CareEdge Global assigns 'Stable' outlook to the rating of the Republic of South Africa

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge BB' (Unsolicited)

Issuer rating	CareEdge BB/Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of the Republic of South Africa (South Africa), while reaffirming the Long-Term Foreign Currency rating of 'CareEdge BB' (unsolicited).

Outlook: Stable

South Africa's stable outlook reflects an expectation that the ongoing structural reforms in key sectors, such as energy and logistics, should enable higher GDP growth over the medium term. In addition, the efforts towards fiscal consolidation, including the recent spending cuts announced in the FY26[1] Budget, should contain Debt/ GDP levels over the medium term.

In the near term, challenges arising from ongoing trade negotiations may weigh on the trade surplus and the current account deficit. However, CareEdge Global expects foreign direct investments (FDI) inflows and gross reserves to remain strong and mitigate any significant impact on the external profile.

South Africa's credit profile primarily reflects its relatively weak economic structure and fiscal profile. On average, economic growth has struggled to breach the 1% mark over the past decade. Meanwhile, gross general government debt has climbed from 68.9% of GDP in 2020 to an estimated 76.4% of GDP in 2024.

However, its comfortable external position and a credible monetary profile partly offset these challenges. South Africa's Net International Investment Position (NIIP) remains strong at 28% of GDP in 2024, providing buffers to its external position. Further, the country's operating environment benefits from its relative price and financial stability, thus attracting foreign investors.

Upside scenario

The rating could improve if the economy can grow at a higher growth rate on a sustainable basis, over the medium term, due to economic and structural reforms, leading to improved investor and business confidence, capital and infrastructure investment, job creation and higher productivity. In terms of the fiscal space, any decline in gross general government debt

[1] Fiscal Year for South Africa starts from 01 April to 31 March. FY26 represents the FY2025/2026 fiscal year and the 2025 calendar year.

towards the lower end of 70% of GDP over the medium term could be a driving factor behind an improved rating for South Africa.

Downside scenario

A downgrade may stem from a significant rise in the GGG debt-to-GDP ratio above 80%. Furthermore, a downgrade could result from South Africa's economic growth failing to exceed the 1% mark in 2025 due to persisting supply-side constraints resulting from sluggish policy reforms in key sectors, such as energy and logistics. Finally, deterioration in the current account deficit beyond 2.5% of GDP may also lead to a downgrade, resulting from prevailing weakness in the trade balance due to tariffs and slowing global trade and growth.

Key Rating Drivers

Economic Structure & Resilience

The economy is constrained by a rigid labour market, large income inequality and supply-side constraints. The latter stems from poor governance and infrastructure bottlenecks, which have seen electricity shortages and high logistics costs. As a result, growth failed to average above 1% over the past decade (2014-2024). Reforms are underway with the associated SOEs, specifically Eskom for power generation, distribution, and transmission, and Transnet for logistics. Despite the government allocating over ZAR 1 trillion towards infrastructure spending over the medium term (2025-2027) to enhance reform efforts, growth is projected below 2% by 2027. Nonetheless, challenges of subdued GDP growth and infrastructure bottlenecks are offset by a well-diversified economy, featuring a sizable mining industry, a competitive financial services sector, and a strong services sector.

Lower inflation and continued gains from last year's pension reform could support the strength in private consumption, while ambitious infrastructure plans by the government, including those in the water, energy, and transportation sectors, as well as continued pro-business sector reforms, could boost overall investment to 18.2% of GDP in 2025 from 13.9%.

The risks around GDP growth remain broadly balanced. A rapid infrastructure recovery in energy, rail and port, supported by an improvement with the associated SOEs, could lift growth beyond expectations. In contrast, increased trade fragmentation and intensified global trade war will likely weigh on global trade and investment and ultimately drag domestic growth. Meanwhile, conflicts in the Government of National Unity (GNU), the ruling coalition, could lead to policy paralysis and slow policy implementation in reforms, weighing on economic activity.

