Nordic Credit Rating

Fiscal stability across Norwegian municipalities faces uneven pressures in 2026

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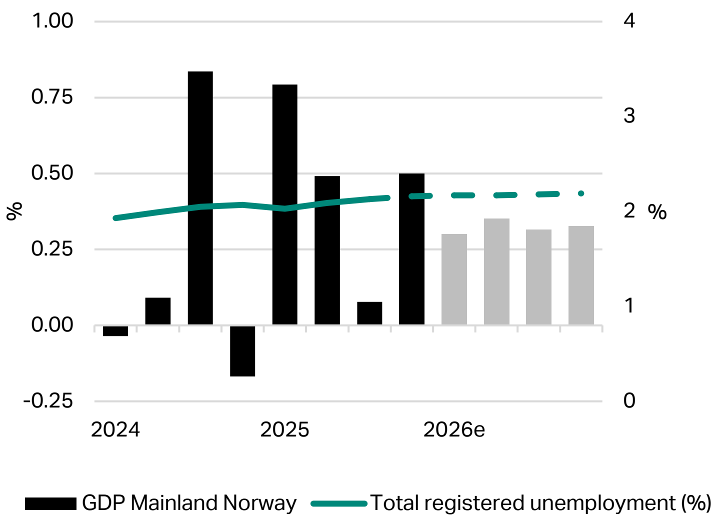
We expect operating balances across the municipal sector to remain under pressure in 2026. Although central government support and income equalisation mechanisms should help prevent widespread deterioration in service provision, they are unlikely to fully offset underlying cost growth or restore financial buffers. Consequently, credit quality will remain differentiated, with municipalities facing structurally weaker operating margins or higher service demand continuing to experience balance sheet strain despite increased aggregate support.

KEY CREDIT THEMES FOR LOCAL AND REGIONAL GOVERNMENTS IN 2026

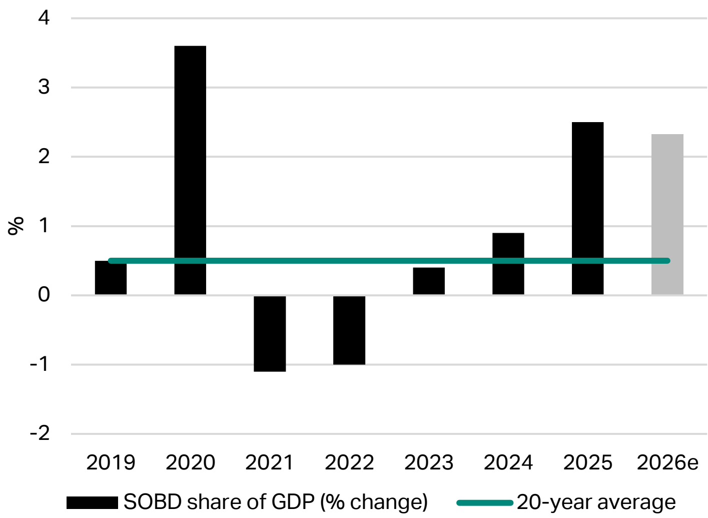
- Supportive macro backdrop: Modest growth, low unemployment, easing inflation and gradually declining interest rates support fiscal stability.
- Persistent operating pressure: Operating balances remain under pressure in 2026, but rising state transfers and oil fund contributions should partially offset fiscal strain.
- Uneven credit outcomes: State budget support limit volatility at the aggregate level but do not offset structural cost and demographic pressures, sustaining divergence across municipalities.

Figure 1. GDP growth, QoQ change 2024Q1-2026Q4e



Source: central bank.

