



An Analysis of South Africa's 2026 State of the Nation Address

Issuer Commentary

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The 2026 State of the Nation Address (SONA) represents a crucial juncture in South Africa's sovereign credit narrative, indicating a shift from a defensive strategy focused on stabilisation to a proactive approach centred on structural reconfiguration. For institutional investors and credit analysts, the address functions as a progress report on the nation's endeavour to institutionalise fiscal discipline and competitive market structures within the complexity of a coalition governance framework.

Macroeconomic Performance and GDP Growth

The achievement of four consecutive quarters of GDP growth in the South African economy by early 2026, as reported by the President, marks a vital moment in the post-pandemic recovery efforts. This sustained, albeit modest, positive trajectory indicates that the structural reforms being implemented are starting to overcome the systemic constraints that previously led to frequent quarterly contractions. This stability is crucial for sovereign credit health, as it creates a more reliable tax revenue base and enhances the nation's capacity to service its debt.

The long-term credit outlook hinges on the sustained nature of economic expansion. Real GDP growth is projected to moderately increase, reaching 1.1% in 2026, then accelerating to 1.5% in 2027, and finally attaining 2.0% by 2028, according to National Treasury forecasts. Furthermore, the two-pot retirement system is anticipated to act as a counter-cyclical measure, mitigating the impact of high interest rates on household consumption through partial fund withdrawals. However, a significant risk remains: the persistent unemployment rate of 31.9%. This high rate indicates that the current pace of economic growth is insufficient to achieve the necessary level of social de-risking.

Currency and Monetary Stability

The 2026 State of the Nation Address (SONA) highlighted a key achievement: South Africa's inflation rate hitting a two-decade low of approximately 3.2% in late 2025. This success, comfortably within the lower bound of the South African Reserve Bank's (SARB) 3% to 6% target range, reflects the effectiveness of the SARB's restrictive monetary policy and the easing of global price pressures. The official adoption of a 3% central inflation target has solidified a crucial macroeconomic anchor, aligning South Africa with international monetary standards and fostering a predictable climate for long-term investment.

This disinflationary trend has paved the way for a shift in the interest rate cycle. Although the repo rate was held at 6.75% in the first meeting of 2026, economists anticipate further cuts of at least 50 basis points later in the year, driven by inflation expectations moderating toward the new target. For the sovereign, this translates directly into a reduced cost of capital and improved debt-affordability metrics, vital factors for potential credit rating upgrades. Furthermore, the South African Rand (ZAR) has demonstrated exceptional strength among emerging market currencies, appreciating significantly against the US Dollar throughout 2025.

Sovereign Credit Upgrade

South Africa's fiscal position has undergone a significant transformation, as highlighted by the SONA. This positive shift culminated in a sovereign credit rating upgrade from an international Credit Rating Agency (CRA) in November 2025, marking the country's first upgrade by a foreign rating agency in 16 years. This upgrade is primarily attributed to the government's successful fiscal consolidation, which delivered two, and potentially three, consecutive annual primary budget surpluses. A tangible benefit of this consolidation is the reduction in the country's borrowing costs. The yield on the benchmark 10-year government bond dropped by over 200 basis points in 2025, closing the year at 8.21% and briefly touching lows near 7.95% in early 2026. This decline in bond yields lessens the state's interest cost burden, a major drain on the national budget, thereby releasing funds for critical infrastructure and social spending. Although other foreign CRAs maintain a more cautious stance, citing structural bottlenecks and a high debt-to-GDP ratio, the market consensus is clear: the risk of a fiscal default has substantially lessened.

Investor Confidence

The Johannesburg Stock Exchange (JSE) served as a high-frequency indicator of renewed global confidence in South Africa during the period. The President's address noted the exceptional performance of the JSE, which delivered a 38.5% return on the All-Share Index (ALSH) in 2025. In US Dollar terms, the JSE's 61.2% year-on-year return was the second highest globally, only marginally bested by Spain's IBEX 35. The performance was heavily skewed toward the resource sector, which benefited from a surge in global commodity prices. Precious metal miners, particularly gold and platinum producers, were responsible for approximately 60% of the JSE's total 2025 performance.

