

Research Update:

Croatian City of Zagreb Upgraded To 'A-' On Resilient Financial Position; Outlook Stable

March 20, 2026

Overview

- The city of Zagreb's financial position has improved over the past three years, and we expect it will maintain its solid budgetary performance and sound liquidity position.
- Zagreb's credit profile benefits from Croatia's and the city's economic resilience, and an improving fiscal framework for local governments.
- The city is pursuing an ambitious investment agenda, and its financing plans rely on ample EU funds with only moderate recourse to debt.
- We raised our long-term ratings on Zagreb to 'A-' from 'BBB+'. The outlook is stable.

Rating Action

On March 20, 2026, S&P Global Ratings raised its long-term foreign and local currency issuer credit ratings on the Croatian capital city of Zagreb to 'A-' from 'BBB+'. The outlook is stable.

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

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We could raise the ratings on Zagreb if we observe concurrent improvements of multiple rating factors. 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

The upgrade reflects the substantially increased resilience and improved financial metrics of the city of Zagreb. Its financial results again outperformed our base-case scenario in 2025, and its liquidity has consistently increased in recent years. We expect the city's debt dynamics to be shaped by the evolution of its ambitious public investment program, with borrowing mostly restricted to the co-financing of projects supported by ample EU funds. Zagreb's expanding economy and its continued integration and convergence with the EU further support the ratings. We think the city's gradual alignment with EU standards over recent years has contributed, for example, to lower use of off-balance sheet debt and stronger oversight of GREs, not least due to the strong push for EU-funded investments. Improvements in Croatia's institutional framework for local government finances and the city's general management practices further underpin the ratings.

Conversely, if the recent gains in tax revenue growth and external funds were to reverse, the expansion of operating expenditure and Zagreb's limited own revenue flexibility would ultimately complicate the city's budget policy.

A resilient economy and improving institutional settings underpin Zagreb's credit profile

Zagreb is Croatia's capital and the country's economic center. The city contributes over one-third of Croatia's GDP, and its economic structure is more diversified than the national economy, where tourism is dominant. Zagreb's local GDP per capita sits well above the national average.

Continued resilient growth of Croatia's economy translated into robust tax revenue growth of more than 10% for Zagreb in 2025, but we expect this to moderate in 2026. This reflects our anticipation that the city's economy will expand in tandem with the national economy, for which we project 2.7% GDP growth on average over 2026-2028. The recent robust growth in personal income tax receipts has helped mitigate surging operating expenditure, including from higher public-sector wages in Croatia as a whole and for Zagreb in particular. These wages in turn mirror inflation rates that exceed the eurozone average.

The aggregate financial position of Croatian municipalities has been strong in recent years, with surpluses owing to robust tax revenue and despite rising spending pressures. Tax reforms reflect a wave of fiscal decentralization in recent years. Since 2024, each Croatian city can determine its own personal income tax rate within certain ranges. Zagreb charges the maximum permitted tax 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 has introduced a property tax that effectively transforms the previous holiday-homes tax. In our view, this could bolster Zagreb's tax revenue and become an important policy tool for influencing the city's housing market, a key political topic.

Overall, we think the intergovernmental framework for Croatian municipalities is improving, as long as reform momentum can be sustained and a longer track record of fiscal predictability for the sector is established. The balance between local and regional governments' (LRGs') revenues

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and expenditures has substantially improved over the past few years as revenues soared, both through taxes and EU funds. The alignment with EU standards has, over time, strengthened the oversight of municipal finances and supported, for example, a reduction in recourse to off-balance-sheet funding operations. Coupled with a strong push for EU-funded investments and the requirements attached, this is helping to strengthen transparency and accountability standards for local governments. These gradual improvements are reflected in our assessment of the institutional framework for Croatian municipalities, which, however, we still view as evolving and unbalanced.

External funding support has helped Zagreb emerge from recent crises and build a markedly stronger financial profile over the past few years. For example, the central government helped the city address the challenges posed by COVID-19 pandemic in the early 2020s, and more recently has supported Zagreb with the energy crisis, and it continues to contribute to the city's earthquake-related reconstruction. Another important source of financial support for Croatia's capital has been the EU, through the European Solidarity Fund. The city has access to favorable funding from European promotional banks to finance EU-funded projects, thus supporting its investment agenda. Furthermore, we note that Zagreb and the central government are implementing several infrastructure projects in close coordination with, and with a substantial contribution from, the state budget.

Zagreb's current administration, in office since 2021, has made significant strides to improve the city's financial management practices. For example, liquidity management has become substantially more prudent, demonstrated by the city's substantially higher cash balances. Management of key municipal enterprises has been altered, with the aim of strengthening oversight and reducing risk. Fiscal prudence and limiting debt accumulation remains a political goal, but this might be tested if tax revenue growth were to cool while there are significant cost and salary increases, substantial investment needs, and constrained levers to raise revenues. Positively, we note successful efforts to settle liabilities between city companies and to end past practices of raising material funding via off-balance-sheet transactions. However, the track record of these improvements is still relatively short, and it remains to be seen whether improvements will be firmly embedded and sustained through political cycles. Given the dependence of Zagreb's finances on decisions made at the national level, good relations with the central government remain crucial for the city. This is especially true if the party affiliations of the local and national administration differ, as is currently the case. However, we understand there have been no major frictions recently.

