FitchRatings

Public Finance
Local and Regional Governments
Romania

City of Resita

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Key Rating Drivers

Rating Assigned: The City of Resita's ratings reflect Fitch Ratings' view that the operating performance and debt ratios will remain in line with peers rated in the 'BBB' category in the medium term, despite pressures on the city's budget stemming from increasing prices, continued macroeconomic spillover from the war in Ukraine and the implementation of an ambitious investment plan.

Rating Derivation Summary: Fitch assesses Resita's Standalone Credit Profile (SCP) at 'bbb+', reflecting a combination of a 'Low Midrange' risk profile and 'aa' debt sustainability. The city's Issuer Default Ratings (IDRs) are constrained by the sovereign (Romania; BBB-/Stable).

The six key risk factor (KRF) assessment expresses the city's reliance on moderately volatile revenue sources with low flexibility to increase them. It considers the city's moderate cost control, albeit sizeable share of mandatory responsibilities resulting in a moderately rigid cost structure. The city's credit and liquidity management are sound.

'Low Midrange' Risk Profile: The risk profile combines two 'Weaker' KRFs (revenue adjustability and liabilities and liquidity robustness) with a 'Midrange' assessment of the remaining four KRFs (revenue robustness, expenditure framework, and liabilities and liquidity adjustability).

Debt Sustainability at 'aa' Category: Fitch assesses Resita's debt sustainability at the upper end of the 'aa' category. In our rating-case scenario we expect the payback ratio to average just below 6.5x in 2024-2026, from a low 1.1x in 2022, the coverage ratio (synthetic calculation) to be close to an average of 1.6x and the fiscal debt burden to increase to above 70% (2022: 23%).

Strengthening Operating Balance: Resita's 2020-2022 fiscal performance was quite resilient to the Covid-19 pandemic as its operating balance strengthened to an average of RON30 million from RON20 million in 2019. This was due to an increase in revenue, mainly central government additional transfers (VAT), and the city's share of national personal income tax (PIT) that was raised to 63% from 60% in 2020, which helped counterbalance the 8.7% CAGR increase in operating expenditure (opex), mainly related to public transport, education and culture.

Increasing Debt Following Investments: The city is planning to issue euro-denominated green bonds equivalent to RON85 million and is tendering an additional RON20 million bank loan, both to partially finance the investment plan. Fitch's rating case assumes that the city's debt will peak in 2023 at RON201 million (2022: RON86 million).

Other Rating Factors: Resita's Long-Term IDR is capped by the sovereign. Its ratings do not consider any extraordinary support from the Romanian state. In addition, no additional risk factors have been identified.

Credit-Neutral ESG Considerations: Resita has an ESG credit relevance score of '3', meaning that ESG issues are credit neutral or have a minimal credit impact on the city.

Rating Sensitivities

Sovereign Upgrade: An upgrade of Romania's IDRs, could lead to a similar action on the city's IDRs.

Weaker Payback, Sovereign Downgrade: A downgrade of Romania's IDRs; downward revision of the SCP by three notches, which could occur if the city's debt metrics weaken on a sustained basis with a debt payback ratio exceeding 9x under Fitch's rating case, would lead to a downgrade of the city's IDR.

Ratings

Foreign Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

Local Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

Outlooks

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

Issuer Profile Summary

Resita is a medium-sized city, with more than 84,400 inhabitants, in southwest Romania and is the administrative centre for the Caraş-Severin county. An industrial park within the city supports local economic development.

Financial Data Summary

Resita

(RONm)	2022	2027rc
Payback ratio (x)	1.1	5.6
Synthetic coverage (x)	9.3	2.1
Fiscal debt burden (%)	23.1	68.0
Net adjusted debt	35	127
Operating balance	30	23
Operating revenue	150	187
Debt service	13	16
Mortgage-style debt annuity	3	11

rc: Fitch's rating-case scenario
Source: Fitch Ratings, Fitch Solutions, Resita

Applicable Criteria

International Local and Regional Governments Rating Criteria (September 2021)

Related Research

Romanian Municipalities More Resilient to Pandemic Than Expected (January 2022)

Romania (March 2023)

