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Fitch Assigns Export Finance Australia First-Time 'AAA' Ratings; Outlook Stable

Fitch Ratings - Sydney - 08 Oct 2024: Fitch Ratings has assigned Export Finance Australia (EFA) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) of 'AAA' with Stable Outlooks, and Short-Term IDRs of 'F1+'.

Fitch has also assigned 'AAA' ratings to EFA's AUD5 billion and USD2.5 billion medium-term note programmes, and a 'F1+' short-term rating to EFA's USD4 billion Euro commercial paper programme.

The ratings reflect the Australian government's legislative guarantee for all of EFA's debt obligations, which results in EFA's ratings being equalised with those of Australia (AAA/Stable) under Fitch's Government-Related Entities (GRE) Rating Criteria. We believe the government's close oversight of EFA would ensure timely payment in the event the guarantee is called, and that the guarantee will remain in place at least for the medium term, as it is included in the Export Finance and Insurance Corporation Act 1991.

Fitch also believes the government has significant responsibilities and incentives to support EFA, given EFA's central role in advancing the government's policy objectives to promote Australian exports, which are vital for the nation's economic development.

KEY RATING DRIVERS

Support Score Assessment 'Virtually certain'

We believe that extraordinary support from the Australian government to EFA would be 'Virtually Certain' in case of need, reflecting a support score of 60 (out of a maximum 60) under our GRE criteria. This reflects our assessment below of a combination of responsibility to support and incentive to support factors.

Responsibility to Support

Decision Making and Oversight 'Very Strong'

The Australian government directs all of EFA's activities under the National Interest Account (NIA), which are of a highly strategic nature and make up a significant portion of EFA's investments. It also controls the amount of debt that EFA can issue and the amount of exposure that can be written on EFA's Commercial Account (CA). Additionally, the responsible minister provides EFA with a statement of expectations and EFA issues a statement of intent, which together express and formalise the minister's expectations of EFA and the board's intention to meet these expectations.

Oversight mechanisms include the appointment of board members and a requirement for EFA to report regularly to the responsible minister on its activities. The government's ability to set strategic directions, approve key financial parameters, and ensure that EFA's activities align with broader economic and trade objectives underpin the 'Very Strong' assessment.

Precedents of Support 'Very Strong'

EFA benefits from a consistent and robust framework of government support, ensuring its financial viability and ability to raise and deploy capital according to its objectives. Such support includes a significant callable capital facility - currently AUD1.2 billion - to support EFA's capital position for its CA investments, in addition to the explicit guarantee for all debt obligations. We believe the support from the government demonstrates its commitment to backing EFA's financial position and this is highly likely to continue.

Incentives to Support

Preservation of Government Policy Role 'Very Strong'

EFA plays a critical role in supporting Australia's economic activities, maintaining strategic projects, and upholding political and institutional stability. A default by EFA would have significant implications across various fronts, namely disruption to trade activities and delays or cancellations of key regional infrastructure projects that are in the national interest. We also believe that political considerations would provide strong incentives for the government to avoid an EFA default, given the entity's key role in supporting geopolitical interests.

Contagion Risk 'Very Strong'

EFA has a large presence in debt markets to support its key policy role in Australia's export sector, which includes raising capital to fulfil government policy mandates under EFA's NIA. Its close relationship with the government as a state-backed corporate Commonwealth entity, means that its default would likely be viewed as a broad failure of government support mechanisms for state entities. We believe this would result in significant contagion within the public sector, affecting the government's standing in financial markets and the financial stability of GREs.

Derivation Summary

Fitch classifies EFA as a GRE linked to the Australian sovereign under our GRE rating criteria. We assess a maximum support score of 60 under the criteria, reflecting 'Very Strong' assessments for each of the four support factors. In addition, EFA's debt is fully guaranteed by the government, which leads to an equalisation of EFA's ratings with those of the sovereign, irrespective of the support factors and EFA's standalone credit assessment.

The ratings also reflect EFA's robust financial profile, as demonstrated by its strong capital adequacy. The government's commitment to absorb all risks and losses associated with NIA transactions further reinforces the entity's creditworthiness.

Short-Term Ratings

EFA's Short-Term IDRs are equalised with those of Australia under our criteria, given the equalisation of the Long-Term IDRs.

Debt Ratings

EFA's long-term debt programmes are rated in line with its 'AAA' IDR, and the short-term programme rating is aligned to its 'F1+' Short-Term IDR.

Issuer Profile

EFA is Australia's export credit agency, providing financing to support Australian export trade and offshore infrastructure development.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Negative rating action on Australia would result in similar action on EFA's ratings.
- Removal of, or a material reduction in, the sovereign guarantee could also lead to a downgrade.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

EFA's ratings are at the highest level on Fitch's rating scale and cannot be upgraded.

ESG Considerations

Fitch does not provide ESG relevance scores for Export Finance Australia. In cases where Fitch does not provide ESG relevance scores in connection with the credit rating of a transaction, programme, instrument or issuer, Fitch will disclose any ESG factor that is a key rating driver in the key rating drivers section of the relevant rating action commentary. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products>

Public Ratings with Credit Linkage to other ratings

The ratings of EFA are directly linked to those of Australia.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Export Finance Australia	LT IDR	AAA 	New Rating
	ST IDR	F1+	New Rating
	LC LT IDR	AAA 	New Rating
	LC ST IDR	F1+	New Rating
• senior unsecured	LT	AAA	New Rating

ENTITY/DEBT	RATING	RECOVERY	PRIOR
• senior unsecured	ST F1+		New Rating

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	◐	

Applicable Criteria

[Government-Related Entities Rating Criteria \(pub.09 Jul 2024\)](#)

[Public Policy Revenue-Supported Entities Rating Criteria \(pub.12 Jan 2024\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

[Endorsement Status](#)

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

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