



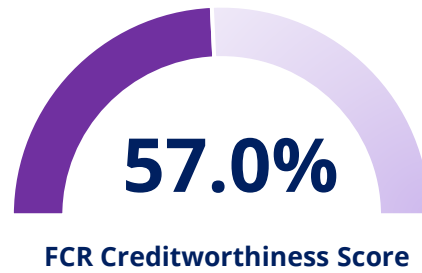
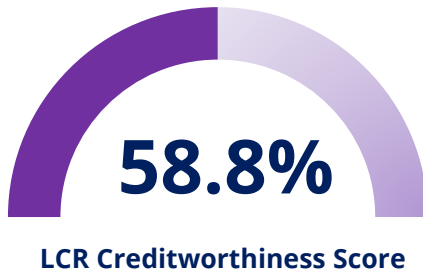
REPUBLIC OF SOUTH AFRICA

SOVEREIGN CREDIT RATING

27 May 2026

RATING ACTION

SAR Sovereign Rating Model Creditworthiness Score



On 27 May 2026, Sovereign Africa Ratings (SAR) maintained South Africa’s local currency long-term and short-term issuer credit ratings of BBB+ and A3, and foreign currency long-term and short-term issuer credit ratings of BBB+ and A3, respectively. The outlook on the ratings is stable.

Date	Rating Category	Rating	Outlook
Local Currency Ratings			
27 May 2026	Long-term	BBB+	Stable
27 May 2026	Short-term	A3	Stable
Foreign Currency Ratings			
27 May 2026	Long-term	BBB+	Stable
27 May 2026	Short-term	A3	Stable



RATING RATIONALE

South Africa's sovereign ratings reflect entrenched structural weaknesses offset by reform momentum. Chronic unemployment, infrastructure bottlenecks, and elevated debt-service costs continue to weigh on growth and fiscal flexibility. Governance risks in state-owned enterprises and municipalities remain material, constraining institutional effectiveness. At the same time, reform initiatives under Operation Vulindlela and the acceleration of private renewable generation mark structural improvements in energy security. The government's commitment to infrastructure investment, regulatory modernisation, and the Just Energy Transition supports long-term resilience. Mineral wealth and positioning in green value chains provide potential buffers against external shocks, though execution risks remain high. The rating captures this balance between persistent vulnerabilities and credible reform-driven opportunities.

RATIONALE FOR THE STABLE OUTLOOK

The Stable Outlook reflects the expectation that reform progress will continue to offset near-term risks. Fiscal consolidation is advancing through expenditure restraint and revenue measures, while infrastructure investment commitments provide a credible anchor for growth. Energy sector reforms, regulatory modernisation, and civic engagement initiatives demonstrate institutional adaptability, even as implementation capacity lags. Elevated unemployment, social fragility, and governance risks in SOEs remain binding constraints, but labour-market reforms and social wage buffers mitigate immediate instability. The Stable Outlook is therefore underpinned by the assumption that reform execution in energy, logistics, and fiscal management will proceed at a pace sufficient to preserve credit stability, despite structural challenges limiting rapid improvement in headline indicators.

RATING DISCUSSION

Economic Strength Pillar

South Africa's economy reveals a sovereign trapped in a low-growth equilibrium, where significant structural rigidities dampen the benefits of cyclical global upswings. The SAR Sovereign Rating Model reflects a balance between the economy's substantial size and diversity against its chronic underperformance in per capita growth and employment generation.

Macroeconomic Performance and Growth Dynamics

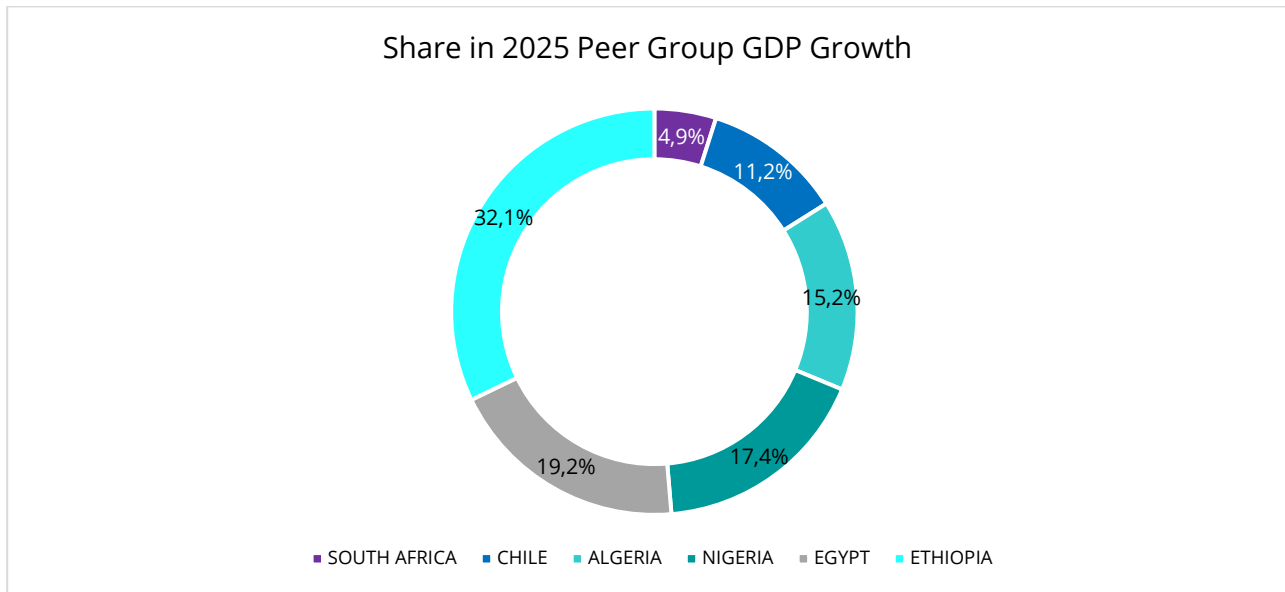
South Africa's economic growth trajectory over the past decade has been insufficient to address its socio-economic challenges. The quantitative analysis reveals that real GDP growth averaged well below 1% in the years preceding the 2026 assessment, a rate that fails to keep pace with population growth. The forecasted growth for 2026 and 2027 is projected at 1.1% and 1.5%, respectively. This slow recovery is driven primarily by volatility in the global geopolitical environment, leading to energy constraints, as well as a domestic stabilisation in household consumption, yet it remains significantly below the emerging market average.

South Africa's growth volatility challenges credit stability, reflecting stagnation rather than resilience. The country scores a 9/10 on GDP growth volatility in the SAR model, indicating a relatively stable but consistently low growth environment rather than one characterised by boom-and-bust cycles. However, this stability is deceptive as it represents stagnation rather than resilience. The economy has failed to rebound dynamically from shocks such as the COVID-19 pandemic or the 2022 commodity price corrections, largely due to domestic supply-side constraints.

The analysis of GDP growth rates from 2011 to 2026 illustrates a clear structural decline. In 2011, the economy expanded by over 3%, fuelled by a commodity super-cycle and infrastructure spending for the 2010 FIFA World Cup. By 2023, growth had collapsed to 0.6%, constrained by the "twin crises" of electricity load-shedding and logistical failures at Transnet. The data suggest that without the binding constraints of rail and power, the economy possesses the latent potential to grow at 2.5% to 3.0%, a level last seen consistently in the mid-2000s.

A critical concern in the qualitative adjustment of the economic pillar is the trajectory of GDP per capita. In US dollar terms, income per capita has stagnated, oscillating between \$6,000 and \$7,000 since 2017. Specifically, the model records a decline from a peak of over \$8,000 in the early 2010s to a forecast average of roughly \$6,301 for 2026. This stagnation implies that for the average citizen, the standard of living is actively regressing. The erosion of wealth is exacerbated by inflation and an undervalued exchange rate, which, although contained within the central bank's target range, erodes the purchasing power of the lower-income deciles who spend a disproportionate amount of their income on food and transport.

Figure 1: Share in Peer Group GDP Growth



Source: SAR's calculations – World Bank data

The country's 2025 share in GDP growth compared to peer developing countries is the lowest, having had a growth rate of 1.1%, with Ethiopia having the largest share at a 7.2% growth rate. South Africa's low GDP growth rate in 2025 is due to persistent structural challenges. Weak investment flows and logistical inefficiencies in rail and ports continue to weigh heavily on productivity and investor confidence. High interest rates and an upcoming uptick in inflationary pressure – driven by global geopolitical disputes that have an impact on oil prices – will further suppress household consumption, limiting domestic demand.

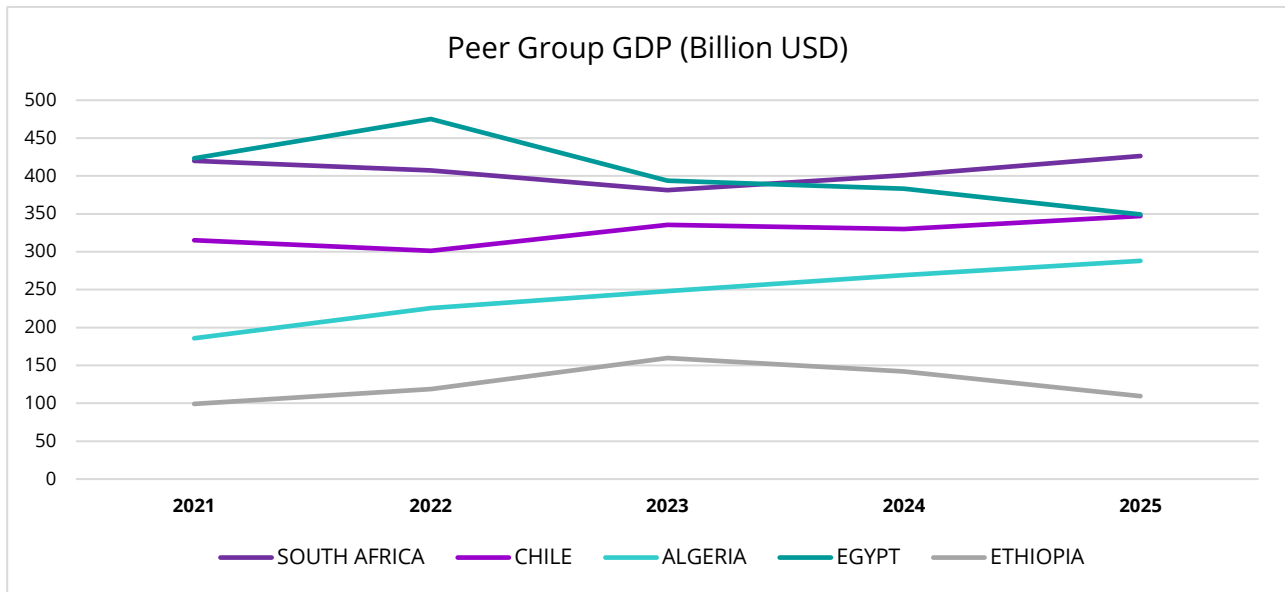
Ethiopia, by contrast, achieves the highest growth rate at 7.2%, supported by rapid industrialisation, agricultural expansion, and large-scale infrastructure projects. Its energy investments and digital services also contribute to a strong export performance.

