

Mounting costs continue to weigh on Norwegian municipal finances

ANALYSTS

Anine Gulbrandsen
+4797501657
anine.gulbrandsen@nordiccreditrating.com

Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

Elisabeth Adebäck
+46700442775
elisabeth.adeback@nordiccreditrating.com

High interest rates and operational costs have further affected Norwegian municipal budgets, debt and cash balances in 2024, according to recently published data. Operating margins contracted across most of the sector, while elevated operational and financial costs strained cash balances and financial reserves. Although debt growth was more subdued, it poses a greater concern for larger municipalities as they face the need to invest for growing populations. This report highlights how these changes are affecting the finances of Norway's 35 largest municipalities.

Norway's central bank has maintained its key policy rate at 4.5% since Dec. 2023, despite market expectations for interest relief by the end of 2024 that has yet to come. Market rates suggest only modest relief ahead, with 10-year swap rates remaining above 4% as the central bank strives to reduce inflation to its 2% target. The higher rates will continue to impact municipalities' investment decisions and is likely to compel them to prioritise public services and maintain their cautious approach to debt-financed investments.

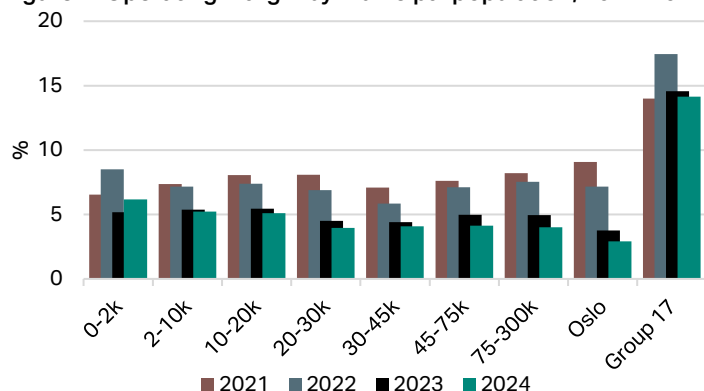
Some relief may arise from the proposed state budget for 2026 and suggested revisions to the 2025 budget. The 2026 proposal includes over NOK 4bn in state support through free revenues across the municipal sector, along with demographic-related support of up to NOK 2bn primarily earmarked for municipalities. For 2025, the state aims to provide NOK 4bn to cover additional costs associated with contractual early retirement pensions.

OPERATING MARGINS CONTINUE TO FACE PRESSURE

Municipal operating performance declined further in 2024, with the average operating margin dropping to 5.3% from 5.4% last year and 7.6% in 2021 and 2022, based on publicly available data. Our analysis focuses on consolidated operating margins, excluding depreciation, and emphasises cash flows.

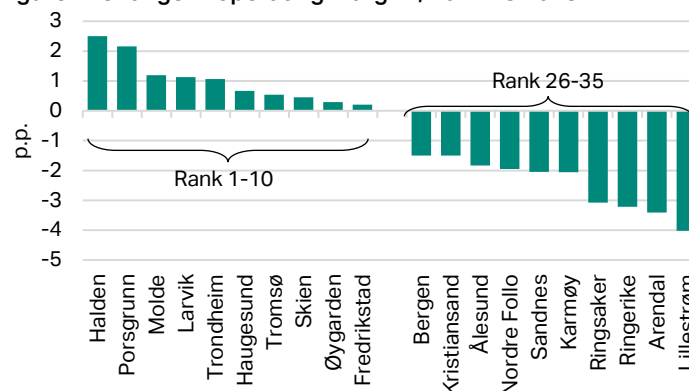
The poor performance was particularly evident among the 35 largest municipalities, each with populations over 30,000 according to the KOSTRA system, which municipalities and counties use to submit financial information to Statistics Norway. In this group, operating expenses in 2024 increased by 5.7%, exceeding average income growth of only 4.8%. Consequently, the average operating margin in 2024 fell to 3.7% from 4.5% in 2023. Smaller municipalities also reported lower operating margins, with only the smallest municipalities showing an average improvement in operating performance in 2024. Norway's capital, Oslo, functioning as both a municipality and a county, reported a negative operating profit, including depreciation, and a continued decline in operating margins adjusted for depreciation.

Figure 1. Operating margin by municipal population, 2021-2024



Source: SSB, NCR. Group 17: The eight municipalities with the highest tax revenues/person.

