Moody's Annual Report on Victoria

Regional ABC Radio Interview – Thursday, 25 February, 2016
Matt Tribe and Dr Greg Walsh, Chairman of Champions of the Bush

Background

On 23 February, 2016, Moody's Investor Service released its annual assessment of the Victorian economy and credit ratings relating to the Treasury Corporation of Victoria, the entity which issues debt on behalf the State of Victoria and its government-owned corporations.

Below is a paraphrased summary (not word for word) of a more extensive interview.

Interview
MT: Firstly, who is Moody's and what does it do
GW: Moody's is one of three main agencies which rate the creditworthiness or level of risk associated with governments, banks and other institutions around the world. The other main ones are Fitch and Standard and Poors. Moody's is an Investment Service based in New York and founded by John Moody about 100 years ago (1909). John Moody's aim was to provide investors and lenders with a simple and transparent way of comparing the creditworthiness of one government with the next or one corporate with the next. And so Moody's have developed a set of rankings that are designated by symbols which range from Aaa which is the top ranking which is associated with the lowest level of credit risk through to C which is the lowest ranking where the likelihood of government or corporates defaulting on debt repayment is high and the recovery of principal and interest is unlikely. Examples of the current rankings are:
Aaa : Australia, US, Germany, UK
B categories: Brazil, Spain, Philippines, Ireland, Argentina
C: Some of the African countries, not all

MT: But what is the significance of these ratings? Should our regional listeners be interested.
GW: Like much in life, it is change that produces interest. For example, a Vic Roads bridge over a river only becomes interesting to most of us (except for civil engineers) when the river floods and rises. Its then that we take interest in the height of the bridge, its load bearing capacity, width etc. Its the same with Moody's rating system. What is giving Moody's ratings significance now is the rising river of public debt or sovereign debt that governments have around the world. In Australia our public debt levels measured as a percentage of GDP (the total value of what we produce annually) is not too bad. It is 29%. This compares well with countries like South Korea; Taiwan, China and Sweden which have a debt/GDP percentage in the 30s. Indonesia is better at 24%. But Australia's public debt compares especially well with the US which has a debt level of 102% (war-time levels); the UK and France are at about 90%, and Greece, of course, is at 161%.

MT: But how do Moody's rate the US. Didn't they drop the rating at the time of the global financial crisis.
GW: Despite the level of public debt, Moody's have returned the US to a Aaa rating. But there is concern about the growth of public debt in the US over recent years and particularly since the sub-prime property crisis in 2009 which caused it to rise when governments bailed out the banks, thus converting private debt into public debt. The US Government Accounting Office says that the public debt level (which is at about $20trillion dollars) is unsustainable and on a couple of occasions over recent years the legislated US debt ceiling has been reached resulting in Treasury not being able to pay public entitlements at least for a short period.

MT: Yes, and the ceiling had to be lifted. But what accounts for Moody's Aaa rating of the US.

GW: It is faith in the US economy. The US economy is growing again and there is a view that the public debt levels are stabilising.

MT: The word “sustainability” comes to mind doesn't it, as do the phrases “too big to fail”
GW: Yes. Unfortunately, the public debt problem is not getting much airplay in the US presidential elections which now seems focused on rabble rousing and popularism.

MT: Moody's ratings are based on an assessment of the economy as well aren't they?.
GW: Yes. The Victorian Annual Report released yesterday assigned a Aaa rating to the Treasury Corporation of Victoria. Its debt is guaranteed by the State of Victoria and the rating reflects Moody's view of the State's credit quality at least to the end of June, 2014. The Annual Report noted that the State Government had improved its financial performance in the year ending June 2014 and that it had an intention to stay in surplus after a series of deficits that started to occur back in 2007/8. It also noted the inherent diversity and flexibility of the Victorian economy, the way in which it benefited from the rebalancing of the economy away from mining and the faster growth rate of the state economy at 2.5% in 2014/15 which was above the national average.

MT: Do we need more than one rating agency
GW: I think there is value in having more than one. There are about 6 in total. But we need to receive all the information they provide with a critical mind and understand its limitations

MT: Does it matter to the average punter?
GW: Yes it does. In the end the ratings impact on the amount of interest government pays on debt it owes and on borrowing capacity. If interest rates go up governments have to find this money in extra taxes or reduced spending on public utilities like roads. So we are all caught up this.

MT: Thanks for your time Greg and brief 101 on global credit rating

Greg Walsh, Chairman, COTB.