Chile records moderate growth, driven by commodity exports, fiscal discipline, and stabilising inflation.

Algeria benefits from hydrocarbon revenues and public spending, while Nigeria's reforms and improved macroeconomic stability support stronger investment and export growth. Egypt sustains robust expansion through infrastructure development, energy projects, tourism, and Vision 2030 reforms.

The comparison highlights South Africa's relative stagnation, where structural bottlenecks prevent it from matching the momentum of its peers. Without decisive reforms in energy, logistics, and investment climate, South Africa risks falling further behind in regional growth performance.

Figure 2: Peer Group GDP



Source: SAR's calculations - World Bank data

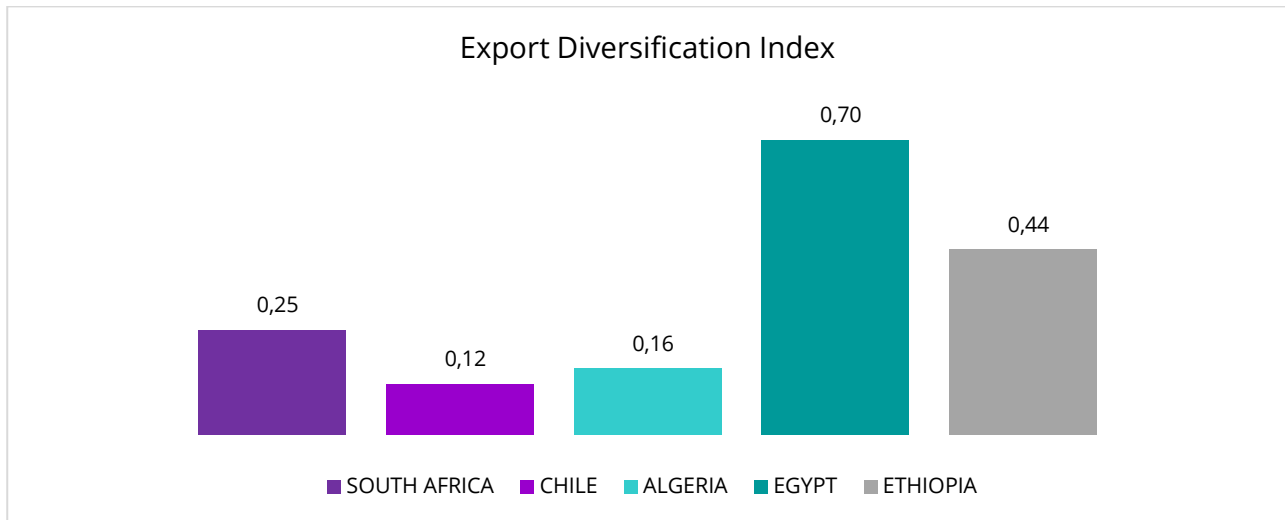
South Africa ranks first in terms of GDP size, comprising 23.62% of the peer group's total GDP, while Egypt has the second largest share of 19.35%. The South African economy exhibits a modest growth path, which has been in recovery since 2023.

Structure of the Economy and Diversification

The structural composition of the South African economy presents a dual-risk profile, a sophisticated, resilient tertiary sector (finance, real estate, business services), contrasting with a declining primary and secondary sector (mining, manufacturing).

South Africa scores 0.07 on the Export Diversification Index (where 0 indicates high diversification), suggesting a relatively well-diversified export basket compared to mono-line commodity exporters like Nigeria or Angola. The economy is not solely reliant on a single commodity; it exports a mix of platinum group metals (PGMs), gold, iron ore, citrus, automobiles, and manufacturing components.

Figure 3: Export Diversification Index



Source: SAR's calculations. IMF, UNCTADstat. The Export Diversification Index values are indicative of the extent to which each country's exports are diversified, with higher values indicating relatively lower diversification.

However, the Natural Resource Beneficiation variable flags a critical weakness. Manufacturing Value Added (MVA) as a percentage of GDP has remained stagnant between 12–13%. This de-industrialisation is driven by the rising cost of doing business, specifically the unreliability of electricity supply and the high cost of logistics. The inability to beneficiate raw materials locally means the sovereign exports value and imports inflation. For instance, despite being a major chrome producer, South Africa often exports raw chrome ore and imports processed ferrochrome due to electricity constraints.

In the African context, South Africa remains an economic hegemon, particularly in terms of industrial capability and financial market depth. The country contributes approximately 23.62% of the combined GDP of the major African peer group (comprising Nigeria, Egypt, Algeria, and Ethiopia) in 2025. This ranking has improved relative to Nigeria and Egypt, not because of South African growth, but due to severe currency devaluations in those peer economies.

Current Account Balance

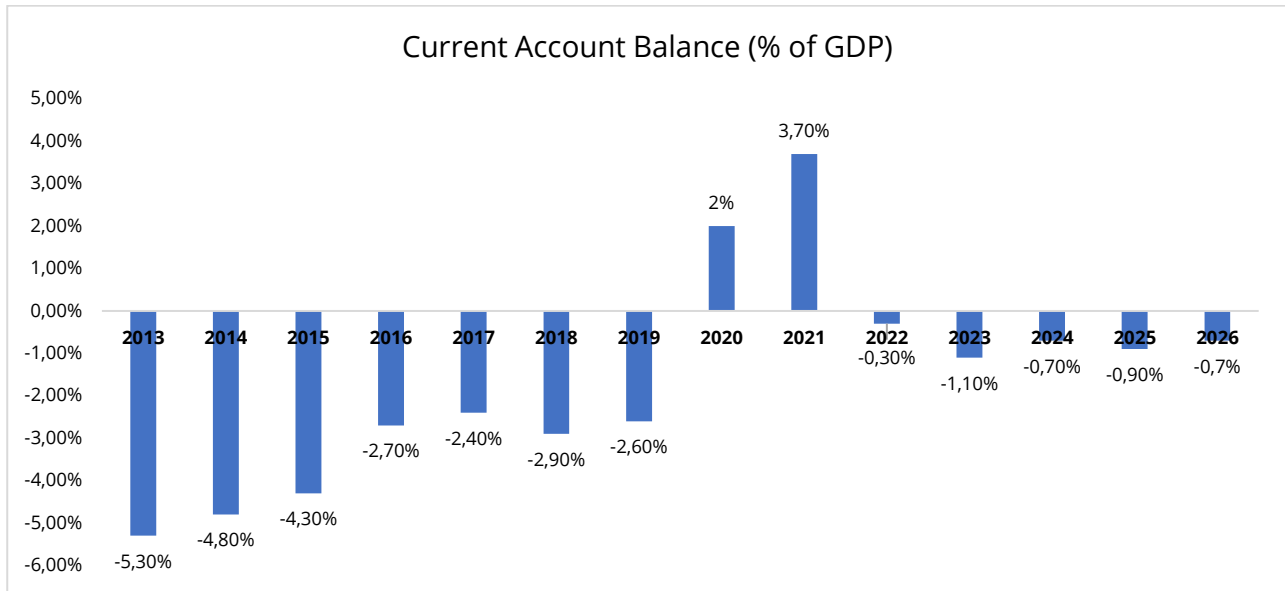
The external position remains a relative strength for South Africa, preventing a lower rating assignment. The economy has demonstrated a remarkable ability to adjust to terms-of-trade shocks through its flexible exchange rate.

The current account balance exhibits persistent deficits but is technically manageable. The SAR Sovereign Rating Model forecasts the current account balance to average between -0.4% and -0.6% of GDP through 2027. The trade balance typically remains in surplus, supported by robust commodity exports and an increasingly competitive agricultural sector. However, the services and income balances are structurally negative. The income deficit is driven by significant dividend and interest payments to foreign holders of South African assets, a double-edged sword that reflects the openness of the capital markets but constitutes a continual drain on foreign exchange.

The methodology assigns a neutral current account balance score of 5/10, noting that the deficit shows unexpected resilience against significant domestic headwinds. Specifically, export volumes for bulk

commodities were severely capped by Transnet’s rail inefficiencies. Without these logistical constraints, the trade surplus would likely have been significantly higher, pushing the current account into a surplus position. This represents a lost opportunity cost that weighs on the credit rating.

Figure 4: Current Account Balance



Source: SAR's calculations – World Bank data

General Government Revenue

South Africa’s general government revenue (% of GDP) has averaged 26.5% for the five years preceding 2024, with the 2024 figure at 27.1% and 2025 at 27.46%, indicating relative stability. South Africa’s general government revenue (% of GDP) is 1.65 percentage points lower than the peer group’s median of 28.75%. SAR projects that South Africa’s general government revenue (% of GDP) will remain stable in the medium term, decreasing slightly to 27.2% in 2027.