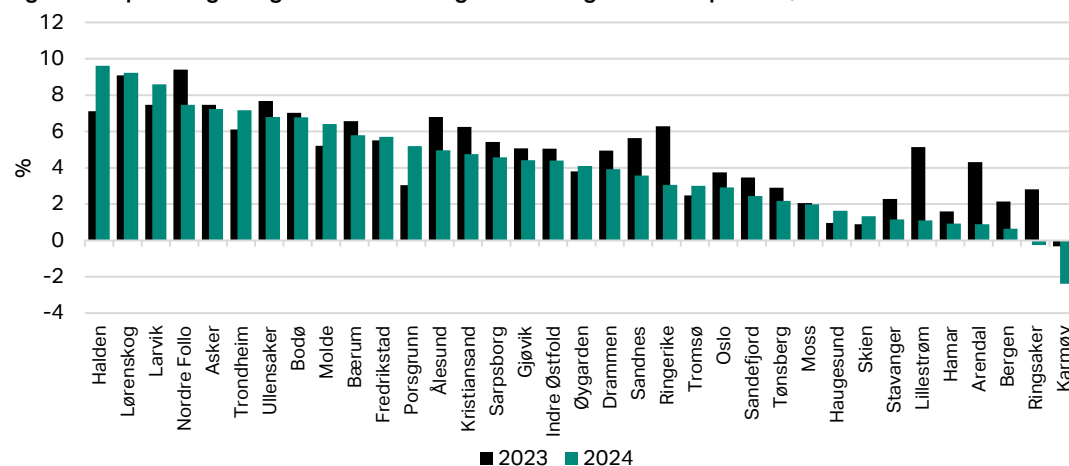
Figure 2. Change in operating margin*, 2024 vs 2023



Source: SSB and NCR. *Municipalities with a population over 30,000 according to KOSTRA.

The decline in margins was less pronounced in 2024 than in 2023, both in magnitude and the number of municipalities affected. In 2024, 69% of the largest municipalities reported weaker operating margins, compared with 86% in 2023. Halden (Østfold County) experienced a significant improvement in its operating margin due to increased revenue, making it the top performer among the largest municipalities, with a 9.6% margin. Porsgrunn (Telemark) also saw notable widening in its operating margin by 2pp to 5.2% in 2024, following a fall in 2023. Conversely, the municipalities of Lillestrøm (Akershus), Arendal (Agder), Ringerike (Buskerud), and Ringsaker (Innlandet) exhibited weaker performance in 2024. Lillestrøm and Ringerike, in particular, saw sharper falls compared with their relatively strong performances in 2023. However, Ringsaker and Karmøy (Rogaland), which also reported a deterioration in its operating margin, were the only municipalities to report negative operating margins in 2024.

Figure 3. Operating margins of the 35 largest Norwegian municipalities, 2023-2024



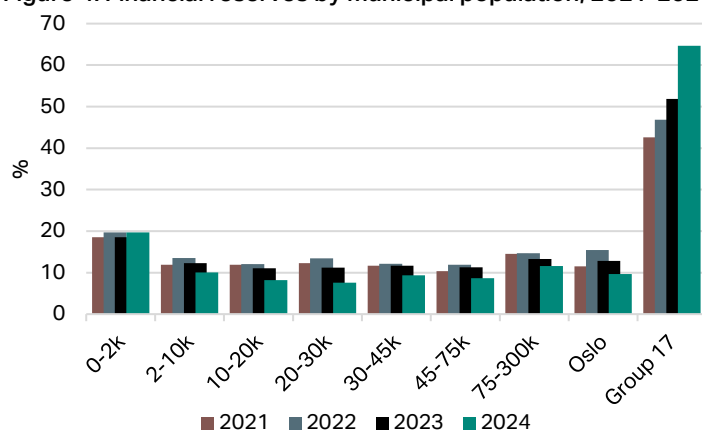
Source: SSB and NCR.

Municipalities in Akershus County remain among the strongest in Norway. Lørenskog, Nordre Follo, Asker, and Ullensaker (including Oslo Airport) are within a convenient commuting distance from Oslo city centre. Notably, two of the country's largest municipalities, Stavanger and Bergen, remain among the weaker performers in the sample.

