

Poland  
Credit Update

**Municipality of Ostrow  
Wielkopolski**

**Rating**

National Long-Term	A-(pol)
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**Outlook**

National Long-Term	Stable
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**Financial Data**

**Municipality of Ostrow  
Wielkopolski**

	31 Dec 2008	31 Dec 2007
Operating revenue (PLNm)	150.6	137.9
Debt (PLNm)	63.0	53.2
Operating balance/ operating revenue (%)	25.7	24.7
Debt service/current revenue (%)	2.1	6.9
Debt/current balance (yrs)	1.7	1.7
Operating balance/ interest paid (x)	13.0	13.0
Capital expenditure/ total expenditure (%)	27.7	24.2
Surplus (deficit) before debt variation/total revenue (excluding new debt; %)	0.1	-1.8
Current balance/ capital expenditure (%)	83.9	88.1

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**Related Research**

- [International Rating Methodology for Local and Regional Governments \(July 2008\)](#)
- [Institutional Framework for Polish Subnationals \(February 2008\)](#)
- [Health Sector Reforms Necessary for Polish Local Governments \(April 2008\)](#)

**Rating Rationale**

- In 2007-2008 the Municipality of Ostrow Wielkopolski (Ostrow) posted very strong operating performance, with the operating margin averaging 25%. However, the economic crisis and cuts in personal income tax rates since 2009, both undermining income tax revenue, may weaken its operating performance in 2009-2010. Nevertheless, as Ostrow's authorities are committed to cutting current expenditure if revenue declines, Fitch expects the municipality's operating performance to remain strong with an operating margin of about 20%.
- Thanks to sound operating performance, Ostrow's self-financing capacity has been high. In 2008 the current balance financed 84% of capital expenditure, which was high and accounted for about 27% of the total. Being committed to improving local infrastructure, Ostrow's authorities direct any additional revenue received during the year toward investment, which enables them to broaden the scope of investments without increasing debt. However, due to its relatively small size, implementation of any large projects may put pressure on the budget.
- Debt totalled a moderate PLN63m at end-2008, 41.5% of current revenue. The debt payback ratio was healthy, less than two years. As bondholders did not take advantage of the early redemption of PLN10m of bonds in 2008, Ostrow placed PLN10m as a deposit to secure the final bonds repayment in 2009. Debt service was therefore only PLN3.2m instead of the budgeted PLN13.2m. As Ostrow's authorities use debt financing with care, Fitch expects debt to be maintained at about PLN60m in 2009-2010.
- The relatively small size of the budget implies lower flexibility in counteracting negative developments in the economy, to which Ostrow is exposed due to its wealth indicators being weaker than those for Poland (local gross regional product per capita 20% below the national average). Ostrow's revenue-raising potential is limited due to the limited growth of the local tax base, low capital grants from the EU and low revenue from assets sale. However, it is compensated by conservative financial management and current expenditure control measures.

**Key Rating Drivers**

- A positive rating action could be triggered if Ostrow's tax base develops, providing higher financial flexibility, and the municipality maintains its strong budgetary performance and debt payback ratio.
- A negative rating action could result from a deterioration of Ostrow's debt servicing and debt payback ratios resulting from a substantial increase in debt and/or weakening of operating performance arising from a failure to cut current expenditure should revenue decline.

**Profile**

Ostrow, with about 73,500 inhabitants, is located in the Region of Wielkopolska. Industry and construction play an important role in the local economy, accounting for about 37% of gross value added and employment. The main sectors represented in Ostrow include machinery, metalworking and metal treatment, followed by food processing, construction materials, clothing, and others.

## Appendix A

### Municipality of Ostrow Wielkopolski

(PLNm)	Actual				
	2004	2005	2006	2007	2008
Taxes	55.2	64.1	67.4	78.5	85.4
Transfers received	37.7	43.4	46.9	48.5	49.7
Charges, fines and other operating revenue	6.9	9.9	8.2	10.9	15.5
<b>Operating revenue</b>	<b>99.8</b>	<b>117.4</b>	<b>122.6</b>	<b>137.9</b>	<b>150.6</b>
Operating expenditure	-83.3	-93.5	-99.0	-103.9	-111.8
<b>Operating balance</b>	<b>16.5</b>	<b>23.9</b>	<b>23.6</b>	<b>34.0</b>	<b>38.8</b>
Financial revenue	0.1	0.4	0.3	0.6	1.1
Interest paid	-2.5	-3.8	-2.4	-2.6	-3.0
<b>Current balance</b>	<b>14.1</b>	<b>20.5</b>	<b>21.5</b>	<b>32.0</b>	<b>36.9</b>
Capital revenue	1.2	1.1	2.0	1.7	7.2
Capital expenditure	-14.9	-20.4	-30.9	-36.3	-44.0
<b>Capital balance</b>	<b>-13.7</b>	<b>-19.3</b>	<b>-28.9</b>	<b>-34.6</b>	<b>-36.8</b>
<b>Surplus (deficit) before debt variation</b>	<b>0.4</b>	<b>1.3</b>	<b>-7.4</b>	<b>-2.6</b>	<b>0.1</b>
Debt repayments	-3.5	-1.5	-5.6	-6.9	-0.2
New borrowing	6.3	1.5	10.0	10.0	10.0
<b>Net debt movement</b>	<b>2.8</b>	<b>0.0</b>	<b>4.4</b>	<b>3.1</b>	<b>9.8</b>
<b>Overall results</b>	<b>3.1</b>	<b>1.3</b>	<b>-3.0</b>	<b>0.5</b>	<b>9.9</b>
<b>Debt stock</b>					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	44.8	44.7	49.1	53.2	63.0
<b>Direct debt</b>	<b>44.8</b>	<b>44.7</b>	<b>49.1</b>	<b>53.2</b>	<b>63.0</b>
+ other Fitch classified debt	0.0	0.0	0.0	0.0	0.0
<b>Direct risk</b>	<b>44.8</b>	<b>44.7</b>	<b>49.1</b>	<b>53.2</b>	<b>63.0</b>
- cash, liquid deposits, sinking fund or pre-financing	6.3	9.3	0.9	3.5	13.4
<b>Net direct risk</b>	<b>38.5</b>	<b>35.4</b>	<b>48.2</b>	<b>49.7</b>	<b>49.6</b>
Guarantees and other contingent liabilities	0.0	2.0	0.0	1.8	1.3
Net indirect risk (public-sector entities exc. gteed amount)	41.0	40.6	46.3	51.0	n.a.
<b>Net overall risk</b>	<b>79.5</b>	<b>78.0</b>	<b>94.5</b>	<b>102.4</b>	<b>n.a.</b>
<b>Memo (%)</b>					
Debt in foreign currency	0.0	0.0	0.0	0.0	0.0
Issued debt	100.0	96.9	98.3	97.8	98.4
Fixed-interest-rate debt	0.0	0.0	0.0	0.0	0.0

