

Agder Fylkeskommune

Full Rating Report

LONG-TERM RATING

AAA

OUTLOOK

Stable

SHORT-TERM RATING

N1

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RATING RATIONALE

Our 'AAA' long-term issuer rating on Norway's Agder Fylkeskommune (Agder county) reflects its prudent debt management, low debt and strong liquidity. It also reflects strong financial reserves and sound operating margins, coupled with a lower proportion of elderly dependants than the domestic local government sector average. We believe Agder will maintain rigorous debt management. We expect costs to remain elevated through 2025, constraining operating margins, but believe the county will maintain strong financial management and balanced budgets.

Agder is less diverse than other Norwegian counties in terms of industrial sectors but has a substantial position within the offshore and oil and gas industry. It also receives meaningful revenues from the renewable hydropower sector. Agder occupies a strategic location and plays an integral part in Norway's energy production and self-sufficiency.

Agder benefits from Norway's exceptional creditworthiness, given the country's institutional stability, strong governance and conservative fiscal performance. Local and regional government institutions have a predictable revenue distribution system and a robust framework that supports transparency.

STABLE OUTLOOK

The outlook is stable, reflecting our view that Agder will remain one of the fastest growing regions in Norway with a below-average level of elderly dependants. We expect the county will maintain its relatively low debt levels and control interest expenses while managing liquidity conservatively - even though it has budgeted for continued high investments over our forecast period through 2027. In addition, we believe Agder has the capacity to cut costs, if necessary, to ensure a balanced budget. We expect Norway's creditworthiness will remain stable with no material changes to its institutional framework.

POTENTIAL POSITIVE RATING DRIVERS

- As the rating is at the highest level, it cannot be raised.

POTENTIAL NEGATIVE RATING DRIVERS

- Deteriorating operating margins or high capital spending.
- A significant rise in gross debt and interest payments.
- Rising unemployment or weaker demographics than we currently expect.

Figure 1. Key metrics, 2022–2027e

| | 2022 | 2023 | 2024 | 2025e | 2026e | 2027e |
|------------------------------------|-------|-------|-------|-------|-------|-------|
| Population ('000)* | 311 | 316 | 320 | 322 | 325 | 328 |
| Unemployment rate (%) | 1.8 | 1.9 | 2.1 | 2.2 | 2.2 | 2.2 |
| Operating revenues (NOKm) | 6,331 | 7,093 | 7,250 | 7,278 | 7,227 | 7,226 |
| Operating margin (%) | 8.7 | 11.9 | 5.3 | 5.1 | 5.9 | 5.9 |
| Operating & investment balance (%) | -3.2 | 4.6 | -4.3 | -2.9 | -2.6 | -3.2 |
| Financial reserves (%) | 15.5 | 17.2 | 13.1 | 12.4 | 11.8 | 10.8 |
| Gross debt burden (%) | 69.4 | 63.4 | 62.2 | 59.2 | 62.5 | 65.8 |
| Interest burden (%) | 1.4 | 2.4 | 2.6 | 2.7 | 2.5 | 2.4 |

Source: Agder, NCR. e=estimate. All metrics as defined by NCR methodology. *As of 1 January.

ISSUER PROFILE

Agder county was established in 2020 following a merger of the former counties of Aust-Agder and Vest-Agder. Occupying an area of 16,500sqkm, it is the southernmost of Norway's 15 counties and ranks seventh in terms of population with 322,188 inhabitants (1 Jan. 2025). Agder contains 25 municipalities. The two largest cities are the county capital Kristiansand and Arendal.

Since 2010, Agder has been among the most rapidly growing regions in Norway. The population and most businesses are concentrated along the coast. About 60% of the working population is employed in the private sector.

Industrial activity is more concentrated in Agder than in other Norwegian counties. The main industries are retail and construction. Mechanical industries and oil and gas industry supplies are also important sectors.



Source: Wikipedia.

