

Research Update:

City of Oslo Outlook Revised To Negative On Potentially Larger Deficits; Ratings Affirmed At 'AAA'

May 10, 2024

Overview

- We expect Oslo's operating performance will improve this year thanks to stronger tax revenue growth and moderating cost pressure, but to remain weaker than historical levels through 2026.
- Oslo's continued high investment needs in municipal properties and infrastructure projects will contribute to sustained budgetary deficits and debt accumulation.
- Because the operating performance improvements may not be enough to cover potentially increasing investment needs, Oslo could face wider-than-anticipated deficits and faster debt build-up.
- We therefore revised to negative from stable the outlook on Oslo and affirmed the 'AAA' ratings.

PRIMARY CREDIT ANALYST

Dennis Nilsson
Stockholm
+46 84 40 5354
dennis.nilsson
@spglobal.com

SECONDARY CONTACT

Freja L Dobreff
Stockholm
+46 84405938
freja.dobreff
@spglobal.com

ADDITIONAL CONTACT

Sovereign and IPF EMEA
SOVIFP
@spglobal.com

Rating Action

On May 10, 2024, S&P Global Ratings revised the outlook to negative from stable on the long-term issuer credit rating on the Norwegian City of Oslo. At the same time, we affirmed the 'AAA' long-term issuer credit ratings.

We also affirmed our 'AAA' issue ratings on Oslo's senior unsecured debt.

Outlook

The negative outlook reflects an increased risk that Oslo's deficits will widen structurally if fairly stable operating performance and capital grants are insufficient to cover consistently large investment needs and related spending.

Downside scenario

We could lower the rating on Oslo over the coming 24 months if the city's high capital expenditure (capex) resulted in structurally wider deficits. This would accelerate debt accumulation and reflect

an increased risk appetite, which might affect our view on the city's fiscal management.

We could also lower the rating if systemic support to Norwegian local and regional governments (LRGs) became insufficient and central government policies do not adequately address any build-up of debt in the sector.

Upside scenario

We could revise the outlook to stable if the city's management successfully contains deficits after capital accounts, for instance by strengthening operating performance and stabilizing capex.

Rationale

The outlook revision to negative captures the risk that persistently high investments may keep deficits wider and for longer than we currently project. Oslo's operating performance weakened more than we expected in 2023 because of inflationary pressure on operating costs and capex, widening the deficit after capital accounts to 7.5% of total revenue from 5.0% at end-2022.

Although we assume the city management's efforts to contain costs and stabilize capex will give way to gradually narrower deficits in 2024-2026, local infrastructure projects--mainly related to transportation and water and sewage--to keep up with continued population growth and to update old facilities could incur higher costs than expected at this time.

Oslo's very wealthy local economy is a fundamental credit strength

We continue to regard the institutional framework for Norwegian LRGs as extremely predictable and supportive. That said, we revised the trend to weakening to reflect our view of persistent mismatches between revenue and total expenditure, particularly in the capital accounts. These mismatches have caused Norwegian LRGs to accumulate debt, and central government policies have not adequately addressed this build-up. Still, the very strong system support provides Norwegian LRGs a high degree of institutional stability, and there are mechanisms in place to ensure that they do not experience financial distress. If debt continues to climb, however, the resulting uncertainty about the sector's debt burden, alongside the LRGs' limited autonomy to adjust revenues, would raise questions about the system's predictability.

With an eye on maintaining budgetary strength, Oslo's management has implemented an exhaustive review of its operations and the use of resources for potential inefficiencies. The city's prudent debt-management strategy, which stipulates that most funding is through fixed-rate, long-term bonds, remains intact, providing it with a very predictable debt-maturity profile. Conservative and liberal parties, with support from the Christian Democrats and the Progress Party, have governed Oslo since the local election in fall 2023. The coalition has ambitious targets to reduce the environmental footprint and lower property taxes, which could lead to increased debt funding in the near term as capex will remain high. We understand the coalition will remain committed to the city's long-term strategies and will focus largely on gains from operational efficiency to fund its reforms.

Importantly, Oslo benefits from Norway's very high wealth levels. We estimate a national GDP per capital estimate of about \$87,000 in 2024. As Norway's capital, Oslo has a very diversified and wealthy local economy, hosting a broad range of government functions, financial services, and corporate sectors.

Continued high capex amid slightly weaker-than-historical operating performance will accelerate debt accumulation

We expect operating performance will strengthen this year after a temporary weakening in 2023. The city's operating balance will reach 5.5% of operating revenue in 2024, from 4.4% in 2023, before stabilizing at an average of 6.0% in 2025-2026. We think that, from 2024 on, the city's tax revenue will resume growing in line with the economy, thereby helping to strengthen and stabilize operating balances, even though performance remains slightly weaker than historical levels. We understand changes to the equalization system could be announced in May, when the central government publishes its municipal proposition 2025. We assume revisions could include larger transfers from cities to rural areas and that they would be gradually implemented or be accompanied by compensation during the transition.

