S&P Global
Ratings

RatingsDirect®

Zagreb (City of)

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This report does not constitute a rating action.

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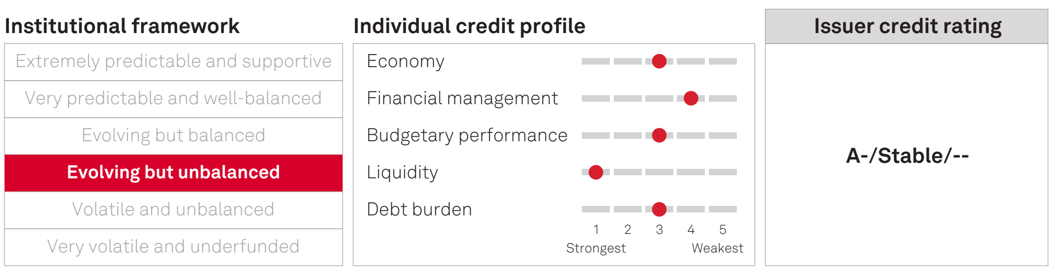
Ratings Score Snapshot



Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Croatia's resilient economic growth and an improving institutional setting for local governments underpin Zagreb's credit profile.	We expect the city's debt dynamics to be shaped by its ambitious public investment program, but with borrowing largely restricted to the co-financing of projects supported by ample EU funds.
Zagreb's financial position has improved over the past three years, with the city recording budgetary outperformance and consistently increasing liquidity.	In our view, Zagreb will maintain its solid budgetary performance and sound liquidity position.
We think that gradual alignment with EU standards has reduced recourse to off-balance sheet debt and led to stronger oversight of government-related entities, especially given the strong push for EU-funded investments.	That said, if the recent gains in tax revenue growth and external funds were to reverse, the marked expansion of operating expenditure and Zagreb's limited own revenue flexibility would strain the city's budgetary performance.

Outlook

The stable outlook balances Zagreb's sound financial metrics and improving institutional settings against the risk of budgetary deterioration if revenue growth underperformed expectations and spending pressures intensified.

Downside scenario

We could lower the ratings if Zagreb's fiscal profile builds up substantial imbalances, tax revenue growth falters, and budgetary performance consequently deteriorates, or if the city's management fails to sustain recent improvements in the oversight of government-related entities' (GREs') debt management. A material reduction in the city's liquidity position, as measured by its debt service coverage, could also lead us to consider a negative rating action.

Upside scenario

We could raise the ratings on Zagreb if it improves multiple rating factors concurrently. These would likely include disciplined financial management practices becoming further entrenched, with the city building a longer track record in the governance of GREs. A pronounced deleveraging of the city and its main GREs, possibly alongside stronger-than-expected budgetary performance, would also support an upgrade.

Rationale

Our ratings on Croatia's capital city of Zagreb are supported by the city's and Croatia's robust economic expansion and an improving institutional framework for local governments. We expect Zagreb will maintain its solid budgetary performance and sound liquidity position, while the financing of its ambitious investment agenda will benefit from ample EU funds with only moderate recourse to debt. We also factor improvements in the city's general management practices in our ratings on Zagreb, but we think they could be tested if recent tax revenue growth and ample external funds were to reverse, especially given Zagreb's limited own revenue flexibility.

A resilient economy and improving institutional framework support Zagreb's credit profile

As Croatia's economic center, Zagreb contributes over one-third of the national GDP and maintains a more diversified economic base than the tourism-dependent national economy. This results in local GDP per capita significantly above the national average. Tax revenue increased by 10% in 2025 and 13% in the first half of 2026, reflecting Croatia's robust national economic growth. We expect tax revenue expansion to moderate in 2027, aligning with more muted national GDP growth while consumer price inflation (CPI) decelerates. The recent robust increase in personal income tax receipts has helped mitigate the pressure from rising operating expenditure, driven by public-sector wage increases that track inflation rates above the eurozone average. Looking ahead, we believe that a less buoyant macroeconomic environment could test the city's budgetary prudency more than in recent years.

The aggregate financial position of Croatian municipalities has been strong in recent years. Various tax reforms reflect a wave of fiscal decentralization over the past years. Since 2024, each Croatian city can determine its own personal income tax rate within certain bands. Zagreb charges the maximum permitted rate, but these rates were revised downward in 2025. In our view, the central government's frequent adjustments of fiscal parameters still hamper predictability for local governments. In 2025, Croatia's central government introduced a property tax that replaced the previous holiday-homes tax. We anticipate that this could be a tool for Zagreb to mitigate the negative revenue impact of planned changes to the personal income tax legislation effective from 2027.