FINANCIAL RESERVES PROVIDE BUFFERS AGAINST WEAK PERFORMANCE

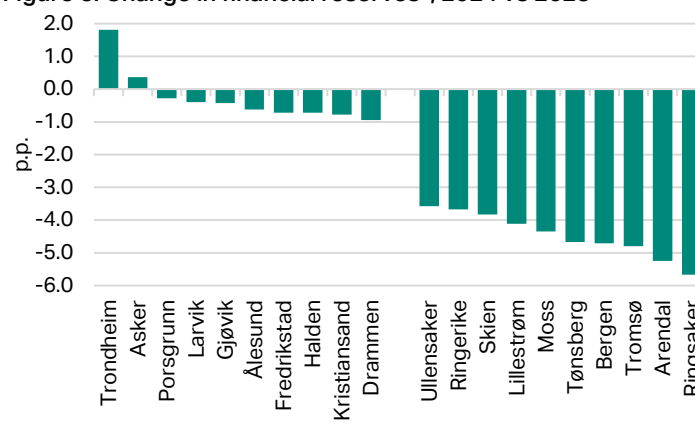
Norwegian municipalities maintain financial reserves, including general funds and accumulated operating results, to offset challenging periods and allow time for rebalancing weakened budgets. Rising costs against only modest revenue improvements over the past two years have prompted many municipalities to use sizeable portions of their reserves to uphold high service standards for their constituents. Even though the general funds occasionally cover one-off expenses, the sector is generally facing weaker operating performance and negative accumulated operating results.

Figure 4. Financial reserves by municipal population, 2021-2024



Source: SSB, NCR. Group 17: The eight municipalities with the highest tax revenues/person.

Figure 5. Change in financial reserves*, 2024 vs 2023

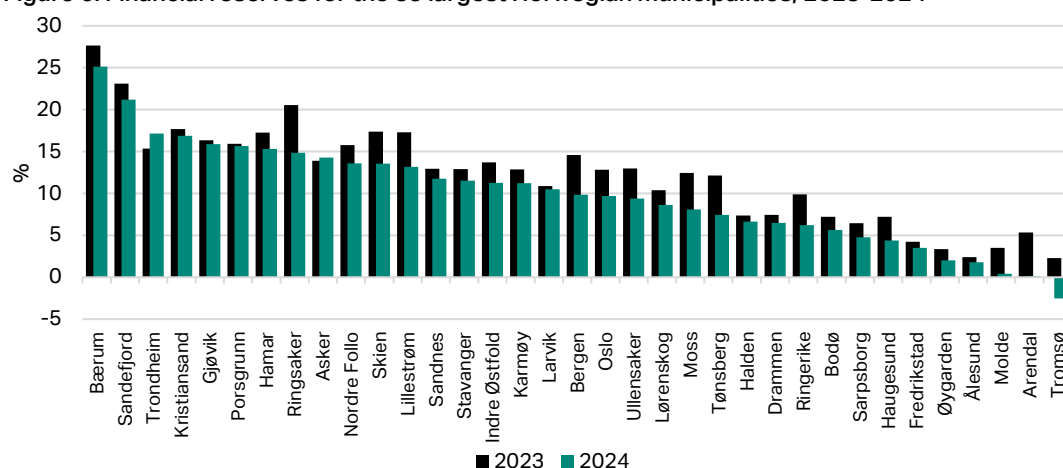


Source: SSB, NCR. *Municipalities with a population over 30,000.

Among the largest municipalities, only two increased their financial reserves relative to operating revenues in 2024. Trondheim, a consistently strong performer, improved its buffers by nearly 2pp due to a notable enhancement in its operating margins. Asker also bolstered its financial reserves, supported by relatively strong and stable operating margins in recent years.

The weaker-performing municipalities were also among those that used a significant portion of their financial reserves in 2024. The 3.7pp reduction in Ringerike's reserves was largely attributed to one-time expenses, including the purchase of housing and debt repayment for a tennis hall. Similarly, the fall in Tromsø's general fund was due to budgeted expenses for its wholly owned swimming facility, Tromsøbadet, and Tromsø Harbor. Tromsø reported general funds of NOK 66 million; however, a NOK 270 million negative accumulated operating result reduced the municipality's financial reserves to below zero, by our metric.

Figure 6. Financial reserves for the 35 largest Norwegian municipalities, 2023-2024



Source: SSB and NCR.

