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Bulletin:

Victorian State Budget's Forecast Net Debt Increases Consistent With 'AAA' Rating

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MELBOURNE (Standard & Poor's) May 6, 2008--Standard & Poor's Ratings Services said that budget announced today for the State of Victoria is consistent with the state's 'AAA' rating. The 'AAA' rating is the highest assigned by Standard & Poor's, and reflects Victoria's strong balance sheet, strong operating performance, solid economic outlook, and a supportive system of government. The outlook is stable.

"The Victorian State Government can easily afford its projected net-debt increases," said credit analyst Brendan Flynn, of the Sovereign & Public Finance Ratings group. "The strength of the government's forecast operating performance and existing low debt enables the state to maintain high capital spending without affecting its current credit rating."

Reflecting the projected strength of capital spending, general government net debt is estimated to increase by more than A\$7 billion in the next four years but still reach only about 25% of revenue. Even on more broad measures - such as including the state's unfunded superannuation liability and the obligations of its guaranteed trading enterprises such as water companies - the state's obligations are projected to reach less than 80% of revenue. This is easily consistent with the 'AAA' rating for Victoria.

Victoria's review of its operating-surplus target further demonstrates its commitment to a prudent medium-term fiscal strategy. The new general government operating surplus target of 1% of revenue is more stringent than

the previous A\$100 million target. Just as the government had a history of out-performing the A\$100 million target, we expect it to outperform the 1% target - indeed, it is currently forecasting surpluses of more than twice the A\$400 million implied by the target. This will provide more funding for a large capital-spending program, thus requiring less debt funding. Furthermore, it will provide an increased buffer for the finances in the event of some unforeseen shock.

"There currently is little downside risk to the rating," said Mr. Flynn. "In the next two to three years the rating would only be threatened in the unlikely event of a major unexpected deterioration in the operating position combined with government inactivity in addressing the problem."

"In the longer-term, the rating could be threatened if debt continued to grow at the forecast rate beyond the current 2012 estimate. This is unlikely," said Mr. Flynn.

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