

City of Olsztyn

Key Rating Drivers

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

Rating Derivation: Olsztyn's Standalone Credit Profile (SCP) of 'bbb' reflects a 'Midrange' Risk Profile and an 'a' 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.

Risk Profile – 'Midrange': Fitch assesses Olsztyn's risk profile as 'Midrange', which reflects the combination of our assessment of five factors at 'Midrange' (revenue robustness, expenditure sustainability and adjustability, and liabilities and liquidity robustness and flexibility) and one at 'Weaker' (revenue adjustability).

Stable Revenue: Olsztyn has stable revenue sources with revenue growth prospects being in line with national GDP. Tax revenue accounted for almost 38% of Olsztyn's operating revenue in 2019, driven by moderately cyclical economic activities. Current transfers accounted for more than 46% of operating revenue in 2019, the majority of which was transfers from the Polish state budget.

Moderate Spending Flexibility: The city can reduce at least 10% of its operating expenditure. The city has scope to scale back capex, which represents a high share of total spending. In 2019, the city's capex amounted to PLN173 million, or 13% of total expenditure, below the average of 19% of rated cities in Poland.

Low Liabilities Risk: At end-3Q20, the city's loan portfolio was dominated by bonds at above 92% (with final maturity to 2035) and the remainder being loans from local banks. However, the maturity profile is smooth with average principal repayments not exceeding 11% of outstanding debt.

Good Liquidity: The city has a history of ample liquidity, with a liquidity coverage ratio averaging 2.1x in 2010-2019. Cash in the city's accounts during the 9M20 was on average above PLN70 million, exceeding scheduled debt servicing in 2020 by more than 1.6x. Additionally, Olsztyn has liquidity available under a committed liquidity line (PLN50 million).

Debt Sustainability – 'a': Under its rating case for 2020-2024, factoring in the expected economic downturn triggered by the coronavirus pandemic, Fitch projects Olsztyn's payback ratio will rise to around 11x in 2020-2024 (2019: 5.5x). The fiscal debt burden will continue to increase following investments, but still remain strong at 31% in 2024. The strong fiscal debt burden counterbalances the city's weak synthetic coverage ratio of around 1.0x in 2024.

Under the revised projections, Olsztyn's debt sustainability score remains in the 'a' 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

Payback Improvement: Payback ratio remaining lower or equal to 10x under Fitch's rating case on a sustained basis, would be a reason to upgrade.

Payback Deterioration: A sustained rise in the payback ratio above 12x under Fitch's rating case would be a reason to 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

Outlooks

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

Issuer Profile

Olsztyn has a population of about 172,000 and is the capital of Warminsko-Mazurskie Region. The city's local economy is diversified with services playing an important role (63.3% of the sub-region gross value added in 2017).

Financial Data

City of Olsztyn		
(PLNm)	2019	2024rc
Payback (x)	5.5	11.1
Synthetic coverage (x) ^a	2.3	1.0
Actual coverage (x)	1.0	0.5
Fiscal debt burden (%)	19.7	31.3
Net adjusted debt	230	444
Operating balance	42	40
Operating revenue	1,170	1,419
Debt service	43	76
Mortgage-style debt annuity ^a	18	41

rc: Fitch's rating-case scenario
^a Fitch's calculation (see Appendix C)
Source: Fitch Ratings, City of Olsztyn