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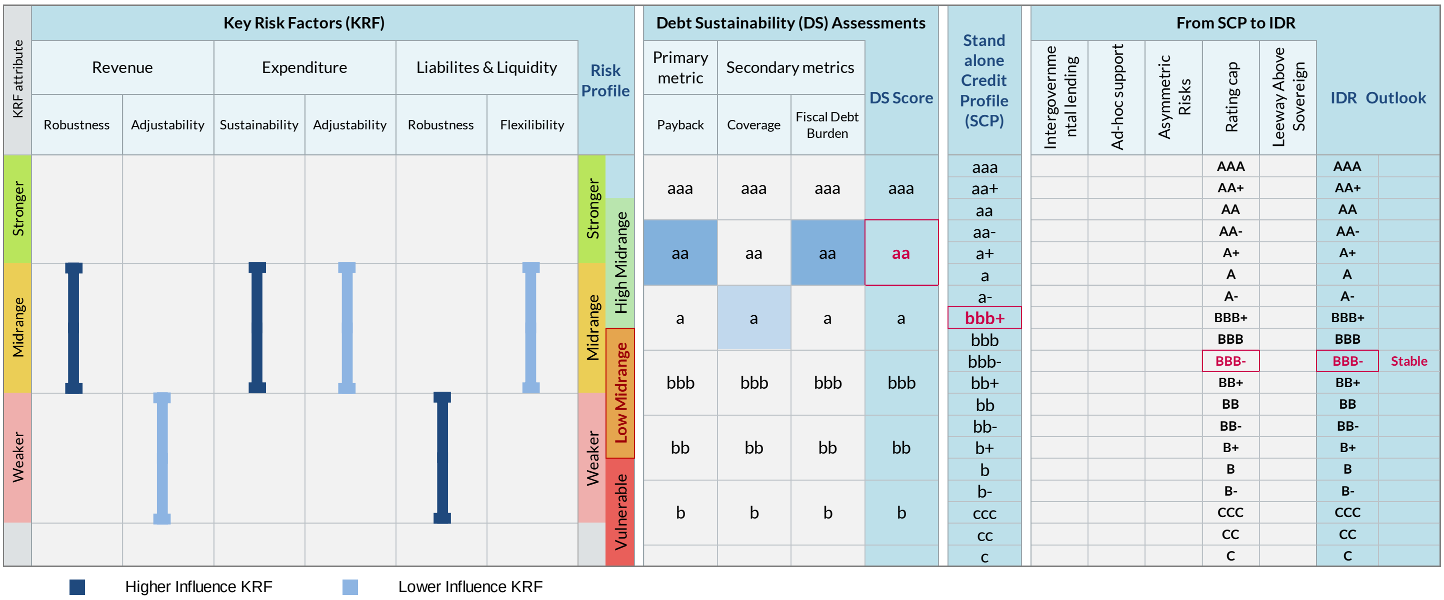
Rating Synopsis

City of Resita Rating Derivation Summary



The six key risk factors, combined according to their relative importance, collectively represent the risk profile of the local and regional government (LRG). The risk profile and debt sustainability assessments, which measure the LRG's debt burden and debt service requirements amid a reasonable economic or financial downturn over the rating horizon, are combined in an SCP. This, together with some additional factors not captured in SCP, such as extraordinary support or rating cap, produce the IDR.

Issuer Profile

Romania has a two-tier system of LRGs: the county level includes 41 counties and the capital city, Bucharest, which has a special dual status (municipality and county), while the municipal level includes about 300 towns, of which about 100 municipalities.

Local governments in Romania face strong government control and supervision; they are obliged to provide the previous year's annual report together with a balance sheet, as well as an annual budget and a multi-year forecast. The local budgets need the approval of the local councils, and all debt and guaranteed debt has to be approved by the committee for authorisation of local debt.

Municipal responsibilities include the management of local roads and infrastructure, local cultural institutions, pre-school and primary education, local public health units, urban planning, water supply and sewerage, waste, social and elderly protection and local public transports.

Local taxes include property taxes on building and land, tax on transportation vehicles and various taxes on stamps, transactions and issue of certificates and licences. Taxes are levied and collected by the municipalities. The base and reference rates for property tax are set by the central government but each local council can adopt a rate up to 50% higher or lower than reference rates.

There is a horizontal equalisation scheme, supporting economically and financially weaker local governments. Provided a local government reports a mismatch of revenues and expenditure during the year, the Ministry of Public Finance can extend zero-interest-rate short-term loans up to 5% of total revenues, which must be repaid by the end of the year. Vertical equalisation is achieved through the sharing of PIT receipts, of which 63% is redistributed to municipalities. This share was gradually raised to the current 63% from 41.75% after the central government decided in 2018 to reduce PIT rates to 10% from 16%.

There is a limit on annual debt service payments (including interest, commission and capital repayment), ensuring prudent debt management. Annual service payments on direct and guaranteed debt cannot exceed 30% of the arithmetic mean of the city's or county's own revenue (excluding revenues from the sale of assets) collected in the previous three years.

However, given the current set-up, local governments' financial flexibility is limited, since the state controls the main revenue sources: PIT and VAT together account for 60%-70% of local budgets. VAT proceeds are redistributed to local governments, but Fitch has classified these as transfers, since they are subject to annual appropriations and the predictability of local governments' receipts is limited.

From 2018, local governments are no longer responsible for teacher salaries (financed via VAT transfers from the central budget) and the central government has reduced VAT transfers correspondingly. We view this as being neutral to the city's budget, as the drop in revenue coincides with a simultaneous decline in personnel costs. Following the PIT rate cut in 2018, the central government has partially compensated for the loss of income, providing balancing items via transfers. In 2019, the share of municipalities in PIT was increased to 60% from 41.75%, and further to 63% in 2020, compensating for the previous loss of revenue.

Payments and revenue collections go through the city's accounts and are required to be held at the state treasury. Cash inflows and outflows have matching structures and are set quarterly by the finance department. Payments tend to peak towards the end of the year, while the highest receipts occur at end-March and end-September due to tax payment deadlines.

