

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates – 25–26 February 2009

Question: aet 37

Topic: AAA Rating

Hansard Page: E36 (25 February 2009)

Senator JOYCE asked:

Senator JOYCE—In the current market, Dr Henry, what would you see as the sort of premium that would exist between a AAA rating and a AA rating in the interest it costs?

Dr Henry—I do not have today's figures in front of me. This is something that moves almost every minute of every day. I do not know if somebody has today's financial market report. No, we do not have the spreads. I will have to take that question on notice.

Senator JOYCE—It is not a trick question.

Answer:

There can be significant variation in the yields on bonds issued by entities with the same credit rating due to, amongst other things:

- the type of issuer (sovereign, sub-sovereign, corporate);
- the maturity of the bond;
- the currency of the security.

Table 1 shows the degree of variance within an across different ratings.

Table 1 — Spreads for 10-year Government Bond Yields to the German Government 10-year bond yield for Selected Euro Area Countries

Country	Rating(a)	Yield (%)	Spread to Germany (basis points)
Germany	AAA	4.33 (1/8/2008)	-
	AAA	3.00 (20/3/2009)	-
France	AAA	4.51 (1/8/2008)	18
	AAA	3.56 (20/3/2009)	56
Netherlands	AAA	4.51 (1/8/2008)	18
	AAA	3.68 (20/3/2009)	68
Spain	AAA	4.64 (1/8/2008)	31
	AA+	4.03 (20/3/2009)	103

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Ireland	AAA	4.76 (1/8/2008)	43
	AA+	5.73 (20/3/2009)	273
Portugal	AA-	4.78 (1/8/2008)	45
	A+	4.49 (20/3/2009)	149
Italy	A+	4.92 (1/8/2008)	59
	A+	4.27 (20/3/2009)	127
Greece	A	4.98 (1/8/2008)	65
	A-	5.63 (20/3/2009)	263

(a) Ratings by Standard & Poor's.

Source: Thomson Reuters