# CareEdge Global reaffirms Republic of South Africa rating at 'CareEdge BB/Stable'

| Issuer rating (Long-Term Foreign Currency) | CareEdge BB/Stable (Unsolicited) |
|---|---|

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for the Republic of South Africa at **'CareEdge BB/Stable'** (unsolicited).

**Rationale**

The reaffirmation reflects the country's comfortable external position and a credible monetary profile. The net international investment position (NIIP) remains strong at 28% of GDP (2024), providing buffers to its external position. The recent strengthening of financial systems to counter anti-money laundering and terrorism financing has led to the country's removal from the Financial Action Task Force (FATF) grey list. The move is expected to boost investor confidence. Further, lowering the inflation target band to 2-4% may enhance price stability and lower borrowing costs, thereby attracting foreign investors.

However, South Africa's credit profile continues to reflect its relatively weak economic and fiscal structure, although these are seen as improving. On average, economic growth has struggled to exceed 1% over the past decade, primarily due to poor governance and infrastructure bottlenecks. Structural reforms are ongoing, and the recent allocation of over ZAR 1 trillion to medium-term infrastructure spending (2025-2027) should translate into growth of 1.5% by 2027. Further, we expect the coalition government to remain broadly stable, leading to policy continuity.

South Africa's fiscal profile also embodies weaknesses, weighed down by high debt servicing costs and contingent liabilities. Further, a significant portion of the revenue is allocated to salaries, pensions, and subsidies. Nonetheless, the Medium-Term Budget Policy Statement (MTBPS) presented in November 2025 by the government showed that the fiscal deficit is expected to fare better in FY26 at 4.7% of GDP (initially estimated at 4.8%), due to stronger revenue growth and is expected to reach 2.9% by FY29. The gross general government debt is also seen gradually reducing to 77% of GDP in FY29 from 77.9% in FY26.

The stronger revenue growth has enabled additional expenditure allocations towards the Social Relief of Distress (SRD) grant, amongst others. However, we note that expenditure inflexibility risks remain, and execution risk remains high. Further, we remain concerned about contingent liability risks. Despite Eskom recording its first profit since FY17, the sustainability of this will be monitored over the near term.

**Outlook**

South Africa's stable outlook reflects the expectation that ongoing structural reforms in key sectors, such as energy and logistics, should enable higher medium-term GDP growth. In addition, while the impact of US trade tariffs is still evolving, record-high precious metal prices and marginal improvements in the logistics sector are expected to mitigate downside risks to exports. The recent exit from the Financial Action Task Force's (FATF) grey-list, and the adoption of a new inflation target of 2-4% may further support the external position.

The efforts of the National Treasury (NT) towards fiscal consolidation, as outlined in the 2025 MTBPS, signal policy certainty and strong institutions. However, we remain concerned about risks associated with expenditure flexibility and contingent liabilities (despite Eskom's achievement of a profit in FY26). Care Ratings will now look to the FY27 Budget in Q1 2026 to see if momentum can be maintained.

**Upside scenario**

The rating could improve if the economy achieves higher, sustainable growth over the medium term. This would occur through a faster pace of structural reform or enhanced business confidence, which would stimulate higher overall investment. On the fiscal side, lower-than-expected fiscal deficits and gross general government (GGG) debt, which meaningfully reduce fiscal risks, could be a driving factor behind an improved rating.

**Downside scenario**

A downgrade may stem from a significant rise in the GGG debt-to-GDP ratio, arising, for example, from the government's inability to contain expenditure or from consistent guarantees granted to struggling state-owned enterprises (SOEs). Furthermore, if economic growth declines significantly, for example, due to a deterioration in supply-side constraints, this would increase the downgrade risk.

## 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, resulting in 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 to infrastructure spending over the medium term (2025-2027) to enhance reform efforts, growth is projected to be below 2% by 2027. Nonetheless, the challenges posed by 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.

Growth is projected at 1.1% in 2025. Household consumption expenditure will continue contributing positively to growth in the context of favourable monetary conditions. However, trade may weigh on growth given higher US tariffs. Our estimates suggest that US tariffs may detract between 0.1% and 0.3% from growth in 2025 (direct effect). However, high precious metal prices are expected to mitigate downside risks. Nonetheless, over the medium term, the continued structural reforms aimed at improving the supply-side conditions in the economy will continue to support growth and enhance South Africa's competitiveness, especially in the context of US protectionist policies. Further, we expect the coalition government to remain broadly stable, leading to policy continuity.