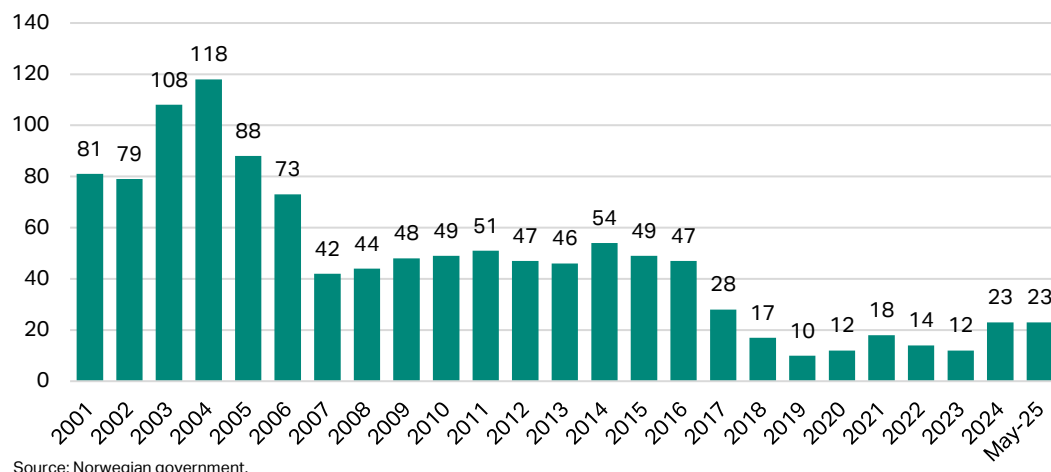
The depletion of general funds is evident in most of Norway's largest municipalities. Tromsø, Arendal (Agder), and Molde (Møre og Romsdal) reported minimal financial reserves as of 2024. In contrast, Bærum (Akershus) and Sandefjord (Vestfold) maintained substantial financial reserves, exceeding 20% of operating revenues.

INCREASE IN MUNICIPALITIES ON THE ROBEK LIST, BUT NUMBERS REMAIN RELATIVELY LOW

Norway's Register for Governmental Approval of Financial Obligations (ROBEK) monitors municipalities and county authorities under state oversight due to financial imbalance. ROBEK ensures sound financial management and permits state intervention when necessary. Entry into the ROBEK register means the state controls the municipality's budget, borrowing activities, and long-term lease agreements. Municipalities listed in ROBEK must develop an action plan to restore financial stability.

As of 31 May 2025, 23 municipalities were listed on ROBEK, nearly double the number at end-2023, yet still significantly fewer than in previous decades. Among the larger municipalities, Moss (Østfold) was removed from the ROBEK register in Feb. 2025, after being added in May 2024. This removal follows the revision and approval of the municipality's budget for 2025–2028 in early 2025. The approved budget includes planned cost reduction, but anticipates using financial reserves in 2025.

Figure 7. Norwegian local and regional governments on ROBEK, as of period end



CASH OUTFLOWS DRIVE INCREASE IN NET DEBT

Among municipalities, the average gross debt burden (gross debt as a proportion of operating revenues) declined to 104.5% at the end of 2024 from 105.9% a year earlier. This decrease was primarily observed in smaller municipalities with populations under 30,000. Conversely, the weighted average gross debt burden among the 35 largest municipalities rose by 4.6pp over the year. Regarding net debt, the burden increased by a weighted average of 7.3pp among these largest municipalities. Oslo contributed materially to the rise in weighted debt levels, with a 13pp increase in both gross and net debt during 2024. Excluding Oslo, the weighted debt levels of the largest municipalities increased by 1.7pp (gross) and 5.1pp (net) in 2024.

The modest changes in gross debt suggest that most municipalities prioritise restrained borrowing amid higher interest rates and operational costs. Additionally, Norwegian municipalities are prohibited from incurring debt to support operational performance. Nonetheless, debt levels remain generally high due to investments aimed at achieving policy goals and accommodating strong population growth.