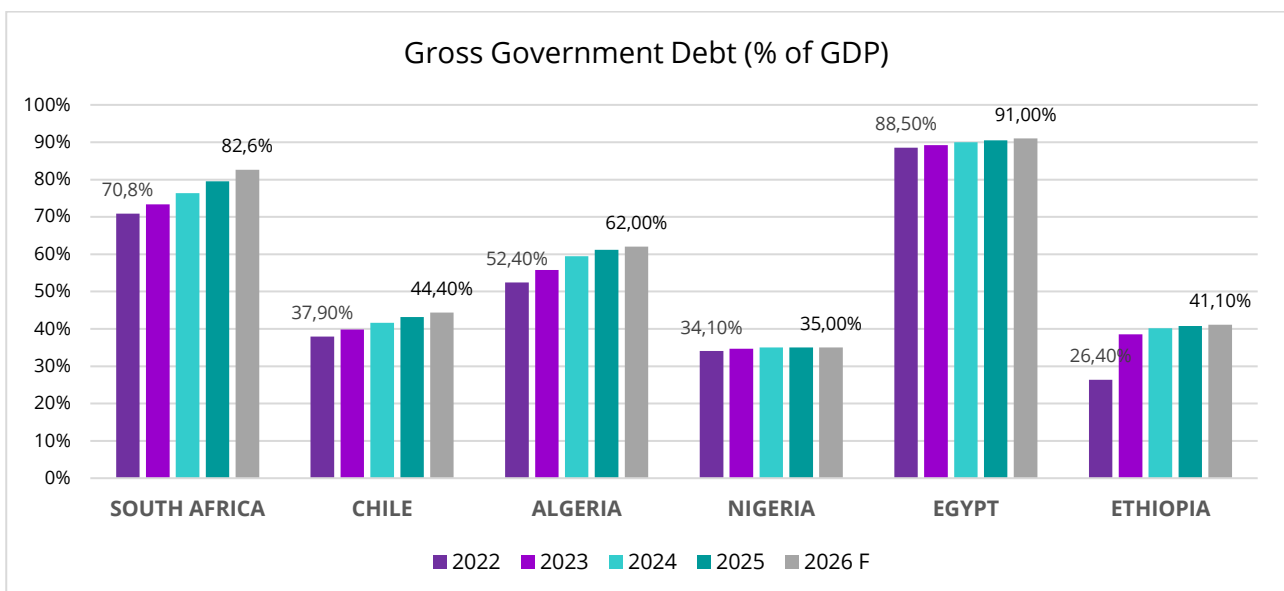
Financial Strength Pillar

The Fiscal Flexibility score provides an overall assessment of debt sustainability and affordability. The Financial Strength Pillar considers both short- and long-term dynamics concerning debt stocks and flows related to public finances, the sustainability of the current situation, and the projected path.

Government Debt Burden & Affordability

South Africa’s gross government debt has increased by an estimated 3.2 percentage points from 76.4% in 2024 to 79.6% in 2025. The country exhibits continual growth in the debt stock, partially countered by modest GDP growth. The ratio is above the recommended maximum of 70–75% for a country of this size. Gross loan debt is expected to stabilise at 82.6% of GDP in 2026. South Africa’s gross government debt ranks 5th among its peers, with Nigeria ranking 1st.

Figure 5: Gross Government Debt



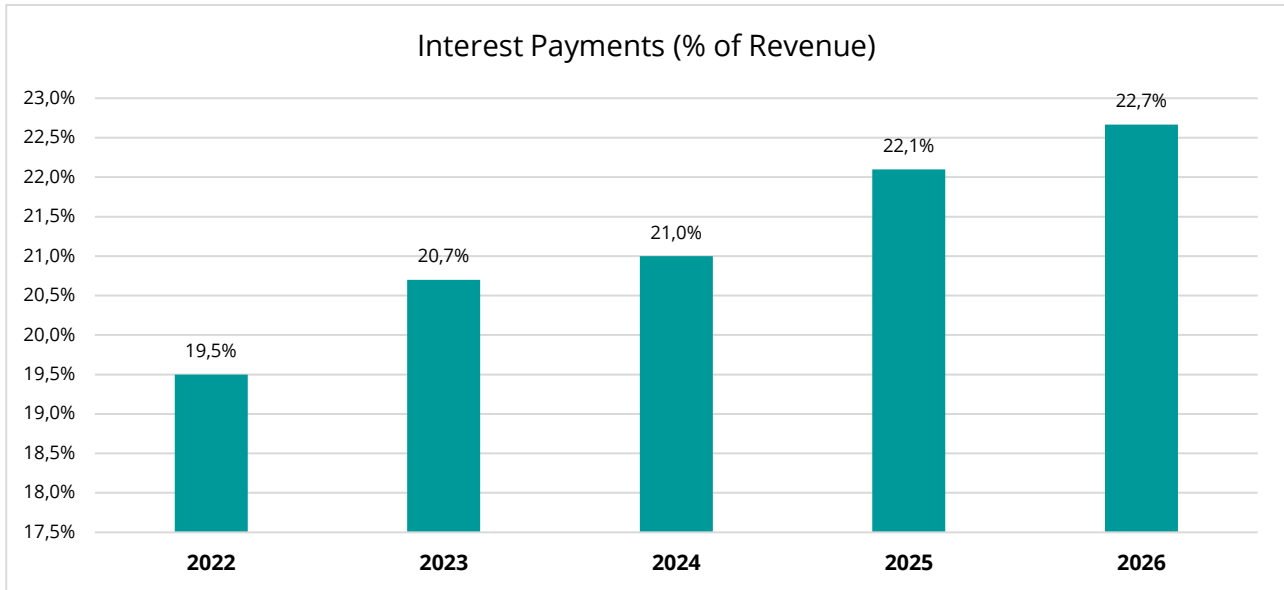
Source: SAR’s calculations – South African Reserve Bank data

Interest Payments to Revenue

South Africa’s interest payments to revenue ratio exhibits gradual growth with an estimated 0.6 percentage point increase between 2025 and 2026. The debt-service costs remain high, accounting for 21.3% of government revenue in 2025/26 before declining marginally thereafter. This means that for every rand collected in revenue, more than one-fifth is spent on interest payments rather than on social or economic programs.

Compared to peer emerging markets, South Africa’s interest burden is heavier. Countries like Nigeria and Ethiopia, despite rising debt, benefit from stronger growth rates that ease the relative weight of interest payments. Egypt and Algeria face high debt ratios, but their faster GDP growth and hydrocarbon revenues provide more fiscal breathing space. South Africa’s combination of low growth and high borrowing costs makes its interest payments particularly constraining.

Figure 6: Interest Payments to Revenue

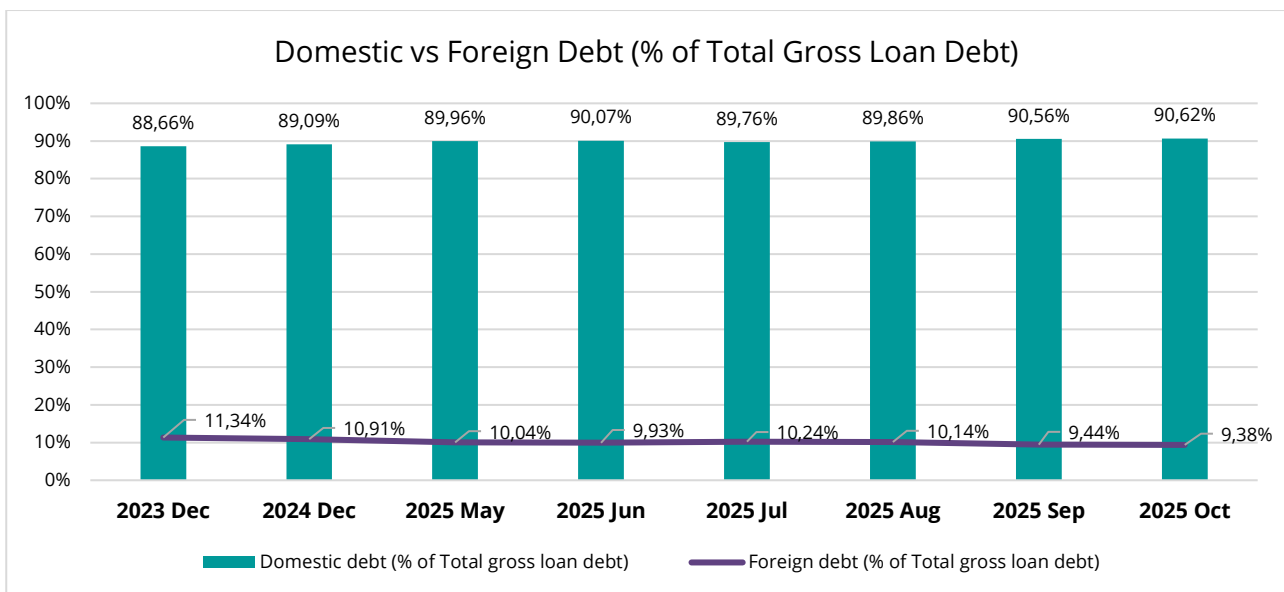


Source: SAR's calculations - World Bank data

Debt Structure

South Africa's debt profile is heavily skewed toward domestic borrowing, with the majority of gross loan debt held in rand-denominated instruments. This reliance on domestic markets reflects both the depth of South Africa's financial sector and the government's preference to limit exposure to foreign currency risk. Domestic debt is primarily issued through government bonds and treasury bills, which are absorbed by local banks, pension funds, and institutional investors.