n.a. - not available

Source: Fitch's own calculations

## Appendix B

### Municipality of Ostrow Wielkopolski

	Actual				
	2004	2005	2006	2007	2008
<b>Fiscal performance ratios</b>					
Operating balance/operating revenue (%)	16.5	20.4	19.2	24.7	25.7
Current balance/current revenue <sup>a</sup> (%)	14.1	17.4	17.5	23.1	24.3
Surplus (deficit) before debt variation/total revenue <sup>b</sup> (%)	0.4	1.1	-5.9	-1.8	0.1
Overall results/total revenue (%)	3.1	1.1	-2.4	0.4	6.3
Operating revenue growth (annual % change)	13.7	17.6	4.4	12.5	9.2
Operating expenditure growth (annual % change)	17.2	12.2	5.9	4.9	7.6
Current balance growth (annual % change)	8.8	45.4	4.9	48.5	15.4
<b>Debt ratios</b>					
Direct debt growth (annual % change)	6.7	-0.2	9.8	8.3	18.5
Interest paid/operating revenue (%)	2.5	3.2	1.9	1.9	2.0
Operating balance/interest paid (x)	6.6	6.4	9.9	13.0	13.0
Direct debt servicing/current revenue (%)	6.0	4.5	6.5	6.9	2.1
Direct debt servicing/operating balance (%)	36.5	22.0	33.9	28.0	8.1
Direct debt/current revenue (%)	44.8	38.0	39.9	38.4	41.5
Direct risk/current revenue (%)	44.8	38.0	39.9	38.4	41.5
Net overall risk/current revenue (%)	79.5	66.2	76.9	74.0	n.a.
Direct debt/current balance (yrs)	3.2	2.2	2.3	1.7	1.7
Direct risk/current balance (yrs)	3.2	2.2	2.3	1.7	1.7
Direct debt/GDP (%)	3.3	3.1	3.2	n.a.	n.a.
Direct debt per capita (PLN)	640	639	701	759	900
<b>Revenue ratios</b>					
Operating revenue/budget operating revenue (%)	-	-	104.2	106.8	109.4
Tax revenue/operating revenue (%)	55.3	54.6	55.0	56.9	56.7
Modifiable tax revenue/total tax revenue (%)	54.2	55.3	50.3	48.4	47.3
Current transfers received/operating revenue (%)	37.8	37.0	38.3	35.2	33.0
Operating revenue/total revenue <sup>a</sup> (%)	98.7	98.8	98.1	98.4	94.8
Total revenue <sup>a</sup> per capita (PLN)	1445	1698	1785	2003	2269
<b>Expenditure ratios</b>					
Operating expenditure/budget operating expenditure (%)	-	-	104.4	99.9	100.4
Staff expenditure/operating expenditure (%)	43.4	41.6	40.0	39.7	40.6
Current transfer made/operating expenditure (%)	12.4	11.6	12.2	12.3	12.9
Capital expenditure/budget capital expenditure (%)	-	-	100.1	136.1	150.7
Capital expenditure/total expenditure (%)	14.3	17.1	22.4	24.2	27.7
Capital expenditure/local GDP (%)	1.1	1.4	2.0	n.a.	n.a.
Total expenditure per capita (PLN)	1490	1701	1971	2138	2270
<b>Capital expenditure financing (%)</b>					
Current balance/capital expenditure	94.6	100.7	69.6	88.1	83.9
Capital revenue/capital expenditure	7.9	5.4	6.5	4.7	16.3
Net debt movement/capital expenditure	18.4	0.0	14.2	8.5	22.4

<sup>a</sup> Includes financial revenue

<sup>b</sup> Excluding new borrowing

n.a. - not available

Source: Fitch's own calculations