Figure 8. Gross debt burden by population size, 2021-2024

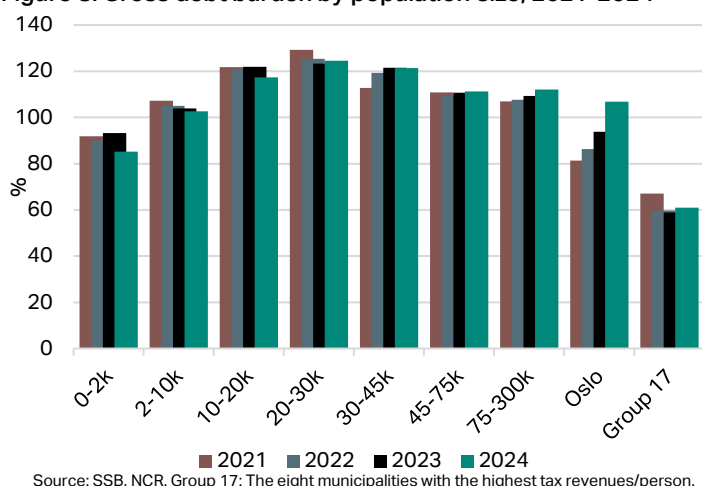


Figure 9. Net debt burden by population size, 2021-2024

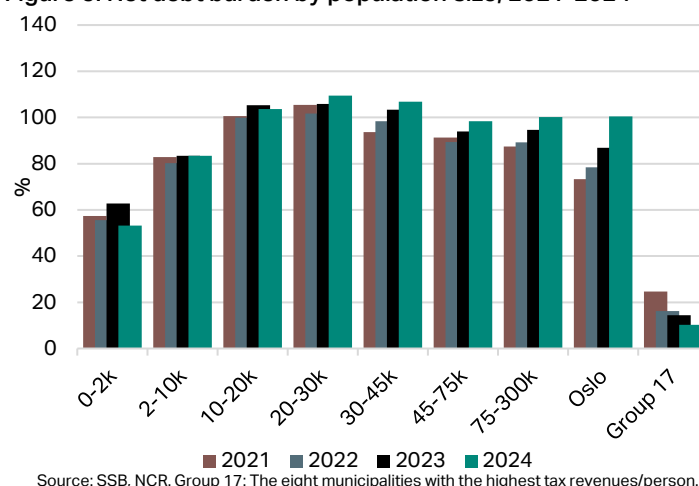
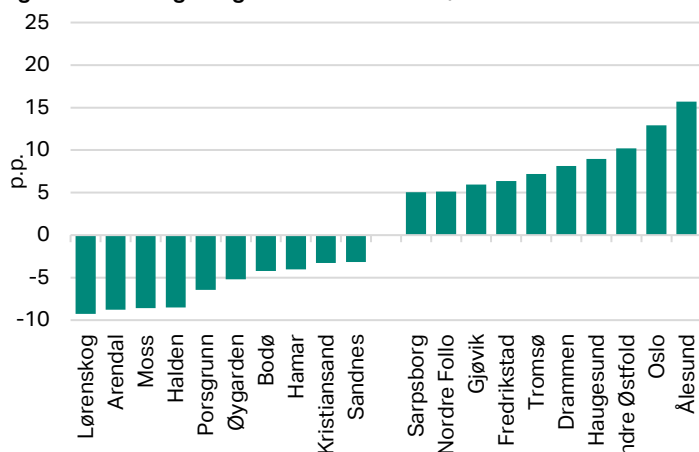
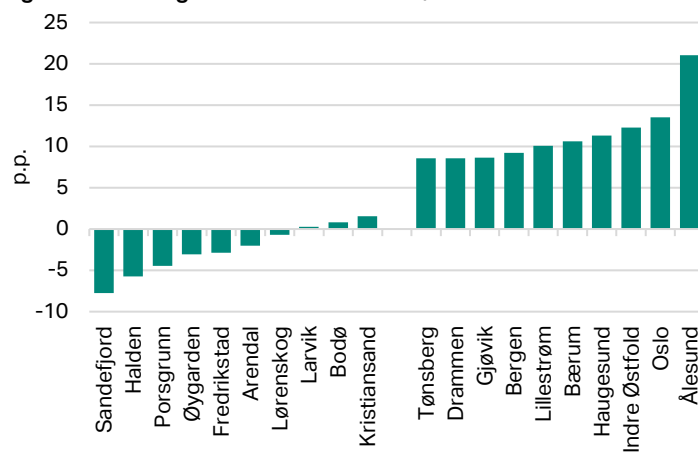


Figure 10. Change in gross debt burden*, 2024 vs 2023



Source: SSB,NCR. *Municipalities with a population over 30,000.