Contingent upon sustained reform momentum and the establishment of a longer track record of fiscal predictability, we believe that the institutional framework under which Croatian municipalities operate continues to improve. The budgetary performance of local and regional governments (LRGs) has strengthened significantly in recent years, driven by robust growth in both tax revenue and EU fund inflows. Furthermore, the stringent requirements associated with EU-funded investment programs are enhancing transparency and accountability standards across the sector. While these advancements are reflected in our assessment, we continue to view the institutional framework as evolving and unbalanced.

External funding support has been key for Zagreb's strengthened financial profile. The central government has provided critical assistance regarding the COVID-19 pandemic, the energy crisis, and still ongoing earthquake reconstruction. Additionally, EU funding--through the European Solidarity Fund--and favorable financing from European promotional banks have facilitated the city's ambitious investment agenda and remain instrumental in this respect. This support is further enhanced by close coordination between Zagreb and the state, which provides substantial budgetary contributions toward major joint infrastructure projects.

Since taking office in 2021, Zagreb's current administration has implemented notable improvements in financial management. We note more prudent liquidity management, enhanced oversight of municipal enterprises, and the elimination of off-balance-sheet funding. However, the current track record is still relatively short and it remains to be seen whether improvements are firmly embedded and can be sustained through political cycles. Fiscal prudence faces potential headwinds from rising operating costs and investment needs, especially if tax revenue moderates and flexibility remains constrained. Additionally, because Zagreb's fiscal health is closely tied to national policy, maintaining stable relations with the central government is essential, particularly given the current divergence in political affiliations between the local and national administrations.

Zagreb's budgetary performance and liquidity are set to remain sound, even as high investments drive the pace of debt accumulation

We project that Zagreb will continue to post strong operating results over 2026-2028, with an average operating surplus of 14% of operating revenue. Income tax revenue growth has been particularly robust, continuing to rise by 13% in the first half of 2026. We expect more moderate tax revenue growth in the next two to three years due to a somewhat cooling economy and the planned tax code changes. We believe operating expenditure will continue to rise due to the higher cost of materials, personnel expenditure, and subsidies for items such as public transport. Together, this should lead to operating margins moderating through to 2028.

At the same time, Zagreb is pursuing an extensive public investment agenda, of which a substantial portion is expected to be financed through EU funds and corresponding financing from European promotional banks. Projects are designed to address significant infrastructure needs across several sectors, including transport, education, housing, public buildings, and wastewater treatment. We anticipate that the sizable investment will keep the city's balance after capital accounts in deficit, but the magnitude and peak of this will crucially depend on the pace of project implementation.

Reflecting the city's investment agenda, we forecast that the city's tax-supported debt ratio will rise from 50% of operating revenue in 2026 to approximately 65% by 2028. Naturally, slower investment implementation than currently planned would result in a lower debt ratio than our baseline projection. Zagreb can use a €395 million loan framework agreed with the European Investment Bank (EIB) to fund large parts of its planned capital expenditure. We believe the city will draw on its EIB loan in line with the progress of the underlying projects, and this will be a key determinant of its debt trajectory in the coming years. The first contracted loan under the framework amounts to €207 million and we understand about €100 million remains to be drawn, given project delays. To cover the strong capital spending projected for 2026-2028, we anticipate that the remaining €188 million under the approved EIB framework will be contracted in 2027, and then drawn and spent as investment projects progress.

The debt of Zagreb's key municipal companies, Zagrebacki Holding (ZGH) and public transport company ZET, is a key driver of the city's debt dynamics, through these entities' sizable capital investments. We include both companies in our calculation of the city's tax-supported debt. Conversely, the direct debt of Zagreb's core budget only accounts for about a quarter of the city's tax-supported debt, given the past use of nontraditional financing means like factoring, and the substantial borrowing by the municipal companies. The city's direct debt comprises loans from domestic banks for investment projects and small amounts of short-term borrowings for liquidity management purposes. We expect direct debt will also increase as the city borrows from European promotional banks like the EIB to finance its investment agenda.

