

CareEdge Global revises the outlook to 'Positive' for the rating assigned to the Republic of South Africa

Issuer rating (Long-Term Foreign Currency)

CareEdge BB/Positive (Unsolicited)

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for the **Republic of South Africa** (South Africa) at '**CareEdge BB**' (Unsolicited), while revising the outlook from **Stable** to **Positive**.

Rationale

South Africa's credit profile reflects improvement in its macroeconomic backdrop. GDP growth is projected at 1.1% in 2025, more than double the 0.5% seen in 2024 and surpassing the 0.8% average of the previous decade (2014-2024). Growth drivers include record-high metal prices and structural reforms in key sectors through the Operation Vulindlela (OV) framework. Ongoing reforms aided by the recent allocation of over ZAR 1 trillion for infrastructure between FY26 and FY28 are expected to push growth to 1.4% in 2026.

The country's removal from the Financial Action Task Force (FATF) grey list in October 2025, as well as the adoption of a lower inflation target band to 2-4%, may enhance price stability and lower borrowing costs, thereby attracting foreign investors. The current account should continue to receive support from high metal prices, the recent renewal of the African Growth and Opportunity Act (AGOA), and improvements in the logistics sector. However, we note downside risks from escalating tensions in the Middle East (ME).

However, the fiscal profile still exhibits some weaknesses, weighed down by high debt-servicing costs, the public sector wage bill, and contingent liabilities, although growth in these expenditure items is moderating. Following last year's postponement of the budget due to tensions within the Government of National Unity (GNU) over a proposed value-added tax (VAT) hike, the National Treasury (NT) has delivered three consecutive budgets, displaying fiscal consolidation. This outcome demonstrates the government's commitment to fiscal discipline.

The FY27 budget, presented in February 2026, revealed better-than-expected revenue and expenditure outcomes for FY26. This enabled a third consecutive primary surplus, which rose to 1% of GDP from 0.8% in FY25. The fiscal deficit for FY26 is now estimated at 4.5% of GDP, unchanged from FY25. The primary surplus and fiscal deficit are projected to fare better at 1.4% and 4.0%, respectively, in FY27. This will be realised through significantly lower growth projections in debt service costs and the public sector wage bill. Overall, the general government gross (GGG) debt-to-GDP is seen peaking at 78.9% of GDP in FY26 and projected

to gradually decrease to 77.3% in FY27.

We note that South Africa could be at an inflection point; tangible efforts to reduce bottlenecks are evident in terms of growth outcomes and public finances. This could be the structural shift needed towards sustained growth and fiscal consolidation path. Nonetheless, the sustainability of higher growth and fiscal discipline is key.

Outlook: Positive

South Africa's positive outlook reflects the expectation that ongoing structural reforms in key sectors, such as energy and logistics, will boost medium-term GDP growth. While the impact of the ME conflict is still evolving, record-high precious metal prices, the renewal of AGOA, and marginal improvements in the logistics sector are expected to mitigate downside risks to exports. Further, the recent exit from the FATF grey list and the adoption of a new inflation target should support the external position. Finally, the NT has made tangible efforts towards fiscal consolidation, as outlined in the FY27 budget. Notably, the government projects a growing primary surplus for FY27, with GGG debt decreasing between FY27 and FY29.

Upside scenario

The rating could improve if the economy achieves higher, sustainable growth over the medium term. This would likely be driven by a faster pace of structural reform or enhanced business confidence, which would stimulate increased investment. On the fiscal front, an upgrade could be supported by lower-than-expected fiscal deficits and GGG debt, which would meaningfully reduce fiscal risks.

Downside scenario

A downgrade may result from a significant increase in the GGG debt-to-GDP ratio, potentially caused by the government's inability to contain expenditure or the consistent provision of guarantees to struggling state-owned enterprises (SOEs). Furthermore, the risk of a downgrade would heighten if economic growth slows significantly, for instance, due to a deterioration in supply-side constraints, or if the government fails to maintain policy continuity.

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 high logistics costs, as well as electricity (although subsiding) and water shortages. Consequently, growth slowed to average 1% over the past decade (2014-2024). Nonetheless, the 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.