Figure 11. Change in net debt burden*, 2024 vs 2023

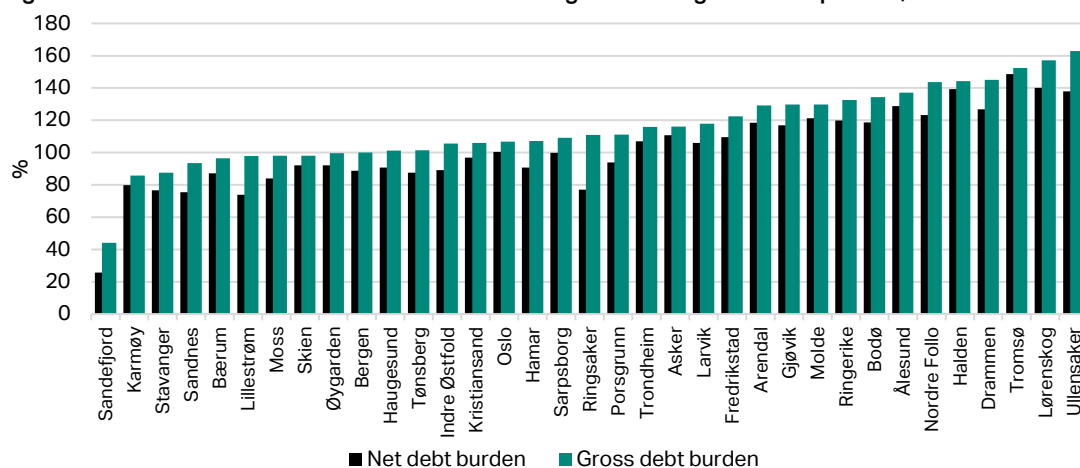


Source: SSB,NCR. *Municipalities with a population over 30,000.

Among the largest municipalities, the gross debt burden contracted in 24 out of 35 municipalities. However, due to reduced cash balances, only seven municipalities also saw a reduction in their net debt burden. In addition to Oslo, Ålesund (Møre og Romsdal) stands out for its increased debt burden. However, Ålesund was split into two municipalities in 2024, affecting comparability after being combined with Haram from 2020 to 2024. A few of the most highly indebted municipalities experienced significant reductions in gross debt burdens in 2024. Lørenskog (Akershus) had the largest reduction, while Halden (Østfold) also saw its gross debt burden decline in 2024 after a substantial increase in 2023.

Municipal cash balances vary in size. Ringsaker, Ullensaker, Lillestrøm, and Nordre Follo each maintain cash balances exceeding 20% of operating revenues, compared with the 13% average in our sample. Conversely, Tromsø reported a cash balance of 3.8% of revenues as of end-2024.

Figure 12. Gross and net debt burden for the 35 largest Norwegian municipalities, 2024

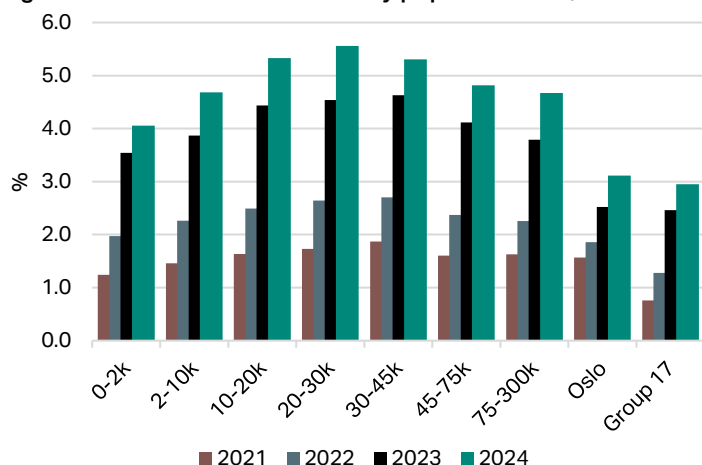


Source: SSB,NCR.