Figure 2. SOBD share of trend-GDP, YoY change 2019-2026e



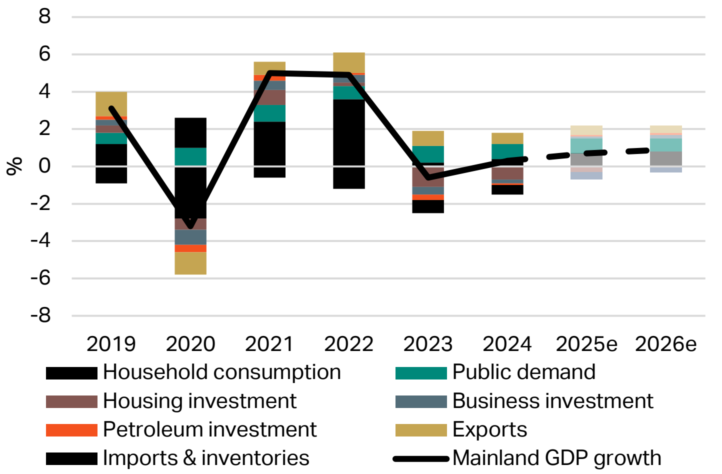
Source: central bank.

MAINLAND GROWTH RECOVERY NOT ENOUGH TO PROVIDE FISCAL RELIEF

Mainland Norway continues to record modest growth. Although activity has slowed from post-pandemic highs, the economy has avoided contraction. Projections for 2026 suggest a somewhat rigid growth in mainland demand, including 2.1% growth in household consumption, and a 2.2% increase in public demand. Housing and business investment are projected to pick up and contribute to growth. Export growth is expected to contract to 1.5% (4.2%), and growth in petroleum sector investment is expected to decline in the face of the completion of ongoing development projects. In sum, mainland GDP growth is forecasted to ease to 1.3% in 2026, still supporting employment and tax revenues, but unlikely to provide a significant boost to balance sheets. With still-strong wage growth, demographic pressures, and financing costs remaining structurally high, modest macroeconomic growth alone offers limited fiscal relief.

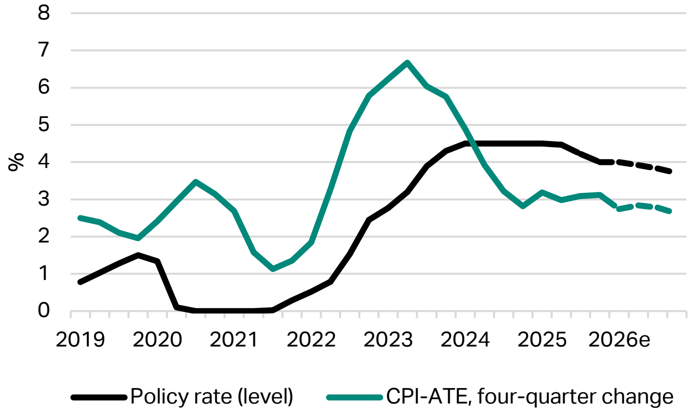
The proposed 2026 fiscal plan prioritises strengthening municipal finances. The budget proposes a real increase in free municipal revenues, higher state grants, and a slightly more expansionary fiscal stance, with increased use of oil revenues. These measures indicate recognition of structural pressures, leaving municipal finances reliant on continued central government support. That said, the impact may be uneven, and some municipalities are still expected to face financial challenges despite higher aggregate transfers.

Figure 3. GDP contributions – YoY growth per sector 2019-2026e



Source: central bank.

Figure 4. Inflation and policy rate forecast, four-quarter change 2019-2026e



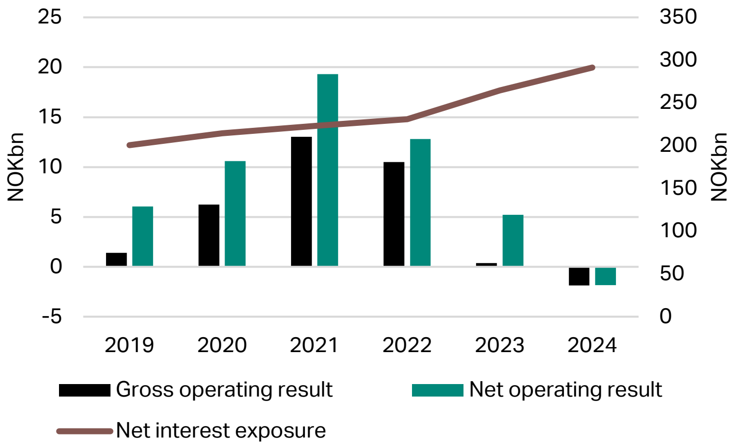
Source: central bank.

