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Down Under

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Constitutional framework: The status of the states and territories and their link to the central government

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Organisation as a federal state

The federal structure of Australia was created following the formation of the Commonwealth of Australia in 1901, which subsequently attained practically full independence from the United Kingdom in the form of Dominion Status in 1907. The idea of forming an association of (British) colonies developed over the course of the 19th century, primarily owing to the requirement for a unified defence strategy, coordinated foreign policy and the creation of a common trade area. Today, Australia is organised on a federal basis and is divided into six federated states and three territories. While the six states are anchored in the constitution and enjoy wide-ranging autonomy (particularly in the areas of education, healthcare and internal infrastructure), the three territories have less constitutional independence. According to the constitution, the territories are directly subordinate to the Australian parliament. This empowers the latter to exercise full legislative power in the territories, although they are represented in Australia's bicameral parliament by members of the House of Representatives (lower house) and senators in the Senate (upper house). While the internal territories do have their own governments, except for the Jervis Bay Territory, the external territories are subject to direct administration by the federal government. The Australian constitution defines precise areas of responsibility for each of the three levels of administration.

Division of powers as defined in the Australian constitution (examples)

Central government	Federal states	Local authorities
Finance	Healthcare	Waste disposal
Foreign policy	Public order	Local road construction
Defence	Intrastate transport	Town planning
International trade and industry	Commodities	Pre-school education
Family law	Agriculture	
Social security system	Sport	
Immigration	Electricity, water and gas	
Telecommunications	School education	
Environment		
Higher education		

Source: Parliament of New South Wales, NORD/LB Floor Research

Status of the federal states

The Australian Constitution divides powers relating to taxation between the central government and the sub-sovereigns. In this context, the central govt is responsible for raising direct taxes (income tax, corporation tax and national VAT, among others). In 2023, the central govt generated revenues of approx. AUD 618bn (equivalent: EUR 382bn) from these sources. This accounted for around 81.8% of total tax receipts across all levels of government. By way of comparison, the states and territories were responsible for a share of just 15.3% in relation to direct tax revenues. This discrepancy highlights the limited fiscal autonomy of the sub-sovereigns, as they are heavily dependent on financial transfers from the central government. This financial dependency leads to the federal government playing a central role in the distribution of funds and fiscal policy. However, despite their limited sovereignty in tax matters, the governments of Australian sub-sovereigns are responsible for arranging essential services such as healthcare, education and infrastructure, which in turn further increases the importance of these financial transfers.

State aid during times of crisis

In 2008/09 and the subsequent sovereign debt crisis, the capital market for government bonds came under pressure. The Australian government launched a guarantee programme with the aim of reducing any negative impact on the funding activities of Australian sub-sovereigns. The Guarantee of State and Territory Borrowing was adopted on 25 March 2009, whereby the Australian state offered a guarantee for bonds issued by the federal states and territories. The states were able to decide of their own accord which bonds were covered by the guarantee. To utilise the guarantee, the states were obliged to pay a fee of 15-35bp. In this context, the precise level of the fee was determined on the basis of the rating of the sub-sovereign in question. The programme only applied to bonds issued in Australian dollar (AUD). As early as 07 February 2010, the government announced its intention to discontinue the programme with effect from 31 December 2010. By the end of the guarantee programme, only New South Wales and Queensland had opted to utilise it. During the COVID-19 pandemic, the Australian government primarily implemented fiscal policy measures with the aim of mitigating adverse economic impacts. The JobKeeper programme, for example, offered wage subsidies to secure jobs, while social security benefits were temporarily upped under the JobSeeker programme. In addition, tax relief and grants were introduced to stimulate investment and secure the liquidity of companies. The healthcare system also benefited from significant financial resources for testing capacities, vaccines and hospitals. Moreover, small and medium-sized enterprises (SMEs) were granted access to government-guaranteed loans to facilitate their refinancing activities. However, in contrast to the financial crisis of 2008/09, the government did not implement an explicit bond guarantee programme during the pandemic. Instead, the Reserve Bank of Australia (RBA), as the Australian central bank, assumed a core role in helping to stabilise the financial markets by putting in place the Bond Purchase Program (BPP). The purpose of the BPP was to keep long-term interest rates low and refinancing conditions for Australian issuers, particularly the states and territories, at a stable level. The programme ran from November 2020 to February 2022 and involved the purchase of Australian sovereign bonds, as well as those issued by the states and territories, at a total value of AUD 281bn. According to information from the RBA itself, the BPP led to a reduction of roughly 30bp for long-term current yields on Australian government bonds. In addition to the use of other instruments, the programme therefore successfully played its part in reducing the refinancing costs for issuers.

Link to the central government

Our understanding is that there is no explicit guarantee from the central Australian government for its federal states or territories in terms of liability. Art. 105 of the Australian Constitution regulates potential support for states in the event that they encounter financial difficulties, with formal details on agreements for the central government to assume debts incurred by the states laid down in Art. 105A: the Australian parliament may take over public debt incurred by states proportionately to their population and convert, extend or consolidate this debt (or part of it). In turn, the federal states are supposed to pay compensation to the central government for the debt obligations assumed. This might, for example, take the form of the central government deducting or retaining the interest to be paid on the debt obligations assumed from the surplus of the allocation (as part of the federal financial equalisation system) to the respective state. However, if this surplus is insufficient or no surplus is available, it is in principle possible to call upon the other states to settle the shortfall. Overall, however, there is no explicit obligation to maintain the solvency of individual states or mandatory liability to assume debt obligations.

Parliamentary elections in Australia

The Australian parliament is based on a federal system that stems from the Westminster model used in the UK. It is bicameral, i.e. comprises two chambers: the House of Representatives and the Senate. The House of Representatives, which is the lower house, consists of 151 members who are elected every three years. The seats are divided between the federated states relative to their respective populations, with each member representing a constituency. As the upper house, the Senate comprises 76 senators, with each of the six federated states having twelve representatives. The territories are represented by two senators each. The term of office of the senators is six years, with elections held every three years for half of the seats. Superior to the parliament is the Governor-General to represent the interests of the British monarch, who is both head of state and King of Australia. This is a largely ceremonial role, although in theory the Governor-General does have the power to dissolve parliament and call new elections. The Governor-General is de jure the highest Australian executive body and is also President of the Federal Executive Council and Commander-in-Chief of the Australian Defence Force. The remit also includes appointing ministers, judges and ambassadors. Although the Constitution hands extensive powers to the Governor-General of Australia, they are generally bound by convention – in line with the Westminster System – to act on the “advice” of the Prime Minister and the cabinet (a few exceptions notwithstanding). The last parliamentary elections took place on 21 May 2022 and saw a significant power shift. The Australian Labor Party (ALP) led by Anthony Albanese, which had previously been in opposition, won the election against the Liberal-National coalition led by the incumbent Prime Minister Scott Morrison, which had been in power since 2013. Key issues in the election campaign included the country’s approach to tackling climate change, economic challenges in the wake of the COVID-19 pandemic and social justice. The ALP promised more ambitious climate protection measures, increased funding for healthcare and education, as well as improved wages and working conditions. After its election victory, the ALP also secured a majority in the House of Representatives, with Albanese sworn in as the new Prime Minister of Australia. One particularly striking aspect of this election was the notable success of independent candidates and the Australian Greens, who performed well in affluent urban constituencies, mainly on account of their positions on climate protection. The next parliamentary elections are expected to be held in mid-2025.

Constitutional framework: The Australian financial equalisation system

Three methods of financial equalisation

The Australian central government carries out financial equalisation vis-à-vis its sub-sovereigns based on a purely vertical equalisation system. This is centred upon revenue from the Goods and Services Tax (GST), as well as additional state resources. In this context, three different methods (further details of which are provided in the sections below) regulate the distribution of funds:

1. General Revenue Assistance
2. National Specific Purpose Payments (SPP)
3. National Partnership Payments (NPP)

Commonwealth Grants Commission (CGC)

Since 1933, the Commonwealth Grants Commission has been the implementing institution for the distribution of financial transfers on the part of the Australian central government to the federal states and territories. Aid of this nature is defined in Section 96 of the Australian Constitution. In addition, the CGC is essentially responsible for the calculation of the distribution ratios required for the equalisation payment. It also reports to the central government on the payments made and their impact.

Horizontal Fiscal Equalisation (HFE): full convergence becomes reasonable convergence

The basis of the Australian fiscal equalisation system is based on the principle of Horizontal Fiscal Equalisation (HFE), the aim of which is to provide all federal states and territories with the financial resources they require to offer their citizens comparable levels of public services – irrespective of the economic performance of the respective sub-sovereign. For a long time, the system was built on full convergence in order to facilitate the same level of services across all regions of the country. In relative terms, larger and financially better-off states received less funding from the GST in comparison with the smaller ones. This approach is now being gradually reformed. A transition phase has been in progress since 2021, and this is set to run for a period of six years overall. As part of the reforms, the performance level of the strongest state is no longer being taken as a benchmark. Instead, fiscal capacity will in future be based on the two economically strong states of New South Wales and Victoria. As a result of the new rules on redistribution, states with high tax revenue of their own in relation to total expenditures will benefit (e.g. Western Australia) and states with low tax revenue of their own related to total expenditure will be disadvantaged (e.g. Northern Territory). While the previous system targeted full convergence of financial power, the reformed system no longer aims to achieve total convergence of fiscal capacities. In contrast to SPP or NPP, the funds distributed in this way are not earmarked for a particular purpose. Consequently, they may be used by the respective regional government at its discretion. The funds are allocated on a value-free basis. In other words, regional policies and decisions are not rewarded or penalised by either higher or reduced payments. Distribution of the GST pool takes place in two phases.

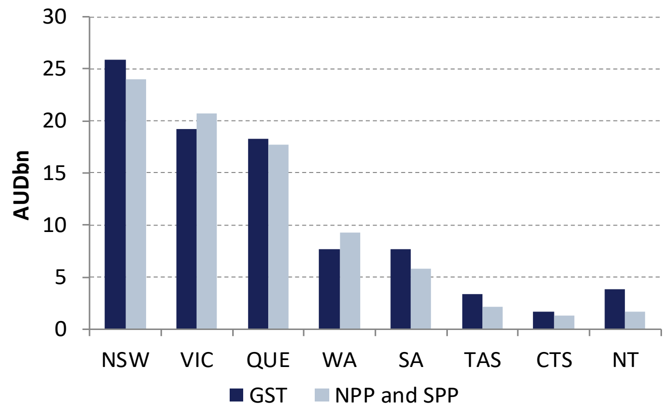
General Revenue Assistance

GST payments are a core element of the General Revenue Assistance. This is provided to the states by the Australian government to ensure that they have sufficient flexibility in defining their own budget priorities. States receive payments commensurate with the amount collected from GST, whereby adjustments to take account of the exact amount that may not be known until a later date are also possible. In the 2022/23 budget year, the federal states received a total of AUD 87.9bn in GST revenues. Payments are made each month based on estimates, as the actual volume of GST cannot be determined until after the end of the budget year. After the actual revenue has been calculated, an equalisation payment is made to ensure that the states receive their full share of GST.

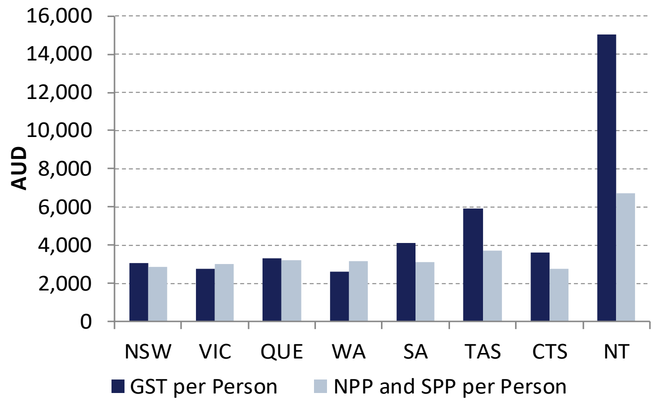
Specific Purpose Payments (SPP) and National Partnership Payments (NPP)

SPP and NPP are tools used by the central government to support the states and territories. SPP include payments earmarked for specific areas such as healthcare, education, vocational training and housing. In the 2022/23 budget year, these payments included, for example, National Health Reform Funding to support public hospitals and to combat the effects of the COVID-19 pandemic, as well as Quality Schools Funding to support both state and non-state schools. These payments are made in advance based on estimates and adjusted after the end of the respective budget year on the basis of final growth factors. Distribution is based on population shares according to data as at 31 December of the respective year. Conversely, NPP are used to support targeted projects or reforms that potentially extend beyond the core responsibilities of the SPP. These payments are frequently time-limited and target special, often one-off projects, such as major projects in the areas of environmental policy or infrastructure. NPP offer states the opportunity to implement reforms or realise special projects of national importance in direct cooperation with the central government.

Absolute transfer payments (2022/23)



Transfer payments per capita (2022/23)



* Revenue and expenditure collected on a state-by-state basis (excl. local authorities).
Source: Treasurer of the Commonwealth of Australia, NORD/LB Floor Research

Northern Territory remains a special case

For the 2022/23 budget year, the CGC estimated per capita expenditure and revenue for each federal state. The equalisation payments under the various programmes were calculated on the basis of the funding gap between the two figures. It is clear that the states with a smaller population, especially Northern Territory, have higher per capita expenditures for the delivery of public services than other states. As such, Northern Territory currently receives by far the highest level of per capita equalisation payments. In particular, some SPP for infrastructure development and to support the large indigenous population in this sub-sovereign have driven up per capita payments significantly. Owing to the ongoing reform process, the per capita payments will be geared towards the values of New South Wales and Victoria in the future and it is for this reason that a correction to the payments for smaller states can be expected in the coming years.

Conclusion

The Australian financial equalisation system for individual sub-sovereigns is comparatively transparent in its design. The transfers are made by the central government to the federal states, primarily by way of the GST, in order to guarantee the financing of tasks incumbent on the states (vertical system of equalisation). At the same time, the system is based on the HFE approach, which is intended to ensure that financial differences between the states are balanced out in order to guarantee that public services are delivered at a similar level across the country. Since the reform of the financial equalisation system in Germany (cf. NORD/LB Issuer Guide – German Laender 2024), the German and Australian systems can be better compared. However, the ongoing reform process Down Under, which will see the system increasingly geared towards the fiscal capacities of the economically strongest states, could ultimately disadvantage smaller and economically weaker states over the long term.

Constitutional framework: The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

TPP – the precursor

The long-planned TPP (Trans-Pacific Partnership) trade agreement between an original total of twelve countries was signed in 2015, although initially it was not ratified. At this time, Australia, Brunei, Chile, Japan, Canada, Malaysia, Mexico, New Zealand, Peru, Singapore, the USA and Vietnam were all involved in the agreement. The TPP was considered to be an extension of the TPSEP (Trans-Pacific Strategic Economic Partnership), a free trade agreement concluded between Brunei, Chile, New Zealand and Singapore back in 2005, which primarily sought to abolish customs duties. US interest in acceding to the agreement was advanced in particular by the former US administration under Barack Obama. The original intention was chiefly to promote the exchange of international financial services.

Trump orders exit from TPP

Donald Trump once again took centre stage in relation to a trade agreement by sharply criticising the proposal for the Trans-Pacific Partnership during his first presidential election campaign. Trump asserted his main argument that the employment situation on the US labour market would be weakened by any agreement. In January 2017, on his first day in office, Trump formally withdrew the United States from the TPP by decree, with the aim of strengthening domestic industry and the labour market. This therefore signified that the USA had adopted the dreaded path of protectionism in terms of its approach to trade policy.

Agreement continues without the USA

Despite the withdrawal of the USA, the eleven remaining countries opted to continue the agreement. This led to the creation of the CPTPP, which entered into force on 08 March 2018. Australia played a decisive role in the negotiations and was committed to uphold the economic benefits offered by the agreement. Although some clauses of the original TPP were suspended with an eye on making it easier for the USA to return at a later date, key elements such as a liberalisation of trade and intellectual property protection were retained. The signatories of the CPTPP, including Japan, Canada and Australia, agreed to continue to use the agreement to strengthen trade relations across the Asia-Pacific region. Australia above all benefited from improved export conditions for its key industries, namely agriculture, fisheries and commodities in particular. With the UK now also set to imminently join the CPTPP, the agreement is expanding its reach beyond the Asia-Pacific region. The UK’s accession has the potential to not only boost economic relations between the CPTPP signatories, but also to bolster Australia’s trading relationship with the UK, which has traditionally been an important partner in this regard. CPTPP negotiations remain the focus of global trade discussions: countries such as Thailand and South Korea have also expressed an interest in joining, which would further enhance the importance of the agreement. Australia is supportive of a potential expansion, having identified opportunities to further diversify its export markets.

Conclusion

After the CPTPP was signed in 2018 and ratified by all member states, the foundations were laid to achieve the central mission of the agreement, i.e. to create a solid, rule-based system of trade fit for the 21st century. Looking ahead, we believe the next priority should be to maximise the number of signatories. However, the Biden Administration also ruled out the possibility of the USA rejoining the agreement. Rather, the Indo-Pacific Economic Framework for Prosperity (IPEF) was launched in May 2022 at the initiative of President Biden, who will remain in office until the second inauguration of Donald Trump on 20 January 2025. With the IPEF, the USA re-emphasised the economic importance of the region. China remains a potential membership candidate, despite the fact that Australia and Japan intimated that they would not support a formal Chinese application back in 2021. However, in the case of the UK, which, despite its geographical location also signalled an interest in joining the CPTPP post-Brexit, the situation is much clearer. On 31 March 2023, the UK government announced that negotiations with the member states of the agreement had been concluded, before signing the Protocol of Accession on 16 July 2023. This precipitated the start of a 15-month transition period, during which all member states have the opportunity to ratify the UK's accession to the CPTPP, which would then take effect 60 days later. Alternatively, it would suffice for at least six existing members to ratify the agreement. As a total of seven CPTPP member states have formally ratified the UK's accession before the end of the transition period, the UK is now expected to join the agreement with effect from 15 December 2024. Australia has benefited considerably from the continuation of the CPTPP and now has a strong position in trade relations with its fellow member countries. The accession of the UK is testament to the continued attractiveness of the agreement. As such, the CPTPP remains a central pillar of Australia's trade strategy given the fact that it facilitates access to international markets and promotes trade diversification.

Negotiations on a free trade agreement with the EU

Conditions

The volume of trade between Australia and the EU increased by an average of +1.7% per annum in the five-year period to 2023, with Australia's high level of imports from EU Member States playing a significant role in the EU's status as one of the country's most important trading partners. Despite the continued importance of these trade relations, the volume actually declined by -2.4% in 2023, while the volume of trade between the EU and New Zealand increased to NZD 20.7bn. New Zealand exported goods and services to the value of NZD 5.7bn to the EU in 2023, while imports reached NZD 15.0bn. Against this backdrop, there is a general interest in working to further reduce existing tariffs in order to promote bilateral trade and deepen economic ties.

Current status of negotiations between Australia and the EU

The EU and Australia have been locked in negotiations towards a comprehensive Free Trade Agreement (FTA) since 2018 in order to facilitate the mutual exchange of goods and services between the two parties. The 15th round of negotiations took place in Brussels in April 2023, with the parties unable to reach an agreement on agricultural products in particular. On 31 August 2023, discussions regarding the FTA resumed with a conference call between Don Farrell, the Australian Minister for Trade and Tourism, and EU Commissioner for Trade Valdis Dombrovskis, after having been suspended in the interim.

Current status of negotiations between New Zealand and the EU

After twelve rounds of negotiations, which also got underway in 2018, New Zealand signed a comprehensive FTA with the EU designed to generate economic opportunities in addition to protecting climate and labour standards. The Committee on International Trade (INTA) approved the FTA in October 2023, with the European Parliament giving the green light to the agreement on 22 November 2023 with 83% of all votes. As this is exclusively an EU agreement, no ratification by the national parliaments of the Member States was required. New Zealand completed the domestic procedures in March 2024, with the result that the FTA subsequently entered into force on 01 May 2024. It is projected that this will lead to a growth of NZD +1.8bn per annum in exports from New Zealand to the EU.

Conclusion

Both Australia and the EU should strive to reach an agreement sooner rather than later in order to realise economic benefits. However, EU protectionism in relation to the agricultural and raw materials sector could continue to complicate negotiations and hamper growth in the trade volume. Given the decline recorded in 2023, this is certainly a cause for concern. In contrast, the FTA between New Zealand and the EU has already entered into force. In this sense, it is expected to support the further expansion of trade in addition to offering positive impetus in relation to the bilateral trade volume.

Regulatory framework of the Australian states and territories

Key factor for relative attractiveness

In the SSA segment, we regard the regulatory treatment of exposure as one of the main determinants of the relative attractiveness of an issuer or bond issue. For this reason, we analyse the implications of the risk weight, the LCR and NSFR classification, as well as the treatment under Solvency II in the sections below. In this context, we have opted not to provide a general overview of each individual regulation and would instead refer readers to our NORD/LB Issuer Guide – German Laender 2024, in which we look into the legislation in greater detail.

Risk weight

0% risk weight possible under the CRR

From our perspective, it is possible to apply a risk weight of 0% to the Australian states and territories in line with the standard approach of the CRR. We shall discuss how this classification is possible in greater detail below.

Relevant regulatory framework: CRR; Commission's decision; CAR

The basis for the risk weight of outstanding claims against Australian states and territories is essentially derived from three legislative acts: the European Capital Requirements Regulation (CRR; Regulation (EU) No. 575/2013), the European Commission's decision 2021/1753/EU and the Australian Capital Adequacy Requirements (Prudential Standard APS 112).