NORWEGIAN SOVEREIGN CREDITWORTHINESS

In our view, Norway is characterised by excellent institutional stability and strong governance. The economy is resilient and the country's fiscal performance is conservative and well managed. Norway scores strongly in the World Bank's Worldwide Governance Indicators, with an average ranking across indicators in the 97th percentile. GDP per capita is strong, although there was a decline in 2023 due to cyclical oil-related revenue. Norway's inflation rate (adjusted for tax changes and excluding energy products) is decreasing and Statistics Norway (SSB) forecasts an inflation rate of 3.1% at end-2025. However, there is continued uncertainty around the Norwegian krone exchange rate, food and energy prices and wage levels. Unemployment was relatively low at 2% in 2024 and we expect it will remain around this level through 2025. Historically, the country has had well-balanced budgets, having achieved positive budget balances over the past 20 years, except for a small deficit in 2020. As a result, gross public debt to GDP has remained at low levels.

LOCAL & REGIONAL GOVERNMENT INSTITUTIONS

The robust Norwegian local and regional government framework is supported by a strong and predictable revenue distribution system and effective equalisation. Norwegian local and regional governments primarily rely on income taxes and block grants for revenue. National budgets are announced in the third quarter of each year to increase revenue visibility for the next calendar year and enable county governments to plan and maintain balanced budgets. Norway has a far-reaching financial equalisation system that compensates counties with an adverse cost structure or unfavourable demographic profile. The country aims to even out per capita differences in local tax bases.

The Ministry of Local Government and Modernisation facilitates dialogue between the central government and local and regional governments to ensure nationally stipulated governance principles are followed. County governments are required by law to disclose their annual budget for the upcoming year and a financial plan for the next four years before the end of any given year. Local and regional governments must also establish fiscal targets and financial and debt management plans.

By law, Norwegian local governments cannot become insolvent. The central government takes financial control of municipalities and counties with financial imbalances or failure to meet specific deadlines to ensure they meet their obligations. In such cases, we view support from the central government as likely.

Sovereign
creditworthiness

Local & regional government
institutions

ENTITY-SPECIFIC FACTORS

Entity-specific assessment

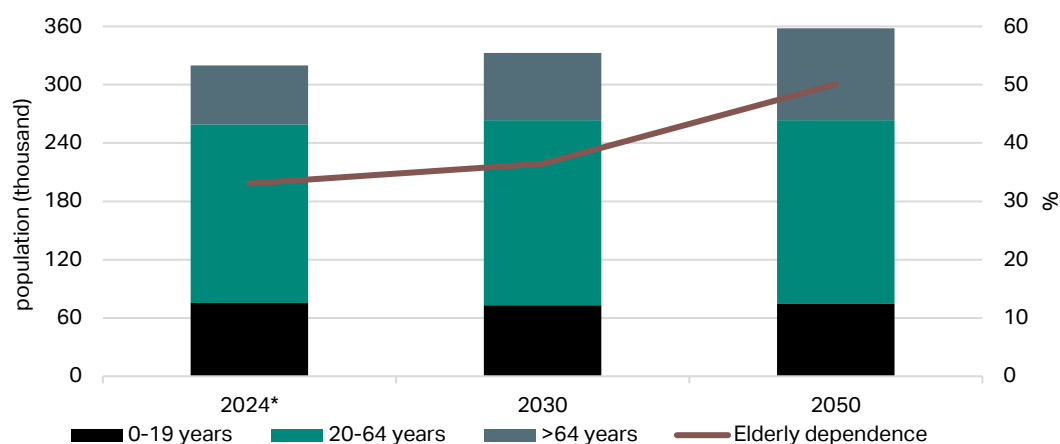
Our entity-specific assessment reflects Agder's relatively low debt, continual population growth and lower proportion of elderly dependants than the domestic local government sector average. We assess its budgetary performance as average due to robust operating margins and readily available financial reserves. Although we believe operating margins and reserves will decline in 2025, we expect Agder will maintain prudent operating margins and a balanced budget.

