

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates – 2–4 June 2009

Question: bet 144

Topic: Ratings & debt

Hansard Page: Written

Senator BUSHBY asked:

1. At the February estimates, Dr Gruen noted that Moody's issued a paper in that month noting the prospects of governments with AAA ratings. Has there been a similar paper issued since? When is the next one due? What has it to say about Australia? What does it say about all other AAA countries? Which ones are they? Are any under threat because they carry heavier debt burdens than does Australia?

Answer:

Credit rating agencies produce a range of documents in relation to sovereign credit ratings, including:

- explanations of sovereign credit rating methodologies;
- ratings assessments of individual sovereigns; and
- research papers on topical sovereign credit rating issues

The Moody's paper, *How Far Can Aaa Governments Stretch Their Balance Sheets? Stress-Testing Governments' Debt Affordability Through the Crisis*, is a research paper rather than a report which is produced with a scheduled frequency.

Other similar reports published recently by the credit rating agencies, Moody's, Standard & Poor's (S&P), and Fitch Ratings, examining sovereign credit rating issues include:

- S&P's Credit FAQ of 11 June 2009, titled *Why it is Unlikely that the Ratings on the US Government will be Lowered in the Near Term*.
- Moody's Special Comment report of 9 June 2009, titled *Rating Sovereign Risk Through a Once-a-Century-Crisis: A Rating Roadmap for Troubled Times*.
- S&P's report of 28 May 2009, titled *Public Finances in Highly Rated European Sovereigns: The Deterioration Sets In*.
- Moody's Special Comment report of 21 April 2009, titled *How Safe are Safe Havens? The Ratings Impact of Aaa Countries' Unconventional Policy Response to the Crisis*.

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- Fitch Ratings' Special Report of 17 March 2009, titled *High-Grade Sovereigns and the Global Financial Crisis*.

Most of the reports do not make mention of Australia specifically. Instead the reports make broader comments on the creditworthiness of highly rated sovereigns.

However, the Fitch report *High Grade Sovereigns and the Global Financial Crisis* does make specific mention of Australia. Table 1 of the report contains a matrix ranking countries' exposure to the crisis (as low, medium or high) and adjustment capacity (as weak, moderate or strong). Australia and Canada are the only countries that are assessed as having both a low exposure to the crisis and a strong adjustment capacity.