



## SOUTH AFRICA

February 2026

### 2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOUTH AFRICA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with South Africa, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 9, 2026, consideration of the staff report that concluded the Article IV consultation with South Africa.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 9, 2026, following discussions that ended on December 8, 2025, with the officials of South Africa on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 22, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for South Africa.

The documents listed below have been or will be separately released.

#### Selected Issues

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## IMF Executive Board Concludes 2025 Article IV Consultation with South Africa

FOR IMMEDIATE RELEASE

- South Africa has faced repeated shocks in recent years, including due to higher global policy uncertainty in 2025. The economy has proven resilient thus far, owing to its ample natural endowments, independent institutions, and strong monetary policy framework.
- Economic activity is expected to improve gradually over the medium term, while inflation is projected to converge to the new 3-percent target. Risks remain tilted to the downside, related to continued trade and global policy uncertainty and domestic reform fatigue.
- Long-standing structural impediments and rising debt continue to constrain resilience and potential growth, highlighting the importance of strong policies and reforms to support macroeconomic stability, employment, and growth.

**Washington, DC – February 11, 2026:** The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation with South Africa.<sup>1</sup>

South Africa's post-pandemic recovery has been hampered by repeated global shocks and domestic challenges, including, more recently, increased protectionism, fragmentation, and global trade policy uncertainty. Owing to its ample natural endowments, independent institutions, and strong monetary policy framework, the economy has proven resilient thus far.

Economic activity picked up in 2025, with growth estimated at 1.3 percent, supported by robust private consumption. Inflation moderated to an average of 3.2 percent, enabling a shift to a lower 3 percent inflation target. The current account remained stable despite higher US tariffs and global policy uncertainty, and the banking sector remains sound. Public debt, however, has risen further, reaching 77 percent of GDP at end-March 2025.

Growth is projected to accelerate to 1.4 percent in 2026, reaching 1.8 percent in the medium term, supported by resilient consumption and investment driven by structural reforms. Inflation is projected to reach the 3 percent target by end-2027. Although fiscal deficits are moderating, they remain elevated, and public debt is therefore projected to continue rising over the medium term. Risks are tilted to the downside, mainly stemming from global fragmentation, trade tensions, and domestic reform fatigue, while upside risks include faster reform implementation and stronger global growth.

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

## Executive Board Assessment<sup>2</sup>

Executive Directors commended the authorities for maintaining macroeconomic stability and strengthening economic resilience amid a challenging global environment, but noted downside risks and entrenched structural impediments that constrain potential growth and employment. Against this background, they emphasized the need for well-coordinated policies and reforms to safeguard fiscal sustainability, secure low and stable inflation, ensure financial stability, and achieve higher and inclusive growth.

Directors welcomed the authorities' commitment to strengthening fiscal sustainability and emphasized the need for credible, growth-friendly, and socially acceptable fiscal consolidation to stabilize and reduce public debt while protecting priority spending. They considered that consolidation efforts should focus on reprioritizing and improving the efficiency and equity of public spending, while protecting vulnerable groups, along with continued efforts to mobilize domestic revenues. They noted that a fiscal rule anchored in a prudent debt ceiling could help underpin the adjustment and bolster credibility.

Directors commended the South African Reserve Bank for reducing inflation and welcomed the move to a lower (3 percent) inflation target with a narrower band, which should support macroeconomic stability and reduce borrowing costs. They recommended maintaining a flexible and data-driven approach focused on guiding inflation expectations to the new target. Directors considered that careful communication and gradual implementation of the new target are key to maintaining credibility, while preserving flexibility in case of shocks.

Directors welcomed the authorities' efforts to safeguard financial stability, including bank-resolution and safety-net reforms and steps to bolster the AML/CFT framework that have enabled South Africa's exit from the FATF "grey list." They encouraged the authorities to continue to monitor risks related to NPLs and the sovereign–financial sector nexus, while strengthening supervision of banks and non-bank financial institutions. Directors underscored the importance of improving access to finance, including SMEs, while bolstering payment-system efficiency.

Directors welcomed ongoing electricity and logistics reforms aimed at removing critical impediments to growth through higher private-sector participation and encouraged their resolute implementation. They supported additional reforms to improve the business environment, strengthen governance, combat corruption, improve the flexibility of the labor market, address spatial disparities, and deepen trade diversification.

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<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here:

<http://www.IMF.org/external/np/sec/misic/qualifiers.htm>.

South Africa: Selected Economic Indicators, 2024–28					
Social and Demographic Indicators					
<b>GDP</b>			<b>Poverty (percent of population)</b>		
Nominal GDP (2024, \$ billion)	401	Below poverty line (3.65US\$/day, 2023)		34	
GDP per capita (2024, current \$)	6,253	Undernourishment (2023)		10	
<b>Population characteristics</b>			<b>Inequality (income shares unless otherwise specified)</b>		
Total (2024, million)	63	Highest 10 percent of population (2017)		54	
Urban population (2023, percent of total)	68	Lowest 40 percent of population (2017)		5	
Life expectancy at birth (2023, number of years)	66	Gini coefficient (2017)		67	
<b>Economic Indicators</b>					
	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
		Est.	Proj.		
<b>National Income and Prices (Annual Percentage Change Unless Otherwise Indicated)</b>					
Real GDP (annual percentage change)	0.5	1.3	1.4	1.5	1.7
CPI (annual average, annual percentage change)	4.4	3.2	3.6	3.3	3.0
Output gap (percent of potential real GDP)	-0.3	-0.1	-0.1	0.0	0.0
<b>Money and Credit</b>					
Broad money (annual percentage change)	6.7	4.2	5.0	4.8	4.7
Credit to the private sector (annual percentage change) 1/	4.4	3.9	5.0	4.8	4.7
Repo rate (percent, end-period)	7.8	6.8	...	...	...
<b>Labor Market</b>					
Unemployment rate (percent of labor force, annual average)	32.6	32.6	32.5	32.4	32.3
<b>Savings and Investment (Percent of GDP)</b>					
Gross national saving	13.4	12.5	12.4	12.3	12.4
Investment 2/	14.1	13.4	13.6	13.8	14.1
<b>Fiscal Position (Percent of GDP) 3/</b>					
Overall balance	-5.8	-5.8	-4.9	-4.4	-4.2
Primary balance	-0.5	-0.5	0.5	0.9	1.1
Gross government debt 4/	76.0	77.8	78.5	79.8	81.1
<b>Balance of Payments (Percent of GDP Unless Otherwise Indicated)</b>					
Current account balance	-0.7	-0.9	-1.2	-1.5	-1.7
Gross reserves	16.3	17.6	16.0	15.4	14.8
in months of next year's imports	6.2	6.3	6.0	5.7	5.5
in ARA in percent, excl. CFM	95.0	99.1	95.0	91.7	89.4
in ARA in percent, incl. CFM	106.2	111.2	106.6	102.9	100.5
Total external debt	42	46	46	47	48
<b>Exchange Rates</b>					
Real effective exchange rate (percent change)	3.9	0.8	...	...	...
Exchange rate (Rand/U.S. dollar, end-period)	18.7	16.6	...	...	...
<b>Memorandum Items</b>					
Nominal GDP (billions of U.S. dollar)	401	431	474	492	512

Sources: Haver, National Treasury, SARB, UNU WIDER, World Bank, and IMF staff calculations.

1/ Depository institution's domestic claims on private sector in all currencies.

2/ Noisy inventories data are excluded from the investment breakdown to highlight fixed capital formation developments.

3/ Consolidated government, calendar year data (January 1 - December 31).

4/ As of November 2025. A positive number represents appreciation and vice versa.



# SOUTH AFRICA

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

January 22, 2026

### KEY ISSUES

**Context.** Owing to its ample natural endowments, independent institutions, and strong monetary policy framework, South Africa's economy has proven resilient to renewed global turbulence related to greater protectionism, fragmentation, and heightened policy uncertainty in 2025. However, long-standing impediments—entrenched structural rigidities, inadequate infrastructure, governance weaknesses, and rising public debt—continue to constrain the economy's ability to create much needed jobs and achieve its true growth potential.

**Outlook and Risks.** Following two quarters of strong activity, real output growth is expected to reach 1.3–1.4 percent in 2025–26, rising gradually to 1.8 percent in the medium run, on the back of ongoing structural reforms. Inflation is expected to settle to the new lower inflation target of 3 percent by end-2027. With fiscal deficits moderating but still elevated, public debt is projected to continue to rise over the medium term. Risks are tilted to the downside, related to an intensification of fragmentation and protectionism, tighter global financing conditions, and weaker-than-expected domestic reform implementation. Conversely, improved global activity and more ambitious implementation of domestic reforms represent upside risks to growth.

**Policy Recommendations.** Bolstering resilience in a more shock-prone world and pivoting toward higher standards of living for all will require coherent and well-coordinated policies and reforms to safeguard fiscal sustainability, secure low and stable inflation, ensure financial stability, and address entrenched bottlenecks to growth:

- **Fiscal Policy.** A credible, growth-friendly, and politically and socially feasible adjustment is needed to stabilize public debt and rebuild buffers, while protecting priority spending. Achieving the authorities' primary surplus target in FY26 and reaching somewhat more ambitious medium-term targets will be key in this regard and will require durable reforms aimed at reprioritizing and improving the efficiency and equity of public spending, together with continued efforts to mobilize domestic revenues. A fiscal rule, anchored in a prudent debt ceiling, could help underpin the adjustment and support policy credibility.

- **Monetary Policy.** The new lower (3 percent) inflation target and strengthened framework are welcome and expected to support macroeconomic stability and lower borrowing costs. Monetary policy should remain data driven and focused on guiding inflation expectations to the new target. Clear communication and gradual implementation of the new target will be key to support credibility, while maintaining flexibility to manage shocks.
- **Financial Sector Policies.** The exit from the FATF grey list is welcome, along with recent banking-resolution, safety-net reforms, and ongoing macro-prudential measures to bolster capital buffers. Continued monitoring of risks, including related to the bank-sovereign nexus, together with a consistent regulatory and supervisory approach for banks and non-bank financial institutions, remains essential to safeguard financial stability. Improving access to finance, especially for SMEs, will be key to supporting credit and growth, while advancing the ongoing digital payments system reform can help improve efficiency.
- **Structural Reforms.** Ongoing electricity and logistics reforms aimed at facilitating private-sector participation are welcome and should be expedited. Additional business-environment reforms reducing regulatory barriers, cutting red tape, simplifying procurement procedures, and bolstering competition are also key to help unlock jobs and growth. Sustained efforts to tackle governance weaknesses and fight corruption, along with reforms addressing spatial disparities and improving the flexibility of the labor market, are key to lowering unemployment and inequality. Enhancing trade diversification and regional integration can further help support resilience and growth.

**Approved By**  
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**(SPR)**

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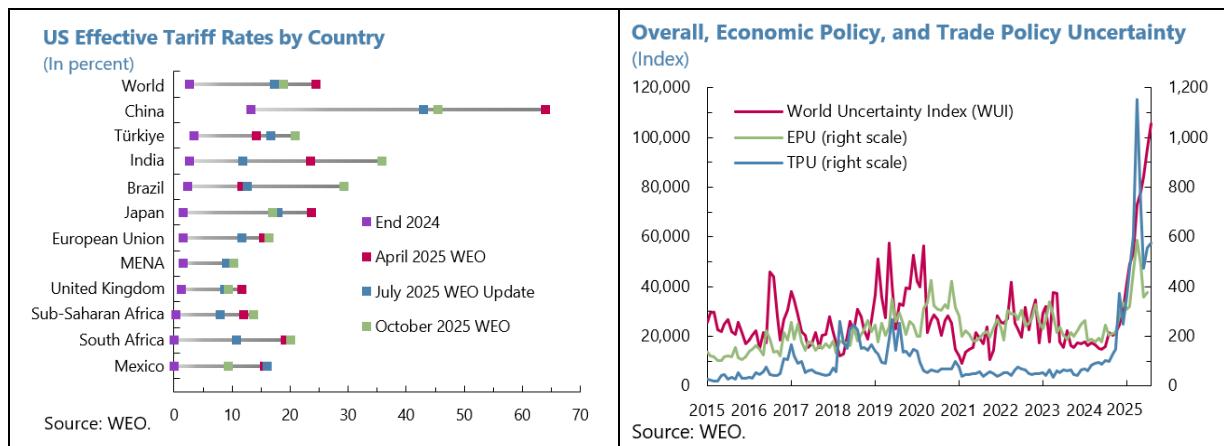
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## CONTEXT

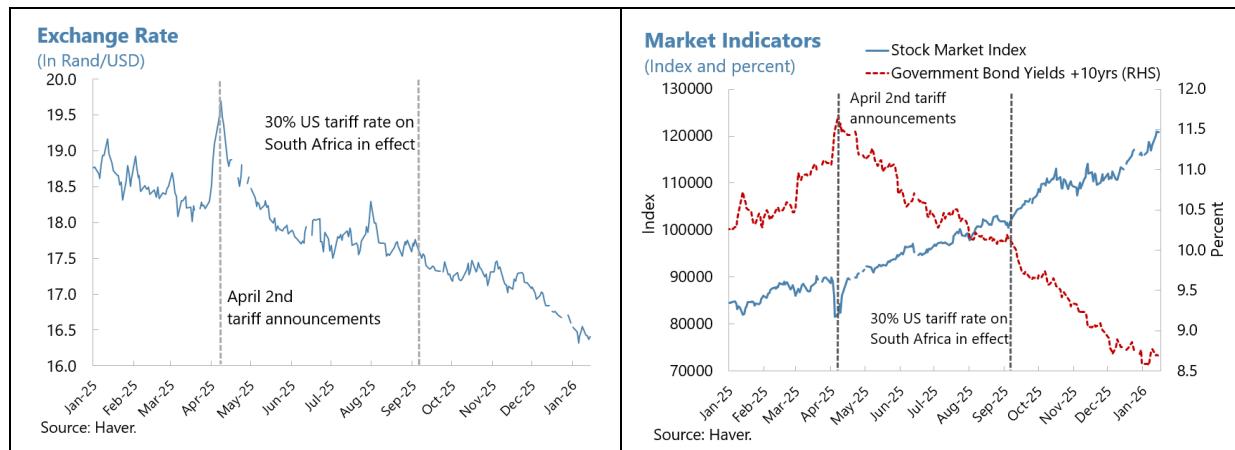
### 1. South Africa has confronted a period of renewed global turbulence and uncertainty.

South Africa's post-pandemic recovery has been hampered by repeated global shocks, including global conflicts and a cost-of-living crisis, as well as by domestic challenges related to electricity and logistics disruptions and political uncertainty. In 2025, renewed challenges have emerged, as the global economy has been adapting to a landscape marked by greater protectionism, fragmentation, and heightened policy uncertainty. New trade policies following the imposition of US bilateral tariffs, which continue to be renegotiated and modified, are leading to a reconfiguration of supply chains, global trade, and broader geo-economic relationships. These developments could significantly affect open Emerging-Market (EM) economies such as South Africa.



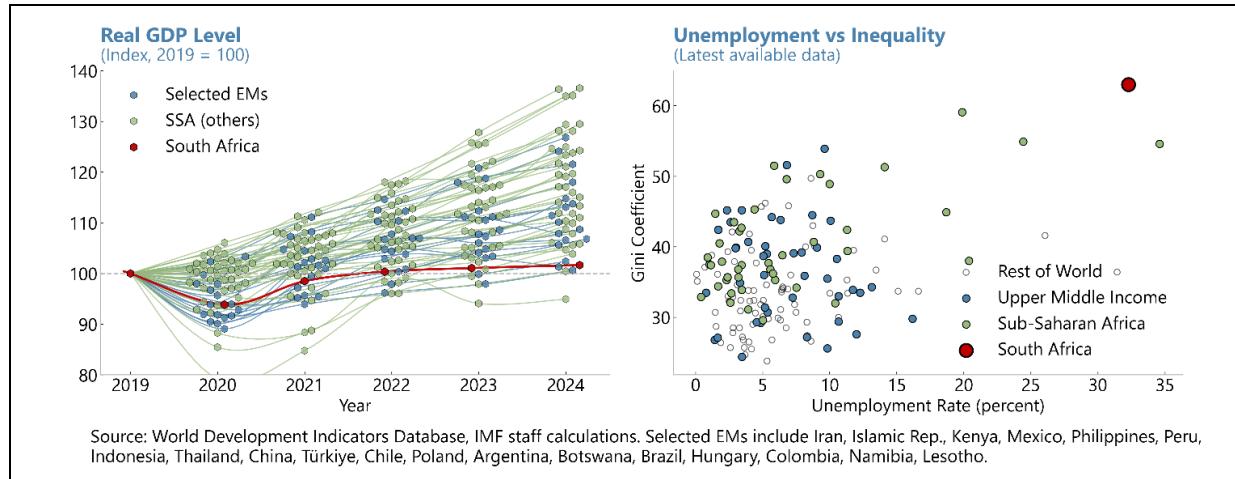
**2. The economy has proven resilient thus far, owing to ample natural endowments, independent institutions, and strong monetary policy framework.** South Africa's diversified economy, abundant mineral wealth, independent central bank with a credible inflation-targeting framework, flexible exchange-rate regime, robust international reserves, and capacity to issue domestic-currency debt in the context of deep domestic financial markets, have supported its ability to navigate external shocks, including recent ones. Rising gold prices have boosted the terms of trade and the mining sector's profitability this year. Moreover, South Africa's exit from the FATF grey list and the announcement of a lower inflation target, together with the recent Medium-Term Budget Statement's reaffirmation of the government's commitment to debt stabilization, led to a credit upgrade by S&P, contributing to an improvement in financial-market indicators: the Rand has appreciated by 17 percent and 10-year bond yields declined by 290 basis points since the highs reached in April 2025, while the stock market reached historical highs. Indeed, the resilience of EMs to risk-off shocks, also observed in South Africa, has been associated with not only favorable external conditions but also stronger policy frameworks.<sup>1</sup>

<sup>1</sup> October 2025 WEO, Chapter 2: "[Emerging Market Resilience: Good Luck or Good Policies?](#)"



### 3. However, long-standing impediments continue to constrain the economy's ability to rebound strongly from shocks, create much needed jobs, and achieve its true growth potential.

**Entrenched structural rigidities** in product and labor markets, spatial disparities, inadequate infrastructure, and deep governance, corruption, and crime problems have consistently undermined growth and the capacity to recover quickly from downturns. The rapidly rising public debt—which has tripled since the global financial crisis—further constrains policy space to deal with shocks. Consequently, South Africa's post-pandemic recovery has been among the weakest across African countries and EM peers, while its unemployment, inequality, and poverty rates are among the highest in the world.



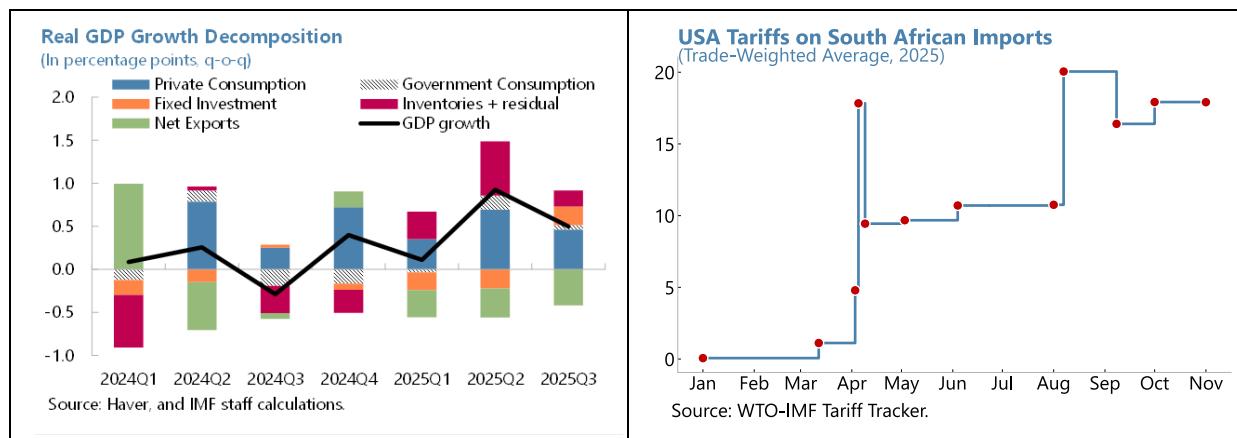
### 4. The Government of National Unity (GNU) faces the difficult task of dealing with the shock-prone and uncertain global landscape while continuing to tackle long-standing domestic challenges.

**The GNU** has committed to prioritize fostering inclusive growth and job creation, reducing poverty, tackling the high cost of living, and strengthening state capacity, while stabilizing public debt. Achieving these objectives has now become more challenging, as the government's capacity to expand spending to support growth-enhancing investment and social objectives is constrained by the need to rebuild policy buffers to deal with the higher global uncertainty and shock-prone world. Maintaining cohesiveness and rebuilding political consensus on

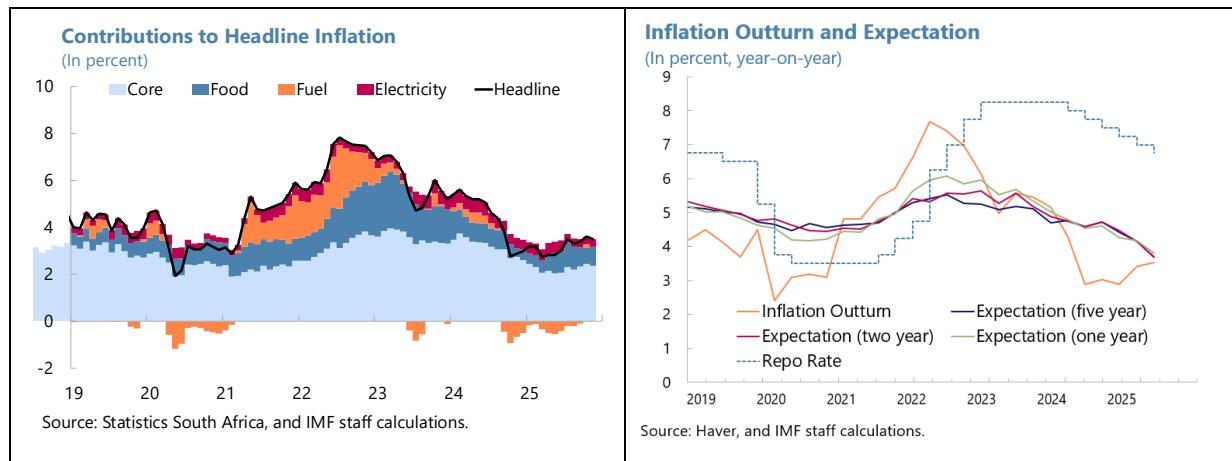
ambitious reforms in support of macroeconomic stability and inclusive growth will be key to navigating the new and changing global landscape and building a better future for South Africans.

## RECENT DEVELOPMENTS

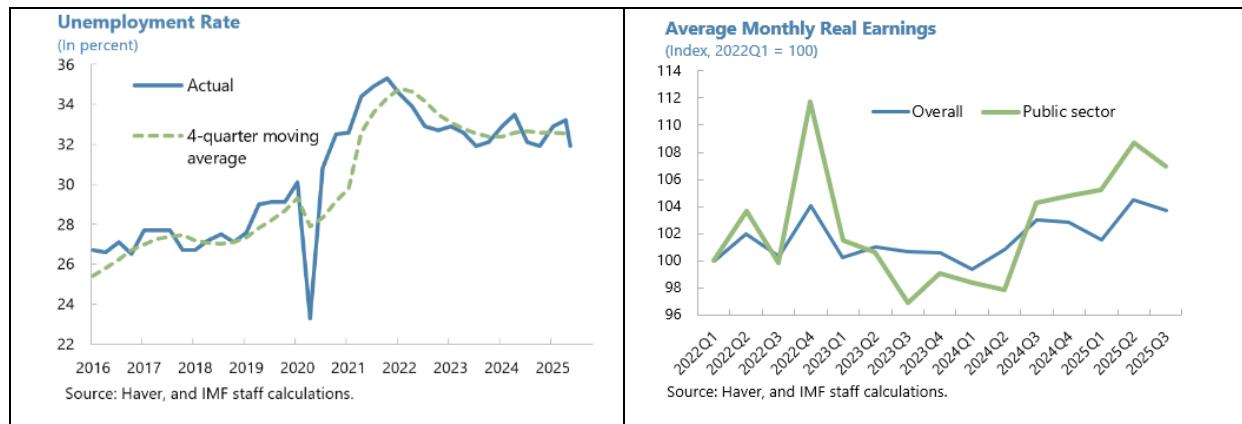
**5. Economic activity improved in 2025, despite elevated external uncertainty.** Following a feeble (0.5 percent) growth performance in 2024 and a flat 2025Q1 outturn, activity rebounded strongly (by 0.9 and 0.5 percent q-o-q) in 2025Q2-Q3, driven by robust private consumption, supported by falling inflation and interest rates and growing real wages. In contrast, net exports weighed on growth, with export volumes falling more than import volumes, given the tariffs imposed on select exports to the US and related trade policy uncertainty. Aggregate fixed investment recovered in 2025Q3 after declining in the previous three quarters, while inventory accumulation contributed positively to growth.



**6. Inflation has continued to ease, facilitating a reduction in policy rates and the adoption of a new lower (3 percent) inflation target.** During Jan-Nov 2025, average inflation decelerated to 3.2 percent (from 4.4 percent in 2024). The decline was driven by falling fuel prices and moderating core inflation. Two-year ahead inflation expectations continued to decline to 3.7 percent in 2025Q4 from 4.6 percent a year earlier. In this context, the SARB has lowered its policy rate by 150 bps since September 2024 to 6.75 percent. Following the SARB's earlier announcement of its preference for targeting the lower bound (3 percent) of its 3–6 percent target range rather than the midpoint, in November, the National Treasury confirmed that South Africa's new inflation target is 3 percent, with a +/-1 percentage point tolerance band, to be implemented over the next two years. Markets welcomed the announcement, with the Rand appreciating and yields declining, as noted earlier.



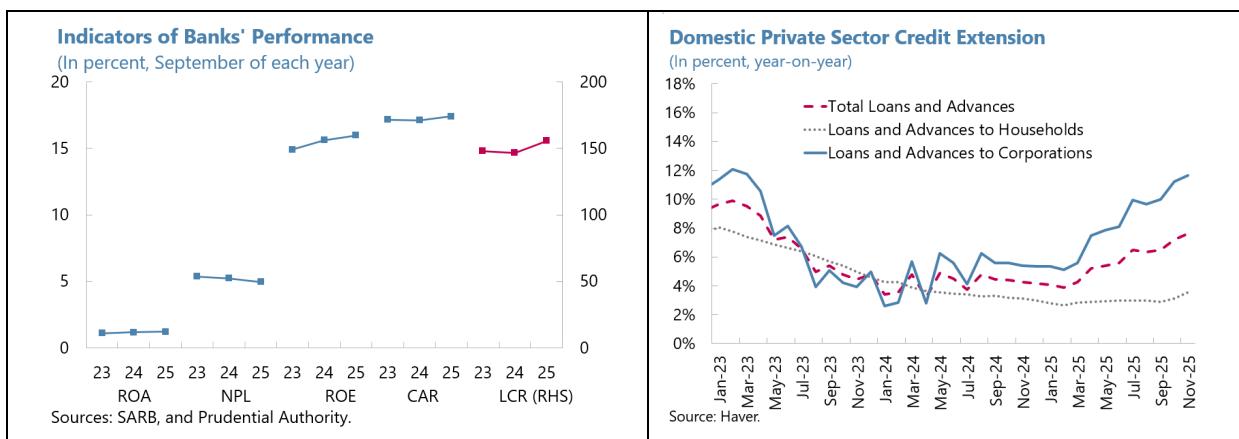
**7. Labor market conditions have improved modestly but remain challenging.** The unemployment rate declined to 31.9 percent in 2025Q3, supported by more hirings in construction, trade, and community and local services. While total employment and the labor force grew modestly in 2025Q3 (y-o-y), non-farm employment declined, suggesting that the labor market remains feeble and still unable to generate sufficient jobs for a relatively young and growing population. Youth unemployment edged down to 58.5 percent in 2025Q3 (from 60 percent at end-2024) but remains exceptionally high. Real wages increased by 0.7 percent (y-o-y) in 2025Q3, largely driven by wage increases in the public sector.



**8. South Africa's external position remained relatively stable in 2025 despite heightened trade policy uncertainty.** The current account deficit averaged around 0.8 percent of GDP in the first three quarters of 2025 (relative to 0.7 percent in 2024), with a narrowing trade surplus broadly offset by lower transfers. Export volumes declined through the year, on the back of unusually high global trade policy uncertainty, driven by a contraction in mining and manufacturing exports, partially offset by stronger agriculture and service exports, while import volumes rebounded in 2025Q3 after declining in the previous quarter. While exports to the US fell, they were offset by higher exports to Europe. Despite heightened uncertainty, net capital flows recorded strong inflows this year, which accelerated in 2025Q3, particularly related to direct and portfolio investments, offset by net outflows in other investment and financial derivatives. External debt rose to US\$180 billion at

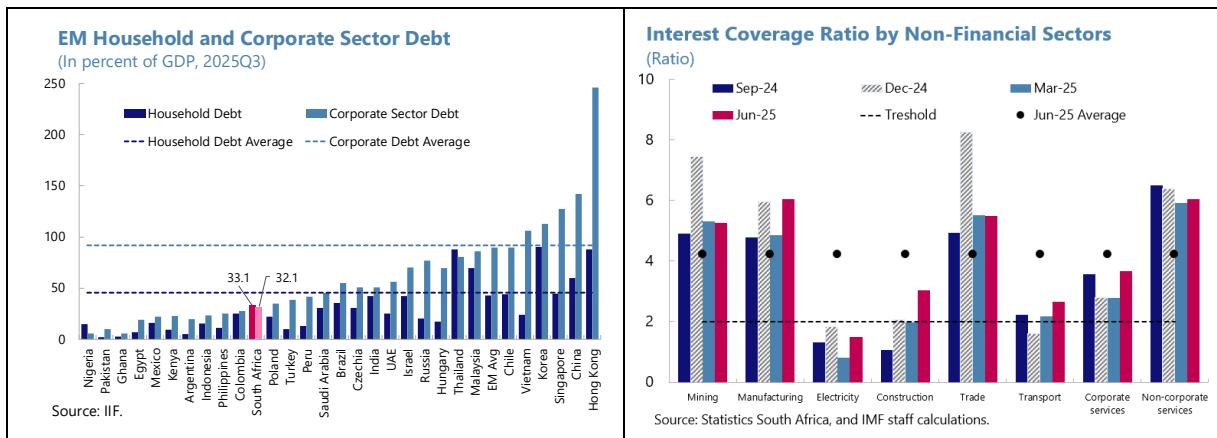
end-June 2025, while international reserves and the net international investment position strengthened, supported by valuation gains on foreign assets.

**9. The financial sector has weathered well the uncertain environment.** The banking sector has maintained robust capital, liquidity, and profitability ratios. These factors, together with declining interest rates, have supported an increase in credit growth to the private sector (7.2 percent y-o-y at end-November), driven primarily by the corporate sector (11.2 percent y-o-y). Nonetheless, at 75 percent in 2025Q2, South Africa's credit-to-GDP ratio remains well below that of peers. Amid the sluggish economy, NPLs have stabilized at 4.9 percent end-October, although they are higher for SMEs and unsecured retail credit (9.2 and 16.9 percent, respectively). Banks' provisions (about 60 percent of NPLs) remain in line with international standards (IFRS). The insurance sector continues to post rising profits, supported by improving operating margins.

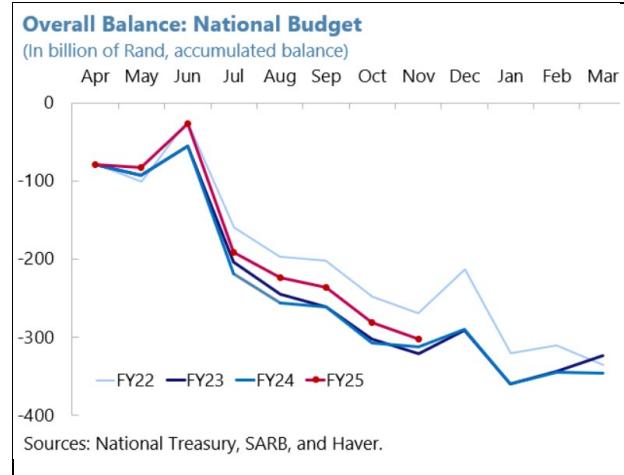


**10. Non-financial sector balance sheets remain sound, supported by lower interest rates.**

Corporate and household-sector debt remained broadly stable, at about 32 and 33 percent of GDP in 2025Q3, respectively, below the corresponding peer averages. With falling interest rates, corporates' average interest-coverage ratio has improved from 3.5 to 4 in 2025Q2, comfortably above the threshold of 2. However, the electricity sector, dominated by Eskom, the large state-owned enterprise (SOE), continues to have an interest-coverage ratio below the threshold. With most mortgages linked to variable interest rates, households' debt-service-to-disposable-income ratio has also declined (to 8.5 percent in 2025Q3), falling closer to its pre-pandemic average and remaining well below the peer average (17 percent).



