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Announcement: Moody's Reports on Victoria's 2014/15 Budget

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Sydney, May 06, 2014 -- Moody's Investors Service says that the State of Victoria's budget for 2014/15 shows improvement when compared to the 2013/14 budget and to mid-2014 estimates which is a credit positive for the state (Treasury Corporation of Victoria guaranteed by the state is rated Aaa/stable). The better financial performance forecast reflects expectations of ongoing expenditure restraints over the medium term and greater than anticipated revenue growth from taxes and Commonwealth capital grants. These trends, along with the proceeds related to the planned privatizations of state-owned assets, are forecast to offset increased capital spending, as the state focuses on significant investments in rail and other infrastructure.

The budget projects a surplus on a net lending basis in the general government sector of AUD360 million, representing 0.7% of revenues. Such a result is an improvement on the deficit of AUD807 million or -1.6% of revenues that was forecast in the 2013/14 budget and the AUD628 million deficit or -1.2% estimated in the state's in the mid-2014 report.

The better result reflects higher expectations for tax receipts and Commonwealth capital grants. Compared to 2013/14 estimates, revenues are expected to rise by 3.5% to reflect strong growth in taxes -- which is an increase of 7.2% -- as well as higher GST-backed Commonwealth grants and increased capital grants. By contrast, expenditures are forecast to grow by a smaller 2.8%. While capital spending is projected to increase, such spending will likely be offset by the impact of asset transfers, however these are largely non-cash items.

The improvement projected for 2014/15 follows on from a better fiscal outcome in 2013/14, which was also reported in the budget released today. A surplus of AUD311 million or 0.6% of revenues is now estimated, a result which is significantly better than the budgeted deficit of AUD1.9 billion or -3.8% of revenues, given that income is estimated to have grown by a strong 5.1% while expenditures rose by 3.9% (the increase would have been a smaller 2.7% excluding the impact of accounting changes).

Over the medium term, the state now estimates that budget outcomes over the period through 2017/18 will be in surplus on average at 0.7% of revenues -- compared to the 2013/14 average deficit forecast of -0.3%. The revised forecast assumes that revenues will rise at a rate of 3.7% on average while expenditures will grow by a slower 2.6%. The resultant higher gross operating balances being forecast, along with proceeds from the planned sale of the Port of Melbourne and the Rural Finance Corporation are set to offset rising capital expenditures to produce better financial results.

Risks to the outlook include fairly robust projections for GST-backed Commonwealth grants, which are a primary source of state funding. The state is also relying on continued low growth in current expenditures, which could be difficult to sustain, given rising service demands and a growing population. Given the state's ambitious capital improvement program -- including significant investments in rail and road projects -- growth in operating surpluses will be critical to funding a greater portion of capital expenditures internally.

As part of Moody's normal monitoring process, Moody's intends to conduct an in-depth analysis of the budget and its medium-term impact on the state's financial and debt profile.

This announcement represents an update to markets and does not constitute a rating action.

Debra A Roane
VP - Senior Credit Officer
Sub-Sovereign Group
Moody's Investors Service Pty. Ltd.
Level 10
1 O'Connell Street
Sydney NSW 2000
Australia
JOURNALISTS: (612) 9270-8102
SUBSCRIBERS: (612) 9270-8100

David M Rubinoff
MD - Sub-Sovereigns
Sub-Sovereign Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Pty. Ltd.
Level 10
1 O'Connell Street
Sydney NSW 2000
Australia
JOURNALISTS: (612) 9270-8102
SUBSCRIBERS: (612) 9270-8100