

CREDIT OPINION

14 November 2025

Update

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RATINGS

Zagreb, City of

Domicile	Zagreb, Croatia
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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City of Zagreb (Croatia)

Update to credit analysis

Summary

The credit profile of the [City of Zagreb](#) (A3 stable) reflects its consistently sound budgetary management resulting in strong operating and financial performance which supports continued debt reduction and a buildup of liquidity reserves. The institutional framework is strong and the city also benefits from its robust and well diversified economy, accounting for one third of the country's gross domestic product (GDP). This supports a tax base with low volatility and positive tax revenue growth trend. Conversely, the rating incorporates some limited pressure stemming from the city's public services provider, [Zagrebacki Holding D.O.O.](#) (A3 stable) and the city's public transportation company, Zagrebacki Elektricni Tramvaj (ZET). We assess a strong likelihood that the [Government of Croatia](#) (A3 stable) would provide support if the city were to face acute liquidity stress.

Exhibit 1

Operating performance will weaken as a result of cost pressures



Note: F = Forecast

Source: City of Zagreb, Moody's Ratings

Credit strengths

- » Strong operating performance fueled by growing tax revenues
- » Continued financing surpluses and sound liquidity
- » Very low direct debt levels
- » Zagreb's wealthy economy and strategic role

Credit challenges

- » High indirect exposure to city-owned companies

Rating outlook

The stable outlook mirrors the stable outlook on the sovereign rating. It also reflects the medium-term economic growth prospects, which will support the city's financial performance. In addition, the city's effective budget management is expected to maintain its consistently strong operating margins, sound liquidity, and manageable debt levels.

Factors that could lead to an upgrade

An upgrade of Zagreb's rating would require an upgrade of Croatia's sovereign rating as well as continued strong financial performance and low debt levels.

Factors that could lead to a downgrade

Given Zagreb is rated on par with the sovereign, a downgrade of the sovereign's rating would also lead to a downgrade of Zagreb's rating. Significant financial deterioration driven by reduced operating margins, an unexpected sharp increase in debt which corresponds to weakening liquidity, would also exert downward pressure on the city's rating.

Key indicators

Exhibit 2

City of Zagreb

	2020	2021	2022	2023	2024	2025F	2026F
Net Direct and Indirect Debt/Operating Revenue (%)	109.7	100.4	103.1	68.4	61.4	57.1	56.0
Direct Debt/Operating Revenue (%)	33.2	40.9	33.1	14.6	13.5	11.3	10.0
Cash Financing Surplus (Requirement)/Total Revenues (%)	-5.1	-7.8	12.5	12.7	7.3	1.1	3.1
Primary Operating Balance/Operating Revenue (%)	5.5	8.7	24.3	24.6	22.3	12.9	14.4
Debt Service/Total Revenues (%)	9.8	11.4	19.1	13.0	5.4	3.8	3.7
Capital Expenditure/Total Expenditure (%)	11.8	17.4	13.4	13.5	27.4	11.9	11.6
Intergovernmental Revenues/Operating Revenues (%)	7.9	7.6	8.8	13.3	5.4	5.2	5.1

Note: F = Forecast.

Source: City of Zagreb, Moody's Ratings

Profile

The City of Zagreb is Croatia's capital and largest city, serving as the country's economic, administrative, and cultural center. Zagreb accounts for nearly 20% of Croatia's population and contributes around one third of national GDP, making it the country's wealthiest and most economically significant city.

The city benefits from a strong institutional framework, characterized by solid governance, multiyear financial planning, and prudent debt management. Zagreb's broad revenue base, comprising shared national revenues, local taxes, and fees, supports predictable revenue streams and fiscal stability. The administration has demonstrated the ability to identify and mitigate fiscal pressures, aided by a stable political environment and effective oversight.