Since 2011, Romanian local governments have presented their budgets as two sections: operating and development. The operating section includes all operating revenue and expenditure, while the development section includes all non-opex and revenue (including grants on investments from the state and the EU, and revenue from asset sales).

Resita is a medium-sized city, with more than 84,400 inhabitants, located in southwest Romania and is the administrative centre of the Caras-Severin county. Historically, Resita was Romania's oldest and most important metallurgical centre. Currently, the local economy is based mainly on the manufacturing industry (producing more than 50% of total turnover, and employing 43% of the local workforce). The services sector is 20% of the local economy.

Caras-Severin's GRP per capita is about 75% of the national average (2018: EUR9,900 vs EU28: EUR30,000). This may understate the city's local economy, as the average is likely suppressed by smaller villages surrounding the city. The city itself has the strongest economy in the county, and the third-largest in Romania's western region.

Resita's population has been declining, in line with the national trend. The administration is focused on stabilising the trend, if not reversing it, by transforming the city into an attractive place for work and living, by improving public transport, facilitating accommodation for skilled workers, transforming post-industrial landscape and actively searching for and attracting companies.

The city has set up an industrial park (area of 15 hectares, 60% occupied, with a plan to build a second park on a recently acquired plot of land), attracting foreign and domestic companies, with lower real estate taxes in exchange for engaging the local workforce. The local university, in cooperation with the city and companies operating in the area, introduces vocational courses that are tailormade to the needs of manufacturing companies operating in Resita.

The city's mayor, Ioan Popa, serving in the office since 2016 (re-elected in 2020), is pursuing the following strategic goals though the city's current investment plan (2017-2025):

- Diversification into a knowledge-based local economy
- Sustainable development of the city (green city)
- Improving the quality of life
- Urban regeneration
- Digital Transformation
- Tighter collaboration within the wider metropolitan area

Risk Profile Assessment

Risk Profile: Low Midrange

Fitch assesses Resita's risk profile as 'Low Midrange', reflecting the combination of these assessments:

Risk Profile Assessment

Risk profile	Revenue robustness	Revenue adjustability	Expenditure sustainability	Expenditure adjustability	Liabilities & liquidity robustness	Liabilities & liquidity flexibility
Low Midrange	Midrange	Weaker	Midrange	Midrange	Weaker	Midrange

Source: Fitch Ratings

The risk profile combines two 'Weaker' KRFs (revenue adjustability and liabilities and liquidity robustness) and four 'Midrange' KRFs (revenue robustness, expenditure framework, and liabilities and liquidity adjustability).

The six KRF assessments express the city's reliance on moderately volatile revenue sources with low flexibility to increase them. It considers the city's moderate cost control, albeit sizeable share of mandatory responsibilities resulting in a moderately rigid cost structure. The city's credit and liquidity management are sound.

Revenue Robustness: Midrange

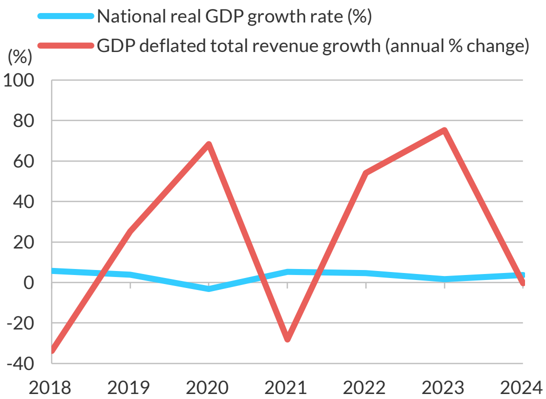
The city has stable revenue sources with revenue growth prospects, in line with national GDP growth. Tax and fees revenue accounted for almost 75% of Resita's operating revenue in 2022, driven by moderately cyclical economic activities. PIT is more than 48% of operating revenue (after the central government increased the share to 63% from 60%), and local taxes and fees are 26%, driven by property taxes, which are more volatile. However, following improvements in property evaluation and collection rates, property tax revenue has grown consistently in recent years.

The revenue structure is quite stable and revenue is moderately dependent on the economic cycle. We expect Resita's revenue sources to grow further following a satisfactory GDP recovery, while improvements to property evaluation and collection rates continue to sustain property tax revenue growth as in past years, and the city's tax base remains diversified with no concentration risks.

Until 2017, current transfers were almost 50% of current revenue largely stemming from the redistributed VAT from the central government. This share has been declining since 2018 reaching about 25% in 2022 from just below 34%, as LRGs in Romania are no longer responsible for paying teachers' salaries. We view the effect of this as neutral, as the decline of revenue corresponds to a similar decline of expenditure. VAT transfers are subject to an annual evaluation by the central government, but are a reasonably stable revenue source for LRGs. Resita's tax base is diversified with no concentration risks.

