

Box 6: 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. The first table on the next page shows how the yields on US dollar-denominated government bonds vary along with the sovereign credit ratings of those countries with a sovereign credit rating broadly similar to South Africa, as rated by Standard & Poor's Rating Services, one of the prominent rating agencies. Bonds rated BBB- or higher are indicated as 'investment grade', while the bonds rated below that level are indicated as 'non-investment grade' or 'speculative grade'.

South Africa's sovereign credit rating was downgraded to BBB- in June 2014, which is considered the lowest investment grade rating. Considering the bond yields of countries with credit ratings close to that of South Africa, the relationship between yields and sovereign credit ratings is not purely linear. However, although bond yields vary across countries within a rating band as various other factors such as liquidity come into play, average bond yields move progressively higher as credit ratings become less favourable. The average bond yield for countries with a BBB rating was 10 basis points higher than the average BBB+ yield, with a further 19 basis points increase in the average bond yield for countries with

a BBB- rating. Going from BBB- to the highest speculative grade rating of BB+ involves a further 26 basis points increase. Lastly, the average bond yield for the BB rating was 44 basis points higher than the average bond yield for countries with a BB+ rating. The differentials reported here relate to yields on a specific day only; some variation may be expected over time.

Average yield on US dollar-denominated sovereign bonds by rating category, 20 August 2014

Standard & Poor's rating	Average yield Per cent*	Remarks
BBB+	3,78	Investment grade
BBB	3,88	Investment grade
BBB-	4,07	Lowest investment grade. South Africa currently falls in this rating category
BB+	4,33	Highest speculative grade
BB	4,77	Speculative grade

The individual country data underpinning the calculated average yields are reflected in the table below.

Country detail: A selection of yields on US dollar-denominated sovereign bonds, 20 August 2014

Country	Bond yield Per cent*	Standard & Poor's rating**
Mexico	3,27	BBB+
Peru	3,65	BBB+
Aruba	4,42	BBB+
Italy	3,29	BBB
Philippines	3,36	BBB
Colombia.....	3,51	BBB
Panama.....	3,88	BBB
Bahrain.....	4,35	BBB
Bahamas.....	4,86	BBB
Uruguay.....	3,71	BBB-
Romania.....	3,86	BBB-
Brazil	3,87	BBB-
Iceland	3,89	BBB-
Morocco.....	4,13	BBB-
South Africa.....	4,24	BBB-
Russia	4,81	BBB-
Indonesia.....	4,17	BB+
Turkey	4,49	BB+
Guatemala.....	4,28	BB
Paraguay.....	4,37	BB
Portugal.....	4,94	BB
Croatia	5,04	BB
Costa Rica.....	5,22	BB

* Rates on US dollar-denominated bonds in the 8-to-11-years maturity range

** Red = non-investment grade

Source: Bloomberg