Growth remains uneven across sectors. Household and public consumption continues to provide a stabilising anchor, offsetting persistent weakness in interest- and politically sensitive areas such as construction, commercial real estate, discretionary consumer services, and petroleum. Petroleum-related activity is still expected to contribute somewhat, mainly through investment and related supply-chain effects rather than increased production volumes. Selected manufacturing segments and government-funded infrastructure projects are also expected to support activity.

MUNICIPAL FINANCES: OPERATING PRESSURE & BALANCE SHEET STRAIN

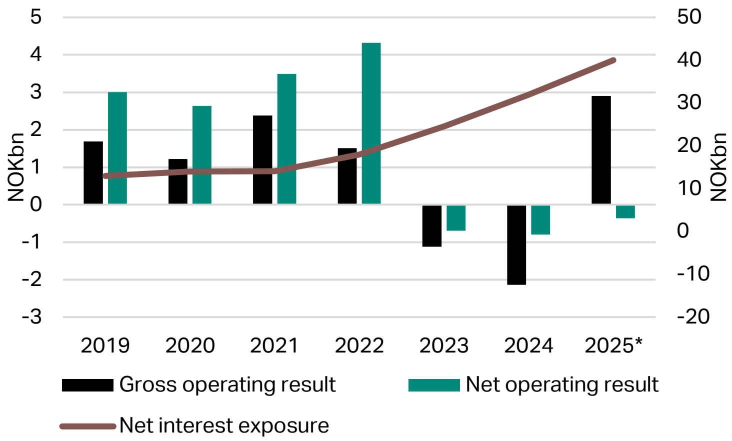
Operating margins have declined significantly in recent years, even without a new macroeconomic shock. Higher financing costs and structurally thin operating surpluses have weakened net results and reduced fiscal flexibility across much of the sector. Survey results from The Norwegian Association of Local and Regional Authorities (KS) indicates that 2025 results remain positive in aggregate but well below long-term benchmarks, with many municipalities budgeting deficits. While higher state transfers should stabilise results, they are unlikely to restore margins, leaving limited capacity to absorb new cost shocks or expand investment.

Figure 5. Municipal finances – Norway excl. Oslo 2019-2024



Source: statistics Norway.

Figure 6. Municipal finances – Oslo 2019-2025



Source: statistics Norway. *Budgeted financials, Oslo.

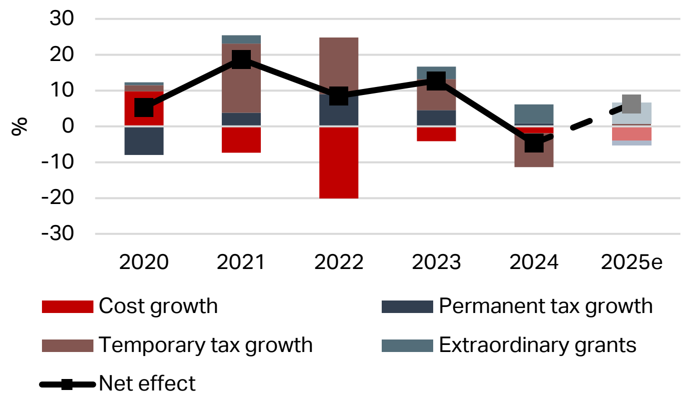
Cost flexibility remains limited in the short term. The bulk of expenditures is tied to mandated services, wage agreements and long-term commitments, constraining the ability to adjust spending and reinforcing the risk of further balance sheet strain.