Figure 7: Domestic vs Foreign Debt

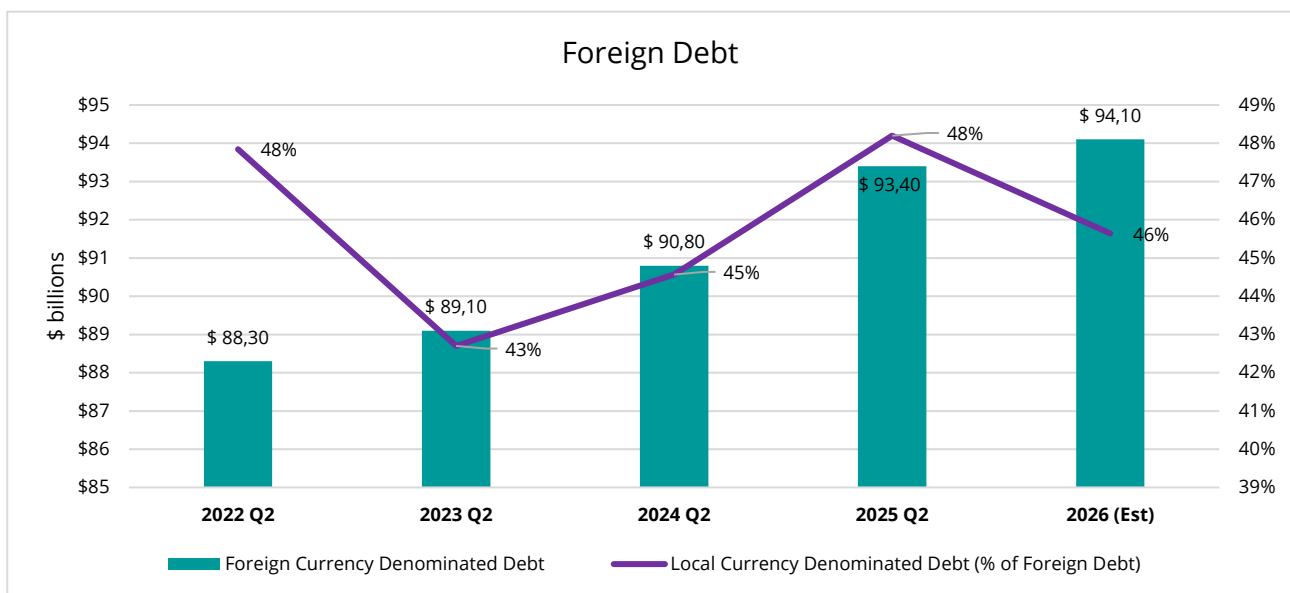


Source: SAR's calculations - South African Reserve Bank data

Foreign debt, while a smaller share of total gross loan debt, remains significant in shaping fiscal risks. It is denominated in foreign currencies and therefore exposes South Africa to exchange rate volatility. When the rand depreciates, the cost of servicing foreign debt rises, adding pressure to the budget. Although foreign debt provides access to global capital markets and diversifies funding sources, its share is deliberately kept lower to reduce vulnerability to external shocks.

The balance between domestic and foreign debt highlights South Africa’s cautious debt management strategy. By relying more on domestic borrowing, the government reduces currency risk but faces challenges from high domestic interest rates, which elevate debt-service costs. Foreign debt, on the other hand, offers potentially lower interest rates but carries exchange rate risks that can quickly escalate during periods of rand weakness.

Figure 8: Foreign Debt Currency Denomination



Source: SAR’s Calculations – South African Reserve Bank data

In comparative terms, South Africa’s debt composition is more domestically concentrated than many peer emerging markets. Countries such as Egypt and Nigeria rely more heavily on external borrowing, while South Africa’s domestic markets provide a relatively stable funding base. However, the trade-off is that interest payments on domestic debt consume a growing share of revenue, limiting fiscal space for development spending.

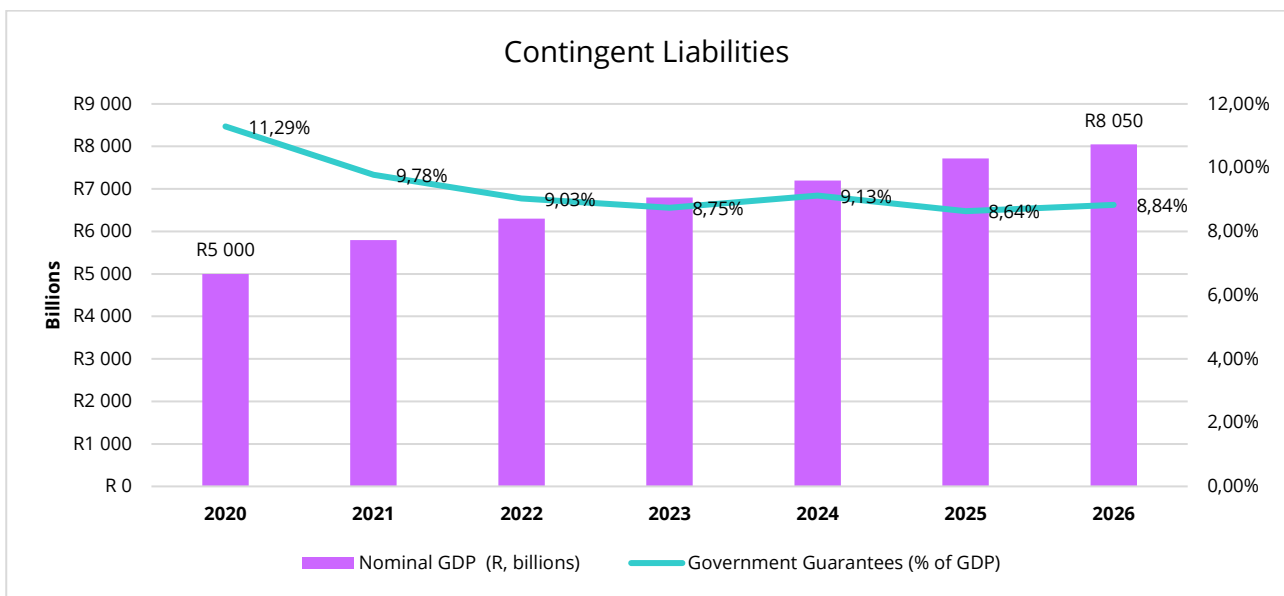
Overall, South Africa’s debt structure reflects a deliberate prioritisation of domestic borrowing to safeguard against external volatility, but this comes at the cost of higher debt-service burdens. Addressing structural constraints in growth and fiscal consolidation will be essential to ease the pressure from domestic interest payments while maintaining a sustainable balance between domestic and foreign debt.

Contingent Liabilities

Contingent liabilities are government obligations that give rise to expenditure only if specific events occur. The state maintains close oversight of these liabilities, which encompass guarantees extended to state-owned enterprises, independent power producers, and public-private partnerships, as well as commitments to multilateral institutions and other fiscal responsibilities.

As of late-2025, South Africa’s contingent liabilities, focusing on government financial guarantees in exposure value, are estimated to reach 8.84% of GDP in 2026. This is a marginal increase of 0.2 percentage points from the 2025 figure.

Figure 9: Contingent Liabilities



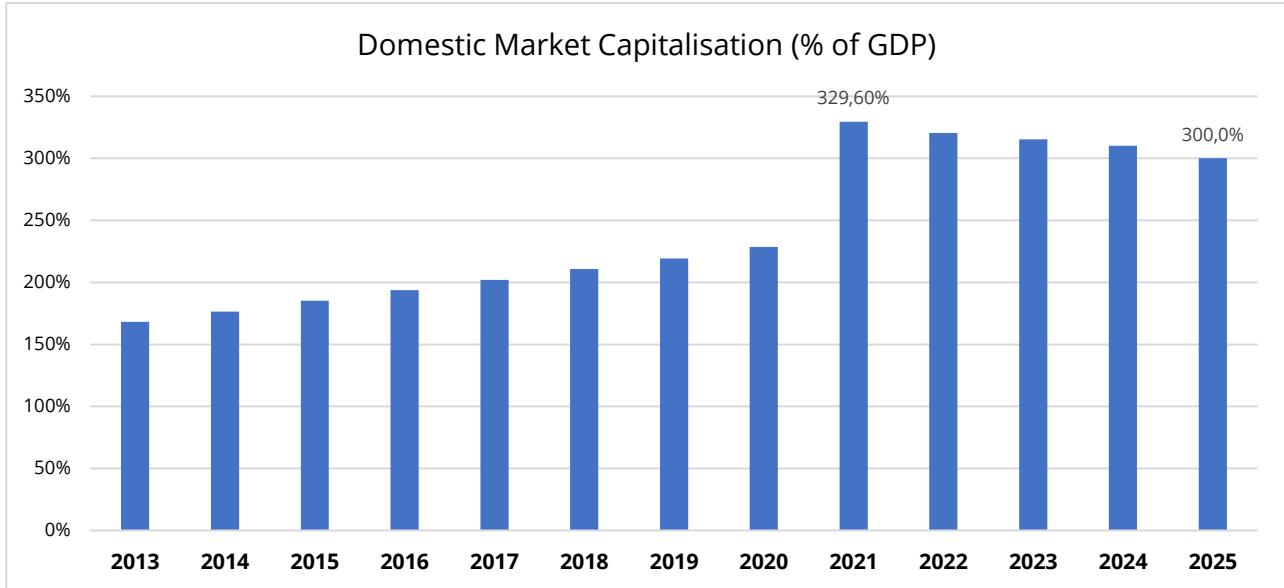
Source: SAR’s Calculations – South African Reserve Bank data

Debt Repayment Record

South Africa’s debt repayment record, measured in years since default or restructuring event, was at 41 years as of 2026. This metric is indicative of the country’s commitment to prudent debt management operations.

Domestic Market Capitalisation

Figure 10: Domestic Market Capitalisation



Source: SAR's calculations – South African Reserve Bank data

South Africa’s domestic market capitalisation significantly exceeds its peers, reflecting the maturity and depth of the Johannesburg Stock Exchange. The exchange attracts both domestic and international investors, with listings across mining, finance, and consumer sectors. However, while large, the ratio has gradually declined from 2021 to 2025, reflecting slower GDP growth and subdued equity performance.

Chile’s market capitalisation is moderate, around 70% of GDP in 2025, supported by commodity exports and fiscal stability. Nigeria’s market is expanding, reaching about 35% of GDP by 2025, driven by reforms and increased investor participation. Egypt’s market capitalisation has grown steadily, supported by infrastructure projects and Vision 2030 reforms, though still far below South Africa’s scale. Algeria and Ethiopia remain at the bottom, with Algeria’s exchange limited in scope and Ethiopia lacking a formal stock exchange altogether.

Inflation and Interest Rates

South Africa’s monetary policy over the past decade has been shaped by efforts to balance inflation control with economic growth. The Central Bank’s benchmark interest rate, the repo rate, has fluctuated in response to inflationary pressures, fiscal dynamics, and global conditions.

