

## Ratings agency S P keeps Australia's AAA rating but doubtful about government's surplus timetable

Written by Michelle Grattan, Professorial Fellow, University of Canberra

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Shadow Treasurer Chris Bowen told the National Press Club that a Labor government would "show the ratings agencies the quality of our plans." Mick Tsikas/AAP

Standard and Poor's Global reaffirmed a negative outlook and is questioning the government's projection about when the budget will return to surplus, but has still maintained Australia's AAA credit rating.

The agency's maintenance of the AAA credit rating following last week's budget will be a relief to the government, but its detailed outlook is less than confident.

The initial negative outlook from the agency was made in 2016. In continuing it, it points to "risks to the government's fiscal consolidation plan and risks to the economic, fiscal, and financial stability outlook should the rapid growth of credit and house prices continue".

The budget projects a return to surplus in 2020-21. But S&P Global says it continued to think surpluses "could remain elusive beyond fiscal 2021".

"The balance of risks to government revenues remains negative. On the policy front, enacting further savings or revenue policies could remain a challenge, given the Senate's unwillingness in recent years to legislate many of the government's fiscal policy measures or doing so after considerable delay."

"This dynamic, which could continue, presents further downside risk to the outlook for fiscal balances."

Craig Michaels, director of sovereign & public finance ratings at S&P Global was blunt: "We have seen governments forecast surpluses for many years now and they haven't materialised. They've continued to be pushed back. So we don't think further pushback on the surplus target

is consistent with the AAA rating here on in.”

“We will continue to assess the likelihood or otherwise of whether the government will reach a balanced or surplus budget by 2021 and that will have a large bearing on whether we leave the AAA rating where it is or whether we downgrade it,” he told the ABC.

The S&P Global report cites the potential for low wage growth and low inflation as a “downside risk” for the projections on getting to budget balance. In the wake of the budget many commentators threw doubt on the budget’s wage growth projection – to get to more than 3% – as likely to be too high.

Noting that the outlook has been negative since July last year, S&P Global warns: “We could lower our ratings within the next two years if we were to lose confidence that the general government fiscal deficit will revert into surplus by the early 2020s.”

S&P Global says “a strong fiscal position is required to offset Australia’s weak external position. It is also needed to allow for a strong buffer to absorb the fiscal consequences if the ongoing boom in the credit and housing market were to abruptly end.”

The report expresses concerns about the financial stability risks in the housing market in Sydney and Melbourne.

S&P Global highlights the debt problem. “Australia’s high level of external indebtedness creates a high vulnerability to major shifts in foreign investors’ willingness to provide capital”, it says. “We consider that strong fiscal performance and low government debt are important to help ameliorate this risk.”

Scott Morrison tweeted:

Responding to the S&P Global report, Shadow Treasurer Chris Bowen said that if he became

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treasurer he would talk to the ratings agencies early in the term, taking them through an ALP government's plans, which would also be clear before the election. "We'll do what is necessary to work with the ratings agencies and show the ratings agencies the quality of our plans."

Bowen said the budget showed new record debt for the next three years, a deficit for 2017-18 which was 10 times larger than was predicted in the Coalition's first budget, and gross debt equivalent to A\$20,000 for every man, woman and child in the country.

*Michelle Grattan does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.*

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