Fast growing region with young population

Demographics

Agder is one of Norway's fastest growing regions. The population increased by an average of 1% annually in the 2022–2024 period, mainly in Kristiansand and coastal municipalities due to proximity to essential services and job opportunities. Immigration also plays a significant role in population growth. According to projections by SSB, Agder's population will rise by 9% by 2040, slightly surpassing the anticipated national growth rate during the same period. The county has a youthful demographic profile, partly due to the presence of the University of Agder. Consequently, the percentage of elderly dependants is lower than the domestic sector average.

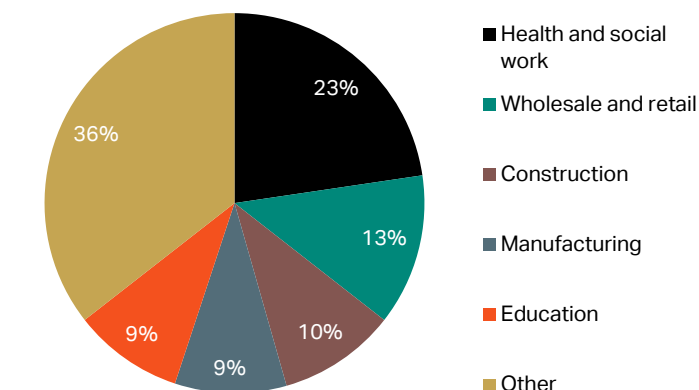
Figure 2. Projections of elderly dependence and population



Source: SSB, NCR. *1 January.

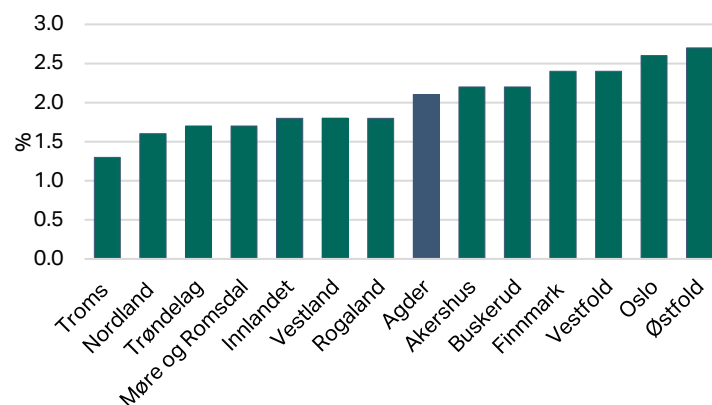
Agder county's inhabitants had a median monthly income of NOK 51,430 in 2024, which is around the domestic sector average. The highest incomes were in areas in and around the largest urban centres. The county is working to increase industrial diversity by 2030 and has identified areas for improvement, such as education completion and employment opportunities. We believe Agder could improve its income levels further if it can increase its proportion of employed inhabitants (73.6% compared with the national average of 76.9% in 2024) and decrease its proportion of low-income inhabitants.

Figure 3. Employment by industry, 2024



Source: SSB, NCR.

Figure 4. Norwegian counties' unemployment rate, 2024



Source: SSB, NCR.

In 2024, Agder's unemployment rate was 2.1%, which is in line with its peer group average. We believe Norway will continue to maintain low unemployment rates.

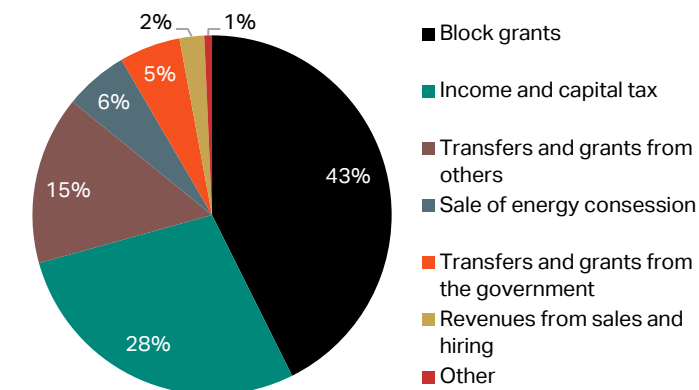
Sound operating margins and strong financial reserves

Agder's total operating income increased by 2.2% in 2024. However, total operating spending increased by 9.6%, creating a mismatch between income and spending. We expect price and wage growth will remain high in 2025 (the national budget projected price and wage deflator for the sector is 4.1%), putting pressure on county-level budgets and increasing pension liabilities.

