

## Credit ratings and interest rates on sovereign bonds

Credit ratings by international ratings agencies help investors to fathom the credit risk associated with fixed-income securities. The ratings agencies give an independent opinion of the risk that a country would default on its foreign-currency debt.

The higher rating of South Africa's foreign-currency debt, bank deposits and foreign currency-denominated bonds from Baa2 to Baa1 by Moody's Investors Service in January 2005 recognised the country's prudent macroeconomic policies, improving economic growth prospects and substantially stronger foreign reserves position.

On the ratings scale used by Moody's Investors Service the highest rating is Aaa for bonds judged to be of the best quality. C denotes the lowest rated class of bonds, with poor prospects of ever attaining any real investment standing. The numerical modifiers indicate the higher end or lower end of the rating category. Ratings of Baa3 and higher are investment grade, while those below Baa3 are non-investment grade. Apart from credit ratings, other factors such as liquidity and term to maturity influence market yields on bonds.

### A selection of sovereign bond yields on 28 February 2005

Per cent*	Maturity (years)	Moody's rating	Country
4,38	10	Aaa	United States
4,57	8	Aaa	Sweden
4,40	5	Aa1	Belgium
4,61	10	Aa2	Italy
4,76	8	A2	China
4,99	9	A3	Korea
<b>5,21</b>	<b>9</b>	<b>Baa1</b>	<b>South Africa</b>
5,65	10	Baa1	Mexico
4,60	5	Baa2	Barbados
6,11	13	Baa3	Russia
6,82	10	Ba1	Panama
7,81	9	Ba2	Colombia
6,83	10	Ba3	Peru
6,61	10	B1	Turkey
7,84	9	B1	Brazil
8,08	9	B2	Venezuela
41,28	10	Caa1	Argentina

\* Rates on US dollar-denominated bonds in the 5 years and longer maturity range. Source: Bloomberg

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