Detailed credit considerations

The credit profile of the City of Zagreb, as expressed in its A3 stable rating, combines a Baseline Credit Assessment (BCA) of a3 and a strong likelihood of extraordinary support from the national government in the event that the entity faces acute liquidity stress.

Baseline credit assessment

Strong operating performance fueled by growing tax revenues

Zagreb's operating performance remained strong in 2024, with a primary operating balance (POB) of 22.3% of operating revenues, continuing the positive trend from 2023 when the city achieved 25%. This sustained performance reflects Zagreb's consistent track record of sound budgetary management, with margins exceeding 20% since 2022, up from 9% in 2021. The improvement is driven by dynamic growth in personal income tax (PIT) revenues, Zagreb's main income source, supported by the strength of the local economy and recent tax reforms.

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The city has effectively implemented cost-saving measures, including reductions in personnel costs, cuts in subsidies and transfers, and spending reviews to enhance operational efficiency. These efforts have helped contain operating expenditure growth and support robust financial outcomes.

In 2025, however, operating margins are projected to weaken to around 13%, assuming full execution of planned expenditures. The anticipated decline is primarily due to nationally negotiated public sector pay increases and higher subsidies to the city-owned tram company following the introduction of free transport for children and seniors. Despite this temporary dip, margins are expected to recover in 2026, supported by continued growth in the tax base and normalization of expenditure growth.

Gross domestic product (GDP) growth rate of 3.3% in 2025 and 2.8% in 2026, combined with above-national average local economic performance, will translate into growing proceeds from the income tax, which will support a recovery in POB.

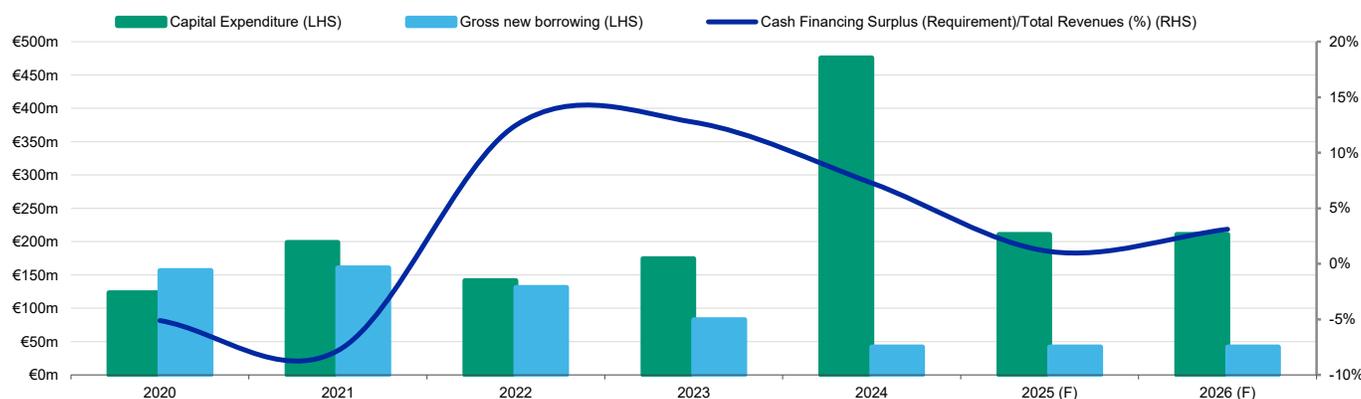
Following re-election in May 2025, Mayor Tomislav Tomasevic, backed by a majority in the City Council, has continued to implement cost containment measures, contributing to the city's turnaround in budget execution and generation of financial surpluses.

Continued financing surpluses and sound liquidity

Since 2022, Zagreb has reported financial surpluses while simultaneously increasing capital spending. In 2025, however, according to the latest budget figures, we expect capital expenditures to decline to around 12% of total expenditures, down from 27% in 2024, reflecting a more moderate investment pace.

Exhibit 3

Improving financing results despite high investment needs



Note: F = Forecast.