The revenue structure is stable, and revenue is moderately dependent on the economic cycle. We expect Resita's revenue sources to grow further following a satisfactory GDP recovery, while improvements to property evaluation and collection rates continue to sustain property tax revenue growth as in past years, and the city's tax base remains diversified with no concentration risks.

Real Total Revenue and GDP Growth



Source: Fitch Ratings, City of Resita

Revenue Breakdown, 2022

	Operating revenue (%)	Total revenue (%)
Shares in PIT	48.4	22.9
Fees, Fines and charges	14.3	6.8
RE Tax	11.1	5.2
Transfers (inc. VAT)	25.0	11.8
Other operating revenue	1.2	0.6
Operating revenue	**100.0**	**47.3**
Interest revenue	-	0.0
Capital revenue	-	52.7
Total revenue	**-**	**100.0**

Source: Fitch Ratings, Fitch Solutions, Resita

Revenue Adjustability: Weaker

Fitch assesses Resita's revenue adjustability as 'Weaker', as the city's ability to generate additional revenue is limited. This is in line with our assessment for all other Fitch-rated Romanian LRGs, as tax rates are set by the central government, which significantly limits LRGs' flexibility in adjusting taxes.

Income tax rates are set by the central government, as are the majority of current transfers. Resita has some flexibility on local taxes, charges and fees, which together account for 26% of operating revenue. We assume the additional leeway would cover materially less than half of what Fitch would expect to be a reasonable decline in revenue in an economic downturn. The city is able to adjust its property tax rates and it has some leeway on collected fees and charges, which have increased in recent years. The city has a low affordability of additional taxation, in our view. This is also because there has been no need for tax increases, while higher tax revenue over the past five years was a result of increases in the tax base, of the value of properties and improved collection rates.

Financial equalisation, although present in Romania, is of lower importance in this KRF assessment.

Expenditure Sustainability: Midrange

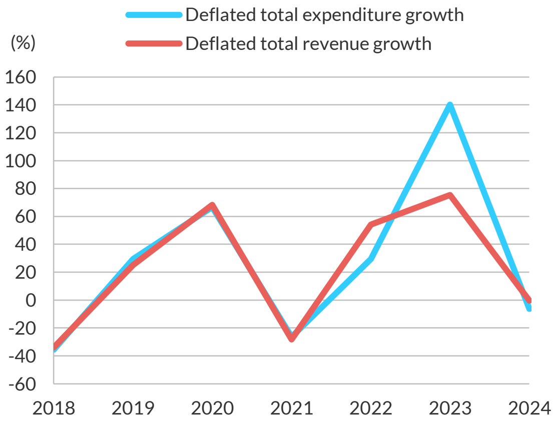
Fitch assesses Resita's expenditure sustainability as 'Midrange', in line with all other Fitch-rated Romanian municipalities. Resita's main responsibilities are non-cyclical, including social assistance, public services, sports and culture, public institutions and municipal services.

Resita has a record of moderate control of opex growth. Its opex has generally grown in line with operating revenue growth, which has resulted in a sound operating balance, accounting on average for over 20% of operating revenue in 2018-2022. The city's capital expenditure (capex) is linked to the availability of EU or state budget investment grants, and the city has a proven record of postponing investments in case funding is not ensured.

Resita is implementing an ambitious investment plan for 2017-2026 with a total of RON1,050 million of capex, largely financed via non-reimbursable investment grants (76%; EU: 65% and the state: 11%). The investment plan covers public transport (including the renewal of rolling stock; 58%), energy efficiency of public buildings (22%), rehabilitation and modernisation of public buildings (9%) and development of public spaces, bicycle infrastructure and social housing (11%).

To mitigate the increasing energy costs, the city intends to construct a photovoltaic park (estimated value EUR18 million, which could be eligible for up to 35%-45% of co-financing from the EU 2021-2027 multiannual framework funds.) This investment is estimated to produce 20MW of electric power, out of which 60% would cover the city's energy consumption needs, and the rest would be sold into the network, substantially reducing Resita's energy opex.

Real Total Expenditure and Revenue Growth



Source: Fitch Ratings, City of Resita

Expenditure Breakdown, 2022

	Operating expenditure (%)	Total expenditure (%)
Staff cost	38.1	17.7
Goods and services	41.8	19.4
Operating subsidies	0.0	0.0
Transfers to other budgets	4.8	2.2
Other operating expenditure	15.3	7.1
Operating expenditure	**100.0**	**46.4**
Interest expenditure	-	1.6
Capital expenditure	-	52.0
Total expenditure	**-**	**100.0**

Source: Fitch Ratings, Fitch Solutions, Resita

Expenditure Adjustability: Midrange

Fitch assesses Resita's ability to reduce spending in response to shrinking revenue as 'Midrange'. The city can reduce a significant part of its capex, while it has not been required to cut back on opex. Capex has been high over the past three years ranging between 37% and 55% (2022: 52%) of total expenditure (totex). The majority (76%) of investments under the city's current plan are co-financed with EU investment grants from the 2017-2020 multiannual framework, so final payments must be executed by end-2023. Therefore, capex is expected to peak at about 80% of totex in 2023. With the Photovoltaic project, capex in 2024 will also remain high relative to the budget at 76%, before it stabilises at about 40% in 2025-2027.

