

# PERSONAL FINANCE

## EP.6 GOVERNMENT BOND



By Knockout.Economics  
[www.knockouteconomics.com](http://www.knockouteconomics.com)



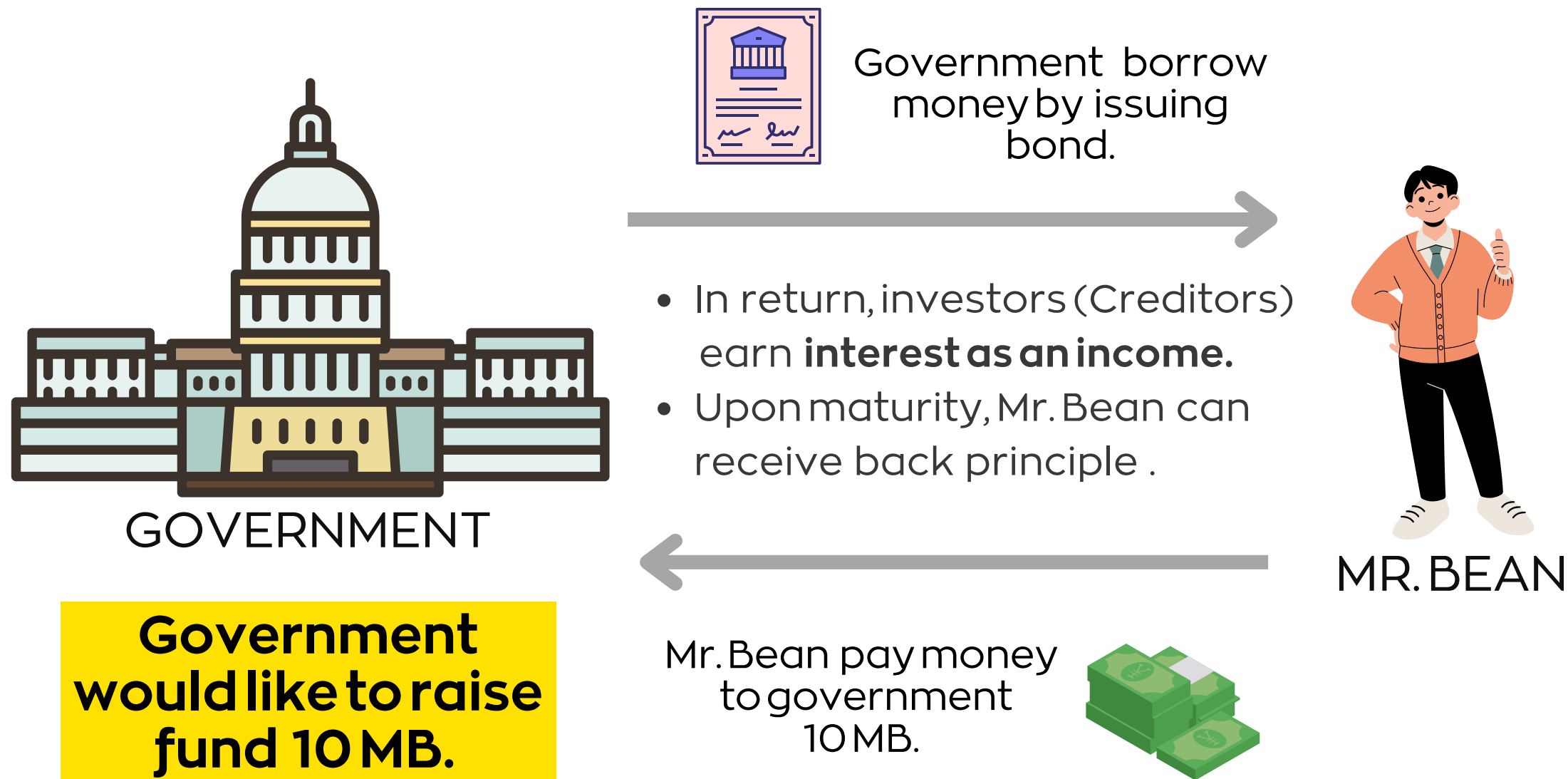
# AGENDA

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- **WHAT IS GOVERNMENT BOND?**
- **TYPES OF GOVERNMENT BOND**
- **RETURN OF GOVERNMENT BOND**
- **ADVANTAGES & DISADVANTAGES**

