

STATES OF JERSEY



MAINTENANCE OF JERSEY'S CREDIT RATING (P.18/2022): AMENDMENT

Lodged au Greffe on 17th March 2022
by the Minister for Treasury and Resources

STATES GREFFE

MAINTENANCE OF JERSEY'S CREDIT RATING (P.18/2022):
AMENDMENT

1 PAGE 2, PARAGRAPH (a) –

After the words “issuance of” insert the word “new”; before the words “Government Plan” insert the word “future”; for the word “Plan” substitute the word “Plans”; and for the word “would” substitute the word “might”.

2 PAGE 2, PARAGRAPH (b) –

For the words “Minister for Treasury and Resources” substitute the words “Council of Ministers”; before the word “ensure” insert the words “endeavour to”; and for the word “Government” substitute the word “States”.

MINISTER FOR TREASURY AND RESOURCES

Note: After this amendment, the proposition would read as follows –

THE STATES are asked to decide whether they are of opinion –

(a) that, for any issuance of **new** debt proposed in **future** Government **Plans**, the Plan should include a forecast of the likely effect of the debt on Jersey's credit ratings, and the rates of interest that **might** be levied on the debt;

(b) that, except in periods of emergency, the **Council of Ministers** should **endeavour to** ensure that the **States** of Jersey's long-term credit rating should be maintained at a level of BBB or above (Standard & Poors) or the equivalent for other ratings agencies; and

(c) to request the Minister for Treasury and Resources to bring forward any changes to the Debt Framework, or other related policies, with a view to presentation to the States Assembly no later than 30th April 2022.

REPORT

On 10th August 2021 the Minister for Treasury and Resources ('the Minister') published [r.132-2021.pdf \(gov.je\)](#). This included the Policy of the Council of Ministers on obtaining financing, as required by the Public Finances (Jersey) Law 2019, and the Debt Strategy of the Minister.

Debt Strategies are published by many sovereign nations. They help to ensure that both the level and rate of growth of public debt are on a sustainable path. The Debt Strategy is based on well established guidelines published by the World Bank and International Monetary Fund. A Debt Strategy is a useful information document for a range of stakeholders including Islanders, politicians, investors, financial institutions and rating agencies.

The Minister's Debt Strategy summarises how the States will enact, control and monitor debt issued and provides transparent and easily understood metrics which respond to changes in market conditions and the financial position of the States. It also commits the current and future Ministers to regular updates based on changes in the States debt issuance programme.

Credit ratings are forward looking opinions about an issuer's relative creditworthiness. They provide a common and transparent global language for investors to form a view on and compare the relative likelihood of whether an issuer may repay its debts on time and in full. Credit ratings are just one of many inputs that investors and other market participants can consider as part of their decision-making processes (Source: S&P)

The States of Jersey first obtained a credit rating from Standard & Poor's Rating Service ('S&P') on 22nd November 2013 – the rating assigned was AA+ with a Stable outlook. S&P are an American credit rating agency that publish financial research and analysis on stocks, bonds, commodities and sovereign debt issuers such as the States of Jersey. S&P is one of the "Big Three" independent credit rating agencies which also includes Moody's and Fitch.

The credit rating has been reviewed fifteen times by S&P since 2013 (at least annually) and the table below reflects all changes since the rating was first published.

Date	Credit Rating	Outlook
22/11/2013	AA+ (first assigned)	Stable
23/05/2014	AA+ (affirmed)	Stable
21/11/2014	AA+ (affirmed)	Stable
22/05/2015	AA+ (affirmed)	Stable
20/11/2015	AA+ (affirmed)	Stable
12/02/2016	AA (downgrade)	Negative
08/07/2016	AA- (downgrade)	Stable
29/07/2016	AA- (affirmed)	Stable
27/01/2017	AA- (affirmed)	Stable
28/07/2017	AA- (affirmed)	Stable
26/01/2018	AA- (affirmed)	Negative
27/07/2018	AA- (affirmed)	Negative
25/01/2019	AA- (affirmed)	Negative
17/01/2020	AA- (affirmed)	Stable
15/01/2021	AA- (affirmed)	Stable
14/01/2022	AA- (affirmed)	Stable

Historically, changes in the States credit rating have arisen because of external factors rather than changes to the strength or make up of the States own balance sheet.

When the States issued its first public bond of £250million in 2014 there was no change to the credit rating. Furthermore, the two downgrades and the changes in outlook have been solely as a result of external factors that were perceived by S&P to have a direct impact on Jersey.