**11. While the fiscal deficit remained elevated in FY24, leading to a further rise in public debt, fiscal outturns improved through end-November 2025.**<sup>2</sup> The FY24 overall and primary deficits reached 5.8 and 0.5 percent of GDP, respectively (broadly unchanged from FY23 but somewhat higher than budgeted).<sup>3</sup> While the revenue-to-GDP ratio improved somewhat, reflecting stronger personal-income tax collections, it was insufficient to offset increased spending on investment, wages, and interest. As a result, and in the context of low growth and high borrowing costs, public debt rose over the course of FY24 to 77 percent of GDP at end-March 2025 (against 74.1 percent projected in the budget). Fiscal outturns during March–November 2025 point to a stronger fiscal balance compared to the previous two years. Specifically, personal and corporate income tax and VAT revenues were higher than a year ago, debt service costs were lower—reflecting falling sovereign yields and an increased use of shorter-tenor instruments—and primary spending remained contained, in part reflecting the delayed adoption of the FY25 budget.



## OUTLOOK AND RISKS

**12. Activity is expected to improve gradually.** Growth is projected to reach 1.3 and 1.4 percent in 2025 and 2026 respectively, rising gradually to 1.8 percent by the end of the decade. Activity is expected to be supported by continued albeit moderating consumption, notwithstanding implicitly tighter monetary policy in the near term following the announcement of

<sup>2</sup> The fiscal year runs from April 1 to March 31.

<sup>3</sup> Staff estimates differ from those of the authorities due to methodological differences: staff treat the Eskom support (0.9 percent of GDP in FY24) above-the-line spending, while valuation gains from the sale of government assets (0.2 percent of GDP in FY24) are classified below the line, consistent with international accounting standards.

the lower inflation target.<sup>4</sup> Higher global policy uncertainty and elevated tariffs are expected to weigh on exports and growth in the near term,<sup>5</sup> although these effects will be limited and partially offset by continued subdued import demand. In the medium run, growth is projected to be increasingly driven by investment growth (averaging 3.2 percent in 2026–30), supported by ongoing reforms aimed at easing infrastructure bottlenecks to activity.

**13. Inflation is projected to converge to the new target of 3 percent over the medium term.** Inflation is estimated to average 3.2 percent in 2025, projected to rise to 3.6 percent in 2026. Food and electricity prices are expected to continue to rise through early 2026, before dissipating in 2027 and beyond. As monetary policy continues to anchor inflation expectations closer to the new preferred target, inflation is projected to settle at new inflation target of 3 percent by end-2027.

**14. The current account (CA) deficit is expected to widen gradually.** In 2025, the CA deficit is estimated to reach 0.9 percent of GDP, driven by declining export volumes, despite relatively favorable terms of trade and modest import volume growth. Staff estimates a CA gap of around -0.9 percent of GDP relative to the norm in 2025, implying, on a preliminary basis, an estimated external position broadly in line with the level implied by medium-term fundamentals and desirable policies (Annex II). The CA deficit is projected to widen gradually to around 2 percent of GDP in the medium run, driven by domestic-demand-driven imports outpacing rising exports. Portfolio, net FDI, and other investment inflows are expected to finance the deficit, as policy uncertainty subsides and domestic reforms advance. Supported by rising gold prices, gross international reserves are estimated to have reached about 99 percent of the IMF's Assessing Reserve Adequacy (ARA) metric at end-2025 and are projected to cover around five months of imports over the medium run.

**15. Risks to the outlook remain tilted to the downside:**

- Downside: Weaker-than-expected global activity—driven by heightened geopolitical tensions, escalating trade measures, and prolonged policy uncertainty—could dampen demand for South African exports and increase commodity price volatility. An abrupt correction in global financial markets could lead to tighter domestic financial conditions, and high global and domestic fiscal vulnerabilities could result in higher public-sector borrowing costs. On the domestic side, higher inflation and slow-to-adjust inflation expectations may increase the output cost of disinflation,<sup>6</sup> while renewed political uncertainty or social discontent could slow the pace of structural reforms, undermining business confidence, exacerbating supply-side constraints, and weighing on growth.

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<sup>4</sup> [Bricco et al. \(2025\)](#) estimate that the sacrifice ratio (output cost associated with a 1 percent reduction in inflation) ranges from 0.2 to 0.6, assuming fully or rapidly adapting expectations, consistent with a high or relatively high level of central bank credibility, as is the case for the SARB. If inflation risk premia also decline, the sacrifice ratio could fall closer to zero.

<sup>5</sup> The U.S. effective tariff rate is estimated to have increased from 0.4 to 18.1 percent as of December 2025, estimated to reduce South Africa's exports by close to 1 percent and growth by around 0.2 ppt during 2025–26 (exports to the U.S. constitute 7.7 percent of total goods exports).

<sup>6</sup> [Bricco et al. \(2025\)](#) estimate that the sacrifice ratio could be above 1 if inflation expectations are backward looking and adjust only slowly to inflation.

- **Upside:** Lower tariffs and an extension of the African Growth Opportunity Act (AGOA) following ongoing trade negotiations, or a faster expansion into new export markets could bolster exports and investment. Accelerated domestic reform implementation could ease supply constraints, boost confidence, and support investment and growth, while gains from AI adoption could further boost medium- and long-term growth.

### Box 1. Upside and Downside Risk Scenarios

This box outlines the key assumptions and channels of transmission in two risk scenarios, based on the [October 2025 World Economic Outlook](#).<sup>1</sup> The analysis is based on the IMF Global Integrated Monetary and Fiscal Model (GIMF). This multi-region dynamic stochastic general-equilibrium (DSGE) model incorporates micro-founded behavior of households and firms, nominal and real rigidities, rich fiscal and monetary policy frameworks, and trade in intermediate, investment and consumption goods.

**The downside scenario assumes higher global tariffs and supply-chain disruptions, higher inflation expectations and sovereign bond yields, and tighter financial market conditions.** US effective tariffs on imports are assumed to increase permanently by 10 percentage points, with the largest increases applying to China, followed by Emerging Asia, the Euro Area, and Japan (South Africa is not subject to higher tariffs but is impacted by changes in relative prices compared to other regions). Global supply chains are temporarily disrupted, with lower total factor productivity (TFP) in trade-intensive sectors by 1 percent in 2026–27.

One-year-ahead inflation expectations rise in 2026–27 by 60 basis points (bp) in high-inflation EMs, 50 bp in the US, and 25 bp in other AEs, and EMs, including South Africa. Term premia on public debt rise by 100 bp in most countries during 2026–36, and the global neutral real interest rate increases permanently by up to 50 bp. Corporate spreads rise by 50 bp in AEs and China and 100 bps in other EMs, including South Africa. In addition, the US risk premium rises by 80 bps for 20 years.

**In this scenario, South Africa's real GDP would be 1 percent lower in 2026, 2 percent lower by 2028, and 0.5 percent lower by 2031 compared to the baseline.** While higher tariffs on US trading partners initially support South Africa's exports to the US—reflecting improved price competitiveness—lower global growth impacts South Africa's exports over time, reducing GDP by 0.7 percent by 2028 and 0.4 by 2031, and temporarily increasing inflation (by about 0.3 ppt). An inflation-expectations shock would further raise near-term inflation by about 0.3 ppt and lower GDP by an additional 0.7 percent during 2026–28. Higher real rates and tighter financial conditions would further depress GDP by about 1 percent in 2026–28 and increase public debt by 1.6 percentage points of GDP, although they would reduce inflation. In this scenario, fiscal policy would need to be tighter to prevent debt and debt costs from rising and complemented by more ambitious structural reforms and deeper regional trade integration to support exports and growth.

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<sup>1</sup> See Box 1.2 in [October 2025 World Economic Outlook](#).

**Box 1. Upside and Downside Risk Scenarios (concluded)**

	Downside Scenario					
	2026	2027	2028	2029	2030	2031
	Deviation from baseline					
<b>Real GDP (percent)</b>	<b>-1.1</b>	<b>-1.8</b>	<b>-2.1</b>	<b>-1.4</b>	<b>-0.8</b>	<b>-0.5</b>
Higher tariffs with supply disruptions	0.3	0.0	-0.7	-0.7	-0.5	-0.4
Inflation expectations shock	-0.6	-0.8	-0.7	-0.4	-0.1	0.0
Higher real rates and tighter global financial conditions	-0.8	-1.1	-0.9	-0.6	-0.5	-0.6
Lower demand for US assets	0.0	0.1	0.2	0.3	0.4	0.5
<b>Exports (percent)</b>	<b>-0.1</b>	<b>-2.2</b>	<b>-4.0</b>	<b>-2.4</b>	<b>-1.5</b>	<b>-1.1</b>
Higher tariff with supply disruptions	2.3	1.0	-1.6	-0.9	-0.5	-0.3
Inflation expectations shock	-0.5	-0.6	-0.3	0.0	0.1	0.1
Higher real rates and tighter global financial conditions	-1.1	-1.3	-0.9	-0.5	-0.4	-0.5
Lower demand for US assets	-0.9	-1.3	-1.2	-0.9	-0.7	-0.5
<b>Government Debt/GDP ratio (percentage points)</b>	<b>0.7</b>	<b>1.1</b>	<b>1.7</b>	<b>1.7</b>	<b>1.6</b>	<b>1.7</b>
Higher tariff with supply disruptions	-0.4	-0.4	-0.1	-0.1	-0.2	-0.3
Inflation expectations shock	0.2	0.2	0.2	0.1	0.0	-0.1
Higher real rates and tighter global financial conditions	0.8	1.4	1.6	1.7	1.8	2.0
Lower demand for US assets	0.1	0.0	0.0	0.0	0.0	0.0
<b>Inflation (percentage points)</b>	<b>0.1</b>	<b>0.0</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.3</b>
Higher tariff with supply disruptions	0.2	0.3	0.3	0.1	0.1	0.0
Inflation expectations shock	0.3	0.3	0.1	0.0	-0.1	-0.1
Higher real rates and tighter global financial conditions	-0.2	-0.3	-0.4	-0.4	-0.3	-0.2
Lower demand for US assets	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1

Source: IMF staff calculations.

**In an upside scenario—assuming global trade normalization and AI-driven productivity gains—South Africa's real GDP would be higher by 1 percent in the near and medium term and could be much higher if domestic structural reforms are also implemented.** In this scenario, global tariffs imposed after January 15 are assumed to be permanently removed (reducing the effective tariff rate on all US imports by 15 percentage points, and 16.1 percentage points for imports from South Africa) and uncertainty declines, equivalent to a two-standard deviation drop in the global economic policy uncertainty index. AI adoption is assumed to lead to global TFP rising by 0.8 percent over a decade. The lower tariffs and global policy uncertainty lead to an increase in South Africa's exports, lifting GDP by 0.8 percent in 2026 and 0.4 percent thereafter. A faster pace of AI adoption could gradually boost productivity, investment, and exports, boosting real income by up to 0.6 percent by 2031; however, estimates of AI-driven gains are highly uncertain and should be interpreted with care. More broadly, as detailed in the [2024 Article IV consultation](#) and accompanying [Selected Issues Paper](#), additional growth gains could materialize if a package of domestic governance, product and labor-market reforms would be implemented to close South Africa's structural gaps relative to best practice, which could boost real output by up to 9 percent in the medium term.

	Upside Scenario					
	2026	2027	2028	2029	2030	2031
	Deviation from baseline					
<b>Real GDP (percent)</b>	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>1.0</b>
Lower tariffs	0.4	0.3	0.3	0.3	0.3	0.4
Reduced policy uncertainty	0.4	0.3	0.1	0.0	0.0	0.0
Gains from AI	0.1	0.3	0.4	0.4	0.5	0.6
<b>Exports (percent)</b>	<b>1.9</b>	<b>1.0</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>1.4</b>
Lower tariffs	1.0	0.3	0.4	0.4	0.6	0.8
Reduced policy uncertainty	0.8	0.4	0.1	0.0	-0.1	0.0
Gains from AI	0.1	0.2	0.3	0.4	0.3	0.6
<b>Government Debt/GDP ratio (percentage points)</b>	<b>-0.9</b>	<b>-1.2</b>	<b>-1.3</b>	<b>-1.2</b>	<b>-1.2</b>	<b>-1.2</b>
Lower tariffs	-0.4	-0.5	-0.5	-0.5	-0.5	-0.6
Reduced policy uncertainty	-0.4	-0.5	-0.4	-0.3	-0.3	-0.2
Gains from AI	-0.1	-0.2	-0.3	-0.4	-0.4	-0.4
<b>Inflation (percentage points)</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>
Lower tariffs	-0.1	0.0	0.0	0.0	0.0	0.0
Reduced policy uncertainty	0.1	0.1	0.1	0.1	0.0	0.0
Gains from AI	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum item</b>						
Effect of structural reforms on Real GDP (percent)	2.9	5.6	6.8	8.9	9.0	9.0

Source: IMF staff calculations.

### Authorities' Views

**16. The authorities broadly agreed with the outlook and saw risks as broadly balanced or tilted to the downside.** In their November 2025 Medium-Term Budget Policy Statement (MTBPS), the National Treasury (NT) projected growth at 1.2 percent in 2025, rising to 2 percent by 2028. The SARB presented similar projections in its November Monetary Policy Committee macroeconomic forecast, with growth in 2025 projected at 1.3 percent, rising to 1.9 percent by 2028. Both institutions agreed that resilient consumption and gradually rebounding investment, supported by ongoing electricity and logistics reforms, will be the main drivers of growth over the medium run. The impact of tariffs on exports and activity was seen to be limited and less than initially expected. Risks, which are primarily related to the uncertain external environment and the pace of domestic reforms, were assessed by the NT as tilted to the downside and as balanced by the SARB.

## POLICY DISCUSSIONS

*The key policy priorities remain safeguarding fiscal sustainability, securing low and stable inflation, and ensuring financial stability, while pivoting toward higher and more inclusive growth. However, policymakers face difficult tradeoffs: fiscal consolidation needed to rebuild buffers and reduce debt constrains public investment and social spending, which are paramount for higher growth and lower inequality; a low inflation target may have short-term output costs and make consolidation more difficult, even as it supports macro stability and debt sustainability in the medium term; macro-prudential measures key for financial stability may limit credit and growth; and the state's large role in the economy may constrain private investment and jobs. This underscores the need for coherent and well-coordinated policies to achieve these objectives while minimizing social and economic costs.*

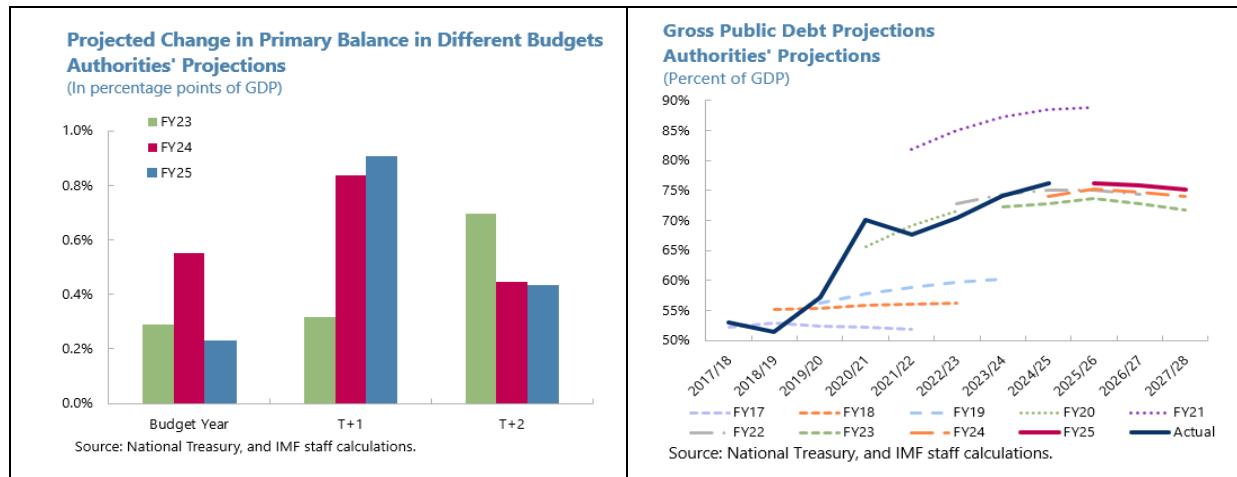
### A. Fiscal Policy

**17. The FY25 Budget and November Medium-Term Budget Policy Statement (MTBPS) reaffirmed the authorities' commitment to debt stabilization.** The FY25 Budget and November 2025 MTBPS target a fiscal deficit of around 4.7 percent of GDP in FY25, broadly unchanged from FY24, narrowing to 2.9 percent by FY28. Revenue projections have been revised up, reflecting better revenue outturns this year, new budgeted measures—including a freeze of PIT tax brackets and increase of tax duties—and tax buoyancy. Primary spending, however, has also been revised up in FY25, primarily related to infrastructure projects, wages, and social grants. Spending is projected to decline in the medium run, on the back of ongoing spending reviews and efforts aimed at improving the efficiency of public spending.<sup>7</sup> Consequently, the primary balance is projected to improve by

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<sup>7</sup> The [MTBPS](#) introduced the Targeted and Responsible Savings (TARS) initiative, which aims to identify savings through the reduction, merger, or closure of low-priority and underperforming programs and the implementation of tighter verification processes for social-grant eligibility. Furthermore, informed by the 2022 personnel expenditure review, the government has introduced several measures to manage compensation costs, including initiatives to enhance payroll integrity, correct payment irregularities, address overreported overtime, and an audit to identify potential ghost workers and payment irregularities. The Early-Retirement Program, implemented since October 2025, will allow about 15,000 employees to exit the public service and, where possible, be replaced by younger workers.

1.6 percentage points of GDP during FY25-28, with the bulk of the adjustment postponed to FY26—a trend observed in previous budgets. The authorities expect public debt to stabilize in FY25 and decline to below 70 percent by end-FY33, supported by primary surpluses and declining borrowing costs, including due to increased reliance on lower-cost short-term issuances and diversified financing sources.<sup>8</sup> Indeed, in early December, the authorities raised \$3.5 billion through an over-subscribed Eurobond issuance (average yield of 6.8 percent) and R12 billion in a first infrastructure bond issuance, supported by the recent sovereign credit rating upgrade by S&P, with a positive outlook.



**18. On the basis of currently articulated fiscal policy measures, staff expect the fiscal deficit to decline gradually and debt to remain on an upward trajectory over the medium term.** Staff project the deficit to stay around 5.9 percent of GDP in FY25, narrowing to 3.9 percent by FY31. Revenue is expected to reach 28.6 percent of GDP in FY25—reflecting better-than-expected outturns and budgeted tax measures—and increase modestly in the medium run, on the back of tax-administration gains, albeit less than what the authorities project. Primary expenditure is expected to stay high in FY25, in line with the budget, and decline gradually to 27.5 percent of GDP by FY31, driven by the expiration

Fiscal Projections by Staff and Authorities								
	(In percent of GDP)							
	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
<b>Staff</b>								
Revenue	27.4	28.6	28.7	28.8	28.8	28.8	28.8	28.8
Expenditure	33.2	34.5	33.3	33.2	32.9	32.8	32.7	32.7
Primary Expenditure	27.9	29.1	27.8	27.8	27.6	27.5	27.5	27.5
Overall Balance	-5.8	-5.9	-4.6	-4.4	-4.1	-4.0	-3.9	-3.9
Primary Balance	-0.5	-0.5	0.8	1.0	1.2	1.3	1.3	1.3
Debt	77.0	78.5	79.0	80.6	81.8	82.7	83.5	84.2
<b>Authorities 1/</b>								
Revenue	27.7	28.6	28.8	28.8	28.9			
Expenditure	32.4	33.2	32.6	32.1	31.7			
Primary Expenditure	27.2	27.8	27.3	26.8	26.6			
Overall Balance	-4.8	-4.7	-3.8	-3.3	-2.9			
Primary Balance	0.5	0.7	1.5	2.0	2.3			
Debt	77.0	77.9	77.7	77.4	77.0	76.1	74.7	72.9
<i>Memo items:</i>								
Staff Revenue (Authorities' Definition) 2/	27.6	28.8	28.8	28.8	28.8	28.8	28.8	28.8
Staff Expenditure (Authorities' Definition) 3/	32.4	33.5	33.3	33.2	32.9	32.8	32.7	32.7
Staff Primary Expenditure (Authorities' Definition) 3/	27.0	28.1	27.8	27.8	27.6	27.5	27.5	27.5
Staff Overall Balance (Authorities' Definition)	-4.8	-4.7	-4.5	-4.3	-4.1	-4.0	-3.9	-3.9
Staff Primary Balance (Authorities' Definition)	0.6	0.7	1.0	1.1	1.2	1.3	1.3	1.3

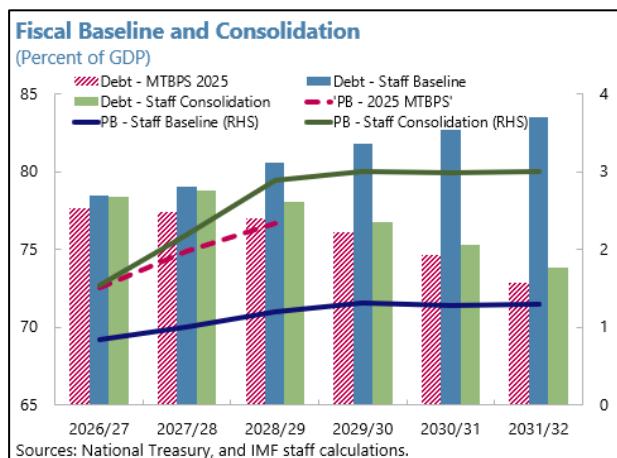
Note: Consolidated general government.  
 1/ 2025 Medium-Term Budget Policy Statement.  
 2/ Including Transactions in Assets and Liabilities.  
 3/ Excluding Eskom Debt Relief.

<sup>8</sup> The average maturity of outstanding domestic marketable bonds has declined from 153 to 144 months between end-March 2023 and end-March 2025. Official concessional financing disbursements have amounted to \$1.8 billion from the World Bank and other IFIs in the last two years; more recently, an additional US\$1.5 billion loan was approved by the World Bank and US\$475 million by the African Development Bank.

of support to Eskom and savings on the wage bill, transfers, and subsidies, although more modest than the authorities forecast; staff also expect continued, albeit more modest, support for SOEs over the medium run. As a result, the primary balance is projected to improve only gradually, reaching a surplus of 1.3 percent of GDP by FY31, insufficient to stabilize public debt, which rises to around 84 percent of GDP by FY31. The overall risk of debt distress is assessed as moderate, as the currency and maturity composition of debt and depth of domestic financial market continue to remain favorable (Annex IV). While staff assess that there is some (albeit limited) fiscal space, the rise in debt levels and contingent liabilities limit such space and present risks to debt sustainability. This underscores the importance of sustained fiscal consolidation efforts, which should be accelerated should fiscal outturns fall short of what is needed to stabilize debt or should growth not materialize as expected.

**19. Stabilizing public debt and rebuilding buffers while protecting critical spending requires a credible, growth-friendly, and politically and socially feasible consolidation.** With debt at elevated levels and growth below potential, policymakers face the difficult task of balancing debt-sustainability considerations against the need to safeguard the nascent recovery. Moreover, spending needs are large, given high unemployment and poverty rates, weak education and health outcomes, and deteriorating public infrastructure. In this context, a well-calibrated fiscal policy that accounts for the economic and social realities and needs yet can deliver more credibly on debt sustainability objectives is critical. Such policy should aim to stabilize debt first and then place it on a gradual sustained downward path.

**20. Staff support the authorities' FY26 primary surplus target but recommend more ambitious medium-term targets to help rebuild buffers and safeguard debt sustainability.** To reach a primary surplus of 1.5 percent of GDP in FY26, as the authorities aim, an additional consolidation effort of around  $\frac{3}{4}$  percentage points of GDP (relative to staff's baseline) will be needed next year. Locking in expected savings brought by favorable near-term revenue dynamics, together with additional reforms, as noted below, can support this effort. Should fiscal shortfalls relative to targets emerge, they would need to be promptly addressed, as delayed adjustment efforts would otherwise risk exacerbating fiscal challenges and reversing the positive market sentiment. In the medium run, a primary surplus of around 3 percent of GDP would be required to bring debt down to around 70 percent of GDP by FY34, as the authorities plan. Relative to staff's baseline, this will necessitate a cumulative fiscal effort of around  $1\frac{1}{4}$  percent of GDP in FY27, and  $1\frac{3}{4}$  percent of GDP in FY28. To help rebuild buffers against shocks and further reduce debt-service costs, this primary surplus will need to be maintained until debt declines to around 60 percent of GDP. The consolidation can also complement disinflation efforts



and support financial stability and credit growth by limiting crowding out and the sovereign-financial sector nexus.

**21. Fiscal reforms should focus on reprioritizing and improving the efficiency and fairness of public spending.** The credibility of the adjustment depends critically on the authorities' ability to specify concrete and durable reforms to achieve fiscal targets. To help achieve social and political buy-in for the consolidation, while creating space for priority spending, staff recommend reforms in the following areas (Annex VII):

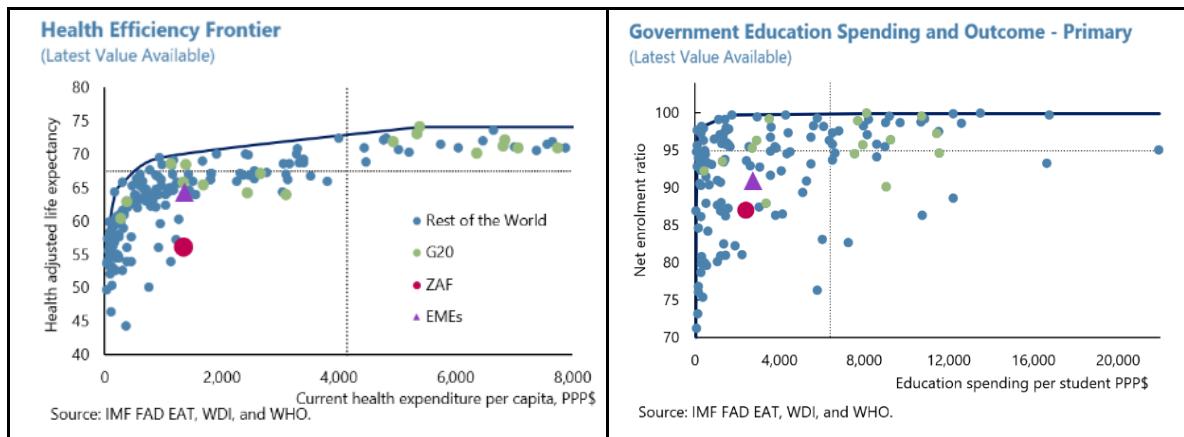
- **Wage bill:** The public wage bill has increased by 2.5 percentage points of GDP in the last 20 years, reaching 31 percent of total expenditure by end-FY24 (above the EM average), and a significant public-wage premium exists relative to the private sector. To reduce the wage bill while protecting service delivery and enhancing equity and social acceptability, ongoing efforts incentivizing early retirement for higher-paid employees and strengthening payroll integrity (e.g. by identifying ghost workers and verifying reported overtime) would need to be complemented with additional reforms better linking pay and grade progression to performance.<sup>9</sup> These reforms, which could yield around 0.4 percent of GDP in savings, should aim to preserve competitiveness for highly qualified professionals and be complemented by headcount controls in public entities.
- **Procurement:** South Africa's public-procurement system has suffered from corruption and political interference, limited transparency and accountability, weak regulatory compliance, and insufficient oversight, which have added to fiscal costs.<sup>10</sup> While the new Public-Procurement Act aims to address these shortcomings, it still lacks detailed procedural guidance. It is thus critical to swiftly implement supporting regulations, including establishing open, competitive bidding as the default method, creating a single list of exclusion rules, or specifying minimum timeframes for bid submission. Strengthening internal controls, transparency, and accountability is equally important in reducing corruption in procurement practices, including by enhancing the professionalization of procurement officials, accelerating the uptake of e-procurement, and bolstering appeals and monitoring mechanisms. These measures could generate fiscal savings of up to 1–3 percent of GDP.
- **SOEs:** Operational inefficiencies and indebtedness have weakened SOEs' balance sheets, adding about 7 percent of 2024 GDP to public spending since 2008, and about 7 percent of GDP to government guarantees (including recent support to Transnet). Building on recent measures tightening conditions for SOE support, additional efforts to reduce SOE operating costs can reduce budgetary costs and contingent liabilities.
- **Subsidies and other transfers:** While generous financial-aid schemes and university subsidies have expanded access to tertiary education, benefits are concentrated on few and relatively

<sup>9</sup> The current system of grade progression allows workers to advance through grades based primarily on time served, requiring neither competitive competency assessments nor moving to a higher-skill post.

<sup>10</sup> OECD, World Bank, African Development Bank, and National Treasury of South Africa. [Assessment of South Africa's National Procurement System: MAPS Main Report](#). Paris: MAPS Initiative, 2024.

advantaged students. Better targeting higher-education subsidies—through tighter eligibility, performance-linked aid, or income-contingent loans—and promoting administrative efficiency in both education and skills development subsidies could help generate savings of 0.5-1 percent of GDP. Additional savings can be achieved by closing or scaling back other public programs and entities that the ongoing spending reviews identify as low priority, duplicative, and underperforming.

- **Financial and debt management:** Strengthening financial management and oversight of transfers to provincial and local governments and aligning transfers with their spending capacity could help reduce financing costs for the central government. To further improve efficiency, in the context of new planned local-government reforms, the authorities could focus their efforts on professionalizing staff, enforcing merit-based recruitment, and digitalizing billing systems and other municipal processes. Finally, to help reduce debt-servicing costs, they should continue to improve debt management, including by relying on concessional official financing and prudently lowering the average maturity of public debt, while managing refinancing risks.
- **Reprioritizing spending:** If ambitiously implemented, the above-mentioned reforms could generate savings that would not only contribute to debt-stabilization and reduction objectives but could also create space for additional spending on priority needs, including public infrastructure investment, primary education, and healthcare. To ensure that public investment is managed and executed efficiently, the authorities are encouraged to undertake a Public Investment Management Assessment (PIMA). Education and healthcare spending efficiency would also need to improve, given that they are well below the efficiency frontier.



- **Better targeting of social transfers:** South Africa has one of the largest social-grant systems among peers, costing 3.7 percent of GDP, covering close to 70 percent households, and accounting for nearly 70 percent of household income among the poorest quintiles (Annex VIII). However, close to 20 percent of benefits reach households in the top two quintiles, and eligibility thresholds are relatively high, even as average grant sizes are modest.<sup>11</sup> Building on efforts to tackle fraud in the system by enhancing data interoperability and verification

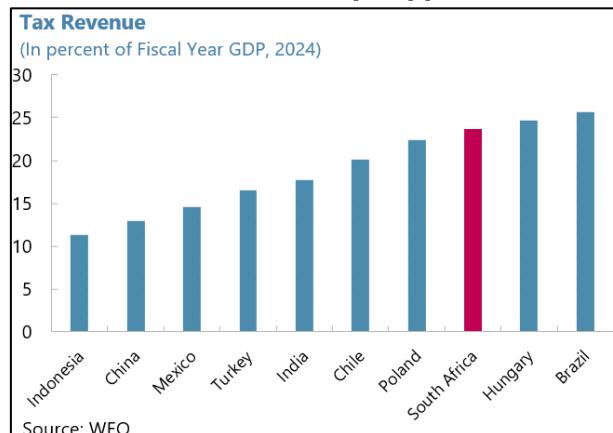
<sup>11</sup> [World Bank \(2021\)](#), [IMF SIP \(2023\)](#), and Annex VIII.

processes, further bolstering efficiency and targeting, including by moving from individual to household level means-testing and adjusting eligibility thresholds to better target the poorest households, could generate additional savings that should be used to better support the most vulnerable groups.