INTEREST BURDENS CONTINUE TO RISE AS RATES REMAIN ELEVATED

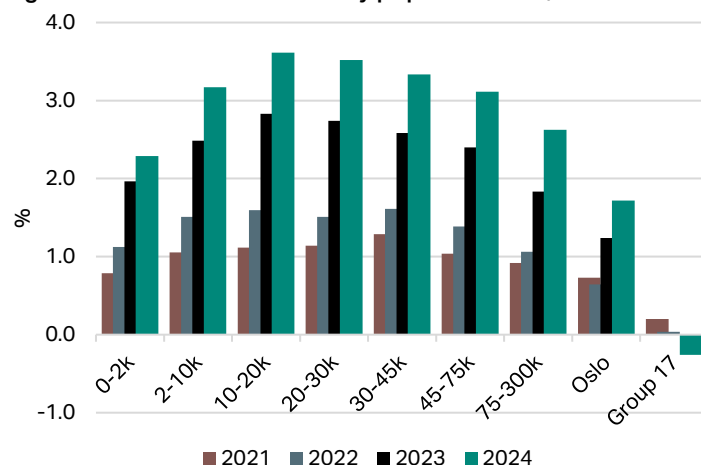
Interest burdens increased for all municipality groups in 2024 due to the refinancing of old debt and rising NIBOR-based loans, leading to higher gross and net interest costs. The proportion of interest costs to operating revenues rose by an average of 0.8pp among all municipalities in 2024, culminating in a three-year increase of 3.3pp (see Figure 13). The average interest burden across all municipalities tripled to 4.7% at end-2024 from 1.5% in 2021. Municipalities and their subsidiaries mitigated some of the rise in interest costs by earning interest income on their financial holdings and cash balances. Consequently, the net interest burden increased to 3% of operating margins from 1% in 2021.

Figure 13. Gross interest burden by population size, 2021-2024



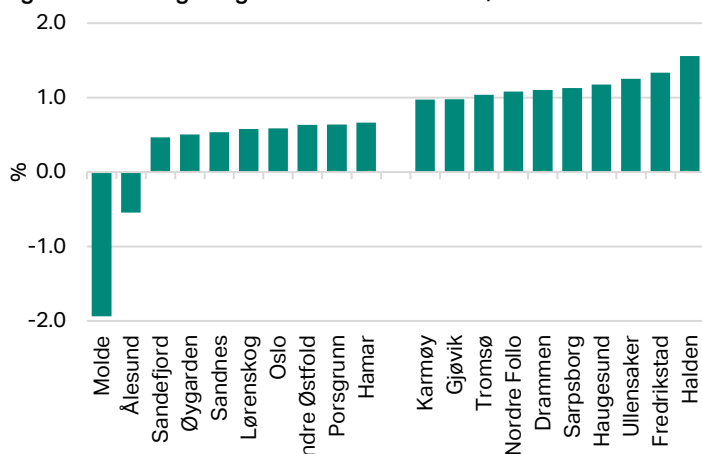
Source: SSB, NCR. Group 17: The eight municipalities with the highest tax revenues/person.

Figure 14. Net interest burden by population size, 2021-2024



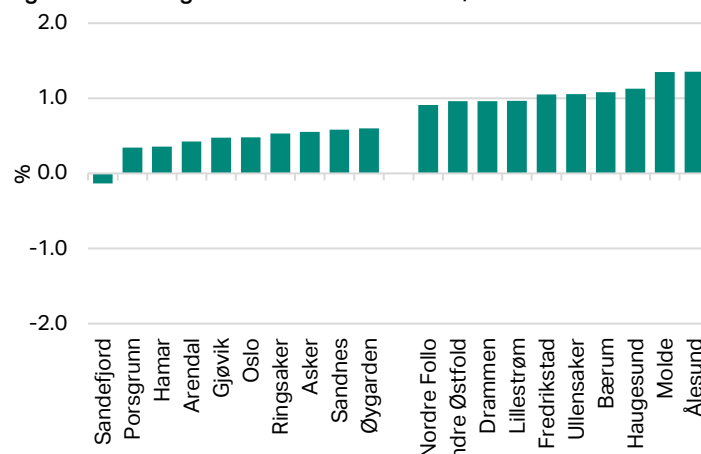
Source: SSB, NCR. Group 17: The eight municipalities with the highest tax revenues/person.

Figure 15. Change in gross interest burden*, 2024 vs 2023



Source: SSB, NCR.*Municipalities with a population over 30,000.