We regard the city's contingent liabilities as low overall, given that we already include the substantial debt of ZGH and ZET in our tax-supported debt calculation. Contingent liabilities comprise potential further spending on earthquake-related repairs to private buildings, liabilities of other GREs apart from ZGH and ZET, and some litigation risks. By law, Zagreb needs to cover 20% of the costs of reconstructing private buildings more heavily damaged by the earthquake in 2020. The costs are hard to estimate, but effective drawings on Zagreb's finances have been well below budgeted funds so far, which we believe is likely to continue. In our view, the city might support ZGH and ZET by absorbing additional payables from the two companies or by injecting additional capital.

Zagreb's budgetary flexibility remains limited by structural dependencies and constrained revenue levers. The city has already reached the statutory ceiling for personal income tax rates, leaving less than 20% of its revenue base--primarily municipal fees and property taxes--available for further adjustment. Expenditure flexibility is similarly restricted by the necessity of subsidizing the essential municipal service providers, ZGH and ZET. Additionally, we view the potential for asset sales to provide meaningful fiscal revenue in the near term as low.

The liquidity position of the city has improved significantly over the past three years. Average daily cash holdings amounted to over €200 million through 2026, comfortably covering the next 12 months' debt service and financing needs. We think cash balances could slightly fluctuate in 2026-2027, depending on the timing of loan drawings and payments for investment projects. However, we understand they will likely stay at about €200 million because the city aims to maintain a liquidity buffer. The city has reduced overdue payables to a negligible amount, which improves visibility with respect to its liquidity needs. We view Zagreb's access to external liquidity as satisfactory. The city has access to a pool of international banks willing to provide loans, while Croatia's eurozone accession has further bolstered Zagreb's capital market access.

City of Zagreb Selected Indicators

Mil. EUR	2023	2024	2025	2026bc	2027bc	2028bc
Operating revenue	1,329	1,591	1,719	1,798	1,800	1,819
Operating expenditure	1,104	1,261	1,474	1,519	1,559	1,600
Operating balance	225	330	244	279	241	219
Operating balance (% of operating revenue)	16.9	20.7	14.2	15.5	13.4	12.0

City of Zagreb Selected Indicators

Capital revenue	187	268	59	126	201	151
Capital expenditure	197	507	339	454	517	428
Balance after capital accounts	215	92	(36)	(49)	(76)	(59)
Balance after capital accounts (% of total revenue)	14.2	4.9	(2.0)	(2.5)	(3.8)	(3.0)
Debt repaid	170	60	39	59	49	60
Gross borrowings	83	42	67	110	124	116
Balance after borrowings	128	74	(26)	2	(1)	(3)
Direct debt (outstanding at year-end)	235	217	245	296	371	427
Direct debt (% of operating revenue)	17.7	13.6	14.3	16.5	20.6	23.5
Tax-supported debt (outstanding at year-end)	1,124	1,051	1,001	1,102	1,277	1,433
Tax-supported debt (% of consolidated operating revenue)	65.8	53.2	47.4	50.3	58.2	64.7
Interest (% of operating revenue)	0.4	0.3	0.4	0.4	0.5	0.7
Local GDP per capita ($)	36,134.9	39,629.9	44,405.6	48,335.1	51,683.7	55,295.6
National GDP per capita ($)	22,184.2	24,049.8	27,081.1	29,574.6	31,685.7	34,033.7

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. EUR--euro. $--U.S. dollar.

City of Zagreb Rating Component Scores

Key rating factors	Scores
Institutional framework	4
Economy	3
Financial management	4
Budgetary performance	3
Liquidity	1
Debt burden	3
Stand-alone credit profile	a-
Issuer credit rating	A-

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 the "**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

- Croatia, Sep. 14, 2026

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

- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., April 27, 2026
- Sovereign Risk Indicators, Jul. 14, 2026
- Croatian City of Zagreb Upgraded To 'A-' On Resilient Financial Position; Outlook Stable, March 20, 2026
- Subnational Government Outlook 2026: Resilient, But Signs Of Stress Emerge, Jan. 20, 2026
- Global Ratings List: International Public Finance Entities June 2026, Jul. 1, 2026
- Institutional Framework Assessment: Croatian Municipalities Benefit From Fiscal Reforms, June 8, 2026

Ratings Detail (as of September 14, 2026)*

Zagreb (City of)	
Issuer Credit Rating	A-/Stable/--
Issuer Credit Ratings History	
20-Mar-2026	A-/Stable/--
20-Sep-2024	BBB+/Positive/--
22-Mar-2024	BBB-/Positive/--
22-Sep-2023	BB+/Positive/--
24-Mar-2023	BB/Positive/--
23-Sep-2022	BB/Stable/--
24-Sep-2021	BB-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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