## 22. Continued efforts to mobilize domestic revenues could also help support the

**adjustment.** South Africa's tax revenue is already high and comparable to peers. Thus, the scope to generate significant revenue gains through tax reforms is relatively limited. Potential options to support the consolidation or finance additional priority spending include:

- **Revenue administration:** The South African Revenue Service (SARS) has made notable progress in raising tax collections and recovering tax debts, supported by advancements in digitalization and AI, including by implementing lifestyle audits,<sup>12</sup> data-matching, real-time reporting, and voluntary-disclosure programs. These efforts should continue, supported by further advancements in digitalization and by enhancing collaboration with other institutions to trace offshore assets and cross-border income, which could yield up to 1 percent of GDP in savings over the medium term.
- **Tax expenditures:** Tax expenditures are around 4.2 percent of GDP, limiting already narrow tax bases. The authorities could consider curtailing or eliminating those where costs outweigh benefits, such as VAT exemptions on petrol and diesel, or PIT exemptions that largely benefit higher income individuals. Given that the effective carbon tax (\$0.40/tCo<sub>2</sub>) is substantially below the statutory rate (\$6.90/tCo<sub>2</sub>), phasing out multiple allowances and exemptions would not only boost revenues but also support the achievement of climate-related objectives.<sup>13</sup> Establishing a legal and institutional framework for new tax expenditures and ensuring adequate scrutiny are equally important.
- **Tax rates:** South Africa's overall labor-tax wedge is lower than that of peers, given that it relies mostly on general taxation, rather than social-security contributions, to meet its substantial social needs. At the same time, its unemployment rate is among the highest in the world. Potential options to increase social contributions to finance the rollout of National Health Insurance (NHI) or a redesigned Social Relief of Distress (SRD) grant linked to job search should



<sup>12</sup> Lifestyle audits assess whether taxpayers' declared incomes are consistent with their standard of living, with the aim of detecting undeclared or illicit income.

<sup>13</sup> [South Africa's 2025 Second Nationally Determined Contribution](#) (NDC) under the Paris agreement retains its 2030 emissions target (350-420 MtCO<sub>2</sub>) and introduces a new target for 2035 (320-380 MtCO<sub>2</sub>).

be carefully weighed against potential negative consequences for employment.<sup>14</sup> In addition to reducing exemptions, increasing the carbon tax rate can support both climate and fiscal objectives.<sup>15</sup> Finally, increasing gambling taxes, as currently proposed, could help generate additional revenue while reducing the adverse effect of gambling on household savings.

**23. A transparent and well calibrated debt rule can help strengthen the institutional fiscal framework, underpin fiscal consolidation, and support debt sustainability.**

While South Africa's expenditure ceilings have provided some discipline since 2012, they have not been sufficiently tight to prevent debt from ballooning. The authorities are considering options to strengthen the fiscal framework, including a principles-based approach with strengthened oversight and heightened transparency. In staff's view, a numerical debt rule—anchored in a prudent long-term debt target of around 60 percent of GDP, and an intermediate target of 70 percent of GDP, and supported by a combination of an expenditure rule and a primary balance rule, well-defined escape clauses, and an independent fiscal body—would be best placed to support the discipline, credibility, and predictability of fiscal policy and reduce fiscal risks.<sup>16</sup>

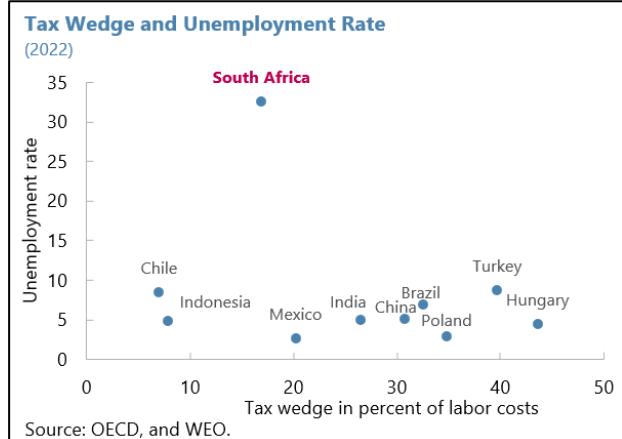
**Authorities' Views**

**24. The authorities reaffirmed their commitment to stabilizing debt this year and reducing it below 70 percent of GDP in the long run.** They consider that the current path for fiscal consolidation included in the MTBPS will achieve their debt stabilization and reduction objectives. They plan to achieve their primary surplus targets through moderating non-interest expenditure growth and continuing to enhance revenue administration and tax compliance. Their targeted and Responsible Savings (TARS) initiative will identify and eliminate low priority or underperforming programs. Implementing the recommendations of ongoing reviews will focus on containing the wage bill and improving the efficiency of spending. They highlighted the importance of shifting the composition of spending from consumption to public-infrastructure investment, including through the reconfigured Budget Facility for Infrastructure, to be supported by infrastructure bond issuances, and a new credit-guarantee vehicle aimed at de-risking private investment in public infrastructure. They plan to continue managing refinancing risks and interest costs by diversifying funding sources,

<sup>14</sup> The cost of implementing the new National Health Insurance (NHI) is estimated at over R450 billion over 10–15 years ([Department of Health's briefing to the Standing Committee on Appropriations](#), 28<sup>th</sup> October 2025). However, since the estimates are only preliminary and implementation may take substantial time, the NHI cost has not been included in staff's projections and represents a downside risk to the forecast.

<sup>15</sup> A carbon tax of around \$50 per ton would allow achieving South Africa's emissions targets and could result in additional revenues of around 2.7 percent of GDP by 2030. See "[South Africa Carbon Pricing and Climate Mitigation Policy](#)," IMF (2023) Selected Issues Paper South Africa.

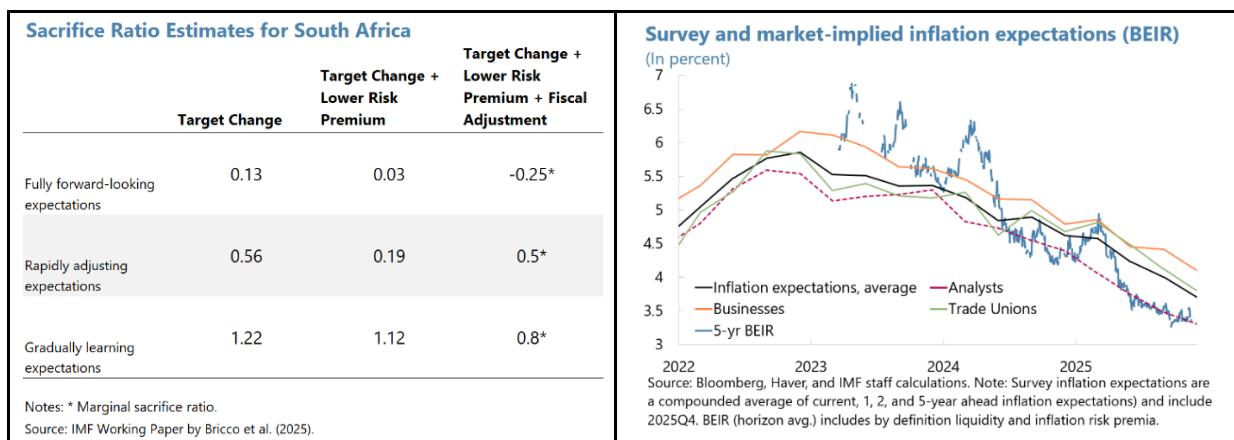
<sup>16</sup> See "[South Africa's Fiscal Framework: Challenges and Options for Reform](#)," IMF (2025) Selected Issues Paper South Africa and "[Fiscal Guardrails against High Debt and Looming Spending Pressures](#)," Staff Discussion Notes 2025/004.



including through concessional financing from international financial institutions. They are consulting broadly on the appropriate fiscal anchor for South Africa.

## B. Monetary Policy

**25. Achieving lower inflation—in the context of the recently announced inflation-targeting framework—can help support macroeconomic stability, with success hinging on maintaining credibility.** The new lower inflation target can help bring South Africa's inflation closer to that of its trade partners, reducing pressure on the exchange rate and strengthening consumers' purchasing power, which would predominately benefit low-income households. Moreover, lower inflation is expected to reduce risk premia and borrowing costs, which can support investment, growth, and debt sustainability. However, in the near term, monetary policy may need to stay tighter than otherwise to ensure an orderly convergence of inflation expectations towards the new target. Staff analysis suggests that transition costs critically depend on the credibility of monetary policy in reducing inflation expectations and risk premia, which hinges on clear and consistent communications; concurrent fiscal consolidation can further support disinflation efforts.<sup>17</sup>



**26. In view of subdued inflation and declining inflation expectations, the monetary policy stance remains appropriate and should continue to be data-driven.** The policy stance is assessed to be appropriately tight to guide inflation expectations to the new lower target, given that the estimated ex-ante real policy rate (3 percent) remains above the estimated neutral real rate of 2.5 percent.<sup>18</sup> Should inflation expectations continue to decline and inflation remain contained, policy rates could continue to be reduced gradually toward the new lower nominal neutral rate of 5.5 percent. Market-implied inflation expectations suggest such convergence is feasible. However, if the environment remains volatile, rates may need to stay on hold or even rise if necessary to anchor

<sup>17</sup> [Bricco et al. \(2025\)](#) show that the higher the credibility of the central bank and thus the response of inflation expectations and risk premia to the announcement of a lower inflation target, the lower the output costs of disinflation. Moreover, the marginal sacrifice ratio of disinflation declines when fiscal consolidation is pursued concurrently with a lower inflation target.

<sup>18</sup> The neutral real rate is estimated at around 2.5 percent for South Africa using differing methodologies ([Tiedemann et al. \(2025\)](#)), in line with the SARB's long-run estimate.

expectations and ensure that inflation converges to the new lower target. In this regard, the authorities' plan to implement the new 3 percent inflation target over a period of 2 years is welcome, as it provides necessary flexibility to manage shocks, and is in line with cross-country experience.<sup>19</sup>

**27. The effectiveness of monetary policy relies on a robust policy implementation framework and transparent practices.** The Monetary Policy Implementation Framework (MPIF) implemented in 2022 remains appropriate, as it has helped the SARB better manage the growing structural liquidity in the system while improving policy transmission. Further enhancements—including the recalibration of the tiering parameters and the introduction of remunerated reserves—would help support the deepening of the interbank money market and optimizing banks' reserves at the central bank, bolstering the functioning of the financial market. Following the [SARB's 2024 Transparency Assessment](#), which highlighted already strong transparency practices, the SARB has further enhanced practices by implementing clear guidelines for the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) distributions and continuing to publish the vote split of the Monetary Policy Committee.<sup>20</sup>

#### **Authorities' Views**

**28. The SARB remains committed to delivering low and stable inflation in the context of the new inflation target.** Similar to staff, the SARB projects annual average inflation to remain below 3.5 percent in 2025-26 and reach the new target of 3 percent by end-2027. In their MTBPS, the NT also expects average inflation to peak in 2026 and settle close to 3 percent in the medium term, supporting lower growth of public spending over this horizon. Monetary policy will remain dependent on data outcomes, the outlook, and the balance of risks, with scenario analysis guiding decision making. In the absence of shocks, and provided that inflation and inflation expectations continue to decline toward the new 3 percent inflation target, the SARB's modelling framework suggests space for unwinding policy restrictiveness by gradually lowering rates. The SARB concurs that the MPIF is working well, but noted that interbank markets remain active, and that adding an additional reserve requirement may not be necessary. The SARB also agrees that the new GFECRA framework is helping to safeguard its balance sheet and remains committed to strong communication and transparency practices.

### **C. Financial Sector Policies**

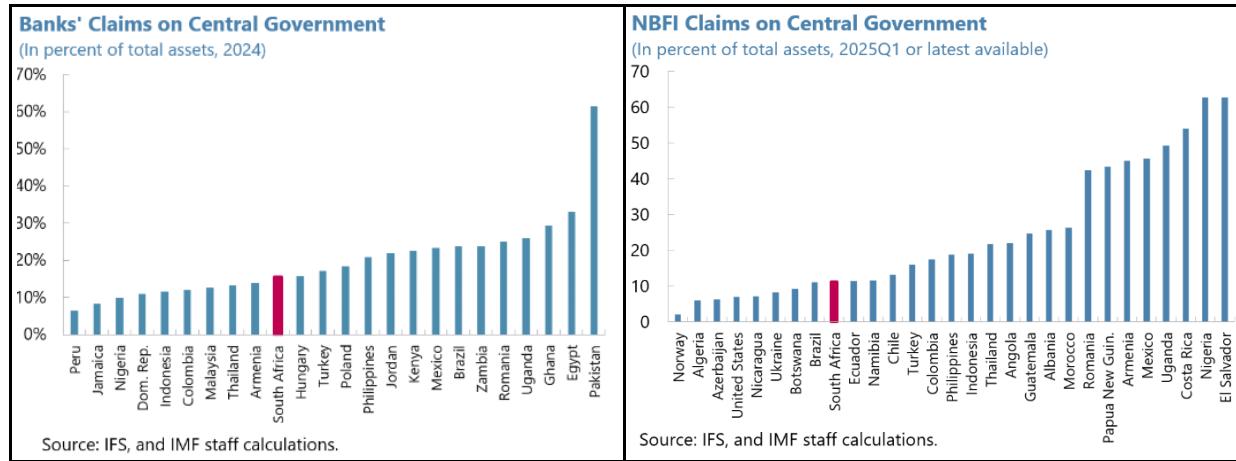
**29. While systemic risks to financial sector stability have risen over the last year, they remain manageable.** A tightening of global financial conditions and repricing of government bonds could lead to capital outflows, exchange rate volatility, and funding pressures for South Africa's financial sector. Domestic risks relate to an inability to address structural constraints to

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<sup>19</sup> South Africa: Selected Issues Paper Chapter 3: "[Macroeconomic Effects of a Potential Change in South Africa's Inflation Target](#)."

<sup>20</sup> The [revised agreement](#), implemented in 2024, provides the framework for distributions of valuation gains from the SARB to the Treasury when the GFECRA and Contingency Reserves are above their estimated adequacy levels.

growth, which could affect the repayment ability of households and SMEs.<sup>21</sup> In addition, higher public debt could worsen the sovereign-financial sector nexus, adding to risks. Banks' holdings of domestic government debt amount to 16.5 percent of bank assets at end-August 2025, in line with peers, and remain manageable, according to the Prudential Authority's semiannual bank surveys.<sup>22,23</sup> Non-bank financial institutions' (NBFIs) holdings of government debt represent 11.4 percent of their assets at end March 2025, well below peers. However, risks could be amplified, given the historically high level of interconnectedness between banks and NBFIs through wholesale funding (35 percent of bank assets, see Annex IX).



**30. Continued monitoring and strengthened supervision of banks and NBFIs are key to manage and preempt risks.** The authorities have made notable progress with improving crisis-management toolkits, including by implementing the bank-resolution framework and bank depositors' safety net (CODI), complemented by regular stress testing and crisis simulations, in line with FSAP recommendations (Annex V).<sup>24</sup> In view of rising risks, they should continue to monitor the system closely, focusing on key areas of vulnerability, including impaired loans and sectors facing relatively higher risk, concentration of risks (including sovereign risks), and interlinkages between banks and NBFIs and within NBFIs. Building on ongoing efforts to assess system-wide interconnectedness and identify contagion risks, the authorities are encouraged to enhance monitoring and reporting requirements for NBFIs, adopt a systemwide risk-based and consistent regulatory and supervisory approach for banks and non-banks, and establish risk-free

<sup>21</sup> The SARB's recent climate stress tests indicate that banks can assess their exposure to climate risks, although some data gaps and modeling challenges remain. See [First Edition 2025 Financial Stability Review](#). The next comprehensive stress testing exercises for the banking and insurance sector will take place in 2026 and 2027, respectively.

<sup>22</sup> Non-systemic bank holdings of government debt are higher than peers. However, these banks hold less than 5 percent of total banking-sector assets. For more details, see Box 1 of the [November 2023 FSR](#).

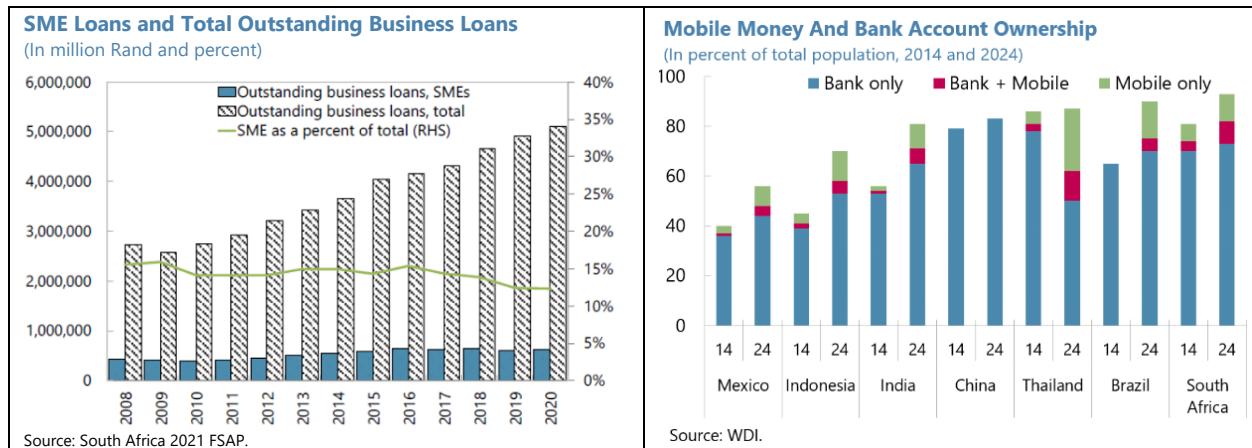
<sup>23</sup> The latest survey indicates that the six largest banks have ample hedges against potential mark-to-market losses on government assets, resulting in a post-hedge profit of R3.4 billion. See [First Edition 2025 Financial Stability Review](#).

<sup>24</sup> The SARB conducted two crisis simulation exercises in 2025, testing the processes of the Resolution Authority and CODI and the procedures for an orderly closure and reopening of markets (OCARM) at the industry-wide level.

money-market benchmark indices to help mitigate potential contagion risks, reduce regulatory arbitrage, and limit incentives for banks to rely excessively on NBFI funding (Annex IX).

**31. Macroprudential policies will need to continue to balance safeguarding financial stability with ensuring adequate credit to the economy.** The phasing-in of a 1 percent positive cycle-neutral counter-cyclical capital buffer (PCN-CCyB) during 2025 has helped enhance banks' resilience to downturns, while the planned gradual issuance of loss-absorbing liabilities (FLAC) over the medium run will help with crisis prevention and resolution, if and when needed. The implementation of these measures is adequate and does not appear to have constrained credit to the economy, which has increased in 2025, as noted earlier. Addressing sovereign-bank nexus risks should primarily rely on (growth-friendly) fiscal consolidation and existing bank-by-bank monitoring and risk assessments, which can also help limit crowding out of private credit. Should risks intensify, consideration could be given to additional prudential measures, such as applying non-zero risk weights for government assets—which the largest banks already do—at the system level, while being mindful of potential unintended negative effects on financial institutions' balance sheets and securities markets.

**32. Improving SMEs' access to finance and bolstering the efficiency of the payment system are key to ensuring that the financial sector can support dynamic and inclusive growth.** A well-functioning financial sector not only depends on but also contributes to a healthy and strong economy through the provision of adequate credit and financial services to firms and households. However, the share of bank lending to SMEs—the backbone of job creation and growth—has continued to decline, standing at 12 percent of total loans. To improve SMEs' access to finance, a revised National Credit Act could help clarify provisions related to SME financing, reforms of title deeds could help unlock collateral, and fostering an open-banking framework would allow better sharing of credit and transactions track records across institutions. Fostering venture capital and better linking SMEs to the capital market can also help increase their funding options. While South Africa has made important strides in financial inclusion (4 out of 5 adults have bank accounts), more can be done to modernize the payments system and improve its efficiency by developing a digital payments infrastructure, as the authorities are planning, improving interoperability, and introducing a financial digital ID, which can also support tax compliance and prevent financial and social-transfer fraud.



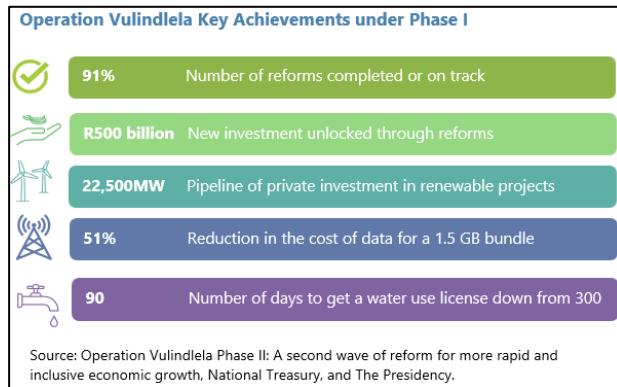
**33. Anti-money laundering and combating the financing of terrorism (AML/CFT) reforms have reached an important milestone and should be sustained.** Having made significant progress in strengthening its AML/CFT framework, South Africa was removed from the FATF grey list in October 2025. The progress made ranges from improving risk-based supervision of financial and non-financial sectors and establishing beneficial ownership registries for legal persons and legal arrangements, to more proactive law enforcement actions targeting money launderers and criminal proceeds, including by collaborating across domestic and international agencies to investigate and prosecute complex money-laundering activities. The authorities are encouraged to continue to sustain these efforts going forward.

#### **Authorities' Views**

**34. The regulatory authorities concurred that the financial system remains resilient, although risks call for continued vigilance.** In its November 2025 Financial Stability Review, the SARB concluded that the outlook for financial stability improved, notwithstanding persistent global and domestic vulnerabilities. The authorities continue to monitor risks closely, including through stress tests and bank risk assessments. They agree that prudent fiscal policy should be the first line of defense in addressing risks related to the sovereign-bank nexus; they consider that banks' capital buffers in excess of requirements provide a cushion against this risk and, where needed, they prefer to address the issue on a case-by-case basis through moral suasion. The ongoing assessment of bank-NBFI interlinkages and shift of prudential supervision of pension funds and collective investment schemes to the Prudential Authority are expected to help mitigate potential contagion risks in the broader financial system. The authorities remain committed to implementing ongoing reforms toward a digital payment system, while continuing to strengthen their AML/CFT framework.

## D. Structural Reforms

**35. Structural reforms have continued, albeit at a pace not yet commensurate with the economy's needs to generate sustainable growth and jobs.** Ongoing reforms, coordinated under Operation Vulindlela, have progressed. Electricity generation has stabilized on the back of improved Eskom performance and private generation, including from renewable sources. However, lack of a fully operational electricity market, insufficient transmission capacity, and a dysfunctional distribution system remain binding constraints. In logistics, the approval of private-sector participation in freight rail and the Durban port marks an important step forward. However, theft, aging infrastructure, and port inefficiencies undermine performance, while Transnet's balance sheet remains strained and dependent on government guarantees. While water-sector reforms have started, municipal water services remain inadequate. The authorities have announced new reform plans aimed at improving local-government service delivery, promoting digital public infrastructure, and addressing spatial disparities.



**36. With fiscal space and state capacity limited, the private sector will need to drive job creation and growth over the medium run.** The current state-led development model appears to have reached its limits in addressing South Africa's deep structural challenges, including chronically low productivity growth, high unemployment, and widespread poverty and inequality. Looking forward, the strained public finances constrain the ability to significantly expand public investment, while SOEs continue to face operational inefficiencies, limiting their ability to invest. Thus, unlocking the potential of the private sector through ambitious, timely, and broad structural reforms—in particular related to state-owned enterprises, public services, governance, and the business environment—remains the only viable option to not only boost productivity and employment, but also generate the sustained growth needed to achieve South Africa's social objectives. Such structural-reform and private-sector driven growth is also essential to support debt sustainability and inflation-reduction objectives. Conversely, lack of swift and durable structural-reform implementation would only compound South Africa's challenges and increase the risks of necessary corrective actions in more difficult circumstances with larger economic and social costs.

**37. Swiftly implementing ongoing electricity and logistics reforms allowing for competition through increased private sector participation remains the key priority.** Adequate electricity and functioning railways and ports are essential to support productive activity in all sectors and boost exports. In the electricity sector, building on the significant progress achieved so far, key next steps are: (i) expediting the operationalization of the wholesale electricity market and ensuring fair competition, which is also key to reducing prices for consumers; (ii) fully unbundling Eskom's generation and transmission functions to ensure the latter's operational and financial independence; (iii) expanding and modernizing the transmission grid by accelerating independent power transmission (IPT) projects, supported by innovative de-risking mechanisms, including the upcoming IFC-backed Credit Guarantee Vehicle; and (iv) developing sustainable distribution operating models for municipalities. In logistics, operationalizing private participation requires strengthened governing legislation and credible freight-rail access rules, standardized rail and port-concession frameworks, and the establishment of an independent transport regulator.<sup>25</sup> Both Eskom and Transnet should continue to improve their operational and financial performance to bolster efficiency and reduce dependence on the state. Finally, additional efforts are needed to improve water infrastructure and service delivery, including by strengthening the licensing regime and bolstering accountability.

**38. In addition, an ambitious package of horizontal product-market reforms is essential to help unlock the private sector's true job and growth potential.** South Africa's business environment is the most restrictive among OECD peers, reflecting burdensome regulations, especially for licensing, procurement, and competition. Staff's analysis suggests that such regulations negatively affect firm performance, including productivity, sales, and employment growth, particularly for SMEs.<sup>26</sup> Reducing regulatory barriers and compliance costs for firms could thus lead to significant productivity gains. At the macro level, staff estimates that reforms closing 50 percent of South



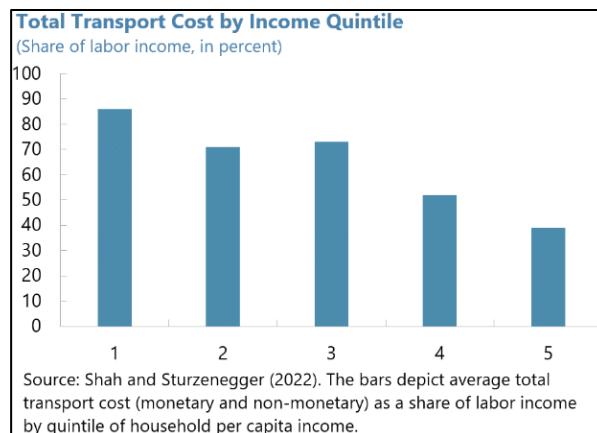
<sup>25</sup> Private rail operators are expected to start operations in the second half of 2026, filling up 22 percent of the gap Transnet currently faces to meet its haulage target.

<sup>26</sup> See accompanying Selected Issues Paper entitled "Structural Reforms to Bolster South Africa's Business Environment."

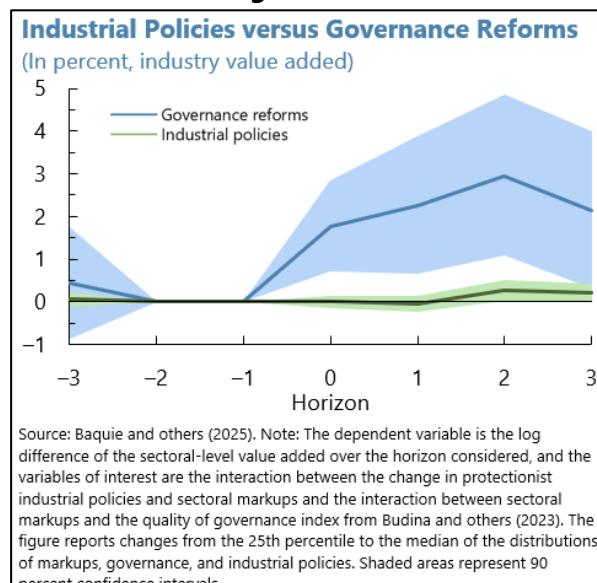
Africa's gap relative to the EM frontier on business regulations can boost real output by around 2 percent in the medium run relative to a no-reform scenario (see [IMF, 2025](#)). Specifically, enhancing licensing and permitting, including by establishing a national-policy framework to guide local and provincial enforcement practices (e.g. through a centralized electronic platform) can help avoid duplication and conflicting policies among local authorities. Strengthening local authorities' capacity for concessional and risk-based licensing and introducing a public inventory of all required permits/licenses can also help reduce the regulatory burden on firms. Simplifying procurement procedures and improving their efficiency, including by making bid timeframes proportional to projects' value and complexity and dividing tenders into smaller lots can help attract more competitive bids, while supporting broader SME participation. A review of empowerment and preferential policies could also be considered to ensure that their social objectives are met without hindering business dynamism and job creation. Finally, strengthening the competition-policy framework and its enforcement by streamlining regulations and incentives that limit competition and aligning sector regulators with the Competition Commission would help lower barriers to entry for domestic and foreign investments and reduce compliance costs.

**39. Accelerating efforts to tackle governance weaknesses and fight corruption are equally critical to supporting growth and rebuilding public trust.** While the authorities have made important progress on anti-corruption and anti-money laundering, as noted earlier, recent corruption cases demonstrate persistent systemic weaknesses that require sustained efforts. Reforms aiming to expedite the implementation of the National Anti-Corruption Advisory Council's recommendations could include: (i) establishing a permanent, independent Office of Public Integrity and Anti-Corruption, (ii) rationalizing and clarifying mandates of law enforcement agencies and accountability mechanisms, and (iii) ensuring a complete financial and institutional independence of National Prosecuting Authority (Annex X). Moreover, ensuring an accurate and updated beneficial-ownership database and promoting whistleblower protection are equally important. Finally, fostering the professionalization of the public administration, implementing transparent, merit-based selection and appointment of senior public-administration officials and SOE professional boards, and bolstering local government's governance and service delivery, including for electricity and water, can help build public trust and further support activity and growth. Staff estimates that reforms closing 50 percent of South Africa's gap relative to the EM frontier on governance can boost real output by an additional 7 percent in the medium run relative to a no-reform scenario (see [IMF, 2025](#)).

**40. Additional reforms are also needed to address spatial inequality and improve the flexibility of the labor market.** Complementary reforms addressing labor-market rigidities are essential to durably lower South Africa's high unemployment rate and facilitate the entry and growth of SMEs. On the labor-supply side, addressing South Africa's legacy of spatial inequality requires integrated reforms across housing policies, urban transport, and rural connectivity<sup>27</sup> needed to reduce prohibitively high transport costs (40–85 percent of labor income)<sup>28</sup> and limited job accessibility, particularly for low-income households. These could include demand-side rental subsidies and mortgage assistance, incentives to develop affordable housing in well-located urban areas, supported by zoning reforms, strategic land release, and streamlined permitting processes. Expanding high-capacity urban public transit alongside formalizing informal transport can also help reduce commuting costs and improve access. To improve rural connectivity, efforts should focus on upgrading roads, regulating informal transport, and embedding transport planning in local development strategies. On the labor-demand side, shortening dispute-resolution procedures and streamlining dismissal processes for high-earning employees and new hires, as well as allowing for exemptions for SMEs from collective agreements can further support employment.<sup>29</sup>



**41. Continuing to engage constructively on trade and enhancing trade diversification and regional integration can further help support resilience and growth.** South Africa continues to negotiate with the US to resolve trade tensions, reduce trade barriers, and seek an extension to the AGOA program, while exploring export opportunities in new markets, including in Asia and the Middle East. Efforts to deepen integration under the African Continental Free Trade Area (AfCFTA) are ongoing and should focus on lowering non-tariff barriers and upgrading customs systems, alongside broader structural reforms. A set of support measures have been announced, including establishing an export-support desk, support to affected companies and the steel sector, and



<sup>27</sup> See accompanying Selected Issues Paper entitled "Spatial inequality in South Africa: Causes and Policy Options."

<sup>28</sup> See Shah and Sturzenegger (2022) "[Search, transport costs and labour markets in South Africa](#)".

<sup>29</sup> Duval and Shibata (2021) "[Labor Market Reform Options to Boost Employment in South Africa](#)".

WTO-compliant trade remedy measures, among others.<sup>30</sup> While the direct fiscal impact is estimated to be limited, the authorities are encouraged to ensure that support remains temporary and well-targeted to minimize fiscal risks and avoid market distortions and spillovers. Indeed, recent IMF analysis underscores that the macroeconomic gains from industrial policy are generally modest and contingent on strong institutional frameworks. In contrast, structural reforms—such as governance measures and financial development—have shown significantly larger and more durable effects on value added.<sup>31</sup>

### **Authorities' Views**

**42. The authorities remain committed to implementing their structural-reform agenda coordinated under Operation Vulindlela to support faster growth, job creation, and reduced poverty and inequality.** In electricity, the priority is to establish a competitive electricity market, expand the transmission network, including through private-sector participation, and improve distribution, including by addressing municipal payment problems and arrears. The authorities are also committed to supporting private-sector participation in the logistics sector and completing water-sector reforms and are working on new initiatives aiming to tackle spatial disparities, advance public digital infrastructure, and improve the governance of the public administration and local government service delivery, including by tackling corruption. They continue to promote global and regional trade integration through trade negotiations with existing partners, exploring new export market opportunities, and implementing the AfCFTA, while ensuring that support measures to sectors affected by tariffs remain temporary and targeted. They are developing an integrated industrial-policy strategy focused on diversification, digitalization, and decarbonization.

