

Region of Mazowieckie

Update

Ratings

Foreign Currency	
Long-Term IDR	A-
Senior unsecured	A-
Local Currency	
Long-Term IDR	A-
National	
Long-Term Rating	AA+(pol)

Outlooks

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

Financial Data

Region of Mazowieckie

	31 Dec 2017	31 Dec 2016
Operating revenue (PLNm)	2,472.2	2,160.3
Debt (PLNm)	1,194.6	1,444.1
Operating balance/operating revenue (%)	29.40	16.61
Debt service/current revenue (%)	10.54	6.11
Debt/current balance (yrs)	1.7	4.6
Operating balance/interest paid (x)	15.3	7.1
Capital expenditure/total expenditure (%)	20.14	16.97
Surplus (deficit) before debt variation/total rev. (exc. new debt) (%)	9.85	2.39
Current balance/capital expenditure (%)	135.8	79.0

Key Rating Drivers

Ratings Affirmed: Fitch Ratings has affirmed the Region of Mazowieckie's ratings based on the unchanged expectations that the region's budgetary performance and liquidity will remain solid and that direct debt will reduce over the medium term. The ratings also reflect Mazowieckie's high indirect risk, driven by the significant and ongoing financing requirements of the healthcare sector, which we do not expect to decrease in the medium term.

Strong Operating Performance: We project that the region will post a strong operating performance with operating margins hovering between 20% and 25% in the medium term. This will be supported by control of operating costs and expected growth in corporate income tax (CIT) revenue, which is the region's most important revenue source, historically making up 60%-76% of its operating revenue. On the back of economic expansion, the region reported 21% higher CIT revenue (PLN1.8 billion) in 2017 than originally planned.

High CIT revenue resulted in a high operating balance of PLN727 million in 2017. It will also translate into a higher regional contribution to the equalisation system in 2019 as payments will be calculated based on the 2017 tax revenue. As a result, we expect Mazowieckie's operating balance to amount to PLN630 million in 2018 and to hover around PLN550 million from 2019. The operating balance will sufficiently cover the debt service, by at least 2x, in 2018-2021.

Declining Direct Debt: The region's debt has been declining since 2014. For 2018-2021, we project that Mazowieckie will report budgetary surpluses, allowing for a further reduction in debt. We project that the region's direct debt will decline to about PLN900 million (30% of current revenue) at end-2021 from PLN1.2 billion (48%) at end-2017. We expect the debt payback ratio to remain safe at below two years in this period (end-2017: 1.7 years).

High Indirect Risk: Indirect risk stemming from the region's shareholdings (including healthcare units) remains high, driven by substantial financial support (capital injections, guarantees and loans) for the financially weak healthcare sector. We project that in the medium term, as in the past, Mazowieckie's financial support for the healthcare units could reach PLN150 million annually.

In contrast, the strong financial health of the region's railway companies, whose debt is the highest of the region's shareholdings (about 60% of total indirect risk), allows them to service their own debt. This is due to the long-term service contracts signed with Mazowieckie for the provision of regional passenger railway services.

Strong Economy: Mazowieckie's gross regional product per capita (the region has over five million inhabitants) was 160% of the national average and 109% of the EU-28 average in 2016. The unemployment rate was 5.6% at end-2017, below Poland's average of 6.6%.

Rating Sensitivities

Declining Risk: The ratings could be upgraded if the region's net overall risk falls below 70% of current revenue (2017: 68% on a preliminary basis) and if Mazowieckie sustains a strong operating performance with an operating margin above 20%, provided the sovereign IDRs were upgraded.

Rising Risk: Mazowieckie's ratings could be downgraded if net overall risk exceeds 120% of current revenue on a sustained basis along with a material deterioration in the operating performance.

Related Research

[Institutional Framework for Polish Subnationals \(March 2014\)](#)

[Interpreting the Financial Ratios in Local and Regional Government Rating Reports \(October 2015\)](#)