Source: City of Zagreb, Moody's Ratings

The city is expected to continue leveraging European Union (EU) funding opportunities under the 2021–2027 programming period, which will help diversify capital investment financing without exerting excessive pressure on the budget.

Zagreb's capital investment priorities include infrastructure projects in public transportation, road maintenance, social services, healthcare, water supply and sewage, energy efficiency, and solid waste treatment. EU funds, including the EU Solidarity Fund, have supported post-earthquake reconstruction efforts since 2021.

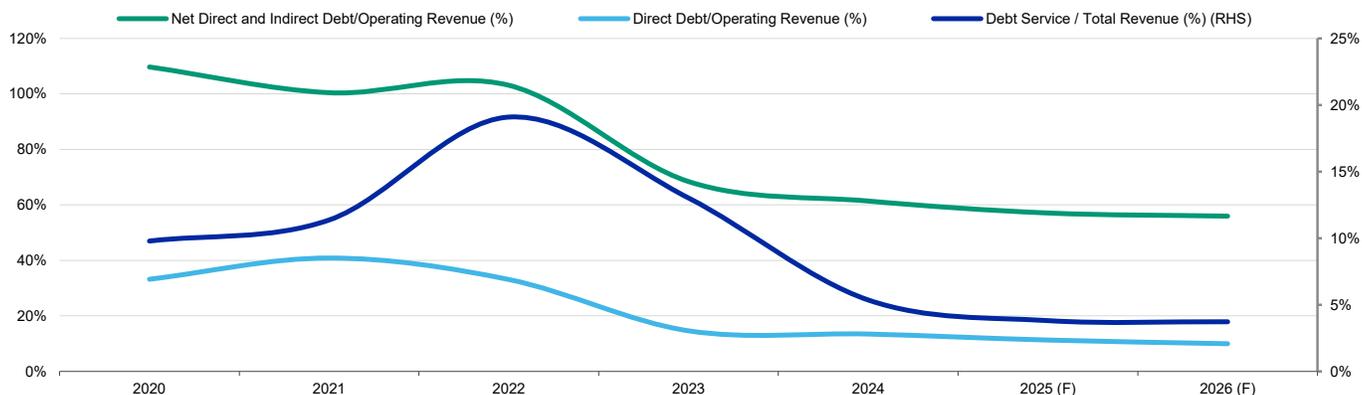
The city's prudent financial management has enabled liquidity accumulation, with reserves expected to reach 13% of operating revenues in 2025, compared to 14% in 2023. Liquidity growth is expected to slow due to lower surpluses, but we expect the city to manage its cash position effectively, using excess liquidity to repay maturing debt. The city follows a prudent cash management strategy, which, together with regular distributions of shared taxes, ensures smooth cash flow.

Very low direct debt levels

Zagreb's direct debt is projected to decline to €202 million in 2025, from €214 million in 2024, representing a very low 11% of operating revenue. This reduction is driven by effective budget execution resulting in financial surplus, providing the city an ability to repay most of its maturing debt. We expect the city's direct debt to remain low in 2026 driven by low appetite for debt financing and

sufficient own financial resources. EU and the central government grants for infrastructure will also help consolidate Zagreb's financial and debt profile.

Exhibit 4

Declining debt levels

Note: F = Forecast.

Source: City of Zagreb, Moody's Ratings

The majority of Zagreb's debt consists of loans with domestic banks and the European Investment Bank ([EIB, Aaa stable](#)), which provide loans for eligible infrastructure investments at favourable conditions.

The debt service related to Zagreb's direct debt was 5% of total revenue in 2024, and is expected to decline slightly to 4% from 2025. We consider these obligations as well manageable given the city's strong operating margins.

Zagreb's wealthy economy and strategic role

Zagreb is the capital of Croatia and remains the country's economic hub, contributing nearly one-third of national GDP and hosting one-third of the country's businesses and employment. With a population of 771,000 (2023), the city accounts for 20% of the national population.