### **Technical Collaboration**

**43. The technical-cooperation strategy is aligned with the Fund's surveillance activities, and data provision remains strong** (Annex VI). Recent technical cooperation with the IMF focused on tax and revenue administration, capital-flow liberalization, the monetary policy implementation framework, climate and fiscal statistics, and property-price index development. Looking forward, priorities include: (i) continuing to strengthen revenue and tax administration, including through artificial intelligence; (ii) enhancing public financial-management systems through digitalization and improving the effectiveness of the public-investment management system; (iii) strengthening supervision and national payment systems, and (iv) continuing to upgrade national accounts statistics. These areas relate strongly to key surveillance priorities: bolstering fiscal credibility and sustainability, safeguarding financial stability, and supporting growth.

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<sup>30</sup> "Joint Statement on US Tariffs", South African Government, August 12, 2025.

<sup>31</sup> October 2025, World Economic Outlook: "[Global Economy in Flux, Prospects Remain Dim.](#)" Washington, DC. Chapter 3: "[Industrial Policy: Managing Trade-Offs to Promote Growth and Resilience](#)" and Baquie and others, 2025. "[Industrial Policies: Handle with Care](#)". IMF Staff Discussion Note SDN/2025/002. International Monetary Fund.

## STAFF APPRAISAL

**44. South Africa's economy has proven resilient to ongoing global turbulence, although challenges remain.** South Africa's post-pandemic recovery has been hampered by repeated global shocks and domestic challenges. In 2025, renewed challenges have emerged, as the global economy has been adapting to a landscape marked by greater protectionism, fragmentation, and heightened policy uncertainty. Owing to ample natural endowments, independent institutions, and a strong monetary policy framework, the economy has proven resilient thus far. However, long-standing impediments—including entrenched structural rigidities, inadequate infrastructure, governance weaknesses, and rising public debt—continue to constrain the economy's ability to rebound strongly from shocks and achieve its true growth potential.

**45. Economic prospects critically depend on the government's ability to maintain macroeconomic stability and durably address long-standing challenges.** Real output growth is expected to reach around 1.3–1.4 percent in the near term and rise gradually to 1.8 percent, on the back of ongoing domestic structural-reform efforts. On a preliminary basis, the external position in 2025 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies. Risks are tilted to the downside, related to an intensification of fragmentation and protectionism, tighter global financing conditions, and weaker-than-expected domestic reform implementation. On the upside, faster reform implementation and stronger global growth could support domestic activity and growth. Bolstering resilience in a more shock-prone world and pivoting toward higher standards of living for all will require coherent and well-coordinated policies and reforms to safeguard fiscal sustainability, secure low and stable inflation, and address entrenched bottlenecks to growth.

**46. A credible, growth-friendly, and politically and socially feasible adjustment is needed to stabilize public debt and rebuild buffers, while protecting critical spending.** Fiscal policy must balance debt sustainability considerations against the need to safeguard the recovery and ensure adequate priority spending on infrastructure, education, health, and social protection. An additional fiscal adjustment of  $\frac{3}{4}$  percentage point of GDP next year and  $\frac{1}{2}$  percentage points of GDP in each of the following two years relative to staff's baseline, focused on reprioritizing and improving the efficiency and equity of public spending, is required to stabilize debt and put it on a sustained downward path. Continued efforts to mobilize domestic revenues could also help support the adjustment and create space for critical spending, if needed. Fiscal consolidation can help reinforce disinflation efforts and financial stability. A fiscal rule anchored in a prudent debt ceiling could help support the adjustment and bolster credibility.

**47. The new lower inflation target is welcome and should be carefully implemented and clearly communicated.** The move to a lower inflation target with a narrow tolerance band—in the context of already low inflation and declining inflation expectations—is an important policy achievement supporting macroeconomic stability and reinforcing fiscal policy efforts to safeguard debt sustainability by reducing borrowing costs. Looking forward, monetary policy should remain data driven and focused on guiding inflation expectations to the new target. Careful communication

will be key to maintaining credibility and anchoring inflation expectations, while gradual implementation of the new target is important to manage shocks.

**48. Financial policies must balance safeguarding financial stability with ensuring adequate credit to the economy.** Recent banking-resolution and safety-net reforms, together with the implementation of the countercyclical capital buffer and new loss-absorbing capacity requirements are welcome and expected to bolster financial sector resilience to shocks. Given still elevated NPLs, a sizeable sovereign-financial sector nexus, and interlinkages between banks and NBFIs, continued monitoring of risks and strengthened supervision, including for NBFIs, remains key to safeguarding financial stability. At the same time, additional efforts are needed to improve access to finance, especially for SMEs and improve the efficiency of the payment system. Recent efforts to strengthen the AML/CFT framework, which have allowed South Africa to exit from the FATF “grey list,” are welcome and should be sustained.

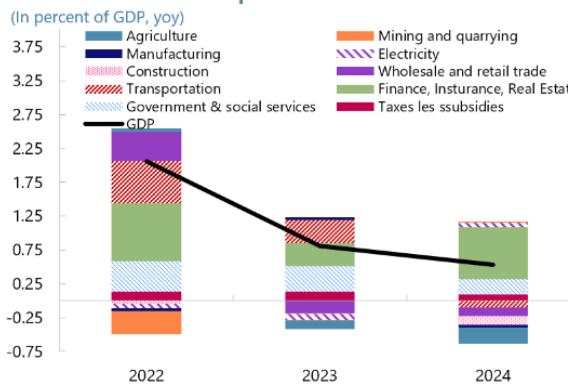
**49. Structural reforms should be accelerated and deepened to support private sector-led job creation, investment, and growth.** Resolute implementation of ongoing reforms to facilitate private-sector participation in electricity and logistic sectors remains a priority. Additional product-market reforms aimed at reducing regulatory barriers, cutting red tape, simplifying procurement procedures, and bolstering competition are also essential to help unlock the private sector’s true job and growth potential. Sustained efforts to tackle governance weaknesses and fight corruption can also help support growth and rebuild public trust, while complementary reforms addressing spatial disparities and improving the flexibility of the labor market are key to boosting jobs and lowering unemployment and inequality. Constructive engagement on trade and enhancing trade diversification and regional integration can further help support resilience and growth.

**50. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.**

### Figure 1. South Africa: Real Sector Developments

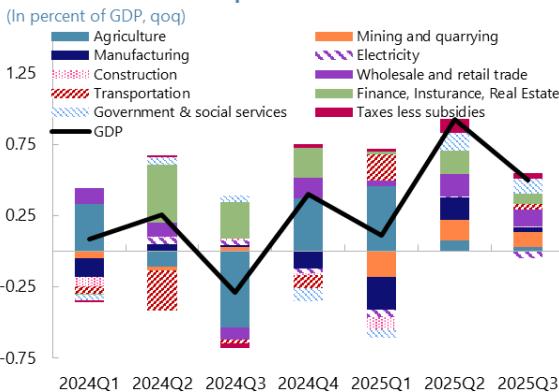
Growth moderated in 2024, reflecting drought and transport sector bottlenecks.

#### Real GDP Growth Decomposition



In 2025, growth rebounded in Q2 and Q3, as production increased across most sectors.

#### Real GDP Growth Decomposition



High frequency indicators confirm robust consumption in 2025 ...

#### Retail Sales and New Vehicle Sales



...but business and consumption confidence have started to deteriorate.

#### Confidence Indicators

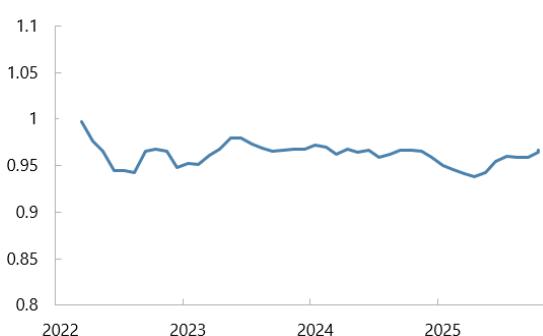
(Net percent balance, distance from mean in number of standard deviations)



Manufacturing production remains subdued...

#### Manufacturing Production

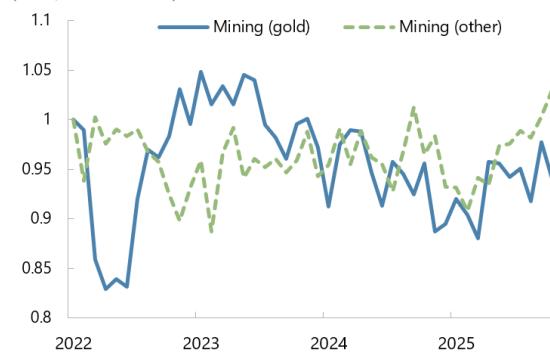
(Index, 2019=100, 3-period moving average)



... but mining production rebounded, as commodity prices increased.

#### Mining Production

(Index, Jan 2022 = 100)

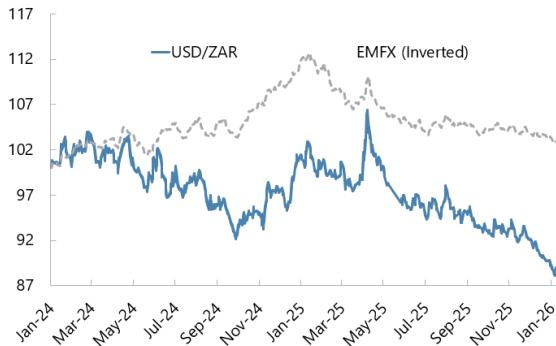


Sources: Haver, and IMF staff calculations.

## Figure 2. South Africa: Financial Market Developments

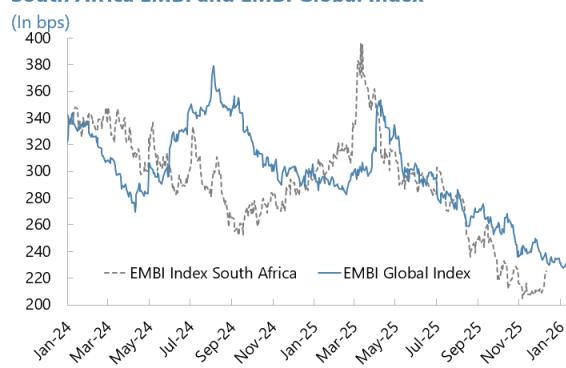
Since the election in May 29, 2024, the Rand has decoupled from EMs currency basket...

**South African Rand and Emerging Market Currency**  
(Index, Jan 1 2024 = 100)



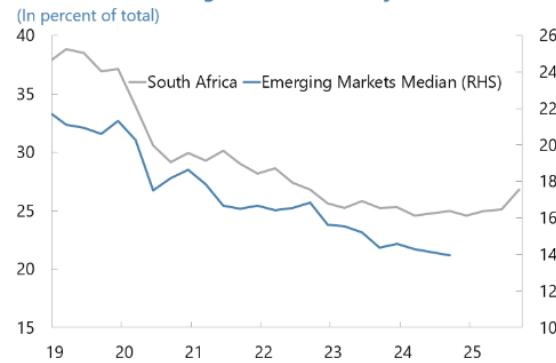
...while spreads have moved broadly in line with peers in 2025.

**South Africa EMBI and EMBI Global Index**



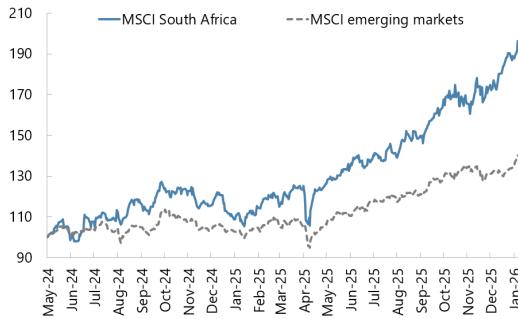
Nonresident investors' holdings of local sovereign bonds have started to increase...

**Nonresident Holdings of Local Currency Govt. Bonds**



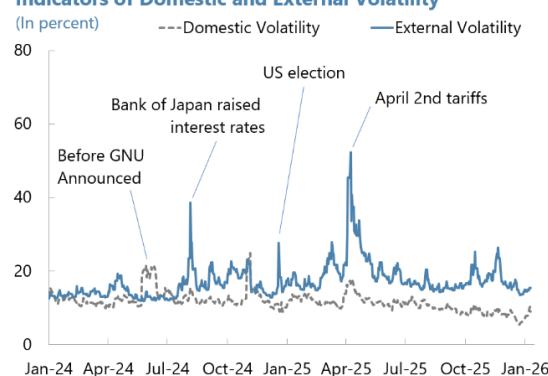
...the stock market started to decouple as well...

**MSCI Equity Index**  
(May 1 2024 = 100)



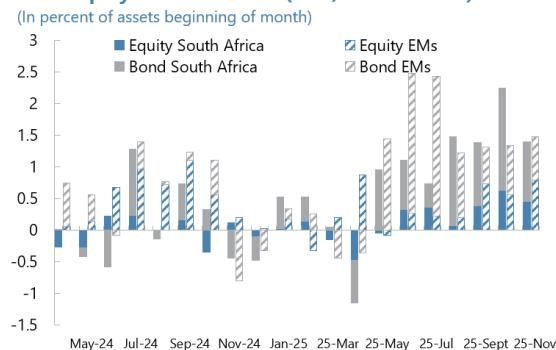
External uncertainty dominated market volatility in 2025.

**Indicators of Domestic and External Volatility**



...with investor inflows (mostly into bonds) positive and comparable to peers since end-April.

**EPFR: Equity and Bond Flows (ETFs/Mutual Funds)**

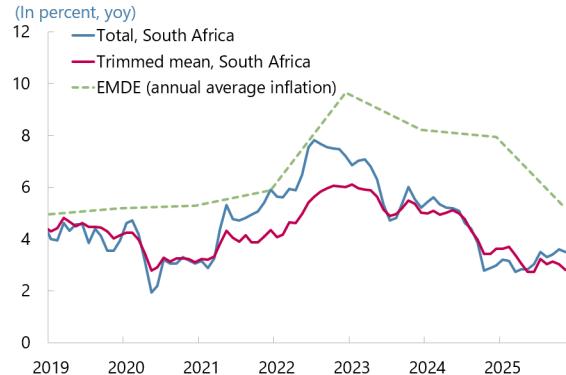


Sources: Bloomberg, EPFR, Haver, IIF, and IMF staff calculations.

### Figure 3. South Africa: Inflation and Monetary Sector Developments

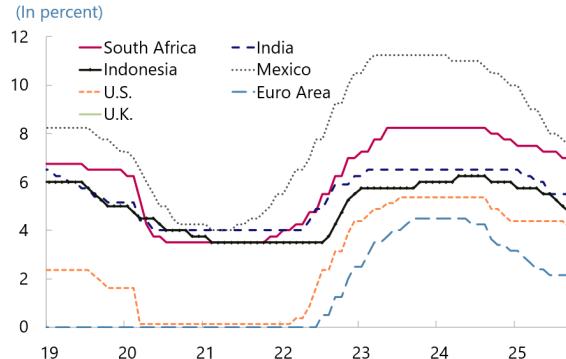
Inflation in South Africa has been significantly lower compared to other EMDEs...

#### Total and Trimmed Headline Inflation (In percent, yoy)



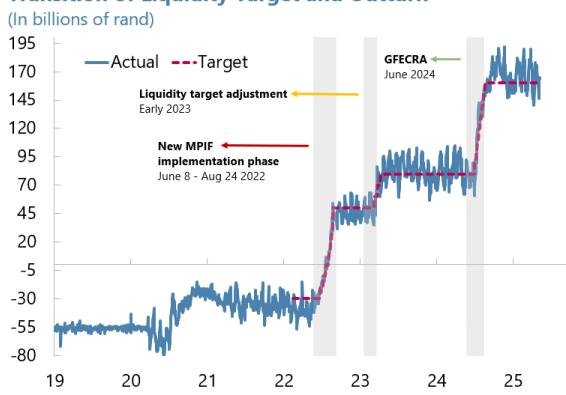
The SARB started to cut rates around the same time as peers and main trading partners.

#### Policy Rates (In percent)



The SARB transitioned to a new monetary policy implementation framework (MPIF) in 2022; moving from a liquidity shortage to a surplus system...

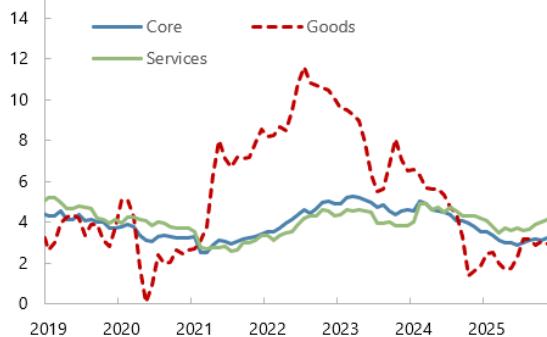
#### Transition of Liquidity Target and Outturn (In billions of rand)



...driven primarily by declining goods inflation.

#### CPI

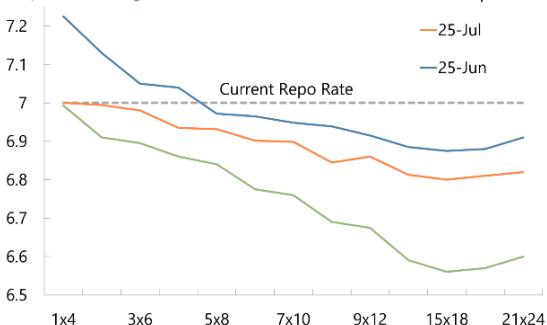
(In percent change, monthly yoy)



After the SARB announced the new target in July, markets have revised their terminal-rate projections.

#### Forward Rate Agreement (FRA) Curve

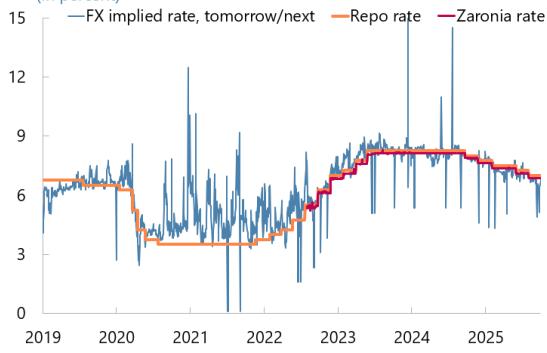
(In percent, average)



... as a result, FX-implied rates have become more aligned with the repo rate.

#### Repo and FX-Implied Rates (In percent)

(In percent)



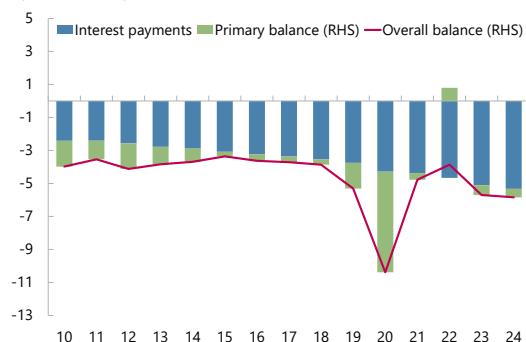
Sources: Bureau for Economic Research, Haver, National Credit Regulator, and IMF staff calculations.

### Figure 4. South Africa: Fiscal Sector Developments

Primary and overall balances remained in deficit most of the time since the GFC.

#### Fiscal Balance

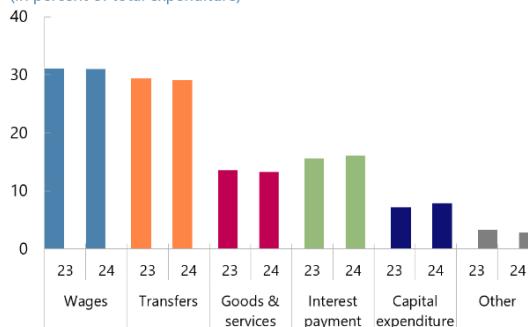
(Percent of GDP)



Government spending remained high, driven by wages, transfers, interest payments, and support to Eskom.

#### Government Expenditure by Component

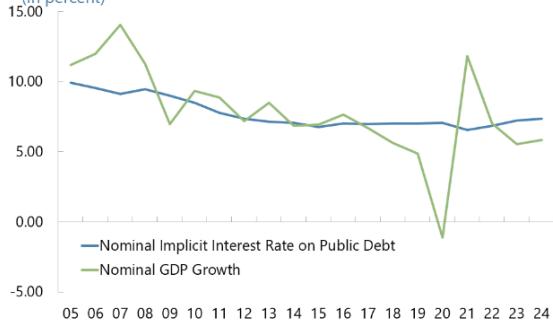
(In percent of total expenditure)



... a positive interest-growth differential since 2022...

#### Nominal Implicit Interest Rate on Public Debt and Nominal GDP Growth

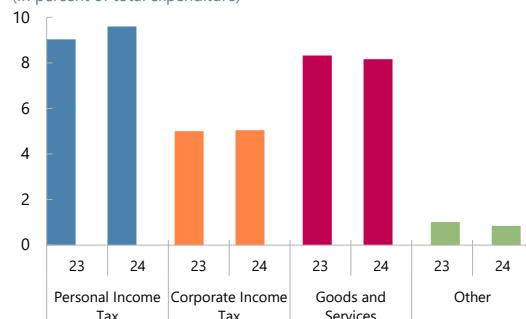
(In percent)



Tax revenue improved in recent years, driven mainly by stronger PIT collections.

#### Main Tax Revenue

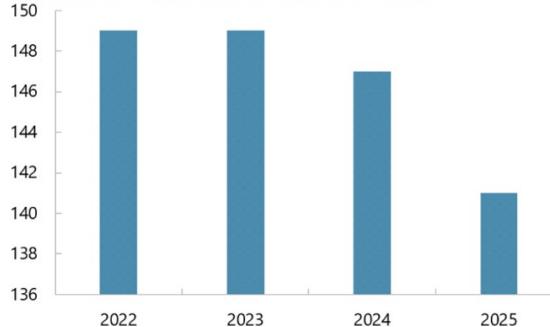
(In percent of total expenditure)



Despite shortening the maturity profile of sovereign debt...

#### Average maturity of domestic bonds

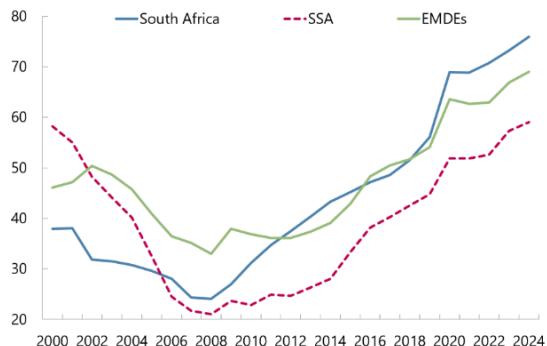
(In months to maturity, excl. T-bills, September of each year)



... further contributed to rising public debt, which exceeds the EMDE and SSA averages.

#### Government Debt

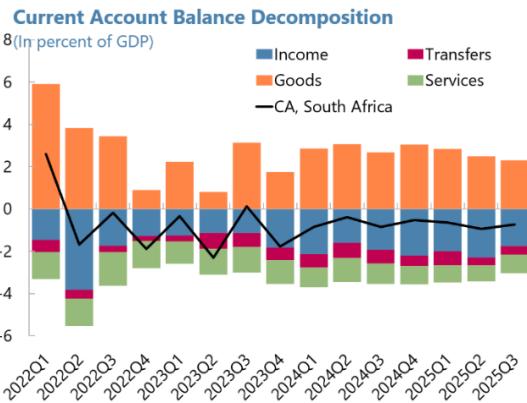
(In percent of GDP)



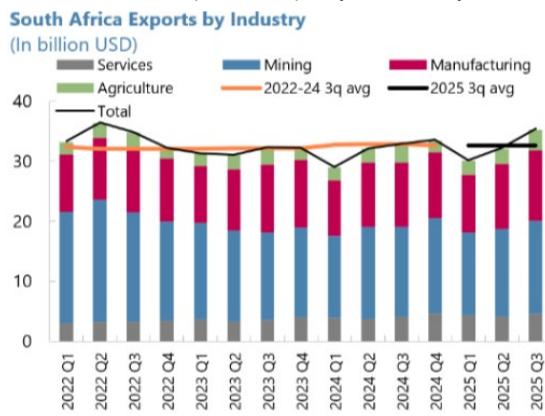
Sources: Bloomberg, Haver, IMF Fiscal Monitor, National Treasury Budget, and IMF staff calculations.

### Figure 5. South Africa: External Sector Developments

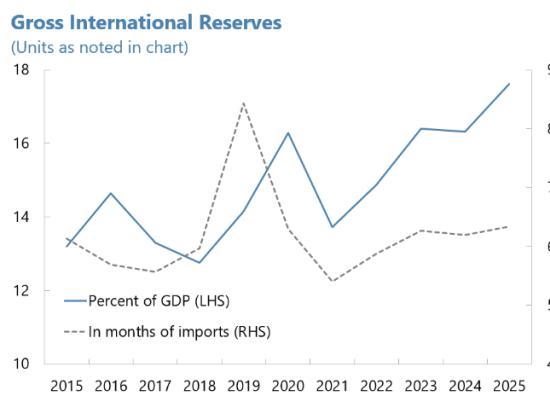
The current account has remained in deficit, with the goods balance surplus more than offset by services, income, and transfers deficits.



Average exports by industry in 2025 are broadly in line with 2024 levels despite trade policy uncertainty...

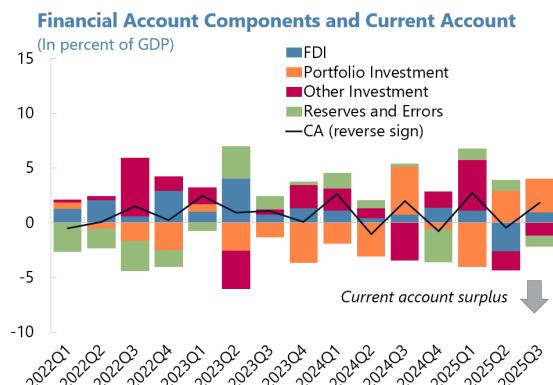


Gross foreign exchange reserves have increased, reflecting valuation gains on the SARB's gold portfolio...



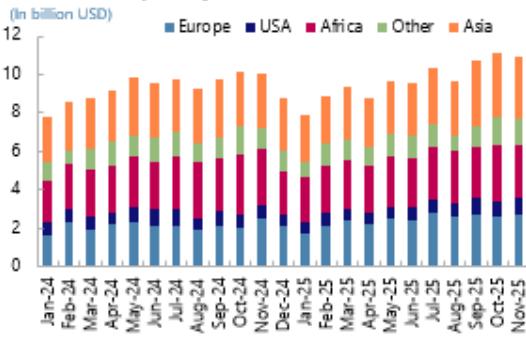
Sources: Haver, SARB, and IMF staff calculations.

The financial account has been volatile, reflecting in part portfolio outflows which are now reversing.



...reflecting a slight uptick in exports to Europe, compensating for a decline in exports to the US in 2025.

### South Africa Exports by Destination



...while the net international investment position remained positive despite sizeable gross external liabilities.

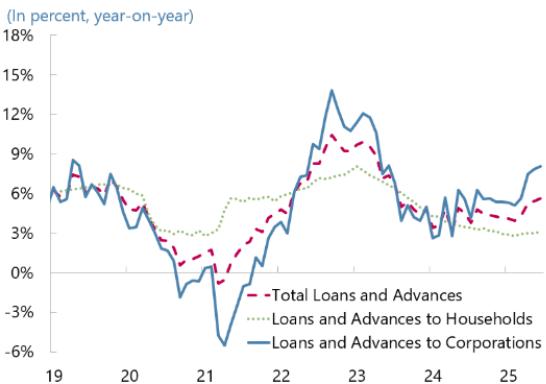
### Gross External Liabilities and NIIP



### Figure 6. South Africa: Financial and Non-Financial Sector Developments

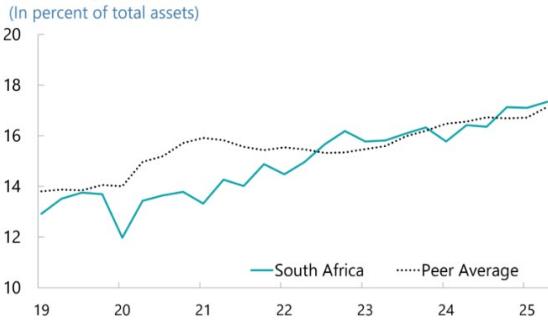
Although credit growth picked up...

#### Domestic Private Sector Credit Extension (In percent, year-on-year)



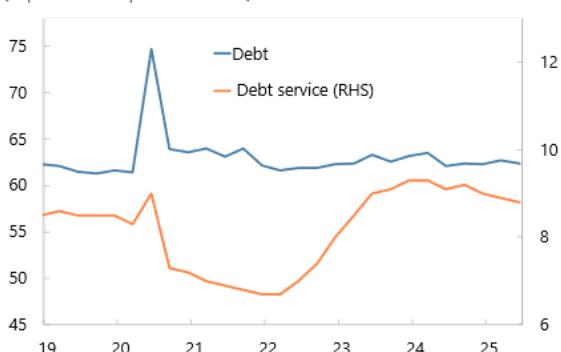
The sovereign-bank nexus is comparable to the peer average.

#### Banks Exposure to Public Sector (In percent of total assets)



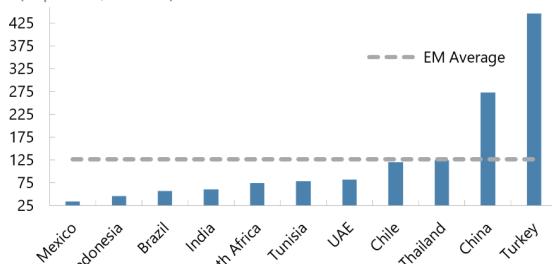
Household debt stabilized, while debt service decreased, as interest rates started to decline.

#### Indicators of Household Indebtedness (In percent of disposable income)



...South Africa's credit-to-GDP ratio remains well below that of peers.

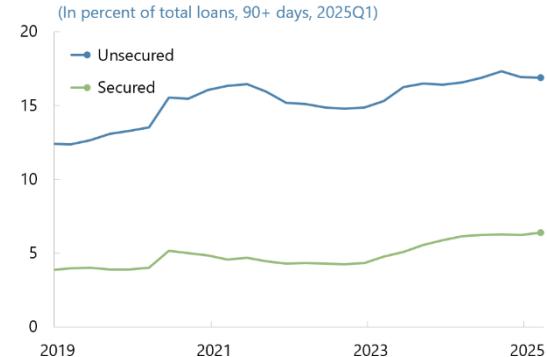
#### Credit-to-GDP Ratio (In percent, 2025Q2)



Note: EM average based on Brazil, China, Chile, India, Indonesia, Mexico, Thailand, Tunisia, Türkiye, United Arab Emirates. Note: Credit includes Depository Corporations (except Central Banks). China and India data not harmonized. India data through 2022Q2, UAE through 2023Q2.

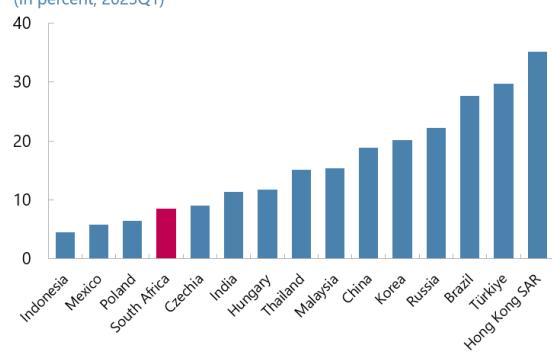
Asset quality of unsecured and secured consumer lending started to stabilize.

#### Consumer NPL by Type (In percent of total loans, 90+ days, 2025Q1)



The non-financial sector's debt-service-to-income ratio remains low compared to peers.

#### Non-Financial Sector Debt Service to Income Ratio (In percent, 2025Q1)

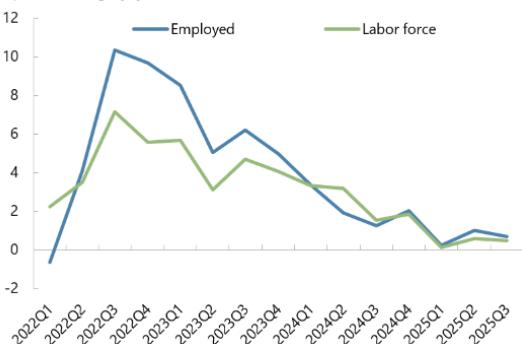


Sources: BIS, Haver, National Credit Regulator South Africa, and IMF staff calculations.