Sustained high capex could accelerate debt accumulation and widen deficits further. We expect Oslo's annual capex will average Norwegian krone (NOK) 17.7 billion in 2024-2026, with a slight decreasing trend. About half of this capex will go to transport and municipal technical facilities, related to water and sewage, for instance, while about 25% will be spent on schools and kindergartens. The remainder will go to sheltered/municipal housing and urban development, among other items. Considering the capex peak in 2023 and the ensuing deficit after capital accounts of 7.5% of revenue, we assume the metric will stabilize around 4.0% by 2026.

Oslo has high capex relative to its domestic peers since it operates as both a region and municipality. However, some capex is financed with capital grants from the central government, which are roughly equal to funding from cash flow from the city's operations and debt uptake. Consequently, we think debt will reach 93% of operating revenue by 2026, from 85% in 2023. We regard the city's contingent liabilities, including the debt of fully owned energy company Hafslund Eco AS, as limited, with contingent debt corresponding to 15% of aggregated revenues.

We consider the city's liquidity to be strong despite the weaker-than-peers' debt-service coverage ratio, supported by strong liquidity access through the capital markets and KBN Kommunalbanken Norway, a public sector funding agency owned by the central government. We estimate that Oslo's liquidity sources will cover 64% of the average debt service for the coming 12 months. Our calculation of internal liquidity sources includes about NOK6 billion of cash and NOK2 billion in committed facilities. We estimate that the city has net borrowing needs of about NOK2.9 billion over the coming 12 months, in addition to the NOK7.0 billion of maturing debt and interest payments. We also note Oslo Pensjonsforsikring AS, the pension fund for public employees at the City of Oslo, represents a source of contingent liquidity; this is because it could lend to the city by investing in its bond issuance, if needed, as an emergency alternative to rolling over debt. However, we do not include this in our sources-to-uses liquidity ratio, as it's an emergency option.

Key Statistics

Table 1

City of Oslo--Selected Indicators

Mil. NOK	2021	2022	2023	2024bc	2025bc	2026bc
Operating revenues	84,596	87,922	91,479	95,909	99,049	101,849
Operating expenditures	77,952	80,951	87,496	90,610	93,146	95,790

Table 1

City of Oslo--Selected Indicators (cont.)

Mil. NOK	2021	2022	2023	2024bc	2025bc	2026bc
Operating balance	6,644	6,971	3,983	5,298	5,903	6,059
Operating balance (% of operating revenues)	7.9	7.9	4.4	5.5	6.0	5.9
Capital revenues	4,468	5,049	7,224	7,013	6,840	7,004
Capital expenditures	13,989	16,698	18,599	18,301	17,270	17,486
Balance after capital accounts	(2,877)	(4,678)	(7,392)	(5,990)	(4,527)	(4,423)
Balance after capital accounts (% of total revenues)	(3.2)	(5.0)	(7.5)	(5.8)	(4.3)	(4.1)
Debt repaid	5,000	4,500	4,000	5,000	4,735	6,500
Gross borrowings	9,500	10,000	10,463	11,500	10,500	11,500
Balance after borrowings	1,431	33	(491)	(240)	488	(173)
Direct debt (outstanding at year-end)	62,548	68,819	77,630	84,130	89,895	94,895
Direct debt (% of operating revenues)	73.9	78.3	84.9	87.7	90.8	93.2
Tax-supported debt (outstanding at year-end)	62,548	68,819	77,630	84,130	89,895	94,895
Tax-supported debt (% of consolidated operating revenues)	73.9	78.3	84.9	87.7	90.8	93.2
Interest (% of operating revenues)	1.4	1.7	2.3	2.2	2.6	3.0
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	802,010	1,052,149	934,351	905,257	929,538	955,914

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable.

Ratings Score Snapshot

Table 2

City of Oslo--Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	1
Budgetary performance	2
Liquidity	2
Debt burden	3
Stand-alone credit profile	aaa

Table 2

City of Oslo--Ratings Score Snapshot (cont.)

Key rating factors	Scores
Issuer credit rating	AAA

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In our "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

Sovereign Risk Indicators, April 8, 2024. An interactive version is available at www.spratings.com/sri.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Rising Debt Points To A Weakening Trend For Norwegian LRGs, March 21, 2024
- Full Analysis: Norway, March 11, 2024
- Subnational Debt 2024: Focus on Debt Sustainability, Feb. 29, 2024
- Subnational Debt 2024: Infrastructure Spending Succumbs To Economic Slowdown, Feb. 29, 2024
- Subnational Debt 2024: Global LRGs Can Handle Rising Interest Expenses, Feb. 29, 2024

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot

above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Outlook Action; Ratings Affirmed

To	From
Oslo (City of)	
Issuer Credit Rating	AAA/Negative/-- AAA/Stable/--
Senior Unsecured	AAA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.