Local GDP per capita is 166% of the national average, and the unemployment rate of 2.4% in 2024 is well below the national average of 6.4%. The city benefits from a diversified industrial base and hosts the central government, major universities, and corporate headquarters.

Croatia's euro adoption in 2023 and improvements in institutional effectiveness will further support Zagreb's economic potential and growth.

High indirect exposure to city-owned companies

When accounting for indirect debt, the city's net direct and indirect debt (NDID) is expected to decline to 57% of operating revenue in 2025 from 61% in 2024, and to stay in line with this projection in 2026.

Zagreb's indirect debt includes the city-guaranteed and non-guaranteed obligations of Zagrebacki Holding as well as the outstanding debt of the city transportation company ZET, both considered non-self supporting companies. The major businesses operated by the holding company and ZET are extremely important for the city and require its ongoing support, either in the form of operating or capital subsidies. Transfers to these companies are among the main drivers of Zagreb's spending, accounting for about 15% of its budget.

Notwithstanding the positive trend, ZET will remain a continuous source of budgetary pressure on the city's budget, given the planned investments, in particular the renewal of its tram and bus fleet, requiring subsidies from the city budget. Since January 2018, when ZET spun off from Zagrebacki Holding and emerged as a limited liability company under the city's direct control, the level of subsidies is based on a new contract, which requires full compensation for public transportation service obligations as well as a fair level of profit (including depreciation).

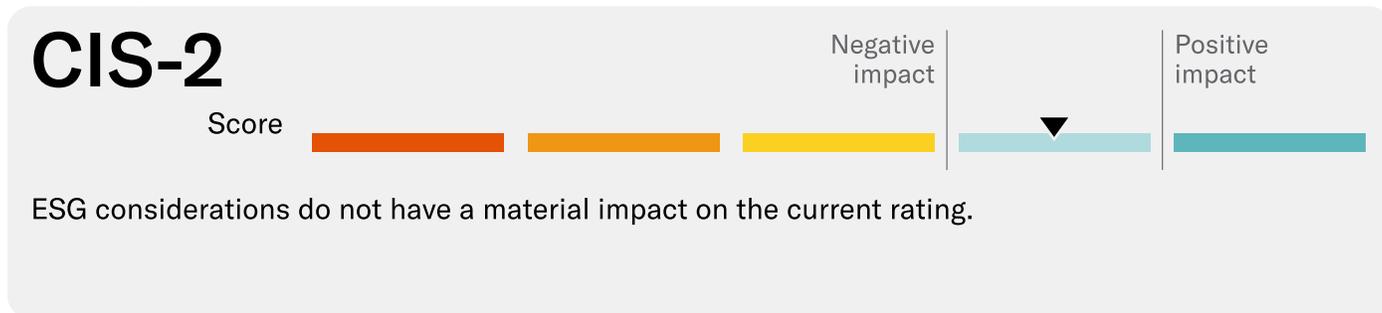
Extraordinary support considerations

We consider Zagreb to have a strong likelihood of extraordinary support from the national government, reflecting our assessment of the city's strategic importance to the national economy. The system of oversight implemented by the national government requires regular monitoring of cities' financial performance and indebtedness.