CRR: Art. 115(4) allows the possibility of a 0% risk weight for sub-sovereigns outside the EEA

The risk weight of exposure is subject to the requirements of the CRR within the EU. In the case of regional governments and local authorities (RGLAs), the risk weight is determined on the basis of the standard approach pursuant to Art. 115 CRR. Paragraph 4 outlines the possibility that exposure to sub-sovereigns may be treated as exposure to the respective central government in cases where the central state in question is not part of the EEA and is therefore regarded as a third country. Essentially, there are two requirements for equal treatment of exposure, i.e. the possibility of a 0% risk weight:

1. The third country's regulatory and legal provisions are at least equivalent to those of the European Union.
2. The regulatory body in the third country treats exposure to the respective sub-sovereigns like exposure to the central government. This is because there is no difference in relation to the risks of these positions due to the special powers to levy taxes held by these sub-sovereigns and institutional precautions that are in place to reduce the risk of default.

Two requirements require examination

It is accordingly necessary to examine two requirements: the equivalence of Australia's regulatory and legal provisions with those of the EU, and the risk weight of Australian states and territories under the standard approach in Australia.

BCBS approves reforms

In 2018, the Basel Committee on Banking Supervision (BCBS) adopted amendments to the regulations governing capital requirements under the credit risk approach, among other measures. Moreover, a buffer was added to the leverage ratio, while the calculation of the necessary regulatory capital by the banks was tightened up as well. The purpose of these adjustments is the unjustified variability of risk weight from bank to bank.

Commission's decision: equivalence of regulatory and legal provisions

Examination of the first requirement was made much easier in October 2021. The European Commission published Implementing Decision (EU) 2021/1753, in which it specified those countries where regulatory and legal provisions are at least equivalent to those of the EU. In conjunction with Annex IV of the decision, Article 4 explicitly indicates those countries in which this first requirement of Art. 115 (4) CRR has been met. This list includes the following jurisdictions:

List of third countries that are equivalent from a legal and supervisory viewpoint

Argentina	Hong Kong	Saudi Arabia
Australia	India	Serbia
Bosnia and Herzegovina	Isle of Man	Singapore
Brazil	Japan	South Africa
Canada	Jersey	South Korea
China	Mexico	Switzerland
Faroe Islands	Mexico	Turkey
Greenland	**New Zealand**	USA
Guernsey	North Macedonia	

Source: EU 2021/1753, NORD/LB Floor Research

Equivalence confirmed

Equivalence is therefore confirmed by the Commission's decision. As a result, the first requirement of Art. 115(4) can be regarded as satisfied.

CAR: 0% risk weight for Australian regions in Australia

The relevant legal provision is the Final Prudential Standard APS 112 (PS). According to Annex B, Article 5, exposures to the Australian state that are denominated and financed in AUD benefit from a risk weight of 0%. A risk weight of 0% may also be applied to all exposures to foreign states, in addition to Australian and foreign sub-sovereigns, which are categorised under Credit Quality Step 1 on account of their rating (Fitch/S&P: AAA to A-, Moody's: Aaa to Aa3).

0% risk weight possible for Australian states under CRR

The method of deriving the risk weight using the CRR, the Commission's decision and APS therefore confirm the possibility of assigning a risk weight of 0% based on the standard approach. Accordingly, we are of the view that Australian states and territories represent interesting alternatives to other issuer groups from the sub-sovereign segment which benefit from similar regulatory preferential treatment (e.g. German Laender and the Canadian provinces and territories).

LCR classification

LCR classification dependent on two conditions

The LCR classification of bonds issued by Australian states and territories is defined by the LCR Regulation, which is based on the CRR. For its part, Art. 10(1)(c)(iv) LCR allows for the possibility of Level 1 classification for bonds issued by regional governments and local authorities (RGLAs; also referred to as sub-sovereigns in our coverage) that are not part of the EEA. For this, two requirements are defined:

1. LCR classification of the respective central state is possible under Art. 10(1)(c)(ii)
2. Exposure to sub-sovereigns may be treated as exposure to the respective central state under Art. 115(4) CRR

First requirement: validity of Art. 10(1)(c)(ii) LCR for Australia

The first requirement is that exposure to Australia can be classified as Level 1 assets under Art. 10(1)(c)(ii) LCR. Classification requires a Credit Quality Step (CQS) of 1 in accordance with Art. 114(2) CRR. In order for Australian government bonds to be classified as Level 1 assets, they must have a minimum rating of AA-/Aa3. Since Australia is currently rated AAAu/Aaa/AAAu by Fitch, Moody's and S&P respectively, this requirement has been fulfilled. Given that Australian government bonds can consequently be used as Level 1 assets, the first condition of Art. 10(1)(c)(iv) LCR is also satisfied.

Second requirement: 0% risk weighting for Australian states

For the second requirement, the LCR refers to the risk weight of the respective sub-sovereign according to Art. 115(4) CRR. Since we conclude that a risk weight of 0% could be applied to exposure to Australian states and territories in accordance with the standard approach of CRR (see previous pages), this requirement is therefore also met.

Bonds issued by Australian states as Level 1 assets

As a result, we conclude that Australian states and territories benefit from Level 1 classification in the context of the LCR, as is the case with the German Laender, for example. For a more detailed analysis of the LCR, we would refer readers at this point to our NORD/LB Issuer Guide – German Laender 2024.

NSFR classification

Introduction of the NSFR within the framework of the CRR

After the CRR came into effect, requirements with regard to the Net Stable Funding Ratio (NSFR) were also implemented into European law, although the European Commission adopted the BCBS draft with a handful of amendments. Similar to the LCR, the purpose of the NSFR is to avoid funding risks. In contrast to the LCR, however, the focus of the NSFR is on a time frame of twelve months, rather than stress periods of one month. For more detailed information in this regard, we again refer to our NORD/LB Issuer Guide – German Laender 2024.

RSFF of 0% in accordance with Art. 428r–428ah CRR

The classification of assets in RSF categories is regulated by Articles 428r–428ah of the CRR. As unencumbered LCR Level 1 assets (see previous pages), a Required Stable Funding Factor (RSFF) of 0% can be applied to bonds issued by Australian states and territories, which is the best possible classification. In comparison with the draft version drawn up by the BCBS, which stipulated an RSFF of 5%, this classification is even more favourable. Australian sub-sovereigns are therefore equated with the German Laender, for example.

Solvency II classification

Solvency II classification according to BaFin
In the standard formula under Solvency II, bonds are generally considered in relation to the interest-rate risk, the spread risk, the market concentration risk and, if denominated in foreign currency, the currency risk. In the spread risk and market concentration risk, certain bonds are assigned a risk factor of 0%. In this respect, please refer in particular to Art. 180(2) Delegated Regulation (DR) for specific risk exposures in relation to the spread risk and Art. 187(3) DR for the market concentration risk.

Basic principles of Solvency II classification
The capital requirement for the spread risk of bonds is basically determined as a stressed market value, whereby the related stress factor to be used is essentially derived from the two parameters: duration and credit quality step (CQS). The credit quality step is mainly derived from the (external) rating. To this end, a specific mapping is defined in a document entitled: "Implementing Technical Standards on the mapping of ECAIs credit assessment". Exposure to local governments is only to be treated as exposure to the relevant central government if they are explicitly included on the published lists of the European Banking Authority (EBA).

Specific characteristics of Solvency II classification
Given that the individual Australian states and territories do not constitute a regional government of a Member State, Art. 180(2)(b) DR in particular is not applicable. Since the vast majority of the issued bonds is denominated in the currency of the central government in question (Australia, AUD), Art. 180(3) does however apply. As a result, in this instance, the capital deposit is determined in line with the requirement specified in Art. 180(3) DR. Due to the very sound creditworthiness of some federal states, a stress factor of 0% can be applied. As we understand the situation, this preferential treatment should currently be valid, especially for the states of New South Wales and Victoria.

Result – CQS
The decisive factor is that bonds of this type denominated in foreign currency that are issued by Australian states and territories (or regional governments of non-Member States) are not assigned preferred status and, as a rule, must accordingly be covered by equity capital, irrespective of rating and consequently CQS too. This also applies to bonds denominated in either AUD or NZD, since the exposure to the states and territories (Australia) or regions (New Zealand) is not regarded as exposure to the respective central government. For this reason, it is not Art. 180(3) DR that is crucial to stress factor use, but rather Art. 176 DR still. Consequently, irrespective of their rating, no bonds are assigned preferred status with a stress factor of 0%.

Result – SCR
The SCR (Solvency Capital Requirement) is currently calculated on the basis of "individual addresses". Accordingly, it is the regional governments that constitute the individual addresses in question. In the case of EUR bonds, there would also be no risk factor of 0% in this instance (cf. Art. 186(1) in particular). This would also apply to bonds if they were denominated in AUD. Consequently, no bonds are assigned a risk factor of 0% in the market concentration risk either.

International regions missing from EIOPA list

Interestingly, the EBA only includes RGLAs from the EEA in its list, although there is no restriction to Member States under Art. 85 DR. In contrast, the Final Report based on the consultation paper states that the scope shall initially be restricted to EEA-based RGLAs. However, future extension of the scope to include RGLAs in relevant third countries is not ruled out. If Solvency II also follows the risk weight according to Basel III for international sub-sovereigns when applying preferred status, we believe that Australian states and territories would also benefit from a stress factor of 0%. If exposures to Australian states and territories were to be treated in the same way as exposures to their central government, our interpretation pursuant to Art. 180(3) based on the rating of Australia would also result in a stress factor of 0%.

Conclusion

In our view, bonds issued by Australian sub-sovereigns are not preferred under Solvency II and should therefore be assessed on a case-by-case basis according to risk class and duration. The same also goes for the provinces and territories of Canada, for example.

Regulatory framework: Australian Prudential Regulation Authority

The regulatory system – APRA

Established on 01 July 1998, the Australian Prudential Regulation Authority (APRA) is the supervisory authority for banks, building societies and credit cooperatives, as well as for general insurance, reinsurance and health insurance companies. APRA, which is largely funded by levies on the financial institutions that it supervises, authorises companies so that they can operate legally in the Australian market. APRA's primary objective is to maintain the safety and integrity of financial institutions in Australia. This objective is reflected in the confidence of market players in the ability of the supervised institutions to meet their payment obligations when they fall due under all circumstances. In this respect, the protection of investors, policyholders and members of superannuation funds (Australian term for pension funds) takes utmost priority. APRA works closely with the Department of Finance of the Australian government, the Reserve Bank of Australia and the Australian Securities and Investments Commission. Since 100% protection against payment defaults cannot be guaranteed, APRA also assumes responsibilities as a resolution authority to ensure that creditors and customers have access to their payment claims in the event that a financial institution fails.

PAIRS and SOARS

In October 2002, APRA introduced new methods for risk assessment and supervision by means of the Probability and Impact Rating System (PAIRS) and the Supervisory Oversight and Response System (SOARS). In the PAIRS programme, companies are classified in a matrix on the basis of variables such as "significance for the economy" and "current probability of default", with subsequent measures accordingly defined using the SOARS programme. The following principle applies: the greater the significance for the economy and the greater the probability of default, the more frequent the control measures and the more serious the potential intervention by APRA in the management of the company. The classification categories can be broken down as follows: normal, supervision, mandated improvement and restructuring. It should also be noted that the probability of default variable has a greater influence on the classification than the economic significance variable.

ASIC

The Australian Securities and Investments Commission (ASIC) is an independent body of the Commonwealth Government and was founded in 2001 by the Australian Securities and Investments Commission Act 2001. It primarily carries out its tasks within the framework of the Corporations Act 2001 (Corporations Act). In parallel with APRA, ASIC works to regulate Australian companies, markets, financial service providers and consumer loans. Furthermore, ASIC licenses all parties involved in the granting of consumer loans. The licences are based on the National Consumer Credit Protection Act 2009.

The Australian economy

The economy since COVID-19

After the first case of COVID-19 was recorded in January 2020, the situation in Australia developed in a manner similar to that seen around the world. In March 2020, the government introduced wide-ranging measures to shut down public life in an attempt to prevent the virus from spreading. Of course, this inevitably entailed economic impacts: between Q1 and Q2/2020, Australian GDP fell by a seasonally adjusted -6.7%. In a year-on-year comparison, economic output declined by -2.1%, which also left its mark on the labour market. With unemployment having ranged between 5.0% and 5.6% since 2018, there was a sharp rise in April 2020 to 6.3%. In July 2020, unemployment hit 7.5% – the peak value recorded during the pandemic. From Q3/2020, however, the economy began to gradually recover. In a year-on-year comparison of 2020/21, Australia recorded a seasonally adjusted GDP growth rate of +5.5% (2021/22: +3.9%, 2022/23: +2.0%). Tracking the trend of overall economic developments, unemployment also started to come down again. At 3.5% in July 2022, unemployment reached its lowest level since the start of 2014 (October 2024: 4.1%). The COVID-19 pandemic also had a clear impact on national debt, which rose by +19.3% year-on-year in 2020 to the highest level ever recorded of 43.6% of nominal GDP. Since the 1980s, Australia has been characterised by low debt levels in comparison with the USA, Japan and the countries of southern and central Europe. At 38.6% of GDP, the debt level was again moderate for a developed country in 2022, although it should also be pointed out that the country has mostly posted double-digit positive growth rates in relation to its liabilities since the financial crisis of 2008/09. It was only in 2021 and 2022 that the debt level in relation to GDP fell, by -6.0% and -5.8% respectively.

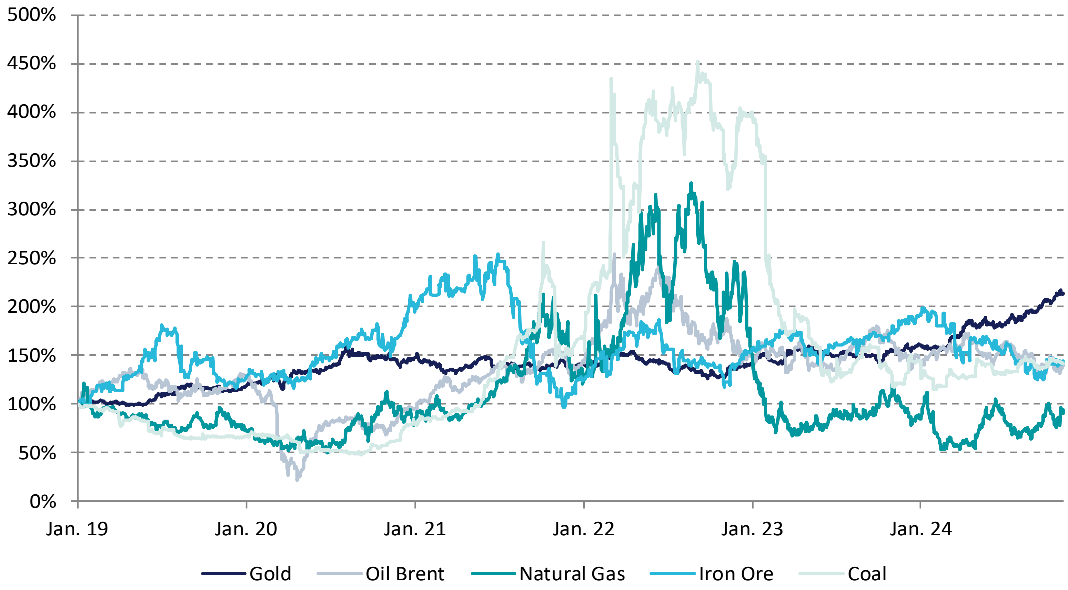
Monetary policy in Australia

As part of its mandate, the Reserve Bank of Australia (RBA) pursues three objectives defined in the Reserve Bank Act of 1959: (I.) currency stability, (II.) full employment and (III.) maintaining the prosperity of the population. To fulfil its mandate, the RBA aims to achieve consumer price inflation within the target corridor of 2-3%. As was the case in Europe, Australia experienced a period of low inflation in the years prior to the onset of COVID-19. Between 2015 and 2020, inflation exceeded the 2% level in just three quarters. The lockdown measures and subsequent economic standstill caused a decline in the inflation rate to -0.3% in Q2/2020. To stimulate the economy, the RBA responded by cutting the deposit rate to a level of 0.1%, with inflation then picking up again from Q3/2020. By Q3/2021, inflation had reached 3.8% on the back of global supply bottlenecks and the recovering economy. Despite its geographical distance from the conflict, the ongoing war in Ukraine has also cast a shadow over Australia. For example, rising import costs for food, gas and oil in particular caused prices to spike further, with inflation subsequently reaching a 33-year high of 7.8% in Q4/2022. In an attempt to combat inflation, the RBA responded with a series of rapid interest rate hikes. Inflation most recently came in at 2.8% (Q3/2024), while the deposit rate stood at 4.35% (mid-November 2024).

Economic structure of Australia

In Australia, the service sector accounts for the majority of value added (July 2023: 69.8%). With a share of 17.3% in 2023, the primary sector generated an unusually large share of domestic gross value added for a Western country, which can be explained by extensive mining activities in Australia. The country is one of the world's leading producers of bauxite, iron ore, lithium, gold, diamonds, rare earth metals and uranium, among other commodities. The next largest drivers of value added were the healthcare and social sector as well as the housing sector, which contributed shares of 8.2% and 8.1% to domestic gross value added respectively. On account of its isolated geographical location as an island and its status as a highly specialized economy, Australia is dependent to a particularly large extent on imports to ensure both that the basic needs of the population can be met and that machinery and technology can be sourced to supply the economy. Despite this, however, the country consistently recorded trade surpluses in the period 2018-2023 (2023: AUD 125.8bn). Measured by the total volume of exports and imports, China (2023: 26.8%), followed by Japan (9.9%) and the USA (8.1%) were Australia's most important trading partners. In terms of the goods exported (2023: AUD 673.3bn), the largest individual shares were attributable to iron ore (20.2%), coal (15.2%) and natural gas (11.0%). The share of the above-mentioned export goods in the country's total exports amounted to 46.4% in 2023 (2022: 53.2%). This significant weighting is down to the price shock impacting raw materials as a result of the Ukraine war and led to a record trade surplus of AUD 139.9bn in 2022 (+17.4% Y/Y). As far as imports are concerned, refined petroleum (2023: 9.3%), private travel (6.9%) and cars (6.6%) ranked among the leading imports of goods and services. Moreover, Australia is a key target market for international investors. In 2023, foreign direct investment (FDI) totalled AUD 1.2tn. In line with its contribution to value added, at AUD 392.2bn the mining sector attracted by far the highest share of FDI in 2023. Accordingly, mining accounts for 33.2% of overall FDI in Australia. Other sectors that certainly appeal to foreign investors included banking and insurance (12.6%) as well as real estate (11.8%).

Trend in selected commodity prices



Source: Bloomberg, NORD/LB Floor Research

Detour: the economy of New Zealand

The New Zealand economy
With a population of 5.3m people, New Zealand may be a small country, but with nominal GDP per capita of NZD 52,205 (2023, EUR equivalent: EUR 29,910), it is an affluent one as well. In 2023, absolute GDP amounted to NZD 277.1bn. The service sector (75%) is the main driver of the domestic economy, followed by the secondary sector (18.5%) and primary sector (6.4%). In contrast to the majority of other Western countries, the economic impact of the COVID-19 pandemic in New Zealand remained moderate. For example, national GDP grew by +2.4% year-on-year in 2020, followed by a slight contraction of -0.4% in 2021. From 2019 up to and including the second quarter of 2020, unemployment remained stable at just over 4% before rising to 5.2% in the third quarter of 2020. The rate then began to decline up to Q4/2021, when it reached a value of 3.2%. It most recently stood at 4.6% in the second quarter of 2024. New Zealand reported more positive growth in GDP, which increased by +2.7% from 2022 to 2023.

Monetary policy in New Zealand
The Reserve Bank of New Zealand operates within the terms of a mandate that includes a comparatively broad inflation corridor. In the medium term, this is between 1% and 3%, although the long-term target stands at 2%. The target was most recently achieved in the first quarter of 2021. Since this time, New Zealand has been experiencing a period of high inflation, leading to the upper limit being consistently breached. For example, a record value of 7.3% was recorded in the second quarter of 2022. In Q2/2024, inflation came in at 3.3%, which is the lowest level for three years. The main drivers fuelling the rise in inflation included food, housing and transport costs and, given the persistent nature of the inflationary cycle, increased expectations with regard to future inflation rates. After the central bank raised the Official Cash Rate from 0.25% to 5.5% in twelve steps from September 2021 to May 2023, the monetary policy approach has recently been relaxed. Initially, interest rates were reduced by -25bp, which was followed by a cut of -50bp to 4.75% in October.

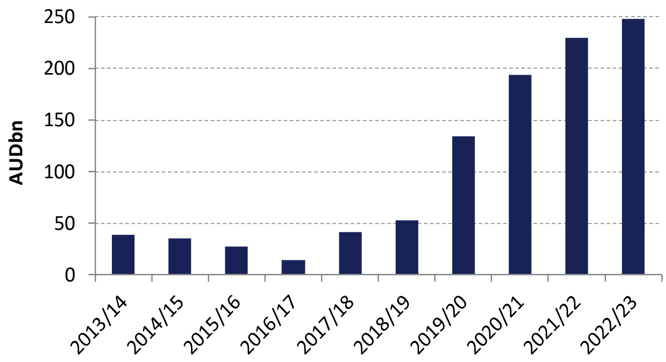
Foreign trade profile of New Zealand
In the past three years, New Zealand has recorded trade deficits (2023: NZD -11.9bn). As measured against the total trade volume, China (18.4%), Australia (15.5%) and the USA (13.3%) were the most important trading partners in 2023. Looking at the breakdown of the most important export goods, the contribution of the agricultural sector to the gross value added of New Zealand is clear: in 2023, the list of most important export goods (by volume) included dairy products (1st), meat and processed meat products (3rd), wood (4th) as well as fruits and nuts (6th). Conversely, the three most important import goods were fuels, mechanical machinery and motor vehicles.

