CARE SA assigns Global Scale – Long Term Foreign Currency Rating of "CareEdge BB" (Unsolicited) with a 'Stable' outlook to the Republic of South Africa

Issuer rating	CareEdge BB/Stable (Unsolicited)

Credit Profile

South Africa's credit profile primarily reflects its weak economic structure as well as its fiscal profile. These challenges, however, are offset by the country's favourable external position and a strong track record of monetary policy management.

The government's key priorities are to implement reforms in key economic sectors, such as logistics and power, and to achieve fiscal consolidation, which may both be challenging and time-consuming. While the vote to pass the FY26[1] Budget on 2 April lent some support to the government's fiscal objectives, a deconstruction of the vote reflects disunity amongst political parties within the coalition government, given that two parties within the coalition voted against passing the Budget. There are now heightened concerns regarding the composition of the coalition government and whether these parties will continue to participate in the current coalition structure. This may dent investor confidence at a time when South Africa requires much-needed investment for growth and continuity in the pace of policy reforms. As such, this remains a key monitorable for CARE SA.

Outlook: Stable

South Africa's stable outlook reflects ongoing structural reforms in key sectors, such as energy and logistics, which are expected to increase GDP growth. On the external front, we expect foreign direct investments (FDI) to remain strong while any speculative asset sales by foreign investors will continue to be buffered by South Africa's positive net international investment position. On the fiscal side, the FY26 Budget remains prudent, and the recent vote to pass the Budget sets South Africa on track to achieve fiscal consolidation. For example, the increase in the VAT rate and the unwinding of the COVID-19 social relief of distress (SRD) grant, among other measures, should lead to a decrease in both the fiscal deficit and the debt-to-GDP ratio over the medium term, lending support to maintaining a positive primary balance in the medium term.

1 Financial Year for South Africa is 01 March to 28 February. FY26 represents the FY2025/2026 fiscal year and the 2025 calendar year.

Upside scenario

The ratings could be improved if there is a rapid infrastructure recovery in the energy, rail, and port sectors, supported by improvements in the associated state-owned enterprises (SOEs), which ultimately translate into higher-than-expected growth outcomes over the medium term. This scenario would also support the country's fiscal position, given that an improvement in growth should see revenue growth fare better. Further, the subsequent improvement in the associated SOEs should also reduce allocations of contingent liabilities over the medium term, thereby supporting a lower debt-to-GDP profile.

Downside scenario

A downgrade may stem from persistent supply-side constraints resulting from sluggishness in policy reforms in key sectors, such as energy and logistics, which continue to hinder growth and increase input costs. Furthermore, a deterioration in investor confidence stemming from a lack of coordination within the current coalition government or severed political ties with the US, which would detract from investment and ultimately growth, would be negative for ratings. Lastly, if the direct impact of the recently announced reciprocal tariffs by the US government is compounded with an indirect impact stemming from a deterioration in investor confidence, this will also be ratings negative, as this would lead to a weaker growth profile, tighter monetary policy and higher financial outflows.

Key Rating Drivers

Economic Structure & Resilience

The economy is constrained by a rigid labour market, large income inequality and supply side constraints. The latter stemming from poor governance and deteriorating infrastructure, which have seen electricity shortages and high logistics costs. As a result, growth has failed to average above 1% over the past decade (2014-2024). Reforms are currently underway with the associated state-owned enterprises (SOEs), specifically Eskom for power generation, distribution, and transmission, and Transnet for logistics. Furthermore, as per the FY26 Budget, the government has also allocated over ZAR 1 trillion towards infrastructure spending over the medium term (FY26- FY28) to enhance reform efforts. As such, growth is projected to increase to 1.5% in 2025 and 1.7% by 2027. These challenges are offset by a well-diversified economy, featuring a competitive financial services sector and a sizable mining industry.

Fiscal Strength

Government finances face multiple challenges, including a low revenue base and a lack of flexibility in expenditure. These are partly a reflection of the weak economic structure, coupled with an expanding wage bill (estimated at 31.7% of total expenditure in FY26) and high interest-to-revenue payments (estimated at 21.6% in FY26).