Figure 7. Operating expenditure overview by type – Norway excl. Oslo, 2024

Source: statistics Norway.

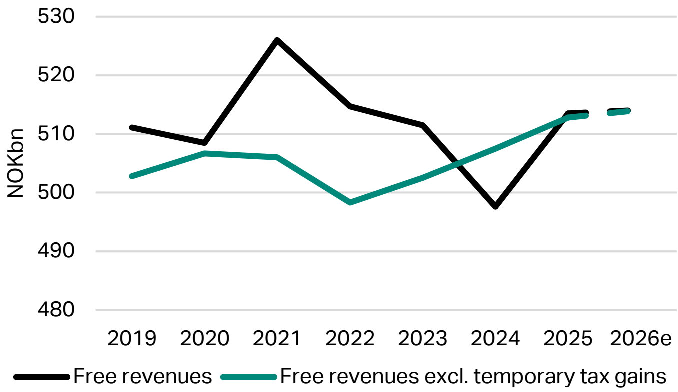
When decomposing municipal finance pressures and relief, improvements in recent years have been driven primarily by temporary tax windfalls and discretionary increases in state grants. While extraordinary transfers have helped offset rising costs, the underlying balance remains sensitive to reversals, as illustrated by the negative net effect in 2024.

Figure 8. Decomposition of annual net fiscal effects, 2020-2025e



Source: National Budget 2026.

Figure 9. Growth in free municipal revenues, 2020-2026e

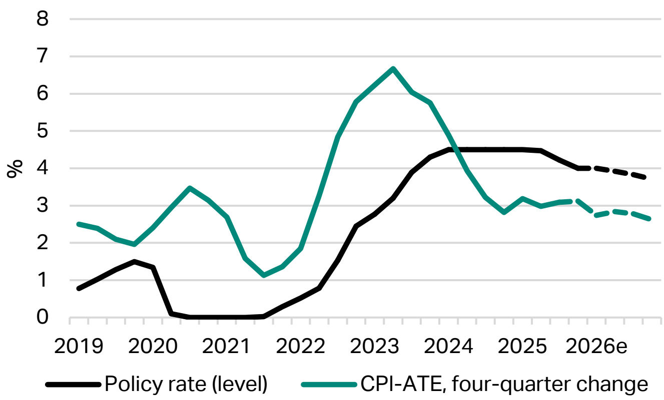


Source: National Budget 2026.

PERSISITENT COST AND WAGE PRESSURE, WITH LIMITED FINANCIAL RELIEF

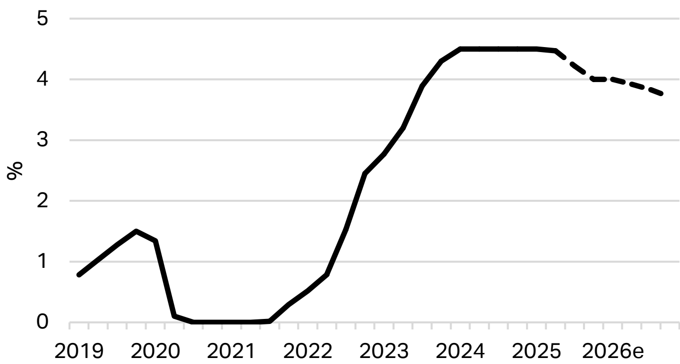
Looking ahead, cost pressures are expected to remain elevated over the outlook period. Wage growth projections from Norges Bank remain high at 4.2% (4.9%) in 2026 - still well-above historical averages. This implies continued upward pressure on operating costs.

Figure 10. Wage growth and CPI-ATE forecast, 2019-2026e



Source: central bank.

Figure 11. policy rate forecast, 2019-2026e



Source: central bank.