# WHAT IS GOVERNMENT BOND?

is a form of security issued by the **national government** to raise money to **run projects or pay-off debts.**



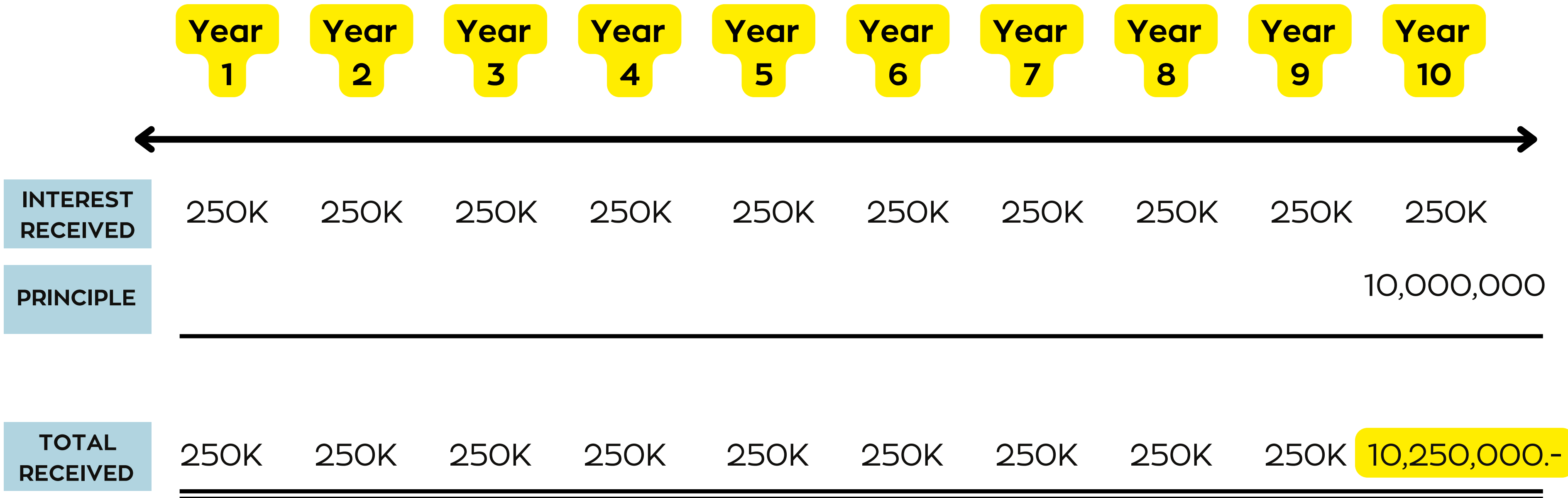
**Government would like to raise fund 10MB.**