Budget and debt development – an overview

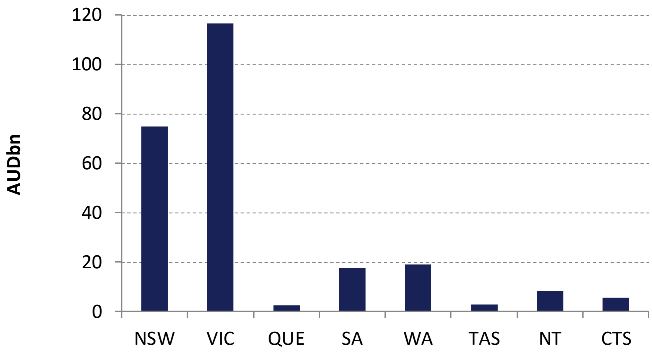
Heterogeneity of states and territories

With regard to their debt and budget situations, there is a high degree of heterogeneity on the part of the Australian states and territories. Not least due to differences in population sizes between the individual states, there are sometimes major differences in the budgets of the individual sub-sovereigns and their municipalities.

Australian states – development of net debt



A comparison of outstanding net debt

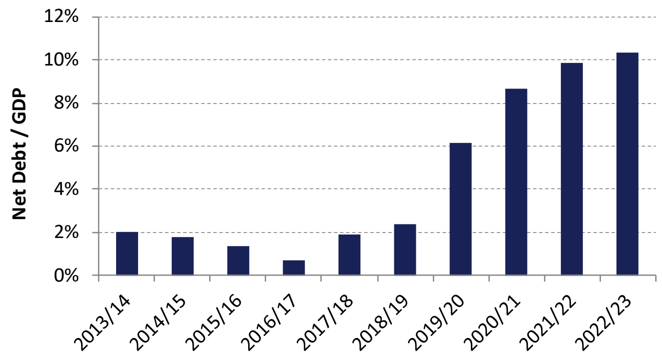


Source: Australian Bureau of Statistics, NORD/LB Floor Research

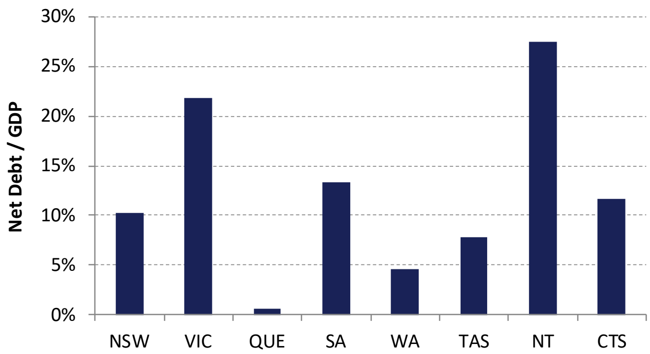
Sharp rise in net debt over time

After the Australian sub-sovereigns had successfully managed to consistently reduce their net liabilities since 2013/14, this reached a record low in the 2016/17 budget year of AUD 14.0bn. However, net liabilities have risen sharply in the wake of this period of debt relief. In the 2022/23 budget year, this trend eventually led to total net debt of around AUD 248bn. In a direct comparison of the Australian states, both New South Wales and Victoria stand out significantly in this respect. For example, the net liabilities of the two states in 2022/23 came to AUD 74.9bn and AUD 116.7bn respectively. Debt growth in units of Australian economic output has also increased steadily since 2016/17. Starting from 0.7% in the period under review here, the ratio of net debt to GDP most recently came to 10.3% in 2022/23. Regional disparities were also in evidence here: Queensland managed to reduce its debt-to-GDP ratio for the third time in a row: in the 2022/23 budget year, this metric fell to 0.6%. In contrast, Victoria and Northern Territory in particular had to contend with persistently high ratios (2022/23: 21.8% and 27.5% respectively).

Trend in net debt / GDP

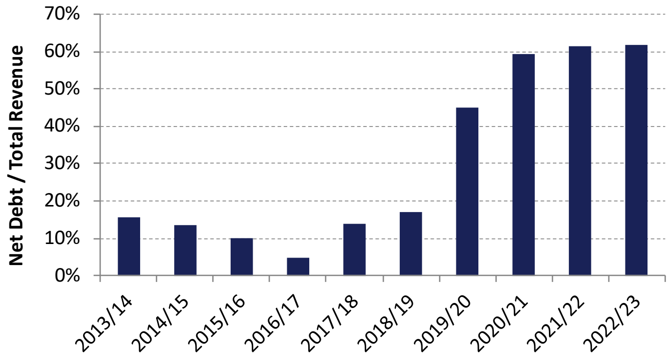


A comparison of net debt / GDP

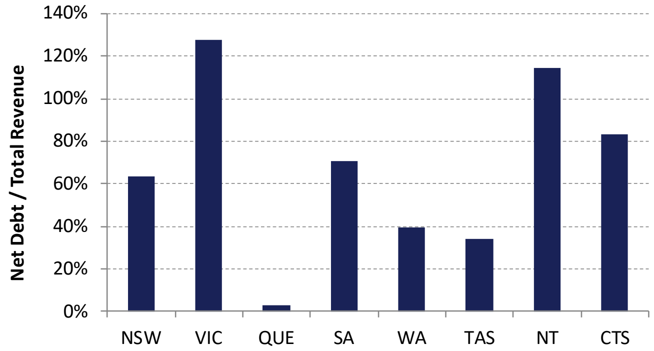


Source: Australian Bureau of Statistics, NORD/LB Floor Research

Trend in net debt / revenue



A comparison of net debt / revenue



Source: Australian Bureau of Statistics, NORD/LB Floor Research

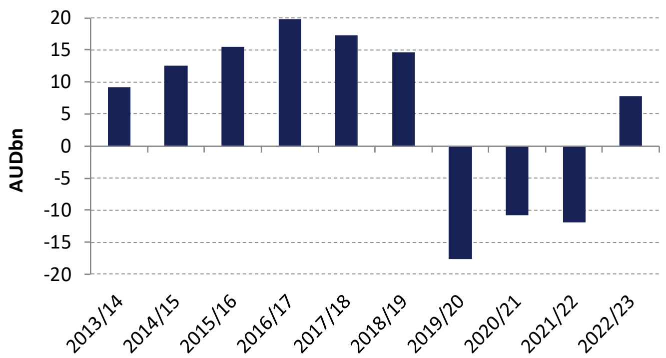
Negative trend in debt sustainability...

The ratio of net debt to total revenue also reflects the negative trend in debt sustainability. Following a phase of increased debt coverage on the basis of revenues, growth in the debt level has been much more pronounced than that in relation to revenues since the 2017/18 budget year. New South Wales can again be used to illustrate this development: in 2016/17, the ratio of net debt to revenues amounted to -10%, before increasing to the current level of +63% in the 2022/23 budget year. However, Queensland stands out positively in this regard: the state has posted the lowest values for this metric for several years now.

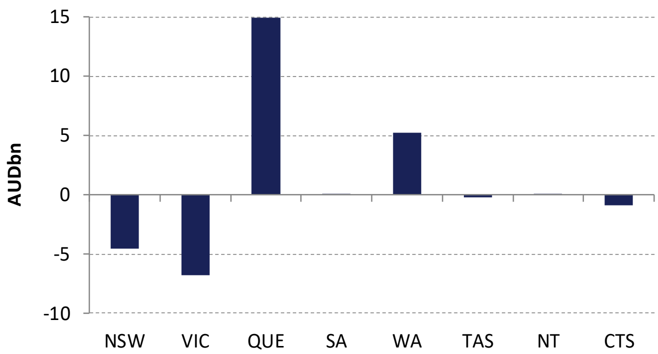
...and a turnaround in Australian budgets?

In the two years prior to the onset of the COVID-19 pandemic and the economic disruptions that this brought about, the Australian states and territories were already recording dwindling budget surpluses. With the outbreak of the pandemic, there followed three years in which total expenditures exceeded aggregated revenues. However, the tide began to turn in the previous budget year, when a positive balance of AUD 7.7bn was reported across all states for the first time again. In this context, Queensland (AUD 14.9bn) and Western Australia (AUD 5.2bn) each recorded significant surpluses.

Trend in budget balances

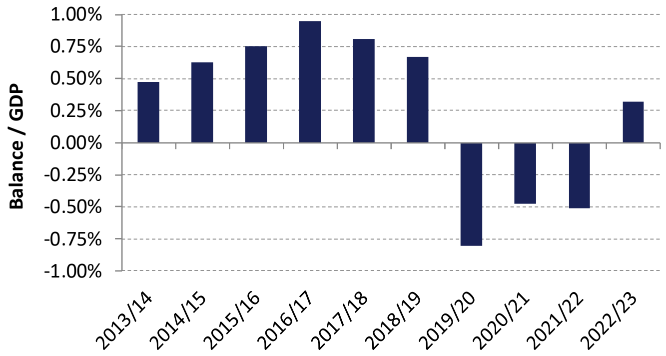


Comparison of budget balances

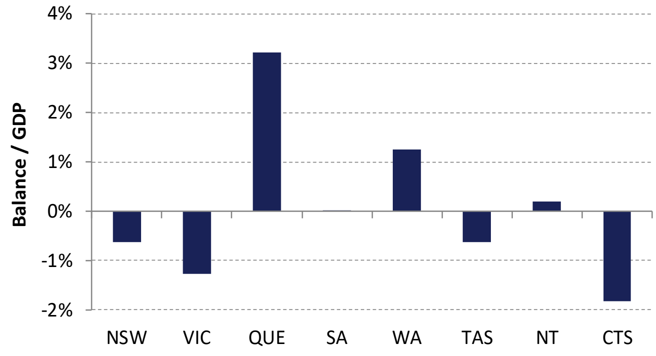


Source: Australian Bureau of Statistics, NORD/LB Floor Research

Trend in budget balance / GDP



A comparison of budget balances / GDP

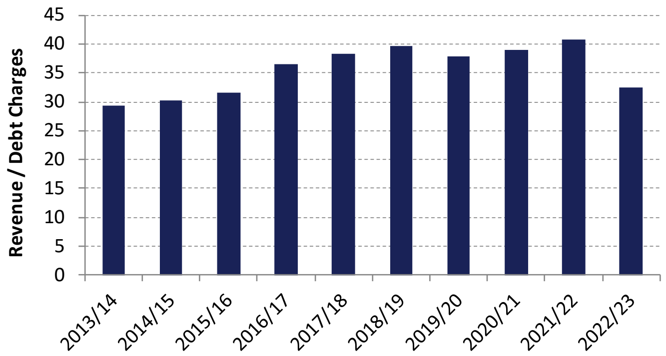


Source: Australian Bureau of Statistics, NORD/LB Floor Research

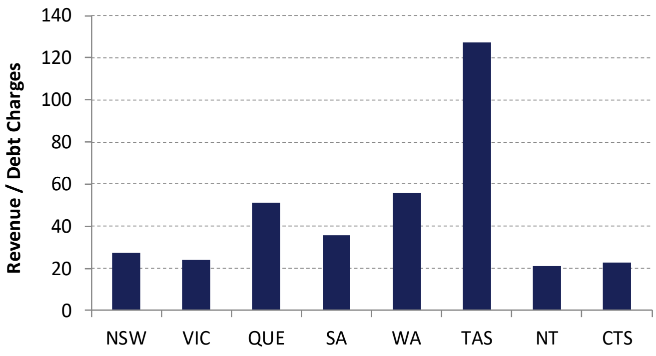
Mixed picture in terms of interest coverage

The positive trend seen in previous years in relation to interest coverage has come to an end, with a sharp decline recently in evidence here. After the values rose from 2013/14 through to 2018/19, before falling slightly in 2019/20 and rising again in the two following years, there was a significant deterioration in this metric from 41% to 33% in the 2022/23 budget year. The heterogeneity of the Australian sub-sovereigns has been re-emphasised: In Tasmania, owing to minimal interest expenditure, the ratio of revenue to interest expenses in 2022/23 was again more than 3.5 times the Australian average. For many years now, Tasmania's large budget surpluses have made it a blueprint for sound and sustainable budget management. In the past three years, however, net debt here has risen significantly, although its interest coverage ratio remains the highest in all of Australia. States such as Victoria or Western Australia, where debt levels have traditionally been on the high side, have naturally had to cope with an increase in interest expenses. Moreover, these were disproportionately higher than their comparatively higher revenue levels. Northern Territory has had the lowest ratio here for six years in a row.

Trend in revenues / interest expenditure



A comparison of revenues / interest expenditure



Source: Australian Bureau of Statistics, NORD/LB Floor Research

Conclusion

On balance, there has been a rather negative trend in the debt metrics considered in this Issuer Guide over recent years. The effects of the COVID-19 pandemic and, to a certain extent, the war in Ukraine have placed budgets in Australia under a notable strain in the past few years. These events led to an increased need for government support measures, in addition to precipitating a fall in tax receipts. Nevertheless, the negative trend appears to have been reversed temporarily, at least in the previous budget year: this can be seen in the fact that the states and territories posted a positive budget balance in the 2022/23 budget year, as well as the slowed growth in net new debt in relation to GDP and revenue. The inflation dynamics likewise offer reasons to be cheerful: after all, with inflation falling since the first quarter of 2023, this suggest that the Australian central bank might cut interest rates in the future. In turn, this should help to further ease future budget situations.

Australian sub-sovereigns and German Laender – a comparison

Connection with the central government

One significant difference between Australian sub-sovereigns and the German Laender comes in connection with the scope of their overall powers. This is reflected in the Regional Authority Index (RAI) drawn up by Hooghe, Marks and Schakel (2018). While the German Laender (37.7 index points) score far higher in terms of autonomy, the Australian states and territories amass a score of just 25.5 points. In terms of fiscal autonomy, however, the disparities are far less pronounced. The sub-sovereigns of both countries are characterised by a similar, relatively low, level of fiscal flexibility. In this regard, Australia has an average score of 2.0 points, whereas the German Laender achieve a score of 2.6 out of a possible 4.0 points. The debt brake, which was "reactivated" in Germany at the start of 2023, could serve to further constrain the fiscal autonomy of the German Laender, which would act as an additional limit on their freedom to act when it comes to budget management. According to the RAI, the policy areas transferred to the responsibility of the regional governments differ only marginally in each case.

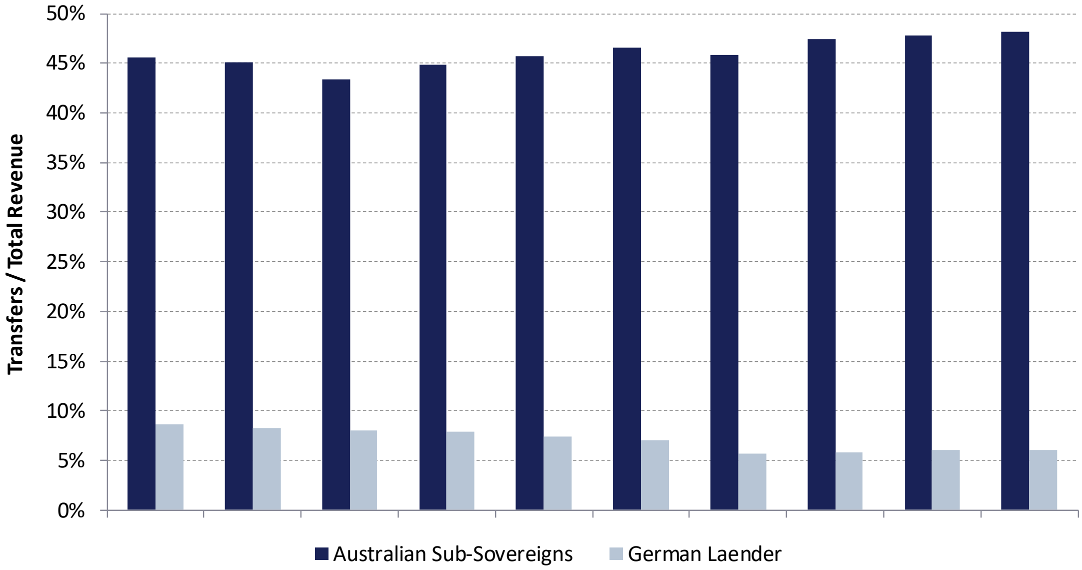
Implicit chain of liability

We see a difference between Australia and Germany in the implicit chain of liability that connects the sub-sovereigns with the central government. As we understand the situation, the liability link between the federated states and central government of Australia is based solely on the assumption that, in a stress situation, the central government would accordingly step in to offer support, thereby acting as an implicit guarantor. This assessment is supported by the possibility, enshrined with legal effect in the constitution, for the central government of Australia to assume debt obligations of its sub-sovereigns (Art. 105A of the Australian Constitution). At a fundamental level, this is similar to Germany. However, here, the principle of federal loyalty gives rise to an implicit constitutional right. In turn, this is established to a much greater degree, even though the Basic Law only defines an implicit liability (for more information on the principle of federal loyalty, please refer to our NORD/LB Issuer Guide – German Laender 2024).

How the financial equalisation mechanism works

While the financial equalisation system in Australia differed from its German counterpart in the past, the systems now share much more in common in the wake of the reforms implemented to the German federal financial equalisation system. Through the reform, which abolished the horizontal redistribution of funds between the Laender themselves (Laenderfinanzausgleich; LFA), both Australia and Germany have had a system with only vertical distribution of funds from the central government to the Laender or federated states since 2020. Despite this structural convergence, transfer payments are developing divergently in the two countries: in Australia, payments to sub-national governments have increased from 44.8% in the 2016/17 budget year to 48.1% in 2022/23. Conversely, in Germany, an opposing trend has been in evidence for several years: the share of transfer payments from the federal financial equalisation system in the total revenues of the German Laender has fallen from 7.8% in 2016/17 to 6% in 2022/23.

Revenue from financial equalisation payment in relation to total revenue*

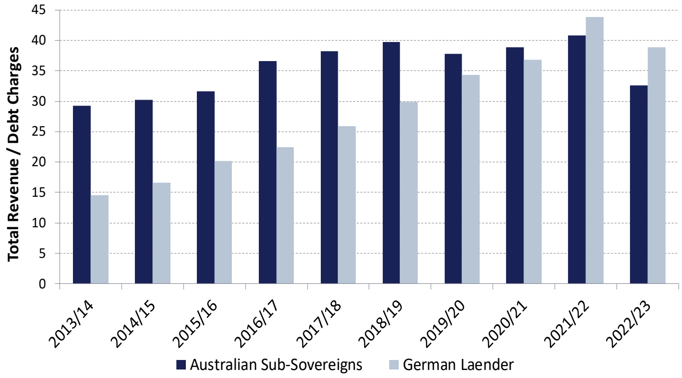


* Information relates to the Australian states/German Laender (i.e. excl. municipalities).
Source: Australian Bureau of Statistics, German Federal Ministry of Finance, NORD/LB Floor Research

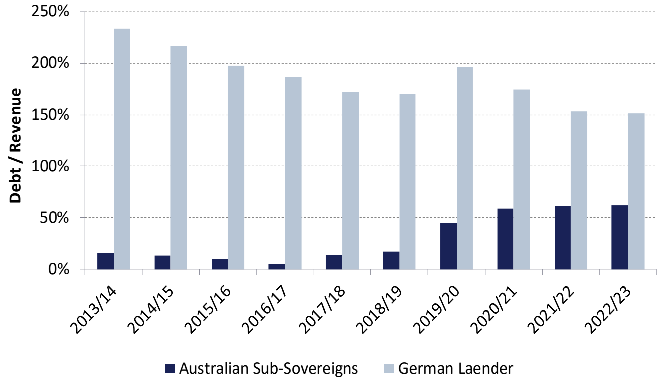
Budget developments: crises halt positive trend

The budget trend reveals a further difference. In this case, we will specifically examine the metrics for interest coverage and debt sustainability. Since the 2013/14 budget year, the interest coverage ratio of Australian sub-sovereigns rose by +139.3% up to 2021/22, whereas the equivalent value for the German Laender grew by +300.8% over the same time frame. Due to this stronger growth, the German Laender exceeded the level of Australian sub-sovereigns in this respect in the period under review, for the first time in the 2021/22 budget year. This growth is mainly attributable to the persistent low-interest rate environment across this period. However, interest rate hikes implemented by the central banks in response to rampant inflation and the associated significant increase in interest expenses precipitated a significant decline in the interest coverage ratio in the 2022/23 budget year. A similar picture emerges for the trend in debt sustainability as measured by the ratio of (net) debt to revenue. In this context, the values of German Laender fluctuate at higher overall levels than those of the Australian sub-sovereigns. While the net debt to revenue ratio of the German Laender fell steadily in the period from the 2013/14 budget year up to the start of the COVID-19 pandemic (down to 170% by 2018/2019), this was still well above the level of the Australian sub-sovereigns. This positive trend was temporarily interrupted for a single budget year due to the pandemic. However, the good news resumed soon after, with the result that, at 151% in the 2022/23 budget year, the ratio of net debt to revenue among the Laender reached its lowest level of the past ten years. In contrast, the COVID-19 pandemic led to sharp growth in the equivalent values of the Australian sub-sovereigns. In fact, the net debt to revenue ratio has risen in each of the last four budget years, with the highest level in the past decade recorded in the 2022/23 budget year.