By contrast, financing conditions are expected to ease only gradually. While policy rates are projected to decline from current levels, they are likely to remain well above pre-2022 averages through 2026, implying limited near-term relief on financing expenses.

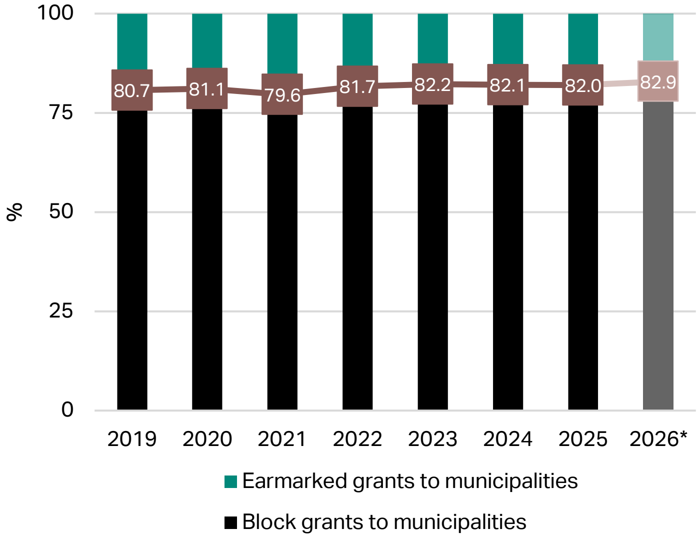
State budget support and regulatory measures

The 2026 state budget reflects increased policy focus on financial pressures in the municipal sector, primarily through higher state transfers and adjustments to unrestricted income. These measures are intended to stabilise core service delivery and prevent further deterioration in aggregate operating results rather than to materially rebuild financial buffers.

Proposed regulatory changes, including discussions of a 0% risk weight on municipal exposures held by financial institutions, may marginally support credit availability and reduce funding costs. However, such measures do not address the underlying structural imbalances.

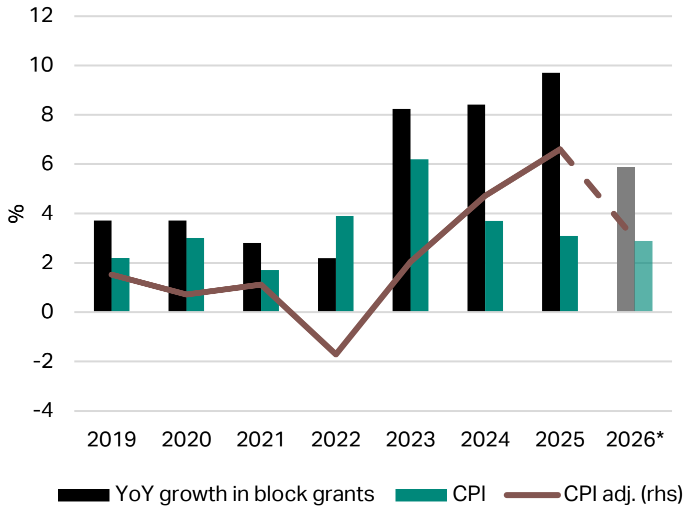
Block grants constitute unrestricted funding that can be allocated across services and are therefore central to operating balance resilience, as allocation decisions are made locally through the municipal budget process. By contrast, earmarked grants are tied to specific purposes and primarily support mandated service, limiting their capacity to address broad-based cost pressures.

Figure 12. State transfers to kommuner, 2019-2026



Source: National Budget 2020-2026. *Budget proposal 2026.

