



# Tough action averts downgrade

## Ratings

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South Australian Treasurer Kevin Foley's success in escaping from a credit downgrade could give Queensland and NSW hope that a few tough decisions will be enough to win the favour of ratings agencies.

Mr Foley convinced Standard & Poor's not to cut the state's AAA credit rating even though SA was technically in breach of the key ratio that usually triggers a downgrade. SA's net financial liabilities, net debt plus unfunded superannuation liabilities, are set to rise to 106 per cent of the state's revenue by 2012, well above the danger zone of 80 to 90 per cent set by S&P.

Mr Foley warned last week it would be almost impossible to hold onto the rating given an expected \$4 billion fall in revenue over the next four years as a result of the financial crisis. But he won

SA a waiver by announcing savings measures that will keep net financial liabilities almost unchanged compared with the predictions six months ago in the midyear budget review.

Net debt, another crucial measure of SA's financial health, will be \$3.2 billion in 2011-12, lower than forecast last December.

Mr Foley took the unusual step of sharing his precise forecasts with Moody's in New York last week and with S&P in Melbourne earlier this week.

He insisted yesterday he only learnt of S&P's decision confirming the state's AAA rating after the budget.

The ratings agency said in a statement it would ignore the usual trigger for a downgrade because the rise in SA's financial liabilities was only temporary and would be contained by the public sector spending cuts, fee increases and deferral of capital works in the budget.

"The government's repriorit-

isation of some of its capital projects and a revision of its operating expenditure highlights the state's preparedness to manage its finances prudently during the current economic downturn, and we have factored this in to our assessment of the rating," said S&P credit analyst Anna Hughes.

The ratings agency also said it was cutting SA some slack because its unfunded superannuation liabilities were exaggerated

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by recent low interest rates on government bonds that are used to calculate expected earnings. Using the more normal rate of assumed earnings, S&P calculated that net financial liabilities would be only 85 per cent of revenue.

SA's success will give NSW Treasurer Eric Roozendaal hope in pursuing a similar strategy in his first budget, which he

hands down in two weeks. S&P put NSW's rating on negative outlook after the Iemma government aborted plans to sell its electricity assets.

The state's net financial liabilities are expected to rise in the budget close to the more generous trigger point of 130 per cent of revenue set by S&P in recognition of NSW's more diversified economy.

SA's success could also help Queensland if it tries to regain the AAA rating it lost after announcing a huge spending program in the election campaign in March.

After being re-elected, Premier Bligh announced \$16 billion of asset sales and cut the state's petrol subsidy, saving \$500 million a year.

These measures could significantly reduce the state's financial liabilities, which were projected to reach \$63 billion by 2011-12 or 150 per cent of revenue. S&P has said Queensland should keep the ration below 120 per cent.