**Maturity Date**  
:is the date on which a debt comes due and the principle must be repaid to creditors

**Principle**  
:is the original amount of money being borrowed by the government.

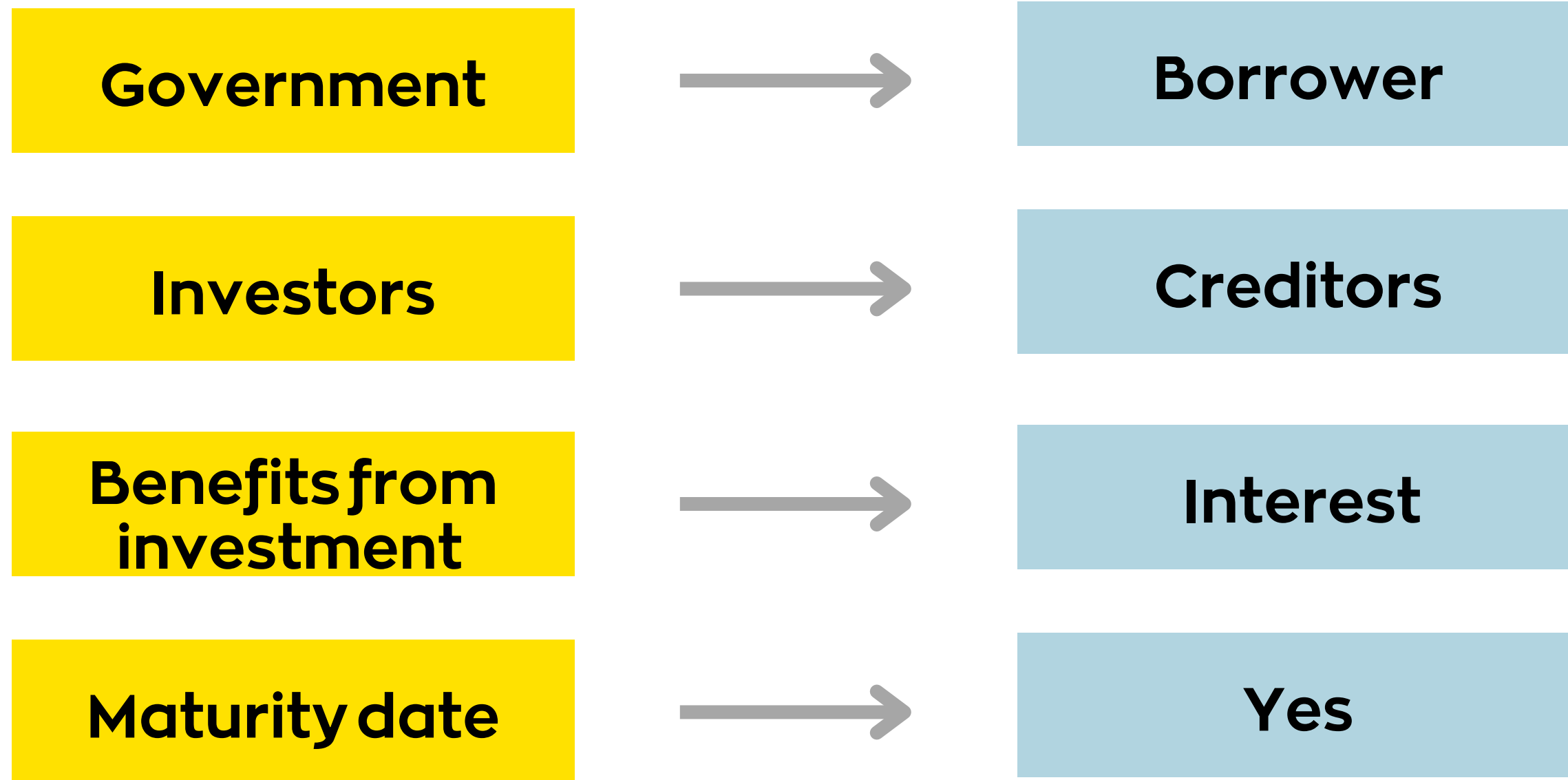
# WHAT IS GOVERNMENT BOND?

**For example:** Mr. Bean bought government bond 10 MB, the maturity is 10 years and fixed interest rate will annually pay 2.5%



# WHAT IS GOVERNMENT BOND?

## Sum Up - Key Characteristics of Government Bond



# TYPES OF GOVERNMENT BOND

## Treasury Bill

## Fixed Rate Government Bond

## INFLATION-LINKED BOND

- Short-term bond with maximum validity of 364 days from issue date (<1 year)

- Long-term bond, more than 1 year of maturity.

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- **No interest payment, generally sold at discount price** and creditors earn the gap price.

- Received **fixed interest payment**, normally twice a year.
- Upon maturity, the principle will be paid to creditors.