Zagreb's investment agenda will shape its budget and debt trajectory in the coming years, while liquidity is set to remain sound

We project that Zagreb will continue to post strong operating results over 2026-2028, with an average operating surplus of 12% of operating revenue. Income tax revenue growth has been particularly robust, at 11% in 2025, reflecting rising employment and salaries in the city. Although we expect tax revenue to continue growing in the next two to three years, we believe operating expenditure will also 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, we project sizable investment spending will keep the balance after capital accounts in deficit, but the magnitude and peak of this will crucially depend on the pace of project implementation. We understand that Zagreb's investment spending is tied to EU-funded projects and corresponding financing from European promotional banks, for example a €395 million framework loan from the European Investment Bank (EIB).

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The city will draw on its EIB loan, depending on the progress of the underlying projects, and this will be a key determinant of Zagreb's debt trajectory in the coming years. The first contracted loan under the framework amounts to €207 million and we understand €100 million remains to be drawn, given slower-than-expected project implementation. To cover the surging capital spending projected for 2026-2028, we anticipate that the remaining €188 million under the approved EIB framework will be contracted this year, and drawn and spent as investment projects progress.

Zagreb's sizable public investment agenda aims to address substantial investment needs in various areas. These comprise, for example, public buildings and road infrastructure, education, transport, stadiums and culture facilities, housing, and--politically important--wastewater treatment. In many of these investment areas, EU funds will cover a substantial part of the expenditure. Therefore, we expect the increase in the city's tax-supported debt will be contained to about 64% of operating revenue in 2028, from 52% in 2025. That said, we note the debt ratio could be lower than we currently project if the pace of investments is slower than planned.

We include the debt of Zagreb's key municipal companies, ZGH and ZET, in our calculation of the city's tax-supported debt. We understand the city has, for the most part, already terminated past off-budget financing practices and supports ZGH's further deleveraging with budgetary funds.

The direct debt of Zagreb's core budget accounts for less than a quarter of the city's tax-supported debt, given the past use of nontraditional means like factoring and historically substantial borrowing by municipal companies. The city's direct debt comprises loans from domestic banks for investment projects and small amounts of short-term debt for liquidity management purposes, but we expect direct debt will 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 the substantial debt of ZGH and ZET is already included 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 rebuilding 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.

We continue to view Zagreb's budgetary flexibility as limited because large parts of the revenue structure depend on central government decisions. Following the income tax system reforms of 2024 and 2025, the city has set the highest personal income tax rates permissible, to protect its revenue, with no flexibility to adjust the rate further upward. Revenue flexibility is therefore currently limited to certain municipal fees and other taxes, which together account for less than 20% of the city's income. The introduction of property tax has granted additional, albeit only limited, revenue flexibility to Zagreb. The city's spending flexibility is constrained by the need to subsidize municipal companies ZGH and ZET, both of which supply essential public services. ZGH is responsible for gas distribution and supply, water supply and sewage, road maintenance, waste disposal, and certain real estate projects. We do not think asset sales can provide substantial additional room to maneuver in the near term.

Zagreb's liquidity position has improved significantly over the past three years. Cash on hand amounted to over €200 million at year-end 2025, 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, but will likely

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stay at about €200 million because we understand 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 improved 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	1,748	1,773	1,799
Operating expenditure	1,104	1,261	1,474	1,519	1,558	1,597
Operating balance	225	330	244	229	215	202
Operating balance (% of operating revenue)	16.9	20.7	14.2	13.1	12.1	11.2
Capital revenue	187	268	59	126	201	151
Capital expenditure	197	507	339	454	517	428
Balance after capital accounts	215	92	(36)	(99)	(102)	(76)
Balance after capital accounts (% of total revenue)	14.2	4.9	(2.0)	(5.3)	(5.2)	(3.9)
Debt repaid	170	60	39	59	49	60
Gross borrowings	83	42	67	113	151	136
Balance after borrowings	128	74	(26)	(45)	0	0
Direct debt (outstanding at year-end)	235	217	245	299	401	477
Direct debt (% of operating revenue)	17.7	13.6	14.3	17.1	22.6	26.5
Tax-supported debt (outstanding at year-end)	1,124	1,051	1,096	1,184	1,313	1,416
Tax-supported debt (% of consolidated operating revenue)	65.8	53.2	51.9	55.1	60.2	63.9
Interest (% of operating revenue)	0.4	0.3	0.4	0.4	0.5	0.5
Local GDP per capita (\$)	36,134.9	39,629.9	44,405.6	48,774.7	51,515.1	54,629.4
National GDP per capita (\$)	22,184.2	24,049.8	27,030.7	29,804.2	31,541.1	33,481.3

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-

City of Zagreb Rating Component Scores

Key rating factors	Scores
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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 Upgraded To 'A/A-1' From 'A-/A-2' On Ongoing Economic Resilience; Outlook Stable](#), March 13, 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.](#), Feb. 24, 2026
- [Sovereign Risk Indicators](#), Dec. 11, 2025. Interactive version available at <http://www.spratratings.com/sri>
- [Subnational Government Outlook 2026: Resilient, But Signs Of Stress Emerge](#), Jan. 20, 2026
- [Global Ratings List: International Public Finance Entities January 2026](#), Jan. 8, 2026

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see "Related Criteria"). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Rating Component Scores above.

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The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see "Related Criteria").

Ratings List

Ratings List

Upgraded; Outlook Action

	To	From
Zagreb (City of)		
Issuer Credit Rating	A-/Stable/--	BBB+/Positive/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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