Perpetual knowledge bank series: government bonds

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A government bond is a debt security issued by a national government and sold to investors to support government deficits, be these through spending or other obligations. These are usually considered low-risk investments since the issuing government backs the bonds. For example, U.S. Treasury bonds are widely described as among the safest investments in the world.

The buyers of government bonds in the primary market are typically banks, insurance companies, superannuation funds and pension funds that need to invest in safe and reliable assets to make good on their promises to customers, investors, members and policyholders. These bonds are then traded in the secondary market, mainly by these same investors. Government bonds should be considered alongside corporate bonds, which are issued by private companies.

Locally, the Commonwealth of Australia issues bonds called Commonwealth Government Securities, which tend to pay a lower rate of interest than corporate bonds. This is because the Australian Government is generally considered to be of lower risk than companies that also issue bonds. The Australian Government has never defaulted on the interest payments on the bonds that it has issued or on the repayment of the principal amount invested in them. For this reason, government bonds are considered to be a highly secure investment product, second only to cash at the bottom of the risk spectrum.