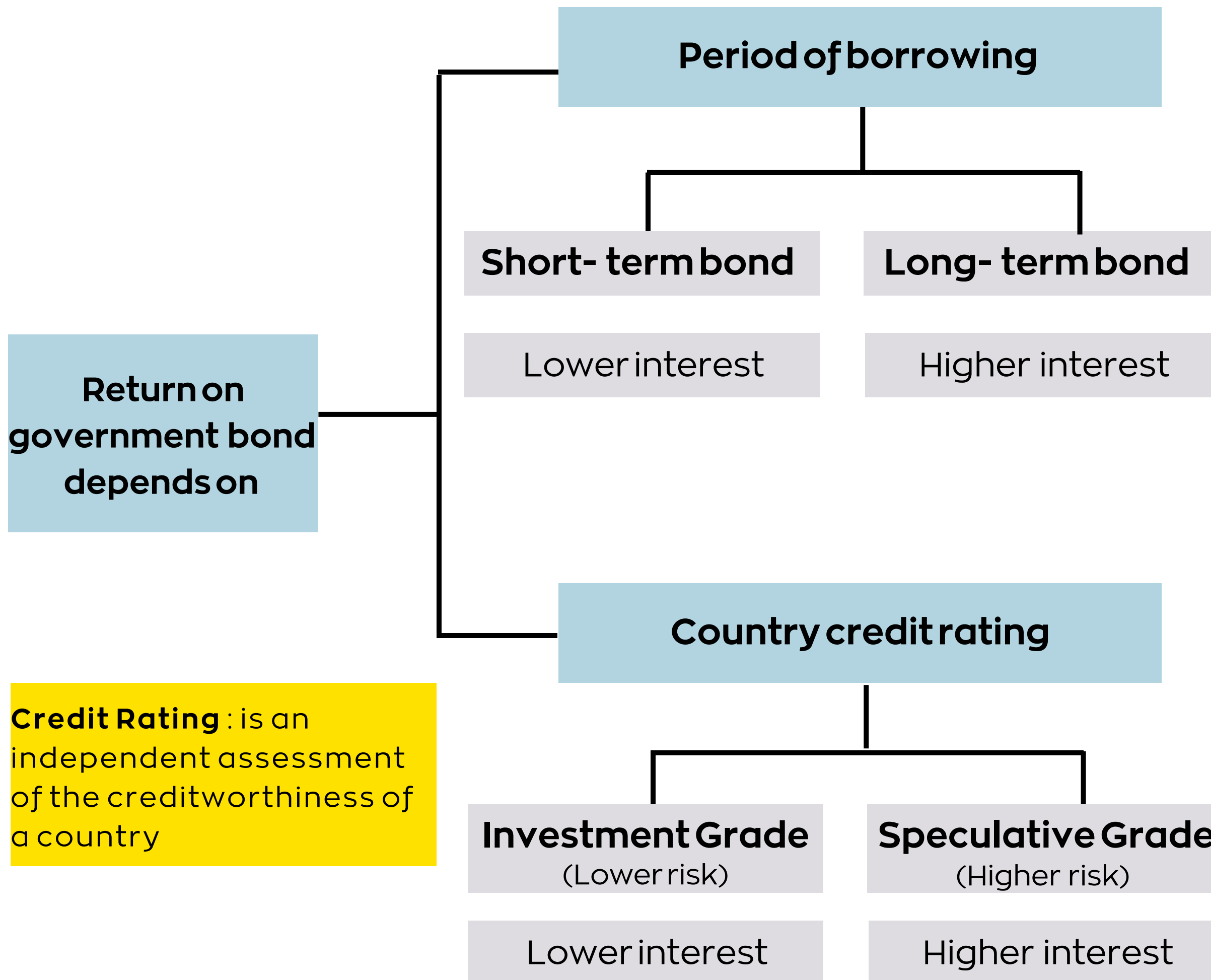
- Received interest payment **on basis of price index (inflation)**, normally twice a year.
- Upon maturity, the principle will be paid to creditors.

Increase liquidity in short-term for government

Invest in many projects for developing countries eg. Infrastructure Or Repay national debt etc.

