11.4	-3.4	0.2	0.0	0.3
Total revenue growth (annual % change)	11.5	9.2	3.9	6.0	-5.0	2.2	3.0	1.8	4.3
Total expenditure growth (annual % change)	15.7	6.7	1.1	9.8	2.9	-5.2	-0.6	2.0	4.0
Debt ratios									
Primary metrics									
Payback ratio (x) (net adjusted debt to operating balance)	1.7	3.1	2.1	2.6	21.3	9.8	9.7	9.9	10.1
Secondary metrics									
Fiscal debt burden (%) (net debt-to-operating revenue)	17.2	21.9	18.3	19.7	32.6	32.7	30.4	29.6	28.0
Synthetic debt service coverage ratio (x)	7.5	4.4	7.2	4.2	0.5	1.0	1.1	1.1	1.1
Other debt ratios									
Liquidity coverage ratio (x)	12.6	11.0	11.2	7.6	3.7	2.2	2.2	2.0	1.6
Direct debt maturing in one year/total direct debt (%)	6.6	6.2	6.2	7.0	0.0	0.0	0.0	0.0	0.0
Direct debt (annual % change)	8.4	9.8	3.5	-4.9	11.3	11.1	-4.0	-6.0	-5.5
Apparent cost of direct debt (interest paid/direct debt) (%)	1.7	1.1	0.7	4.5	6.3	6.0	4.8	4.3	4.0
Revenue ratios									
Tax revenue/total revenue (%)	46.2	41.8	45.5	43.5	45.5	50.7	54.4	51.8	52.0
Current transfers received/total revenue (%)	31.8	33.0	32.4	33.2	25.6	28.3	28.0	31.2	31.6
Interest revenue/total revenue (%)	0.4	0.1	0.0	0.9	0.8	0.5	0.4	0.3	0.3
Capital revenue/total revenue (%)	7.7	11.9	8.2	7.3	11.3	4.1	1.6	1.8	2.3
Expenditure ratios									
Staff expenditure/total expenditure (%)	31.0	30.0	32.0	32.1	-	-	-	-	-
Current transfers made/total expenditure (%)	9.5	8.8	9.7	10.2	-	-	-	-	-
Interest expenditure/total expenditure (%)	0.5	0.3	0.2	1.3	1.8	2.0	1.7	1.4	1.2
Capital expenditure/total expenditure (%)	20.2	19.5	15.3	16.3	20.6	8.7	3.2	3.7	3.8

rc: Fitch's rating-case scenario

Source: Fitch Ratings, Fitch Solutions, City of Katowice

Appendix C: Data Adjustments

Net Adjusted Debt Calculations

Adjusted debt was PLN822 million at end-2022, down from PLN868 million at end-2021. Net adjusted debt corresponds to the difference between adjusted debt and the year-end available cash that Fitch regards as “unrestricted” (end-2022: PLN347 million). Net adjusted debt was PLN475 million at end-2022 (2021: PLN416 million), with unrestricted debt further depleting, even though the city repaid more than it drew down during the year.

Synthetic Coverage Calculation

Fitch’s synthetic coverage calculation assumes a mortgage-style amortisation over 15 years of the city’s net adjusted debt, using its average cost of debt. This synthetic calculation is used to assess the Polish local and regional government’s debt sustainability.

Mortgage-Style Debt Annuity Calculation

(PLNm)	2022	2027rc
Net adjusted debt	475	761
Apparent cost of debt (%)	4.5	4.0
Amortisation period (years)	15	15
Mortgage-style debt annuity	44	68

rc: Fitch’s rating-case scenario

Source: Fitch Ratings, City of Katowice

Specific Adjustments

We have adjusted a one-off subsidy resulting from the Polish Deal paid by end-2021 for cost coverage in 2022 by subtracting it from current transfer in 2021 and adding it back in 2022.

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