[NSW Treasury warns rating agencies are preparing to downgrade the state’s credit rating](https://www.smh.com.au/politics/nsw/nsw-treasury-warns-rating-agencies-are-preparing-to-downgrade-the-state-s-credit-rating-20230619-p5dhpl.html)

[**Alexandra Smith**](https://www.smh.com.au/by/alexandra-smith-hvf30)June 20, 2023

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NSW is on the verge of losing its long-held AAA credit rating as Treasurer Daniel Mookhey warns the state is probably in breach of every metric used by global credit agencies to determine the prized rankings.

The gloomy prediction is based on NSW Treasury analysis and reveals that within two weeks the state will be paying more than 5 per cent of its income on servicing debt – a threshold that raises a red flag for the agencies.

Treasurer Daniel Mookhey says a credit rating downgrade could mean paying higher interest rates on state debt.

NSW already exceeds the debt level of other typical AAA-rated states by 30 per cent, according to Treasury, and a credit downgrade could put NSW at risk of paying higher interest rates and force the government to redirect more taxpayer money towards debt repayments.

“The two remaining AAA credit ratings we have are under immense pressure,” Mookhey said on Monday, ahead of delivering an economic statement to parliament on Tuesday.

The treasurer will deliver his statement to the Legislative Council in lieu of a full budget, which is traditionally handed down this week but has instead been delayed to September.

“The state may already be in breach, or is in risk of breaching, almost every metric those agencies used to determine whether we remain one of the few sub-national governments anywhere in the world that has the same credit rating as countries like Germany,” Mookhey will tell parliament.

Mookhey said his economic statement would paint a grim picture of the state’s overall finances and has repeatedly drawn attention to NSW’s projected debt levels in coming years.

The most recent budget estimates predict annual interest payments on NSW government borrowings will almost double during the next four years from $3.6 billion to $7.01 billion. Gross debt was forecast to peak at $187 billion by 2026 – driven in part by borrowing during the COVID-19 pandemic.

“The situation is indeed serious, the challenges ahead are steep and there are no easy answers,” Mookhey said.

The treasurer will use his economic statement to parliament to highlight the importance of “getting spending under control” and confirm the government would fund a one-off 4 per cent pay rise for public sector workers through yet-to-be announced budget savings.

“There is a shortage of police officers, paramedics, nurses and teachers, and we can’t expect our essential workers to pay the cost of budget repair by themselves when there is a cost of living crisis,” Mookhey said.

In his speech, Mookhey will argue that one of the tests used by credit agencies is based on debt levels.

“They are comparing the amount NSW owes in debt to the amount the government collects in revenue. We are already 30 per cent above the level of a typical AAA-rated state,” he will say.

“We are also probed on the size of our interest payments. The agencies expect AAA-rated states to spend no more than 5 per cent of their income servicing their debt. The previous government’s last budget will see us begin to cross that threshold in two weeks’ time.”

NSW holds a AAA rating by agencies Moody’s and Fitch. The third major agency, S&P, reaffirmed a AA+ rating in October 2022 after earlier flagging concerns about the state’s “rising debt burden”.

Mookhey said he would also push for a parliamentary inquiry into the state’s $15 billion sovereign wealth fund, which was seeded with $7 billion from the sale of WestConnex under the former Coalition government.

He said the former government had planned to raise more than $25.3 billion worth of additional debt by 2027 to deposit into the Debt Retirement Fund, which is a subset of the Generations Fund.

The treasurer said he would pause any extra contributions to the fund until the inquiry reported.

“We are not planning to disturb any money that is already in the fund,” Mookhey said, but added the state would not borrow to top up the debt retirement fund.