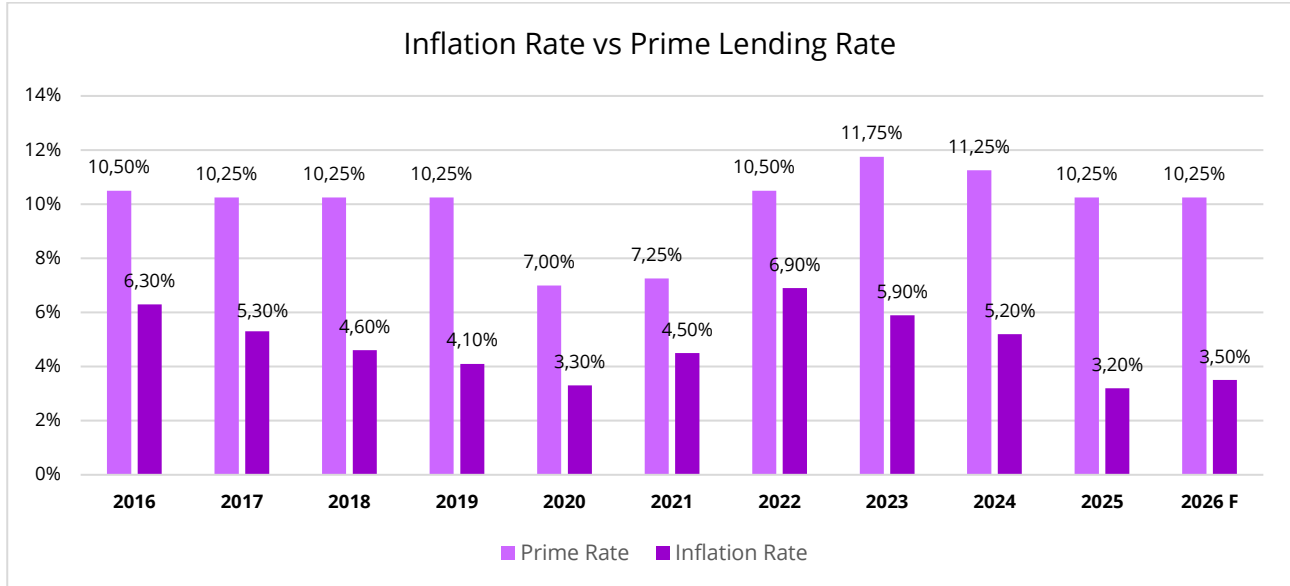
The South African Reserve Bank has demonstrated agility in adjusting rates to inflationary cycles, although often with lagged effects. The real interest rate (nominal minus inflation) has fluctuated widely, impacting investment flows and credit conditions.

The recent decline in inflation suggests improved external conditions and policy



credibility, although global geopolitical tensions are expected to cause a spike in cost-push inflationary pressure.

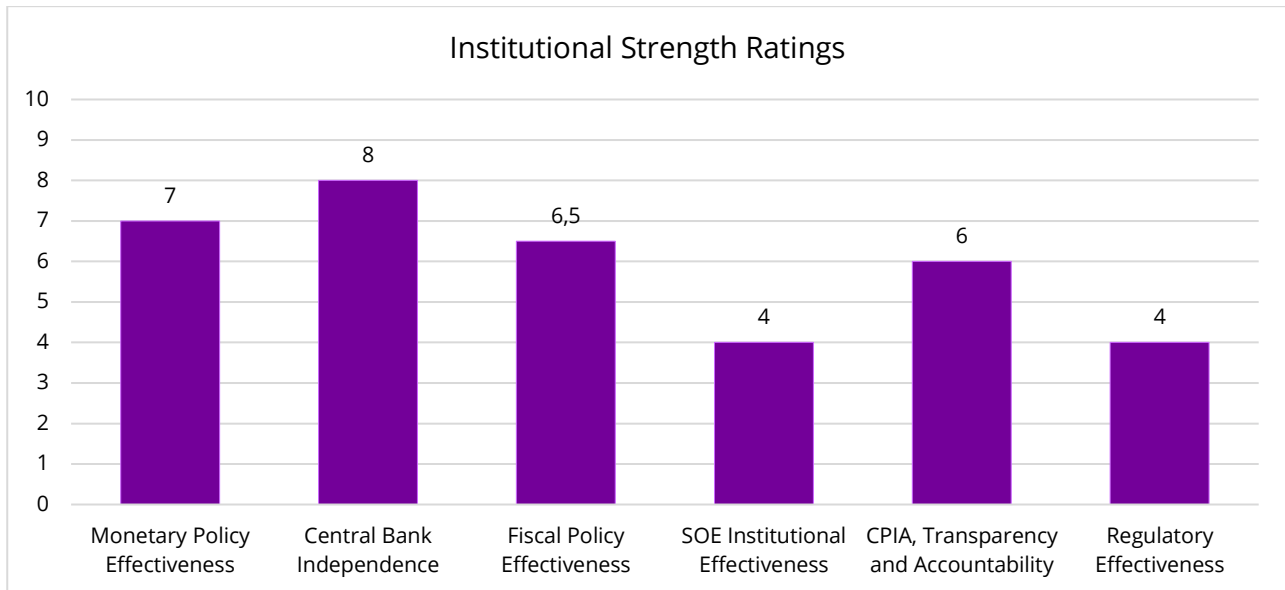
Figure 11: Inflation and Interest Rate



Source: SAR's calculations – South African Reserve Bank data

Institutional Strength Pillar

Figure 12: Institutional Strength Ratings



Source: SAR's calculations – World Bank data, OECD, IMF

Monetary Policy Effectiveness

South Africa's Reserve Bank has maintained credible inflation-targeting capacity, with monetary policy anchored in its independence and a clear commitment to price stability. The pass-through from the repo rate to market lending is relatively effective, reflecting the depth of South Africa's financial markets, though structural rigidities temper its reach. The current repo rate stance is cautious, balancing inflation containment with fragile growth prospects, and inflation is projected to ease toward the midpoint of the 3–6% target band by 2026.

Transmission, however, is moderated by segmentation within the credit market. Formal banking channels respond predictably to policy shifts, but high household indebtedness, weak business confidence, and limited access to credit in informal segments reduce the overall impact. Despite these constraints, monetary policy remains a reliable anchor for macroeconomic stability, reinforcing investor confidence even as structural challenges in energy, logistics, and fiscal pressures weigh on broader economic performance.

Central Bank Independence

South Africa's Reserve Bank enjoys strong institutional independence, reinforced by its inflation-targeting framework and credibility in financial markets. Despite fiscal pressures and political challenges, the Bank has consistently upheld its mandate, ensuring monetary policy remains focused on price stability. This autonomy underpins South Africa's macroeconomic credibility, with policy predictability serving as a reliable anchor for investor confidence. While structural constraints in energy, logistics, and growth temper the full transmission of monetary policy, the Reserve Bank's independence remains a cornerstone of stability in an otherwise challenging economic environment.

Fiscal Policy Effectiveness

South Africa is targeting fiscal consolidation with a projected primary surplus in 2025, supported by expenditure restraint and efforts to broaden the revenue base. Spending growth is capped in real terms, reflecting the government's commitment to stabilising debt dynamics. Tax reforms, including measures to improve efficiency and compliance, are progressing, though structural rigidities in wages, pensions, and state-owned enterprises continue to weigh on the fiscal framework.

Public debt remains elevated at over 70% of GDP, and debt-service costs consume more than one-fifth of revenue, underscoring long-term sustainability risks. While fiscal consolidation is underway, medium-term stability hinges on deeper structural reforms to address inefficiencies in public spending, reduce contingent liabilities, and unlock higher growth. Without these reforms, South Africa's fiscal trajectory will remain vulnerable to shocks, limiting the scope for development-orientated investment.

SOE Institutional Effectiveness

The country's state-owned enterprises are undergoing gradual governance reform, with increasing emphasis on transparency, accountability, and alignment with broader developmental and sustainability objectives. Efforts to strengthen oversight and introduce climate-conscious investment strategies are underway, yet challenges remain in ensuring board independence, strategic coherence, and reducing political interference. Eskom and Transnet continue to dominate the infrastructure and energy agenda, underscoring their centrality to the economy but also highlighting the risks posed by operational inefficiencies and governance weaknesses.

SOE reform is progressing but uneven, with governance risks persisting in politically sensitive sectors. While reforms aim to enhance credibility and reduce fiscal exposure, contingent liabilities tied to SOEs remain a significant burden on the state. The trajectory of reform will determine whether these enterprises evolve into mission-driven institutions that support long-term stability, or continue to pose systemic risks to South Africa's fiscal and economic outlook.

Transparency and Accountability

South Africa has expanded civic engagement through digital platforms and participatory governance initiatives, aiming to strengthen transparency and accountability in policy design. Progress in tax administration and digital public services has improved efficiency, yet governance challenges remain evident, with the country's Corruption Perceptions Index score highlighting persistent risks in procurement and political financing. Institutional quality broadly aligns with upper-middle-income benchmarks, but spending inefficiencies and elevated debt dynamics continue to constrain fiscal space. While transparency initiatives are gaining traction, corruption risks remain a central concern for institutional investors, limiting South Africa's ability to fully align with best-practice governance standards.

Regulatory Effectiveness

South Africa is advancing regulatory modernisation, with reforms in financial oversight, competition policy, and digital governance aimed at strengthening institutional credibility. The Reserve Bank has

implemented Basel III standards and expanded its supervisory reach to fintechs and digital assets, while broader regulatory frameworks are being updated to improve transparency and investor protection. However, enforcement capacity and regulatory agility remain constrained by bureaucratic inertia, fragmented oversight, and political sensitivities in key sectors such as energy and state-owned enterprises.

Regulatory reform is active but uneven, with long-term competitiveness hinging on institutional streamlining and stronger enforcement. While monetary and central bank governance remain robust anchors of stability, fiscal and SOE frameworks require deeper restructuring to reduce systemic risks. Transparency initiatives and regulatory modernisation are gaining traction, yet corruption risks and enforcement gaps persist, tempering South Africa's ability to fully align with international best-practice standards and limiting the confidence of institutional investors.

Environmental, Social, and Governance Pillar (ESG)

Environmental

South Africa's transition away from carbon-intensive industries remains a central credit focal point, with the 2026 energy strategy shifting emphasis from power generation to grid connectivity. Meeting Nationally Determined Contributions (NDCs) imposes a significant fiscal burden of R535 billion annually, yet the budget allocates R213.6 billion specifically for transmission infrastructure. This investment is intended to unlock 23,900 MW of private renewable energy currently stalled by grid constraints, positioning transmission as the primary enabler of the Just Energy Transition (JET). Eskom's unbundling into separate generation, transmission, and distribution entities marks a structural shift from monopoly utility to modernised market participant, reducing systemic risk and enhancing credit resilience.