Block grants from the central government make up 40% of the county's total operating income and are mostly used to pay wages and fund social costs. The flexibility to raise income from taxation is limited. However, Agder benefits financially from the sale of energy concessions; half of Norway's power surplus originates from renewable hydropower resources located in the county. The resulting income constituted 6% of total operating income in 2024.

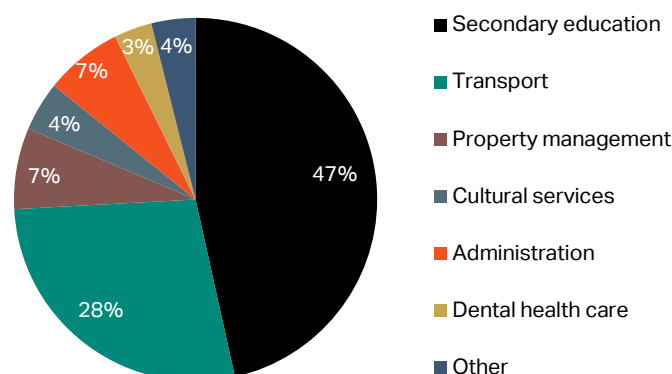
Budget performance

Figure 5. Sources of revenues, 2024



Source: SSB, NCR.

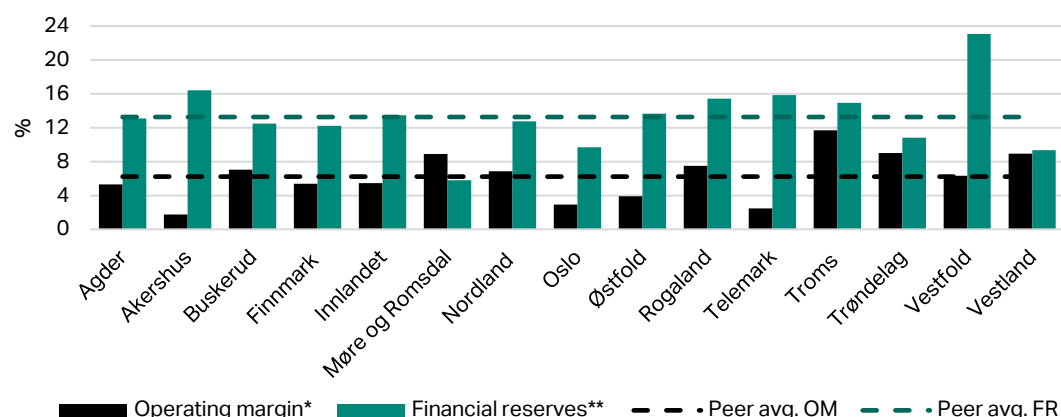
Figure 6. Spending breakdown, 2024



Source: SSB, NCR.

Agder's operating margins decreased to 5.3% in 2024, which is around its peer and sector average. We believe continued price increases and high wages will sustain pressure on budgets. We expect Agder's operating margin will decrease in 2025 before slowly increasing through our forecast period. Agder's financial reserves stood at 13.3% of total operating revenue in 2024, in line with those of the wider sector. The use of financial reserves is primarily a strategic decision by management, utilising earmarked funds from the state. We see Agder's healthy financial reserves as a positive asset that can provide stability during challenging times.

