

Region of Mazowieckie

Key Rating Drivers

Robust Finances Drive Rating: The ratings of the Region of Mazowieckie reflect Fitch Ratings' expectation that the region has rating headroom to withstand the short-term economic disruption caused by the coronavirus pandemic. The payback ratio is set to deteriorate due to a contraction in the region's operating balance, but should remain compatible with the ratings.

Worsening Debt Sustainability Metrics: Fitch has revised down Mazowieckie's Standalone Credit Profile (SCP) to 'a+', from 'aa+', due to its worsening debt ratio.

Rating Derivation: Based on the 'Midrange' risk profile assessment and reassessment of the debt sustainability metrics, Fitch has revised down Mazowieckie's SCP to 'a+', from 'aa+', without negative impact on the region's Issuer Default Ratings (IDR). The region's ratings are capped by Poland's rating (A-/Stable). No other rating factors affect its ratings.

Risk Profile – 'Midrange': The region's 'Midrange' risk profile combines 'Weaker' revenue adjustability with 'Stronger' expenditure adjustability and 'Midrange' revenue robustness, expenditure sustainability and liabilities and liquidity framework.

Revenue Framework – 'Midrange': Mazowieckie's revenue is dominated by income taxes, which contributed 81% of total revenue in 2019. Mazowieckie has the highest share of corporate income tax in its revenue among the country's regions, at 69% in 2019 compared with about 40%. This leads us to assess its ability to generate additional revenue in response to an economic downturn as weaker.

The region is Poland's wealthiest and the only contributor to Poland's regional equalisation scheme; it will pay PLN593 million into the system in 2020.

Expenditure Framework – 'Midrange': Mazowieckie has a proven record of reducing total expenditure if required, as it has great flexibility in spending. Operating costs are moderately fixed, with staff costs amounting to 13% of the total in 2019, and the share of capex, which can be cut or postponed should revenue be lower than forecast, is a high 33% of total spending. Polish regions have mostly non-cyclical responsibilities, although Mazowieckie's equalisation payments are cyclical and amounted to 16% of total expenditure in 2019.

Debt Sustainability – 'aa': Fitch has revised its rating-case assumptions to factor in the expected economic downturn triggered by the pandemic. We project a worsening of debt payback to about four years (2019: 0.8 years) and the synthetic debt service coverage ratio to about 4.0x by 2024 (2019: 15.2x). This leads to a downward revision of Mazowieckie's debt sustainability to 'aa', from 'aaa'.

ESG Relevance Score: The highest level of ESG credit relevance is a score of '3' – ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

Rating Sensitivities

Aligned with Sovereign: An upgrade of the sovereign IDRs could trigger an upgrade of Mazowieckie, as the region's IDRs are constrained by the sovereign ratings.

Lowering of SCP: A downgrade of Poland's sovereign ratings would lead to a downgrade of Mazowieckie's ratings, as would a lowering of Mazowieckie's SCP to 'bbb+'. This could be driven by a significant deterioration in debt metrics, particularly a debt payback of 9.0x combined with a weaker synthetic coverage ratio of below 1.5x for a sustained period in our rating case.

Ratings

Foreign Currency	
Long-Term IDR	A-
Local Currency	
Long-Term IDR	A-
National Rating	
National Long-Term Rating	AAA(pol)

Outlooks

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

Issuer Profile

Mazowieckie is the largest and richest of Poland's 16 regions, with a population of 5.3 million. Gross regional product was 161% of the national average and 67% of the EU28 average. The unemployment rate was 4.4% at end-2019 (national 5.2%). Services dominate the economy around the region's capital, the City of Warsaw, with a wealthy and diversified tax base. Distant sub-regions show weaker wealth indicators.

Financial Data

Region of Mazowieckie		
(PLNm)	2019	2024rc
Payback (x)	0.8	2.9
Synthetic coverage (x) ^a	15.2	3.8
Actual coverage (x)	4.1	3.3
Fiscal debt burden (%)	23.9	64.7
Net adjusted debt	738	1,744
Operating balance	925	592
Operating revenue	3,092	2,695
Debt service	223	179
Mortgage-style debt annuity ^a	62	157

rc: Fitch's rating-case scenario

^a Fitch's calculation (see Appendix C)

Source: Fitch Ratings, Mazowieckie

Applicable Criteria

International Local and Regional Governments Rating Criteria (September 2020)

National Scale Ratings Criteria (June 2020)

Related Research

Poland (June 2020)

Coronavirus Impact Unlikely to Lead to Downgrades of Polish Regions (April 2020)

Polish Regions: Portfolio Review 2020 (October 2020)