Trend in interest coverage – a comparison*



Trend in debt sustainability – a comparison*



* Information relates to the Australian states/German Laender (i.e. excl. municipalities).
Source: Australian Bureau of Statistics, German Federal Ministry of Finance, NORD/LB Floor Research

Conclusion

A significant difference can be seen in the level of importance of the financial equalisation systems for the German Laender and the Australian states: while revenues from the federal financial equalisation system account for only a small share of the total revenues of the German Laender, this component remains consistently high for the Australian states and territories. In terms of budgetary developments, it is clear that both the COVID-19 pandemic and interest rate hikes since 2022 have interrupted the positive trend in both countries. While there is certainly a comparable link between the respective central government and their sub-sovereigns in both countries, the Australian states and territories do not enjoy the same level of overall autonomy as the German Laender.

Refinancing activities of Australian sub-sovereigns: Funding strategies – an overview

Diverse range of capital market activities on the part of Australian states and territories
There are significant differences between the Australian sub-sovereigns both in terms of their economic circumstances and their capital market activities. While the overseas territories (not covered in this Issuer Guide) are all too small to operate with independent financing strategies, all Australian federal states and mainland territories have already been active on the capital market with bond issuances in the past.

Victoria – largest bond issuer
Contrary to expectations based on the economic strength of the Australian federal states, it is not New South Wales that emerges as the largest issuer in the Australian sub-sovereign segment, but rather the second most populous state, Victoria, with an outstanding bond volume of around EUR 120bn (EUR equivalents). Around 30% of all outstanding bonds issued by the Australian states and territories therefore originate in Victoria, closely followed by New South Wales (EUR 113bn) and then somewhat further behind by Queensland (EUR 86bn).

Three Australian federal states have issued EUR bonds
Only three of the Australian federal states covered in this Issuer Guide have issued bonds in foreign currencies as well as the domestic currency AUD. Of these, five bonds are denominated in EUR. However, the share of bonds denominated in foreign currencies ranges between 0.6% (New South Wales) and 1.1% (Victoria). As such, the FX share can be described as very low. Taking a holistic view of the situation, there is plenty of room for improvement in terms of the share of foreign currencies in relation to the overall volume. In addition to EUR deals, outstanding bonds are also denominated in CHF, GBP and JPY.

Auckland – active issuer in foreign currencies
At New Zealand's Auckland Council, the foreign currency share of 74% (EUR 4.6bn split across 16 FX bonds) of the outstanding volume is very high, especially in comparison to Australian sub-sovereigns. A large part of this sum is denominated in the European single currency. In total, five bonds have been issued in EUR with a total outstanding volume of around EUR 2.3bn. This reflects the mutual interest of both issuers and investors in EUR bonds under the AUCKCN ticker. Additional FX bonds have also been issued in CHF, USD, AUD and NOK, albeit on a smaller scale.

Overview of funding instruments

Issuer (ticker)	Outstanding volume of bonds (EURbn)*	Proportion of foreign currencies	EUR benchmarks (EURbn)	Issuance volume 2023/24 (EURbn)
New South Wales (NSWTC)	113.0	0.6%	0.0	4.0
Victoria (TCV)	119.7	1.1%	0.8	6.1
Queensland (QTC)	86.4	0.8%	0.0	6.3
South Australia (SAFA)	22.2	0.0%	0.0	4.1
Western Australia (WATC)	28.6	0.0%	0.0	2.5
Tasmania (TASCOR)	7.2	0.0%	0.0	1.6
Northern Territory (NTTC)	6.7	0.0%	0.0	1.1
Capital Territory (AUSCAP)	8.0	0.0%	0.0	1.6
Total	391.7	0.7%	0.8	27.1
Auckland Council (AUCKCN)	5.2	74.1%	2.1	1.4

* Foreign currencies are converted into EUR at rates as at 26 November 2024.
Source: Bloomberg, NORD/LB Floor Research

Refinancing activities of Australian sub-sovereigns: Trend in issuance volumes

Declining funding requirement

A decreasing funding requirement on the part of Australian sub-sovereigns and Auckland Council in New Zealand has already been evident in the past few years. While the new issuance volume in 2019/20 and 2020/21 still amounted to EUR 67.8bn and EUR 62.9bn respectively, a value of just EUR 28.4bn was recorded in 2023/24.

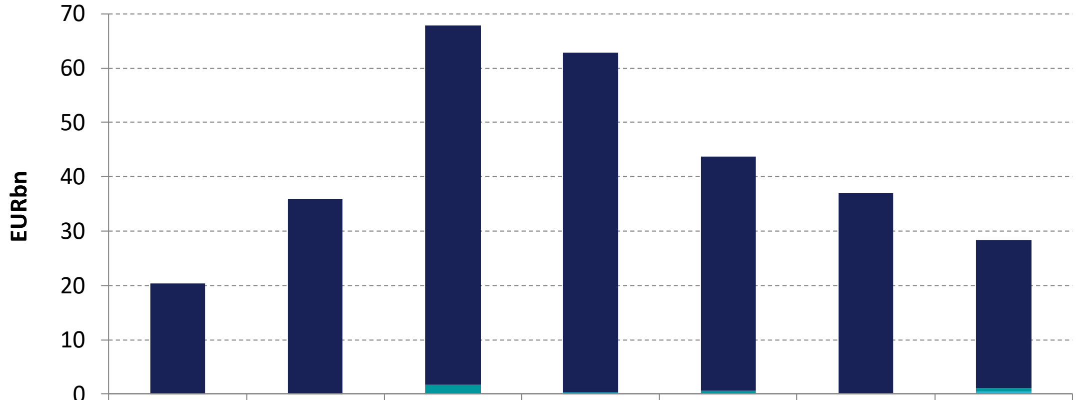
New issuance volume in EUR subject to variation

The trend of new issues in EUR depends in particular on the funding activities of the three above-mentioned states of New South Wales, Queensland and Victoria. While no EUR bonds were issued in 2022/23, Victoria did return to the market for EUR bonds in 2023/24.

Reduction in funding requirements in New South Wales and Queensland

The decline in the issuance volume is primarily due to the reduced refinancing requirements of New South Wales, Queensland and Victoria. While these three states issued an average of EUR 18.5bn in the two financial years 2019/20 and 2020/21, the average refinancing requirement fell to EUR 9.5bn in the following years up to and including 2023/24. This reflects a reduction of practically 50% compared with these periods under review.

Trend in issuance volumes – an overview*

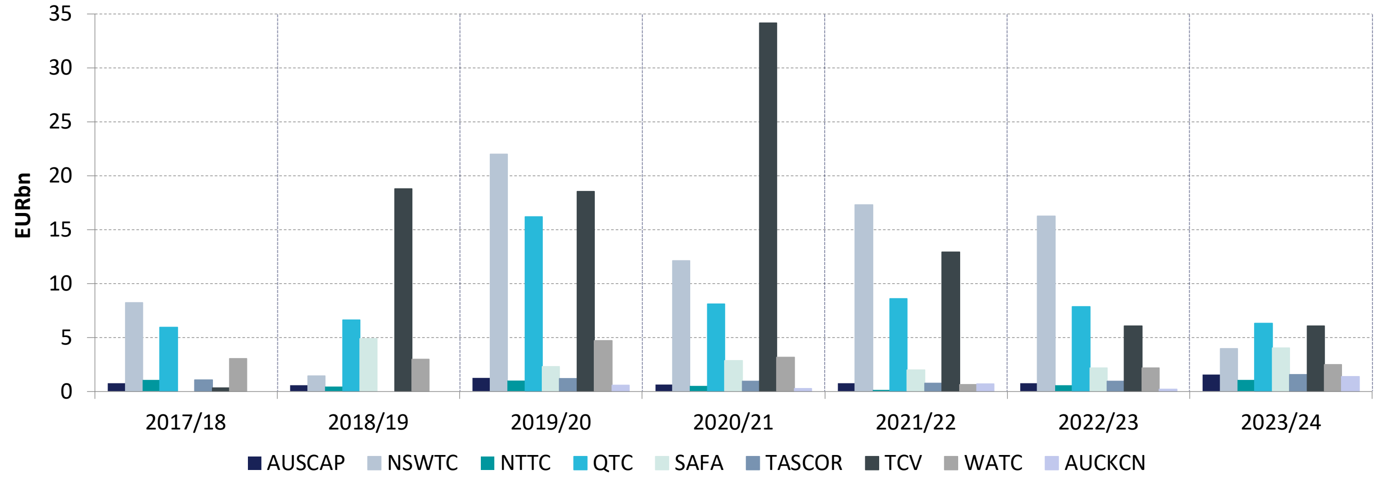


	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
AUD	20.4	35.8	66.1	62.6	43.1	36.8	27.4
EUR	0.0	0.0	1.7	0.0	0.5	0.0	0.6
NZD	0.0	0.0	0.1	0.3	0.2	0.0	0.3
CHF	0.0	0.0	0.0	0.0	0.0	0.2	0.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0

* Foreign currencies are converted into EUR at rates as at 26 November 2024. Taps and private placements are not taken into account.

Source: Issuers, Bloomberg, NORD/LB Floor Research

Comparison of the trend in issuance volumes*

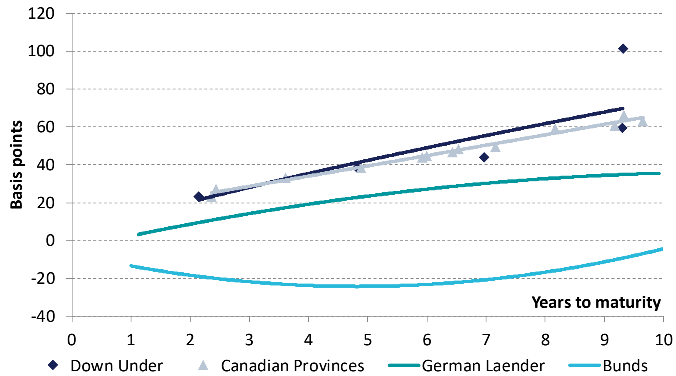


* Foreign currencies are converted into EUR at rates as at 26 November 2024. Taps and private placements are not taken into account.
Source: Issuers, Bloomberg, NORD/LB Floor Research

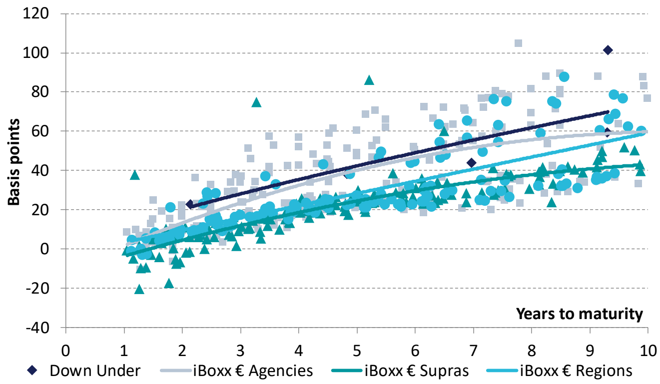
EUR bonds from Down Under trade at widest spreads

Overall, EUR-denominated bonds from Down Under are trading with a significant pick-up, especially compared to bonds from German Laender, which is hardly surprising given the regulatory treatment and liquidity of the latter. Compared to peers such as the Canadian provinces and territories, however, the spread differences are far less pronounced. With the exception of one bond, EUR benchmarks from Down Under are consistently quoted below the ASW curve of Canadian sub-sovereigns, which can be seen as an expression of the comparable regulatory treatment of these bonds, although differences should always be noted here too, particularly in the case of Auckland Council. The pick-up compared to the iBoxx € Regions, which is primarily dominated by German Laender as well as other European regional governments and local authorities such as Belgian and Spanish regions, is around +15bp for a five-year term. At the long end, it is even almost +40bp. Compared with issuers from the supra segment, bonds from Down Under are also trading significantly lower, which is also unsurprising given the better average rating and higher liquidity of supranational bonds. The risk premiums compared to Bunds in the respective maturity segment for bonds from Down Under are between +40bp (short end) and up to +110bp (long end). It should also be noted that Auckland Council bonds are to be regarded as "secured bonds".

ASW spread level for regional bonds



ASW spreads Down Under vs. iBoxx € Indices



Source: Bloomberg, Markit, NORD/LB Floor Research

Australian federal states and territories
Bonds issued by Australian states and Auckland – an overview

EUR accounts for highest FX share

The total volume of outstanding bonds of Australian states and territories, as well as Auckland Council in New Zealand, amounts to the equivalent of around EUR 397bn. Of this, the equivalent of EUR 5.2bn was issued by Auckland in its domestic currency NZD. Only EUR 7.2bn is denominated in foreign currencies, meaning that foreign currencies are of minor importance from the perspective of the issuers themselves. With a volume of EUR 4.3bn, however, the EUR is the most important foreign currency here ahead of the NZD (equivalent of EUR 1.4bn). In terms of the maturity structure, the overall focus is geared towards medium-term maturities: the equally weighted average residual term is 6.6 years (as at: 26 November 2024). As a result, bonds attributable to the maturity segment of ≤10 years are set to fall due fairly evenly over the years to come. In contrast, around 18% of the outstanding bonds have a remaining term of >10 years. Across the remainder of 2024, only bonds denominated in domestic currencies will fall due, whereas other currencies will come into play from 2025 onwards.

General information*

Outstanding bonds (EUR equivalent)

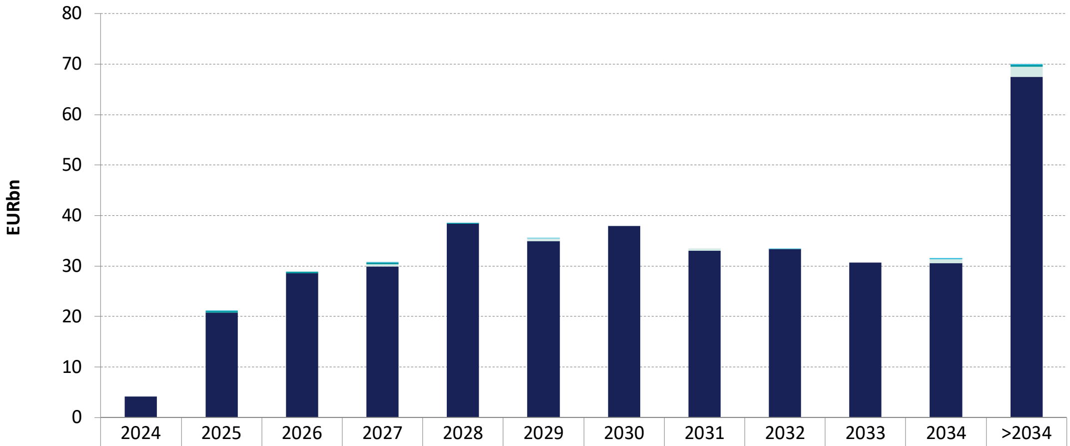
397.0bn

Of which in EUR

4.3bn

* As at: 26 November 2024

Outstanding bonds of Australian states and Auckland – an overview*

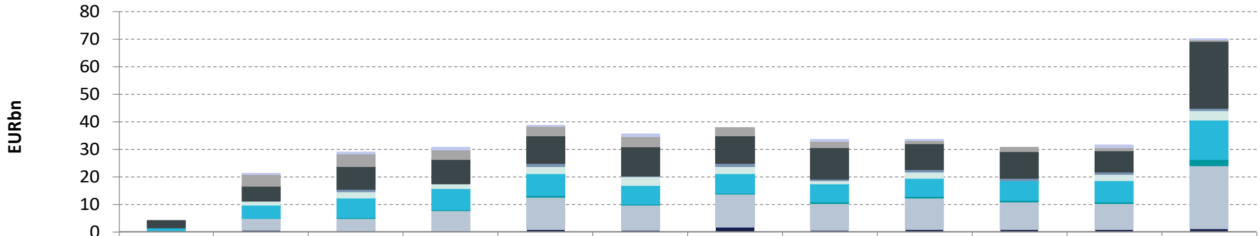


	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	>2034
Other	0	0	95	0	121	0	0	86	0	0	0	192
CHF	0	188	0	107	107	123	0	0	107	0	161	257
NZD	0	237	268	321	167	0	0	0	0	0	0	362
EUR	0	0	0	500	0	500	0	500	0	0	785	2,036
AUD	4,133	20,809	28,594	29,892	38,373	34,970	37,875	33,023	33,325	30,720	30,605	67,434

* Foreign currencies are converted into EUR at rates as at 26 November 2024. Table values in EURm

Source: Bloomberg, NORD/LB Floor Research

Outstanding bonds of Australian states and Auckland – a comparison*

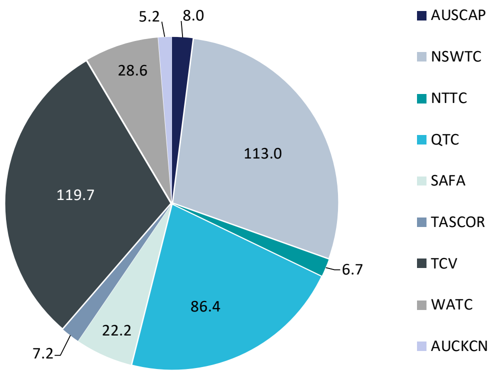


	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	>2034
AUCKCN	0	425	549	1,083	395	934	0	586	107	0	785	362
WATC	0	4,033	4,558	3,223	3,418	3,690	3,009	2,407	1,178	1,467	1,116	456
TCV	2,811	5,553	8,444	8,900	10,085	10,726	9,995	11,423	9,523	9,887	7,899	24,483
TASCOR	0	0	833	0	1,036	310	1,119	683	744	678	939	846
SAFA	0	1,393	2,197	1,849	2,507	3,129	2,398	931	2,327	0	2,172	3,309
QTC	1,322	5,062	7,204	7,628	8,234	6,634	7,205	6,683	6,699	7,343	7,802	14,582
NTTC	0	13	403	471	470	470	491	527	527	558	527	2,265
NSWTC	0	4,134	4,444	7,666	11,847	9,144	11,951	9,749	11,550	10,011	9,534	22,942
AUSCAP	0	620	326	0	776	558	1,706	620	776	776	776	1,036

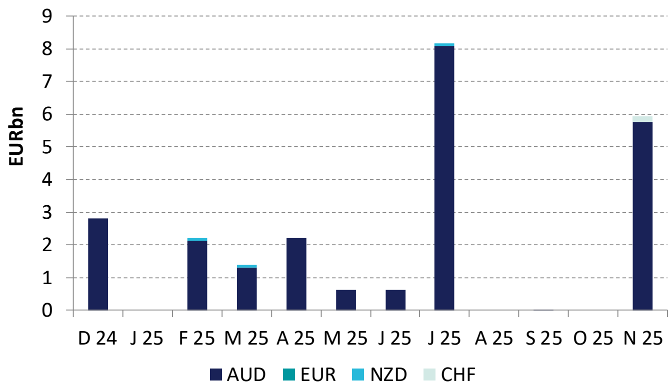
* Foreign currencies are converted into EUR at rates as at 26 November 2024. Table values in EURm
Source: Bloomberg, NORD/LB Floor Research

Victoria and New South Wales both feature comparatively high funding requirements
A closer look at the maturities set to fall due over the next few years reveals that Victoria and New South Wales have the greatest refinancing requirements among Australian sub-sovereigns, at an average of EUR 8.7bn and EUR 8.2bn per year respectively until 2034. Conversely, the equivalent figures for Northern Territory and Auckland Council in New Zealand, at EUR 0.4bn in each case, are far lower. Given that the majority of Australian sub-sovereigns tend to have relatively well-balanced maturity profiles without any clear spike in individual years, the short-term refinancing needs of Western Australia are particularly striking: over the next two years alone, around 30% of the total outstanding bond volume, or EUR 8.6bn, must be repaid. No less striking, but by contrast long-term in nature, is the refinancing structure of Northern Territory. At around EUR 2.3bn, more than a third of the outstanding bond volume is not set to fall due until after 2034.

Outstanding volume by Australian state (EURbn)*



Bond amounts maturing in the next 12 months*



* Foreign currencies are converted into EUR at rates as at 26 November 2024.
Source: Bloomberg, NORD/LB Floor Research

New South Wales

While New South Wales (NSW) may only be the fifth largest federated state in Australia in terms of area (800,642km²), its population of around 8.3m people (roughly 31% of the national population) makes it Australia's most populous state at the same time. More than 5m people live in Sydney alone, which is the largest city in Australia and characterised by a young population. Moreover, there are nine universities in NSW, of which two are ranked in the top 100 in the world. This contributes to the fact that around half of the working population is educated to degree level or has completed a vocational educational and training (VET) course. The economy is strongly geared towards the service sector, which accounts for around 80% of GDP. The Reserve Bank of Australia (RBA) and Australian stock exchange (ASX) are also both headquartered in NSW. In terms of infrastructure, NSW is likewise well connected: the international airport in Sydney is the largest in Australia and serves as a hub for passengers and goods across the continent as whole. In addition, NSW is well positioned in terms of international maritime trade through its two deep-sea ports. Nevertheless, the NSW government is confronted with challenges such as climate change. To this end, the Net Zero Plan was developed, which aims to facilitate investments in a more sustainable economy. This plan is expected to create nearly 2,400 jobs and attract more than AUD 11.6bn in investment over the next decade. In the 2022/23 budget year, NSW was responsible for generating almost 30% of Australian GDP (AUD 733bn out of a total of AUD 2,530bn).