Figure 7. Norwegian counties' operating margins and financial reserves as a share of operating income, 2024



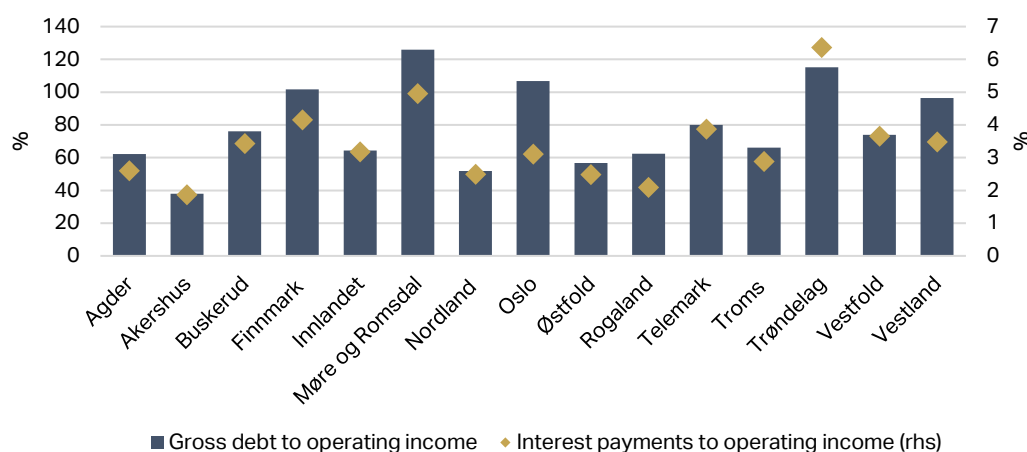
Source: SSB, NCR. *Excludes depreciation and interest costs. **Includes general funds and accumulated operating results.

Agder managed to turn its operating and investment balance from deficit to surplus in 2023, reducing the need for borrowing. Increased investment costs and lower operating balance resulted in a deficit of 4.3% in 2024. We expect high investment requirements during our forecast period, mainly in transportation and property, and we believe Agder will require an additional drawdown of loans and greater use of both earmarked and unearmarked investment funds.

Low debt supports financial profile

Gross debt stood at NOK 4.5bn as of 31 Dec. 2024, which includes lending to municipal companies and financing agreements with municipalities (NOK 261m). Repayment and interest costs of pass-through loans are the responsibility of the respective recipients. We expect the county's debt level to decrease in 2025 since it has unused loan funds and will make repayments of about NOK 220m. However, its financial plan for 2025–2028 includes a relatively high level of investments, and we therefore expect its gross debt burden will increase to 65% in 2027, from 62%, which was among the lowest in the sector, in 2024.

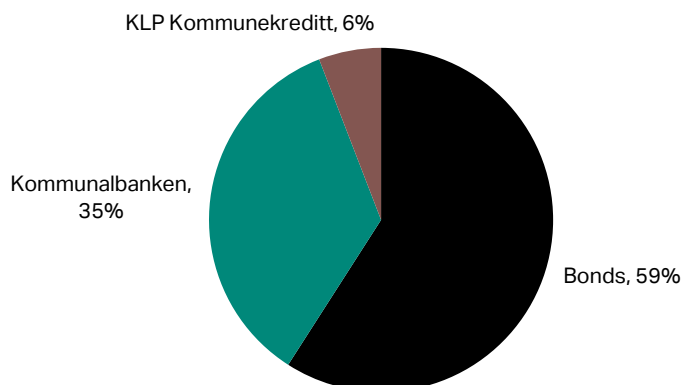
Figure 8. Gross debt and interest payments as a share of operating income, 2024



Source: SSB, NCR.