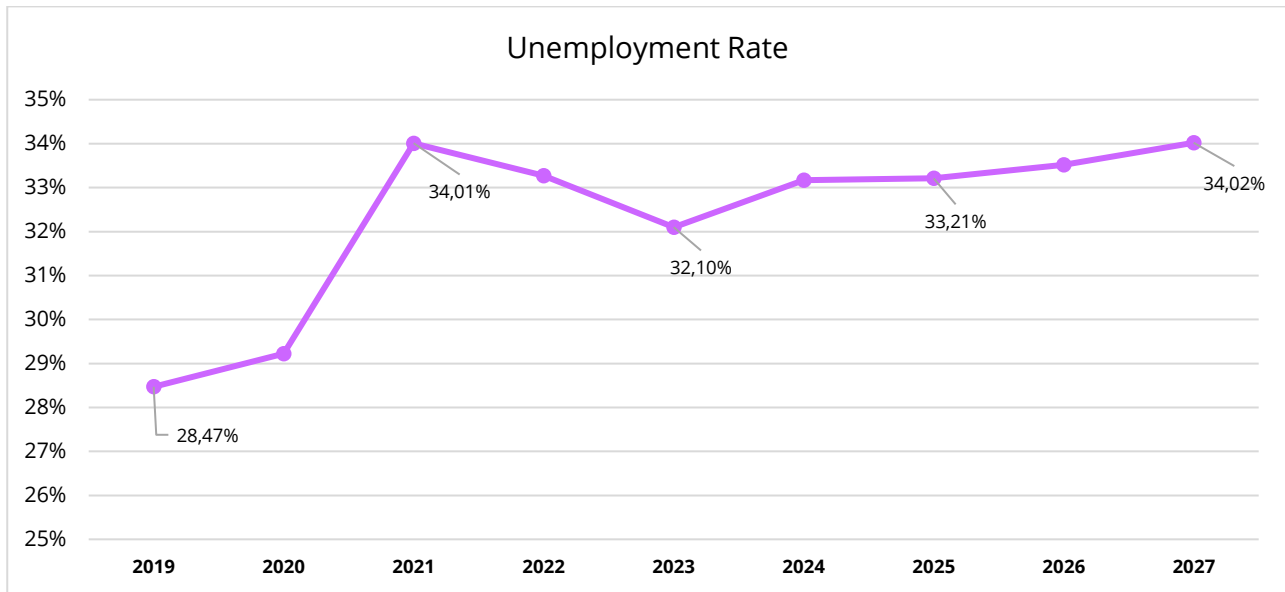
Despite long-term opportunities for green financing, including incentives for electric vehicle production and green hydrogen, the near-term opportunity cost remains high. South Africa's reliance on coal and the fiscal demands of decommissioning plants continue to pressure energy sovereignty and divert resources from other developmental priorities. By leveraging its strategic mineral value chain in platinum, vanadium, and lithium, the sovereign aims to offset fiscal strain and attract sustainable investment. Ultimately, creditworthiness in 2026 remains highly sensitive to the effective rollout of JET funding and the operational success of the newly separated transmission entity in integrating renewable capacity into the national economy.

Social

South Africa's unemployment remains a structural outlier at 33–35 percent, with youth unemployment exceeding 60 percent, underscoring a chronic labour-market mismatch that Sovereign Africa Ratings classifies as a critical credit risk. In 2026, the government has introduced a dual-training vocational model to bridge the gap between academic theory and technical industry needs, integrating apprenticeships to transition the workforce into high-demand sectors. To mitigate social fragility, the budget prioritises a social wage strategy, with health, education, and social grants accounting for 60 percent of non-interest spending. Measures such as raising the Old Age Grant to R2,400 and the Child Support Grant to R580 provide buffers against the cost-of-living crisis, yet the exclusion of a large portion of the population continues to fuel political pressure for a permanent Basic Income Grant. Elevated social spending, while necessary, constrains fiscal flexibility and slows debt reduction.

The divergence with continental peers remains stark. Egypt has stabilised unemployment near 7.2 percent, Algeria sits at 11–12 percent, Nigeria absorbs more workers through informal employment, and Ethiopia has leveraged labour-intensive manufacturing to integrate low- and semi-skilled workers. By contrast, South Africa's capital-intensive growth model has failed to close the gap of structural exclusion. The launch of the dual-training vocational model in 2026 is a decisive attempt to address this mismatch, but social indicators remain the most significant outlier in the peer group. Sustained execution of labour-market reforms will be critical to stabilising the sovereign's credit profile and moving it toward a more resilient trajectory.

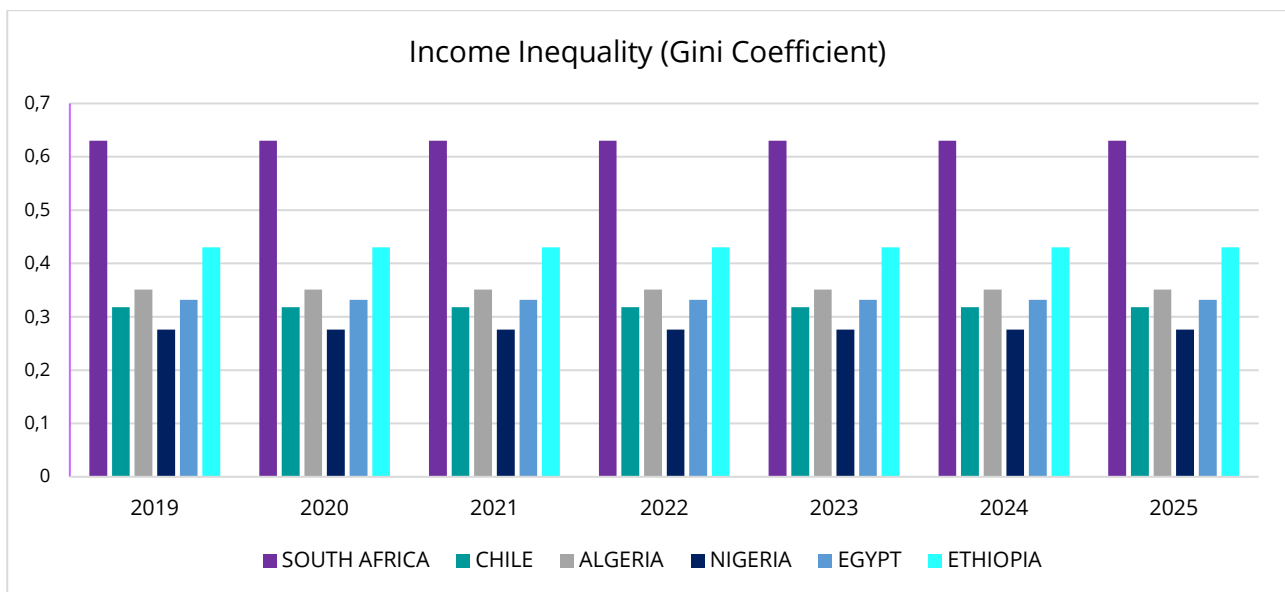
Figure 13: Unemployment Rate



Source: SAR's calculations - World Bank data

With a Gini coefficient exceeding 0.6, South Africa remains the most unequal society in its 2026 peer group, a factor SAR views as a credit negative. This extreme concentration of wealth drives social "resource scrambling" and elevated crime levels, necessitating high public expenditure on security and welfare that limits the sovereign's fiscal flexibility. This persistent inequality continues to fuel political pressure for aggressive fiscal measures, including a wealth tax, VAT increases, or budget reprioritisation to fund the Basic Income Grant (BIG).

Figure 14: Income Inequality (Gini Coefficient)



Source: SAR's calculations - World Bank, IMF

The divergence in inclusive growth is stark when compared to continental peers. Egypt maintains a significantly lower Gini index of approximately 0.29-0.3, while Ethiopia has demonstrated more successful patterns of labour-intensive, inclusive development. Unlike these peers, South Africa's

inability to bridge the wealth gap remains a primary driver of social instability risk, contrasting sharply with the more stable income distribution profiles found in Nigeria and Algeria, which benefit from higher levels of informal labour absorption and more widespread resource participation.

Governance

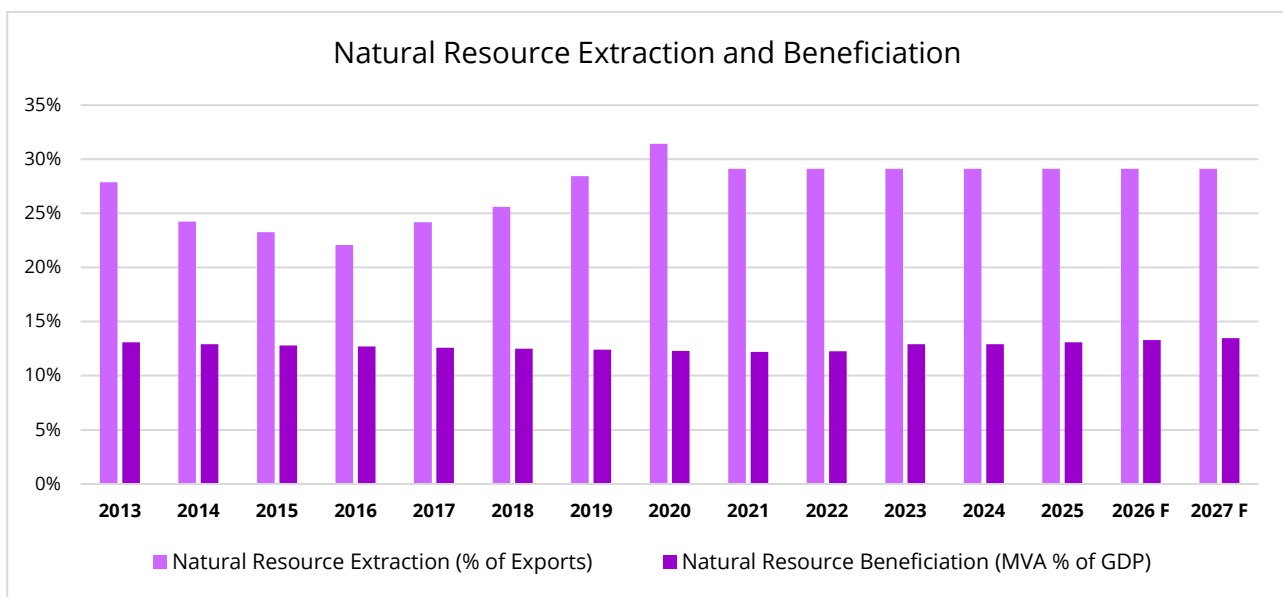
Governance risks present a mixed landscape, where South Africa's democratic maturity acts as a cornerstone of stability while systemic corruption remains a persistent headwind. The successful 2024 elections solidified the country's political standing, and the 2026 outlook indicates a marginal improvement in regulatory quality. This progress is driven by the implementation of new procurement legislation designed to close historical loopholes from the state capture era and enhance the operational autonomy of anti-corruption agencies.