Key facts

Link to the Ministry of Finance

Homepage

Population (2023)

8,342,285

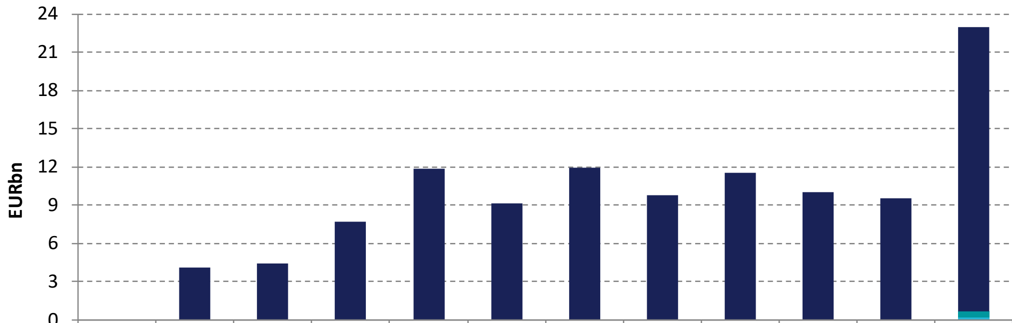
Capital city

Sydney

Ratings

	Long-term	Outlook
Fitch	**AAA**	**stab**
Moody's	**Aaa**	**stab**
S&P	**AA+**	**stab**

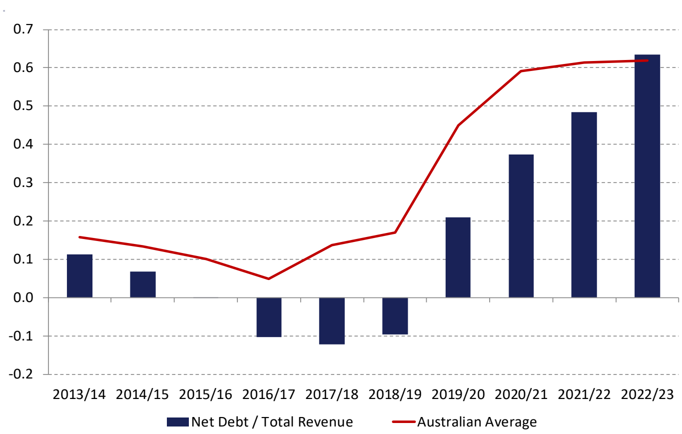
New South Wales – outstanding bonds*



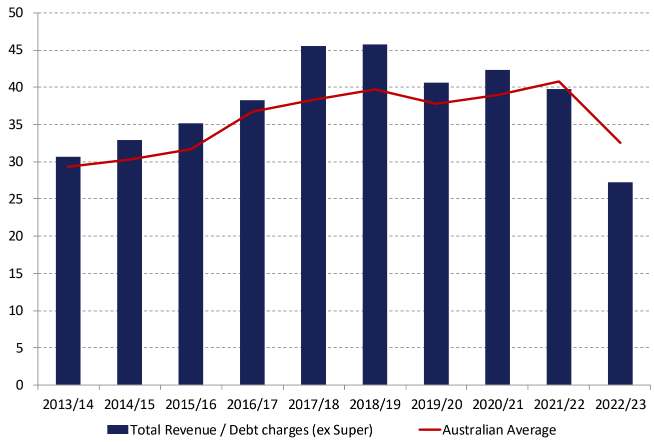
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	>2034
AUD	0	4,134	4,444	7,666	11,847	9,144	11,951	9,749	11,550	10,011	9,534	22,320
USD	0	0	0	0	0	0	0	0	0	0	0	0
EUR	0	0	0	0	0	0	0	0	0	0	0	430
Other	0	0	0	0	0	0	0	0	0	0	0	193

* Foreign currencies are converted into EUR at rates as at 26 November 2024. Table values in EURm.
Source: Bloomberg, NORD/LB Floor Research

Trend in debt sustainability



Trend in interest coverage



Source: Australian Bureau of Statistics, NORD/LB Floor Research

NORD/LB

Capital market

Net debt* (ranking)**
AUD 74.9bn (7th)

Outstanding bonds***
EUR 113.0bn

Of which EUR bonds
EUR 0.4bn

Bloomberg ticker
NSWTC

Economy 2022/23

Real GDP (ranking)
AUD 733.1bn (1st)

Real GDP per capita (ranking)
AUD 87,876 (4th)

Real GDP growth (ranking)
3.7% (3rd)

Unemployment (ranking)
4.1% (4th)

Key figures 2022/23

Tax-interest coverage (ranking)
27.2x (5th)

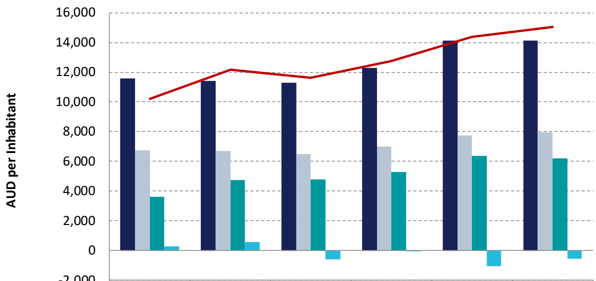
Total revenue/interest paid (ranking)
15.3x (5th)

Net debt/GDP (ranking)
10.2% (4th)

Net debt/revenue (ranking)
1.1x (4th)

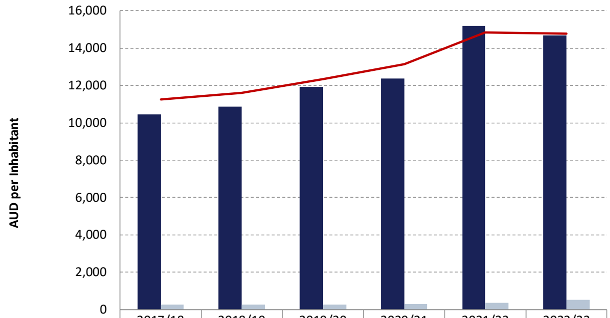
* Budget year 2022/23
** Current ranking of the federated state for the respective key figure, whereby a ranking of 1st is the best result in the sub-sovereign comparison.
*** Foreign currencies are converted into EUR at rates as at 26 November 2024.
Source: Australian Bureau of Statistics, NORD/LB Floor Research

Development of revenue in AUD per capita



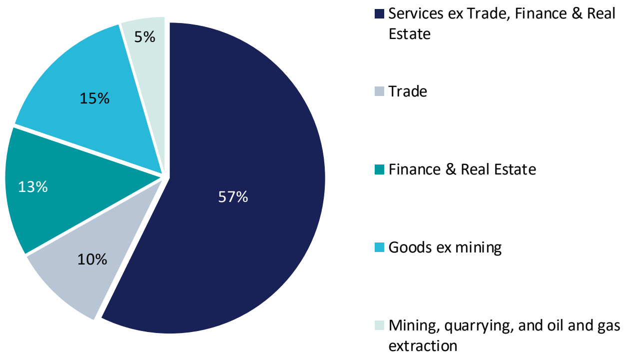
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating revenue	11,568	11,432	11,304	12,283	14,111	14,146
Own-source revenue	6,763	6,711	6,512	7,011	7,750	7,961
Grants and subsidies	3,598	4,721	4,792	5,272	6,361	6,184
Deficit/surplus	274	564	-625	-74	-1,069	-544
Ø of operating revenues	10,196	12,183	11,641	12,732	14,389	15,056

Development of expenditure in AUD per capita

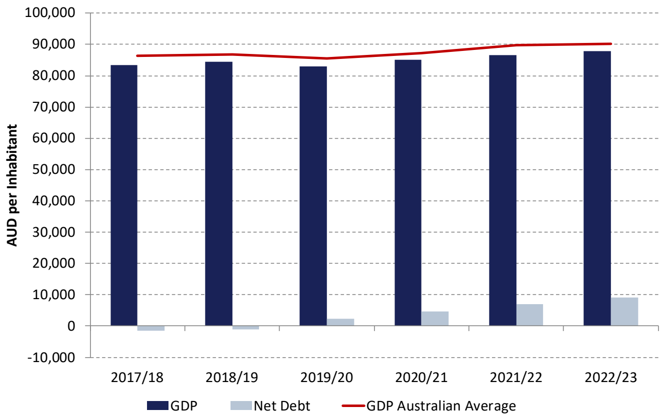


	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating expense	10,461	10,868	11,930	12,358	15,181	14,690
Debt charges	254	250	279	290	355	520
Ø of operating expenses	11,266	11,604	12,330	13,150	14,848	14,765

Gross value added by economic sector



Development of GDP and total debt per capita



Source: Australian Bureau of Statistics, NORD/LB Floor Research

Strengths/Chances

+ Largest contribution to total Australian economic output
+ Home to international companies
+ AAA rating

Weaknesses/Risks

– Below-average GDP per capita
– High degree of dependency on the service sector

Victoria

With a population of 6.8m people (around 26% of the total population of Australia), Victoria (VIC) is the second most-populous state of Australian behind NSW. Population growth of +19% has been recorded over the past decade. Compared with the other states of Australia, VIC covers a relatively small area of 227,416km². The history of Victoria dates back to 1851, when it was carved out of NSW and from that moment onwards was administered as an independent British colony subject to royal rule. In 1901, it joined the newly founded Commonwealth of Australia. The regional capital, Melbourne, initially also served as the federal capital. This remained the situation until 1913, when Canberra was designated as the new Australian capital. Melbourne has been a major economic centre ever since it was founded in 1835. Today, Melbourne is home to many well-known companies and its population of 5m people also makes it the second largest city in Australia behind Sydney. Alongside two of the biggest mining companies, the headquarters of the Australia and New Zealand Banking Group (ANZ) are also located in Melbourne. At around AUD 535bn, the GDP of Victoria makes up just under 22% of total Australian economic output. In turn, this results in a real GDP per capita value of AUD 78,570, ranking it sixth in a comparison of Australian sub-sovereigns. In order to improve this situation, the regional government is planning a series of innovation projects, primarily in the fields of science and technology and renewable energies, while start-ups are to be supported as well.

Key facts

Link to the Ministry of Finance

[Homepage]

Population (2023)

6,815,441

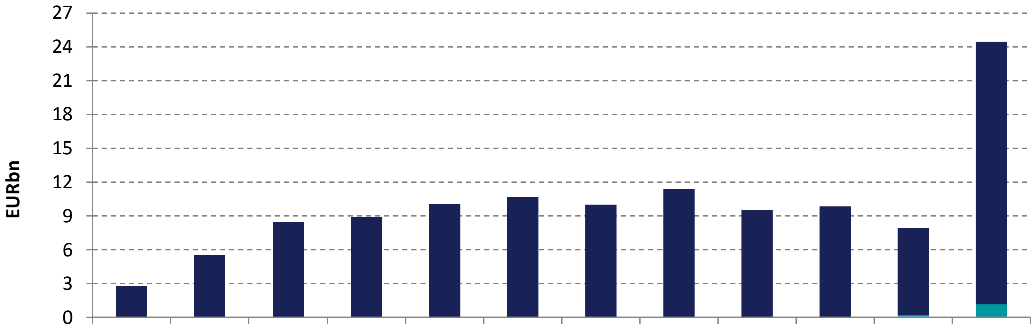
Capital city

Melbourne

Ratings

	Long-term	Outlook
Fitch	AA+	stab
Moody's	Aa2	stab
S&P	AA	stab

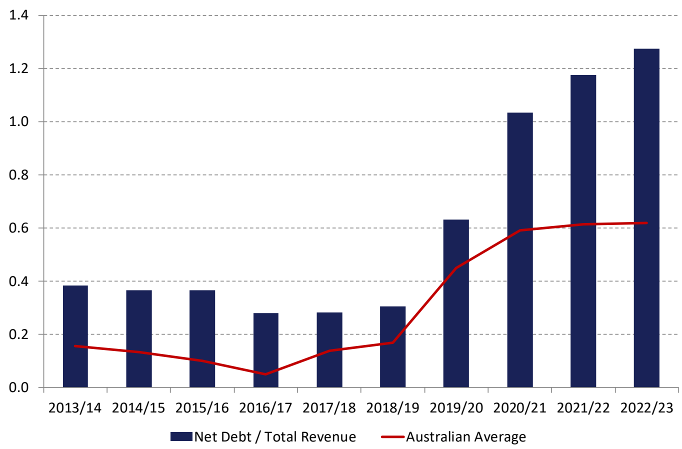
Victoria – outstanding bonds*



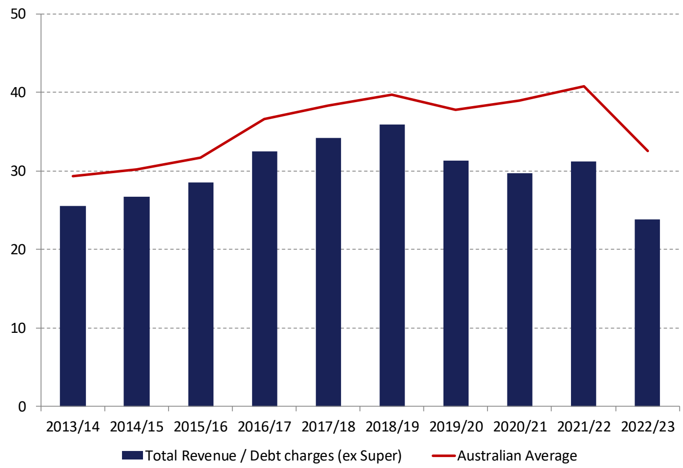
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	>2034
AUD	2,811	5,553	8,444	8,900	10,085	10,726	9,995	11,423	9,523	9,887	7,739	23,287
USD	0	0	0	0	0	0	0	0	0	0	0	0
EUR	0	0	0	0	0	0	0	0	0	0	0	1,150
Other	0	0	0	0	0	0	0	0	0	0	161	46

* Foreign currencies are converted into EUR at rates as at 26 November 2024. Table values in EURm.
Source: Bloomberg, NORD/LB Floor Research

Trend in debt sustainability



Trend in interest coverage

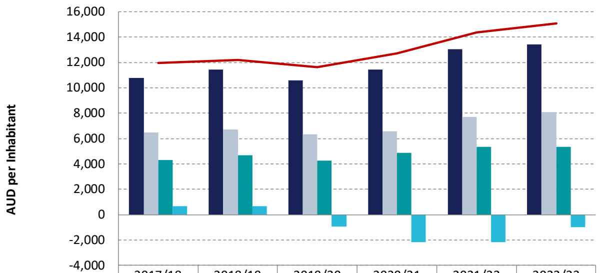


Source: Australian Bureau of Statistics, NORD/LB Floor Research

Capital market	Economy 2022/23	Key figures 2022/23
Net debt* (ranking)**	**Real GDP (ranking)**	**Tax-interest coverage (ranking)**
AUD 116.7bn (8th)	AUD 535.5bn (2th)	23.9x (6th)
Outstanding bonds***	**Real GDP per capita (ranking)**	**Total revenue/interest paid (ranking)**
EUR 119.7bn	AUD 78.570 (6th)	14.4x (4th)
Of which EUR bonds	**Real GDP growth (ranking)**	**Net debt/GDP (ranking)**
EUR 1.2bn	2.6% (5th)	21.8% (7th)
Bloomberg ticker	**Unemployment (ranking)**	**Net debt/revenue (ranking)**
TCV	4.5% (8th)	2.1x (7th)

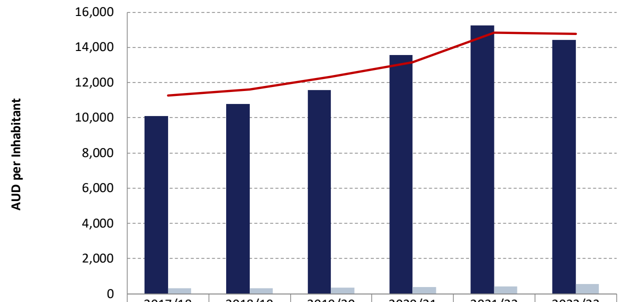
* Budget year 2022/23
** Current ranking of the federated state for the respective key figure, whereby a ranking of 1st is the best result in the sub-sovereign comparison.
*** Foreign currencies are converted into EUR at rates as at 26 November 2024.
Source: Australian Bureau of Statistics, NORD/LB Floor Research

Development of revenue in AUD per capita



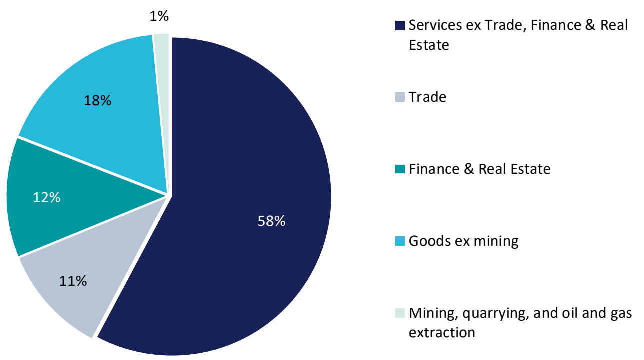
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating revenue	10,801	11,445	10,605	11,428	13,068	13,419
Own-source revenue	6,492	6,740	6,352	6,552	7,702	8,080
Grants and subsidies	4,308	4,705	4,252	4,877	5,366	5,339
Deficit/surplus	692	655	-957	-2,154	-2,186	-995
Ø of operating revenues	11,963	12,183	11,641	12,732	14,389	15,056

Development of expenditure in AUD per capita

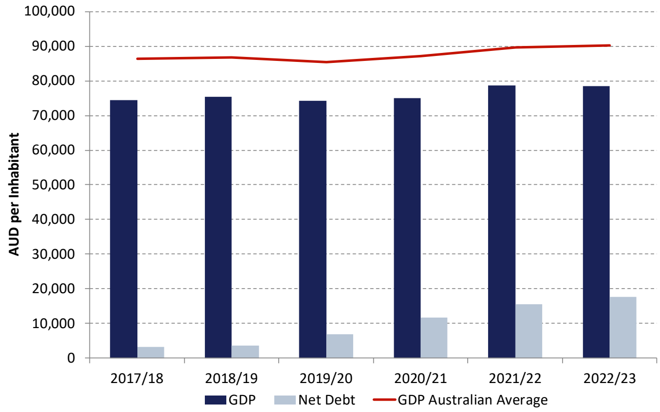


	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating expense	10,108	10,790	11,562	13,583	15,254	14,414
Debt charges	315	319	338	384	419	562
Ø of operating expenses	11,266	11,604	12,330	13,150	14,848	14,765

Gross value added by economic sector



Development of GDP and total debt per capita



Source: Australian Bureau of Statistics, NORD/LB Floor Research

Strengths/Chances

+ High level of economic power
+ Place of business for multinational corporations

Weaknesses/Risks

– High net debt level
– Low GDP per capita

Queensland

Queensland covers an area of 1,730,648km^2, making it the second largest federated state behind Western Australia. With 5.4m inhabitants (around 20% of the Australian population), Queensland is also one of the largest Australian states as measured by population. As is the case in all areas of Australia, the population is concentrated on coastal regions. The largest conurbations include Cairns and Townsville in the north of Queensland, as well as Gold Coast and Brisbane in the south. At around AUD 465bn, or approximately 19% of national GDP, Queensland makes a significant contribution to the economic output of Australia. The economy is well diversified, with mining playing the most prominent role. In 2022/23, this sector contributed AUD 86.5bn to the gross value added of Queensland. Alongside mining, the healthcare sector and tourism both play vital roles. Millions of visitors descend on Queensland each year to experience the Great Barrier Reef, tropical rainforests and famous beaches of Gold Coast. The budget for 2023/24 provides for investments in the amount of AUD 89bn in public infrastructure. The focus here is on expanding the state's healthcare capacities, preparing Brisbane to host the Olympic and Paralympic Games in 2032, as well as decarbonising the energy system. In terms of the latter, the aim is for renewable energies to account for 50% of the energy mix by 2030 – an ambitious target in view of the current share of just 11.1% (as at 2022/23).