Applicable Criteria

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

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

Related Research

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

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Appendix A: Financial Data

City of Olsztyn

(PLNm)	2016	2017	2018	2019	2020rc	2024rc
Taxes	352	386	414	442	434	524
Transfers received	405	445	458	549	622	687
Fees, fines and other operating revenue	206	145	166	180	188	208
Operating revenue	962	977	1,038	1,170	1,244	1,419
Operating expenditure	-859	-929	-991	-1,128	-1,200	-1,379
Operating balance	103	48	46	42	44	40
Interest revenue	0	0	0	0	0	0
Interest expenditure	-8	-7	-6	-7	-13	-24
Current balance	95	40	40	35	31	16
Capital revenue	75	158	163	138	81	28
Capital expenditure	-52	-139	-279	-173	-169	-58
Capital balance	23	19	-116	-35	-88	-30
Total revenue	1,037	1,135	1,201	1,308	1,325	1,447
Total expenditure	-919	-1,075	-1,276	-1,308	-1,382	-1,461
Surplus (deficit) before net financing	118	59	-75	0	-57	-14
New direct debt borrowing	0	0	91	126	161	50
Direct debt repayment	-61	-46	-47	-35	-30	-52
Net direct debt movement	-61	-46	44	91	131	-2
Overall results	57	14	-32	91	74	-16
Debt						
Short-term debt	0	0	0	0	0	0
Long-term debt	289	244	287	321	452	559
Direct debt	289	244	287	321	452	559
Other Fitch-classified debt	0	0	0	0	0	0
Adjusted debt	289	244	287	321	452	559
Guarantees issued (excluding adjusted debt portion)	0	0	0	0	0	0
Majority-owned GRE debt and other contingent liabilities	197	209	216	216	216	216
Overall adjusted debt	486	453	503	537	668	775
Total cash, liquid deposits, and sinking funds	82	89	57	91	165	115
Restricted cash	0	0	0	0	0	0
Unrestricted cash	82	89	57	91	165	115
Net adjusted debt	207	155	230	230	287	444
Net overall debt	405	364	447	446	503	660

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

Rating History

Date	Long-Term Foreign-Currency IDR	Long-Term Local-Currency IDR
22 Nov 19	BBB	BBB

Source: Fitch Ratings

Socioeconomic Indicators

	City of Olsztyn	Poland
Population, 2019 (m)	0.172	38.4
Average salary, 2018 (PLN)	4,649	4,835
Unemployment rate, 2019 (%)	2.7	5.2

Source: Fitch Ratings, Statistics Poland

Appendix B: Financial Ratios

City of Olsztyn

Fiscal performance ratios	2016	2017	2018	2019	2020rc	2024rc
Operating balance/operating revenue (%)	10.7	4.9	4.5	3.6	3.5	2.8
Current balance/current revenue (%)	9.9	4.1	3.9	3.0	2.5	1.1
Operating revenue growth (annual % change)	12.8	1.5	6.2	12.8	6.3	3.2
Operating expenditure growth (annual % change)	6.3	8.2	6.7	13.8	6.4	4.0
Surplus (deficit) before net financing/total revenue (%)	11.4	5.2	-6.3	0.0	-4.3	-1.0
Total revenue growth (annual % change)	-14.1	9.4	5.9	8.9	1.3	1.1
Total expenditure growth (annual % change)	-31.8	17.0	18.7	2.5	5.7	-0.2

Debt ratios

Primary metrics

Payback ratio (x)	2.0	3.3	5.0	5.5	6.5	11.1
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Secondary metrics

Fiscal debt burden (%)	21.6	15.8	22.2	19.7	23.1	31.3
Synthetic debt service coverage ratio (x)	6.1	3.7	2.5	2.3	1.8	1.0
Actual debt service coverage ratio (x)	1.5	0.9	0.9	1.0	1.0	0.5

Other debt ratios

Liquidity coverage ratio (x)	1.8	2.4	2.6	2.3	3.1	2.3
Direct debt maturing in one year/total direct debt (%)	12.5	14.6	12.3	9.4	11.9	9.3
Direct debt (annual % change)	-19.0	-15.7	17.9	11.8	40.8	-0.4
Apparent cost of direct debt (interest paid/direct debt) (%)	2.6	2.7	2.2	2.3	3.4	4.3

Revenue ratios (%)

Tax revenue/total revenue	33.9	34.1	34.4	33.8	32.8	36.2
Current transfers received/total revenue	39.0	39.3	38.1	42.0	46.9	47.5
Interest revenue/total revenue	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue/total revenue	7.2	13.9	13.6	10.5	6.1	1.9

Expenditure ratios (%)

Staff expenditure/total expenditure	35.2	31.6	28.4	30.5	-	-
Current transfers made/total expenditure	14.4	14.2	13.3	14.2	-	-
Interest expenditure/total expenditure	0.9	0.7	0.5	0.5	0.9	1.6
Capital expenditure/total expenditure	5.6	12.9	21.9	13.2	12.2	4.0

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

Source: Fitch Ratings, City of Olsztyn

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)	230	444
Apparent cost of debt (%)	2.3	4.3
Amortisation period (years)	15	15
Mortgage-style debt annuity (PLNm)	18	41

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

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