The 'Midrange' assessment is supported by balanced budget rules. Local government budgets are approved by the central government and are not allowed to run deficits, unless the LRG has posted surpluses in previous periods. The 'Midrange' assessment also reflects limited spending flexibility on mandatory responsibilities, although the city is implementing IT solutions in the administration in order to mitigate the wage growth pressure.

Liabilities and Liquidity Robustness: Weaker

Fitch assesses Resita's individual framework for debt, liquidity and off-balance-sheet management as 'Weaker', although the national framework is supportive of the liabilities' robustness. The central government has established prudential borrowing limits (local governments in Romania need to comply with a debt-servicing limit). Annual debt service is not allowed to exceed 30% of the past three years' average of own revenue, with Resita having substantial headroom. There are further restrictions on high-risk loan types and derivatives.

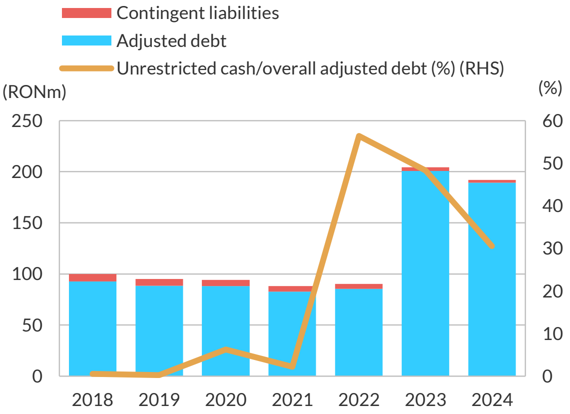
Resita has an entirely amortising debt structure, with debt repayments not exceeding 10% of debt outstanding at end-2022, no short-term debt and high liquidity, which covered about 4x total debt servicing at end-2022. However, all of the city's debt has floating interest rates, which exposes the city to interest-rate risk. The city has also exposure to foreign-exchange risk in connection to an EIB loan maturing in 2032 (about 27% of debt outstanding at end-2022).

Resita's public sector is limited and consists of two municipally owned companies that provide services in public transport and water and sewage (the latter is not majority owned with a 26% stake ownership). The city controls the board and approves the budget of the fully owned public transport company. Resita's contingent liabilities relate mainly to the debt of the transportation company, as the city has extended a guarantee. The city has not entered into any public-private partnerships to date; however, it is considering such means of investment financing, but the exposure of the city would likely be limited to an in-kind contribution (eg a plot of land).

Resita's government-related entity financial plans do not envisage a debt increase, as the purchasing of new rolling stock is financed by the city itself.

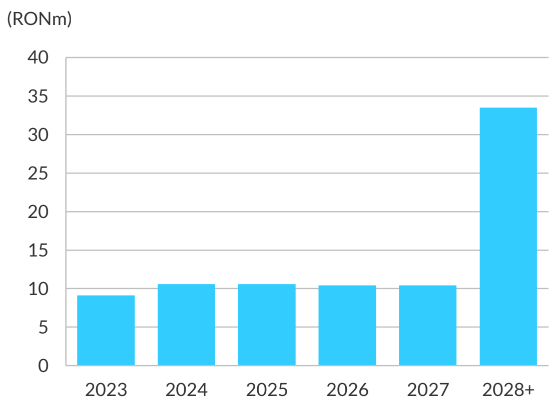
Based on preliminary data, the debt of municipal companies was RON2.4 million at end-2022 (not shown under "Net indirect debt" in *Appendix A* as it is guaranteed with interest in the amount of RON4.7 million and shown in "Guarantees Issued (excluding adjusted debt portion)").

Overall Adjusted Debt Structure



Source: Fitch Ratings, City of Resita

Direct Debt Maturity Profile, End-2022



Source: Fitch Ratings, Resita

Liabilities and Liquidity Flexibility: Midrange

There is no emergency liquidity support from the upper tiers of government, but Resita has access to the state treasury and had a high amount of available liquidity at end-2022 (RON51 million), covering debt service scheduled for 2022 by 4x. The city has historically had good liquidity, with liquidity coverage ratio averaging at over 2x in the past five years.

Debt Analysis

	2022
Fixed rate (% of direct debt)	0
Issued debt (% of direct debt)	0
Apparent cost of debt (%)	5
Weighted average life of debt (years)	4.8

Source: Fitch Ratings, Resita

Liquidity

(RONm)	2022
Total cash, liquid deposits and sinking funds	51
Restricted cash	0
Cash available for debt service	51
Undrawn committed credit lines	0

