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## **Ratings On Australian State of Victoria Affirmed At 'AAA/A-1+'; Outlook Remains Stable**

MELBOURNE (Standard & Poor's) Nov. 8, 2013—Standard & Poor's Ratings Services said today that it had affirmed its 'AAA/A-1+' ratings on the Australian state of Victoria. The outlook remains stable.

The ratings on the State of Victoria reflect our view of the strong institutional framework for state governments in Australia, combined with Victoria's very positive financial management; strong and resilient economy; its very positive liquidity position; and manageable contingent liabilities. Partially offsetting these strengths are the state's moderate budgetary performance and flexibility, and its rising debt burden.

"We consider Victoria's financial management to be very supportive of the state's creditworthiness," Standard & Poor's credit analyst Anna Hughes said. "The state has continued to demonstrate fiscal discipline through its response to ongoing revenue challenges. The government has made difficult political decisions, including containing wage growth and reducing the number of public servants."

The government's financial management strength is also reflective of the system in Australia, which incorporates a high degree of transparency, including full consolidation of government businesses in budgeting and accrual accounting. In our view, Victoria's own financial strength is evidenced by its prudent approach to debt and liquidity management, as well as the development of medium- and long-term fiscal and economic strategies. It has a history of economic reform that will over time increase the productivity of the state. We don't expect the commitment to fiscal discipline to change over the life of the current parliament.

Given weaker-than-expected revenue growth and limited revenue flexibility, Victoria's budgetary performance has weakened over the past few years. As a consequence, its debt burden has risen as the state relies more on external funding to deliver its capital projects. Our expectation is that as revenues strengthen and the state realizes the benefits of its fiscal discipline, its operating position both before and after capital expenditure will also strengthen, and debt will peak at about 93% in fiscal 2015.

Ms. Hughes added: "The stable outlook reflects our expectation that Victoria will continue to demonstrate fiscal discipline, improving its cash operating position and reducing its reliance on external funding for its infrastructure needs over the medium term."

Downward pressure on the rating would occur if there is further weakening in the state's revenues without corrective action from the government, worsening its budgetary performance. This would be demonstrated if cash operating surpluses were less than 5% and after-capital account deficits were greater than 10% over a sustained period, or debt levels increased significantly due to a new and large capital program. In our view, we consider the likelihood of such a change in government policy as limited over the next two years.

### **RELATED CRITERIA AND RESEARCH**

- International Local And Regional Governments Default And Transition Study: 2012 Saw Defaults Spike, March 28, 2013
- Public Finance System Overview: New Zealand Municipalities, Dec. 17, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010
- Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper, Oct. 15, 2009

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## **McGRAW-HILL**

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