Fiscal Strength

Government finances face multiple challenges, including a strained revenue base amid sluggish economic activity and rising expenditure pressures driven by an expanding wage bill and debt service costs that will exceed 19% of government revenue in FY26. Meanwhile, the withdrawal of the previously announced cumulative Value Added Tax (VAT) rate increase of 1% in FY26 and FY27 meant that the FY26 Budget had to be re-tabled on May 21, 2025. The government focused on implementing reforms and boosting investments to generate faster growth.

Beyond infrastructure investment-driven growth, the FY26 Budget continued to emphasize National Treasury's (NT) commitment to fiscal consolidation with the fiscal deficit to GDP ratio projected to narrow to 3.4% in FY28 (3.5% in the FY26 Budget tabled in March) from 4.8% in FY25. Revenue growth is expected to average 7.2% over the medium term (FY26-FY28) while expenditure growth is projected to average 5.4%. The biggest concern in the re-tabled budget lies in the trajectory of the Gross General Government (GGG) debt-to-GDP ratio, which is expected to stabilize at 77.4% in FY26, even closer to 80% of GDP.

Meanwhile, debt affordability is a concern, with debt service costs expected to account for over 19% of government revenue in FY26 and are one of the fastest growing expenditure components in the FY26 Budget. Furthermore, the fiscal profile is weighed down by contingent liabilities that account for over 10% of GDP. The government has initiated an extensive review of state-owned enterprises (SOEs) to mitigate these risks. It has involved the private sector in spaces where SOEs operate in an attempt to enhance overall efficiency. However, NT has indicated that a government guarantee of ZAR 51 billion (0.6% of GDP) will be extended to Transnet. Furthermore, a significant portion of the revenue is allocated to salaries, pensions, and subsidies. However, GG external debt is moderate, at around 23.8% (as of 2023) of total GG debt, providing a cushion against external vulnerabilities.

External Position & Linkages

The current account deficit (CAD) narrowed to 0.6% in 2024 from 1.5% in 2023, reflecting the sustained trade balance surplus through 2024. The momentum in South Africa's trade balance continued in Q1 2025, recording a cumulative surplus of USD 1.6 billion amid a 3.7% YoY decline in imports while exports increased by 0.7%. Nonetheless, this momentum may dissipate going forward as exports are likely to come under pressure given ongoing global trade war concerns and the recent announcement of tariffs 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 Platinum Group Metals (PGMs) and gold, rise. Nonetheless, the IMF forecasts the CAD to widen to 1.2% in 2025 and reach 2% by 2028.

South Africa's reliance on portfolio inflows could expose the country to vulnerabilities. However, the country has a favourable net international investment position (NIIP) of around 28.2% of its GDP as of 2024. 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, there is a possibility that the country may exit the grey list in October 2025.

Monetary & Financial Stability

South Africa has a floating exchange rate regime. The SARB strongly adheres to its mandate for inflation and financial stability, with an inflation target band between 3% and 6%. Inflation eased to 4.4% in 2024 from 6.0% in 2023 and is expected to decline to 3.8% and 4.5% in 2025 and 2026, respectively.

The banking sector's health remains stable, with assets exceeding 100% of GDP and adequate capital levels while the non-performing loans to gross loans ratio is manageable despite gradually picking up to 5.4% in 2024. 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. 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 credible institutions such as the NT and the SARB. However, systemic corruption, particularly within SOEs, has weakened overall governance. There are also concerns about the composition of the coalition government amid prevalent cracks between the two largest parties in the GNU, which are expected to continue as South Africa heads to the local government elections in 2026. If disagreements persist and/or a new coalition is formed, this may dent investor confidence and hinder the pace of policy reforms, weakening overall governance.

