FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms New Zealand's LGFA at 'AA+'; Outlook Negative

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Fitch Ratings - Sydney - 21 Sep 2026: Fitch Ratings has affirmed New Zealand Local Government Funding Agency Limited (LGFA)'s Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'AA+'. The Outlook is Negative. Fitch has also affirmed LGFA's Short-Term IDR at 'F1+', senior unsecured bonds at 'AA+' and short-term debt programmes at 'F1+'.

We assess LGFA under our Government-Related Entities (GRE) Rating Criteria. LGFA is credit-linked to the New Zealand government (AA+/Negative) and its IDRs takes into consideration the government's significant responsibility and incentives to provide financial support to the agency. LGFA provides most of New Zealand's local government financing and its ratings are therefore equalised with those of the sovereign.

KEY RATING DRIVERS

Support Score Assessment 'Virtually certain'

We believe extraordinary support from the New Zealand government to LGFA would be 'Virtually Certain' if needed, reflecting a support score of 55 points out of a maximum 60 under our GRE criteria. This is based on our assessment of the government's responsibility and incentive to provide support.

Responsibility to Support

Decision Making and Oversight 'Very Strong'

LGFA's strategic role as the main lender to New Zealand's sub-sovereign governments and their related entities is reinforced by tight government oversight and operational influence. The central government owns a minority share but maintains strong oversight through legislative mandates, regular reporting and representation on the shareholders' council. LGFA's alignment with national priorities, including water reforms and natural disaster response, demonstrates its key policy role, providing public-sector financing under close government supervision.

Precedents of Support 'Strong'

LGFA benefits from a strong record of government support, reinforcing its strategic role in public-sector financing. The central government's NZD3 billion committed liquidity facility provides a financial backstop, ensuring LGFA's financial stability.

Previous policy actions, including the Reserve Bank of New Zealand's asset purchases and legislative provisions for direct lending, highlight the government's readiness to act. LGFA has not required government support since the initial equity contribution, but its central role and robust guarantee structure underpin our strong expectation of extraordinary support if needed.

Incentives to Support

Preservation of Government Policy Role 'Very Strong'

Sector-wide reliance on LGFA for infrastructure financing makes it integral to the delivery of essential public services across New Zealand. A default by the agency would severely disrupt infrastructure projects and undermine economic stability and living standards. Councils have alternate funding options, but these are less favourable and cannot sufficiently replace the agency. Its centrality to public-service delivery and economic continuity creates a 'Very Strong' incentive for the government to ensure LGFA's uninterrupted operation.

Contagion Risk 'Very Strong'

LGFA is the second-largest New Zealand dollar bond issuer after the sovereign, underscoring its systemic importance in domestic capital markets. LGFA also provides the majority of local government borrowings, accounting for around 98% of the sector's domestic borrowings in the financial year ended June 2026 (FY26). Its prominence and deep integration in both local and offshore debt markets make LGFA a reference issuer in New Zealand's capital markets.

A default by LGFA would trigger investor concern over the government's willingness or ability to support public-sector entities and could severely impair broader market access and funding conditions. Legislative provisions for government support reinforce our expectation of intervention to safeguard financial stability.

Financial Performance

LGFA's net operating profit rose by 85% yoy to NZD35 million in FY26. This was supported by the lower all-in funding costs from its expanded offshore borrowing programme, supporting growth in total operating income of 55% yoy to NZD55.2 million. Net interest income increased by 49% to NZD51.8 million. Operating expenses rose by 21%, reflecting additional costs associated with the development of new lending products and the onboarding of new member council-controlled organisations. LGFA remains income tax-exempt.

Short-Term Ratings

LGFA's Short-Term IDRs are equalised with those of the sovereign, given the equalisation of the Long-Term IDRs.

Debt Ratings

LGFA's long-term debt obligations are rated in line with its Long-Term IDR. Its short-term programme ratings are aligned to its Short-Term IDR.

PEER ANALYSIS

Peer analysis highlights varying degrees of government support across financial GREs. Entities in the highest support category, including LGFA, typically exhibit tight sovereign links, strong contagion risk and direct oversight. Lower support categories reflect diluted ownership structures, narrower policy roles or substitutable services. Equalisation with sponsor government ratings is generally driven by explicit guarantees or robust support frameworks. Differences in legal obligations, ownership concentration and strategic importance influence the assessment of support strength across peers.

LGFA's closest peers include Agence Francaise de Developpement (A+/Stable) and EPIC Bpifrance (A+/Stable).

Issuer Profile

LGFA is a centralised financing entity for New Zealand's local government sector. Its primary objective is to raise debt for local authorities to improve their debt funding terms and conditions.

RATING SENSITIVITIES

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

LGFA's ratings could be downgraded following negative rating action on the New Zealand sovereign. In addition, a negative rating action could result from a weaker assessment of the government's responsibility or incentive to provide support that leads to a support score of less than 45 under our GRE criteria.

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

A revision of the Outlook to Stable on New Zealand's sovereign ratings would result in the same action on LGFA's ratings.

Criteria Variation

A variation to the Government-Related Entities Rating Criteria was applied to the 'Issuers with no SCPs' provision. Fitch determined that assigning a Standalone Credit Profile (SCP) to LGFA was unnecessary for the analysis, even though the criteria's conditions for deeming an SCP 'not meaningful' were not strictly met.

Government support for LGFA, underpinned by a clear policy mandate, is assessed as 'Virtually Certain'. We also assess that LGFA is not in financial distress (where a default is a real possibility) and that the supporting government has ample access to the GRE's cash or assets, constraining the rating to that of the New Zealand government. Therefore, we believe there is no risk that the IDR would differ if an SCP were assigned, nor would an assessment of an SCP enhance the analysis at this stage.

CLIMATE VULNERABILITY SIGNALS

The results of our Climate.VS screener did not indicate an elevated risk for LGFA.

ESG Considerations

Fitch does not provide ESG relevance scores for LGFA.

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 LGFA are linked to the New Zealand sovereign's ratings.

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.

RATING ACTIONS

ENTITY / DEBT	RATING TYPE	RATING	RATING ACTION	PRIOR
New Zealand Local Government Funding Agency Limited (LGFA)	LT IDR	AA+ Rating Outlook Negative	Affirmed	AA+ Rating Outlook Negative
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	AA+ Rating Outlook Negative	Affirmed	AA+ Rating Outlook Negative
	LC ST IDR	F1+	Affirmed	F1+
senior unsecured	LT	AA+	Affirmed	AA+
senior unsecured	ST	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 19 Jul 2025)

Public Policy Revenue-Supported Entities Rating Criteria (pub. 11 Jul 2026) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

New Zealand Local Government Funding Agency Limited (LGFA)	EU Endorsed, UK Endorsed

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