Source: Fitch Ratings, Resita

Debt Sustainability Assessment

Debt Sustainability: 'aa' Category

Debt Sustainability Metrics Summary

	Primary metric	Secondary metrics	
	Payback ratio (x)	Coverage (x)	Fiscal debt burden (%)
aaa	X ≤ 5	X >= 4	X ≤ 50
aa	**5 < X ≤ 9**	2 ≤ X < 4	**50 < X ≤ 100**
a	9 < X ≤ 13	**1.5 ≤ X < 2**	100 < X ≤ 150
bbb	13 < X ≤ 18	1.2 ≤ X < 1.5	150 < X ≤ 200
bb	18 < X ≤ 25	1 ≤ X < 1.2	200 < X ≤ 250
b	X > 25	X < 1	X >250

Note: Yellow highlights show metric ranges applicable to the issuer.
Source: Fitch Ratings

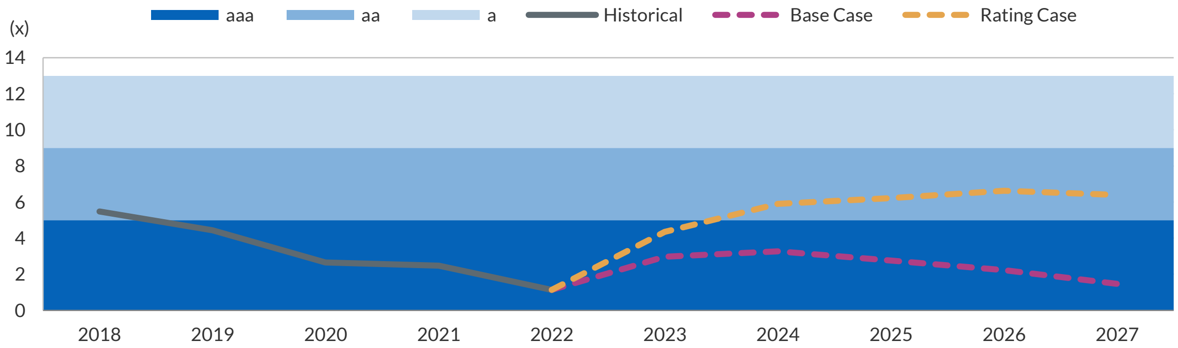
Fitch classifies Resita as a 'Type B' LRG, similar to other Romanian LRGs, as it is required to cover debt service with its own cash flow on an annual basis. The primary metric to assess municipalities' debt sustainability is the payback ratio.

Fitch assesses Resita's debt sustainability at the upper-end of the 'aa' category. In Fitch's rating-case scenario, Fitch expects the payback ratio to average just below 6.5x in 2024-2027, from a low 1.1x in 2022. We expect the coverage ratio (synthetic calculation) to average just below 1.6x and the fiscal debt burden to increase to above 70% (2022: 23%).

Resita's 2020-2022 fiscal performance was resilient to the pandemic as its operating balance strengthened to an average of RON30 million from RON20 million in 2019. This was due to an increase in revenue, mainly central government additional transfers (VAT) and the city's share of national PIT (up to 63% from 60% in 2020), which helped counterbalance the 8.7% CAGR increase in opex, mainly related to public transport, education and culture. Under its rating-case scenario, Fitch assumes the operating balance will decline over 2023-2027 to about RON22 million (2022: RON30 million).

The city is planning to issue euro-denominated green bonds of RON85 million and is tendering an additional RON20 million bank loan to partially finance the investment plan. Fitch's rating case assumes that the city's debt will peak in 2023 at RON201 million (2022: RON86 million). However, overall, Resita's debt sustainability metrics are in line with its SCP, following Fitch's expectations that net adjusted debt will remain below 80% of operating revenue in the medium term.

Payback Ratio - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, Resita

Fitch's rating case is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on 2018-2022 (preliminary) figures and 2023-2027 projected ratios.

Scenario Assumptions Summary

		2023 - 2027 average	
Assumptions	**5-Year historical average**	**Base case**	**Rating case**
Operating revenue growth (%)	1.2	5.6	4.3
Tax revenue growth (%)	10.5	5.4	4.4
Current transfers received growth (%)	-11.8	7.1	5.0
Operating expenditure growth (%)	-1.1	5.7	6.4
Net capital expenditure (average per year; m)	-4	-32	-32
Apparent cost of debt (%)	3.5	4.6	6.6

		2027	
Outcomes	**2022**	**Base case**	**Rating case**
Payback ratio (x)	1.1	1.5	6.4
Overall payback ratio (x)	1.3	1.5	6.4
Actual coverage ratio (x)	2.4	2.5	1.2
Synthetic coverage ratio (x)	9.3	8.4	1.7
Fiscal debt burden (%)	23.1	29.4	74.8

Source: Fitch Ratings, Resita

SCP Positioning and Peer Comparison

SCP Positioning Table

Risk Profile	**Debt Sustainability**					
Stronger	aaa or aa	a	bbb	bb	b	
High Midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low Midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
Suggested analytical outcome (SCP)	**aaa**	**aa**	**a**	**bbb**	**bb**	**b**

Source: Fitch Ratings

Resita's selected peers are other municipalities with similar SCPs. The three Romanian cities share the same risk profile, assessed as 'Low Midrange', as they are homogeneous in terms of responsibilities and revenue sources. Oradea has the lowest payback ratio and the strongest coverage, which is reflected in the higher SCP. Brasov has similar payback ratios to Resita at the upper end of the 'aa' category of the debt sustainability assessment, while Buzau, with higher payback ratio, has a 'bbb' SCP.