Key facts

Link to the Ministry of Finance

Homepage

Population (2023)

5,460,420

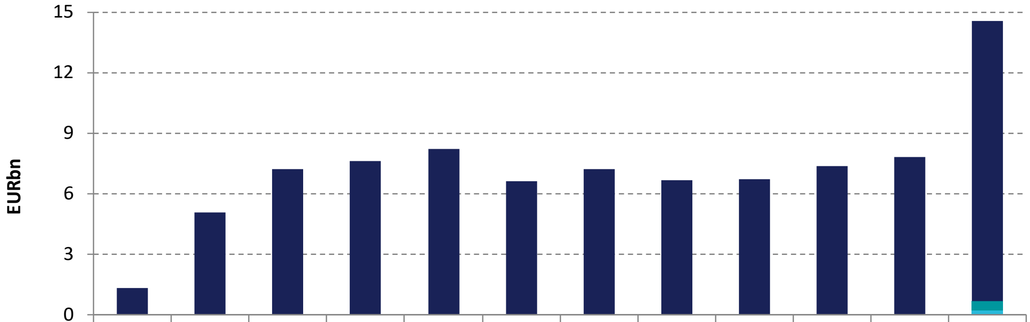
Capital city

Brisbane

Ratings

	Long-term	Outlook
Fitch	**AA+**	**stab**
Moody's	**Aa1**	**stab**
S&P	**AA+**	**stab**

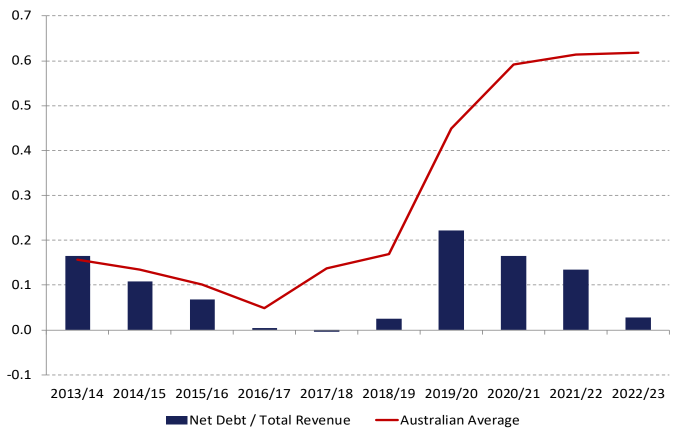
Queensland – outstanding bonds*



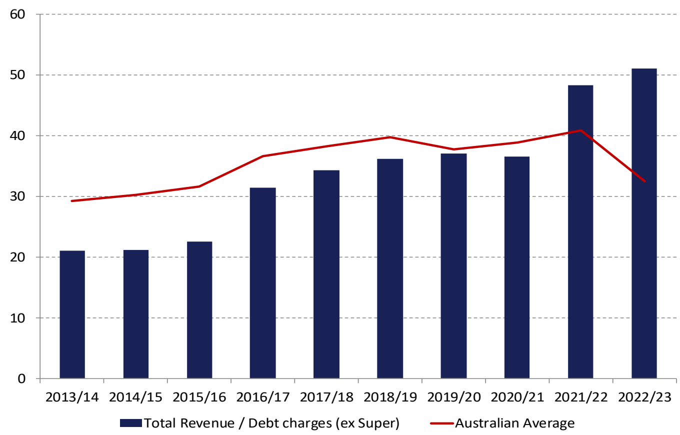
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	>2034
AUD	1,322	5,062	7,204	7,628	8,234	6,634	7,205	6,683	6,699	7,343	7,802	13,915
USD	0	0	0	0	0	0	0	0	0	0	0	0
EUR	0	0	0	0	0	0	0	0	0	0	0	456
Other	0	0	0	0	0	0	0	0	0	0	0	211

* Foreign currencies are converted into EUR at rates as at 26 November 2024. Table values in EURm.
Source: Bloomberg, NORD/LB Floor Research

Trend in debt sustainability



Trend in interest coverage



Source: Australian Bureau of Statistics, NORD/LB Floor Research

NORD/LB

Capital market

Net debt* (ranking)**

AUD 2.6bn (1st)

Outstanding bonds***

EUR 86.4bn

Of which EUR bonds

EUR 0.5bn

Bloomberg ticker

QTC

Economy 2022/23

Real GDP (ranking)

AUD 464.6bn (3rd)

Real GDP per capita (ranking)

AUD 85.081 (5th)

Real GDP growth (ranking)

2.3% (6th)

Unemployment (ranking)

4.2% (5th)

Key figures 2022/23

Tax-interest coverage (ranking)

51.1x (3rd)

Total revenue/interest paid (ranking)

23.3x (6th)

Net debt/GDP (ranking)

0.6% (1st)

Net debt/revenue (ranking)

0.1x (1st)

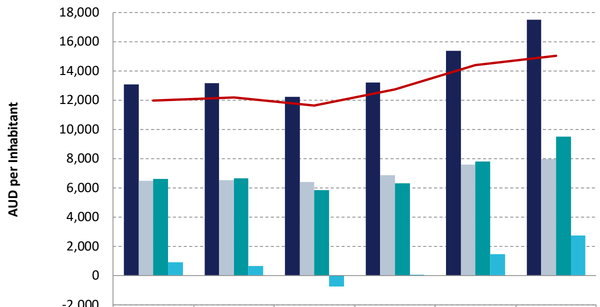
* Budget year 2022/23

** Current ranking of the federated state for the respective key figure, whereby a ranking of 1st is the best result in the sub-sovereign comparison.

*** Foreign currencies are converted into EUR at rates as at 26 November 2024.

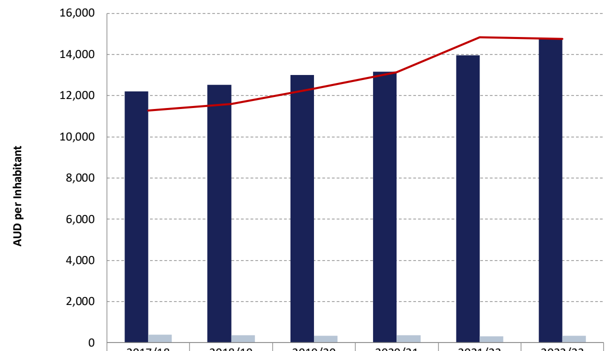
Source: Australian Bureau of Statistics, NORD/LB Floor Research

Development of revenue in AUD per capita



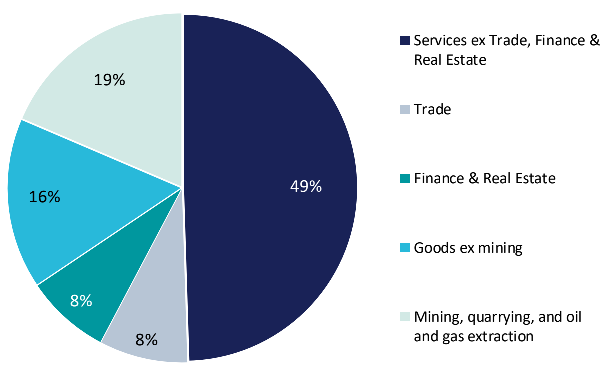
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating revenue	13,101	13,183	12,238	13,207	15,397	17,488
Own-source revenue	6,477	6,513	6,395	6,879	7,596	7,975
Grants and subsidies	6,624	6,670	5,843	6,328	7,802	9,513
Deficit/surplus	900	654	-757	47	1,450	2,733
Ø of operating revenues	11,963	12,183	11,641	12,732	14,389	15,056

Development of expenditure in AUD per capita

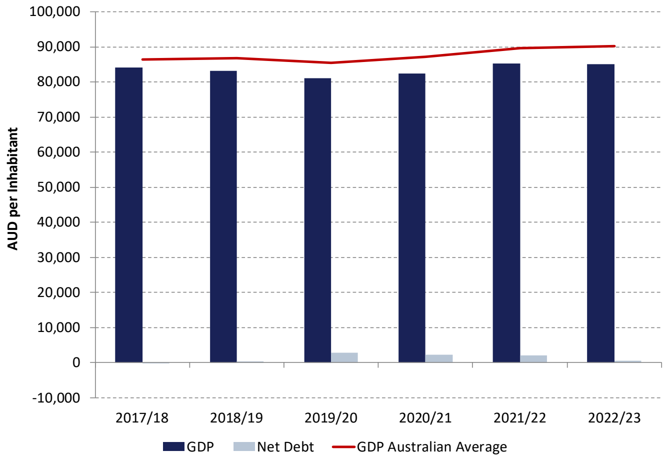


	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating expense	12,201	12,529	12,995	13,160	13,948	14,755
Debt charges	382	364	330	361	318	342
Ø of operating expenses	11,266	11,604	12,330	13,150	14,848	14,765

Gross value added by economic sector



Development of GDP and total debt per capita



Source: Australian Bureau of Statistics, NORD/LB Floor Research

Strengths/Chances

+ Lowest net debt in Australia
+ Rising per capita revenues
+ Global attention from the Olympics and Paralympics in 2032

Weaknesses/Risks

– Impact of climate change on the tourism industry
– Fluctuating prices of raw materials

South Australia

Covering an area of 983,480km^2 and with a population of 1.8m people, South Australia rank in mid-table in a comparison of the Australian states. Around 78.1% of the population is concentrated on the area around the regional capital of Adelaide, which has developed into an economic and cultural hub ever since the colony of South Australia was founded in 1836. Overall, the economy of South Australia is highly diversified. The state has several sub-climates ranging from cool and rainy to warm and dry, which allows for agricultural activities. The region is well-known for its wines and claims to be the largest pasta producer in the Southern Hemisphere. In contrast, the Adelaide Central Business District is a major technology hub. In addition to sites for Microsoft and Amazon Web Services, several research institutes are located here, including the Massachusetts Institute of Technology Adelaide Living Lab, among others. South Australia is also a centre for the defence and aerospace industry, with programmes for the Australian Defence Force for the construction of warships, submarines and aircraft primarily based in the region. Up to 2030, the Australian Space Agency intends to invest a sum of AUD 12bn in the state, creating up to 20,000 new jobs in the aerospace sector in the process. South Australia also plays a leading role in the field of renewables, with 74% of the energy mix comprising wind and solar power in 2023 (target for 2027: 100%). However, at AUD 72,456, the GDP per capita of South Australia is the second lowest in Australia. In terms of its capital market activities, the sub-sovereign intends to only be active in sustainable format in the future.

Key facts

Link to the Ministry of Finance
Homepage
Population (2023)
1,852,284
Capital city
Adelaide
Bloomberg ticker
SAFA

General information

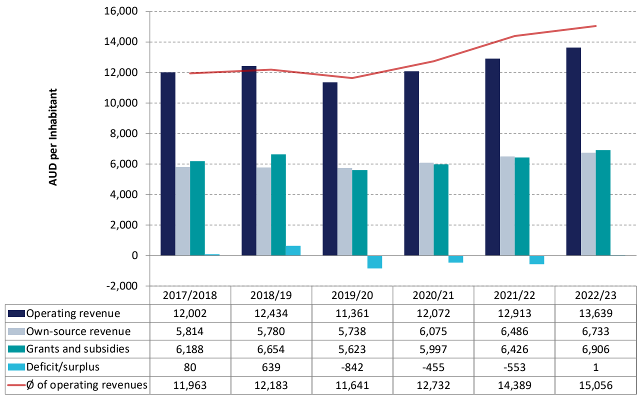
Outstanding bond volume (EURbn)*
EUR 22.2bn
Of which EUR bonds
EUR 0.0bn

Ratings

Fitch		Moody's		S&P	
Long-term	Outlook	Long-term	Outlook	Long-term	Outlook
-	-	Aa1	stab	AA+	stab

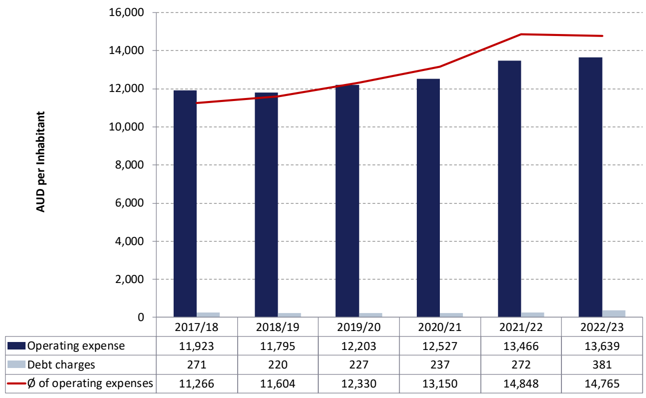
* Foreign currencies are converted into EUR at rates as at 26 November 2024. Source: Bloomberg, NORD/LB Floor Research

Development of revenue in AUD per capita



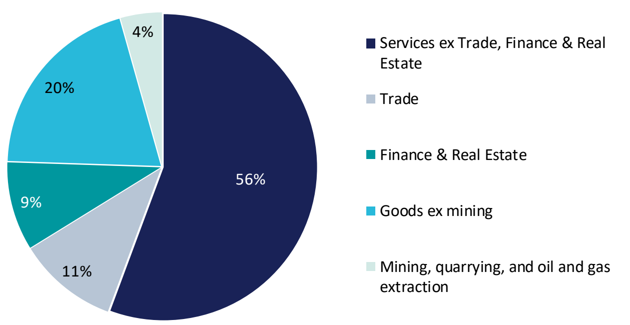
	2017/2018	2018/19	2019/20	2020/21	2021/22	2022/23
Operating revenue	12,002	12,434	11,361	12,072	12,913	13,639
Own-source revenue	5,814	5,780	5,738	6,075	6,486	6,733
Grants and subsidies	6,188	6,654	5,623	5,997	6,426	6,906
Deficit/surplus	80	639	-842	-455	-553	1
Ø of operating revenues	11,963	12,183	11,641	12,732	14,389	15,056

Development of expenditure in AUD per capita

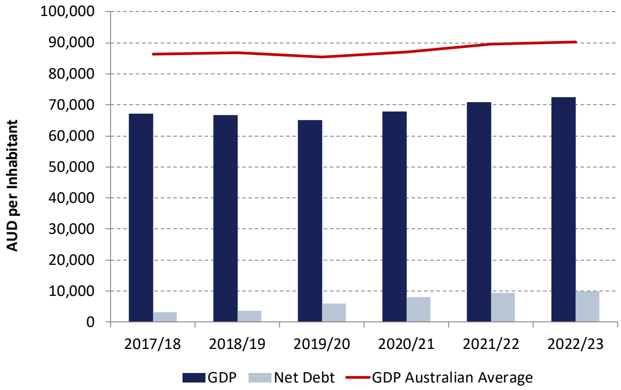


	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating expense	11,923	11,795	12,203	12,527	13,466	13,639
Debt charges	271	220	227	237	272	381
Ø of operating expenses	11,266	11,604	12,330	13,150	14,848	14,765

Gross value added by economic sector



Development of GDP and total debt per capita



Source: Australian Bureau of Statistics, NORD/LB Floor Research

Western Australia

At 2,529,875km², Western Australia is the largest federated state of Australia in terms of area. Due to its size and relatively low population of just 2.9m people, this sub-sovereign is exceptionally sparsely populated. Around two-thirds of the population reside in the metropolitan region around the capital Perth. This uneven population distribution can above all be explained by the geography of the state: Western Australia covers around one third of the entire continent and is characterised by mountain plateaus and as many as three deserts. As a result, people settled primarily in coastal regions and within the "comfortable zone", which covers Perth and the internally situated Wheatbelt, one of the nine regions of Western Australia, where both sheep and arable farming are practised. The importance of the tertiary economy in Western Australia is lower than in practically any other Australian state or territory. Just 40.5% of GDP is generated in this area. This circumstance can primarily be explained by the exceptionally high contribution of the mining and raw materials industry, which accounted for a share of around 47.2% of total GDP in the 2022/23 budget year. Moreover, in 2023, the sub-sovereign was the world's largest producer of lithium and iron ore, as well as the third largest producer of zircon. Mining of local deposits of rare earth metals, cobalt, manganese and nickel are likewise of global importance. The abundance of these raw materials also plays a part in the state's lofty contribution to Australian goods exports, which came in at 46% in 2022/23.

Key facts

Link to the Ministry of Finance
Homepage
Population (2023)
2,881,227
Capital city
Perth
Bloomberg ticker
WATC

General information

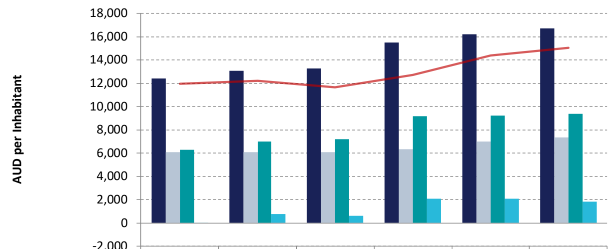
Outstanding bond volume (EURbn)*
EUR 28.6bn
Of which EUR bonds
EUR 0.0bn

Ratings

Fitch		Moody's		S&P	
Long-term	Outlook	Long-term	Outlook	Long-term	Outlook
-	-	Aaa	stab	AAA	stab

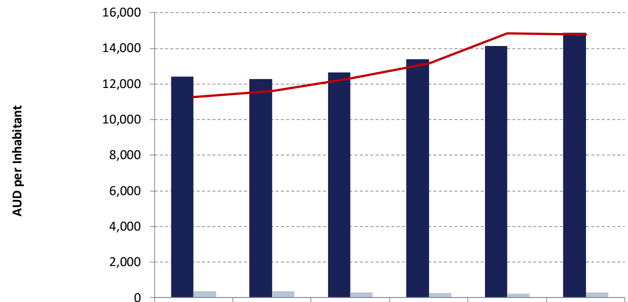
* Foreign currencies are converted into EUR at rates as at 26 November 2024. Source: Bloomberg, NORD/LB Floor Research

Development of revenue in AUD per capita



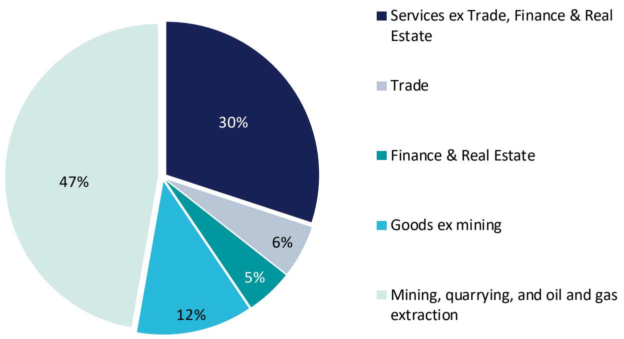
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating revenue	12,398	13,053	13,247	15,492	16,203	16,712
Own-source revenue	6,090	6,079	6,061	6,312	6,994	7,329
Grants and subsidies	6,308	6,974	7,186	9,180	9,209	9,383
Deficit/surplus	-23	776	604	2,110	2,061	1,813
Ø of operating revenues	11,963	12,183	11,641	12,732	14,389	15,056

Development of expenditure in AUD per capita

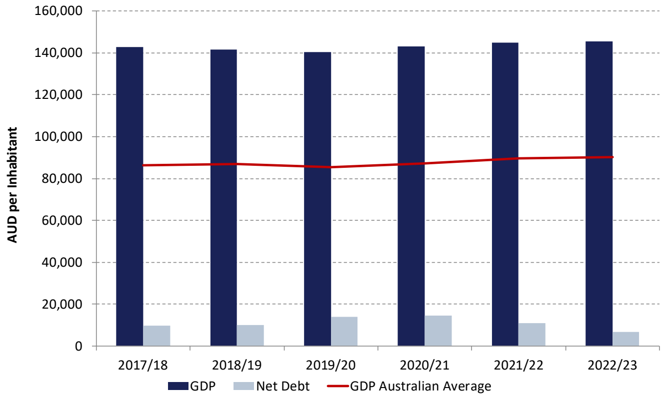


	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating expense	12,421	12,277	12,643	13,382	14,143	14,899
Debt charges	358	370	292	253	246	299
Ø of operating expenses	11,266	11,604	12,330	13,150	14,848	14,765

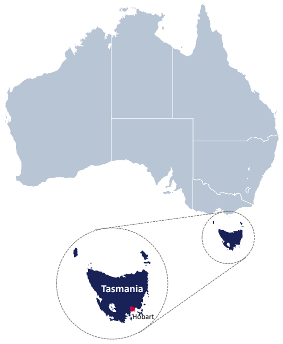
Gross value added by economic sector



Development of GDP and total debt per capita



Source: Australian Bureau of Statistics, NORD/LB Floor Research



Tasmania

Tasmania is the largest island off the Australian mainland. It covers an area of 68,401km² and is therefore the smallest federated state within the Commonwealth of Australia. With around 573,000 inhabitants, Tasmania is home to only slightly in excess of 2% of the Australian population. Nearly half of the population lives in the capital Hobart, situated in the south-east of the island. Tasmania generates the second lowest GDP (2022/23: AUD 38.6bn) and the lowest GDP per capita (AUD 67,444) out of all Australian states and territories. Key industries include the healthcare and social sector (2022/23: 14.8% of internal value added) in addition to agriculture, forestry and fishing (9.5%). Tourism constitutes another key pillar of the economy, with 5.8% of the population directly employed in this sector. Another 7.3% of jobs indirectly depend on tourism. The direct and indirect contribution of tourism to the Tasmanian labour market is higher than in any other state or territory of Australia. Renewable energies already account for 100% of the island's energy mix. However, plans are in place to further scale up these capacities by 2040, so that the volume of energy generated increases to 200% of the total requirement. Moreover, the Tasmanian government is pursuing a Climate Action Plan that targets climate neutrality by 2030 and the expansion of hydrogen production.

