Credit Opinion: Victoria (State of) Australia

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Australia

Ratings

Category	Moody's Rating
Treasury Corporation of Victoria	
Outlook	Stable
Bkd Issuer Rating	Aaa
Bkd Senior Secured -Dom Curr	Aaa
Bkd Bonds -Dom Curr	Aaa
Bkd Commercial Paper	P-1

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Key Indicators

Victoria (State of) Australia

Key Indicators [1][2]	2003	2004	2005B	2005	2006B	2006E
General Government						
As a % of Revenue:						
Net Lending / (Borrowing) [3]	2.6	(0.4)	(2.3)	1.1	(4.7)	(4.9)
Cash Surplus/ (Deficit)	0.2	0.8	0.5	1.9	(1.4)	(1.3)
Interest Expense	1.8	1.9	1.6	1.4	1.5	1.5
Non-Financial Public Sector						
As a % of Revenue:						
Net Lending / (Borrowing) [3]	0.5	(2.0)	(5.0)	(0.1)	(7.9)	(7.8)
Cash Surplus/ (Deficit)	(1.6)	(1.2)	(2.5)	(0.2)	(4.8)	(4.4)
Interest Expense	2.1	2.4	2.0	2.1	2.3	2.3
Intergovernmental Transfers	40.8	40.6	41.5	41.4	43.2	43.1
Gross Debt [4]	32.8	31.1	33.1	30.5	35.2	33.0
Real GSP Growth Rate (%) [5]	2.80	5.30	3.25	2.30	3.00	3.00

[1] For the years ending June 30. [2] 1999-2003 Actuals have been restated by the VIC State, in line with the restated ABS figures [3] Based on the State's accrual results, Financing Surplus / (Requirement). [4] Figures do not include debt issued by the Treasury Corporation for debt management purposes; In 2004 this amounted to A$3.6 billion. [5] Chain Volume Measures, source ABS 2004-05 publ, Budget figures are from Budget Papers

Opinion

Credit Strengths

Victoria's credit strengths include:

--Low debt burden

--Strong financial performance supported by prudent fiscal management and revenue growth

--Diverse economic base

Credit Challenges

Victoria's credit challenges include:

--Potential for less robust revenue performance

--Higher capital spending levels likely to lead to increased borrowing

Rating Rationale

Victoria's Aaa ratings are supported by a sound fiscal performance with a well established trend of surpluses, underpinned by the state's prudent fiscal practices and continued strength in tax revenues.

The state's debt load is modest because, in the 1990s, the proceeds from a vast privatization program of state assets were applied to debt reduction and, since then, the state has used its surpluses to further pay down debt. Substantial financial assets held in liquid investments provide ample internal liquidity.

Victoria's sizable and diversified economic base amply supports its financial operations. In recent years strong economic growth has been supported by consumer spending, housing and business investment. This year's estimates indicate that a decline in net exports will continue to detract from growth, while housing investment has slowed; but economic expansion is still expected to meet the national average, boosted by business investment and consumer spending.

The strong financial support provided by the Commonwealth government to all states is also a key factor in Victoria's ratings.

Rating Outlook

The outlook for Victoria's Aaa ratings is stable. The state's strong financial position and low debt burden position it well to absorb projected financing deficits (net borrowing results) and an associated increase in the debt burden anticipated over the medium term due to higher spending levels and slower revenue growth.

What Could Change the Rating - DOWN

An unlikely scenario combining a severe correction in the housing market and economic recession, along with a significant change in the government's prudent fiscal policies that would lead to rapid accumulation of debt, could have an adverse impact on the rating.

Recent Developments

The state's 2005/06 budget projected a general government sector deficit equivalent to -4.7% of revenues, compared with a surplus equivalent to 1.1% of revenues achieved in 2004/05. The deficit reflected a substantial increase in capital spending and a higher level of current spending which was expected to coincide with less robust growth in tax revenues reflecting land tax relief and a slowdown in the housing market. The non-financial public sector was projected to produce a deficit of -7.9% of revenues (re-stated from the original -6%), a significant widening from the minor deficit of -0.1% of revenues registered in 2004/05. This result incorporates both increased deficits projected for the general government sector and a deterioration in public corporations' operating performance, expected to occur during a period of intensive capital investment.

Mid-year results indicate that the state is essentially on target for 2005/06; both the general government and non-financial public sectors are performing close to budgeted estimates--with slight improvements in revenues offset by increased spending. Over the medium term, however, general government sector deficits are projected to increase moderately beyond what was anticipated at budget time reflecting planned improvements to the public transit system and a program to enhance regional economic development. Nevertheless, deficits are expected to decline to a minor 1.2% of revenues by 2008/09. The outlook for public corporations, of key importance to non-financial public sector results, are not published.
