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Why rating agencies are important – Suta Kavari

Rating agencies have received their fair share of flack this year, and with a slew of rating actions, not many of them positive, they have had their hands full. However, while it has been an active year for S&P, Moody's and Fitch, they can at least take comfort in the fact that it's not as bad as 2007.

Many sceptics are waiting in the wings, reeling from rating actions, blaming anything from the weather to Trump's America, while others are ready to pounce on any missteps, bleating 'I told you so!' at any opportunity.

However, to feel sorry for the poor folks at the rating agencies would be a precious waste of tear glands. They did after all contribute to the global financial crisis by rating really bad, close-to-default mortgages in the United States as not just investment grade, but close to risk free.

But that 'minor' blip aside, rating agencies do play an important role in capital markets, due to the 'qualified' opinions they provide on the creditworthiness of sovereigns and companies and their ability to meet financial commitments.

A credit rating is also vitally important for a borrower because it ensures favourable loan terms if the rating is "investment grade", and it provides certainty to an investor that the borrower is able to meet financial obligations.

Sovereigns and companies are rated on a scale that ranges from investment grade to "speculative grade" (or what is affectionately termed as junk status). Investment grade ranges from to grade 'AAA' to BBB, while speculative grade starts at 'BB' to D.

Alongside a credit rating, rating agencies assign a rating outlook, which is essentially a preamble to the rating and in many cases is indicative of the likely direction of credit rating, but not necessarily a precursor to such.

A positive outlook implies a credit rating may be raised in the future, the opposite holds true for a negative outlook, while stable means that a rating is unlikely to change.

For developing countries like Namibia, an investment grade rating is incredibly important. It is important because it enables governments to raise funding for capital projects and operations on the international financial markets.

And because many international participants have little information on the country or company they invest in, they rely heavily in the opinions of rating agencies. Importantly, the need to maintain an investment grade rating compels developing countries to pursue prudent fiscal and monetary policy, in order to attract investors to help fund their development.