### Figure 7. South Africa: Labor Market Developments

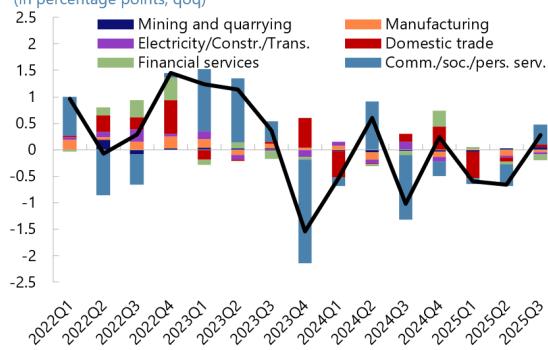
*Labor-market dynamism has declined in recent years...*

#### Labor Market Indicators (In percent change, yoy)



*... although non-farm employment edged up in Q32025...*

#### Non-farm Employment Growth (In percentage points, qoq)



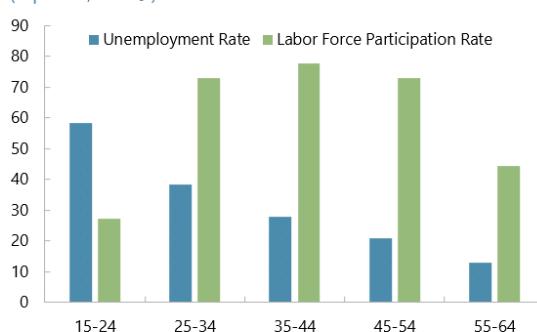
*... and the unemployment rate edged down in Q32025.*

#### Unemployment Rate (In percent)



*Still, unemployment remains very high, especially among the youth.*

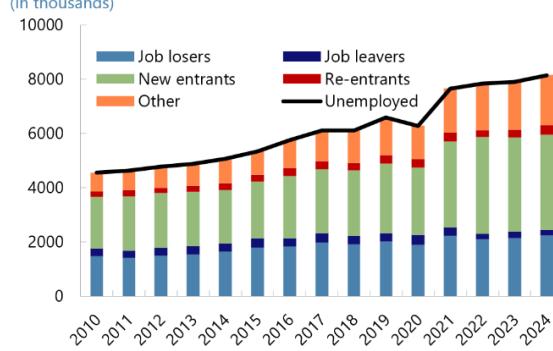
#### Labor Market Indicators by Age Group (In percent, 2025Q3)



Source: Haver, and IMF staff calculations.

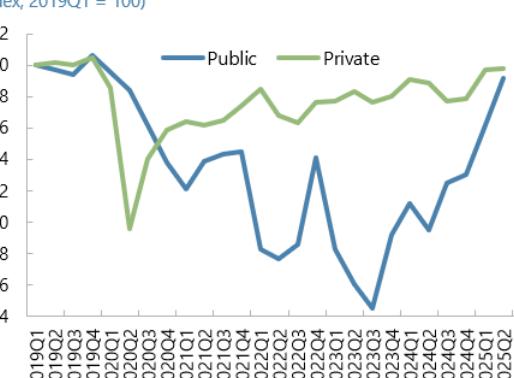
*More than 40 percent of unemployed are new entrants into the labor force.*

#### Characteristics of the Unemployed (In thousands)



*Real wages have increased in 2025, especially in the public sector.*

#### Real Wages (Index, 2019Q1 = 100)



Sources: Haver, and IMF staff calculations.

**Table 1. South Africa: Selected Economic Indicators, 2024–28**

<b>Social and Demographic Indicators</b>					
<b>GDP</b>	<b>Poverty (percent of population)</b>				
Nominal GDP (2024, \$ billion)	401	Below poverty line (3.65US\$/day, 2023)			34
GDP per capita (2024, current \$)	6,253	Undernourishment (2023)			10
<b>Population characteristics</b>					
Total (2024, million)	63	Highest 10 percent of population (2017)			54
Urban population (2023, percent of total)	68	Lowest 40 percent of population (2017)			5
Life expectancy at birth (2023, number of years)	66	Gini coefficient (2017)			67
<b>Economic Indicators</b>					
<b>Title</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
	Est.		Proj.		
<b>National Income and Prices</b>					
Real GDP (annual percentage change)	0.5	1.3	1.4	1.5	1.7
CPI (annual average, annual percentage change)	4.4	3.2	3.6	3.3	3.0
Output gap (percent of potential real GDP)	-0.3	-0.1	-0.1	0.0	0.0
<b>Money and Credit</b>					
Broad money (annual percentage change)	6.7	4.2	5.0	4.8	4.7
Credit to the private sector (annual percentage change) 1/	4.4	3.9	5.0	4.8	4.7
Repo rate (percent, end-period)	7.8	6.8	...	...	...
<b>Labor Market</b>					
Unemployment rate (percent of labor force, annual average)	32.6	32.6	32.5	32.4	32.3
<b>Savings and Investment (Percent of GDP)</b>					
Gross national saving	13.4	12.5	12.4	12.3	12.4
Investment 2/	14.1	13.4	13.6	13.8	14.1
<b>Fiscal Position (Percent of GDP) 3/</b>					
Overall balance	-5.8	-5.8	-4.9	-4.4	-4.2
Primary balance	-0.5	-0.5	0.5	0.9	1.1
Gross government debt	76.0	77.8	78.5	79.8	81.1
<b>Balance of Payments (Percent of GDP Unless Otherwise Indicated)</b>					
Current account balance	-0.7	-0.9	-1.2	-1.5	-1.7
Gross reserves	16.3	17.6	16.0	15.4	14.8
in months of next year's imports	6.2	6.3	6.0	5.7	5.5
in ARA in percent, excl. CFM	95.0	99.1	95.0	91.7	89.4
in ARA in percent, incl. CFM	106.2	111.2	106.6	102.9	100.5
Total external debt (percent of GDP)	42	46	46	47	48
<b>Exchange Rates</b>					
Real effective exchange rate (percent change) 4/	3.9	1.3	...	...	...
Exchange rate (Rand/U.S. dollar, end-period)	18.7	16.6	...	...	...
<b>Memorandum Items</b>					
Nominal GDP (billions of U.S. dollar)	401	431	474	492	512

Sources: Haver, National Treasury, SARB, UNU WIDER, World Bank, and IMF staff calculations.

1/ Depository institution's domestic claims on private sector in all currencies.

2/ Noisy inventories data are excluded from the investment breakdown to highlight fixed capital formation developments.

3/ Consolidated government, calendar year data (January 1 - December 31).

4/ As of November 2025. A positive number represents appreciation and vice versa.

**Table 2. South Africa: Consolidated Government Operations 1/ FY24–31**

	FY24 2024/25	FY25 2025/26	FY26 2026/27	FY27 2027/28	FY28 2028/29	FY29 2029/30	FY30 2030/31	FY31 2031/32
	(In billions of rand)							
	Est.				Proj.			
<b>Total Revenue and Grants</b>								
Tax revenue	1765.4	1942.5	2049.0	2148.6	2253.4	2366.1	2477.3	2598.4
Non-tax revenue 2/	27.6	23.3	22.9	29.4	30.8	32.3	33.9	35.5
Provinces, social security, and other entities	231.7	243.2	255.2	267.5	280.2	293.8	308.1	323.1
<b>Total Expenditure</b>								
Current expenditure	2195.3	2354.6	2452.7	2562.0	2662.3	2781.7	2909.5	3051.6
Wages and salaries	762.5	817.0	853.0	890.9	927.7	966.7	1012.8	1061.4
Other goods and services	325.4	358.2	371.9	389.7	410.3	430.2	451.1	473.0
Interest	394.2	416.9	440.6	459.6	472.1	492.3	510.8	536.8
Transfers	713.2	762.5	787.2	821.7	852.2	892.5	934.9	980.4
Capital expenditure	192.2	217.0	227.7	238.6	250.0	262.1	274.8	288.2
Payment for financial assets 3/	69.2	87.6	18.8	19.6	17.8	18.7	19.6	20.5
Contingency	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
<b>Primary Balance</b>								
	-37.9	-41.8	68.5	84.9	106.5	122.0	126.1	133.4
<b>Overall Balance</b>								
	-432.1	-458.7	-372.1	-374.7	-365.6	-370.3	-384.6	-403.4
<b>Financing</b>								
Local Currency Debt (net)	320.9	328.6	230.6	306.3	305.0	306.4	322.1	354.6
Foreign Currency Debt (net)	29.8	38.5	39.7	69.2	60.2	61.6	62.7	49.0
Official Creditors	-37.1	6.8	-0.4	3.2	5.4	6.8	7.8	-5.9
Commercial Creditors	66.9	31.7	40.0	66.1	54.9	54.9	54.9	54.9
Transactions in Assets and Liabilities	115.5	39.1	64.9	0.0	0.0	0.0	0.0	0.0
Use of cash and other balances	-34.2	52.5	37.0	-0.9	0.3	2.2	-0.2	-0.1
<b>Gross Government Debt</b>								
	5694	6071	6412	6854	7285	7722	8177	8652
(In percent of GDP)								
<b>Total Revenue and Grants</b>								
Tax revenue	27.4	28.6	28.7	28.8	28.8	28.8	28.8	28.8
Personal income tax	23.9	25.1	25.3	25.3	25.3	25.3	25.3	25.3
Corporate income tax	9.9	10.3	10.4	10.4	10.4	10.4	10.4	10.4
VAT	4.3	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Other 4/	6.2	6.4	6.4	6.4	6.4	6.4	6.4	6.4
Non-tax revenue	3.5	3.9	4.0	3.9	4.0	3.9	3.9	3.9
Provinces, social security, and other entities	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
<b>Total Expenditure</b>								
Current expenditure	33.2	34.5	33.3	33.2	32.9	32.8	32.7	32.7
Wages and salaries	29.7	30.5	30.2	30.1	29.9	29.8	29.7	29.7
Other goods and services	10.3	10.6	10.5	10.5	10.4	10.4	10.3	10.3
Interest	4.4	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Transfers	5.3	5.4	5.4	5.4	5.3	5.3	5.2	5.2
Capital expenditure	9.6	9.9	9.7	9.7	9.6	9.6	9.5	9.5
Payment for financial assets	2.6	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Contingency	0.9	1.1	0.2	0.2	0.2	0.2	0.2	0.2
<b>Primary Balance</b>								
	-0.5	-0.5	0.8	1.0	1.2	1.3	1.3	1.3
<b>Overall Balance</b>								
	-5.8	-5.9	-4.6	-4.4	-4.1	-4.0	-3.9	-3.9
<b>Financing</b>								
Local Currency Debt (net)	5.8	5.9	4.6	4.4	4.1	4.0	3.9	3.9
Foreign Currency Debt (net)	4.3	4.2	2.8	3.6	3.4	3.3	3.3	3.5
Transactions in Assets and Liabilities	0.4	0.5	0.5	0.8	0.7	0.7	0.6	0.5
Use of cash and other balances	1.6	0.5	0.8	0.0	0.0	0.0	0.0	0.0
<b>Structural Primary Balance (Percent Of Potential GDP)</b>								
	-0.2	-0.2	0.9	1.0	1.2	1.3	1.3	1.3
<b>Gross Government Debt</b>								
	77.0	78.5	79.0	80.6	81.8	82.7	83.5	84.2
<b>Memorandum Items:</b>								
Fiscal year GDP (billions of rand)	7,395	7,732	8,113	8,503	8,907	9,340	9,793	10,270
Fiscal year real GDP growth (percent)	0.7	1.4	1.5	1.6	1.7	1.8	1.8	1.8
Fiscal year GDP Deflator growth (in percent)	3.5	3.2	3.4	3.2	3.0	3.0	3.0	3.0
Fiscal year nominal GDP growth (percent)	4.3	4.6	4.9	4.8	4.8	4.9	4.9	4.9

Sources: National Treasury, and IMF staff calculations.

1/ Data are on a fiscal year basis (April 1 - March 31). Consolidated government includes the national government, social security funds, provincial governments,

2/ Under staff definition and in line with international accounting standards, payment for financial assets includes support to SOEs (mainly Eskom - averaging 1 percent of GDP per year during FY23-25). The authorities record support to SOEs below the line.

3/ Non-tax revenue excludes transactions in financial assets and liabilities. These transactions are classified as a domestic financing item given that they involve primarily revenues associated with realized exchange rate valuation gains from the holding of foreign currency deposits and other conceptually similar smaller items. The authorities include transactions in financial assets and liabilities in non-tax revenue.

4/ Reflect transfers from South Africa to other SACU countries.

**Table 3. South Africa: Balance of Payments, 2024–31**

	2024	2025	2026	2027	2028	2029	2030	2031
	Est.				Proj.			
(in billions of USD)								
<b>Balance On Current Account</b>	-2.6	-3.7	-5.5	-7.4	-8.7	-9.4	-10.2	-10.7
Trade balance (Goods and Services)	7.8	7.4	7.7	6.9	6.0	5.9	6.2	6.5
Goods Balance	11.7	11.0	11.9	11.5	10.5	10.6	11.0	11.4
Exports	111.4	117.2	132.8	139.6	145.0	150.8	157.0	163.5
Imports	99.7	106.2	120.9	128.1	134.5	140.2	146.1	152.0
Services Balance	-3.9	-3.6	-4.3	-4.6	-4.5	-4.7	-4.8	-5.0
Exports	16.1	16.9	18.7	19.7	20.5	21.3	22.5	23.6
Imports	20.0	20.6	22.9	24.3	25.0	26.0	27.3	28.5
<b>Balance On Income</b>	-7.9	-8.7	-10.0	-10.9	-11.2	-11.6	-12.6	-13.2
Income receipts	10.7	11.5	13.0	13.0	13.3	13.2	13.2	13.2
Income payments	18.6	20.2	22.9	23.9	24.5	24.9	25.8	26.5
<b>Balance on Transfers</b>	-2.5	-2.5	-3.2	-3.4	-3.5	-3.7	-3.8	-3.9
<b>Balance on Capital and Financial Account</b>	-3.6	-3.7	-5.5	-7.4	-8.7	-9.4	-10.2	-10.6
Balance on capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance on financial account	-3.6	-3.7	-5.5	-7.4	-8.7	-9.4	-10.2	-10.6
Direct investment	-3.6	-2.6	-3.3	-4.4	-5.6	-5.9	-6.6	-6.9
Liabilities	2.4	2.2	2.8	3.9	5.1	5.3	6.1	6.3
Assets	-1.2	-0.4	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6
Portfolio investment	1.1	-0.4	-0.9	-1.5	-1.5	-1.6	-1.7	-1.7
Liabilities	0.4	-2.2	-0.9	-0.5	-1.0	-1.1	-1.1	-0.6
Assets	1.5	-2.6	-1.9	-2.0	-2.6	-2.7	-2.8	-2.3
Financial derivatives	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	-9.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assets	-9.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	-0.9	-0.7	-1.2	-1.5	-1.5	-1.9	-1.9	-2.0
Liabilities	7.1	9.1	9.2	10.0	10.5	11.0	11.0	11.0
Assets	6.2	8.4	7.9	8.5	9.0	9.1	9.1	9.0
<b>Errors and Omissions</b>	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Gross Reserves (End of Period)</b>	65.5	75.9	75.9	75.9	75.9	75.9	75.9	75.9
(in percent of GDP)								
<b>Balance on Current Account</b>	-0.7	-0.9	-1.2	-1.5	-1.7	-1.8	-1.8	-1.8
Trade Balance (goods and services)	1.9	1.7	1.6	1.4	1.2	1.1	1.1	1.1
Goods Balance	2.9	2.6	2.5	2.3	2.0	2.0	2.0	2.0
Exports	27.8	27.2	28.0	28.4	28.3	28.3	28.4	28.4
Imports	24.9	24.6	25.5	26.0	26.3	26.3	26.4	26.4
Services Balance	-1.0	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Exports	4.0	3.9	3.9	4.0	4.0	4.0	4.1	4.1
Imports	5.0	4.8	4.8	4.9	4.9	4.9	4.9	5.0
<b>Balance on income</b>	-2.0	-2.0	-2.1	-2.2	-2.2	-2.2	-2.3	-2.3
<b>Balance on transfers</b>	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
<b>Balance on Capital and Financial Account</b>	-0.9	-0.9	-1.2	-1.5	-1.7	-1.8	-1.8	-1.8
Balance on capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance on financial account	-0.9	-0.9	-1.2	-1.5	-1.7	-1.8	-1.8	-1.8
Direct investment	-0.9	-0.6	-0.7	-0.9	-1.1	-1.1	-1.2	-1.2
Portfolio investment	0.3	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Financial derivatives	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	-0.2	-0.2	-0.3	-0.3	-0.3	-0.4	-0.3	-0.3
<b>Errors and Omissions</b>	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Gross Reserves (End of Period)</b>	16.3	17.6	16.0	15.4	14.8	14.3	13.7	13.2
in months of next year's imports	6.2	6.3	6.0	5.7	5.5	5.3	5.0	4.8
<b>Memorandum Items:</b>								
Total external debt (percent of GDP)	42.0	45.7	45.9	47.0	48.4	49.6	50.7	51.5
International investment position (net, in percent of GDP)	28.9	29.5	25.6	23.1	20.4	17.8	15.3	12.8
GDP at current prices (US\$ billion)	401	431	474	492	512	532	554	576

Sources: SARB, Statistics South Africa, and IMF staff calculations.

**Table 4. South Africa: Depository Corporations and Monetary Aggregates, 2020–24**

	2020	2021	2022	2023	2024
(In billions of Rand)					
<b>Depository Corporations</b>					
<b>Net foreign assets</b>	1193	1336	1328	1436	1492
Claims on nonresidents	1780	1836	1954	2066	2221
Central Bank	828	924	1087	1166	1235
Other depository corporations	952	913	867	899	986
Liabilities to nonresidents	587	500	626	630	730
Central Bank	13	12	17	17	18
Other depository corporations	574	488	610	613	711
<b>Net domestic assets</b>	3065	3163	3570	3805	4073
Net claims on public sector	67	13	41	167	399
Central Bank	-504	-641	-816	-810	-667
Other depository corporations	570	654	856	977	1066
Net claims on private sector (credit)	3446	3596	3890	4048	4226
Central Bank	1	1	0	1	0
Other depository corporations	3445	3594	3889	4047	4226
Net claims on NBFIs	135	75	78	131	103
Central Bank	3	3	3	4	3
Other depository corporations	131	71	74	127	100
Capital and Reserves	533	571	576	618	776
Central Bank	27	28	25	38	155
Other depository corporations	506	543	552	580	621
Other items, net	-74	-46	-49	-23	-40
<b>Broad Money</b>	4119	4354	4715	5089	5430
Currency in circulation	140	144	129	146	147
Transferable Deposits	955	1015	1045	1130	1152
Other Deposits	2564	2752	2922	3194	3542
Securities	460	442	619	619	589
<b>Nonliquid Liabilities</b>	139	145	182	152	134
(Annual percentage change)					
<b>Net foreign assets</b>	36	12	-1	8	4
<b>Net domestic assets</b>	6	3	13	7	7
Net claims on public sector	-39	-80	208	307	139
Net claims on private sector (credit)	2	4	8	4	4
<b>Broad Money</b>	10	6	8	8	7
(In billions of Rand)					
<b>Other Financial Corporations (NBFIs)</b>					
<b>Net foreign assets</b>	1683	3050	2997	3568	...
<b>Net domestic assets</b>	5213	5651	5615	5738	...
Net claims on public sector	1644	1746	1741	1828	...
Net claims on private sector (credit)	2621	2189	2215	2311	...
Claims on depository corporations	1482	1767	1972	2122	...
Other items, net	3149	4278	4164	4407	...
<b>Memorandum Items:</b>					
Broad money multiplier (ratio)	13.8	14.0	13.1	12.9	10.8

Sources: IFS, SARB, and IMF staff calculations.

**Table 5. South Africa: Financial Soundness Indicators, 2019–25**

	2019	2020	2021	2022	2023	2024	2025
(Percent)							
<b>Capital Adequacy</b>							
Regulatory capital to risk weighted assets 1/	16.6	16.6	18.1	17.5	17.4	17.2	17.4
<i>of which Tier 1 capital 1/</i>	15.6	15.7	17.1	16.6	15.2	14.9	15.3
Capital to total assets 2/	8.0	7.6	8.1	7.6	7.8	7.9	7.9
<b>Asset Quality</b>							
Impaired advances to gross loans and advances 1/	3.9	5.2	4.5	4.5	5.4	5.2	5.0
Nonperforming loans net of provisions to capital 2/	18.1	25.1	18.6	16.1	19.1	18.3	16.9
<b>Earnings, Profitability, and Efficiency</b>							
Return on assets 1/	1.5	0.7	1.4	1.5	1.1	1.2	1.2
Return on equity 1/	14.0	7.4	13.2	13.5	14.6	15.8	16.0
Net interest income to interest-earning assets 1/	3.9	3.7	3.9	4.0	4.1	4.1	4.0
Non-interest revenue to total assets 1/	2.2	1.9	2.0	2.0	2.0	2.1	2.1
Operating expenses to total assets 1/	3.1	2.7	2.8	2.8	2.9	2.9	2.9
Cost to Income Ratio 1/	58.8	58.7	58.3	57.0	57.0	56.6	56.8
Interest margin to gross income 2/	53.9	54.9	54.7	54.4	58.1	58.3	58.1
Trading income to total income 2/	5.6	6.2	6.6	10.0	17.2	19.0	14.5
Non-interest expenses to gross income 2/	62.5	63.1	62.4	56.1	54.1	54.6	54.1
Personnel expenses to non-interest expenses 2/	49.1	47.4	49.0	51.3	54.5	54.1	53.9
<b>Liquidity</b>							
Liquid assets held to liquid-asset requirement 1/	262.2	304.7	327.5	338.0	344.6	357.3	361.8
Liquidity coverage ratio 1/	143.3	138.9	144.8	153.2	147.7	154.3	155.7
Ten largest depositors to total funding 1/	16.4	19.2	19.5	20.8	19.1	17.2	19.2
Liquid assets to total assets 2/	18.5	18.7	19.2	18.1	16.0	16.7	15.5
Liquid assets to short-term liabilities 2/	37.1	35.2	34.6	38.1	34.2	35.4	33.0
Customer deposits to total loans 2/	63.9	70.0	71.5	73.3	74.9	74.4	75.9
<b>Exposure to FX Risk</b>							
Net open FX position to capital 2/	0.9	0.7	0.6	0.5	0.4	0.4	0.4
Foreign-currency-denominated loans to total loans 2/	8.3	8.7	7.8	4.3	3.9	4.7	5.1
Foreign-currency-denominated liabilities total liabilities 2/	7.8	7.1	7.0	3.0	3.2	3.6	3.3
<b>Derivatives</b>							
Gross asset position in financial derivatives to capital 2/	51.1	102.1	49.5	28.0	28.5	33.6	23.4
Gross liability position in financial derivatives to capital 2/	49.2	98.3	52.4	30.7	30.0	30.9	22.4
<b>Real Estate Market</b>							
Residential real estate price growth 3/	2.5	2.4	6.7	4.3	1.5	0.8	2.9
Residential real estate loans to total loans 2/	24.2	23.6	24.3	25.5	25.0	24.5	24.3
Commercial real estate loans to total loans 2/	8.0	8.0	7.9	8.0	7.7	7.3	7.2
<b>Debt</b>							
Household debt to GDP 1/	40.4	42.6	41.7	34.8	34.9	34.1	33.4
Household debt service to disposable income 4/	9.4	7.7	7.2	7.2	7.9	8.4	8.5
Corporate debt to GDP 5/	40.2	40.5	35.5	34.3	33.8	33.5	32.1

Sources: Financial Soundness Indicators Database (FSID), Haver, SARB Prudential Authority, and IMF staff calculations.

1/ 2019–2024 data are end of period, 2025 data are Q3 and sourced from SARB Prudential Authority.

2/ 2019–2024 data are end of period, 2025 data are Q2 and sourced from IMF FSID.

3/ Annual averages from First National Bank, Haver. 2025 data is the average through Q3.

4/ Annual averages from BIS, Haver. 2025 data is the average through Q2.

5/ Annual averages from IIF, Haver. 2025 data is the average through Q3.

**Table 6. South Africa: Medium-Term Macroeconomic Framework, 2024–31**

	2024	2025	2026	2027	2028	2029	2030	2031
	Est.			Proj.				
<b>Real GDP (Annual Percent Change Unless Otherwise Indicated)</b>	0.5	1.3	1.4	1.5	1.7	1.8	1.8	1.8
Total domestic demand	-0.8	2.1	1.9	1.8	1.9	1.9	1.9	1.9
Private consumption	1.0	3.0	1.3	1.5	1.7	1.8	1.8	1.8
Public consumption	-0.1	0.1	2.8	1.5	1.5	1.3	1.3	1.3
Gross fixed investment	-3.9	-2.1	3.3	3.3	3.3	3.1	3.1	3.1
Exports	-2.8	-1.9	2.4	2.9	2.9	2.9	3.0	2.8
Imports	-6.4	1.0	4.0	3.7	3.6	3.2	3.0	2.8
Net exports contribution to growth	1.1	-0.8	-0.5	-0.3	-0.3	-0.1	-0.1	-0.1
Output Gap (percent of potential GDP)	-0.3	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Real GDP per capita 1/	-0.8	-0.1	-0.1	0.0	0.2	0.3	0.3	0.3
<b>Prices and Labor</b>								
GDP deflator (annual percent change)	3.9	3.1	3.5	3.3	3.0	3.0	3.0	3.0
CPI (annual average, annual percent change)	4.4	3.2	3.6	3.3	3.0	3.0	3.0	3.0
Unemployment rate (percent of labor force, annual average)	32.6	32.6	32.5	32.4	32.3	32.2	32.0	31.9
Unit labor costs (formal nonagricultural)	3.1	3.3	3.4	3.2	3.0	3.0	3.0	3.0
<b>Savings-investment balance (Percent of GDP)</b>								
Gross domestic savings-investment balance	-0.7	-0.9	-1.2	-1.5	-1.7	-1.8	-1.9	-1.9
Private savings-investment balance	4.8	4.5	3.9	3.4	3.0	2.7	2.6	2.6
Private savings	14.8	13.6	13.2	12.9	12.7	12.6	12.7	12.8
Private investment	10.0	9.1	9.2	9.5	9.7	9.9	10.0	10.2
Public savings-investment balance	-5.5	-5.4	-5.1	-4.9	-4.7	-4.5	-4.5	-4.5
Public savings	-1.4	-1.1	-0.7	-0.5	-0.3	-0.1	-0.1	-0.1
Public investment 2/	4.1	4.3	4.4	4.4	4.4	4.4	4.4	4.4
<b>Fiscal indicators (Percent of GDP Unless Otherwise Indicated) 3/</b>								
Revenue, including grants	27.2	28.1	28.5	28.6	28.6	28.7	28.7	28.6
Expenditure and net lending	33.0	34.0	33.4	33.0	32.8	32.7	32.6	32.6
Overall balance	-5.8	-5.8	-4.9	-4.4	-4.2	-4.0	-3.9	-3.9
Primary balance	-0.5	-0.5	0.5	0.9	1.1	1.3	1.3	1.3
Structural primary balance (percent of potential GDP)	-0.5	-0.5	0.6	0.9	1.1	1.3	1.3	1.3
Gross government debt	76.0	77.8	78.5	79.8	81.1	82.1	82.9	83.6
<b>Balance of Payments (Percent of GDP Unless Otherwise Indicated)</b>								
Exports of Goods and Services	31.8	31.1	31.9	32.3	32.4	32.3	32.4	32.4
Imports of Goods and Services	-29.9	-29.4	-30.3	-30.9	-31.2	-31.2	-31.3	-31.3
Current account balance	-0.7	-0.9	-1.2	-1.5	-1.7	-1.8	-1.8	-1.8
Terms of trade (annual percentage change)	0.0	2.3	1.0	0.0	0.0	0.0	0.0	0.0
Gross reserves	16.3	17.6	16.0	15.4	14.8	14.3	13.7	13.2
Gross reserves (in months of imports)	6.2	6.3	6.0	5.7	5.5	5.3	5.0	4.8
Total external debt	42.0	45.7	45.9	47.0	48.4	49.6	50.7	51.5
<b>Memorandum items</b>								
Nominal GDP (billions of USD)	401	431	474	492	512	532	554	576

Sources: Haver, National Treasury, SARB, and IMF staff calculations.

1/ Per-capita GDP figures are computed using STATS SA mid-year population estimates.

2/ Public investment includes investments by SOEs.

3/ Calendar year data (January 1 - December 31).

## Annex I. Status of Key Recommendations from the 2024 Article IV Consultation

	Recommendation	Status
Fiscal Policy	Achieve a fiscal consolidation of 1 percentage points of GDP per year during FY25–27, mostly by reducing public spending, necessary to put public debt on a downward path toward more prudent levels (60–70 percent of GDP) over the next 5–10 years.	Debt has continued to rise, reaching 78 percent of GDP by June 2025. The November 2025 MTBPS proposes a primary balance adjustment of only 0.2 percentage points of GDP in FY25, 0.8 ppt in FY26, and 0.5 ppt in FY27 (based on the authorities' projections). Beyond freezing personal income tax brackets increasing certain excise duties, and continuing efforts to improve tax administration, the MTBPS proposes measures to i) identify savings through the reduction, merger, or closure of low-priority and underperforming programs, ii) tighten verification processes for social grant eligibility, iii) manage compensation costs, including an audit to identify potential ghost workers, and iv) allow about 15,000 employees to exit the public service and, where possible, be replaced by younger workers through the Early Retirement Program.
	Introduce a fiscal rule anchored in a debt ceiling to complement the nominal primary expenditure ceiling.	As part of the FY25 budget, the authorities published a fiscal-anchors discussion document identifying options for possible fiscal rule but have not yet made any changes to their fiscal framework.
	Continue to enhance fiscal reporting and the effectiveness and transparency of public investment, including by undergoing a Public Investment Management Assessment (PIMA).]	The authorities have requested training on public investment management but have not yet undergone a PIMA.
Monetary and Financial Policy	Monetary policy should manage the normalization of the policy rate toward its neutral level.	The SARB cut the repo rate by 150 basis points (bps) since September 2024, underpinned by a sustained deceleration in inflation and inflation expectations.
	Shift from the current target band to a lower point target at an appropriate time, along with careful communication and close coordination between the SARB and Treasury.	In October 2025, the National Treasury announced that South Africa's new inflation target is 3 percent, with a +/-1 percentage point tolerance band, which will be implemented over the next two years.
	The authorities should continue to enhance monetary policy transparency and develop and perform stress-testing of the SARB balance sheet to guide decisions on distributions from the GFECRA account.	The SARB further enhanced transparency practices by publishing the votes of the Monetary Policy Committee and implementing clear guidelines for GFECRA distribution, along with finalizing and adopting regular stress testing of the SARB's balance sheet.
	The flexibility of the rand should be maintained, while ensuring an adequate level of international reserves.	The government has maintained a flexible ER regime. International reserves have increased, reaching 99 percent of the IMF's ARA metric in 2025.
	Continue ongoing monitoring and stress testing of the financial sector and consider prudential measures as needed. Enhance NBFI reporting requirements and adopt a risk-based and harmonized regulatory and supervisory approach for banks and NBFI.	The supervisory authorities have continued to stress test the banking sector, including through new climate risk stress tests. They also undertake regular surveys of bank exposures to the government. By 2028 the supervision of pension funds and collective investment schemes (CIS) will move from the FSCA to the SARB/PA.
	Continue to strengthen AML/CFT efforts to pave the way for existing the Financial Action Task Force's (FATF) grey list.	South Africa was removed from the FATF gray list in October 2025.

