Republic of South Africa

	2021	2022	2023	2024	2025	Forecasts 2026	2027
GDP growth (%)	4.9	2.1	0.8	0.5	1.1	1.1	1.3
CPI inflation (%)	4.6	6.9	5.9	4.4	3.2	3.9	3.4
Budget balance (% of GDP)	-5.5	-4.3	-5.5	-5.7	-5.8	-4.9	-4.3
Public debt (% of GDP)	68.8	70.7	73.2	76.0	78.6	78.9	79.7
Reference rate (%)*	3.5	5.3	8.0	8.1	7.2	6.9	6.9
Exchange rate (ZAR/USD)*	14.8	16.4	18.5	18.3	17.9	16.7	17.0
Current account balance (% of GDP)	3.7	-0.3	-1.1	-0.7	-0.5	-0.9	-1.4
External debt (% of GDP)	39.2	43.0	41.3	40.3	43.6	41.4	41.9

Note: * Annual average.
Source: CaixaBank Research, using data from Thomson Reuters Datastream and IMF forecasts.

Outlook

Economic growth picked up moderately in 2025, to 1.1%, favoured by improved electricity supplies, the recovery of private consumption and increased confidence following the formation of the National Unity Government in 2024. However, expansion remains modest, hampered by significant **bottlenecks in logistics, transport and municipal infrastructure**.

Activity remained somewhat buoyant at the start of 2026, although driven mainly by the contribution from the external sector, while weakness in consumption and investment shows that **internal recovery remains fragile**.

The IMF has revised its growth forecast downwards to 1.1% in 2026 and 1.3% in 2027, in light of the impact of the conflict in the Middle East and the deterioration in the external environment. Recovery will continue to be supported by structural reforms and the normalisation of some critical infrastructure, but it will not be enough to significantly reduce **elevated structural unemployment**, with an unemployment rate above 30%.

South Africa's status as a net importer of oil means that the **energy shock** negatively affects activity through higher transport and production costs, the loss of household purchasing power and tighter monetary conditions. Added to this are weak global demand, volatile metal prices and increased trade protectionism.

Economic policies

The moderation in inflation during 2025 initially allowed the central bank to ease **monetary policy**. However, rising energy prices, the depreciation of the rand and the emergence of indirect effects on prices prompted the central bank to raise the policy rate to 7.0% in May 2026, a level at which it remained in July. Inflation reached 5.0% in mid-2026 and it is expected to remain above 4% until early 2027, which will delay its convergence towards the new target of 3%, with a tolerance band of ±1 pp.

Public finances continue to be one of the main pockets of vulnerability, although they are showing signs of stabilisation. The IMF expects primary surpluses to gradually reduce the public deficit, from around 6% of GDP in 2025 to just over 4% in 2027. However, low growth and a high interest burden would keep the debt at around 80% of GDP and limit the scope for investment and social protection.

The **current account balance** moved into a surplus at the start of 2026, favoured by the improved trade balance. However, the rise in energy costs, weak global demand and the structural deficits in the services and income accounts could partially reverse this improvement.

Closing date of this edition: 24 August 2026

External risks are mitigated by the flexible exchange rate, a favourable net international investment position, moderate external debt and an adequate level of **international reserves**. Furthermore, the depth of the domestic financial market allows the public sector to be predominantly financed in the local currency, although it remains significantly exposed to changes in global risk appetite.

The **Operation Vulindlela** *reform programme* continues to focus on energy, logistics, transport, water and business climate, with growing private participation in electricity generation, railways and ports. Its second phase expands the agenda to include local governments, digitalisation and the visa scheme. Effective implementation of these measures is essential to raise the country's low **potential growth**. The IMF expects growth to gradually reach 1.8% in the medium term, although a more ambitious reform implementation could improve this result.[1]

The improved fiscal outlook and the reduction of contingent liabilities linked to the state-owned electricity company have contributed to a positive revision of **sovereign risk** since the end of 2025, although South African debt remains within the speculative grade. In November 2025, S&P raised the foreign currency rating from BB– to BB with a positive outlook. It was the first improvement awarded by one of the main agencies in 16 years, followed by Fitch in June 2026.

Exchange rate

The **South African rand** remains highly sensitive to the global risk appetite, dollar movements and commodity prices. In 2026, the conflict in the Middle East and energy volatility have caused depreciation episodes, although the credibility of the monetary framework, fiscal consolidation and improved perceptions of sovereign credit risk have limited more abrupt movements. Exchange rate flexibility acts as a mechanism for absorbing external *shocks*, but persistent depreciation would intensify the transmission of energy prices to inflation and could require further monetary tightening.

Risks

The risk outlook is **tilted to the downside**, with significant fiscal and external vulnerabilities, structural deficiencies and potential hotspots of social and political tension. The economy is particularly sensitive to an escalation of the conflict in the Middle East, the tightening of international financial conditions, the weakness of its main trading partners and falls in metal prices. A more persistent energy *shock* would simultaneously worsen growth, inflation, the external balance and the exchange rate.