Key facts

Link to the Ministry of Finance

Homepage

Population (2023)

573,156

Capital city

Hobart

Bloomberg ticker

TASCOR

General information

Outstanding bond volume (EURbn)*

EUR 7.2bn

Of which EUR bonds

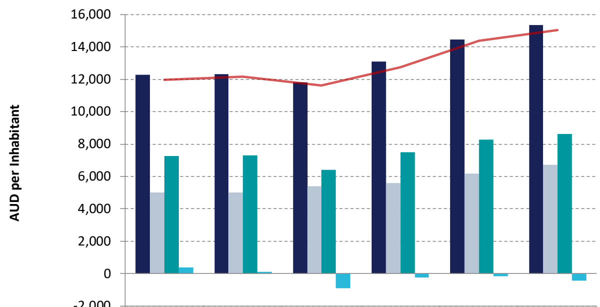
EUR 0.0bn

Ratings

Fitch		Moody's		S&P	
Long-term	Outlook	Long-term	Outlook	Long-term	Outlook
-	-	Aa2	stab	AA+	neg

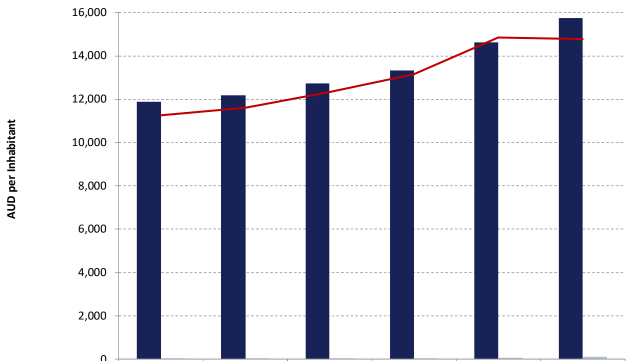
* Foreign currencies are converted into EUR at rates as at 26 November 2024. Source: Bloomberg, NORD/LB Floor Research

Development of revenue in AUD per capita



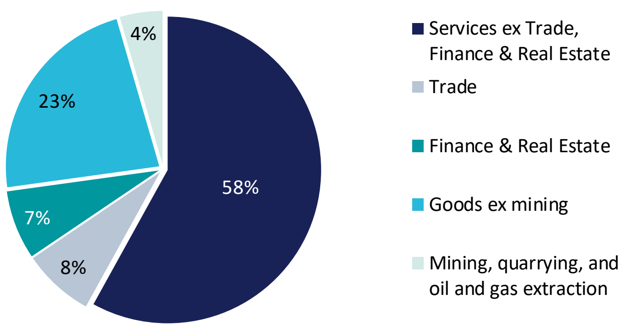
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating revenue	12,271	12,314	11,819	13,081	14,454	15,341
Own-source revenue	4,999	4,994	5,398	5,592	6,176	6,707
Grants and subsidies	7,272	7,320	6,421	7,489	8,278	8,635
Deficit/surplus	389	122	-900	-236	-168	-419
Ø of operating revenues	11,963	12,183	11,641	12,732	14,389	15,056

Development of expenditure in AUD per capita

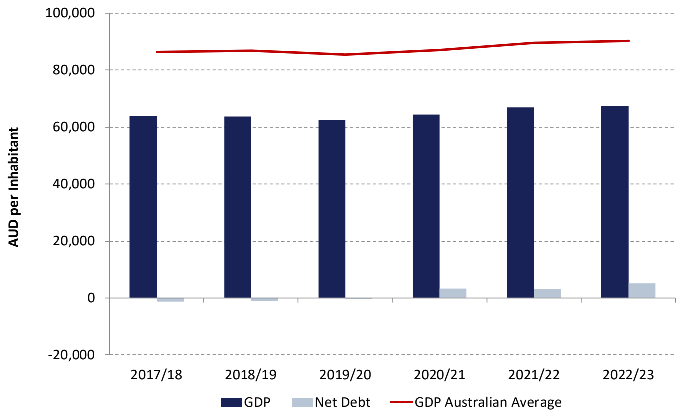


	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating expense	11,882	12,191	12,719	13,317	14,624	15,760
Debt charges	28	31	18	48	72	120
Ø of operating expenses	11,266	11,604	12,330	13,150	14,848	14,765

Gross value added by economic sector



Development of GDP and total debt per capita



Source: Australian Bureau of Statistics, NORD/LB Floor Research

Northern Territory

At an area of 1,349,129km², Northern Territory is nearly 4.0x larger than Germany but is only home to a population of slightly over 252,000 people. The population is concentrated in the regional capital Darwin, where some 148,000 people live. Up to the end of 1910, Northern Territory came under the administration of South Australia, before being separated off and put under federal control by the Commonwealth of Australia with effect from 01 January 1911. In 1978, the territory was granted self-government. One aspect in which the federated states and territories differ is that laws passed in a territory can be rendered invalid by the Federal Parliament. In the past, there have been repeated initiatives to elevate Northern Territory to the status of a federated state. However, the plan adopted in 2015 which sought to convey this status to Northern Territory by 2018 ultimately failed. The main argument against the plan was centred around a lack of fiscal capacity, which was not sufficient to finance Northern Territory's obligations from its own resources. The landscape of Northern Territory is shaped by a dichotomy between tropical mangrove forests in the south and the incredibly dry climate of the north. The poor soil quality, isolated location and limited availability of labour have historically proven to be obstacles to the economy of Northern Territory. While the GDP of AUD 30.1bn may be the lowest across the country in absolute figures, the per capita value of AUD 119,285 sees Northern Territory shoot up the table to second place in a national comparison. The mining industry, which chiefly extracts and processes gold, bauxite and manganese, accounts for the largest share of value added (2022/23: 29.4%).

Key facts

Link to the Ministry of Finance

Homepage

Population (2023)

252,529

Capital city

Darwin

Bloomberg ticker

NTTC

General information

Outstanding bond volume (EURbn)*

EUR 6.7bn

Of which EUR bonds

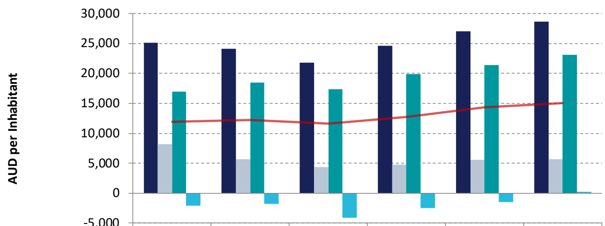
EUR 0.0bn

Ratings

Fitch		Moody's		S&P	
Long-term	Outlook	Long-term	Outlook	Long-term	Outlook
-	-	Aa3	stab	-	-

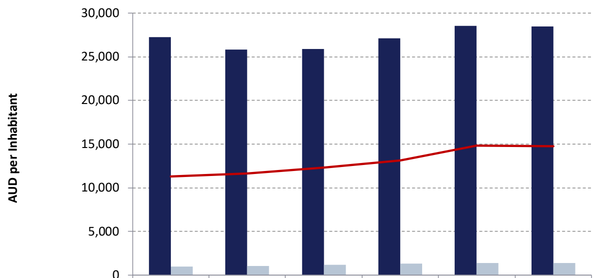
* Foreign currencies are converted into EUR at rates as at 26 November 2024. Source: Bloomberg, NORD/LB Floor Research

Development of revenue in AUD per capita



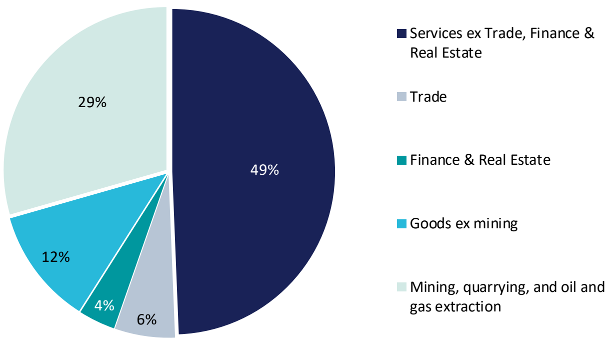
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating revenue	25,148	24,116	21,776	24,622	27,031	28,710
Own-source revenue	8,174	5,666	4,389	4,731	5,587	5,631
Grants and subsidies	16,973	18,450	17,387	19,891	21,444	23,079
Deficit/surplus	-2,125	-1,748	-4,102	-2,523	-1,531	234
Ø of operating revenues	11,963	12,183	11,641	12,732	14,389	15,056

Development of expenditure in AUD per capita

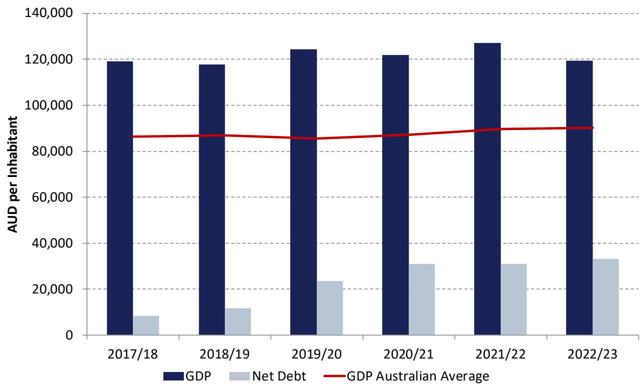


	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating expense	27,268	25,864	25,878	27,145	28,558	28,476
Debt charges	929	1,022	1,148	1,286	1,343	1,370
Ø of operating expenses	11,266	11,604	12,330	13,150	14,848	14,765

Gross value added by economic sector



Development of GDP and total debt per capita



Source: Australian Bureau of Statistics, NORD/LB Floor Research

Australian Capital Territory

Australian Capital Territory (ACT) is the smallest sub-sovereign among ones covered in this Issuer Guide. It covers an area of just 2,358km^2 but still has a population of over 466,000 people. Canberra is the capital both of ACT and Australia as a whole. The region is fully enclosed by New South Wales, from which it was separated in 1911. The tensions between the major cities of Melbourne and Sydney when it came to nominating a capital city of the newly founded Commonwealth of Australia made it necessary to establish a neutral capital, which was to be built in the new territory. The Australian Parliament moved to the newly created city to begin its work in 1927. The population is concentrated almost exclusively in the capital and its suburbs. As an economic and cultural centre, Canberra is home to two of the best universities in the country, the University of Canberra and the Australia National University. Due to the numerous government and administrative institutions, the economic output of ACT is dominated by the service sector to a significant extent. In 2022/23, 91.9% of economic output was generated by the tertiary sector, with public administration and security accounting for 32.3% of value added. In terms of GDP per capita (2022/23: AUD 104,523), ACT is exceptionally productive and ranks in third place at a national level.

Key facts

Link to the Ministry of Finance
[Homepage]
Population (2023)
466,566
Capital city
Canberra
Bloomberg ticker
AUSCAP

General information

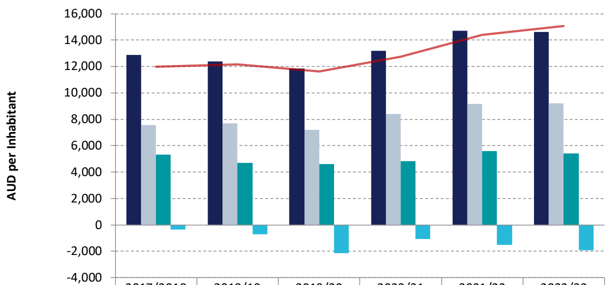
Outstanding bond volume (EURbn)*
EUR 8.0bn
Of which EUR bonds
EUR 0.0bn

Ratings

Fitch		Moody's		S&P	
Long-term	Outlook	Long-term	Outlook	Long-term	Outlook
-	-	-	-	AA+	neg

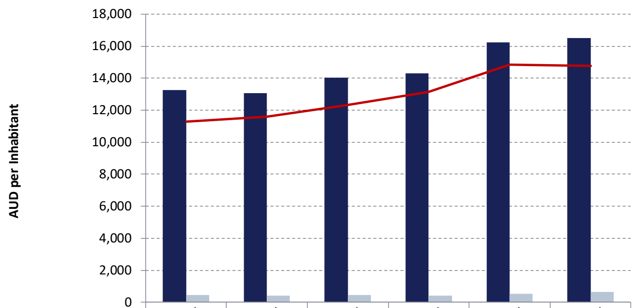
* Foreign currencies are converted into EUR at rates as at 26 November 2024. Source: Bloomberg, NORD/LB Floor Research

Development of revenue in AUD per capita



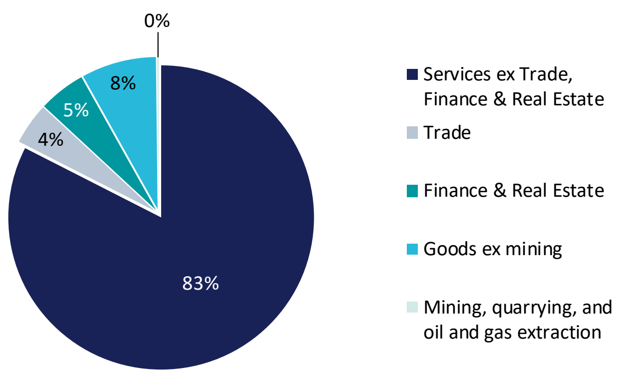
	2017/2018	2018/19	2019/20	2020/21	2021/22	2022/23
Operating revenue	12,900	12,365	11,850	13,209	14,723	14,620
Own-source revenue	7,558	7,681	7,222	8,395	9,148	9,191
Grants and subsidies	5,342	4,684	4,628	4,813	5,574	5,429
Deficit/surplus	-375	-711	-2,165	-1,083	-1,517	-1,903
Ø of operating revenues	11,963	12,183	11,641	12,732	14,389	15,056

Development of expenditure in AUD per capita

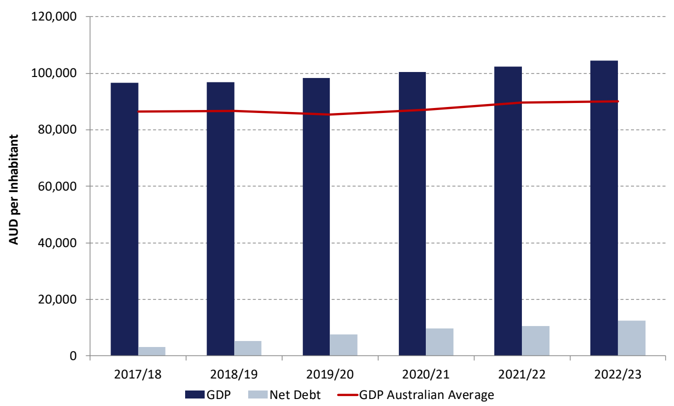


	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Operating expense	13,275	13,079	14,014	14,291	16,239	16,523
Debt charges	442	409	447	409	514	639
Ø of operating expenses	11,266	11,604	12,330	13,150	14,848	14,765

Gross value added by economic sector



Development of GDP and total debt per capita



Source: Australian Bureau of Statistics, NORD/LB Floor Research

New Zealand – Australia's smaller neighbour
Constitutional framework of New Zealand

Negotiations over domestic market

As far as the economy in this part of the world is concerned, Australia and New Zealand are often mentioned in the same breath. The two countries maintain close ties on numerous levels. Aside from the fact that sheep shearers from New Zealand can earn good money as temporary workers on Australian farms, more generally speaking both countries tend to view the other as an important trading partner. Since 1990, the CER (Closer Economic Relations) agreement has guaranteed tariff-free trade between Australia and New Zealand. Moreover, the two countries agreed a framework in 2009 to accelerate the formation of a common internal market. Despite their isolated geographical location, on account of their historical status as colonies of the British Empire, both countries share Western cultural values and are consequently to be regarded as Western economies. Even though New Zealand is significantly smaller than Australia both in terms of area and population, it is nevertheless one of the most developed industrial nations in the world. In 2022 (GDP PPP), it ranked just behind the UK and France but ahead of countries such as Italy and Spain in terms of GDP per capita. Over the past few years, New Zealand's positive economic development and favourable investment climate has seen it attract the attention of the global financial sector, not least as a result of high demand for alternative investment opportunities outside of the Eurozone. As such, it is certainly worth taking a look at New Zealand, and Auckland Council in particular, as part of this Issuer Guide.

Organisation: federation vs. central state

The founding moment of New Zealand as a colony of the British Empire is generally associated with the signing of the Treaty of Waitangi in 1840, which saw the introduction of British law following a proclamation of sovereignty over the whole country (the North Island by treaty and the South Island by discovery). Administrative autonomy was then granted in 1852, when its own parliament was formed. In 1907, the country was given the title Dominion of New Zealand and was granted independence from British rule. The Statute of Westminster, which the British government passed in 1931, before being accepted by the New Zealand government in 1947, granted full legislative independence to all Commonwealth dominions. In contrast to nations such as Australia, the modern-day New Zealand is not organised as a federation. Instead, the central government has created different administrative areas. In terms of its regional administration, New Zealand is today divided into eleven regional councils (regions) and 67 territorial authorities (districts), with further differentiations within these categories.

Division of powers as defined in the New Zealand constitution (examples)

Central government	Regional councils	Territorial authorities
Defence	Natural disaster management	Waste disposal/sewage
Foreign policy	Port security and marine pollution	Local road construction
Finance	Public transport	Water supply
International trade and industry	Environmental protection and management	Urban planning
Education	Civil defence	Maintenance of parks and reserves
Social security system		

Source: Auckland Council, NORD/LB Floor Research

Status of the territorial authorities
Compared with the regional councils, New Zealand's 67 territorial authorities are smaller administrative units found within a particular region. However, some territorial authorities can span more than one regional council. There are 12 city councils and 54 district councils, in addition to Auckland Council. Moreover, six of the territorial authorities are also classified as regions and, as a result, they perform a dual function. This special form is known as a unitary authority. Regardless of the term under which it is classified, each of the territorial authorities has the same responsibilities. As opposed to the regional councils, these responsibilities are less focused on environmental aspects and more geared towards providing the population with the necessary infrastructure (water, sewage, roads, healthcare, etc.). However, they are also responsible for control functions such as construction supervision and inspection activities. On account of New Zealand being a largely centrally organised nation, there is no political representation or participation at regional level. The territorial authorities cover their funding costs chiefly by levying taxes on property. In addition, they receive subsidies and grants, which come, for example, from their share of road tolls. The territorial authorities also have the power to levy regional taxes, such as for illegal parking and swimming pool sales.

Status of the regional councils
As a unitary authority, Auckland is one of the few regions of New Zealand to carry out capital market refinancing activities of its own accord. Moreover, Auckland Council places a significant proportion of its bond deals in foreign currencies. At the time of preparing this Issuer Guide, a total of 74,1% of the funding mix was denominated in foreign currencies. These included four in EUR benchmark format at a volume of EUR 2.1bn. In this way, Auckland is increasingly of interest to European investors as well. For this reason, we are including Auckland as the sole New Zealand sub-sovereign in this Issuer Guide. However, we are not ruling out the inclusion of other regions in our coverage in the future.

Regional councils as the equivalent of the German Laender or Australian states
The fact that New Zealand is organised as a central state with divisions between administrative levels makes it difficult to draw a comparison with nations such as Australia and Germany that are organised along federal lines. Nevertheless, the regional councils of New Zealand most closely correspond to a sub-sovereign of a federal nation. The small size of the individual regions and the comparatively low funding requirement that this entails makes Auckland Council a particular focal point of our study.

Regulatory framework of New Zealand

Divergent classification in comparison with Australia

In principle, the classification of New Zealand sub-sovereigns into relevant regulatory frameworks is analogous to the Australian states and territories. However, the Reserve Bank of New Zealand (RBNZ), as the regulatory authority in New Zealand, makes a decisive intervention at one point of this process. This results in a divergent regulatory treatment, which we will explain below. In terms of deriving the risk weight, it is again Art. 115 CRR that forms the basis here. It describes the possibility of exposure to sub-sovereigns being subject to equivalent treatment as exposure to the respective central government in the event that the central government in question is not a member of the EEA and is therefore considered to be a third country. Consequently, as is the case for Australia, the two prerequisites for New Zealand's legal and supervisory equivalence in line with existing EU regulations and the equal treatment of risk positions vis-à-vis New Zealand sub-sovereigns with exposure to the central government must again be examined by the responsible supervisory authority. Like Australia, New Zealand is included on the European Commission's list of third countries that are equivalent from a legal and supervisory viewpoint, meaning that the first condition is satisfied. In a second step, the focus is on verifying whether New Zealand, through the RNBZ, also applies a risk weight of 0% to its sub-sovereigns. At this point, the RBNZ has decided that a risk weight of 20% applies to its sub-sovereigns. As a result, on this basis we determine a classification as a Level 2A asset pursuant to Art. 11 LCR for the LCR classification. The factor for the required stable funding within the framework of the NSFR therefore comes to 15%. Conversely, the Solvency II classification corresponds to that of the Australian sub-sovereigns. At this juncture, we would refer readers to the relevant sections found on the first pages of this Issuer Guide for more detailed information regarding the methodology for determining regulatory treatment.

Regulatory overview of New Zealand sub sovereigns

Risk weight	20% (based on the decision of the RBNZ)
LCR classification	Level 2A
NSFR classification	15%
Solvency II classification	Non-preferred

Source: Regulation (EU) No. 575/2013, Delegated Regulation (EU) 2015/61, Delegated Regulation (EU) 2015/35, RBNZ, NORD/LB Floor Research

Auckland Council (NZ)

With a population of 1.7m people, Auckland Council is home to more than one third of the population of New Zealand, despite the fact that at around 5,000km^2 it covers just 2% of the country. As a unitary authority, Auckland Council performs the tasks of a territorial authority and regional council at the same time. Property tax is the most important source of income for the regional government. According to estimates (Q1/2024), this item will account of more than 40% of total revenues in 2024. Legally speaking, there is no upper limit for property tax, which is levied regardless of market fluctuations. Instead, properties are valued by Auckland Council every three years based on a range of parameters (area, market value, location, etc.). As a region, Auckland is thriving. It contributes 38% to New Zealand's GDP. Gross value added is generated mainly in the tertiary sector (89.7%). To this end, professional, scientific and technical services make the largest contribution, at 16.8%, which reflects the highly educated population. In fact, more than one third of the inhabitants of Auckland Council is educated to degree level at least. The region is home to roughly 81,000 students, the overwhelming majority of whom are enrolled at either the University of Auckland or the Auckland University of Technology. Both universities are located in the Auckland Central Business District (CBD), which forms the economic heartbeat of the unitary authority. A quarter of the 100 most important companies in New Zealand are headquartered here. These include international banks and global corporations (e.g. Westpac, Suncorp, Zurich Re and Microsoft, among others) in addition to major New Zealand firms such as Fonterra and Southern Cross, ensuring that 21% of regional GDP (2023) is generated in the CBD.