In February 2016 S&P cited “growing concerns that increasing regulatory complexity and demands, amid G10’s rising focus on low-tax regimes, will put pressure on Jersey’s financial services economy and low tax regime”.

In July 2016 S&P “believed that the UK’s exit from the EU was likely to have a material negative impact on Jersey’s financial sector and therefore expected stagnation in GDP per capita growth in 2016-2019”.

Introduction

The Minister acknowledges the intention and spirit of Deputy Morel’s Proposition but feels it is important to lodge this amendment to clarify the proposals and provide States Members with greater insight into some of the points made.

In essence, the proposals being made by the Deputy are already undertaken and form part of the overall fiscal risk assessment of borrowing proposals. Most of the information, at a summary level, is already available but the Minister acknowledges that greater transparency is always useful.

Part (a)

The Minister feels it is important to provide some clarity to this element of the Proposition to ensure that it only applies to future debt approved by the Assembly and not that already approved and contained within Government Plan 2022-25.

The Minister hopes that Members acknowledge that elements of this part of the Proposition are already in place. The reports accompanying the current Government Plan, P.80/2021: Our Hospital – Budget, Financing and Land Assembly and R.132/2021 all contained estimates of the interest rates that might expect to be paid on Government borrowing.

However, Members must acknowledge that these estimates reflect a moment in time and might not necessarily align to the final interest rates paid. For example, a project such as Our Hospital will take several years to complete and a result of a number of market related factors the debt raised to finance the project is unlikely to be raised all at the same time. This could lead to different coupons (interest rates) applying to the debt. As such, it is important the forecast of interest rates is understood as indicative of the rates that **might** be paid.

Members can be assured that independent and expert advice has previously been sought on the potential impact of the increased level of debt on the States’ credit rating. . The Minister accepts that it would have been useful to provide additional narrative in this regard and is happy to accept that such forecasts should be included in future Government Plans if new borrowing is being proposed.

The independent advice provided was proven by the publication of a rating update by S&P Global Ratings on 14th January 2022 which affirmed the States of Jersey at AA- with a Stable outlook.

Part (b)

The Minister is amending this part of the Proposition to make it clearer that the credit rating is a matter for the independent rating agency, and its determination is largely outside of the States' control. Investors, financial institutions and other stake holders place great faith in the ongoing independence of S&P and it is not possible for the Minister or Council of Ministers to ensure specific outcomes from a rating review.

By way of background the table below shows the full scale of credit ratings from the Big Three agencies in descending order:

Moody's	S&P	Fitch	Grade
Aaa	AAA	AAA	Investment Grade
Aa1	AA+	AA+	
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Speculative Grade
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	
Caa2	CCC		
Caa3	CCC-		
Ca	CC	CC	
C	C	C	
		D	

The table demonstrates that the States credit rating would need to see 6 downgrades before it reached the minimum BBB- level as set out in the Debt framework. The Minister wishes to clarify to members that the BBB- rating is an absolute floor and that the ambition is to maintain as high a credit rating as possible. As cited by S&P in their most recent update, the fiscal reserves of the States are seen as a key rating support and this was a key consideration in the decision to propose borrowing within the Government Plan, rather than to utilise reserves.

The Minister's authority to arrange financing under Article 26 of the Public Finances (Jersey) Law 2019 is relatively limited and it is considered unlikely that these levels of borrowing in isolation would expose the credit rating to a downgrade.

The Minister believes that higher levels of financing are most likely to be proposed through either individual Propositions or the Government Plan both of which are put to the Assembly by the Council of Ministers and therefore the Proposition should be amended to reflect this and broaden the responsibility for proposals which might impact on the States credit rating.

As indicated by Deputy Morel actions can be taken to **endeavour** to ensure that the States credit rating is maintained at a certain level, including by considering the likely impact of decisions on the rating. The Minister feels this is an important amendment reflecting the independence of the rating agency's activities and the limited influence that can be exerted on their assessments. In addition, the Minister is willing to amend the minimum level of credit rating to "BBB and above" in the next publication of the Debt Framework.

Part (c)

The Minister accepts this part of the Proposition. The Debt Framework already incorporates a requirement to publish an update once new debt has been issued but, given recent States Assembly approvals and changes in the wider economic environment it is considered prudent to update the document as a matter of good practice to keep all stakeholders informed.

This update will be published before 30th April 2022.

Financial and manpower implications

There are no immediate financial or resource implications as a result of this amendment. In the event that independent advice is required in relation to the impact of future borrowing on the States' credit rating there is likely to be a cost for such advice. This would need to be incorporated from within existing budgets or provided for with the Proposition seeking approval of the debt.