Financial Integrity: FATF Grey List Removal and EU Delisting

A key institutional success highlighted in the 2026 SONA was South Africa's removal from both the Financial Action Task Force (FATF) grey list and the European Union's list of high-risk third-country jurisdictions. South Africa was initially placed on the grey list in February 2023, following a mutual evaluation that identified 22 strategic deficiencies in its anti-money laundering and counter-terrorism financing (AML/CFT) frameworks. The country's successful delisting on October 24, 2025, marked the successful conclusion of an intensive 32-month comprehensive reform programme.

The reforms were deep and systemic, involving:

- Amendments to the Tax Administration Act to enhance inter-agency information sharing.
- The implementation of a digital Traveller Management System for cash monitoring.
- The establishment of a beneficial ownership transparency registry for legal persons and trusts.

This delisting has a significant positive impact on credit risk. It will substantially lower compliance costs for South African financial institutions and improve their access to crucial international correspondent

banking relationships. Furthermore, it serves as a signal to global investors that South Africa has restored control over its financial integrity in the post-state capture era. The subsequent removal from the EU High-Risk List in January 2026 further facilitates and streamlines cross-border capital flows with the country's largest trading partner.

Trade Dynamics: AGOA Extension and Geopolitical Risk

The SONA confirmed the extension of the African Growth and Opportunity Act (AGOA), a development that provides critical certainty for South Africa's export-oriented industries. The extension, signed by US President Donald Trump in February 2026, ensures duty-free access for over 1,800 South African products to the US market, applied retroactively from September 2025. This is of particular importance to the automotive and agricultural sectors, which have long leveraged AGOA to maintain a competitive edge in North America. However, the geopolitical context of the extension remains complex. The current reauthorisation is for a limited one-year period through December 2026, rather than the decade-long extensions of the past. This creates a topsy-turvy environment for long-term industrial planning. Furthermore, the US administration has indicated that AGOA must demand more from trading partners and align with America First trade policies.

On a broader scale, South Africa is intensifying its focus on the African Continental Free Trade Area (AfCFTA), which offers access to a market of 1.4 billion people. As the continent's most industrialised economy, South Africa is positioning itself to be the primary beneficiary of intra-Africa trade liberalisation. The President also noted that South Africa's G20 presidency in 2025 was used to advance the needs of the Global South, reinforcing the country's role as a strategic mediator in a multipolar world.

The sovereign credit risk associated with trade is currently balanced. While AGOA provides a vital vent for industrial production, the move toward more protectionist US policies and the reliance on commodity prices for export values remain external vulnerabilities. The government's strategy to diversify its trade alliances and deepen continental integration is a prudent long-term hedge against these risks.

Operation Vulindlela

The address signalled the launch of Phase II of Operation Vulindlela, a joint initiative of the Presidency and National Treasury designed to accelerate the implementation of structural reforms. While Phase I focused successfully on electricity and telecommunications, Phase II will target the remaining binding constraints on growth: local government service delivery, the visa system, digital transformation, spatial inequality, and the green economy.

Conclusion

The 2026 South African State of the Nation Address presents a sovereign that is successfully navigating a period of institutional and economic transition. The convergence of fiscal discipline, successful financial de-risking through the FATF exit, and the unbundling of state utilities has fundamentally improved South Africa's credit risk profile. The achievement of four consecutive quarters of growth and the stabilisation of debt levels provide a credible foundation for further rating upward revisions toward investment grade. However, while financial markets and the fiscal fiscus have benefited from high commodity prices and reform optimism, the real economy still faces extreme unemployment and a deteriorating local government system.

For issuers and investors, the 2026 SONA confirms that South Africa has turned the corner in terms of policy direction and institutional health. The commitment to Operation Vulindlela Phase II indicates that the government understands the granular constraints at the local level and is prepared to use technical interventions to solve complex service delivery problems. As long as the primary surpluses are maintained and the unbundling of the network industries continues without regression, the sovereign's path toward a higher credit rating and lower borrowing costs appears firmly established.



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