	<b>Recommendation</b>	<b>Status</b>
Structural Reforms	<i>Electricity:</i> Develop a competitive electricity market by implementing Electricity Regulation Amendment Act; establish a fully independent transmission system operator; put in place regulatory frameworks for transmission and distribution; advance Independent Power Transmission Projects (ITP); improve Eskom's financial viability.	The revised Market Code for the wholesale electricity market was released in June 2025 for public comments. A request for prequalification of ITPs was launched in July with an expected launch of the pilot ITPs in November 2025. Eskom has reported a profit in the six months to September 2025, reflecting improved operational performance. The introduction of a fully independent transmission system operator is still pending.
	<i>Logistics:</i> Establish fully independent transport and ports regulators, finalize legal framework for a competitive rail sector with private sector participation, ensure transparent port concession process, and improve Transnet's financial viability.	Eleven private companies qualified in August to access Transnet's Freight Rail network, covering 41 routes and expected to add 20 million tons of freight annually. Transnet required R94.8 billion in new government guarantees (in addition to R51 billion earlier in 2025) to support its operations and debt. The introduction of a fully independent transport and ports regulator is still pending.
	<i>Other sectors:</i> Establish an Independent Economic Regulator for the water sector and bolster governance of the new National Water Resources Infrastructure Agency; digitalize the payment system, including through a Digital ID; complete eVisa reform.	Reforms remain pending in the water sector. The SARB plans to open the National Payment System to non-banks and fintechs, a key step toward digitalization and modernization of payments infrastructure.
	<i>Business environment:</i> Reduce red tape, strengthen cooperation between the Competition Commission and other regulators, improve SMME fair access to markets.	Reforms remain pending.
	<i>Governance:</i> Implement the State Capture Commission Recommendations, including by promoting whistleblower protection, strengthening the independence of the National Prosecuting Authority (NPA), bolstering the autonomy of Public Service Commission, and legislating merit-based selection and appointments of SOE boards.	Out of the 60 actions identified in the Response Plan to the Zondo Commission Recommendation, 29 have been completed, 14 are on track, and 17 are delayed. The NPA has been actively implementing 218 criminal investigation recommendations, and R11 billion funds have been recovered. The 2025 General Intelligence Laws Amendment Act strengthened oversight mechanisms, and a draft Whistleblower Protection Bill has been finalized in October 2025.
	<i>Labor market:</i> Address spatial inequality through zoning regulations and improved public transportation; incentivize apprenticeships and improve job search; streamline Employment Protection Legislation for SMEs; exempt SMEs from collective bargaining agreements.	The government has announced new reforms to address spatial inequality under Operation Vulindlela 2, which remain to be implemented. A new Code of Practice on dismissal provides guidance on how legal obligations regarding dismissal apply and clarifies that the Code should not be interpreted as requiring small businesses to comply with obligations that are not practical for their operation. However, a broader labor market reform, including on collective bargaining, remains pending.
Climate	Climate: intensify efforts toward achieving climate goals, including by increasing the effective carbon tax and aligning new carbon budget with NDC targets.	In August, Eskom launched a first renewable energy program as a step toward decarbonizing the power sector. The carbon tax rate has not been increased.
Trade	Trade: Enhance trade integration by finalizing AfCFTA negotiations on remaining tariffs and protocols on competition, investment, and digital trade, lowering non-tariff barriers (e.g. relaxing localization requirements and reducing import licensing procedures), and upgrading customs systems.	The authorities are actively advancing AfCFTA implementation, having ratified the Protocol on Women and Youth and engaging in negotiations to finalize outstanding customs provisions and tariff schedules, as well as protocols on investment, competition, intellectual property rights.

## Annex II. External Sector Assessment

**Overall Assessment:** On a preliminary basis, the external position in 2025 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies. The CA deficit is estimated to have increased to 0.9 percent of GDP in 2025 from 0.7 percent in 2024. The CA deficit is projected to widen modestly to 1.2 percent of GDP in 2026 and stabilize around 1.8 percent of GDP over the medium term, driven by recovering imports.

**Potential Policy Responses:** A combination of bold structural reforms and fiscal consolidation is necessary to safeguard macroeconomic stability and bolster growth and can help support South Africa's external position. Structural reforms supporting competitiveness, jobs, and growth, should focus on addressing energy and logistics bottlenecks (including by promoting private sector participation), as well as on improving the business environment, governance, and the functioning of labor markets. An ambitious fiscal consolidation is needed to stabilize and put debt on a sustained downward path toward a more prudent level, while protecting vulnerable groups. Trade policy should aim to resolve trade tensions, promote clarity and transparency, and deepen economic integration, including through the implementation of the African Continental Free Trade Area. The flexible exchange rate should remain the main shock absorber, and maintaining an adequate level of international reserves can further support resilience to shocks.

<b>Foreign Asset and Liability Position and Trajectory</b>	<b>Background.</b> At end-2025, South Africa's NIIP is estimated at 27.9 percent of GDP, slightly below the 2024 level (and above the 26.5 percent average during 2020-24). The positive NIIP position is expected to moderate over the medium term as the CA deficit gradually widens. Gross external debt is estimated at 46 percent of GDP in 2025 and is expected to gradually rise over the medium term to about 51 percent of GDP by 2030, even as short-term external debt (on a residual maturity basis) is projected to decline slightly to about 12.8 percent of GDP by 2030, from 12.9 percent in 2025.					
	<b>Assessment.</b> The level and composition of NIIP and gross external debt indicate that South Africa's external position is sustainable. Risks from South Africa's large gross external liabilities are mitigated by limited sectoral foreign exchange mismatches, the large foreign asset position (including gross direct and portfolio investment holdings), and the liability composition (mostly in equities, with a significant share of external debt, 43 percent, being rand denominated).					
2025 (% GDP)	NIIP: 27.9	Gross Assets: 124.0	Debt Assets: 16.6	Gross Liab.: 96.1	Debt Liab.: 45.7	
<b>Current Account</b>	<b>Background.</b> The CA deficit is estimated at 0.9 percent of GDP in 2025, higher than 0.7 percent in 2024 and an average of 0.2 percent during 2019-2024, on account of a somewhat lower trade surplus. The CA deficit has been largely driven by public sector dissaving, which more than offsets the positive private saving-investment balance. Over the medium term, the CA deficit is projected to widen gradually to about 1.8 percent of GDP as import growth recovers alongside a recovery in domestic demand, more than offsetting gradually rising exports.					
	<b>Assessment.</b> Staff estimates a CA gap in the range of -0.1 to -1.8 percent of GDP in 2025 (-0.9 percent midpoint estimate). The cyclically adjusted CA is estimated at -1.2 percent of GDP in 2025, relative to a model-based EBA CA norm of 0.8 percent. Accounting for South Africa's lower life expectancy relative to other countries, an adjustor of 1.1 percentage points is applied, bringing the staff-adjusted CA norm to -0.3 percent of GDP. <sup>1</sup> This results in a staff CA gap of -0.9 percent of GDP, which is largely explained by structural factors outside of the model.					
2025 (% GDP)	CA: -0.9	Cycl. Adj. CA: -1.2	EBA Norm: 0.8	EBA Gap: -2.0	Staff Adj.: 1.1	Staff Gap: -0.9
<b>Real Exchange Rate</b>	<b>Background.</b> Following a 3.9 percent appreciation of the average CPI-based REER in 2024, the average REER in the first 11 months of 2025 appreciated by around 1 percent relative to the 2024 average. However, since 2019, the average REER has depreciated by about 6 percent.					
	<b>Assessment.</b> Based on the CA model, and taking model uncertainties into consideration, staff assess a REER gap of 0.2 to 7.6 percent (midpoint of 3.9 percent, applying an estimated elasticity of 0.24). However, REER-based regression points to a gap ranging between -7.0 percent (level approach) and -15.7 percent (index approach).					

<b>Capital and Financial Accounts: Flows and Policy Measures</b>	<p><b>Background.</b> Net FDI inflows are estimated to have declined marginally to 0.6 percent of GDP in 2025 from 0.9 percent in 2024, while net portfolio flows rose to 0.1 percent (inflow) compared to -0.3 percent (outflow) in 2024. Derivative net inflows declined to 0.0 percent of GDP from 0.1 percent, while other net investment held steady at 0.2 percent of GDP in 2025 from 2024. Gross external financing needs are estimated at 14.2 percent of GDP in 2025, up from 13.2 percent in 2024, driven by a slightly larger current account deficit and slight uptick in public sector amortizations.</p> <p><b>Assessment.</b> Risks from South Africa's traditionally large reliance on non-FDI inflows for external financing are mitigated by relatively small currency mismatches in the economy, the large equity liability composition of the NIIP, and its large and liquid domestic investor base. This market depth tends to reduce asset price volatility during periods of market stress.</p>
<b>FX Intervention and Reserves Level</b>	<p><b>Background.</b> South Africa's exchange rate regime is classified as floating. Central bank intervention in the FX market is rare. International reserves are estimated at about 17.6 percent of GDP at end-2025, covering about 6.3 months of imports and representing 136 percent of short-term debt. Reserves comprise about 99 percent of the IMF's composite ARA reserve adequacy metric (111 percent when capital controls are taken into account), in line with the recommended 100–150 percent range.</p> <p><b>Assessment.</b> Maintaining an adequate level of international reserves well within the recommended range can further support South Africa's resilience to shocks.</p>

<sup>1</sup> Because South Africa is among the few countries with relatively high adult mortality rates, the demographic indicators are adjusted to account for the younger average prime age and exit age from the workforce, resulting in a lower adjusted CA norm.

### Annex III. Risk Assessment Matrix<sup>1</sup>

Nature/Source of Threat	Likelihood	Time Horizon	Expected Impact on Economy	Policy Responses
<b>Geopolitical Tensions.</b> Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	High	ST	<b>H.</b> Higher commodity price volatility and global uncertainty could spill over to South Africa through lower trade and capital flows and higher inflation. Domestic investment decisions may also be affected by the higher level of global uncertainty. However, the country's precious metal (including gold) exports may offset some of the adverse effects.	Proceed with a gradual, credible, and growth-friendly fiscal consolidation, while preserving well-targeted social spending. If inflation rises and expectations de-anchor, stand ready to tighten monetary policy rates. Implement structural reforms to bolster growth and exports, intensify efforts to enhance regional trade integration (including through the AfCFTA), and facilitate private sector-led employment creation.
<b>Escalating Trade Measures and Prolonged Global Uncertainty.</b> Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge—especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	High	ST-MT	<b>H.</b> Higher global tariffs and other trade barriers resulting in a decline in global demand would impact South Africa's medium-term exports and growth, which could be further amplified by disruptions in global supply chains.	Accelerate structural reforms to improve business climate to facilitate smooth resource reallocation between affected sectors. Advance the implementation of the regional trade integration under the AfCFTA. If industrial policies are introduced to support affected sectors, they should be carefully targeted, time-bound, and designed to minimize market distortions.
<b>Commodity Price Volatility.</b> Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	High	ST-MT	<b>M.</b> Should terms of trade worsen for South Africa, this could negatively affect its current account, growth, and tax revenues. In contrast, higher commodity prices could temporarily improve the CA.	Frontload fiscal consolidation if budget financing becomes problematic, while preserving well-targeted social spending. Tighten monetary policy further if large currency depreciation and a surge in general uncertainty de-anchor inflation expectations. Implement bold structural reforms to bolster growth, and exports, and facilitate private sector-led employment creation.
<b>Global Financial Market Volatility and Correction.</b> Stretched asset valuations, easy financial conditions, and subdued volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance, triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility. Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations.	High	ST-MT	<b>H.</b> South Africa's asset markets and financial system could be adversely impacted by sudden shifts in investor sentiment toward EMs. Capital flow reversals would cause a sharp tightening of financial conditions, rand depreciation, and an increase in risk premia, with negative consequences for the external and fiscal positions. That said, the country's large external asset position, diversified economy, sophisticated financial system, and flexible exchange rate regime provide a buffer.	Provide temporary liquidity support to the financial system if domestic financing conditions tighten acutely and threaten financial stability. Consider reinstating swap lines with major central banks. Frontload the envisaged fiscal tightening if budget financing becomes problematic. Tighten policy rate further if large currency depreciation and a surge in general uncertainty de-anchor inflation expectations.

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Nature/Source of Threat	Likelihood	Time Horizon	Expected Impact on Economy	Policy Responses
<b>Global and Domestic Fiscal Vulnerabilities and Higher Long-Term Interest Rates.</b> Rising public debt and deficit levels may put upward pressure on long-term interest rates and increase the risk of sovereign bond market disruptions. These developments could amplify capital flow volatility, tighten financial conditions, threaten sovereign debt sustainability, and trigger global spillovers. To the extent that major economies are affected, market imbalances (such as reduced investor capacity to absorb sovereign debt) could emerge, exacerbating risks from a close sovereign-financial nexus.	<b>High</b>	ST-MT	<p><b>H.</b> Higher global interest rates and tighter financial conditions would increase borrowing costs and contribute to a widening of the fiscal deficit.</p> <p>Domestically, a perception that public debt is unsustainable would lead to capital outflows, amid deteriorating confidence. Financial sector vulnerability would increase, with entrenched bank-sovereign nexus and loss of appetite for sovereign credit.</p>	Frontload fiscal consolidation if budget financing becomes problematic, while preserving well targeted social spending. Implement structural reforms to bolster growth and exports and facilitate private sector-led employment creation. Monitor financial-sector risks closely and be ready to take preemptive measures to safeguard financial stability.
<b>New Global Trade Agreements.</b> A breakthrough in trade talks could reduce uncertainty and protectionism, boost investment and productivity, and support broader reforms to lift medium-term growth.	<b>Low</b>	MT-LT	<p><b>L.</b> Lower effective tariffs and a renewal of AGOA could provide a boost to South Africa's exports and growth.</p>	Implementing structural reforms can support competitiveness and exports.
<b>Domestic Social Discontent.</b> High living costs, weak growth, and inequality may fuel social unrest, hinder necessary reforms, and weaken countries' capacity to address domestic and external shocks.	<b>Medium</b>	ST-MT	<p><b>M.</b> Social tensions would disrupt key infrastructure and supply channels and weaken confidence generally, dampening economic growth. Employment would deteriorate, fiscal deficits worsen, risk premia surge, and domestic financing conditions tighten.</p>	Any support measures should be temporary and well targeted. Implement structural reforms to bolster growth and exports and facilitate private sector-led employment creation.
<b>Delays in Implementing Domestic Structural Reforms.</b> Difficulties in attaining consensus within the government of national unity on needed reforms including in the electricity and transportation sectors, delay their implementation. On the upside, reforms could be implemented faster under the new administration.	<b>Medium</b>	ST-MT-LT	<p><b>H.</b> Renewed electricity shortages and disruptions at ports and rails, would erode confidence, trigger capital outflows, and raise financing costs amid sovereign rating downgrades. Poverty, inequality, and unemployment would worsen, and fiscal costs will rise.</p> <p>On the upside, faster reform implementation could lead to higher confidence and growth, supporting capital inflows and the fiscal position.</p>	Swiftly implement reforms to address electricity and transportation bottlenecks, including by attracting private sector participation, improving SOE operational efficiency, bolstering the business environment, strengthening governance, and improving the flexibility of labor markets.

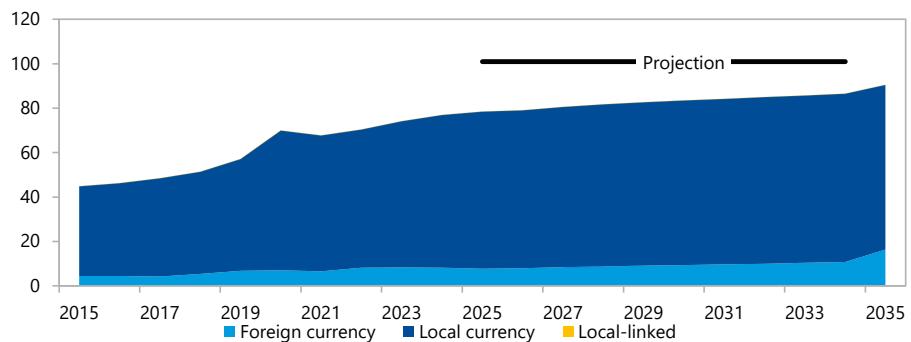
## Annex IV. Sovereign Risk and Debt Sustainability Framework

Figure 1. South Africa: Risk of Sovereign Stress

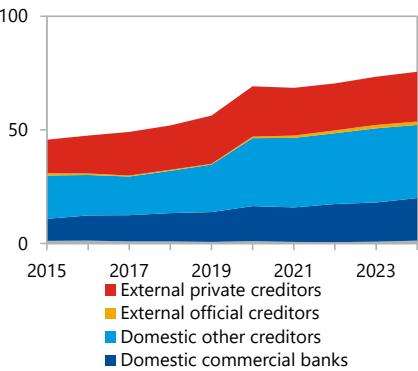
Horizon	Mechanical signal	Final assessment	Comments		
Overall	...	Moderate	The overall risk of sovereign stress is moderate, as the authorities still have time to address unfavorable medium-term debt dynamics arising from relatively weak growth, high borrowing costs, and insufficient primary surpluses. Mitigating factors include the depth of the domestic investor pool and low FX and short-term debt exposure. A credible medium-term fiscal consolidation together with ambitious growth-enhancing structural reforms are key to put debt on a downward path and contain medium term sovereign stress risks.		
<b>Near term 1/</b>					
Medium term	Moderate	<b>High</b>	Medium-term risks are assessed as high, given the probability of debt not stabilizing and the elevated terminal debt level. The stress tests for commodity and contingent liabilities further confirm the high risk, including for GFN. Tighter global financial conditions, additional spending pressures, and large SOE liabilities exacerbate medium-term risks.		
Fanchart	<b>High</b>	...			
GFN	Moderate	...			
Stress test	Comm. Prices Cont. Liabty.	...			
Long term	...	<b>High</b>	In the absence of policy changes, the persistence of medium-term factors which imply a non-stabilizing medium term debt path would also affect the long-term outlook. Financing needs for climate mitigation would substantially increase public debt and GFN if borne fully by the government at market rates.		
<b>Sustainability assessment 2/</b>		Not required			
<b>Debt stabilization in the baseline</b>		No			
<b>DSA Summary Assessment</b>					
<p>Commentary: South Africa is at a moderate overall risk of sovereign stress. Debt is not expected to stabilize in the baseline over the medium term. However, medium-term liquidity risks as analyzed by the GFN Financeability Module are moderate, with the currency and maturity composition of debt mitigating these risks. The deep domestic capital markets further help mitigate the risks. Advancing fiscal consolidation as part of a credible medium-term framework and structural reforms to boost growth are needed to contain medium term risks of sovereign stress. In the long term, already high levels of debt underscore the need for greater private sector involvement to achieve climate mitigation targets, increased use of concessional financing, raising additional revenue (including through a carbon tax) and achieving efficiency gains in public spending.</p>					
<p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p>					
<p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p>					
<p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>					

Figure 2. South Africa: Debt Coverage and Disclosures

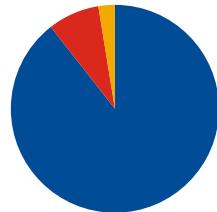
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Commentary: Calculations are based on the authorities' general government budget which includes central government (comprising of the national government and social security funds) and provincial governments. Consolidated general government debt figures, which also include municipalities and extra-budgetary institutions, are not available due to difficulties in identifying cross debt holdings across institutional sectors. Even though these institutions can borrow, their expenditure is funded through transfers from the national government and are thus already captured to a considerable extent. Calculations also exclude SOEs, whose indebtedness has increased rapidly in recent years.																																																																																																																													

**Figure 3. South Africa: Public Debt Structure Indicators****Debt by Currency (Percent of GDP)**

Note: The perimeter shown is central government.

**Public Debt by Holder (Percent of GDP)**

Note: The perimeter shown is central government.

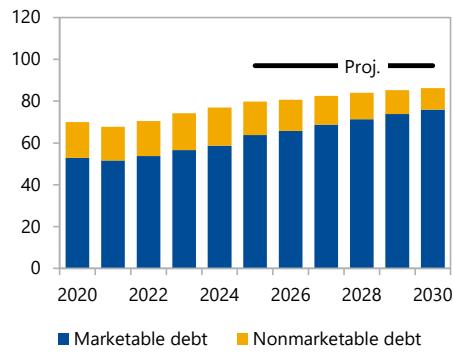
**Public Debt by Governing Law, 2024 (Percent)**

■ Domestic law

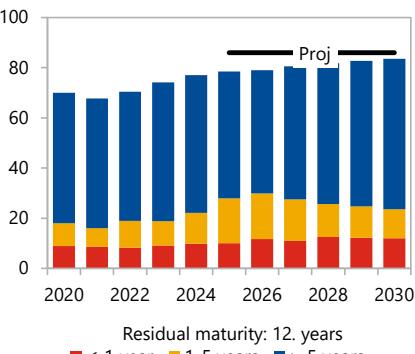
■ Foreign law ex. multilateral

■ Multilateral

Note: The perimeter shown is central government.

**Debt by Instruments (Percent of GDP)**

Note: The perimeter shown is central government.

**Public Debt by Maturity (Percent of GDP)**

Note: The perimeter shown is central government.

Commentary: The debt-to-GDP ratio is projected to rise in the projection period, driven primarily by unfavorable automatic debt dynamics. Even though non-residents' local currency bond purchases have increased in recent months, domestic financing sources are expected to continue to play a dominant role. The charts also show the relatively favorable debt composition with relatively long maturities and low foreign currency denominated debt.

**Figure 4. South Africa: Baseline Scenario**

(Percent of GDP unless indicated otherwise)

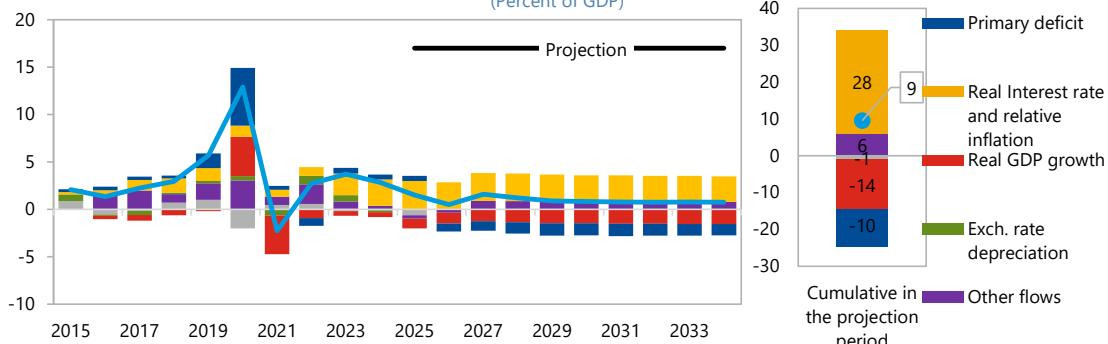
	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public Debt	77.0	78.5	79.0	80.6	81.8	82.7	83.5	84.3	85.0	85.8	86.5
Change in public debt	2.8	1.5	0.5	1.6	1.2	0.9	0.8	0.8	0.7	0.8	0.7
Contribution of identified flows	3.0	2.1	0.5	1.6	1.2	0.9	0.9	0.8	0.8	0.8	0.8
Primary deficit	0.5	0.5	-0.8	-1.0	-1.2	-1.3	-1.3	-1.3	-1.3	-1.2	-1.2
Noninterest revenues	27.4	28.6	28.7	28.8	28.8	28.8	28.8	28.8	28.8	28.8	28.7
Noninterest expenditures	27.9	29.1	27.8	27.8	27.6	27.5	27.5	27.5	27.5	27.5	27.6
Automatic debt dynamics	2.1	1.9	1.7	1.7	1.6	1.4	1.3	1.3	1.3	1.3	1.2
Real interest rate and relative inflation	2.8	3.0	2.8	2.9	2.9	2.8	2.8	2.8	2.7	2.7	2.7
Real interest rate	2.7	2.9	2.7	2.8	2.8	2.7	2.7	2.6	2.6	2.6	2.6
Relative inflation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Real growth rate	-0.5	-1.0	-1.1	-1.2	-1.3	-1.4	-1.4	-1.5	-1.5	-1.5	-1.5
Real exchange rate	-0.2	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.4	-0.3	-0.3	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions <sup>1</sup>	0.4	-0.3	-0.3	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Contribution of Residual <sup>2</sup>	-0.1	-0.6	0.0	-0.1	0.0	0.0	0.0	-0.1	0.0	-0.1	-0.1
 Gross Financing Needs	14.5	15.9	14.0	15.6	14.7	16.2	16.1	16.0	14.1	13.9	15.4
of which: debt service	14.0	15.4	14.9	16.6	15.9	17.5	17.4	17.3	15.3	15.1	16.6
Local currency	12.9	14.1	13.8	15.7	14.9	16.3	16.4	16.8	14.5	14.6	16.0
Foreign currency	1.1	1.3	1.1	0.9	1.0	1.1	0.9	0.5	0.8	0.6	0.6
 Memo:											
Real GDP growth (percent)	0.7	1.4	1.5	1.6	1.7	1.8	1.8	1.8	1.8	1.8	1.8
Inflation (GDP deflator; percent)	3.5	3.2	3.4	3.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Nominal GDP growth (percent)	4.3	4.6	4.9	4.8	4.8	4.9	4.9	4.9	4.9	4.9	4.9
Effective interest rate (percent)	7.3	7.1	7.0	7.0	6.7	6.5	6.4	6.3	6.3	6.2	6.2

1 This includes the impact of GFECRA.

2 Also includes contribution from real appreciation/depreciation of Rand against US dollar in projection years including 2025.

**Contribution to Change in Public Debt**

(Percent of GDP)



Commentary: Public debt will continue to rise, driven by still relatively high average interest rates on public debt. While the real GDP growth and modest primary surpluses are expected to offset some of the unfavorable automatic debt dynamics in the longer-term, they are insufficient to lower the public debt ratio. GFNs are projected to remain on average 15.2 percent of GDP in the medium term and rise to above 16.0 percent of GDP in 2029-31, despite the still-favorable maturity and currency structure of the debt. The Eskom debt relief arrangement is included above the line as a capital transfer, resulting in higher noninterest expenditures for 2024 and 2025. The distribution of R181 billion from the SARB's GFECRA account to the NT (first tranche of R100 billion was paid out in 2024, R25 billion in 2025, and R56 billion in 2026), and higher cash drawdown planned by the authorities in 2025, lowers financing needs and is reflected below the line in other identified inflows.

Figure 5. South Africa: Realism of Baseline Assumptions

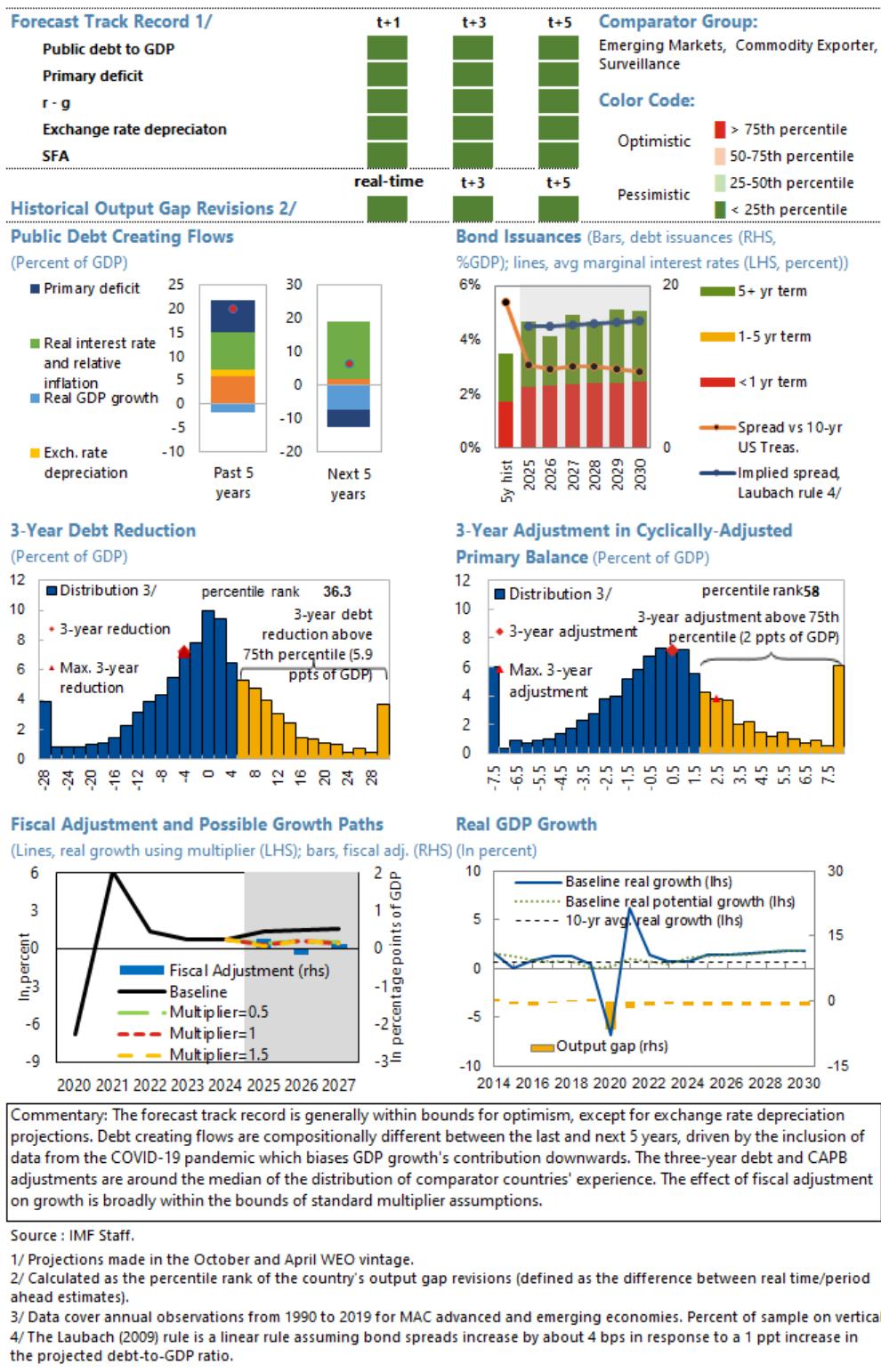
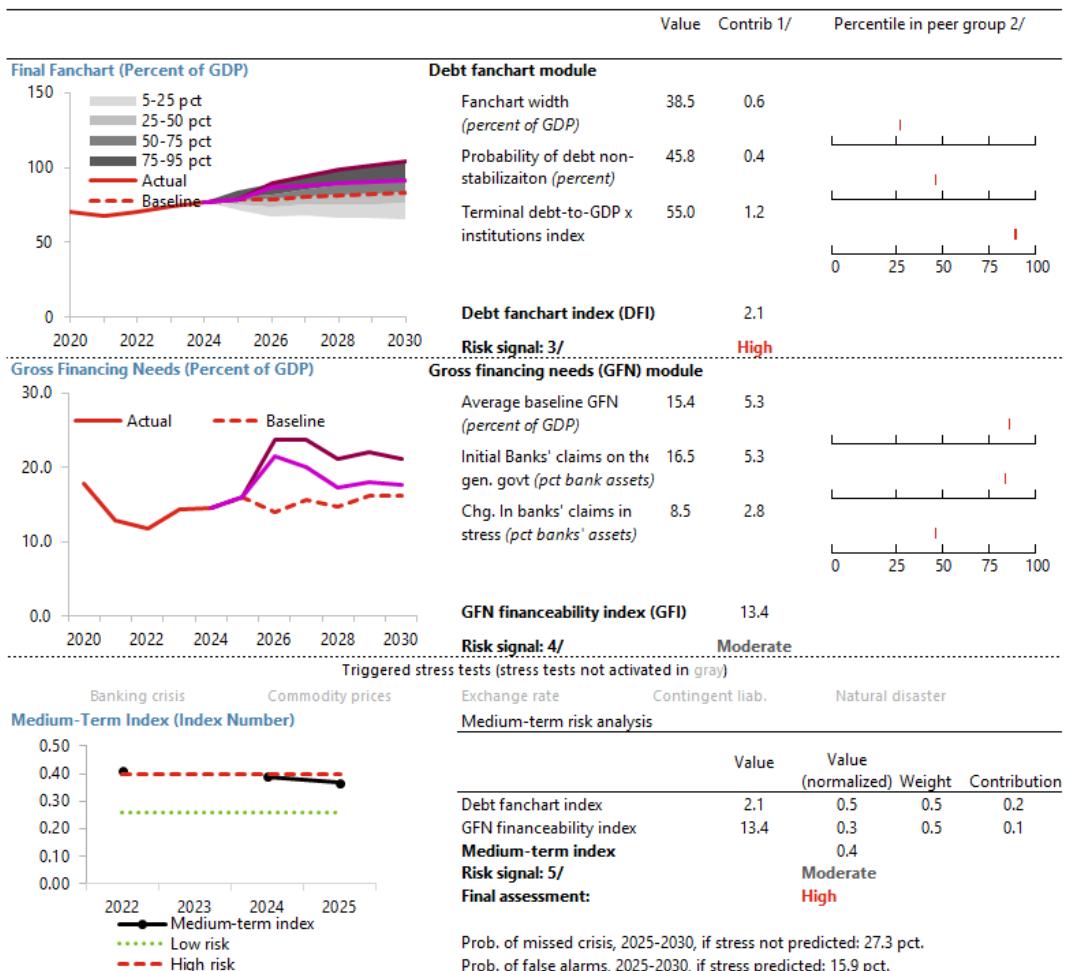


Figure 6. South Africa: Medium-Term Risk Assessment



Commentary: The medium-term analysis suggests a high risk of sovereign stress over that time horizon. The main issue suggested by the analysis is the possibility of substantial increases in the public debt ratio under low-probability downside scenarios. The increase in gross financing needs under a stress scenario is moderate. The commodity price and contingent liability stress scenarios were triggered. The contingent liability (CL) stress scenario assumes a full materialization of total SOE debt guaranteed by the government, in 2025. The commodity price stress scenario assumes a 30 percent reduction in commodity prices. The materialization of these risks significantly increases both the fanchart and GFN financeability risks.

