Ministerial Brief

Treasurer

Subject:	**Fitch Ratings credit rating**		**HPE CM # B22/1140**
SEG member	Jason Loos	Deputy Secretary, Commercial	[redacted] 27/07/2022

Action required by:	12 August 2022

Recommendation:

1.	That you **note** that Fitch Ratings (Fitch) has rated the Treasury Corporation of Victoria with a rating of AA+ with a stable outlook (**Attachment 1**).	Yes / No

Key points:

1. In April 2022, you approved for the State to obtain a private credit rating from Fitch. After the release of the *2022-23 Budget* the Senior Executive Group of the Department of Treasury and Finance (DTF) made a presentation to Fitch outlining the economic outlook, budget strategy, infrastructure program and the Treasury Corporation of Victoria (TCV) funding strategy.

2. Based on the DTF presentation and independent analysis Fitch has provided a private rating of AA+ with a Stable outlook to TCV and the State. Fitch has evaluated the State across six risk factors which were assessed as “Stronger” (revenue robustness, revenue adjustability, expenditure sustainability, liabilities and liquidity robustness and liabilities and liquidity flexibility). However, expenditure adjustability was assessed as “Midrange”.

3. The report states that the State’s debt to GDP ratio will continue to rise over the forward estimates at a slower growth rate. Fitch also mention that a deterioration in budgetary performance from a failure to control capital expenditure and delivering fiscal targets may lead to prolonged deficits and higher debt levels.

4. The rating from Fitch is a private rating but can be converted to a public rating. The advantage of a third public rating is that when there are divergent ratings investors tend to take the best two ratings. At the time of commissioning Fitch, there was a divergence between the Standard & Poor’s and Moody’s ratings which would mean that if Fitch matched the Moody’s rating, investors may have discounted the S&P rating. However, in June 2022, Moody’s downgraded the State’s rating in line with the S&P rating. Under this scenario even if the rating from Fitch is released publicly, it is unlikely to improve the investor sentiment. However, the release of the Fitch rating is unlikely to make the rating position worse. If the Fitch rating is to be released as a public rating a market communication strategy should be developed in conjunction with TCV prior to its release.

Comments:

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TIM PALLAS MP
Treasurer
Date: 08/08/2022

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Treasury and Finance

ADDITIONAL INFORMATION:

Issues/options:

1. Fitch state that the State's revenue is stable and is supported by a diverse economy with strong growth prospects despite being exposed to economic cycles and disruptions from the pandemic over the last two years.

2. The report outlines that the State's budgetary flexibility is partially restrained by a large system of federal transfers, which provide around 50 per cent of the States' total revenue, although the large economy and the taxpayer base provide a high degree of revenue independence and additional fiscal headway relative to its peers.

3. Fitch mention that the State has a good record of control over its expenditure, which has delivered sustained operating surpluses prior to the disruptions from the pandemic. Fitch anticipate the State to remain committed to financial discipline to deliver on its fiscal strategy.

4. Due to the broader expenditure responsibilities to deliver public services Fitch consider there is limited flexibility to reduce expenditure related to health and education. However, they state that there is flexibility to reduce capital expenditure.

5. The report mentions that the State takes a prudent approach to management of its debt and liabilities and maintains extensive, strong and well-established access to capital markets through TCV. Fitch also mentions that TCV maintains internal liquidity controls, including pre-funding of maturing debts.

6. Fitch has also outlined that the debt profile is long dated with an even spread of maturities, and interest rate and foreign exchange risks are actively managed.

7. DTF notes that Fitch has not included in their credit analysis the 'Best Start Best Life' initiative which is expected to cost the State at least $9 billion over the next decade.

Attachments:

Attachment 1 – Fitch Ratings credit report, June 2022.