Real GDP growth more than doubled to 1.1% in 2025 from 0.5% in 2024 and surpassed the 10-year average of 0.8%. The government projects growth at 1.6% in 2026, with medium-term projections closer to 2%. Under the OV framework, structural reforms in key sectors have begun to bear fruit. High precious metal prices, the renewal of the AGOA, and structural improvements could translate into meaningful trade gain, leading to growth. Consumer spending is expected to remain robust, while fixed investment may gain support from the budgetary outlay of ZAR 1 trillion over the medium term (2026-2028). Notable risks to the outlook include the impact of the ME conflict.

Fiscal strength

Government finances face multiple challenges, including a strained revenue base amid sluggish economic activity and rising expenditure pressures caused by a bloated public sector wage bill and high debt-servicing costs (projected at 31% and 16% of total expenditure in FY26, respectively).

Following last year's postponement of the FY26 budget due to tensions within the GNU over a proposed VAT hike, the NT presented the FY27 budget in February.

The budget realised better-than-expected revenue and expenditure outcomes for FY26, facilitating a third consecutive primary surplus. The fiscal deficit for FY26 is now estimated at 4.5% of GDP, unchanged from FY25. For FY27, the introduction of additional revenue measures and slower growth in key expenditure items, such as the public sector wage bill and debt-servicing costs, are expected to translate into a higher primary surplus of 1.4% of GDP and a narrowed fiscal deficit of 4.0% of GDP. GGG debt-to-GDP ratio is seen peaking at 78.9% of GDP in FY26 before decreasing to 77.3% in FY27 and gradually reaching 76.5% by FY29.

We note that South Africa could be at an inflection point; tangible efforts to reduce bottlenecks are evident in terms of growth outcomes and public finances. Notably, the Targeted and Responsible Savings (TARS) initiative adopted in FY25 has started yielding results. Also, the development of a fiscal anchor (to be presented in the November 2026 medium-term budget) represents a commendable effort to contain expenditure.

Nonetheless, we remain concerned about contingent liability risks. Despite improvements in Eskom's operational capacity, whereby the utility turned profitable in FY25 for the first time since FY17, we remain concerned about the sustainability of the utility's profits. Hence, this is a key monitorable. Further, while Transnet's profitability has been improving, it has been operating at a loss and still relies on government guarantees. The government will have to walk a tight rope when allocating guarantees or bailouts to struggling SOEs and maintaining fiscal discipline.

External position & linkages

The current account switched from a deficit of 0.9% of GDP in Q3 2025 to a surplus of 0.6% in Q4 2025, the first surplus since Q3 2023, largely driven by a wider trade surplus and a

slightly smaller deficit on the primary income account. The current account deficit (CAD) eased to 0.5% of GDP in 2025 from 0.7% in 2024.

In 2026, the CAD is projected at 1.2% of GDP. Exports are expected to gain support from the record-high value of metal prices, better terms of trade (ratio of exports to imports), the renewal of AGOA, and supply-side improvements on both the energy and the logistics side.

The trade outlook is currently facing headwinds, as the ME conflict intensifies, amplifying geopolitical risks and disrupting the financial markets. These tensions have already pushed up oil prices, further exacerbated by the US introducing a 10% baseline tariff on most imports. With plans to raise this to 15%, trade tensions will likely intensify, increase policy uncertainty, and dampen global trade and investment.

South Africa's reliance on portfolio inflows could expose it to vulnerabilities stemming from geopolitical tensions. However, the country has a favourable net international investment position (NIIP) of around 29% of GDP as of 2025, which may provide some cushion to capital outflows.

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 between 2% and 4% (previously 3-6%).

In 2025, inflation averaged 3.2% versus 4.4% in 2024. Core inflation declined from 4.3% in 2024 to 3.2% in 2025. Looking ahead, meat prices may remain elevated due to the ongoing impact of the foot-and-mouth disease. There has been some progress on the vaccination rollout, albeit slow due to medication shortages. Strong domestic crop production may help mitigate the impact of rising food prices, though risks to the inflation outlook remain due to the ME conflict-induced oil price shock.

SARB has developed two scenarios to assess the impact of the ME conflict on inflation. The first scenario assumes that the ME conflict lasts another two months or so, with oil prices averaging USD 100 per barrel (p/b) in Q2 2026 and the Rand weakening by about 5% against the US dollar. The second, more extreme scenario, assumes the conflict lasts over a year, with oil prices sustained above USD 100 p/b and the Rand 10% weaker. In both scenarios, inflation is projected to rise, exceeding 4% in the first scenario and 5% in the second. Both scenarios reflect the need for interest rate hikes, with one hike in the first scenario and several in the other. Inflation is expected to moderate as oil prices stabilise and the policy response takes effect. In the first scenario, inflation will ease to 3% by 2027. In the second scenario, this is pegged for 2028.