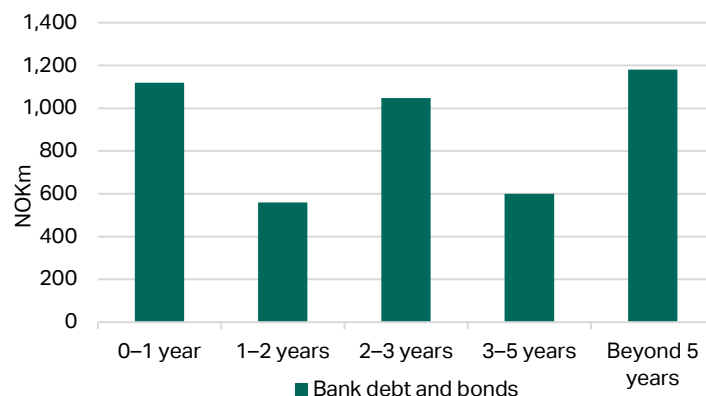
Agder's gross debt has an average time to maturity of 3.3 years, with about 25% maturing before 31 Aug. 2025. We expect most of the debt maturing within one year to be refinanced. We assess overall refinancing risk as low, as the county has cash and cash equivalents of around NOK 2.4bn and could repay all debt maturing in the next year if necessary. Agder continually monitors liquidity and projected cash flows. The county's debt is well spread among various counterparties, and we view its ready access to funding as positive. In 2024, Agder made loan repayments of about NOK 226m (or 5.3% of its net debt at end-2024). This exceeded minimum central government requirements and was higher than debt repayments by other Norwegian counties in percentage terms.

Figure 9. Debt profile, 31 Dec. 2024



Source: Agder, NCR.

Figure 10. Debt maturity profile, 31 Dec. 2024



Source: Agder, NCR

Agder's interest payments as a percentage of total operating revenues (2.6% in 2024) are lower than the sector average. We expect the county's interest costs to increase in 2025 due to the maturity of fixed-rate agreements, before reducing due to lower inflation and interest rates. We believe net interest will remain at a low level given Agder's high proportion of interest income from low-risk investments and large cash balances. In addition, the county's interest payments are partly absorbed by municipalities and municipal companies. As of 31 Dec. 2024, about 30% of the county's debt carried fixed interest rates, effectively reducing the impact of interest rate fluctuations.

INDICATIVE CREDIT ASSESSMENT

Indicative credit assessment

The combination of 'aaa' sovereign creditworthiness, a 'strong' local and regional government institutions score and a 'strong' entity specific score leads to an 'aaa' indicative credit assessment.

Figure 11. Indicative credit assessment



ADJUSTMENT FACTORS

Adjustment factors

Adjustment factors are assessed as neutral and have no effect on the final rating.

Contingent liabilities and guarantees

Contingent liabilities and guarantees

Agder had guaranteed debt limits totalling NOK 27.4bn as of 31 Dec. 2024, of which NOK 7bn was outstanding. Most of the guarantees were given to Ferde AS, a domestic toll-road operator established by Agder and the counties of Rogaland and Vestland to finance major roads in southwestern Norway. The guarantees have long maturities and typically remain valid until the associated project debt is repaid. We believe state support is likely for toll-road companies and/or counties in the event of non-payment, especially if this puts the county in a distressed financial situation. This view is supported by ongoing state involvement in road-building projects (based on political priorities) and the fact that Norwegian counties' guaranteed obligations can be eased by a central government guarantee of up to 50% (on investments exceeding NOK 1bn).

Figure 12. Guarantees

| Recipient | Purpose | Guarantee limit (NOKm) | Maturity |
|-------------------|--------------------------------|------------------------|------------|
| Ferde AS | E39 Ytre ringvei | 1,801* | 26 years** |
| Ferde AS | Samferdselpakke Kristiansand 3 | 2,000* | 22 years** |
| Ferde AS | E18 Vigje-Lyngdal | 9,719* | 2051 |
| Ferde AS | E18 Dørdal - Tvedestrand | 3,166* | 26 years** |
| Ferde AS | E39 Lyndag vest - Ålgård | 5,211* | 2054 |
| Ferde AS | E18 Tvedestrand - Arendal | 3,000* | 2039 |
| Sørlandsbadet IKS | Sørlandsbadet | 11 | 2036 |

*Excludes additional 10% in interest costs and other expenses. **from first drawdown.

Sustainability concerns

Sustainability concerns

We see no sustainability concerns that could have a material effect on Agder's creditworthiness or pose an immediate risk. However, climate change and extreme weather represent a threat to the wider local government sector. Specifically, Agder is obliged to cut greenhouse gas emissions to help Norway meet its obligations under the Paris Agreement. Transport, particularly roads, accounts for most of the county's emissions. Agder targets reducing vehicle emissions by at least 45% by 2030, while cutting emissions generated by the county itself by 63% over the same period.