The FY26 Budget remains prudent and the recent vote in Parliament to pass the Budget sets South Africa on track to achieve fiscal consolidation. This will be achieved through increases in value added taxes (VAT), outlaying ZAR 3.5 billion for more effective revenue collections and not extending the Social Relief of Distress (SRD) grant beyond FY26. As such, the general government's debt-to-GDP ratio is projected to peak at 76.2% in FY26 before steadily declining to 75.1% by FY28. Nonetheless, risks stem from the execution of reducing expenditure over the medium term, for example, if struggling SOEs require further recapitalization, as was done in the past (contingent liabilities are currently estimated at 13.3% of GDP in FY25), or if the SRD grant is extended ahead of local elections next year.

While the FY26 Budget must still pass subsequent rounds of voting by various committees, which will only be concluded by June 2025, the proposed VAT rate increase will remain effective at least for FY26. Further, the rest of the voting processes should mirror the first round of voting done in Parliament. As such, it is our view that much of the uncertainty surrounding the Budget has largely subsided.

External Position & Linkages

The current account deficit (CAD) narrowed to 0.6% in 2024 from 1.5% in 2023, reflective of the sustained trade balance surplus through 2024. Nonetheless, this momentum may dissipate in 2025 amid an expected recovery in domestic demand, which is expected to get an additional boost from easing logistics constraints, especially at import-concentrated ports. On the other hand, exports are likely to come under pressure given ongoing global trade war concerns and the recent announcement of reciprocal tariffs announced by the US government. However, the direct impact of reciprocal tariffs may be muted, given that South Africa's export composition with the US comprises 50% minerals, which remains an exempt tariff category. Further, the country could also benefit from better terms of trade if mineral prices, such as gold continues to increase or if the dollar comes under pressure. Nonetheless, the IMF forecasts the CAD to widen to 1.7% in 2025 and reach 2% by 2027.

The CAD is primarily funded through stable net foreign direct investments (FDIs) and partly by portfolio inflows. While a reliance on portfolio inflows could expose the country to vulnerabilities, South Africa has a favourable net international investment position (NIIP) of around 30% of its GDP as of 2023. Furthermore, South Africa is expected to receive inward foreign direct investment (FDI) worth ZAR 96 billion in 2025, which may also improve its external position. These investments include Google South Africa's R2.5 billion cloud project and the EU's R93.5 billion Global Gateway Investment Package.

The entry on the Financial Action Task Force's (FATF's) grey list in February 2023, due to weaknesses in policies relating to anti-money laundering and countering the financing of terrorism, could impact financial inflows. However, due to the National Treasury's ongoing exercise to strengthen the financial system, the country is expected to exit this list by October 2025, which will mitigate this risk.

Monetary & Financial Stability

South Africa adheres to a floating exchange rate; however, the South African Reserve Bank (SARB) may intervene in the foreign exchange market to smooth out the volatility of the exchange rate. The

SARB demonstrates strong adherence to its mandate for inflation and financial stability, with an inflation target band of between 3% and 6%. Inflation eased to 4.4% in 2024 from 6.0% in 2023 and is expected to decline to 4.0% and 4.5% in 2025 and 2026, respectively, the midpoint of the SARB's target band.

The banking sector's health is robust, with manageable non-performing loans of around 5.4% (2024) of total loans, assets exceeding 100% of GDP, and adequate capital levels. The five largest banks in the country hold over 90% of total assets. However, we note that the financial sector's exposure to sovereign risks has increased, with bank claims on the public sector rising to 16.4% of total assets in Q3 2024 from 13.7% in Q4 2019. This exposure is higher in smaller banks, which adds a layer of risk. Nonetheless, recent stress tests by the SARB have indicated that major banks and insurers remain resilient to macroeconomic and financial shocks.

South Africa's financial sector is highly developed within the African region. Large institutional investors, including pension funds, insurers, and mutual funds, have assets exceeding 200% of GDP. Lastly, the country has a stock market capitalization of around 272% of GDP (2023), owing in part to the presence of large multinational corporations, dual listings (of around 12%) and participation from regional companies on the Johannesburg stock exchange (JSE).