## Fiscal Strength

Government finances face multiple challenges, including a strained revenue base amid sluggish economic activity and rising expenditure pressures driven by a bloated wage bill and high interest payments (projected at 21.6% of revenue in FY26).

The National Treasury (NT) presented the Medium-Term Budget Policy Statement (MTBPS) on the 12th of November 2025. Overall, the MTBPS reflects a better fiscal path, with the fiscal deficit for FY26 now expected at 4.7% of GDP (initially 4.8%), driven by higher revenue growth and slower increases in key expenditure items, such as debt service costs, and historically low wage bill growth. The fiscal deficit is expected to reduce to 2.9% by FY29 gradually. While this progress is encouraging, additional expenditure allocations were made towards the Social Relief of Distress (SRD) grant, amongst others. We note that the government remains constrained by expenditure inflexibility, and execution risk towards achieving consolidation remains high. On this front, the NT will finalise a policy proposal for a new fiscal anchor rule in 2026 to guide changes in expenditure adjustments.

The gross general government (GGG) debt-to-GDP ratio is expected to peak in FY26 at 77.9% and remain elevated at 77% by FY29. The government's bloated redemption profile poses a challenge to reducing debt.

We remain concerned about contingent liability risks, which account for over 10% of GDP in FY25. Despite improvements in Eskom's operational capacity, we remain concerned about municipalities' debt arrears, the lack of a long-term electricity tariff trajectory, the future revenue base in a more competitive electricity market, and Eskom's large debt stock. As such, the sustainability of improved operational capacity will be monitored. We also note contingent liability risks from other SOEs, such as Transnet. The government allocated a ZAR 51 billion guarantee to the logistics utility as recently as May 2025, and the SOE remains a going concern.

Overall, the NT's efforts towards fiscal consolidation, as shown in the 2025 MTBPS, are commendable. CareEdge Global will now look to the FY27 Budget in Q1 2026 to see if momentum can be maintained.

## External Position & Linkages

The current account deficit (CAD) widened to 1.1% of GDP in Q2 2025, the widest since Q4 2023, from a revised 0.6% in Q1 2025. The wider deficit predominantly reflects a narrower trade surplus, though a larger shortfall on the primary income account also contributed. We view the larger deficit in the primary account as a one-off event, as it was driven by Anglo American plc's decision to unbundle Valterra Platinum Ltd, with the shares primarily distributed to foreign shareholders.

On the other hand, South Africa's trade outlook remains challenging. Export performance has been strained due to global trade disruptions and rising US tariffs. Exports to the American region fell by 11% YoY between January and August 2025. Additionally, domestic structural constraints, such as logistical inefficiencies, continue to weigh on the competitiveness of South African exports. Nonetheless, the record-high precious metal prices and marginal improvements in the logistics sector may mitigate downside risks to exports. On the other hand, imports may maintain momentum due to a recovery in domestic demand, lower interest rates, a stronger Rand, and infrastructure investment. Looking ahead, we foresee a marginal widening of the CAD at 0.9% in 2025, from 0.7% in 2024.

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% of its GDP as of 2024.

The FATF removed the country from its grey list in October 2025, and the move is expected to boost investor confidence.

## Monetary & Financial Stability

South Africa has a floating exchange rate regime. The South African Reserve Bank (SARB) strongly adheres to its mandate for inflation and financial stability, with an inflation target band of 2% to 4% (previously 3% to 6%). We expect medium-term inflation to be at the mid-point of the SARB's target band at 3%.

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 at 5.2% in 2024. The five largest banks in the country hold over 90% of total assets.

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 capitalisation of around 246% of GDP (2024), owing in part to the presence of large multinational corporations, dual listings (of around 12%), and participation by regional companies on the Johannesburg Stock Exchange (JSE).