Key facts

Link to the Ministry of Finance

Homepage

Population (2023)

1,739,300

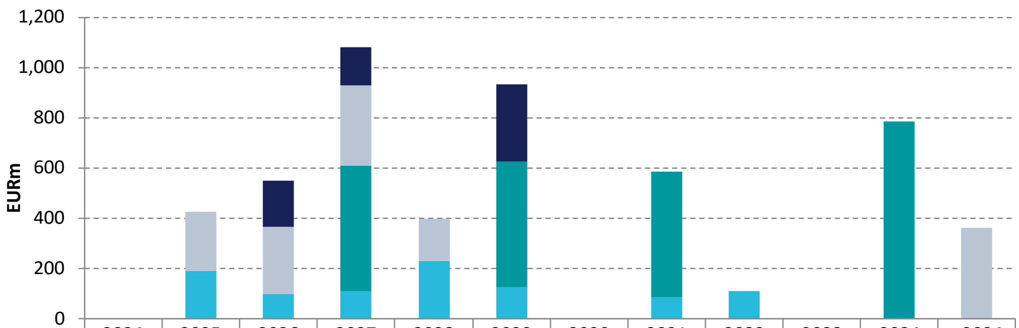
Capital city

Auckland

Ratings

	Long-term	Outlook
Fitch	-	-
Moody's	Aa2	stab
S&P	AA	stab

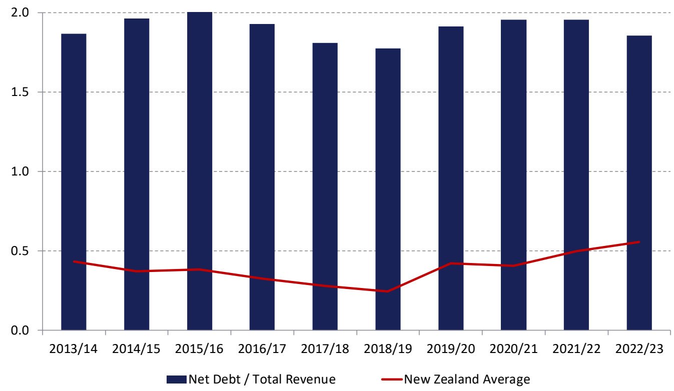
Auckland Council – outstanding bonds*



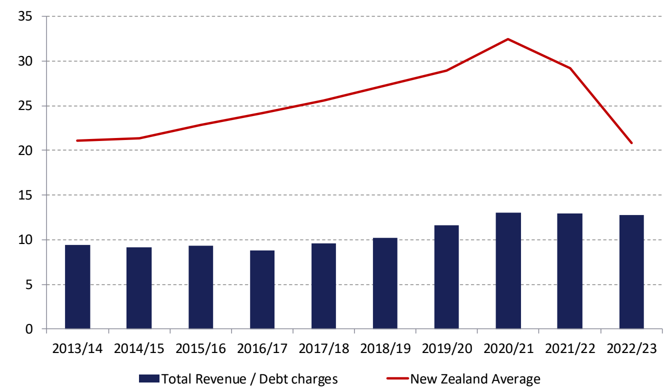
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	>2034
AUD	0	0	186	155	0	310	0	0	0	0	0	0
NZD	0	237	268	321	167	0	0	0	0	0	0	362
EUR	0	0	0	500	0	500	0	500	0	0	785	0
Other	0	188	95	107	228	123	0	86	107	0	0	0

* Foreign currencies are converted into EUR at rates as at 26 November 2024. Table values in EURm.
Source: Bloomberg, NORD/LB Floor Research

Trend in debt sustainability



Trend in interest coverage

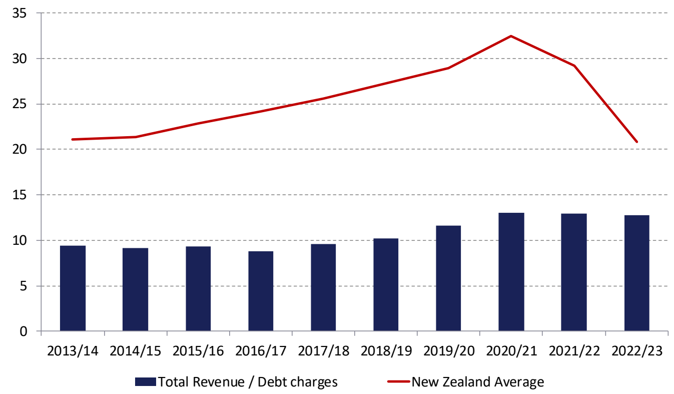


Source: Stats NZ Tatauranga Aotearoa, NORD/LB Floor Research

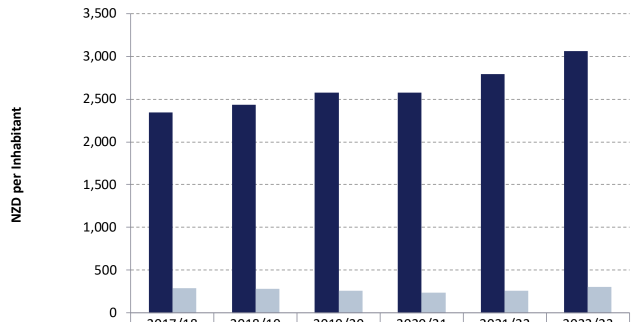
Capital market	Economy 2022/23	Key figures 2022/23
Net debt	**Real GDP**	**Tax-interest coverage**
NZD 12.4bn	NZD 135.2bn	12.8x
Outstanding bonds*	**Real GDP per capita**	**Total revenue/interest paid**
EUR 5.2bn	NZD 74,716	10.5x
Of which EUR bonds	**Real GDP growth**	**Net debt/GDP**
EUR 2.3bn	9.8%	8.3%
Bloomberg ticker	**Unemployment rate**	**Net debt/revenue**
AUCKCN	4.6%	2.3x

* Foreign currencies are converted into EUR at rates as at 26 November 2024.
Source: Stats NZ Tatauranga Aotearoa, NORD/LB Floor Research

Development of revenue in AUD per capita

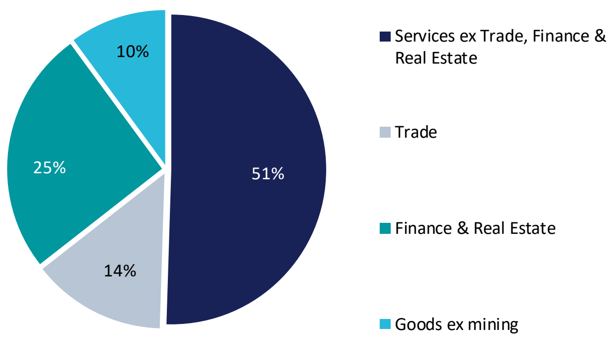


Development of expenditure in AUD per capita

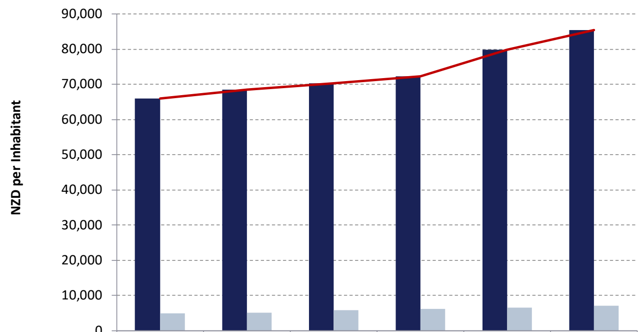


	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total expenditure	2,347	2,431	2,576	2,573	2,792	3,061
Interest expenditure	285	284	259	239	259	301

Gross value added by economic sector



Development of GDP and total debt per capita



	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
GDP	65,926	68,474	70,282	72,219	79,874	85,513
Net debt	4,969	5,155	5,775	6,101	6,559	7,129
GDP (New Zealand)	65,926	68,474	70,282	72,219	79,874	85,513

Source: Stats NZ Tatauranga Aotearoa, NORD/LB Floor Research

Strengths/Chances

+ Major importance to the NZ economy
+ Highly developed economy

Weaknesses/Risks

– High ratio of net debt to revenue
– High interest expenses

Appendix

Ratings overview

Issuer (Bloomberg ticker)	Fitch		Moody's		S&P	
New South Wales (NSWTC)	AAA	stab	Aaa	stab	AA+	stab
Victoria (TCV)	AA+	stab	Aa2	stab	AA	stab
Queensland (QTC)	AA+	stab	Aa1	stab	AA+	stab
South Australia (SAFA)	-	-	Aa1	stab	AA+	stab
Western Australia (WATC)	-	-	Aaa	stab	AAA	stab
Tasmania (TASCOR)	-	-	Aa2	stab	AA+	neg
Northern Territory (NTTC)	-	-	Aa3	stab	-	-
Capital Territory (AUSCAP)	-	-	-	-	AA+	neg
Australia	AAAu	stab	Aaa	stab	AAAu	stab
Auckland (AUCKCN)	-	-	Aa2	stab	AA	stab
New Zealand	AA+	stab	Aaa	stab	AAA	stab

Source: Bloomberg, NORD/LB Floor Research

Appendix

Overview of budget and key economic metrics

Trend in real GDP (AUDbn)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
New South Wales (NSWTC)	**579.4**	**593.0**	**609.3**	**632.0**	**648.2**	**662.8**	**680.2**	**673.3**	**688.7**	**706.7**	**733.1**
Victoria (TCV)	409.8	418.9	460.8	445.7	462.7	478.6	493.1	491.7	490.7	521.7	535.5
Queensland (QTC)	373.2	380.6	383.8	393.0	403.3	419.4	423.3	418.5	430.2	454.0	464.6
South Australia (SAFA)	109.6	110.0	111.2	111.9	114.0	116.6	117.9	116.7	122.5	129.3	134.2
Western Australia (WATC)	334.8	354.1	362.1	365.9	362.2	370.2	376.3	380.7	393.2	404.8	418.8
Tasmania (TASCOR)	30.7	31.2	31.5	32.1	32.5	33.7	34.9	34.9	36.6	38.2	38.6
Northern Territory (NTTC)	**27.1**	**27.5**	**27.8**	**28.4**	**28.8**	**29.4**	**29.0**	**30.8**	**30.3**	**31.8**	**30.1**
Capital Territory (AUSCAP)	34.6	34.7	35.7	37.4	38.9	40.5	42.2	43.8	45.5	46.8	48.8
Auckland Council (AUCKCN)*	71.4	75.3	77.8	82.1	102.5	109.1	115.1	120.5	123.1	135.2	148.7

Trend in real GDP in AUD per capita

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
New South Wales (NSWTC)	78,478	79,196	80,220	81,994	82,650	83,301	84,530	83,017	85,055	86,538	87,876
Victoria (TCV)	71,333	71,369	71,850	72,608	73,537	74,400	75,427	74,323	74,936	78,682	78,570
Queensland (QTC)	80,519	80,890	80,559	81,423	82,175	84,069	83,179	81,016	82,472	85,328	85,081
South Australia (SAFA)	65,692	65,341	65,501	65,405	66,216	67,232	66,722	65,210	67,932	70,981	72,456
Western Australia (WATC)	**135,253**	**140,920**	**142,753**	**143,230**	**140,895**	**142,926**	**141,486**	**140,335**	**143,023**	**144,983**	**145,346**
Tasmania (TASCOR)	**59,904**	**60,650**	**61,217**	**62,077**	**62,286**	**63,894**	**63,699**	**62,648**	**64,520**	**66,843**	**67,318**
Northern Territory (NTTC)	112,950	113,061	114,441	115,960	116,819	119,031	117,700	124,311	121,914	127,052	119,285
Capital Territory (AUSCAP)	90,679	89,459	90,532	93,111	94,754	96,724	96,842	98,356	100,478	102,332	104,523
Auckland Council (AUCKCN)**	47,785	49,520	50,116	51,670	60,095	65,926	68,474	70,282	72,219	79,874	85,513

NB: Lowest values in orange, highest values in blue (excl. AUCKCN).
* Values stated in NZDbn
** Values stated in NZD
Source: Australian Bureau of Statistics, Stats NZ Tatauranga Aotearoa, NORD/LB Floor Research

Trend in issuance volumes (AUDbn)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
New South Wales (NSWTC)	0.08	2.30	**5.37**	**7.94**	**9.13**	**8.81**	**4.54**	-5.07	-0.61	-8.73	-4.54
Victoria (TCV)	**1.15**	**3.45**	3.01	4.68	4.47	4.45	4.28	**-6.33**	**-14.11**	**-14.49**	**-6.78**
Queensland (QTC)	**-2.39**	3.01	3.23	3.29	6.29	4.49	3.33	-3.91	0.24	**7.71**	**14.93**
South Australia (SAFA)	-0.76	**-0.91**	0.02	0.48	0.77	0.14	1.13	-1.51	-0.82	-1.01	0.00
Western Australia (WATC)	0.92	1.57	0.60	**-1.30**	**-1.63**	-0.06	2.06	**1.64**	**5.80**	5.75	5.23
Tasmania (TASCOR)	-0.18	-0.14	0.03	0.19	0.94	0.21	0.07	-0.50	-0.13	0.10	0.24
Northern Territory (NTTC)	0.01	0.20	0.51	0.42	0.05	**-0.52**	**-0.43**	-1.02	-0.63	-0.38	0.06
Capital Territory (AUSCAP)	-0.35	-0.23	**-0.26**	-0.27	-0.14	-0.16	-0.31	-0.96	-0.49	-0.69	-0.89
Auckland Council (AUCKCN)*	0.45	0.15	0.08	0.25	0.34	0.66	0.79	0.75	0.93	0.95	1.35

Trend in budget balances in AUD per capita

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
New South Wales (NSWTC)	11	307	707	1,030	1,164	**1,107**	564	**625**	74	1,069	544
Victoria (TCV)	200	588	502	762	710	692	655	-957	-2,154	**-2,186**	-995
Queensland (QTC)	-515	639	678	681	1,281	900	654	-757	47	1,450	**2,733**
South Australia (SAFA)	-454	-545	14	283	445	80	639	-842	-455	-553	1
Western Australia (WATC)	**372**	623	237	507	**-634**	-23	**776**	604	**2,110**	**2,061**	1,813
Tasmania (TASCOR)	-353	-263	62	375	**1,811**	389	122	-900	-236	-168	-419
Northern Territory (NTTC)	21	**807**	**2,110**	**1,729**	203	**-2,125**	**-1,748**	**-4,102**	**-2,523**	-1,531	234
Capital Territory (AUSCAP)	**-906**	**-603**	**-649**	**-680**	-334	-375	-711	-2,165	-1,083	-1,517	**-1,903**
Auckland Council (AUCKCN)**	301	99	52	157	209	398	470	439	544	562	776

Trend in net debt (AUDbn)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
New South Wales (NSWTC)	11.9	8.6	5.5	-0.1	**-9.3**	**-11.2**	**-8.8**	19.3	37.1	55.8	74.9
Victoria (TCV)	**19.8**	**21.5**	**21.1**	**22.5**	18.1	19.6	22.8	**44.3**	**77.5**	**101.9**	**116.7**
Queensland (QTC)	3.6	8.8	6.1	3.9	0.3	-0.3	1.7	14.1	11.4	11.0	**2.6**
South Australia (SAFA)	5.2	6.9	4.1	4.1	6.3	5.3	6.3	10.5	14.4	16.9	17.9
Western Australia (WATC)	18.2	22.0	9.3	13.7	**18.8**	**24.7**	**25.9**	37.2	39.3	29.9	19.1
Tasmania (TASCOR)	**0.0**	**0.2**	**-0.2**	**-0.3**	-0.3	-0.6	-0.5	**-0.2**	**1.9**	**1.7**	3.0
Northern Territory (NTTC)	2.0	2.0	1.4	0.9	1.2	2.1	2.9	5.8	7.7	7.7	8.3
Capital Territory (AUSCAP)	0.2	0.5	0.9	1.6	1.5	1.3	2.2	3.3	4.4	4.8	5.7
Auckland Council (AUCKCN)*	5.5	6.1	7.0	7.5	8.0	8.2	8.7	9.9	10.4	11.1	12.4

NB: Lowest values in orange, highest values in blue (excl. AUCKCN).
* Values stated in NZDbn
** Values stated in NZD
Source: Australian Bureau of Statistics, Stats NZ Tatauranga Aotearoa, NORD/LB Floor Research

Trend in net debt in AUD per capita

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
New South Wales (NSWTC)	1,634	1,161	729	-8	**-1,212**	**-1,427**	**-1,108**	2,394	4,571	6,889	9,168
Victoria (TCV)	3,527	3,745	3,619	3,752	2,952	3,119	3,544	6,778	11,721	15,569	17,599
Queensland (QTC)	728	1,889	1,287	821	62	-54	333	2,760	**2,199**	**2,108**	**491**
South Australia (SAFA)	3,163	4,129	2,440	2,397	3,682	3,096	3,627	5,962	8,027	9,392	9,806
Western Australia (WATC)	**7,553**	**8,905**	3,704	**5,408**	**7,367**	**9,620**	9,997	13,988	14,471	10,893	6,836
Tasmania (TASCOR)	**32**	**441**	**-367**	**-491**	-583	-1,194	-1,016	**-320**	3,327	3,004	5,243
Northern Territory (NTTC)	8,413	8,525	**5,581**	3,514	4,828	8,450	**11,613**	**23,431**	**30,967**	**31,038**	**33,134**
Capital Territory (AUSCAP)	555	1,380	2,343	4,174	3,617	3,171	5,210	7,569	9,789	10,504	12,453
Auckland Council (AUCKCN)*	3,714	4,035	4,506	4,707	4,904	4,969	5,155	5,775	6,101	6,559	7,129

Trend in the ratio of net debt/revenue (excl. transfer payments)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
New South Wales (NSWTC)	0.16	0.11	0.07	0.00	**-0.10**	**-0.12**	**-0.10**	0.21	0.37	0.48	0.63
Victoria (TCV)	0.35	0.38	**0.37**	0.37	0.28	0.28	0.30	0.63	1.04	**1.18**	**1.28**
Queensland (QTC)	0.07	0.17	0.11	0.07	0.00	0.00	0.02	0.22	**0.16**	**0.13**	**0.03**
South Australia (SAFA)	0.31	0.41	0.23	0.22	0.32	0.26	0.23	0.52	0.66	0.72	0.71
Western Australia (WATC)	**0.63**	**0.73**	0.31	**0.47**	**0.63**	**0.77**	**0.75**	1.04	0.92	0.66	0.40
Tasmania (TASCOR)	0.00	**0.04**	**-0.03**	**-0.04**	-0.04	-0.10	-0.8	**-0.03**	0.25	0.21	0.34
Northern Territory (NTTC)	0.38	0.37	0.22	0.13	0.19	0.34	0.48	**1.07**	**1.25**	1.14	1.14
Capital Territory (AUSCAP)	**0.05**	0.12	0.2	0.34	0.28	0.24	0.40	0.63	0.73	0.71	0.83
Auckland Council (AUCKCN)	1.60	1.87	1.97	2.02	1.93	1.81	1.78	1.92	1.96	1.96	1.86

Trend in the ratio of revenue (excl. transfer payments)/interest expenditure

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
New South Wales (NSWTC)	29.86	30.64	32.87	35.11	38.23	45.54	45.79	40.57	42.36	39.71	27.19
Victoria (TCV)	30.64	25.50	26.75	28.56	32.50	34.26	35.90	31.33	29.75	31.20	23.86
Queensland (QTC)	**22.05**	**21.04**	**21.16**	**22.53**	31.42	34.27	36.20	37.03	36.62	48.36	51.12
South Australia (SAFA)	40.10	49.83	59.73	75.16	91.75	44.28	56.64	49.98	50.84	47.51	35.84
Western Australia (WATC)	60.45	57.48	52.40	42.19	36.44	34.67	35.25	45.43	61.20	65.75	55.86
Tasmania (TASCOR)	**294.89**	**333.81**	**372.87**	**420.43**	**431.69**	**431.07**	**396.82**	**659.00**	**274.81**	**201.32**	**127.43**
Northern Territory (NTTC)	27.99	26.28	25.34	28.37	30.06	**27.08**	**23.60**	**18.97**	**19.15**	**20.13**	**20.95**
Capital Territory (AUSCAP)	32.20	28.95	28.11	27.19	**28.51**	29.20	30.27	26.49	32.31	28.63	22.89
Auckland Council (AUCKCN)	11.18	9.43	9.17	9.31	8.77	9.63	10.21	11.64	13.03	12.96	12.76

NB: Lowest values in orange, highest values in blue (excl. AUCKCN).
* Values stated in NZD
Source: Australian Bureau of Statistics, Stats NZ Tatauranga Aotearoa, NORD/LB Floor Research

With thanks to Maximilian Lingenfelser and Tim Bräunl

We would like to take this opportunity to thank both Maximilian Lingenfelser and Tim Bräunl for their valuable contributions to this study. Their commitment to this project and the ideas that they each brought to the table have enabled us to present a highly differentiated picture of the Australian and New Zealand markets for EUR-denominated issuances.

Appendix
Publication overview

Covered Bonds:

Issuer Guide – Covered Bonds 2024

Covered Bond Laws

Covered Bond Directive: Impact on risk weights and LCR levels

Risk weights and LCR levels of covered bonds (updated semi-annually)

Transparency requirements §28 PfandBG Q3/2024 (quarterly update)

Transparency requirements §28 PfandBG Q3/2024 Sparkassen (quarterly update)

SSA/Public Issuers:

Issuer Guide – German Laender 2024

Issuer Guide – German Agencies 2024

Issuer Guide – Canadian Provinces & Territories 2024

Issuer Guide – European Supranationals 2024

Issuer Guide – French Agencies 2023

Issuer Guide – Nordic Agencies 2024

Issuer Guide – Dutch Agencies 2024

Issuer Guide – Non-European Supranationals (MDBs) 2024

Beyond Bundeslaender: Belgium

Beyond Bundeslaender: Greater Paris (IDF/VDP)

Beyond Bundeslaender: Spanish regions

Fixed Income Specials:

ESG-Update 2024

ECB: An autumn of interest rate cuts that wasn’t supposed to be?

NORD/LB:
Floor Research

NORD/LB:
Covered Bond Research

NORD/LB:
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