Source: IMF staff estimates and projections.

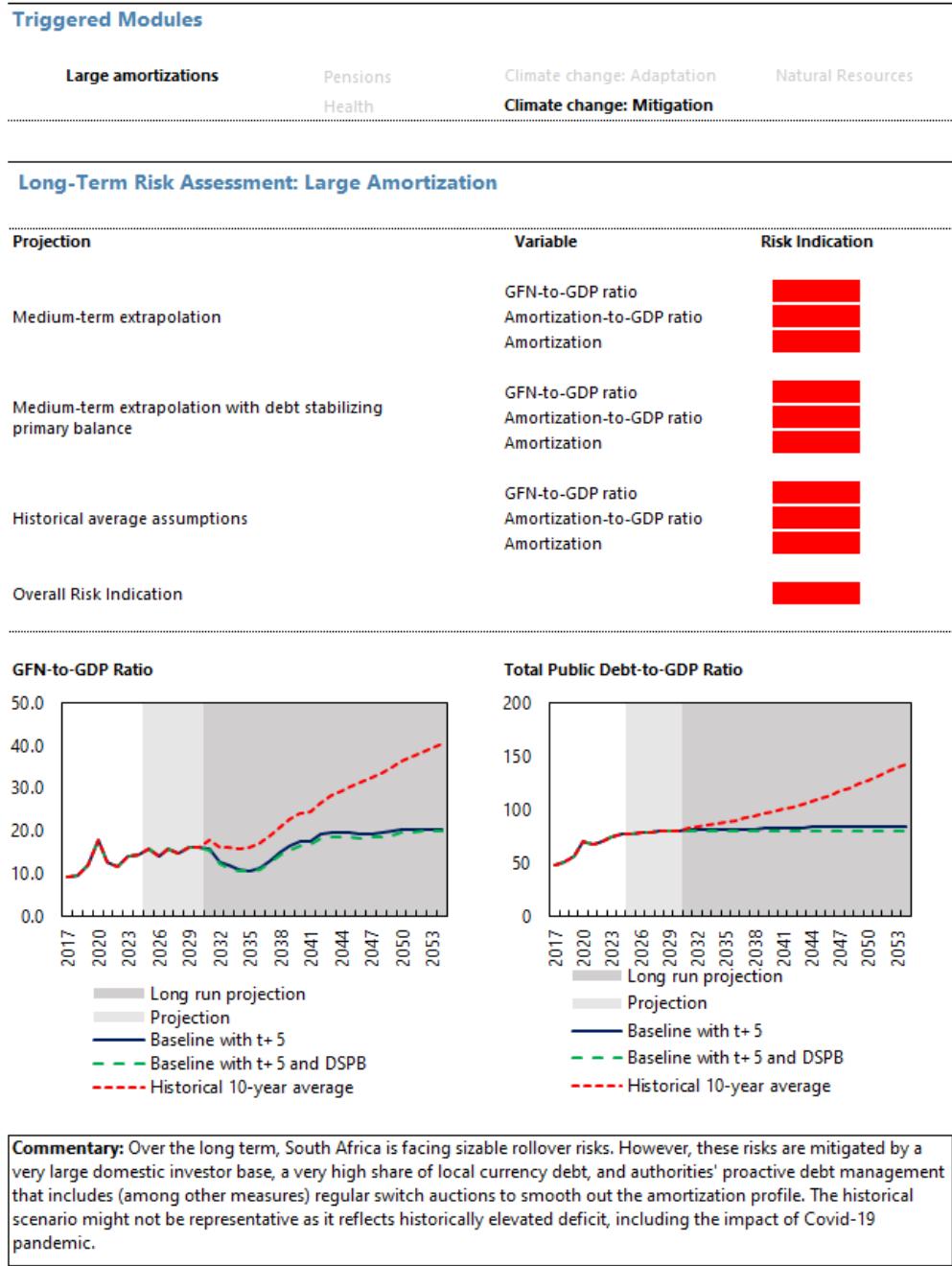
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

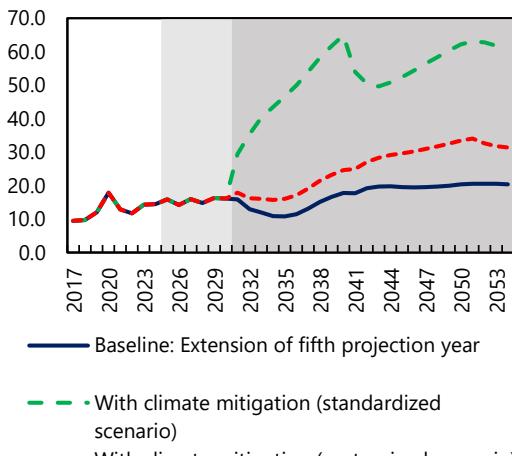
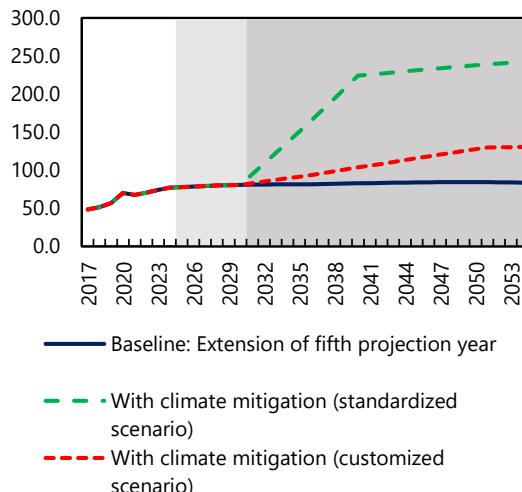
2/ The comparison group is emerging markets, commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the GFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the MTI is below 0.26; high risk if the MTI is above 0.40; and otherwise, it is moderate risk.

**Figure 7. South Africa: Long-Term Risk Assessment**

**Figure 7. South Africa: Long-Term Risk Assessment (concluded)****Climate Change: Mitigation****GFn-to-GDP Ratio****Total Public Debt-to-GDP Ratio**

**Commentary:** South Africa's investment needs to meet its climate change mitigation targets, estimated at 13.5 percent annually between 2030-2039. Under the standardized scenario, which assumes that the entire financing requirement in this period would be borne by the government through financing at market rates, public debt could rise to an extreme 210 percent of GDP by 2050. Under a customized scenario--based on the World Bank's CCDR estimates of 4.4 percent of GDP annually during 2030-2050, which is more aligned with the authorities' gradual decarbonization path, and assuming that concessional external financing covers around 15 percent of total financing (in line with pledges for 2022-2027), and close to half of remaining requirements are financed via private investments, as per the authorities' Just Energy Plan for 2022-2027—public debt is expected to rise to around 120 percent of GDP by 2050. This underscores not just the need for greater private sector involvement and enhanced concessional sources of financing, but also the importance of raising additional revenue (including through a carbon tax) and achieving efficiency gains in public spending.

## Annex V. Implementation of 2021 FSAP Key Recommendations

Recommendations	Progress
<b>Vulnerability Analysis</b>	
Further strengthen analytical tools, including for solvency and liquidity stress tests and climate risk analysis, and incorporate results in risk-based supervision.	<p>Starting in 2023, South Africa conducts an industry-wide common scenario stress test (CSST) on the banks and insurers. The findings of the 2023 bank CSST exercise were published in the second edition of the Financial Stability Review (FSR) of 2023. Results from a CSST for the insurance sector were published in the first edition of the FSR in 2024. A common scenario climate risk stress test for banks was concluded in Q1 2025 and its findings published in the first edition of the 2025 FSR. Currently, the SARB is preparing for the launch of the 2026 banking and insurance common scenario stress tests. Furthermore, the Financial Stability Committee (FSC) noted and supported the roadmap for the various stress testing exercises over the next four years.</p>
<p>The work of the Prudential Authority Climate Task Team (PACTT) on climate risk indicators as well as the work currently being done on stress testing and scenario analysis by the Financial Stability Department and NT's scenario analysis working group will strengthen and enhance the analytical capability for stress testing and climate risk analysis of the PA. The outputs of the various pieces of work will also be used to enhance the PAs risk-based supervisory approach. The first data request is being field tested with industry participants.</p> <p>A technical report was published by the financial Stability Department in June 2025 and details the Climate Risk Stress Test (CRST) design, top-down credit modelling framework, and scenario approaches that provide valuable insights into the potential impacts of climate change on the financial stability of the banking sector.</p>	
<b>Financial Sector Oversight</b>	
Continue to broaden the macroprudential toolkit and close data gaps.	<p>In April 2024 a reviewed macroprudential policy framework was endorsed by Financial Stability Committee (FSC). The published document sets out the SARB's macroprudential policy framework and decision-making process and should be read in conjunction with the SARB's financial stability monitoring and assessment framework. Its publication aims to increase transparency on how the SARB pursues its financial stability mandate in line with international best practice.</p>
Consider carefully calibrated measures to alleviate the financial sector-sovereign nexus.	<p>At the moment policy interventions will not be explored. The PA continues to monitor developments and conduct regular stress testing on concentration risks. Measures are taken on a case-by-case basis.</p>

Recommendations	Progress
Financial Sector Oversight	
Continue safeguarding the supervisory agencies' operational independence, further strengthen resourcing, and enhance coordination.	The FSR Act, which establishes both the PA and FSCA provides for a funding mechanism of these supervisory agencies. The agencies covered under the FSR Act are funded by the industry through levies and they have operational independence that allows them to independently determine their resource requirements and budgets. The Financial Sector and Deposit Insurance Levies Act of 2022 (Levies Act) provides for the methodology for the calculation of the levies that can be charged to the different types of the supervised entities.
Pursue more structured, intrusive, and comprehensive supervision, with greater focus on governance and risk management.	<p>In 2021, the PA approved and begun adopting its enhanced Risk Framework which assesses the risk, probability and impact of each financial institution being unable to fulfil its obligations to the depositors and policyholders. The outcome of that assessment then informs the required supervisory intensity ahead of the new supervisory calendar year. The probability assessment within the PA Risk Framework explicitly considers the adequacy of the governance arrangements and controls in place to mitigate risks across the key business units and significant activities that the PA would have reviewed throughout the year by using its supervisory guideline on Governance, Culture and Remuneration practices. In order to further enhance governance and risk management in supervision, the PA's Risk Framework is in the process of being refined and will be embedded across the PA by 31 March 2026.</p> <p>The Supervisory guideline on Governance, Culture and Remuneration reviews has been adopted. The assessment guides the type of questions to pose to arrive at an overall view for the adequacy and effectiveness of governance and risk management structures.</p> <p>The PA Governance, Culture and Remuneration Practice Group (GCR), established in 2021, provides further support to the PA in assessing governance-related matters emanating from ongoing supervision. In order to further strengthen this capability within the PA, a proposal to establish a separate governance unit is under consideration.</p> <p>The PA and the FSCA are in the process of developing a Joint Standard on Governance requirements that will be applicable to all the regulated financial institutions on a proportionate basis. Both Authorities are planning to publish the draft joint standard for public consultation between Q1/2026 and Q2/2026.</p>

Recommendations	Progress
<b>Financial Sector Oversight</b>	
Develop a rigorous framework for early intervention in banks.	<p>A monthly trigger report (early warning indicators) is produced and submitted to PA management. These management information reports (MIR) reports provide key information on individual entities and signals outliers on key prudential benchmarks and key statistics. The purpose of the trigger reports is to indicate to PA management of the key indicators and ratios (including prudential requirements), as soon as possible following data availability.</p> <p>The reports indicate potential problem areas or instances where prudential requirement(s) are breached. This enables the PA to take appropriate action timely.</p> <p>This process of producing the early warning indicators was formalised within a supervisory guidance document that is still going through the approval process for formal adoption.</p>
For insurers, scrutinize capital calculations, review products with high lapse and surrender rates, conduct industry-wide stress tests, and analyze IFRS 17 impact.	<p>Industry wide IFRS 17 quantitative and qualitative impact study was completed. The impact of IFRS 17 was not found to be significant on the regulatory numbers i.e. Solvency position of the Insurers.</p> <p>The insights from the QIS were used to inform relevant changes /updates within the insurance returns /Quantitative Reporting Templates (QRTs) which the regulated Insurance entities are required to submit to the PA.</p> <p>A set of potentially systemic South African insurers are subject to periodic stress testing.</p>
Enact the COFI bill. Develop and implement conduct supervision framework.	Not implemented.
Expedite NPS Act adoption. Buttress Fintech supervision.	Not implemented.
Implement a consistent multi-sectoral regulatory framework that articulates supervisory and oversight expectations for cyber resiliency.	<p>A joint standard on cybersecurity and cyber resilience was issued to the financial sector in May 2024. The objective of the Joint Standard is to provide a structured framework to help financial institutions proactively manage cyber risks and enhance resilience for the financial sector. It covers elements such as roles and responsibilities in relation to cybersecurity, governance, establishment of cybersecurity strategy and framework, cybersecurity, cyber resilience fundamentals, cybersecurity hygiene practices and provide for notification of material cyber incidents by the regulated entities. The Standard became effective 1 June 2025.</p> <p>To ensure effective oversight of financial institutions, the cyber team employs a range of supervisory tools and practices. These measures enable us to assess how</p>

Recommendations	Progress
<b>Financial Sector Oversight</b>	
Improve climate risk oversight.	<p>institutions' cyber risk management practices and compliance with relevant regulatory instruments and strengthen the overall resilience of the sector. From an overall supervisory perspective, supervision is conducted through off-site and on-site reviews.</p>
	<p>In 2021, the PA published a communication to industry on the PA's current views and very high-level expectations around climate-related risks. The PA developed Guidance notes (for banks and insurers) on how climate risk should be integrated into risk management and governance processes and disclosure frameworks. In May 2024, the PA published the four Guidance Notes (two for banks and two for insurers) on climate-related disclosures, governance and risk practices. The PA also published an Observation Report that contains the outcomes of climate risk conversations with supervised entities held to understand to what extent insurers and banks have integrated climate risk into strategies, business plans, risk management and governance processes, reporting frameworks and what challenges persist. In October 2025, the guidance notes on disclosures were updated given the latest international practice and guidance, specifically from the IAIS and the BCBS. The PA also developed a supervisory guideline in 2023 to assist supervisors with their interaction with supervised entities on the topic.</p>
Improve the implementation of the risk-based approach to AML/CFT and bring all sectors covered by the FATF standards under the AML/CFT framework.	<p>The PA has improved aspects of supervision in terms of AML/CFT in that it has conducted more inspections and imposed sanctions that are proportionate to the severity of the breach. The PA is also in the process of updating its risk-return risk tool and completing its sector risk assessments for the banking and life insurance sector. Outreach and awareness sessions are taking place regularly with the banking sector.</p>
<b>Financial Safety Nets</b>	
Adopt and operationalize the new resolution and deposit insurance legislation.	<p>Corporation for Deposit Insurance (CODI) is a subsidiary of the SARB and became operational on 1 April 2024. Insuring ZAR 100,000 per depositor (less than USD 5000). The Deposit Insurance Fund has been established and is fully funded (3 percent of covered deposits as per the target fund size) since June 2024.</p>
After adopting the new legal framework, step up crisis preparedness through resolvability assessments, resolution planning, and recurrent simulations.	<p>The SARB became the Resolution Authority in June 2023 under the Financial Sector Laws Amendment Act. The Act provides for, inter alia, the establishment of a resolution framework for designated institutions to manage the impact or potential impact of a failed institution on financial stability, as well as establish a deposit insurance scheme. Resolution planning became an ongoing</p>

Recommendations	Progress
<b><i>Financial Safety Nets</i></b>	
	function of Finstab at that point and work on developing resolution plans has begun.
<b><i>Systemic Liquidity</i></b>	
Extend SARB's ELA guidance into temporary liquidity support for solvent banks.	Completed.
Improve the repo market (establish collateral interoperability, harmonize regulatory treatments of collaterals and repos, and promote repos under GMRA).	Following a round of public comments on a discussion paper the FSC gave an 'in-principle' approval of the NBFI Repo facility. The operational preparations needed for the implementation of the facility require further internal work at SARB in consultation with international bodies for best practice.
<b><i>Competition and Efficiency, Financial Inclusion, Green and MSME Finance</i></b>	
Enable the provision of payment services by nonbanks.	<p>The Conduct of Financial Institutions (COFI) Bill has been revised in response to comments from stakeholders but has yet to be tabled in Parliament. In the meantime, the following initiatives are being implemented:</p> <ul style="list-style-type: none"> <li>○ PayShap, one of the solutions under the Rapid Payments Programme (a collaboration between the banks, clearing houses, regulators, and other market players), was launched in 2023 to enable instant payment. Payments will be made to a bank account or a proxy (such as a mobile phone number) that has been linked to an account or wallet at any bank.</li> <li>○ South African mobile network operators launched super Apps and offering mobile money with a suite of services including wallet, payments, and lending which will enable unbanked customers to access financial services.</li> </ul> <p>Tap on Phone solution from large payment schemes and big tech firms enable MSMEs to turn their mobile phones into POS devises.</p> <p>Payment service providers are offering online payment methods that reach small businesses and enable them to participate in e-commerce.</p> <p>Open banking solutions from fintech's being launched to enable consumers to make instant payments without logging into their bank accounts.</p> <p>Banks seeking to tap into the informal sector by digitizing payments in the public transport sector.</p>

Recommendations	Progress
<b><i>Competition and Efficiency, Financial Inclusion, Green and MSME Finance</i></b>	
Foster retail payment instrument interoperability and open banking standards.	<p>The National Payment System Department (NPSD) has developed a framework for open banking, focusing on payment initiation as the priority, with a framework for account information service to be developed at a later stage. The payment initiation framework has been included/incorporated in the draft Directive in respect of specific payment activities within the national payment system, which was issued for a second round of public consultation in November 2025.</p> <p>The Intergovernmental Fintech Working Group's Open Finance Integration Working Group (OPI WG) continues to support the development of South Africa's open finance regulatory approach. The OPI WG developed a series of internal papers exploring priority use cases and phasing, APIs and standardization approaches, and regulatory framework considerations. More recently, the OPI WG completed a comprehensive cost-benefit analysis study to guide the country's implementation of open finance. In addition, a study on competition dynamics within open finance, offers insights and proposals to mitigate anti-competitive practices, address incentives, and consider the role of large technology firms. Building on these efforts, the OPI WG is currently developing an open finance policy document, which is intended to be published by the National Treasury as South Africa's official national policy and roadmap for open finance. The envisaged timeline for the publication of this document is Q1 2026.</p>
Improve credit information environment.	Discussions are still at elementary phase between IFC, NCR and DSBD.
Strengthen secure transaction framework.	Not implemented.
Finalize the taxonomy of 'green' economic activities and start monitoring flows.	<p>The South African Green Finance Taxonomy (GFT) was launched on 1 April 2022 following a two-year consultation and developmental processes. The SA GFT is a voluntary tool. Our approach has thus been to introduce voluntary market tools for green finance to allow the market time to develop capacity, to adjust and reassess where necessary. Monitoring and adherence mechanisms are still underway.</p> <p>Developments will be reviewed by National Treasury, in conjunction with the financial sector regulators, DFFE and SARS through the Intergovernmental Sustainable Finance Working Group. The FSCA is expected to issue a position paper, that may be followed by regulatory guidance/regulation.</p>

Recommendations	Progress
<b><i>Competition and Efficiency, Financial Inclusion, Green and MSME Finance</i></b>	
Finalize guidelines on climate-related financial disclosures.	In May 2024, the PA published four Guidance Notes for banks and insurers on climate-related disclosures as well as governance and risk practices. The guidance notes on disclosures have been updated given the latest international practice and guidance, specifically from the IAIS and the BCBS. These updated guidance notes were published in October 2025.

## Annex VI. Data Issues

**Table 1. South Africa: Data Adequacy for Surveillance**

Data Adequacy Assessment Rating 1/													
Assessment	A												
	Questionnaire Results 2/												
	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating						
	A	A	B	A	A	B	A						
Detailed Questionnaire Results													
<b>Data Quality Characteristics</b>													
Coverage	A	A	B	A	A								
Granularity 3/	A		A	A	A								
			A		A								
Consistency			B	A			B						
Frequency and Timeliness	A	A	B	A	A								
Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.													
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.													
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i> , January 2024, Appendix I).													
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.													
A		The data provided to the Fund are adequate for surveillance.											
B		The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.											
C		The data provided to the Fund have some shortcomings that somewhat hamper surveillance.											
D		The data provided to the Fund have serious shortcomings that significantly hamper surveillance.											
<b>Rationale for staff assessment.</b> The data provided to the Fund are adequate for surveillance. Data are generally timely, comprehensive and granular across all sectors though there are a few shortcomings in the fiscal data and granularity of Financial Soundness Indicators (FSI). Fiscal data are produced by Statistics of South Africa, the National Treasury (NT), and the central bank (SARB). For surveillance purposes, data provided by the NT have been used, despite they do not cover all general government units (local governments and some extrabudgetary units are excluded). The NT publishes budgetary central government, which covers a large proportion of the total revenue and expenditure, on a monthly basis, however the consolidated government accounts data are published only in the context of the budget (February) and revised budget (MTBPS - November) with a six month lag. Data by SARB have better coverage and are published quarterly, nonetheless, are not strictly comparable to the NT's data, as the NT's data do not follow some of the international standards, requiring revenue and expenditure data to be amended by staff before analyzing/publishing. The last GFS Technical Assistance Mission in November 2024 included work with all three compilers of fiscal data in South Africa, the NT, SARB and Stats SA, and made a number of recommendations to bring GFS data into greater alignment across the three institutions, as well as changes to bring fiscal data into greater conceptual alignment with the GFSM 2014. A follow up GFS mission is proposed for FY27. Regarding FSI data, the time lag was reduced from two years to 6-9 months and the authorities started to share FSI indicators for the other sectors (MMF, insurance, pension, NFCs, households) as well, which is a commendable advance in their FSI coverage. In addition, the SARB publishes comparable bank and insurance sector financial stability indicators on a monthly basis with a lag of three months, that staff is using as well.													
<b>Changes since the last Article IV consultation.</b> The authorities have been working with the Statistics Department (STA) of the IMF in aligning NT's and SARB's fiscal data to the Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS). There has been also technical assistance (TA) by AFRITAC South to assist Statistics South Africa with establishing and finalizing a new residential property price index, which was preliminary disseminated in March 2023. Another TA mission by STA on Compilation of Energy and Air Emissions Accounts took place June 2024. The authorities received TA on external sector statistics (ESS) during January 2025 that provided an action plan to enhance the quality of trade in services statistics.													
<b>Corrective actions and capacity development priorities.</b> The authorities are working in collaboration with the Fund to improve data quality and methodological compilation of government finance statistics.													
<b>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.</b> Staff estimates for Public and Private Sector Savings are used in lieu of official statistics. Year-on-year changes in government savings reflect fiscal account data rather than national accounts. Private savings are calculated as the residual of government savings, gross national investment, and the current account balance.													
<b>Other data gaps.</b> N/A.													

**Table 2. South Africa: Data Standards Initiatives**

South Africa subscribes to the Special Data Dissemination Standard (SDDS) since August 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

**Table 3. South Africa: Table of Common Indicators Required for Surveillance**  
**As of December 23, 2025**

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Expected Frequency <sup>6,7</sup>	South Africa <sup>8</sup>	Expected Timeliness <sup>6,7</sup>	South Africa <sup>8</sup>
Exchange Rates	12/18/2025	12/19/2025	D	D	D	D	...	
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	11/30/2025	12/8/2025	M	M	M	M	1W	1M
Reserve/Base Money	11/30/2025	12/8/2025	M	M	M	M	2W	5D
Broad Money	10/31/2025	12/8/2025	M	M	M	M	1M	21D
Central Bank Balance Sheet	11/30/2025	12/8/2025	M	M	M	M	2W	5D
Consolidated Balance Sheet of the Banking System	10/31/2025	12/8/2025	M	M	M	M	1M	21D
Interest Rates <sup>2</sup>	12/18/2025	12/19/2025	D	D	D	D	...	1D
Consumer Price Index	11/31/2025	12/17/2025	M	M	M	M	1M	3W
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —General Government <sup>4</sup>	3/29/2024	11/12/2025	A	A	A	A	2Q	10W
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —Central Government	10/31/2025	11/28/2025	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	8/29/2025	11/28/2025	M	M	M	M	1Q	NLT 30D
External Current Account Balance	9/31/2025	12/4/2025	Q	Q	Q	Q	1Q	NLT 1Q
Exports and Imports of Goods and Services	10/31/2025	12/1/2025	M	M	M	M	8W	1M
GDP/GNP	9/31/2025	12/2/2025	Q	Q	Q	Q	1Q	68D
Gross External Debt	6/30/2026	9/30/2025	Q	Q	Q	Q	1Q	1Q
International Investment Position	6/30/2026	9/30/2025	Q	Q	Q	Q	1Q	3M

<sup>1</sup> Includes net market value of derivative positions.

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

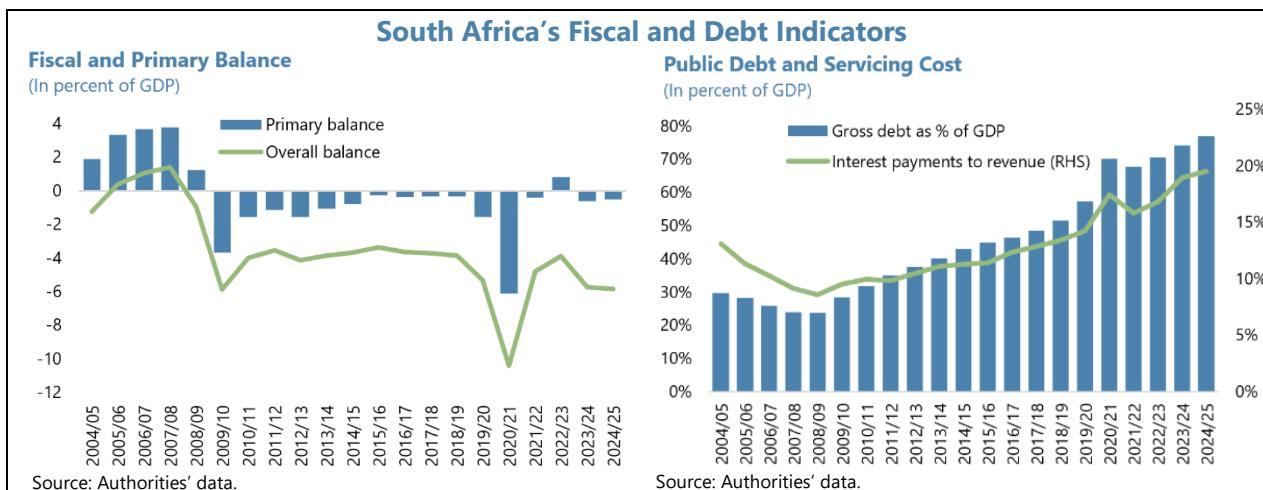
<sup>6</sup> Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

<sup>7</sup> Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

<sup>8</sup> Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

## Annex VII. South Africa's Public Finances: Evolution and Options for Consolidation<sup>1</sup>

**1. South Africa's public finances have deteriorated over the last two decades.** The counter-cyclical fiscal response during the global financial crisis and the COVID-19 pandemic helped cushion the economy. However, weak economic growth, persistently high unemployment, and entrenched inequality limited the scope for durable fiscal correction after the shocks dissipated. As a result, primary deficits remained high, which, coupled with low growth and high borrowing costs, caused public debt to reach nearly 75 percent of GDP at end-2024, roughly tripling since 2008. This has led to rising debt-service costs, which now absorb 20 percent of government revenue and constrain the space available for growth-enhancing and development spending.



**2. An ambitious and credible fiscal consolidation is thus urgently needed to reverse the debt trajectory and place debt on a sustained downward path.** Without credible and decisive action, South Africa risks loss of policy credibility, deterioration in market sentiment, and rising financing costs. At the same time, consolidation must be carefully designed to support inclusive growth and safeguard vulnerable populations, ensuring that it does not undermine equity objectives. This annex explores possible options to contain the growth of public spending and enhance its efficiency, while strengthening revenue mobilization.

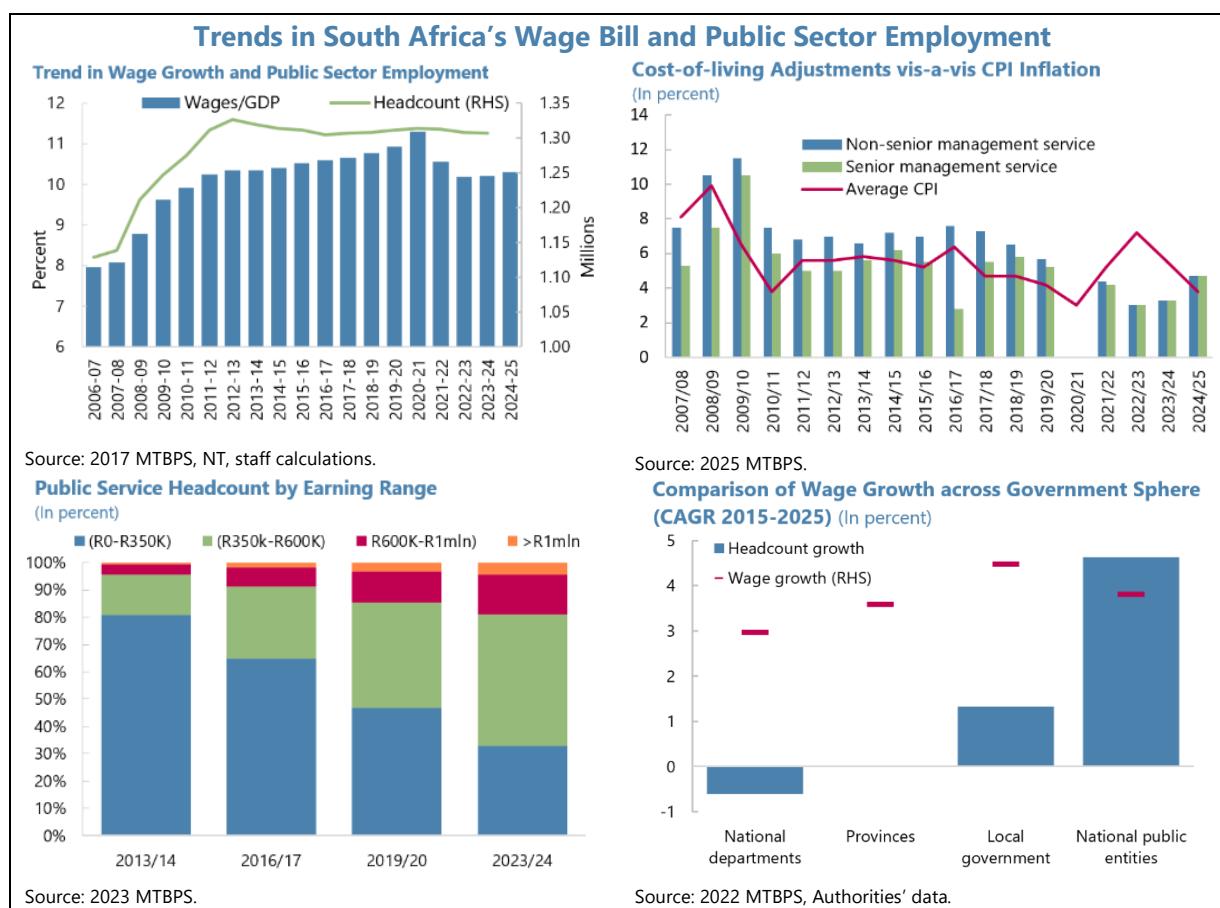
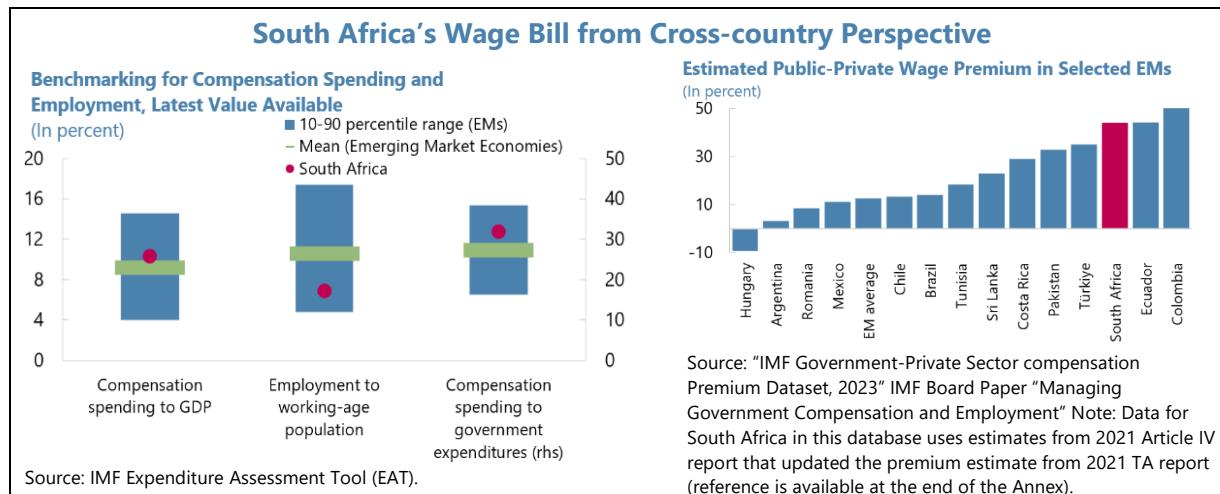
### A. Wage Bill

**3. South Africa's public-sector wage bill has been rising over the last two decades and is well above peers.** It currently represents about a third of public spending and absorbs 40 percent of total revenue. The level of public sector wages is also relatively higher than that in the private sector for the same qualifications, implying a public-private wage premium of close to 50 percent, among the highest relative to peers (Figure 2). Over the past two decades, the public wage bill has risen by 2.5 percent of GDP, driven primarily by (i) increased hiring, especially during 2008-2012; (ii) indexation of salaries and allowances above inflation for most of the years since 2018, often

<sup>1</sup> This annex was prepared by Asma Khalid (FAD) and Kamil Dybczak (AFR).