For comparison reasons, we have included international peers with 'Weaker' and 'Midrange' risk profiles. Tashkent City in Uzbekistan has a stronger payback ratio, and an overall debt sustainability assessment of 'aa', similar to Resita; however, its 'Weaker' KRF assessments limit the risk profile as 'Weaker', which, in turn, translates into a lower SCP. The Polish City of Bydgoszcz's 'Midrange' risk profile on the other hand is determined by only one 'Weaker' KRF, which allows the city to have a similar SCP to that of Resita, despite a higher payback and a lower debt sustainability (a).

Peer Comparison

	Risk Profile	Primary metric (x)	SCP	ID	Outlook/Watch
Resita, City of	Low Midrange	6.4	bbb+	BBB-	Sta
Brasov, City of	Low Midrange	5.2	bbb+	BBB-	Sta
Oradea, City of	Low Midrange	2.9	a-	BBB-	Sta
Buzau, City of	Low Midrange	7.2	bbb-	BBB-	Sta
Tashkent City	Weaker	6.0	bb	BB-	Sta
Bydgoszcz, City of	Midrange	7.1	bbb+	BBB+	Sta
Czestochowa, City of	Midrange	11.1	bbb	BBB	Sta

Source: Fitch Ratings

Long Term Rating Derivation

From SCP to IDR/CO: Factors Beyond the SCP

		Support						
SCP	Sovereign	Intergovern. Financing	Ad-hoc Support	Floor	Asymmetric Risks	Cap	Notches above the Sovereign	IDR/CO
bbb+	BBB-	--	--	--	-	BBB-	-	BBB-

Source: Fitch Ratings

A combination of a 'Low Midrange' risk profile and a debt sustainability assessment at the upper end of 'aa', as well as rated peers' positioning leads to an SCP of 'bbb+'. The IDRs are capped by the Romanian sovereign rating of 'BBB-'. The city's IDRs are not affected by any other rating factors.

Short Term Rating Derivation

The Short-Term IDRs of 'F3' are derived from the Rating Correspondence Table applicable for the Long-Term IDR of 'BBB-'.

Criteria Variation

No criteria variation is applied.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means 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.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Appendix A: Financial Data

City of Resita

(RONm)	2018	2019	2020	2021	2022	2023rc	2024rc	2025rc	2026rc	2027rc
Fiscal performance										
Taxes	45	61	75	81	89	92	96	100	105	111
Transfers received	33	36	39	37	38	41	45	47	48	48
Fees, fines and other operating revenues	19	22	19	25	23	25	26	26	26	27
Operating revenue	97	120	132	144	150	158	167	173	178	185
Operating expenditure	-80	-100	-101	-111	-120	-135	-145	-151	-157	-163
Operating balance	**17**	**20**	**31**	**33**	**30**	**23**	**22**	**22**	**21**	**22**
Interest revenue	0	0	0	0	0	0	0	0	0	0
Interest expenditure	-3	-3	-4	-2	-4	-13	-16	-12	-9	-7
Current balance	**14**	**17**	**27**	**30**	**26**	**11**	**7**	**10**	**13**	**14**
Capital revenue	9	21	114	42	167	442	465	102	85	68
Capital expenditure	-14	-31	-126	-66	-134	-520	-500	-120	-100	-80
Capital balance	-6	-10	-13	-24	33	-78	-35	-18	-15	-12
Total revenue	105	141	246	185	317	600	632	275	263	253
Total expenditure	-97	-134	-231	-179	-257	-668	-660	-283	-266	-251
Surplus (deficit) before net financing	**9**	**7**	**14**	**6**	**60**	**-68**	**-28**	**-8**	**-2**	**2**
New direct debt borrowing	0	4	8	3	12	0	0	0	0	0
Direct debt repayment	-8	-8	-8	-8	-9	0	0	0	0	0
Net direct debt movement	-8	-4	0	-5	3	115	-12	-12	-12	-12
Overall results	0	3	14	1	63	48	-40	-19	-14	-9
Debt and Liquidity										
Short-term debt	0	0	0	0	0	0	0	0	0	0
Long-term debt	93	88	88	83	86	201	189	178	166	155
Direct debt	93	88	88	83	86	201	189	178	166	155
Other fitch-classified debt	0	0	0	0	0	0	0	0	0	0
Adjusted debt	**93**	**88**	**88**	**83**	**86**	**201**	**189**	**178**	**166**	**155**
Guarantees issued (excluding adjusted debt portion)	7	7	6	5	5	4	3	2	1	0
Majority-owned GRE debt and other contingent liabilities	0	0	0	0	0	0	0	0	0	0
Overall adjusted debt	100	95	94	88	90	205	192	179	167	155
Total cash, liquid deposits, and sinking funds	1	0	6	2	51	99	59	39	25	16
Restricted cash	0	0	0	0	0	0	0	0	0	0
Unrestricted cash	1	0	6	2	51	99	59	39	25	16
Net adjusted debt	**92**	**88**	**82**	**81**	**35**	**102**	**131**	**138**	**141**	**138**
Net overall debt	99	95	88	86	39	106	133	140	141	139