## Institutions & Quality of Governance

The country has credible institutions such as the National Treasury (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 infighting in H1 2025 between the two largest parties in the government of national unity (GNU). However, we expect the coalition to remain broadly stable, though the local government elections will be a critical hurdle. If disagreements persist and/or a new coalition forms, this may dent investor confidence and slow the pace of policy reforms, weakening overall governance.

| South Africa – Select Indicators | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Unit** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025 F** | **2026 F** |
| **Economic Indicators** | | | | | | | | | |
| Nominal GDP | USD Billion | 389.2 | 337.9 | 419.9 | 407.4 | 381.3 | 401.1 | 426.4 | 443.6 |
| GDP Per Capita (Constant-PPP) | USD | 14,649 | 14,464 | 13,374 | 13,876 | 13,997 | 13,923 | 13,812 | 13,765 |
| Real GDP Growth | % | 0.3 | -6.2 | 4.9 | 2.1 | 0.8 | 0.5 | 1.1 | 1.2 |
| GFCF/GDP | % | 15.5 | 13.8 | 13.1 | 14.1 | 14.9 | 14.5 | - | - |
| Gross Domestic Savings/GDP | % | 16.3 | 16.7 | 19.0 | 17.6 | 16.3 | 15.9 | - | - |
| Exports (G&S)/GDP | % | 27.2 | 27.6 | 31.1 | 33.4 | 32.8 | 31.8 | - | - |
| Working-Age (15-64) Population (% Share in Total) | % | 66.6 | 66.9 | 67.2 | 67.3 | 67.4 | 67.4 | 67.4 | 67.3 |
| Old-Age (65+) Population (% Share in Total) | % | 5.9 | 6.1 | 6.2 | 6.4 | 6.5 | 6.7 | 6.9 | 7.1 |
| **Fiscal Indicators – General Government** | | | | | | | | | |
| Fiscal Balance/GDP | % | -5.1 | -9.6 | -5.5 | -4.3 | -5.6 | -5.8 | -6.0 | -5.7 |
| Revenue/GDP | % | 26.3 | 25.0 | 27.1 | 27.6 | 26.9 | 27.2 | 27.6 | 27.6 |
| Expenditure/GDP | % | 31.4 | 34.6 | 32.7 | 31.9 | 32.5 | 33.0 | 33.6 | 33.1 |
| GG Gross Debt/GDP | % | 56.1 | 68.9 | 68.8 | 70.7 | 73.2 | 76.0 | 77.3 | 79.5 |
| GG External Debt (by Creditor)/GG Gross Debt | % | 29.8 | 26.4 | 25.5 | 24.3 | 23.8 | 23.7 | - | - |
| Interest/Revenue | % | 14.2 | 17.5 | 15.9 | 16.8 | 19.0 | 20.4 | 21.0 | 21.3 |
| **External Indicators** | | | | | | | | | |
| Current Account Balance/GDP | % | -2.6 | -2.0 | 3.7 | -0.3 | -1.1 | -0.7 | -0.9 | -1.2 |
| FDI, Net Inflows/GDP | % | 1.3 | 0.9 | 9.7 | 2.3 | 1.0 | 0.6 | - | - |
| Outstanding FII Liabilities/GDP | % | 63..9 | 67.1 | 49.6 | 48.0 | 48.1 | 47.5 | - | - |
| NIIP/GDP | % | 8.0 | 33.3 | 24.3 | 18.8 | 29.1 | 28.1 | - | - |
| Foreign Exchange Reserves | USD Billion | 55.1 | 55.0 | 57.6 | 60.6 | 62.5 | 65.4 | - | - |
| Import Cover | Months | 5.4 | 7.1 | 5.6 | 4.9 | 5.3 | 5.7 | - | - |
| External Debt/GDP | % | 47.6 | 50.4 | 38.2 | 40.3 | 41.5 | 42.0 | 42.0 | - |
| **Monetary and Financial Indicators** | | | | | | | | | |
| CPI Inflation | % | 4.1 | 3.3 | 4.6 | 6.9 | 5.9 | 4.4 | 3.4 | 3.7 |
| Exchange Rate (Average) | LC per USD | 14.4 | 16.5 | 14.8 | 16.4 | 18.4 | 18.3 | - | - |
| Non-Performing Loans/Total Gross Loans | % | 3.9 | 5.2 | 4.5 | 4.7 | 5.4 | 5.2 | - | - |
| Private debt, loans and debt securities/GDP | % | 74.2 | 75.2 | 67.6 | 69.0 | 67.2 | 66.9 | - | - |

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 2024

## Solicitation Status

The rating is unsolicited

## Rating History

| Instrument | Type | Rating | Date |
|---|---|---|---|
| **Issuer Rating** | Long-Term Foreign Currency (Unsolicited) | CareEdge BB/Stable | December 02, 2025 |
| **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

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