

FITCH AFFIRMS ROMANIAN CITY OF ORADEA AT 'BB+'; OUTLOOK STABLE

Link to Fitch Ratings' Report: City of Oradea

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=633709

Fitch Ratings-Frankfurt/Istanbul/London-01 June 2011: Fitch Ratings has affirmed the Romanian City of Oradea's (Oradea) Long-term foreign currency rating at 'BB+', Long-term local currency rating at 'BBB-' and Short-term foreign currency rating at 'B'. The Outlooks for the Long-term ratings are Stable. The rating actions affects about RON268m of direct debt outstanding at end-2010, as well as future borrowings.

The ratings reflect Oradea's developing economy, sustainable investment plans aiming to improve local infrastructure, its sound financial performance and solid track record of state support and control for Romanian cities. It also reflects the limited budgetary flexibility and the strong increase in debt over the past four years.

A positive change in the sovereign ratings provided budgetary performance and debt, as well as debt servicing ratios remain at current levels, would lead to an upgrade.. An operating margin below 10% and debt exceeding 100% of current revenue or a distortion and/ or debt servicing ratios would trigger a negative rating action. Any downward rating action on Romania will be automatically reflected in Oradea's ratings.

Romania's economy declined by 1.2% in 2010, after significantly contracting by 7.1% in 2009. According to Fitch estimates, GDP should recover by 1.5% in 2011 and 3.5% in 2012, still below the average growth rate of 6.8% in 2004-2008. This development is not yet fully reflected in the city's economy, as the tax base remains robust and labour market conditions even improved. However, some risks remain, as local governments may not take advantage of the co-funding provided by the central government last year and the economic growth may remain below pre-crisis levels.

The operating margin remained at around 18% in 2010, driven by higher grants from central government and reduced personnel costs. The reduction of staff cost is viewed as positive by Fitch, as the state controls salaries and sets quality standards for public services provided by the city. According to the city's forecast, operating performance is expected to remain at this level and the current balance will be sufficient to cover capital expenditure 2x in 2011 and 2012.

Debt further increased by about 23% in 2010, to RON268m, but Oradea maintains strong debt and debt service coverage ratios. After the exceptionally high payback taken place in 2009, 2010 direct debt servicing fell to 5.2% of current revenue (2009:18.1%) while debt accounted for 65% of current revenue (2009: 55%) but a still low 3.9 years of current balance. The city plans to contract a new RON25m loan in 2011 and has not yet made full use of a RON15m and a EUR10.36m loan already contracted.

Although financial rigidity remains high, Romanian's highly centralised budgetary system ensures adequate control and support from the state, the latter reflected in last year's budgetary performance. Central government also provides additional subsidies to support local infrastructure projects.

Oradea is located in north-west Romania. It is the capital and, with about 204,500 residents, the largest city in Bihor County. Using the county as a proxy, the local wealth level is slightly above the national average, whose GDP per capita accounts in turn for 46% (in Purchasing Power Standards) of the EU27 average in 2009.

The full rating report is available on www.fitchratings.com.

Contacts:

Primary Analyst
Guido Bach
Director
+49 69 768076 111
Fitch Deutschland GmbH
Taunusanlage 17, 60325
Frankfurt am Main

Secondary Analyst
Turda Ozmen
Director
+90 212 284 7882

Committee Chairperson
Guilhem Costes
Senior Director
+34 93 323 8410

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available at www.fitchratings.com.

Applicable criteria 'Tax-Supported Rating Criteria', dated 16 August 2010, and 'International Local and Regional Governments Rating Criteria', dated 19 April 2011, are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548605

International Local and Regional Governments Rating Criteria - Outside the United States

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=611485

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