
Fitch Affirms Polish City of Kielce at 'BBB'; Outlook Stable

Fitch Ratings, London, 14 October 2016: Fitch Ratings has affirmed the Polish City of Kielce's Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB' and National Long-Term Rating at 'A+(pol)'. The Outlooks are Stable.

The affirmation reflects Fitch's unchanged base case scenario of the city's satisfactory operating performance and sound debt ratios for the current ratings, supported by robust management and a growing national economy.

KEY RATING DRIVERS

We expect Kielce to maintain its satisfactory operating performance over the medium term with an operating margin of 7%-8% and an operating balance at 1.5x annual debt service. The debt-to-current balance ratio should remain at around 12 years, in line with Fitch-estimated average debt maturity of 11 years.

This forecast is based on the assumption that the local authorities will keep operating expenditure growth below or in line with operating revenue growth as they have done in the past. Additionally national economic growth should support local economic development and positively impact the city's tax revenue.

Kielce's administration is a supportive rating factor. To limit the growth of more rigid expenditure, the city's authorities are closely monitoring spending on employment, organising collective tenders for utilities and modernising public buildings. These measures should allow Kielce to keep operating spending increase below or in line with operating revenue growth over the medium term.

We expect capex in 2016 to halve from its peak of PLN303m in 2015 following the completion of major investments. Due to prolonged delays on the national level in launching EU funds, we expect the next peak of capex to come in 2018-2020. We forecast Kielce's capex in 2017-2018 to average PLN200m per year, with around 50% financing from capital revenue and the current balance and the remainder by new debt.

Fitch assumes that Kielce's direct debt in 2016-2018 will remain moderate at below 70% of current revenue. We forecast a moderate increase in debt during this period as a result of infrastructure investment, which will largely be co-financed by the EU budget.

As with other municipalities in Poland, Kielce launched the "Family 500+" programme in April 2016, which pays out a cash benefit of PLN500 per month per child to families with more than one child. The local government will disburse the benefit - estimated at PLN63m in 2016 - made by the central government through transfers. As a result the programme is neutral to Kielce's operating balance. This means comparison of operating and current margins, as well as debt-to-current revenue between 2016 and 2015, will be less than meaningful.

Kielce is a medium-sized city in Poland with around 200.000 inhabitants. Kielce's economy is diversified but is weaker than other cities that are also capitals of their respective regions. GDP per capita in 2014 (latest available data) for the Kielecki sub-region, which includes Kielce and surrounding villages, was 79% of the national average. We estimate the city's wealth indicators are on a par with the national average, as Kielce is the strongest area in the sub-region.

RATING SENSITIVITIES

The ratings could be upgraded if improvements of operating performance are sustained, accompanied by diminishing recourse to debt leading to an improved debt-to-current balance ratio of below 10 years.

The ratings could be downgraded if the city's operating performance deteriorates such that debt servicing (interest and principal repayment)-to-operating balance materially exceeds 100% for a sustained period (2015: 66%).

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Applicable Criteria

[International Local and Regional Governments Rating Criteria - Outside the United States \(pub. 18 Apr 2016\)](#)

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