When measured against its peers, South Africa maintains a distinct governance premium for international investors due to a rule of law score that remains superior to those of Algeria and Egypt. While South Africa is a relative strength compared to the internal security and stability concerns facing Nigeria and Ethiopia, it is not immune to localised volatility. The persistence of construction and energy mafias and coordinated infrastructure sabotage, such as cable theft, continues to mirror the state capture risks found in other resource-dependent economies, acting as a significant deterrent to capital formation and long-term investment.

Natural Resource Pillar

South Africa possesses an estimated \$2.5 trillion in mineral wealth, yet the Natural Resource Pillar remains constrained by the persistent gap between raw extraction and domestic value addition. To address this, the government has committed to a R1 trillion public-sector infrastructure plan over the medium term, designed to dismantle logistics bottlenecks that currently stall industrial growth. Central to this strategy is the formalisation of third-party rail and port access, enabling private sector participation to move goods more efficiently and cost-effectively. This structural shift is intended to make local beneficiation and secondary manufacturing competitive, reducing the economy’s dependence on raw ore exports and mitigating fiscal vulnerability to global commodity price shocks.

Figure 15: Extraction and Beneficiation



Source: SAR's calculations – South African Reserve Bank data

Beneficiation

South Africa remains part of an elite group of African nations with manufacturing value added above \$10 billion, yet its industrial growth has stagnated compared to more dynamic peers. Ethiopia has successfully integrated large-scale energy projects into industrial processing, while Egypt’s aggressive state-led industrial zones are driving expansion. In contrast, South Africa continues to rely heavily on raw mineral exports, missing beneficiation opportunities that have supported Nigeria’s rebound through local-content initiatives. Without resolving persistent energy and infrastructure bottlenecks, the country risks remaining as vulnerable to global price cycles as hydrocarbon-dependent peers such as Algeria, underscoring the urgency of structural reforms to unlock industrial competitiveness.

Infrastructure Development Pillar

The Infrastructure Development pillar is the centrepiece of South Africa's current credit narrative, embodying both the sovereign's greatest constraint and its most promising source of improvement. A decade of neglect and mismanagement has left infrastructure as the primary drag on the rating, yet aggressive reform momentum under Operation Vulindlela positions it as the foundation of the Positive outlook. The weighted score of 6.14 out of 10 reflects this duality, capturing the tension between strong political and fiscal commitment on one hand and weak implementation capacity on the other. Ultimately, the credibility of South Africa's credit trajectory hinges on whether reform execution can match the ambition of its infrastructure agenda.

The Commitment-Implementation Gap

SAR's analysis highlights a critical divergence within South Africa's infrastructure assessment. The government scores relatively well on Investment Commitment (7/10) but poorly on Project Implementation Rate (5/10), a gap that defines the current landscape. The National Treasury's Medium Term Expenditure Framework allocates more than R903 billion to public infrastructure over three years, exceeding 4% of GDP and meeting the threshold for a moderate-to-strong score. Strategic focus is correctly directed toward energy, logistics, and water, supported by the Infrastructure Fund and the Presidency's prioritisation of fixed capital formation as essential for growth.

Yet execution remains deeply flawed. Auditor-General data shows fewer than 20% of major projects are completed on time and within budget. Failures stem from procurement paralysis, where compliance-driven caution slows SOE decision-making; the rise of "construction mafia" groups that disrupt sites, demand stakes, and inflate costs; and a severe skills deficit, with municipalities and SOEs lacking technical engineering capacity to translate budgets into assets. Many municipalities even return unspent infrastructure grants annually due to limited project management capability. This implementation gap underscores the tension between strong fiscal commitment and weak delivery, making infrastructure reform the decisive variable in South Africa's credit trajectory.

Energy Sector: The Transition Phase

The energy crisis has been the single largest drag on South Africa's GDP growth since 2008, but the 2024–2026 period marks a decisive turning point that supports the improved outlook. The Energy Generation and Availability score has recovered to a neutral 6/10, up from the crisis lows of 2022–2023, driven less by Eskom's performance than by structural reforms enabling private sector generation. The removal of the licensing threshold for embedded generation has unlocked a pipeline of more than 6GW in private renewable projects, fundamentally altering the sector's risk profile as mines, malls, and factories increasingly secure self-reliance. South Africa also scores 7/10 for Sustainability and Environmental Considerations in infrastructure, reflecting its leadership in the Just Energy Transition. The Department of Forestry, Fisheries, and the Environment has streamlined Environmental Impact Assessments for renewable projects, achieving a 99% efficiency rate in processing within mandated timeframes. This regulatory agility signals that, when political will aligns with economic necessity, the state can deliver effectively, an encouraging credit marker for the energy transition.

Logistics: The Rail and Port Crisis

While the energy sector stabilises, the logistics sector remains in critical condition. Transnet's underperformance is estimated to cost the economy billions in lost export revenue annually.

Rail Efficiency Breakdown

The freight rail network, particularly the coal line to Richards Bay and the iron ore line to Saldanha, operates significantly below nameplate capacity. The breakdown in rail has forced exporters to shift bulk commodities onto road transport. This has two negative credit implications:

1. Infrastructure degradation as heavy trucks destroy provincial roads, increasing the maintenance burden on the state.
2. Increased costs as road transport is significantly more expensive than rail, squeezing the margins of mining companies and reducing the tax revenue (royalties and corporate tax) collected by the state. The Maintenance and Upkeep Plans attribute scores a 6/10, citing significant deterioration and a "run-to-failure" culture.

Port Operations

South African ports consistently rank near the bottom of global efficiency indices. The delayed introduction of Private Sector Participation (PSP) in the Durban and Ngqura container terminals is a key monitoring point. The rating assumes that the concessioning of these terminals will eventually proceed, bringing much-needed capital and technical expertise, but the pace of reform is slow.

Water Infrastructure: The Next Crisis

The report identifies water infrastructure as a rapidly escalating risk, with the Sustainable Resource Management score undermined by severe inefficiencies. Non-revenue water losses average more than 40% in major metros, while wastewater treatment facilities face widespread collapse. The failure of the Green Drop audit underscores systemic mismanagement at the municipal level. Unlike energy, water provision falls under local government competence, making national intervention constitutionally complex and politically sensitive. This fragility poses long-term risks to agriculture and manufacturing, while also threatening social stability in water-stressed communities where reliable access is already precarious.

Innovative Financing Models

A positive development in the infrastructure space is the increasing sophistication of financing. The SAR methodology assigns a score of 7/10 for Innovative Financing Models.

- The Infrastructure Fund is successfully leveraging public money to crowd in private investment, de-risking projects to make them bankable.
- South Africa has successfully issued green bonds to fund climate-resilient infrastructure. The reform of PPP regulations in 2024/2025 to simplify treasury approval processes is expected to accelerate the conversion of the project pipeline. This shift from pure state-funding to partnership models helps alleviate the fiscal pressure on the sovereign balance sheet.

Table 1: Infrastructure Development Summary

Attribute	Score (1-10)	Weighted Contribution	Rationale
Investment Commitment	7	High	Treasury allocation >R900bn; strong policy focus.
Project Implementation	5	Low	64% of projects delayed; procurement/skills gap.
Project Diversity	7	Moderate	Good spread across energy/water, less in rural.
Financing Models	7	High	Innovative use of Green Bonds, JETP, Infrastructure Fund.
Maintenance & Upkeep	6	Low	"Run-to-failure" culture in municipalities/Transnet.
Sustainability (Env)	7	High	Effective EIA processes for renewables; JET plan.
Total Score Pillar	6.5	Medium	<i>Commitment exceeds execution capability.</i>

Source: African Development Bank Group

RATING SENSITIVITIES

Factors That Could Lead to a Rating Upgrade

- **Infrastructure Improvements**
 - Structural reforms that enhance productivity and industrial depth, particularly in the logistics sector, rails and ports.
- **Fiscal Consolidation and Debt Stabilisation**
 - Reduction in gross government debt toward the 70% of GDP threshold, supported by expenditure discipline and revenue enhancement.
 - Decline in interest payments to revenue below 18% to revenue, signalling improved debt affordability.
- **Industrial Transformation**
 - Sustained increase in Manufacturing Value Added (MVA) beyond 15.5% of GDP, reflecting deeper integration into global value chains and domestic beneficiation of natural resources.

Factors That Could Lead to a Rating Downgrade

- **Macroeconomic Vulnerabilities**
 - Sharp deceleration in GDP growth below 1%, particularly if driven by external shocks or domestic policy missteps.
 - Escalation of inflation or interest rates (e.g., prime rate exceeding 11.5%) that undermines GDP growth, consumption, and investment.
- **Fiscal Deterioration**
 - Gross government debt rising above 90% of GDP without a credible medium-term consolidation plan.
 - Interest payments exceeding 30% of revenue, indicating unsustainable debt servicing costs.
- **Contingent Liability Realisation**
 - Materialisation of large-scale guarantees (e.g., SOE or infrastructure failures), straining fiscal buffers.
 - Weak oversight of SOEs leading to fiscal slippage or reputational risks, especially in economically sensitive sectors.
- **Industrial Regression**
 - Decline in MVA below 12% of GDP, signalling a reversal of reindustrialisation gains and increased reliance on raw commodity exports.