Analysts

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Appendix A

Region of Mazowieckie					
(PLNm)	2013	2014	2015	2016	2017
Taxes	1,373.3	1,488.6	1,648.0	1,743.3	2,104.3
Transfers received	442.6	441.6	350.2	274.0	294.5
Fees, fines and other operating revenue	93.4	116.1	102.2	143.0	73.4
Operating revenue	1,909.3	2,046.3	2,100.4	2,160.3	2,472.2
Operating expenditure	-1,836.0	-1,695.8	-1,574.5	-1,801.5	-1,745.3
Operating balance	73.3	350.5	525.9	358.8	726.9
Financial revenue	2.7	2.0	5.7	4.2	8.0
Interest paid	-62.0	-52.9	-50.9	-50.8	-47.5
Current balance	14.0	299.6	480.7	312.2	687.4
Capital revenue	252.7	420.0	662.6	138.1	69.9
Capital expenditure	-463.1	-584.9	-968.0	-395.2	-506.2
<i>Capital balance</i>	<i>-210.4</i>	<i>-164.9</i>	<i>-305.4</i>	<i>-257.1</i>	<i>-436.3</i>
Surplus (deficit) before debt variation	-196.4	134.7	175.3	55.1	251.1
New borrowing	0.0	246.5	0.0	0.0	0.0
Debt repayment	-16.1	-33.6	-70.5	-81.5	-213.9
<i>Net debt movement</i>	<i>-16.1</i>	<i>212.9</i>	<i>-70.5</i>	<i>-81.5</i>	<i>-213.9</i>
Overall results	-212.5	347.6	104.8	-26.4	37.2
Debt					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	1,338.7	1,570.3	1,500.1	1,444.1	1,194.6
Direct debt	1,338.7	1,570.3	1,500.1	1,444.1	1,194.6
+ Other Fitch classified debt – pre-financing	79.2	74.7	0.0	0.0	0.0
Direct risk	1,417.9	1,645.0	1,500.1	1,444.1	1,194.6
- Cash, liquid deposits, sinking fund	0.0	114.4	164.8	106.7	128.8
Net direct risk	1,417.9	1,530.6	1,335.3	1,337.4	1,065.8
Guarantees and other contingent liabilities	122.9	319.8	300.1	123.6	144.0
Net indirect debt (public sector entities exc. gteed amount)	634.0	675.6	842.7	768.9	473.0
Net overall risk	2,174.8	2,526.0	2,478.1	2,229.9	1,743.3
Memo for direct debt:					
% in foreign currency	50.4	43.1	43.6	45.3	40.1
% issued debt	25.4	22.3	23.3	25.1	19.1
% fixed interest rate debt	0.0	0.0	0.0	0.0	0.0

Source: Issuer and Fitch calculations

Related Criteria

International Local and Regional Governments
 Rating Criteria – Outside the United States
 (April 2016)
 National Scale Ratings Criteria (March 2017)

Appendix B

Region of Mazowieckie

	2013	2014	2015	2016	2017
Fiscal performance ratios					
Operating balance/operating revenue (%)	3.84	17.13	25.04	16.61	29.40
Current balance/current revenue ^a (%)	0.73	14.63	22.82	14.42	27.72
Surplus (deficit) before debt variation/total revenue ^b (%)	-9.07	5.46	6.33	2.39	9.85
Overall results/total revenue (%)	-9.82	14.08	3.79	-1.15	1.46
Operating revenue growth (annual % change)	n.a.	7.18	2.64	2.85	14.44
Operating expenditure growth (annual % change)	n.a.	-7.64	-7.15	14.42	-3.12
Current balance growth (annual % change)	n.a.	2,780.80	60.45	-35.05	120.18
Debt ratios					
Direct debt growth (annual % change)	n.a.	17.30	-4.47	-3.73	-17.28
Interest paid/operating revenue (%)	3.25	2.59	2.42	2.35	1.92
Operating balance/interest paid (x)	1.2	6.6	10.3	7.1	15.3
Direct debt servicing/current revenue (%)	4.08	4.22	5.76	6.11	10.54
Direct debt servicing/operating balance (%)	106.55	24.68	23.08	36.87	35.96
Direct debt/current revenue (%)	70.02	76.66	71.23	66.72	48.17
Direct risk/current revenue (%)	74.16	80.31	71.23	66.72	48.17
Direct debt/current balance (yrs)	95.62	5.24	3.12	4.63	1.74
Net overall risk/current revenue (%)	113.74	123.32	117.66	103.02	67.85
Direct risk/current balance (yrs)	101.28	5.49	3.12	4.63	1.74
Direct debt/GDP (%)	0.37	0.41	0.38	-	-
Direct debt per capita (PLN)	252	294	280	269	223
Revenue ratios					
Operating revenue/budget operating revenue (%)	82.36	100.28	105.33	104.90	114.85
Tax revenue/operating revenue (%)	71.93	72.75	78.46	80.70	85.12
Modifiable tax revenue/total tax revenue (%)	-	-	-	-	-
Current transfers received/operating revenue (%)	23.18	21.58	16.67	12.68	11.91
Operating revenue/total revenue ^b (%)	88.20	82.90	75.86	93.82	96.95
Total revenue ^b per capita (PLN)	408	463	518	429	475
Expenditure ratios					
Operating expenditure/budget operating expenditure (%)	94.42	87.78	101.03	110.77	104.54
Staff expenditure/operating expenditure (%)	17.35	19.50	21.71	20.14	21.85
Current transfer made/operating expenditure (%)	30.37	33.08	35.81	32.52	35.12
Capital expenditure/budget capital expenditure (%)	57.21	66.64	105	83.32	122.89
Capital expenditure/total expenditure (%)	19.48	24.71	36.34	16.97	20.14
Capital expenditure/local GDP (%)	0.13	0.15	0.24	-	-
Total expenditure per capita (PLN)	448	444	498	434	468
Capital expenditure financing					
Current balance/capital expenditure (%)	3.02	51.22	49.66	79.00	135.80
Capital revenue/capital expenditure (%)	54.57	71.81	68.45	34.94	13.81
Net debt movement/capital expenditure (%)	-3.48	36.40	-7.28	-20.62	-42.26

