

### Box 3: Credit ratings and bond yields

A number of credit rating agencies specialise in the evaluation of the credit risk attached to sovereign and corporate debt obligations. The table accompanying this box shows how the market yields on United States (US) dollar-denominated government bonds issued by a selection of countries vary, along with the sovereign credit ratings of each of those countries as rated by Moody's, a prominent rating agency. Bonds rated Baa or higher are classified as "investment grade", while bonds rated below that level are classified as "sub-investment grade" or "speculative grade", colloquially sometimes referred to as "junk bonds".

Apart from credit risk, bond yields are also influenced by a variety of factors, such as the liquidity of the bond and country-specific factors. The relationship between yields and sovereign credit ratings is therefore not purely linear, but is characterised by some outliers, as illustrated by Italy which is classified among the A3 bonds (see table). Nevertheless, it would appear that moving from the highest rating (Aaa) to the lowest rating that is still regarded as investment grade (Baa3) would roughly involve an additional 3 to 5 percentage points in annual yield. As may be expected, yields on bonds within the lowest sub-investment grade categories are very high.

A selection of yields on US dollar-denominated sovereign bonds, 7 March 2012

Country	Bond yield (Per cent*)	Moody's rating	Rating explanation	
United States.....	1,96	Aaa	Aaa: Highest quality, with minimal credit risk	Investment grade
Chile.....	2,92	Aa3	Aa: High quality and subject to very low credit risk	
Poland.....	4,18	A2	A: Upper-medium grade and subject to low credit risk	
Malaysia .....	3,54	A3		
South Africa.....	3,86	A3		
Italy .....	6,15	A3		
Mexico .....	3,36	Baa1	Baa: Subject to moderate credit risk – medium grade, may possess certain speculative characteristics	
Russia. ....	3,92	Baa1		
Brazil.....	3,09	Baa2		
Colombia.....	3,21	Baa3		
Namibia.....	5,01	Baa3		
Latvia .....	5,40	Baa3		
Romania.....	6,15	Baa3		
Barbados .....	6,85	Baa3		
Turkey .....	5,20	Ba2	Ba: Have speculative elements, subject to substantial credit risk	Sub-investment grade
Georgia .....	6,36	Ba3		
Sri Lanka .....	6,55	B1	B: Speculative and subject to high credit risk	
Dominican Republic....	7,03	B1		
Senegal .....	8,23	B1		
Ukraine.....	9,49	B2		
Venezuela.....	11,79	B2		
Belize .....	18,58	Caa1	Caa: Of poor standing and subject to very high credit risk	
Argentina.....	34,61	Ca	Ca: Highly speculative and likely in, or very near, default, with some prospect of recovery of principal and interest	
Greece**.....	113,21	C	C: Lowest-rated class, typically in default, with little prospect for recovery of principal or interest	

\* Rates on US dollar-denominated bonds in the 8 to 17 years maturity range

\*\* Greece only has a US dollar-denominated bond with a one-year remaining maturity

Source: Bloomberg, Moody's and South African Reserve Bank