# TYPES OF GOVERNMENT BOND

# RETURN OF GOVERNMENT BOND















































**Credit Rating** : is an independent assessment of the creditworthiness of a country

# RETURN OF GOVERNMENT BOND

MOODY'S INVESTORS SERVICE		Rating Grade Description
Investment Grade	Aaa	Highest credit quality, lowest level of credit risk
	Aa1 Aa2 Aa3	Very high credit quality with very low credit risk
	A1 A2 A3	High credit quality with low credit risk
	Baa1 Baa2 Baa3	Good credit quality with moderate credit risk
	Ba1 Ba2 Ba3	Speculative with substantial credit risk
	B1 B2 B3	Highly speculative with high credit risk
	Caa1 Caa2 Caa3	Substantial credit risk with default as a real possibility
	Ca	Very high levels of credit risk with default either occurring or about to occur
	C	Default or default-like process has begun
Speculative Grade		Selective Default (SD): Issuers have defaulted on one or more specific issues but are expected to meet their other payment obligations. Restricted Default (RD): Issuers have missed one or more payments but are not under supervision for reorganization or liquidation.
		Default: Issuers are unlikely to pay their obligations and have likely entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedures.

List of countries by Moody's credit rating as of March 2021

Rank	Country	Rating	Rank	Country	Rating
1	 Denmark	Aaa	23	 Bulgaria	Baa1
2	 Luxembourg	Aaa	24	 Spain	Baa1
3	 Netherlands	Aaa	25	 Hungary	Baa3
4	 Norway	Aaa	26	 Romania	Baa3
5	 Switzerland	Aaa	27	 Italy	Baa3
6	 Germany	Aaa	28	 Portugal	Baa3
7	 Sweden	Aaa	29	 Russia	Baa3
8	 Austria	Aa1	30	 Croatia	Ba1
9	 Finland	Aa1	31	 Cyprus	Ba2
10	 France	Aa2	32	 Georgia	Ba2
11	 Belgium	Aa3	33	 Azerbaijan	Ba2
12	 Czech Republic	Aa3	34	 Greece	Ba3
13	 United Kingdom	Aa3	35	 Serbia	Ba3
14	 Estonia	A1	36	 Armenia	Ba3
15	 Ireland	A2	37	 Montenegro	B1
16	 Iceland	A2	38	 Albania	B1
17	 Malta	A2	39	 Turkey	B2
18	 Slovakia	A2	40	 Ukraine	B3
19	 Poland	A2	41	 Moldova	B3
20	 Slovenia	A3	42	 Bosnia and Herzegovina	B3
21	 Lithuania	A3	43	 Belarus	B3
22	 Latvia	A3	44	 North Macedonia	No rating

# RETURN OF GOVERNMENT BOND

## Moody's Maintains Thailand's Credit Rating at Baa1

10 Apr 2022



views 255

Investment Grade



<https://thainews.prd.go.th/en/news/detail/TCATG220410141458247>

# RETURN OF GOVERNMENT BOND

2022

ECONOMY

## Moody's downgrades Sri Lanka sovereign rating to Ca

Monday April 18, 2022 8:25 pm

Speculative Grade



### Sri Lanka defaults on debt for first time in its history

The governor of the country's central bank and two major credit rating agencies said it has defaulted.

... BBC News / May 20

# RETURN OF GOVERNMENT BOND

**Reference:** <https://www.bbc.com/news/business-61505842>  
<https://economynext.com/moodys-downgrades-sri-lanka-sovereign-rating-to-ca-93131/>

## ADVANTAGES

Rate of return will be **typically higher than saving money** in the commercial bank.

Investors know the **exact date, amount of interest payment and principle** they will be getting back.

Government bond from some countries can be referred as "**risk-free bond**"

## DISADVANTAGES

Government bond can pay **lower rate of return** than other type of investments eg. stock etc.

Some countries's government fail to pay debt which is called "**Sovereign Default**".  
**Creditors will lose total principle money and cannot receive interest payment.**

# ADVANTAGES & DISADVANTAGES OF GOVERNMENT BOND