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Appendix A: Financial Data

Region of Mazowieckie

(PLNm)	2016	2017	2018	2019	2020rc	2024rc
Taxes	1,743	2,104	2,439	2,695	2,021	2,374
Transfers received	274	295	292	328	344	251
Fees, fines and other operating revenue	143	73	86	70	70	70
Operating revenue	2,160	2,472	2,817	3,092	2,435	2,695
Operating expenditure	-1,802	-1,745	-1,874	-2,167	-2,113	-2,103
Operating balance	359	727	943	925	322	592
Interest revenue	4	8	6	6	0	0
Interest expenditure	-51	-48	-41	-27	-22	-69
Current balance	312	687	908	904	300	523
Capital revenue	138	70	141	221	221	316
Capital expenditure	-395	-506	-723	-1,101	-700	-1,000
Capital balance	-257	-436	-582	-879	-479	-684
Total revenue	2,303	2,550	2,965	3,321	2,656	3,011
Total expenditure	-2,248	-2,299	-2,639	-3,296	-2,835	-3,172
Surplus (deficit) before net financing	55	251	326	25	-179	-161
New direct debt borrowing	0	0	0	0	236	328
Direct debt repayment	-82	-214	-208	-197	-96	-110
Net direct debt movement	-82	-214	-208	-197	140	218
Overall results	-26	37	119	-172	-39	57
Short-term debt	119	0	0	0	0	0
Long-term debt	1,325	1,195	1,002	802	962	1,826
Intergovernmental debt	0	0	0	0	0	0
Direct debt	1,444	1,195	1,002	802	962	1,826
Other Fitch-classified debt	0	0	0	0	0	0
Adjusted debt	1,444	1,195	1,002	802	962	1,826
Guarantees issued (excluding adjusted debt portion)	124	144	129	135	135	135
Majority-owned GRE debt and other contingent liabilities	769	473	646	452	652	652
Overall adjusted debt	2,337	1,812	1,777	1,388	1,749	2,613
Total cash, liquid deposits and sinking funds	107	129	228	64	159	82
Restricted cash	0	0	0	0	0	0
Unrestricted cash	107	129	228	64	159	82
Net adjusted debt	1,337	1,066	774	738	803	1,744
Net overall debt	2,230	1,683	1,548	1,325	1,590	2,531

rc: Fitch's rating case, based on conservative assumptions; 2024 is the last year of the rating-case scenario
Source: Fitch Ratings, Fitch Solutions, Mazowieckie

Rating History

Date	Long-Term Foreign-Currency	Long-Term Local-Currency
10 Nov 17	A-	A-
20 May 16	BBB+	A-
18 Dec 13	BBB	BBB+
12 Apr 11	BBB+	A-
19 Jan 07	A-	A
05 Dec 06	BBB+	A

Source: Fitch Ratings

Socioeconomic Indicators

	Region of Mazowieckie	Poland
Population 2019 (m)	5.4	38.4
Average salary 2018 (PLN)	5,889	4,835
Unemployment rate 2019 (%)	4.4	5.2

Source: Fitch Ratings, Statistics Poland

Appendix B: Financial Ratios

Region of Mazowieckie

	2016	2017	2018	2019	2020rc	2024rc
Fiscal performance ratios						
Operating balance/operating revenue (%)	16.6	29.4	33.5	29.9	13.2	22.0
Current balance/current revenue (%)	14.4	27.7	32.2	29.2	12.3	19.4
Operating revenue growth (annual % change)	2.9	14.4	14.0	9.7	-21.3	3.7
Operating expenditure growth (annual % change)	14.4	-3.1	7.4	15.6	-2.5	-0.5
Surplus (deficit) before net financing/total revenue (%)	2.4	9.8	11.0	0.8	-6.7	-5.3
Total revenue growth (annual % change)	-16.8	10.7	16.3	12.0	-20.0	4.5
Total expenditure growth (annual % change)	-13.3	2.3	14.8	24.9	-12.2	3.3
Debt ratios - type B						
Primary metrics (x)						
Payback ratio	3.7	1.5	0.8	0.8	2.5	2.9
Enhanced payback ratio	3.7	1.5	0.8	0.8	2.5	2.9
Overall payback ratio	6.2	2.3	1.6	1.4	4.9	4.3
Enhanced overall payback ratio	6.2	2.3	1.6	1.4	4.9	4.3
Secondary metrics						
Fiscal debt burden (%)	61.9	43.1	27.5	23.9	33.0	64.7
Synthetic debt service coverage ratio (x)	3.1	7.8	13.8	15.2	5.0	3.8
Actual debt service coverage ratio (x)	2.7	2.8	3.8	4.1	2.7	3.3
Other debt ratios						
Liquidity coverage ratio (x)	4.0	3.2	4.3	5.2	4.4	3.4
Direct debt maturing in one year/total direct debt (%)	23.4	0.0	25.0	11.5	10.0	9.3
Direct debt (annual % change)	-3.7	-17.3	-16.1	-20.0	20.0	15.0
Apparent cost of direct debt (interest paid/direct debt) (%)	3.5	3.6	3.8	3.0	2.5	4.0
Revenue ratios (%)						
Tax revenue/total revenue	75.7	82.5	82.3	81.2	76.1	78.8
Current transfers received/total revenue	11.9	11.5	9.9	9.9	13.0	8.3
Interest revenue/total revenue	0.2	0.3	0.2	0.2	0.0	0.0
Capital revenue/total revenue	6.0	2.7	4.7	6.7	8.3	10.5
Expenditure ratios (%)						
Staff expenditure/total expenditure	16.1	16.6	14.5	12.6	-	-
Current transfers made/total expenditure	26.1	26.7	27.4	23.7	-	-
Interest expenditure/total expenditure	2.3	2.1	1.6	0.8	0.8	2.2
Capital expenditure/total expenditure	17.6	22.0	27.4	33.4	24.7	31.5

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

Source: Fitch Ratings, Fitch Solutions, Mazowieckie

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 debt sustainability of Polish local and regional governments.

(PLNm)	2019	2024rc
Net adjusted debt	738	1,744
Apparent cost of debt (%)	3.0	4.0
Amortisation period	15	15
Mortgage-style debt annuity	62	157

rc: Fitch's rating case

Source: Fitch Ratings, Fitch Solutions

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