



## Press Release

### Outlook On New South Wales Revised To Stable, On Strong State Budget

June 16, 2009, Standard & Poor's Ratings Services said today that it had revised to stable from negative its outlooks on the Australian State of New South Wales (NSW) and the state's treasury operation, New South Wales Treasury Corp. (TCORP), reflecting a re-assessment of the state's fiscal flexibility—in particular, the government's ability to make structural improvements to its financial position despite a likely cyclical deterioration. The issuer credit ratings on the two entities were affirmed at 'AAA/A-1+'.

The ratings reflect a moderately low debt burden, strong economic structure, and a supportive relationship with the federal government. This is partly offset by weakening budgetary performance.

“The stable outlook reflects our opinion that the government will remain committed to the structural improvement in its budgetary performance,” said Standard & Poor's credit analyst Danielle Westwater.

The government estimates that the weakening economic outlook has reduced revenues by about A\$10 billion over the four years to 2011-2012. This is on the back of a significant increase in capital spending—with non-financial public sector capital expenditure projected to peak at A\$18.0 billion in fiscal 2010 compared with A\$11.2 billion in fiscal 2008. As a consequence, net financial liabilities as a proportion of operating revenue, including the public trading enterprises and core government, are forecast to increase to about 113% of revenue by fiscal 2013, from 71% in fiscal 2008. Despite this weakening, the government has retained its raft of tax increases and expenditure cuts to structurally improve its finances and so provide a solid base for when the economy recovers.

“We believe that, should there be further material cyclical deterioration in finances due to a weaker-than-expected economy, the government will take further measures to improve its structural operating position,” said Ms. Westwater. “As a consequence, we believe that net financial liabilities would be unlikely to remain above 120% to 130% in the medium term—a range that we believe would be consistent with the current rating (other things being equal).”

“There is minimal tolerance at this rating level for a structural weakening in finances, as this would be an indication of weak fiscal flexibility,” said Ms. Westwater. “Examples of things which may lead to a re-assessment of the rating include: materially stepping back from the privatization process of electricity retail assets; materially failing to deliver on proposed savings measures; and/or material new policies in the lead-up to the March 2011 election.”

#### About Standard & Poor's

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