Institutions & quality of governance

Although the country has credible institutions, such as the NT and the SARB, systemic corruption, particularly within SOEs, has weakened overall governance. The GNU has been in

operation for one year now and tensions within it have eased, paving the way for policy continuity. Lastly, local government elections will take place later this year and navigation of coalition politics will also be monitored.

South Africa – Select indicators									
	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027F
Economic Indicators									
Nominal GDP	USD billion	337.9	419.9	407.4	381.3	401.1	431	474	492
GDP per capita (constant-PPP)	USD	12789.2	13876.1	14992.4	15464.8	15722.1	16049.8	16283.2	16559.5
Real GDP growth	%	-6.2	4.9	2.1	0.8	0.5	1.3	1.4	1.5
GFCF/GDP	%	13.8	13.1	14.1	14.9	14.5	13.4	-	-
Gross domestic savings/GDP	%	16.7	19.1	17.8	16.6	16.2	-	-	-
Exports (G&S)/GDP	%	27.6	31.2	33.5	33.3	31.8	-	-	-
Working age (15-64) population (% share in total)	%	66.9	67.2	67.3	67.4	67.4	67.4	67.3	67.3
Old age (65+) population (% share in total)	%	6.1	6.2	6.4	6.5	6.7	6.9	7.1	7.3
Fiscal indicators – general government									
Fiscal balance/GDP	%	-9.6	-5.5	-4.2	-5.5	-5.8	-6.0	-5.6	-5.3
Revenue/GDP	%	25.0	27.1	27.6	26.9	27.2	27.6	27.5	27.6
Expenditure/GDP	%	34.6	32.7	31.9	32.5	33.0	33.6	33.1	32.9
GG gross debt/GDP	%	68.9	68.8	70.7	73.2	76	77	78.5	79
GG external debt (by creditor)/GG gross debt	%	26.4	25.5	24.3	23.8	23.8	-	-	-
Interest/revenue	%	17.5	15.9	16.8	19.0	20.4	21.0	21.3	19.4
External indicators									
Current account balance/GDP	%	2.0	3.7	-0.3	-1.1	-0.7	-0.9	-1.2	-1.5
FDI, net inflows/GDP	%	0.93	9.66	2.27	1.01	0.58	-	-	-
Outstanding FII liabilities/GDP	%	67.1	49.6	48.0	48.1	47.5	-	-	-
NIIP/GDP	%	33.3	24.3	18.8	29.1	28.9	29.5	-	-
Foreign exchange reserves	USD billion	55.0	57.6	60.6	62.5	65.4	-	-	-
Import cover	Months	7.1	5.6	4.9	5.3	5.7	-	-	-
External debt/GDP	%	50.4	38.2	40.3	41.5	42.0	45.7	45.9	47
Monetary and financial indicators									
CPI inflation	%	3.3	4.6	6.9	5.9	4.4	3.2	3.6	3.3
Exchange rate (average)	LC per USD	16.5	14.8	16.4	18.5	18.3	17.9	-	-
Non-performing loans/total gross loans	%	5.17	4.46	4.66	5.42	5.18	4.9	-	-
Private debt, loans and debt securities/GDP	%	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. The 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/Positive	April 01, 2026
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](#)

Analytical Contacts

Kiran Kavala

kiran.kavala@careedgeglobal.com

Zaakirah Ismail

zaakirah.ismail@careratingsafrica.com

Girisha Algoo

girisha.algoo@careratingsafrica.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.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CareEdge Global.

© 2026, CareEdge Global IFSC Limited, a wholly owned subsidiary of CARE Ratings Limited. All Rights Reserved.

This content is being published for the purpose of dissemination of information required as per applicable law and regulations and CareEdge Global IFSC Limited holds exclusive copyright over the same. Any reproduction, retransmission, modification, derivative works or use or reference to the contents, in whole, in part or in any form, is prohibited except with prior express written consent from CareEdge Global IFSC Limited.

CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
501, FlexOne, GIFT SEZ, Block 15, Gandhinagar, Gujarat – 382050, India. Phone: +91-79-6519 0701 | www.careedgeglobal.com
CIN-U66190GJ2024PLC151103