KEY RATING INDICATORS

Table 2: Key Risk Indicators

Variable	2023	2024	2025	2026	2027 F
GDP Growth Rate (%)	0.80%	0.50%	1.10%	1.10%	1.50%
GDP per Capita (US\$)	6132,74	6364,662	6666,705	6 301,71	6 269,28
Share in Peer Group GDP	19.01%	22.56%	23.62%	23.92%	24.9%
Share in World GDP	0.51%	0.50%	0.49%	0.46%	0.44%
Export Diversification Index	0.24	0.24	0.25	0.26	0.26
Current Account Balance as Percentage of GDP (%)	-1.10%	-0.70%	-0.90%	-0.7%	-0.4%
General Government Revenue (% of GDP)	27.06%	27.14%	27.46%	27.1%	27.2%
Gross Government Debt (% of GDP)	73.4%	76.4%	79.6%	82.6%	85.8%
Gross Government Debt (% of Revenue)	271.1%	281.4%	289.8%	304.9%	315.5%
General Government Interest (% of Revenue)	20.7%	21.0%	22.1%	22.7%	23.6%
General Government Fiscal Balance (% of GDP)	-5.5%	-6.0%	-6.3%	-6.7%	-7.1%
Foreign Debt (% of Total Gross Loan Debt)	10.3%	11.1%	11.3%	12.0%	12.4%
Local Currency Denominated Debt (% of Foreign Debt)	42.7%	44.6%	48.2%	50.7%	53.9%
Contingent liabilities (% of GDP) [Government Financial Guarantees Exposed Value]	8.7%	9.1%	8.6%	8.8%	8.0%
Debt Repayment Record (Years Since Default or Restructuring Event)	38	39	40	41	42
Inflation Rate	5.9%	5.2%	3.2%	3.5%	4.1%
Exchange rate stability (Implied PPP Conversion)	6.7	6.8	7.6	7.9	8.6
Domestic Market Capitalisation (% of GDP)	315.4%	310.2%	300.0%	293.1%	284.0%
Broad Money Supply Growth Rate (%)	7.6%	6.7%	6.5%	6.90%	6.81%
Foreign Currency Reserves (% of Total External Debt)	101.7%	102.9%	109.3%	114.1%	120.0%
Independence Of Central Bank (Transparency and Independence Index)	8	8	8	8	8
Regulatory Effectiveness (Regulatory Quality Index)	4	4	4	4	4
Fiscal Policy Effectiveness	7	7	7	7	7
Monetary Policy Effectiveness (CPIA Financial Sector Rating)	7	7	7	7	7
SOE Institutional Effectiveness	4	4	4	4	4
Transparency And Accountability	6	6	6	6	6

Environmental Regulations and Enforcement (Environmental Protection Index)	9	9	9	9	9
Climate and Natural Disaster Risk Exposure (Climate Change Policy Index)	9	9	9	9	9
Unemployment Rate (%)	32.10%	33.17%	33.21%	33.52%	34.02%
Income Inequality (Gini Coefficient)	0.63	0.63	0.63	0.63	0.63
Social and Environmental Impact of Natural Resource Extraction (Ecosystem Vitality Index)	8.0	8.0	8	8	8
Labour Rights and Standards	7	7	7	7	7
Human Development Index (HDI, 0 To 1)	0.717	0.7227	0.727	0.732	0.736
Political Effectiveness (Political Stability Index)	6,0	6,0	6	6	6
Governance Practices (Government Effectiveness Index) (-2,5 To 2,5)	1.8	1.8	1.8	1.8	1.8
Natural Resource Extraction (Natural Resources as % of Exports)	29%	29.1%	29.1%	29.1%	29.1%
Natural Resource Beneficiation (Manufacturing Value Added as % of GDP)	13%	12.9%	13.1%	13.3%	13.5%
Energy Generation & Availability (% of Population with Access to Electricity)	70%	81%	88%	89%	94%
Investment Commitment	7	7	7	7	7
Project Implementation Rate	5	5	5	5	5
Diversity And Scope of Projects	8	8	8	8	8
Innovative Financing Models	7	7	7	7	7
Sustainability and Environmental Consideration	7	7	7	7	7
Economic Impact Analysis	8	8	8	8	8
Maintenance and Upkeep Plans	6	6	6	6	6
Community Engagement and Impact	6	6	6	6	6

Rating Methodology

The principal methodology used in this rating methodology was published and is available at:

[Sovereign Rating Methodology](#)

Information and Data

SAR confirms that data and information adequacy was sufficient to conduct this credit rating.

Data and information from reputable sources were used during the credit rating process.

The quality of the data and information has been validated via cross-referencing against various data sources for consistency.

Issuer Participation

The rated entity did not participate in the rating process.

SAR confirms that the credit rating has been disclosed to the rated entity.

This is an unsolicited credit rating.

Rating Definitions

[SAR Rating Definitions](#)

Rating History

Initial Rating Date	23 September 2022	Current Rating Date	27 May 2026
----------------------------	--------------------------	----------------------------	--------------------

Glossary of Terms

Term	Definition
The African Continental Free Trade Area (AfCFTA)	The African Continental Free Trade Area (AfCFTA) is a landmark trade agreement among African countries aimed at promoting intra-African trade and economic integration. It was established to create a single market for goods and services on the continent, removing trade barriers and fostering economic cooperation among African nations.
Credit Rating Action	Any of the following is a credit rating action: <ol style="list-style-type: none"> 1. The process through which a credit rating is given to a rated entity or obligation, including credit ratings given during a subsequent rating process. 2. When relevant conditions are thought to have been satisfied in the anticipated rating process, a provisional note is removed from a credit rating. 3. A change to a credit rating (i.e., upgrade or downgrade). 4. Placing a credit rating under review, reconfiguring an active review, or removing a credit rating from review (i.e., credit rating confirmation). The assignment of, or modification of, an outlook linked to a rated entity or several credit ratings. 5. A credit rating affirmation. 6. A credit rating withdrawal.
Current Account Balance	Exports of goods and services minus imports of the same, plus net factor income, plus official and private net transfers.
Employee(s)	An employee is any full-time or part-time employee of SAR or any of its subsidiaries and associated companies.
Foreign Direct Investment (FDI)	Direct investment is conducted by non-residents.
Gross Domestic Product (GDP)	The total market value of goods and services produced by resident factors of production.
GDP per capita	GDP is divided by population.
GHG	Greenhouse Gas. Greenhouse gases are gases in the atmosphere that absorb and emit radiation within the thermal infrared range, causing the greenhouse effect.
Gini Coefficient	The Gini coefficient is a statistical measure used to assess income or wealth inequality within a population. It ranges from 0 to 1, where 0 represents perfect equality (everyone has the same income) and 1 represents perfect inequality (one person has all the income). A higher Gini coefficient indicates greater inequality.
Issuer	An issuer is any entity that issues debt, a credit commitment, debt-like obligations, or securities. Examples of such entities include special-purpose vehicles, companies, governments, and local governments.
Lead Rating Analyst (Lead Analyst)	Lead Rating Analyst is a term used to describe an analyst who is primarily responsible for providing details about a credit rating and/or for communicating with the issuer(s) regarding a specific credit rating or regarding the credit rating of a financial instrument issued by that issuer, as well as, when appropriate, for creating recommendations for the rating committee in relation to that credit rating.
Manager(s)	Manager(s) are employees who oversee personnel.
MVA	Manufacturing Value Added.
Net general government debt	General government debt minus general government liquid financial assets.
Net external liabilities	Total public and private sector liabilities to non-residents minus total external assets.
Outlook	An outlook is an opinion regarding the likely path an issuer's rating could take over the medium term.
PM Score	PM (Particulate Matter) scores related to air quality.
PPP	Public-private partnerships.

Prohibited Recommendation	Any proposals or recommendations made either formally or informally regarding the design of financial instruments on which a CRA is envisioned to issue a credit rating may be made by an employee to a rated entity or its agent to improve the rated entity's rating. This includes suggestions about the rated entity's corporate or legal structure, assets, liabilities, or activities.
Rated Entity(ies)	A rated entity is any entity rated by a credit rating agency (CRA).
Review	A review is an indication that a rating may change in the not-too-distant future.
SAR	Sovereign Africa Ratings (Pty) Ltd is authorised to conduct business as a credit rating agency as per the Credit Ratings Services Act of 2012 of the Republic of South Africa.
Special Drawing Rights (SDR)	The SDR is an international reserve asset that was created by the International Monetary Fund in 1969 to supplement its member countries' official reserves.
Security	Security refers to any type of financial instrument, including stocks, bonds, debentures, notes, options, equity securities, convertible securities, warrants, derivative securities (derivatives), and warrants.
Total Debt Service (TDS)	Total Debt Service (TDS, current US\$) refers to the total amount of money paid by a country to cover the principal and interest payments on its external debt. External debt includes loans and financial obligations owed to foreign creditors, such as other governments, international organisations, or private entities, by the country in question.



Chairperson: Bekithemba Ndimande | Rating Analyst
Lead Analyst: Zwelibanzi Maziya | Chief Ratings Officer
Back-up Analyst: Ted Maselesele (CA)SA | Rating Analyst
Contact: info@saratings.com
+27 10 203 9921
54 Queens Rd, Bryanston, Sandton, 2191,
Johannesburg, South Africa
www.saratings.com

No part of this credit rating was influenced by any other Sovereign Africa Ratings business activities. The rating committee determined this credit rating based solely on its independent assessment of the credit risks and merits of the issuer or issue being rated in accordance with Sovereign Africa Ratings' published methodologies.

Sovereign Africa Ratings has used data from sources it considers to be dependable, but it cannot guarantee the correctness or sufficiency of any data used. SAR had access to publicly available national accounts and macroeconomic datasets. This credit rating is unsolicited. The rated entity or connected third parties were informed of this credit rating before it was issued. SAR's rating framework is based on a transparent methodology for measuring credit risk. SAR's assessment of creditworthiness is derived from quantitative and qualitative approaches. The rating process for unsolicited credit ratings is to a large extent based on analytical models and uses publicly available data and issuer-provided information where available. Reg No. 2019/155710/07. Sovereign Africa Ratings is a licensed credit rating agency, FSCA License No. FSCA-CRA006.