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# FITCH AFFIRMS CITY OF ORADEA AT 'BB+'; OUTLOOK NEGATIVE

Fitch Ratings-Frankfurt/Istanbul/London-28 April 2009: Fitch Ratings has today affirmed the City of Oradea's (Oradea) ratings at Long-term foreign currency 'BB+', Long-term local currency 'BBB-' (BBB minus) and Short-term foreign currency 'B'. The Outlooks for both Long-term ratings are Negative.

The ratings of Oradea reflect its sound financial performance and good management practice. They also reflect Romania's institutional framework which provides state support and control for Romanian cities but limited budgetary flexibility. In addition, the ratings take into account an increase of debt, accompanied by a significant rise in debt service, over the coming years, and a weakening economic environment in Romania, all of which are reflected in the Negative Outlook on Oradea's ratings. Further significant increases in debt alongside a deteriorating operating performance beyond expectations could lead to negative rating pressure. Any negative rating action on Romania would affect Oradea's ratings as well.

The operating balance deteriorated to 10.6% in 2008, from 21% in 2007, as significantly higher personnel costs (due to wage increases) resulted in weaker debt coverage ratios, with operating balance covering interest costs about 3x, down from 9.9x in 2007. Although the city's budget plan envisages an improvement in the average balance to around 15% for 2009-2012, the current economic downturn has led Fitch to expect a reduction in tax revenues and transfers from the state. Oradea's debt coverage ratio remains good, despite an expected significant increase in debt to about RON240m by 2010 from RON136m in 2008. The debt/current balance ratio in 2008 remained strong for the rating category at about five years and is expected to improve to 4.0 years by 2009. Refinancing risk is mitigated by a long-term amortisation debt structure though there is increased exposure to interest rate and currency fluctuations due to variable-rate borrowing and a higher share of euro-denominated loans since 2008.

Financial rigidity remains high, as the state appropriates VAT (33% of Oradea's current revenue in 2008), and controls the personal income tax (PIT) base and rate as well as other local tax rates. Furthermore, the state controls the main expenditure drivers such as staff salaries and sets quality standards for public services provided by the city. Romania's highly centralised budgetary system ensures adequate support and control from the central government; the latter supports several local infrastructure projects by providing additional subsidies, and oversees the city's finances, including debt approval.

The city's expenditure flexibility is also limited by further investments to improve the local infrastructure. However, some flexibility on capital expenditure exists, as the city may postpone projects where funding is not assured or if budgetary pressure arises. Total spending should be about RON256m during 2009-2011, of which about 50% will be debt-financed. The availability of EU funds, especially from 2010, should help limit pressure on debt-financed investments, keeping debt under control.

Oradea is located in north-west Romania, and is the capital and the largest city of Bihor County, with about 207,000 residents. The city's strategic location near the Hungarian border and the comparatively wealthy economy by national standards underpin budgetary revenue, with locally generated PIT and local taxes accounting for about 50% of operating revenue in 2008.

A full report on the City of Oradea will be soon available on the agency subscribers' website, www.fitchresearch.com

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