Research Update:

City of Oslo Downgraded To 'AA+' On Persistent Deficits Leading To Continued Debt Accumulation; Outlook Stable

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Overview

- Oslo's continued high investment needs for public transport and municipal infrastructure projects will contribute to sustained budgetary deficits.
- The city has accumulated debt steadily in recent years, as tax revenue growth has been sluggish.
- We believe efforts to cut both operating and capital expenditure (capex) in the coming years won't be sufficient to reverse debt accumulation and increasing indebtedness.
- We therefore lowered our long-term issuer credit rating on the City of Oslo to 'AA+' from 'AAA'. The outlook is stable.

Rating Action

On May 9, 2025, S&P Global Ratings lowered its long-term issuer credit rating on the City of Oslo to 'AA+' from 'AAA'. The outlook is stable.

We also lowered to 'AA+' from 'AAA' our issue rating on Oslo's senior unsecured debt.

Outlook

The stable outlook reflects our expectation that the city's management will make efforts to cut operating expenditure and contain capex in coming years, likely lowering deficits from the historically high levels of 2023-2024.

Downside scenario

We could lower the rating on Oslo if the city's effort to cut operating expenditure and contain capex was unsuccesful, leading to persistent operating balances below 5% of operating revenues, while debt accumulation continued at an elevated pace exceeding 10% of total revenues, which might affect our view on the city's financial management.

We could also lower the rating if systemic support to Norwegian local and regional governments (LRGs) became insufficient in our view, and central government policies did not adequately address debt buildup in the sector.

Upside scenario

We could raise the rating if the city's management's efforts to strengthen finances resulted in stronger budgetary performance than we currently envisage, leading to a reversal of the current path of debt accumulation.

Rationale

The downgrade reflects our view that the persistent deficits in recent years represent a structural shift leading to higher debt accumulation. We see this as unlikely to be reversed even if cuts in operating expenditure and a gradual decrease in capex is carried out as planned. We believe these efforts will be successful in containing the deficit and reducing pace of debt accumulation, but debt as a share of operating revenues will still continue to increase in coming years.

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 believe the system is weakening, due to persistent mismatches between revenue and expenditure, particularly in the capital accounts. These mismatches have caused Norwegian LRGs to accumulate debt, and central government policies have, in our view, not adequately addressed this buildup. 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, could raise questions about the system's predictability.

Oslo's management has implemented an exhaustive review of its operations and the use of resources to unearth potential inefficiencies, in order to redress its budgetary trajectory. The city's prudent debt-management strategy, which stipulates that most funding is through fixed-rate, long-term bonds, remains in place, providing it with a very predictable debt-maturity profile. The current administration consisting of Conservative and Liberal parties, with support from the Christian Democrats and the Progress Party, has ambitious targets to reduce the city's environmental footprint, which have led to increased debt funding. We understand the coalition is committed to moderating expenditure growth. In recent years, expanded municipal services have coincided with lower revenue growth, leading to a worsening in operating performance.

Oslo's creditworthiness is bolstered by very high wealth levels. We estimate Norway's GDP per capita is about $87,400 in 2025. 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.

Debt accumulation should continue while performance will likely gradually improve compared with recent years

The city's operating performance has been sluggish in the past two years. Inflationary pressure on operating expenditure, paired with loss of tax revenues following, for instance, a change to wealth taxation, have pressured finances. Tax revenues historically have surprised on the upside, allowing for a strong operating performance despite large expenditure increases. However, in the past two years revenue growth has tapered down, and in our view Oslo is now in the process of adapting to this new reality, adopting active measures from civil servants and politicians to boost operating performance. We expect that efforts to cut operating expenditure will be successful in gradually strengthening the operating balance in coming years, leading to operating balances surpassing 5% of operating revenues by 2026, compared with 3.6% in 2024. We expect this improvement despite changes to tax composition and equalization in coming years which we estimate could cost Oslo about 0.5% of operating revenues from 2026.

Capex will remain elevated through 2027, although decreasing from its peak in 2024. We expect that Oslo's annual capex will decrease to Norwegian krone (NOK)17 billion in 2027 from NOK23 billion in 2024, which together with strengthening of operating performance, will see deficits contract toward 5% of total revenues compared with a 13% deficit in 2024. Despite the improvement compared with 2024, we note that structural deficits have widened compared with our previous expectations. About half of this investment 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.

The capex peak in recent years has pushed up Oslo's indebtedness considerably as a share of revenues, reaching 96% of consolidated operating revenues in 2024, from 74% in 2021. As the deficit will persist in coming years, we believe the debt ratio will continue to increase, although at a slower pace, reaching 106% of consolidated operating revenues by year-end 2027. Oslo has high investments 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. We regard the city's contingent liabilities, including the debt of fully owned energy company Hafslund AS (A-/Stable/--), as limited, with contingent debt corresponding to 15% of aggregated revenues.

We view the city's liquidity as strong despite the weaker-than-peer debt-service coverage ratio, given the city's strong access to external liquidity sources 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 40% of the average debt service for the coming 12 months. Our calculation of internal liquidity sources includes about NOK5 billion of cash and NOK2 billion in committed facilities. We estimate that the city has net borrowing needs of about NOK4 billion over the coming 12 months, in addition to the NOK6.0 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 potential 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	2022	2023	2024	2025bc	2026bc	2027bc
Operating revenues	87,922	91,479	96,276	100,551	104,420	107,822
Operating expenditures	80951	87,496	92,799	95,981	98,995	102,377
Operating balance	6971	3,983	3,477	4,570	5,425	5,445
Operating balance (% of operating revenues)	7.9	4.4	3.6	4.5	5.2	5.0
Capital revenues	5,049	7,224	6,386	6,371	6,048	6,000
Capital expenditures	16,698	18,599	22,959	19,279	17,395	17,174
Balance after capital accounts	(4,678)	(7,392)	(13,096)	(8,338)	(5,922)	(5,729)
Balance after capital accounts (% of total revenues)	(5.0)	(7.5)	(12.8)	(7.8)	(5.4)	(5.0)
Debt repaid	4,500	4,000	5,000	2,735	8,500	8,500
Gross borrowings	10,000	10,463	19,882	11,735	14,765	14,550
Balance after borrowings	33	(491)	(248)	(88)	(407)	(429)
Direct debt (outstanding at year-end)	68,819	77,630	92,511	101,511	107,776	113,826
Direct debt (% of operating revenues)	78.3	84.9	96.1	101.0	103.2	105.6
Tax-supported debt (outstanding at year-end)	68,819	77,630	92,511	101,511	107,776	113,826
Tax-supported debt (% of consolidated operating revenues)	78.3	84.9	96.1	101.0	103.2	105.6
Interest (% of operating revenues)	1.7	2.3	2.8	3.1	3.4	3.7
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	1,056,704	929,418	936,550	966,619	983,038	1,000,740

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	3

Table 2

City of Oslo ratings score snapshot (cont.)

Key rating factors	Scores
Liquidity	2
Debt burden	3
Stand-alone credit profile	aa+
Issuer credit rating	AA+

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 10, 2025. 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

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

Downgraded

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