Figure 13. CPI-adjusted growth in block grants, 2019-2026



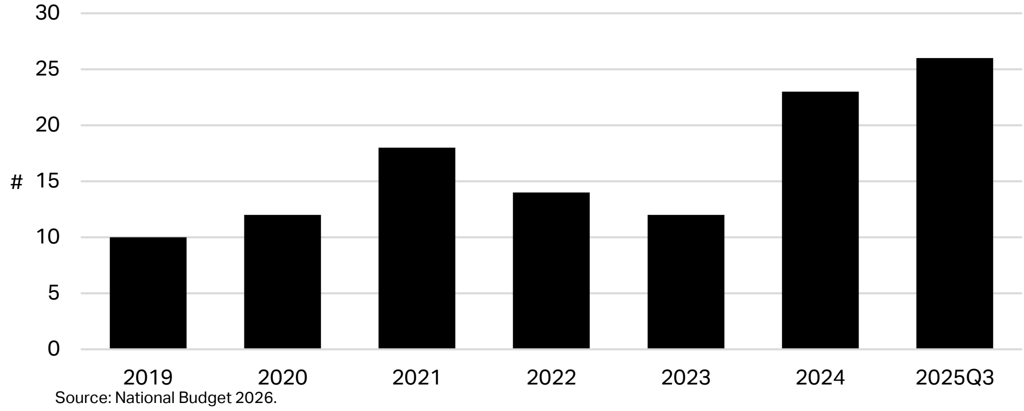
Source: National Budget 2020-2026. * Budget proposal 2026.

Despite the increase in transfers, the composition of support has remained broadly unchanged. Block grants have consistently accounted for around 80–83% of total transfers, indicating that while headline funding levels have risen, the structure of support only marginally improves the flexibility needed. As a result, higher transfers help contain cost pressures but do not resolve the underlying mismatch between structurally rising expenditure needs and the limited scope to reduce or reallocate costs, leaving operating and balance sheet pressures largely intact.

ROBEK

Recent entries to the ROBEK register underscore fiscal pressures at the local level. Surnadal was added in early 2026 after its 2026 budget and economic plan indicated it would take more than two years to cover the accumulated deficit from 2024, triggering the statutory requirement that deficits be repaid within two years. Herøy was registered in Sep. 2025 because accumulated deficits from 2023 and 2024 exceeded three percent of operating revenues, reflecting recurring operating shortfalls. Grue was entered in Aug. 2025 due to persistent budget imbalances and deficits identified in its accounts, which met the legal thresholds for registration under the Local Government Act.

Figure 14. ROBEK list, number of local governments 2019-2025Q3



Source: National Budget 2026.

SUMMARY

Norwegian local and regional governments enter 2026 with broadly stable revenue conditions, supported by modest mainland growth and ongoing central government support. However, structurally rigid expenditure, wage growth, and only gradual easing in financing conditions continue to constrain operating performance. While higher state transfers and income equalisation mechanisms help stabilise service provision and limit near-term downside risk, these measures remain insufficient to materially restore operating margins or rebuild financial buffers across the sector.

As a result, credit conditions remain uneven. Municipalities with strong balance sheets, favourable cost structures, and stable revenue bases are better positioned to absorb ongoing cost pressures, while issuers with weaker operating margins or higher service demand remain vulnerable to balance sheet erosion. Recent additions to the ROBEK register indicate that fiscal stress persists despite increased aggregate support, suggesting that higher transfers mainly stabilises rather than addressing underlying structural imbalances.

NCR-RATED LOCAL AND REGIONAL GOVERNMENTS

The following table summarises NCR's ratings on Norwegian and Swedish corporate issuers as of 28 Jan. 2026.

Figure 15. NCR ratings on Nordic Corporates

Issuer	Category	Long-term issuer rating	Outlook
Agder Fylkeskommune	Local and Regional Government	AAA	Stable
Vestland Fylkeskommune	Local and Regional Government	AAA	Stable
Ringerike Kommune	Local and Regional Government	AA+	Stable

See NCR's company reports for details.

RECENT RATING ACTIONS

(i) Agder County 'AAA' long-term issuer rating affirmed; Outlook stable, 4. April 2025
(ii) Mounting costs continue to weigh on Norwegian municipal finances, 11. June 2025
(iii) Periodic rating review completed for Agder Fylkeskommune, 3. October 2025

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