

Rating Action: Moody's assigns Baa1 issuer rating to City of Olsztyn; outlook stable

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London, 29 September 2015 -- Moody's Public Sector Europe ("MPSE") has today assigned a Baa1 issuer rating to the City of Olsztyn. The outlook on the rating is stable.

The rating reflects the following key drivers:

- (1) Prudent budgetary management, characterised by solid and growing operating surpluses;
- (2) Comfortable cash reserves;
- (3) Debt burden set to increase due to high capital spending.

RATINGS RATIONALE

The first driver supporting the rating is Moody's expectation that the City of Olsztyn will maintain its solid operating margins in 2015 and that they will remain at a similar level in 2016, based on growing tax revenues, conservative budgetary management and contained operating expenditures.

The City of Olsztyn has registered solid operating balances (GOB) over the last five years, which led to an improvement of the city's GOB to 10% of operating revenue in 2014 from 4% in 2010. The increase resulted from stronger collection of personal income tax proceeds and own source revenues, which grew at a compound annual rate of 8.1% during 2010-14. At the same time, the city has managed to control operating expenditures, leading to a compound annual growth rate of 6.5% over the same period.

According to Moody's, the improvement in the GOB, combined with a drop in capital expenditure, led to a financing surplus of 3%-4% of total revenues during 2012-14, compared with a financing deficit of 5% in 2011 and 16% in 2010. However, the City of Olsztyn's capital investment plan for 2015 envisages large capital investments, which if fully implemented could trigger the city's financing result to revert into negative territory.

Olsztyn's solid financial performance has contributed to a comfortable liquidity position. Its accumulated cash reserves averaged 9.4% of operating expenditures in the first half of 2015, representing 1.9x of debt servicing costs falling due in 2015. The city's cash position should remain above PLN60 million (EUR14.4 million), which represents a cushion well in excess of Olsztyn's debt service requirements in 2016.

However, Moody's considers the City of Olsztyn's high capital spending to be a challenge as it could result in a rising debt burden. The city's debt has gradually declined over the last five years, reaching PLN235 million at year-end 2014, equivalent to a low level of 28.5% of operating revenues compared with 44.6% in 2011. Moody's expects that this ratio will sharply elevate at around 50% of operating revenues by year-end 2015, because of the city's substantial investment needs in public transportation. However, Moody's expects that the city's debt burden will remain manageable with annual debt repayments at 4.5% of operating revenues in 2015 and about 3.5% in 2016.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Significant improvements in the city's operating and financial performance - and a reduction in its debt burden -- could potentially lead to a rating upgrade. In addition, the strengthening of Poland's A2 (stable) credit profile, as captured in an upgrade of the sovereign rating, would result in upward pressure on the City of Olsztyn's rating.

Downward pressure on the rating could occur if the city (1) further increases its debt; and/or (2) suffers a deterioration in its operating and financial performance. A downgrade of Poland's sovereign rating could lead to a similar action on Olsztyn's rating.

The specific economic indicators, as required by EU regulation, are not available for Olsztyn, City of. The following national economic indicators are relevant to the sovereign rating, which was used as an input to this credit rating

action.

Sovereign Issuer: Poland, Government of

GDP per capita (PPP basis, US\$): 25,105 (2014 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 3.4% (2014 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): -1% (2014 Actual)

Gen. Gov. Financial Balance/GDP: -3.2% (2014 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -1.3% (2014 Actual) (also known as External Balance)

External debt/GDP: [not available]

Level of economic development: Very High level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 23 September 2015, a rating committee was called to discuss the rating of the Olsztyn, City of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength. The issuer's institutional strength/ framework. The issuer's governance and/or management. The issuer's fiscal or financial strength, including its debt profile. The assessment of extraordinary support.

The principal methodology used in these ratings was Regional and Local Governments published in January 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this rating action, if applicable.

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