Institutions & Quality of Governance

The country has robust institutions such as the National Treasury and the SARB. However, systemic corruption, particularly within SOEs, has weakened overall governance. There are also concerns about the composition of the coalition government, given that two political parties within the coalition did not vote for the FY26 Budget to be passed. If disagreements persists and/or a new coalition is formed, this may dent investor confidence and hinder the pace of policy reforms, thereby weakening overall governance.

South Africa– Select Indicators										
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F	2026 F	2027 F
Economic Indicators											
Nominal GDP	USD Billion	405.1	389.2	337.9	420.8	406.8	380.6	404.0	419.0	434.0	449.0
GDP Per Capita (Constant-PPP)	USD	14,666	14,481	13,390	13,906	14,007	13,897	13,836	13,836	13,835	13,842
Real GDP Growth	%	1.6	0.3	-6.2	5.0	1.9	0.7	0.8	1.5	1.6	1.7
GFCF/GDP	%	15.9	15.5	13.8	13.2	14.2	15.2	13.9	-	-	-
Gross Domestic Savings/GDP	%	16.7	16.3	16.7	19.0	17.6	16.3	-	-	-	-
Exports (G&S)/GDP	%	27.5	27.2	27.6	31.1	33.4	32.8	31.8	-	-	-
Working-Age (15-64) Population (% Share in Total)	%	66.4	66.6	66.9	67.2	67.3	67.4	67.4	67.4	67.3	67.3
Old-Age (65+) Population (% Share in Total)	%	5.8	5.9	6.1	6.2	6.4	6.7	6.7	6.9	7.1	7.3
Fiscal Indicators – General Government											
Fiscal Balance/GDP	%	-3.7	-5.1	-9.6	-5.5	-4.3	-5.4	-6.1	-6.6	-5.8	-5.4
Revenue/GDP	%	26.4	26.3	25.0	27.0	27.6	27.1	26.8	26.8	26.9	26.9
Expenditure/GDP	%	30.2	31.4	34.6	32.5	31.9	32.6	32.9	33.3	32.6	32.3
GG Gross Debt/GDP	%	51.5	56.1	68.9	68.7	70.8	73.4	75.7	78.3	80.1	81.7
GG External Debt (by Creditor)/GG Gross Debt	%	29.6	29.8	26.4	25.5	24.4	23.8	-	-	-	-
Interest/Revenue	%	13.4	14.2	17.5	15.9	16.9	19.0	20.4	21.0	21.3	19.4
External Indicators											
Current Account Balance/GDP	%	-2.9	-2.6	2.0	3.7	-0.5	-1.6	-0.6	-1.7	-1.8	-2.0
FDI, Net Inflows/GDP	%	1.4	1.3	0.9	9.7	2.3	0.9	-	-	-	-
Outstanding FII Liabilities/GDP	%	57.6	63.9	67.1	49.5	48.1	48.2	-	-	-	-
NIIP/GDP	%	11.1	8.0	33.2	24.3	20.3	26.7	-	-	-	-
Foreign Exchange Reserves	USD Billions	50.4	51.4	54.1	55.5	59.1	61.7	62.9	-	-	-
Import Cover	Months	4.7	5.1	7.2	5.4	4.4	5.3	5.4	-	-	-
External Debt/GDP	%	42.6	47.6	50.4	38.2	40.4	41.5	43.2	44.7	-	-
Monetary and Financial Indicators											
CPI Inflation	%	4.6	4.1	3.3	4.6	6.9	5.9	4.4	4.0	4.5	4.5
Exchange Rate (Average)	LC per USD	13.2	14.4	16.5	14.8	16.4	18.5	18.3	-	-	-
Non-Performing Loans/Total Gross Loans	%	3.7	3.9	5.2	4.5	4.8	5.2	5.3	-	-	-
Private debt, loans and debt securities/GDP	%	72.0	72.5	73.2	65.9	67.2	65.2	-	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Criteria Applied

Sovereign Rating Methodology- Please refer to www.careedgesouthafrica.com

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