Additionally, we identified the following unsystematic risks:

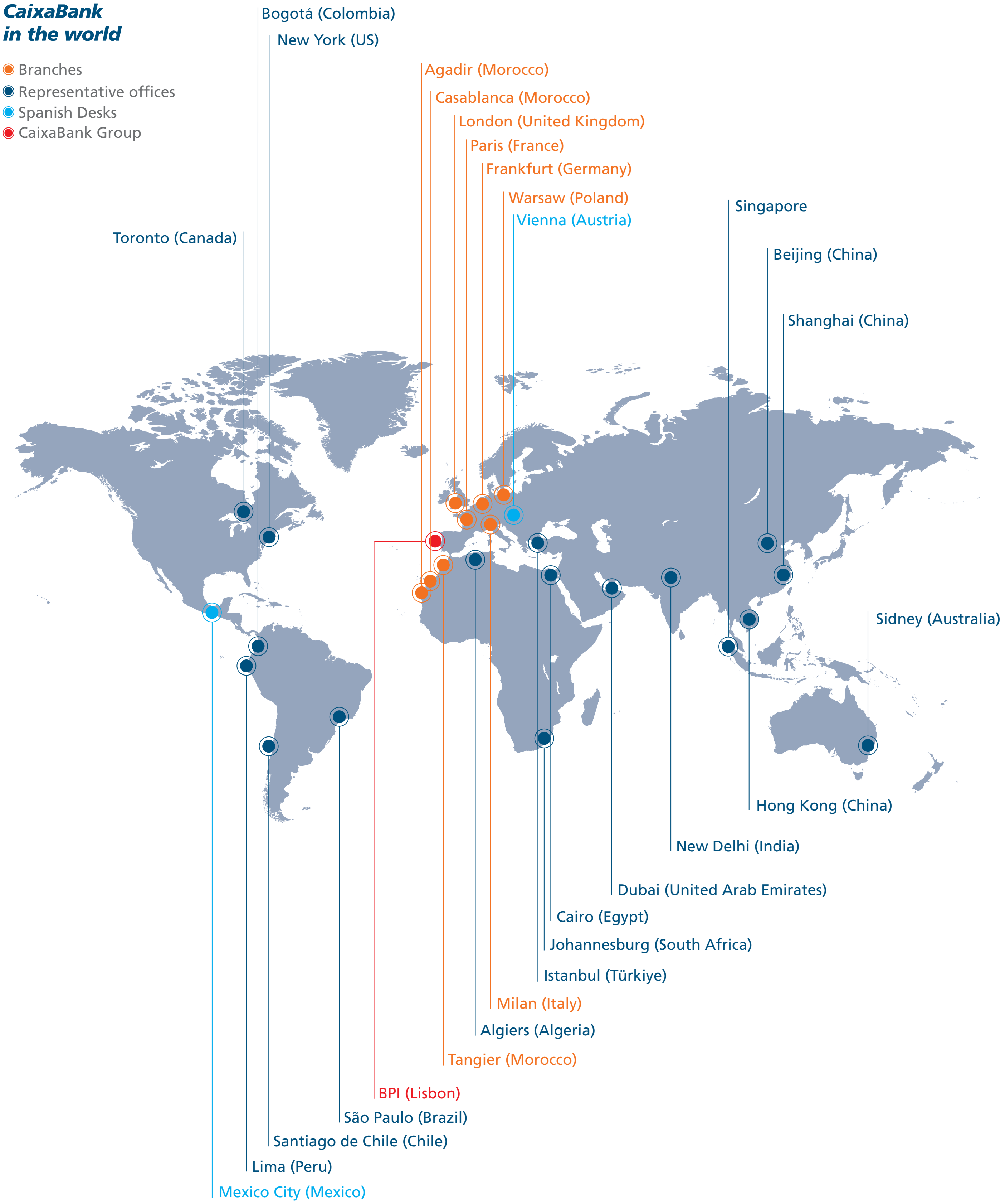
- The **banking system** remains resilient, well capitalised and with adequate levels of liquidity, although its growing exposure to public debt reinforces the link between banking and sovereign risks.
- The decrease in power outages and the improved financial situation of the state-owned electricity company have reduced energy restrictions, but **bottlenecks** remain in railways, ports, water and municipal infrastructure.
- Insufficient fiscal consolidation, lower-than-expected growth or a further increase in financing costs would impede **public debt stabilisation** and could divert resources allocated for investment and social protection.
- Unemployment, inequality and poverty sustain the latent **risk of social unrest**, especially if the recovery does not generate employment. At the same time, the heterogeneity of the National Unity Government may delay agreements on fiscal consolidation, state-owned enterprises and the opening of strategic sectors.
- The country is vulnerable to **extreme climate events**, particularly droughts and floods, which affect agriculture, water availability and infrastructure. A disorderly energy transition could also raise the cost of electricity and hinder decarbonisation goals.

Sovereign credit rating				
Rating agency	Rating*	Last changed	Outlook	Last changed
Standard & Poor's	BB	14/11/25	Positive	14/11/25
Moody's	Ba2	20/11/20	Positive	22/05/26
Fitch Ratings	BB	05/06/26	Stable	05/06/26

Note: *A shaded cell indicates «investment grade» and an unshaded cell indicates «speculative grade».

[1] IMF (2026), «South Africa: 2025 Article IV Consultation».

CaixaBank in the world



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