

Letter

Letter: Little surprise African governments reject credit rating agencies

From Hannah Ryder and others



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In “African criticism of credit ratings is a red herring” ([Opinion](#), January 19) Moritz Kraemer claims there is “no negative bias towards [African] countries” by credit rating agencies, reinforcing the notion that countries have only themselves to blame for worsening debt crises.

His claims are highly misleading, and should be taken with a pinch of salt. Kraemer, who is a former chief ratings officer at S&P Global Ratings, relies on selective data that he uses to say, post hoc, that the African countries whom the rating agencies predict might go into default, do go into default, and, if anything default more.

This is a false equivalence, because it ignores underlying differences between the countries selected. Furthermore, Kraemer does not address the problem that downgrades — just by the fact of their announcement — affect confidence and end up leading to defaults (ie the “self-fulfilling prophecy” of credit ratings). Another factor is S&P has just two offices, Moody’s one and Fitch none in Africa, which we believe contributes to the unfair coverage the continent receives.

When it comes to analyst discretion on risk factors that cannot be scientifically measured — such as political risk, the quality of institutions and policy effectiveness — the assessments are based on overly pessimistic assumptions, desktop reviews, virtual discussions or limited to publicly available information, omitting critical data that is often only obtained in-country.

They also reward budget actions that promote austerity, not expansionary fiscal policies that might help ensure democratic stability. Yet, the political risk such policies “create” constitutes approximately 50 per cent of their composite rating.

As a consequence of these issues and many others, some governments in Africa have rejected the credit rating agencies’ assessments.

A joint report of the African Peer Review Mechanism and the UN Economic Commission for Africa warned that the three main agencies were making “significant errors in their ratings”. In short, Africa’s qualitative factors are judged based on credit rating agencies’ generally negative ideological postures. It is Kraemer’s argument that is a red herring.

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