ESG considerations

Zagreb, City of's ESG credit impact score is CIS-2

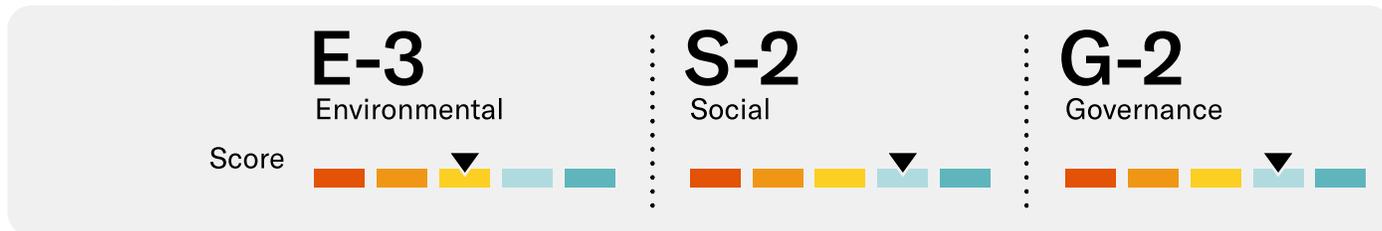
Exhibit 5
ESG credit impact score



Source: Moody's Ratings

Zagreb's ESG Credit Impact Score (**CIS-2**) reflects the limited impacts of ESG risks on its rating. Although it does face some environmental risks, including physical climate risk, particularly flood risk, these are mostly offset by the city's strong institutions and governance which has acted to improve flood protection.

Exhibit 6
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Regarding the city's exposure to environmental risks (**E-3**), in addition to its moderate exposure to physical climate risk, the city is also responsible for water management and must fund the reconstruction of its sewerage system to improve the collection of water and storm water as well as wastewater.

Social

Zagreb has limited exposure to social risks (**S-2**). Zagreb benefits from a strong demographic profile, as is more exposed to net immigration flows. The unemployment rate in Zagreb is lower than the average for Croatia, and the average salary in Zagreb is higher than that in the remaining parts of the country. Access to education, healthcare facilities and provision of basic services are good.

Governance

Zagreb has solid institutions and governance strength (**G-2**). This is underpinned by the city's high credibility in managing its operations and development by using prudent financing planning, which allows for multiyear forecasting of key trends. Zagreb has an ability to identify potential pressures, allowing for sufficient time to adopt mitigation measures.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

For more detail on our approach to incorporating environmental, social and governance factors in credit analysis, please see our [cross-sector rating methodology](#).

Rating methodology and scorecard factors

The assigned BCA of a3 is in line with the BCA scorecard-indicated outcome.

For details about our rating approach, please refer to [Rating Methodology: Regional and Local Governments](#), published on 28 May 2024.

Exhibit 7

Zagreb, City of Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
Factor 1: Economy					25%	0.53
Regional Income [1]	0.55	88788.59	15%	0.08		
Economic Growth	6.00	a	5%	0.30		
Economic Diversification	3.00	aa	5%	0.15		
Factor 2: Institutional Framework and Governance					30%	1.35
Institutional Framework	6.00	a	15%	0.90		
Governance	3.00	aa	15%	0.45		
Factor 3: Financial Performance					20%	0.98
Operating Margin [2]	2.68	22.25%	10%	0.27		
Liquidity Ratio [3]	8.19	13.85%	5%	0.41		
Ease of Access to Funding	6.00	a	5%	0.30		
Factor 4: Leverage					25%	0.84
Debt Burden [4]	4.58	61.40%	15%	0.69		
Interest Burden [5]	1.56	0.53%	10%	0.16		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						(3.70) aa3
Idiosyncratic Notching						0.0
Preliminary BCA SIO After Idiosyncratic Notching						(3.70) aa3
Sovereign Rating Threshold						A3
Operating Environment Notching						0.0
BCA Scorecard-Indicated Outcome						(7.00) a3
Assigned BCA						a3

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars

[2] Primary Operating Balance / Operating Revenue

[3] Cash and Cash Equivalents / Operating Revenue

[4] Net Direct and Indirect Debt / Operating Revenue

[5] Interest Payments / Operating Revenue

Source: Moody's Ratings; Fiscal 2024.

Ratings

Exhibit 8

Category	Moody's Rating
ZAGREB, CITY OF	
Outlook	Stable
Baseline Credit Assessment	a3
Issuer Rating	A3

Source: Moody's Ratings

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