^a Includes financial revenue

^b Excluding new borrowing

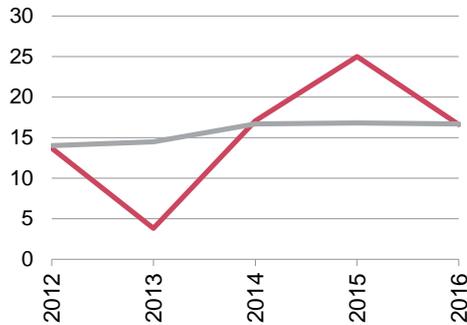
n.a.: not available

Source: Issuer and Fitch calculations

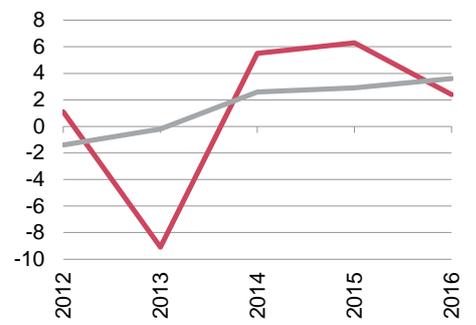
Appendix C Region of Mazowieckie

Peer Comparison

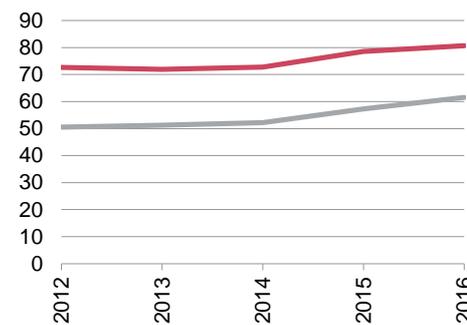
Operating Balance
% Operating Revenue



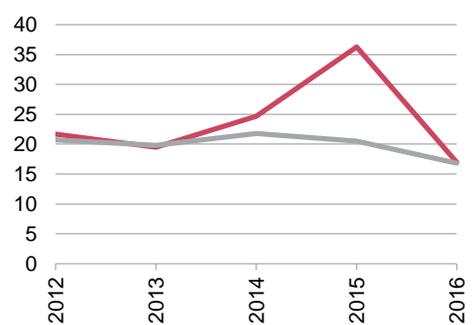
Surplus (Deficit)
% Total Revenue



Taxes
% Operating Revenue



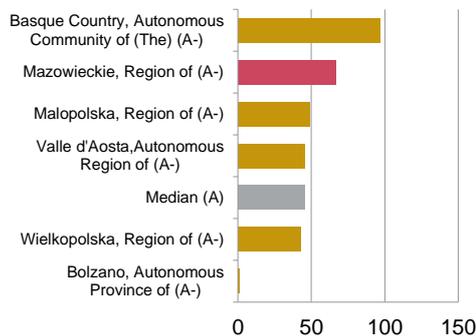
Capital Expenditure
% Total Expenditure



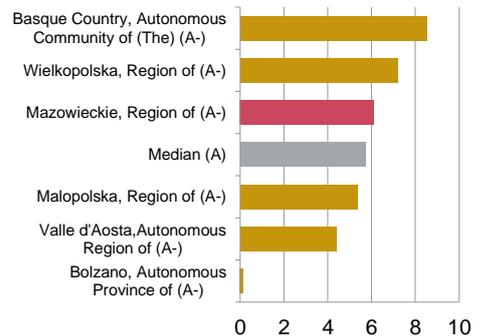
— Region of Mazowieckie

— A- Peer Group Median

Debt
To Current Revenue (%) 2016



Debt Servicing
To Current Revenue (%) 2016



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