

## Brace for a tough 2009: Ratings Agency

Written by reporter

Friday, 05 December 2008 08:11 - Last Updated Saturday, 14 February 2009 23:32

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Not even an interest rate cut in South Africa would bring immediate relief for tough economic times in the new year, an international ratings agency said on Thursday.

"If we see relaxation on the monetary policy side -- that is a cut in rates -- it would be naïve to think that immediately growth would strengthen," said Konrad Reuss, MD of Standard and Poor's in South and sub-Saharan Africa.

The year ahead would be difficult in more than one respect, he told reporters in Johannesburg.

"Not only will SA have elections, but growth will slow down sharply."

Reuss said it was not the business of a ratings agency to predict growth figures. Standard and Poor's was more concerned over how policy makers reacted to slower growth. "That's where the election is important -- and the question would be asked: how will the next government respond to a situation where we have slower growth."

In November the agency cut its outlook on the country's credit rating to negative from stable.

Its concerns were based on a slump in the rand and the continuation of slowing economic growth. Ratings agency Fitch took similar action.

South Africa relied mainly on foreign investment in equities and bonds to cover its import requirements.

Ratings agencies became concerned when these inflows decreased in 2007, as investors turned away from emerging market assets.

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In the second quarter of 2008, the country's current account deficit stood at 7.3 percent of GDP.

Problems in funding the deficit forced the rand into its recent miserable performance.

Standard and Poor's said last month that the depreciation would prolong inflationary pressures and delay monetary easing, at a time when growth was slowing rapidly.