Figure 16. Change in net interest burden*, 2024 vs 2023



Source: SSB, NCR.*Municipalities with a population over 30,000.

Despite recent increases in rates and debt levels, Oslo's interest burden remains relatively low compared with other Norwegian municipalities. We believe Oslo benefits from interest rate hedging and more advanced financial management due to the size and complexity of its finances.

Molde experienced the largest reduction in gross debt burden but also saw a significant increase in net interest burden due to a notable decrease in interest income in 2024 compared with 2023. By our metrics, Lørenskog and Molde reported the highest net interest burden in 2024 at 5.0%, compared with a three-month NIBOR of approximately 4.7% for most of the year. Sandefjord, the least indebted among the larger municipalities, unsurprisingly reported the lowest net interest burden at just 0.6% in 2024.

NCR-RATED NORWEGIAN LOCAL AND REGIONAL GOVERNMENTS

The following table summarises NCR's ratings on Norwegian local and regional governments as of 5 June 2025.

Figure 17. NCR ratings on Norwegian local and regional governments

	Agder Fylkeskommune	Ringerike Kommune
Long-term issuer rating	AAA	AA+
Outlook	Stable	Stable
Subfactors:		
Sovereign creditworthiness	aaa	aaa
Local and regional government institutions	Strong	Strong
Entity-specific assessment	Strong	Below average
Other adjustments	n/a	n/a

See NCR [rating reports](#) for details.

RELEVANT RESEARCH

- (i) [Ringerike municipality assigned 'AA+' long-term issuer rating; Outlook stable](#), 25 Apr. 2025.
- (ii) [Norwegian municipal finances weakened by high interest rates and inflation](#), 16 May 2024.
- (iii) [Norwegian counties face financial strain amid rising costs](#), 15 Feb. 2024.

RECENT RATING ACTIONS

- (i) [Ringerike municipality assigned 'AA+' long-term issuer rating; Outlook stable](#), 25 Apr. 2025.
- (ii) [Agder County 'AAA' long-term issuer rating affirmed; Outlook stable](#), 5 Apr. 2024.

DISCLAIMER

Disclaimer © 2025 Nordic Credit Rating AS (NCR, the agency). All rights reserved. All information and data used by NCR in its analytical activities come from sources the agency considers accurate and reliable. All material relating to NCR's analytical activities is provided on an "as is" basis. The agency does not conduct audits or similar warranty validations of any information used in its analytical activities and related material. NCR advises all users of its services to carry out individual assessments for their own specific use or purpose when using any information or material provided by the agency. Analytical material provided by NCR constitutes only an opinion on relative credit risk and does not address other forms of risk such as volatility or market risk and should not be considered to contain facts of any kind for the purpose of assessing an issuer's or an issue's historical, current or future performance. Analytical material provided by NCR may include certain forward-looking statements relating to the business, financial performance and results of an entity and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", and similar expressions. Forward-looking statements contained in any analytical material provided by NCR, including assumptions, opinions and views either of the agency or cited from third-party sources are solely opinions and forecasts which are subject to risk, uncertainty and other factors that could cause actual events to differ materially from anticipated events. NCR and its personnel and any related third parties provide no assurance that the assumptions underlying any statements in analytical material provided by the agency are free from error, nor are they liable to any party, either directly or indirectly, for any damages, losses or similar, arising from use of NCR's analytical material or the agency's analytical activities. No representation or warranty (express or implied) is made as to, and no reliance should be placed upon, any information, including projections, estimates, targets and opinions, contained in any analytical material provided by NCR, and no liability whatsoever is accepted as to any errors, omissions or misstatements contained in any analytical material provided by the agency. Users of analytical material provided by NCR are solely responsible for making their own assessment of the market and the market position of any relevant entity, conducting their own investigations and analysis, and forming their own view of the future performance of any relevant entity's business and current and future financial situation. NCR is independent of any third party, and any information and/or material resulting from the agency's analytical activities should not be considered as marketing or a recommendation to buy, sell, or hold any financial instruments or similar. Relating to NCR's analytical activities, historical development and past performance does not safeguard or guarantee any future results or outcome. All information herein is the sole property of NCR and is protected by copyright and applicable laws. The information herein, and any other information provided by NCR, may not be reproduced, copied, stored, sold, or distributed without NCR's written permission.

NORDIC CREDIT RATING AS

nordiccreditrating.com