South Africa– Select Indicators												
	Unit	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 F**	**2025 F**	**2026 F**	**2027 F**	**2028 F**
Economic Indicators												
Nominal GDP	USD Billion	405.1	389.2	337.9	420.8	406.8	380.6	400.2	410.3	424.2	439.3	455.5
GDP Per Capita (Constant-PPP)	USD	14,666.5	14,481.3	13,390.5	13,905.9	14,006.8	13,897.1	13,772.0	13,702.1	13,674.6	13,694.4	13,723.8
Real GDP Growth	%	1.6	0.3	-6.2	5.0	1.9	0.7	0.6	1.0	1.3	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	-6.1	-5.9	-5.8
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	76.4	79.6	81.7	83.7	85.5
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	16.8	19.0	20.4	21.0	21.3	19.4	21.4
External Indicators												
Current Account Balance/GDP	%	-2.9	-2.6	2.0	3.7	-0.5	-1.6	-0.6	-1.2	-1.4	-1.6	-2.0
FDI, Net Inflows/GDP	%	1.4	1.3	0.9	9.7	2.3	0.9	0.6	-	-	-	-
Outstanding FII Liabilities/GDP	%	57.6	63.9	67.1	49.5	48.1	48.2	47.8	-	-	-	-
NIIP/GDP	%	11.1	8.0	33.2	24.3	20.3	26.7	28.2	-	-	-	-
Foreign Exchange Reserves	USD Billion	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	38.1	40.4	41.5	43.2	44.7	45.1	45.6	46.5
Monetary and Financial Indicators												
CPI Inflation	%	4.6	4.1	3.3	4.6	6.9	5.9	4.4	3.8	4.5	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

Solicitation Status
The rating is unsolicited.

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BB/Stable	June 05, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BB	October 03, 2024

Criteria Applied
CareEdge Sovereign Rating Methodology

Analytical Contacts
Zaakirah Ismail
zaakirah.ismail@careratingsafrica.com

Sihle Boyce
Sihle.Boyce@careedgesouthafrica.com

Girisha Algoo
girisha.algoo@careratingsafrica.com

Kiran Kavala
kiran.kavala@careedgeglobal.com

Media Contact
Mradul Mishra
mradul.mishra@careedge.in

About Us
CareEdge Global IFSC Limited (CareEdge Global) is a full-service Credit Rating Agency (CRA) with a mission of **Empowering Global Capital Market Participants Through Unrivalled Insights and Expertise.** As the first CRA registered and authorized by the International Financial Services Centres Authority (India), CareEdge Global is uniquely positioned to provide comprehensive ratings on a global scale. A part of the CareEdge Group, which is a knowledge-based analytical organisation offering a wide range of services in Credit Ratings, Analytics, Consulting, and Sustainability. Established in 1993, our parent company, **CARE Ratings Limited (CareEdge Ratings)**, stands as India's second-largest rating agency.

Disclaimer
This disclaimer applies to each credit rating report and/ or credit rating rationale ('report') that is provided by CareEdge Global IFSC Limited ('CareEdge Global').

Ratings from CareEdge Global are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/ instruments or to make any investment decisions. The report is not a solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CareEdge Global assumes no obligation to update its opinions following publication in any form or format although CareEdge Global may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the investor, user, its management, employees, advisors and/ or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. Therefore, the report is not intended to and does not constitute an investment advice. The report should not be the sole or primary basis for any investment decision. CareEdge Global is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CareEdge Global. CareEdge Global does not act as a fiduciary by providing the rating.

Any unsolicited ratings assigned by CareEdge Global are based on publicly available information as CareEdge Global may or may not have access to documents / information or participation from management of such issuers. While CareEdge Global has obtained information from sources it believes to be reliable, CareEdge Global does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/ or relies on in its reports. CareEdge Global ratings are subject to a periodic review, which may lead to revision in ratings. CareEdge Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CareEdge Global has in place a ratings code of conduct and policies for managing conflict of interest.

Neither CareEdge Global nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents guarantee the accuracy, completeness or adequacy of the report, and shall not have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. CareEdge Global DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CareEdge Global or its associated entities or persons be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

This report does not constitute an offer of services. This report is solely for use in the jurisdiction of IFSCA, GIFT City in Gandhinagar. Without limiting the generality of the foregoing, nothing in the report is to be construed as CareEdge Global providing or intending to provide any services in jurisdictions where CareEdge Global does not have the necessary licenses and/ or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CareEdge Global and the user.

For latest rating information on any instrument of any company rated by CareEdge Global, you may visit our website www.careedgeglobal.com.

CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
Unit No. 06, 11 T-2, Block-11, GIFT SEZ, Gift City, Gandhi Nagar, Gujarat – 382355
CIN-U66190GJ2024PLC151103