ISSUE RATINGS

Our rating on Agder's unsecured senior debt is in line with the 'AAA' issuer rating. The county had outstanding senior unsecured bonds of NOK 2.7bn as of 31 Dec. 2024.

SHORT-TERM RATING

The 'N1' short-term rating reflects Agder's liquidity profile relative to the 'AAA' long-term issuer rating.

Figure 13. NCR's adjustments to financial metrics, 2022–2027e

| NOKm | 2022 | 2023 | 2024 | 2025e | 2026e | 2027e |
|--------------------------------------|-------|-------|-------|-------|-------|-------|
| Operating revenue | 6,331 | 7,093 | 7,250 | 7,278 | 7,227 | 7,226 |
| Operating spending | 6,165 | 6,663 | 7,306 | 6,909 | 6,802 | 6,797 |
| Operating balance | 549 | 843 | 384 | 369 | 425 | 429 |
| Operating margin (%) | 8.7 | 11.9 | 5.3 | 5.1 | 5.9 | 5.9 |
| Interest payments | 90 | 162 | 188 | 197 | 179 | 171 |
| Interest burden (%) | 1.4 | 2.3 | 2.6 | 2.7 | 2.5 | 2.4 |
| Investment income | 294 | 307 | 231 | 259 | 287 | 231 |
| Investment spending | 1,048 | 825 | 927 | 840 | 900 | 893 |
| Operating and investment balance | -204 | 326 | -311 | -212 | -188 | -232 |
| Operating and investment balance (%) | -3.2 | 4.6 | -4.3 | -2.9 | -2.6 | -3.2 |
| Gross debt | 4,394 | 4,495 | 4,506 | 4,311 | 5,516 | 4,757 |
| Gross debt burden (%) | 69.4 | 63.4 | 62.2 | 59.2 | 62.5 | 65.8 |

Source: Agder, NCR.

METHODOLOGIES USED

- (i) [Local & Regional Government Rating Methodology](#), 14 Feb. 2024.
- (ii) [Sovereign Credit Assessment Methodology](#), 26 Mar. 2024.
- (iii) [Rating Principles](#), 14 Feb. 202

Figure 14. Agder rating scorecard

| Step | Analysis | Score |
|-----------|--|------------|
| 1 | Sovereign creditworthiness | aaa |
| 2 | Local and regional government institutions | Strong |
| 3 | Entity-specific assessment | Strong |
| 4a | Standard notching | 0 |
| 4b | Indicative credit assessment alternatives | aaa |
| 5a | Higher or lower alternative | – |
| 5b | Indicative credit assessment | aaa |
| 6 | Other adjustments | 0 |
| 7 | Issuer rating | AAA |

Figure 15. Agder entity-specific assessment scorecard

| Subfactors | Impact | Score |
|--|--------|----------------|
| Average income | 30.0% | 3 |
| Population growth | 30.0% | 1 |
| Old age burden | 20.0% | 1 |
| Unemployment | 20.0% | 3 |
| Demographics calibration | - | 0 |
| Demographics weighed score | 33.3% | 2.00 (Strong) |
| Operating margin | 60.0% | 3 |
| Operating and investment balance | 20.0% | 3 |
| Financial reserves | 20.0% | 3 |
| Budget performance calibration | - | 0 |
| Budget performance weighed score | 33.3% | 3.00 (Average) |
| Gross debt burden | 60.0% | 1 |
| Interest burden | 40.0% | 1 |
| Debt burden and liquidity calibration | - | 0 |
| Debt burden and liquidity weighed score | 33.3% | 1.00 (Strong) |
| Weighted average entity-specific scoring | 100.0% | 2.00 (Strong) |

Figure 16. Capital structure ratings

| Seniority | Rating |
|------------------|--------|
| Senior unsecured | AAA |

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NORDIC CREDIT RATING AS

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