

FITCH REVISES ORADEA'S OUTLOOK TO STABLE; AFFIRMS AT 'BB+'

Fitch Ratings-Frankfurt/Istanbul/London-03 May 2010: Fitch Ratings has revised the City of Oradea's (Oradea) Outlook to Stable from Negative. Fitch has simultaneously affirmed its Long-term foreign and local currency ratings at 'BB+' and 'BBB-' respectively. Oradea's Short-term foreign currency rating is affirmed at 'B'.

The revision in Outlook reflects a similar rating action on Romania's Outlooks (please see "Fitch Revises Romania's Outlook to Stable" dated 2 February 2010 on www.fitchratings.com). The ratings reflect Oradea's economic potential due to its strategic location near the Hungarian border and its improved budgetary performance, balanced by increased debt, higher debt-servicing needs and weakened debt coverage ratios.

A negative rating action could be triggered by the operating margin falling below 10% and debt exceeding 100% of current revenue. Any downward rating action on Romania will automatically be reflected in Oradea's ratings. The ratings could benefit from a positive change in the sovereign ratings as long as budgetary performance and debt remain at their current levels.

The operating margin improved to 18% in 2009, after deteriorating to 10.6% in 2008 from 21% in 2007. This was mainly due to higher tax revenue and a slower increase of current expenditure, particularly personnel costs and transfers. The operating margin covered interest costs by 7.2x, up from 3x in 2008, and exceeded the city's forecast of 6x. Taking into account GDP expectations of 1% for 2010 and another 3.5% for 2011, Fitch expects the city to achieve its forecasted margin of around 15%. The contraction of Romania's economy in 2009 (by 7.1%) has neither affected the city's tax revenue nor reduced transfers from the state. Unemployment in Bihor County, in which Oradea is located, was 5.9% in 2009, well below the national average (7.8%). However, VAT and personal income tax (PIT), which form the bulk of the city's tax burden, may react with some delay in 2010.

Romania's highly centralised budgetary system ensures adequate support and control from the central government. The latter provides additional subsidies to support local infrastructure projects and supervises the city's finances, including authorising debt.

Debt further increased by about 60% in 2009 to RON217m, and direct debt servicing rose to 100.6% of operating balance (2008: 66.4%). Direct debt/current revenue was 55% (2008: 36.5%) and direct debt/current balance was 3.5 years. The city plans to contract a new EUR10.4m loan in 2010 and has yet to make full use of another EUR15m loan; debt could therefore increase to more than RON300m in 2010, although Fitch views this as unlikely. Oradea benefits from an even debt maturity profile, with debt servicing forecasted to remain below 20% of current revenue during 2010-2012.

Oradea is located in north-west Romania. It is the capital and, with about 205,000 residents, the largest city of Bihor County. The local economy is wealthy by national standards and GDP per capita was slightly above the national average in 2006, which accounts for about 25% of the EU-27 average in 2007.

The credit update on the City of Oradea will be available shortly on www.fitchratings.com.

Applicable criteria 'Tax-Supported Rating Criteria', dated 21 December 2009, and 'International rating Methodology for Local and Regional Governments', dated 17 March 2010, are available at www.fitchratings.com.

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