Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

17 October – 18 October 2012

Question: **SBT 126-128**

Topic: **AAA Credit Rating**

Written: **Received from Committee – 26 October 2012**

Senator JOYCE asked:

According to pages 21-22 of the Queensland Commission of Audit Interim Report June 2012 (chaired by Peter Costello AC), the ratio of net financial liabilities-to-revenue, "… is one of the key credit rating metrics used by Standard and Poor's Ratings Services in assessing the State's credit rating." Also, with this ratio for the Australian Government currently at 108.6 per cent, it is, according to pages 4-5 of that same Queensland report, currently within, "… the trigger band of around 100-110 per cent for a AAA credit rating." (See also pages 4-5 of that same report.)

126. How much higher might the Australian Government's ratio of "net financial liabilities-to-revenue" go before a review to its current AAA credit rating, with possible downgrade, is triggered?

127. If the Australian government's AAA "trigger band" is considered different to that of the Queensland government, how different might it be (in terms of where it might lie), and what might be the distinguishing factors?

128. What would be the impact on the government's debt risk premiums and budget balance from a down-grading in its current AAA credit rating?

Answer:

The notion that a sovereign's credit rating is determined with reference to some threshold value of public debt, is misleading. Credit rating agencies base their assessments of sovereign creditworthiness on a range of quantitative and qualitative factors, including, but not limited to:

- The quality of the policy-making process and the credibility of the institutions which underpin it;
- the economic outlook and the resilience of an economy to adverse shocks;
- the health and structure of the financial system and the robustness of its prudential supervision;
- the strength of public finances, including the structure and sustainability of public debt; and
- the level and structure of external debt (both public and private).

Ratings agencies make a considered judgement on the ability of a sovereign to meet its obligations after weighing up all of these factors.

A change in our credit rating is unlikely to have a material effect on the Government's borrowing costs.