rc – Fitch's rating case scenario

Source: Fitch Ratings, Fitch Solutions, City of Resita

Appendix B: Financial Ratios

City of Resita

	2018	2019	2020	2021	2022	2023rc	2024rc	2025rc	2026rc	2027rc
Fiscal performance ratios										
Operating balance/operating revenue (%)	17.4	16.6	23.4	22.7	20.3	14.8	13.4	12.8	11.9	11.7
Current balance/current revenue (%)	14.7	14.0	20.6	21.2	17.6	6.6	4.0	5.9	7.1	7.8
Operating revenue growth (annual % change)	-31.8	24.1	10.2	8.6	4.5	5.7	5.4	3.7	3.0	3.7
Operating expenditure growth (annual % change)	-36.8	25.3	1.2	9.6	7.8	13.0	7.2	4.4	4.0	4.0
Surplus (deficit) before net financing/total revenue (%)	8.1	4.8	5.8	3.4	18.8	-11.2	-4.5	-2.8	-0.9	1.0
Total revenue growth (annual % change)	-29.6	33.8	74.3	-24.5	71.0	89.4	5.3	-56.5	-4.3	-4.0
Total expenditure growth (annual % change)	-31.3	38.5	72.5	-22.6	43.7	159.5	-1.1	-57.2	-6.1	-5.7
Debt ratios										
Primary metrics										
Payback ratio (x) (Net adjusted debt to operating balance)	5.5	4.4	2.7	2.5	1.1	4.4	5.9	6.2	6.6	6.4
Secondary metrics										
Fiscal debt burden (%) (Net Debt-to-operating revenue)	95.2	73.5	62.2	56.2	23.1	64.5	78.2	79.9	78.9	74.8
Synthetic debt service coverage ratio (x)	2.2	2.6	4.1	5.0	9.3	1.8	1.5	1.5	1.6	1.7
Actual debt service coverage ratio (x)	1.6	1.8	2.6	3.1	2.4	1.0	0.8	0.9	1.1	1.2
Other debt ratios										
Liquidity coverage ratio (x)	1.6	1.8	2.6	3.7	2.5	3.2	4.4	3.4	3.0	2.5
Direct debt maturing in one year/total direct debt (%)	8.9	9.5	9.3	10.7	11.9	0.0	0.0	0.0	0.0	0.0
Direct debt (annual % change)	-9.1	-4.5	-0.3	-6.1	3.5	134.9	-5.8	-6.1	-6.5	-6.9
Apparent cost of direct debt (interest paid/direct debt) (%)	2.7	3.4	4.2	2.6	4.8	9.0	8.1	6.5	5.0	4.6
Revenue ratios										
Tax revenue/total revenue (%)	42.6	43.5	30.4	43.9	28.1	15.3	15.3	36.3	39.7	43.8
Current transfers received/total revenue (%)	31.2	25.8	15.8	20.2	11.8	6.9	7.1	17.2	18.0	18.9
Interest revenue/total revenue (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue/total revenue (%)	8.3	14.9	46.2	22.6	52.7	73.6	73.6	37.1	32.3	26.9
Expenditure ratios										
Staff expenditure/total expenditure (%)	37.6	28.8	17.5	24.1	17.7	-	-	-	-	-
Current transfers made/total expenditure (%)	3.6	4.4	2.2	2.4	2.2	-	-	-	-	-
Interest expenditure/total expenditure (%)	2.7	2.3	1.6	1.2	1.6	1.9	2.4	4.2	3.2	2.9
Capital expenditure/total expenditure (%)	14.9	23.1	54.7	36.9	52.0	77.9	75.7	42.4	37.6	31.9

rc – Fitch's rating case scenario
Source: Fitch Ratings, Fitch Solutions, City of Resita

Appendix C: Data Adjustments

Net Adjusted Debt Calculations

Fitch's adjusted debt includes the city's direct debt (RON85 million at end-2022). Fitch's net adjusted debt corresponds to the difference between Fitch's adjusted debt and the cash at the end of the year considered by Fitch as unrestricted (RON51 million at end-2022).

Although the budgetary figures presented in the actuals are cash based, we assume the year end cash levels are not restricted, as the money is not ear-marked, and payables in the following year are financed by cash revenue that flows in that year from transfers received and fees, taxes collected. Additionally, if needed the municipality has access to the State Treasury account for short-term loans of up to 5% average tax revenue contributed to the city's budget (see Issuer profile section).

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 Romanian LRG's debt sustainability.

Mortgage-Style Debt Annuity Calculation

(RONm)	2022	2027rc
Net adjusted debt	35	138
Apparent cost of debt, %	4.8	4.5
Amortization period, years	15	15
Mortgage-style debt annuity	3	13

Source: Fitch Ratings, City of Resita

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.