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faster than in the private sector; and (iii) a generous pay and grade progression pushing most employees toward high earning scales (Figure 3).<sup>2</sup>



<sup>2</sup> Despite not being part of the consolidated general government expenditure, wage bill spending by other national entities, especially local governments, add to existing pressures, as the MTEF guidelines are not strictly followed by these entities.

**4. Public-administration reforms targeting compensation and headcount dynamics are needed to contain wage bill costs, while safeguarding service delivery.** The authorities are focusing on encouraging early retirement for senior staff and replacing them with more junior, lower-earning new entrants, while maintaining hiring in priority sectors. In addition, informed by the 2022 personnel expenditure review, the authorities have introduced several measures to manage compensation costs, including initiatives to enhance payroll integrity, correct payment irregularities, and address overreported overtime, and have rolled out an audit to identify potential ghost workers. Building on these efforts, strict headcount controls in national public entities would also be needed, together with strengthening compliance with compensation ceilings. Progressive wage adjustments, with a greater share of the burden borne by employees at the higher end of higher salary scale, would enhance equity and social acceptability. Indeed, Ireland introduced a two-tier pay system, under which new public sector recruits earned less than incumbents, while higher-earning staff faced larger pay cuts, and lower-income employees were shielded. Greece and Portugal implemented similar measures, including differentiated wage scales for new entrants and progressive wage reductions, with deeper cuts applied to senior officials. Reforms must be carefully calibrated to preserve the public sector's ability to attract highly qualified professionals, while protecting long-term service delivery, which is key to building support and ensuring durable implementation.

## B. Procurement

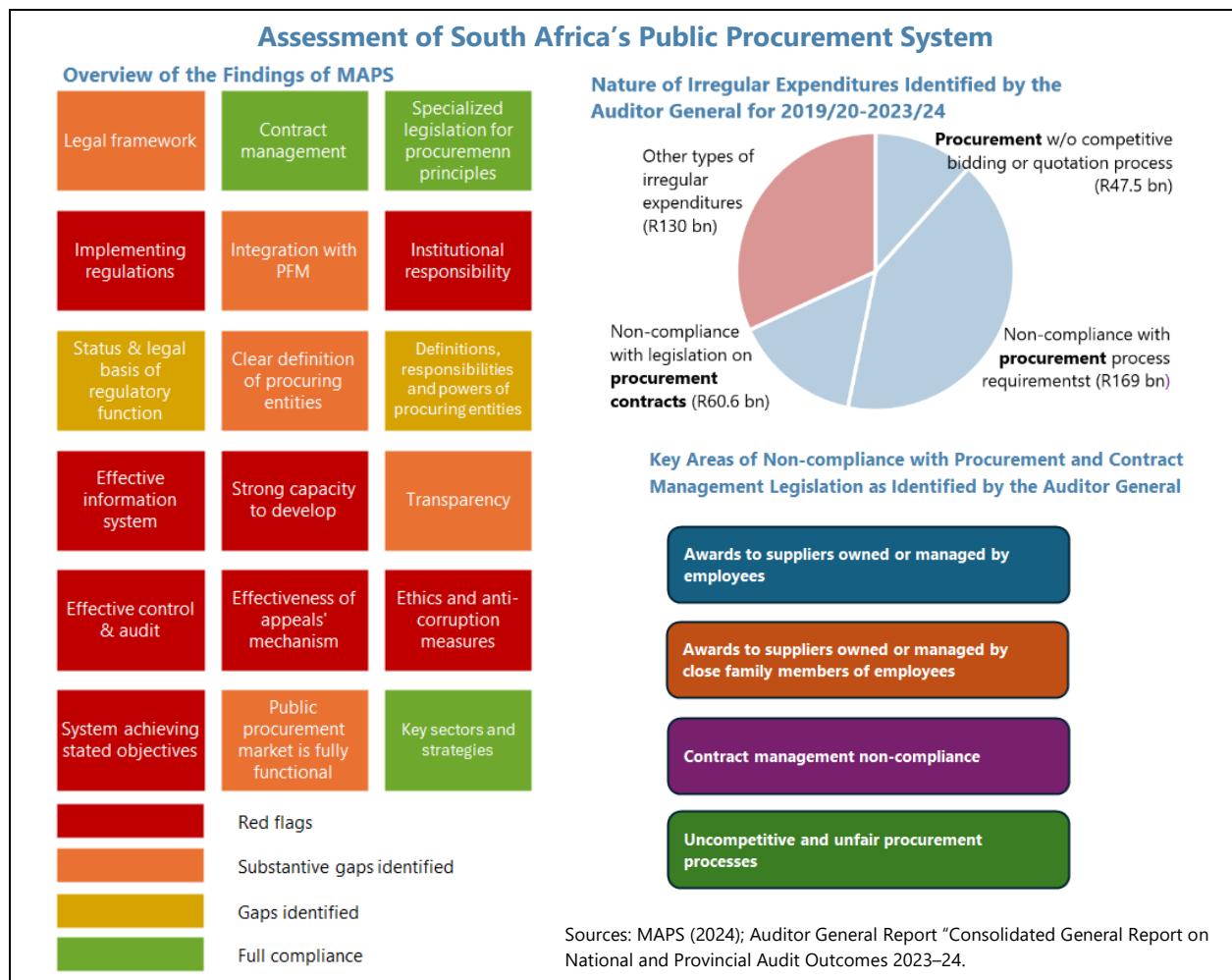
**5. South Africa's public procurement system has faced significant structural and operational challenges.** The regulatory framework has been fragmented, with incomplete digital integration, low compliance in publishing procurement data, and limited use of e-procurement platforms, which have undermined transparency and accountability. Moreover, weak institutional capacity, particularly in human resources, undermines the performance, integrity, and accountability of the procurement system.<sup>3</sup> Zondo Commission reports had previously highlighted the use of public procurement system as an avenue for corruption, rent seeking, and state capture, whereas recent Auditor General reports are still identifying procurement as the root cause of spending irregularities (Figure 4). While the new Public Procurement Act, 2024 (Act No. 28 of 2024) aims to address the systemic shortcomings, procedural guidance is still needed.

**6. Centralizing procurement, implementing e-auctions, and increasing the transparency of contract execution can lead to significant fiscal savings** (Table 1). For instance, Italy achieved savings of 35–80 percent of the value of an average contract through central framework agreements, while Peru recorded a 51 percent reduction in prices through civil society supervision of small-scale infrastructure projects. South Africa's 2015 Supply Chain Management Review estimated that centralized contracting could save between 3 and 42 percent per contract. Given the size of public procurement (approximately 17 percent of GDP in 2024), this implies that reforms could

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<sup>3</sup> For instance, only 3 percent of the transactions in FY2023/24 used the e-procurement system for critical stages of the procurement cycle (e.g., contract award). See [Assessment of South Africa's Public Procurement System: MAPS Main Report](#), World Bank, National Treasury of South Africa, OECD, and African Development Bank. 2024..

generate direct fiscal savings of at least 1.4 percent of GDP for the general government, and over 3 percent of GDP when including local governments and state-owned enterprises (SOEs).



## 7. Efficiency gains can also be achieved by bolstering transparency and professionalizing staffing.

While scaling up digital procurement by mandating the publication of all tender opportunities and contract awards on the eTenders portal and extending its coverage to include exceptions and deviations are steps in right direction, once the Integrated Financial Management Information System (IFMIS) is implemented, integrating the procurement system to the IFMIS would enable a fully digital and transparent end-to-end procurement process. Addressing the persistent skills gap of procurement staff is equally critical. A national certification program, coupled with continuous training and capacity-building initiatives, would help professionalize the procurement function and ensure sustainability of reforms.

**Table 1. South Africa: Effects of Selected Procurement Measures**

Intervention name	Savings	Country	Period	Intervention	Source
E-procurement: e-notification	1.1.-5.3%	Italy	2000-2005	Publishing in regional official gazette and 2 provincial newspapers vs local administration noticeboard	Coviello-Mariniello (2014)
Framework agreements	34-78%*	Italy	2000-2005	Central framework agreement vs local procurement contract	Bandiera et al (2009)
E-procurement: e-auction & e-evaluation Preferential treatment of bidder and product classes	5.8-6.7%** 0.10-0.23%	Russia Japan	2011 2005-2009	E-auction vs request for quotation procedure 60% of budget set aside for SMEs vs no set-asides	Yakovlev et al (2014) Nakabayashi (2013)
Award mechanism and auction design	7-8%***	Italy	2000-2006	First price auction vs average bid auctions	Decarolis (2014)
Civil society supervision of contract execution	51%	Peru	2015-2016	Civil society audit (supported by the audit general) vs no audit	Lagunes (2017)
Centralized and collaborative procurement	60%	Italy	2000-2005	Central purchasing vs local procurement contract	Baldi & Vannoni (2015)
Rule-bound or discretionary decision making	25%	Germany	1994-2004	Auctions vs negotiation procedure	Lalive-Schmutzler (2011)
Audits and supervisions	11%	Argentine	1996-1997	100% monitoring vs no monitoring	Di Tella-Schargrodsky (2003)

Source: World Bank 2021

Notes:

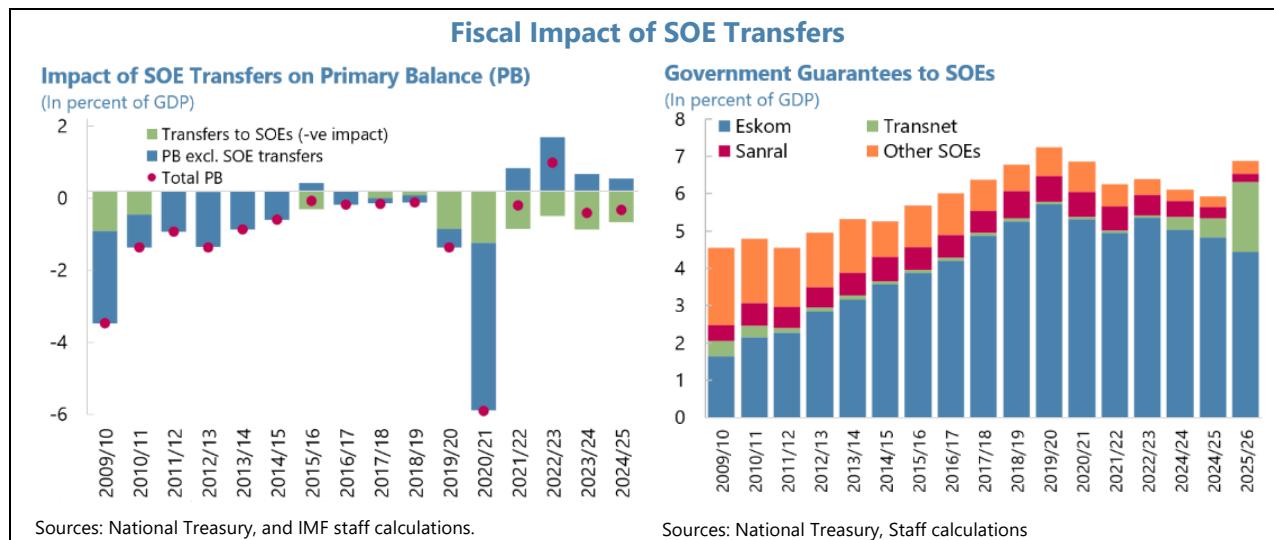
\* Centralized procurement &amp; framework agreements jointly estimated.

\*\* Percentage Change in unit price compared to regional sugar price.

\*\*\* Using discounts compared to the original price estimate.

## C. State-Owned Enterprises (SOEs)

**8. South Africa's SOEs have continued to weigh on the public finances.** Large debt obligations and persistent operational inefficiencies in SOEs have increased reliance on fiscal transfers, which cumulatively reached 7 percent of GDP since 2008 and averaged 1 percent of GDP annually over the past five years, turning potential primary surpluses into deficits (Figure 5). Moreover, government guarantees on SOE debt reached around 7 percent of GDP in 2025 (exposure-basis), despite the authorities' commitment to a strict no-bailout policy. More recently, the National Treasury has taken steps to limit costs and mitigate risks by tying support to conditional guarantees that are project-specific, time-bound, and subject to strict performance reporting and financial oversight. However, broader governance challenges persist across SOEs, including inadequate board independence, politicized executive appointments, and weak compliance with financial reporting standards.



**9. Continued efforts to improve SOE governance will be key to reducing fiscal risks and repositioning SOEs as drivers of productive investment.** Building on ongoing efforts to restrict support to conditional guarantees, the authorities should encourage transparent financial reporting and regular publication of audited statements, supported by empowered oversight mechanisms capable of intervening when governance failures arise. Further strengthening SOE boards' independence, enforcing merit-based executive appointments, and implementing performance-linked contracts tied to clear service delivery outcomes remain key. These reforms are essential to restore public trust, improve operational efficiency, and generate fiscal savings—estimated at around 0.2 percent of GDP from the current staff baseline.

## D. Subsidies

**10. Subsidies are concentrated in higher education, which may benefit more advantaged students.** The current system allocates around 1.5 percent of GDP per year to higher education (including for skills development), representing more than two thirds of total subsidies (Table 2). The increase in income thresholds for the eligibility of National Student Financial Aid Scheme (NSFAS) in 2019 had made 90 percent of the prospective students eligible for the support ([World Bank 2019](#)). The new NSFAS eligibility threshold is almost equivalent to the median income of households in the top (fifth) income quintile, and the size of NSFAS support does not differentiate among beneficiaries from different income groups ([OECD 2020](#)).

**11. Rationalizing higher education subsidies could generate savings that could be utilized to support other priority spending.** Tighter eligibility, performance-linked aid, or income-contingent loans, and rationalizing the skills-development budget, together with promoting administrative efficiency, could free up 0.5–1.0 percent of GDP. This could be used to support primary education or other urgent spending needs.

**Table 2. South Africa: Composition of Subsidies**  
(Percent of GDP)

	2021/22	2022/23	2023/24	2024/25
<b>1) National government subsidies</b>	<b>1.8</b>	<b>1.9</b>	<b>1.8</b>	<b>1.8</b>
<b>Passenger rail (PRASA)</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Operating	0.1	0.1	0.1	0.1
Capital	0.2	0.2	0.2	0.2
<b>Higher education</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>
NSFAS	0.6	0.7	0.6	0.6
University subsidies	0.6	0.6	0.6	0.6
Sector Education and Training Authority	0.2	0.3	0.3	0.3
<b>Industry &amp; trade</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>
Services sector development	0.0	0.0	0.0	0.0
Manufacturing development	0.0	0.1	0.0	0.0
<b>2) Housing-related subsidies (paid via subnational governments)</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>
<b>(i) Transfers to provincial governments</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>
Human settlements development grant	0.2	0.2	0.2	0.2
Provincial emergency housing grant	0.0	0.0	0.0	0.0
Informal settlements upgrading partnership grant: Provinces	0.1	0.1	0.1	0.0
<b>(ii) Transfers to municipalities</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
Urban settlements development grant	0.1	0.1	0.1	0.1
Municipal emergency housing grant	0.0	0.0	0.0	0.0
Informal settlements upgrading partnership grant: Municipalities	0.1	0.1	0.1	0.1
<b>3) Other housing related subsidies</b>				
National Housing Finance Corporation: Finance-linked individual subsidy prog.	0.0	0.0	0.0	0.0
<b>Total = 1+2+3</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.2</b>

Source: World Bank 2021

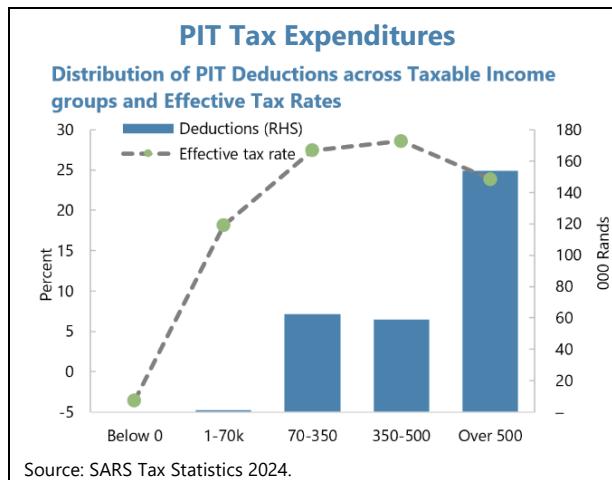
## E. Financial Management

**12. Unutilized transfers to provinces and municipalities are costly for the national government.** Transfers to subnational governments are not always aligned with their spending capacities. This often results in idle cash balances in provincial and local governments, equivalent to 2–2.5 percent of GDP, which reflect systemic weaknesses in planning, execution, and financial management. These idle cash balances nonetheless require higher borrowing at the national level, incurring financing costs that could be otherwise utilized to support other priority spending.

**13. Strengthening the alignment of transfers with actual spending capacity and enforcing stricter conditions on the use of conditional grants are critical to generate savings while improving service delivery.** The authorities are planning new local government reforms to improve efficiency and service delivery. In this context, it will be important to improve the core administrative capacity of municipalities by professionalizing staff, enforcing merit-based recruitment, and ensuring that senior managers meet minimum competency standards. Digitizing billing systems and automating procurement processes can help reduce leakages and improve efficiency. At the national level, the Treasury will need to continue to monitor cash balances and spending performance closely, adjusting transfer flows where necessary to minimize idle funds and borrowing costs.

## F. Rationalizing Tax Expenditures

**14. At approximately 5 percent of public revenue, tax expenditures limit the government's ability to mobilize revenue, adding to inefficiencies.** South Africa's PIT collections—at around 10 percent of GDP in 2025—are high by emerging market standards and comparable to advanced economies. However, their effectiveness and progressivity is limited by generous deductions and exemptions, which account for nearly 12 percent of taxable income and represent almost half of total tax expenditures (Figure 6). Furthermore, the zero-rating of VAT on petrol and diesel disproportionately benefits higher-income households and undermines environmental objectives.



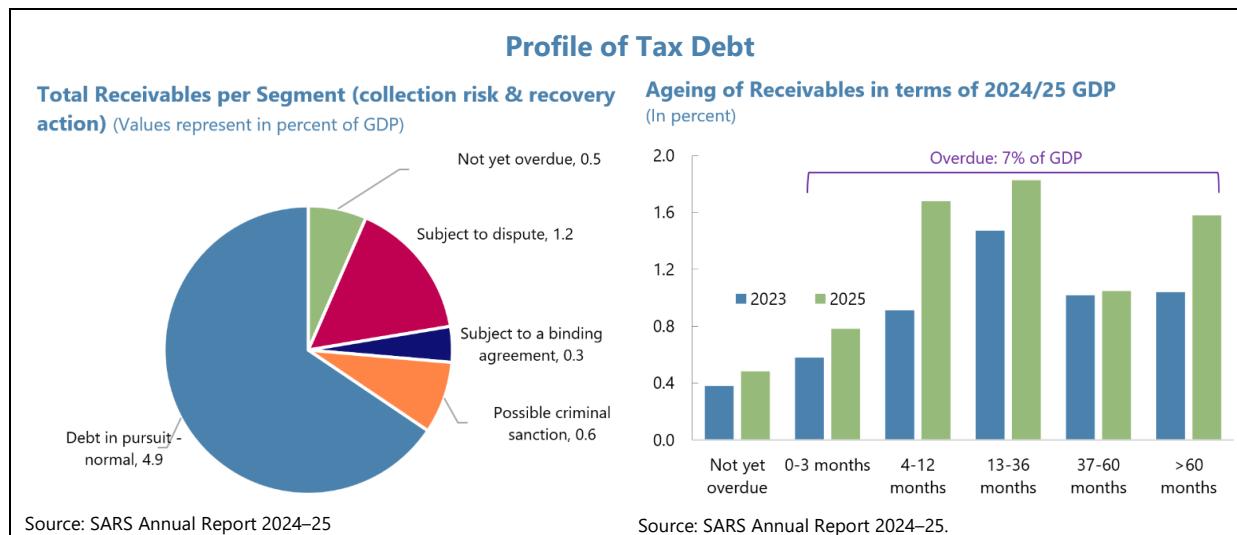
**15. There is scope to streamline tax expenditures.** To enhance revenue mobilization, reduce negative externalities, and improve equity, the authorities could consider rationalizing PIT deductions (including better valuation of fringe benefits and phasing out age-based tax relief for pensioners) and energy subsidies (raising the VAT rate on fuels, alongside higher excise duties). Moreover, given that the effective carbon tax (\$0.40/tCo<sub>2</sub>) is substantially below the statutory rate (\$6.90/tCo<sub>2</sub>), phasing out multiple allowances and exemptions would not only boost revenues but also support the achievement of climate-related objectives.

**16. The framework for tax incentives could also be improved.** Establishing a legal and institutional framework for new tax expenditures, including clear criteria for assessing efficiency and equity, mandatory cost-benefit analysis, and regular reporting to Parliament, would provide a comprehensive mechanism for evaluating the effectiveness of individual tax measures or for guiding the introduction of new ones. Experience from Canada, Chile, and the Netherlands—countries that implemented periodic review of tax expenditures, including sunset clauses and performance assessments in their legal frameworks—suggests that tax expenditures should be subject to the same level of oversight and evaluation as direct budgetary spending.

## G. Revenue Administration

**17. While South Africa has made significant progress with improving its tax administration over the last 5 years, tax debt has continued to rise.** SARS has made notable progress in recent years to modernize operations, leverage new data sources—including the Companies and Intellectual Property Commission (CIPC), municipal billing records, and vehicle registration databases—and make use of digital technologies, including AI to improve tax compliance. Furthermore, SARS deployed lifestyle audits, third-party data matching, and real-time reporting to identify non-compliant taxpayers and recover arrears. The Voluntary Disclosure

Programme (VDP) has shown promise in regularizing informal traders and SMEs. However, tax debt has continued to increase, reaching 7 percent of GDP, pointing to remaining inefficiencies. Indeed, collaboration with the Department of Home Affairs and financial institutions to trace offshore assets and cross-border income is still nascent. Ongoing efforts to enhance VAT collection, such as e-invoicing, real-time reporting, and automated verification, are yet to achieve the necessary scaling and integration to yield measurable results.



**18. Additional efforts are thus needed to strengthen compliance and reduce tax debt, which could generate additional fiscal savings. International experience highlights the importance of data-driven enforcement and inter-agency collaboration in improving tax compliance.** SARS could further deepen its efforts to ensure real-time detection of non-compliance and apply a fully graduated enforcement response—from reminders and audits to, where necessary, hard measures such as court action, asset seizure and criminal prosecution—so that the cost of non-compliance remains consistently high. Moreover, SARS could expand the Voluntary Disclosure Program with targeted outreach to informal sectors and small businesses, coupled with simplified onboarding procedures. Institutionalizing regular tax-gap analysis across all major taxes and publishing them can help inform policy and improve acceptability of reforms. Inter-agency collaboration could also be deepened to trace offshore assets and improve cross-border compliance. SARS should also accelerate the rollout of digital tools—such as e-audits and real-time reporting—and ensure they are embedded within its broader compliance strategy. Finally, given that most of the tax debt is not disputed and recoverable, SARS should deepen its recovery efforts via the use of third-party sources, legal enforcement, and targeted strategies for aged debt (Figure 7). These reforms could yield up to 1 percent of GDP in savings over the medium term.

## Annex VIII. South Africa's Social Grant System: Overview and Reform Options<sup>1</sup>

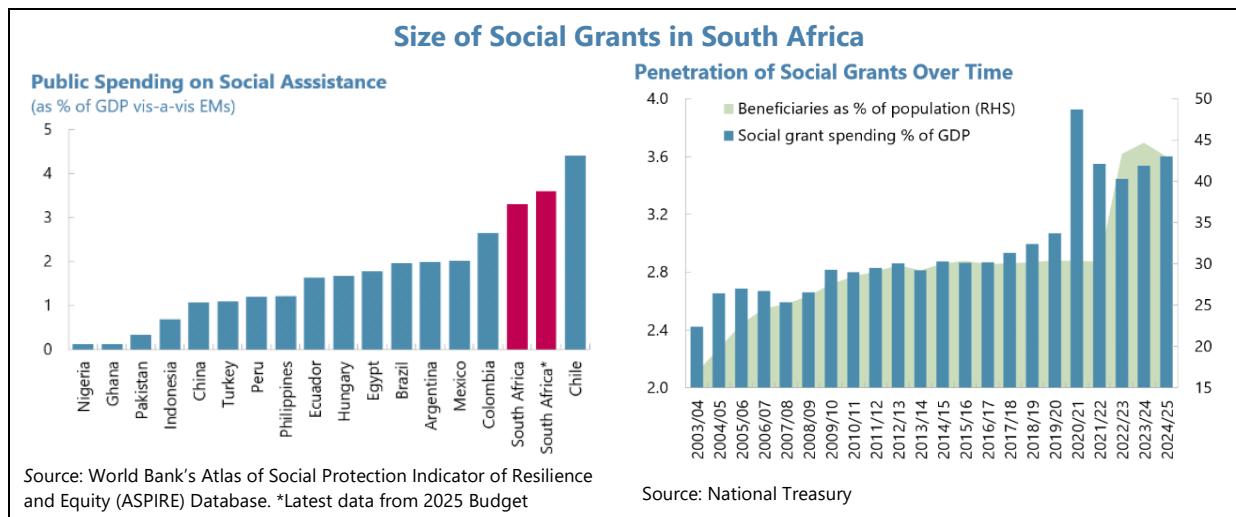
**1. South Africa operates one of the largest social-grant systems compared to peers.**<sup>2</sup> The system is grounded in the 1996 Constitutional guarantee of the right to social security and aims to alleviate poverty and foster social inclusion by ensuring that vulnerable groups are protected from economic hardship and social marginalization. Initially limited to a few grant types serving narrow population groups, the system has been progressively broadened to include more groups, including elderly, veterans, children, people with disabilities, and caregivers. Grant values and eligibility thresholds were adjusted periodically to maintain their real value and reach more individuals. Reforms in the late 1990s and 2000s focused on equalizing access across racial lines, standardizing benefit administration, and improving targeting through means testing. More recently, new grants have been introduced, such as the Special Relief of Distress (SRD) grant introduced during the pandemic. As a result, the overall population coverage has doubled over the last 20 years from about 20 to about 40 percent of the population, while the overall size of the social program increased from around 2.5 percent of GDP to 3.5 percent of GDP by end-March 2025.

<b>A Synopsis of Social Grant System in South Africa (Based on targeted groups)</b>		
Older Persons	Children	Disable Persons
<b>(i) Old age benefit (OAB) (Non-contributory means-tested pension)</b> Threshold: R8,990/month Grant size: R2,320/month 2024 Payout: 1.4 percent GDP (incl. WVG)	<b>(iv) Child support grant (Supports parents/caregivers of children &gt;18yr)</b> Threshold: R5,600/month Grant size: R560/month 2024 Payout: 1.1 percent of GDP	<b>(vii) Disability grant (Support individuals of 18-59 years with disabilities)</b> Threshold: R8,990/month Grant size: R2,320/month 2024 Payout: 0.4 percent of GDP
<b>(ii) War veterans (WVG) (Supports veterans of WW2 and Korean war)</b> Threshold: R8,990/month Grant size: R2,340/month 2024 Payout: (incl. in OAB)	<b>(v) Foster care (Supports foster parents)</b> Threshold: None (not means-tested) Avg. grant size: R1,250 per child/month 2024 Payout: 0.1 percent of GDP	<b>Working-age, able-bodied</b>
<b>(iii) Grant-in Aid (Additional support to beneficiaries of OAB, WVG, DG)</b> Threshold: not a standalone grant Grant size: R560/month 2024 payout: 0.04 percent of GDP	<b>(vi) Care dependency (Supports the care of children &gt; 18 years with mental or physical disabilities)</b> Threshold: R23,200/month Grant size: R2,320/month 2024 Payout: 0.1 percent of GDP	<b>(viii) Social Relief Distress (Temporary grant)</b> Threshold: R624/month Grant size: R370/month 2024 Payout: 0.5 percent of GDP

Source: South African Social Security Agency.  
Notes: All the thresholds pertain to single individuals. Threshold levels are typically higher for married applicants. Grant sizes are on monthly basis.

<sup>1</sup> This annex was prepared by Asma Khalid (FAD) and Kamil Dybczak (AFR).

<sup>2</sup> South Africa's social protection consists of three main components: i) social assistance, which includes social grants, the public works programs, and other interventions such as the National School Nutrition Programme; ii) the statutory funds, including the Unemployment Insurance Fund and the Compensation Fund; and iii) the voluntary funds, such as medical schemes and retirement funds. This note focuses on the first component. The World Bank (2021) "[South Africa Social Assistance Programs and Systems Review](#)."



**2. The system has been effective in providing support to vulnerable groups, significantly reducing poverty and inequality.** Nearly 86 percent of households at the bottom-income quintile receive social grants, which account for about 70 percent of their total income and consumption spending.<sup>3</sup> This enables households to meet essential needs such as food, education, and healthcare, underscoring their importance in supporting vulnerable populations. Social grants have been shown to have significantly reduced extreme poverty and improved health and education outcomes. For instance, [World Bank \(2021\)](#) finds social assistance to be associated with a 10 and 22 percent decrease in the upper-bound and lower-bound poverty rates, respectively. [OECD \(2020\)](#) estimates incomes of the poorest decile in South Africa to be rising more than tenfold from cash transfers than they do in Argentina, Brazil and Mexico. The positive impact of the social grant system goes beyond reducing income poverty and inequality, with numerous studies highlighting its wider social and developmental benefits: for instance, the Child Support Grant alone is linked to improved nutrition, school enrolment and higher female employment.<sup>4</sup>

**3. However, despite its extensive coverage, gaps persist, leaving some of the most vulnerable without support.** Approximately 15 percent of households in the poorest quintile and 42 percent in the second-poorest quintile are not covered by the system.<sup>5</sup> Several factors contribute to this exclusion. First, eligibility is often tied to specific demographic categories—such as age, disability, or caregiving status—meaning that poor working-age adults without dependents frequently fall outside the system's scope. Second, administrative and information barriers, including lack of identity documents, limited awareness of entitlements, or costly access to registration and verification points (especially in remote areas), prevent some eligible individuals from applying.<sup>6</sup>

<sup>3</sup> Staff estimates based on GHS 2023 data.

<sup>4</sup> For instance, [Oyenubi and Rossouw \(2024\)](#), [World Bank \(2022\)](#), and [Heinrich et al \(2012\)](#).

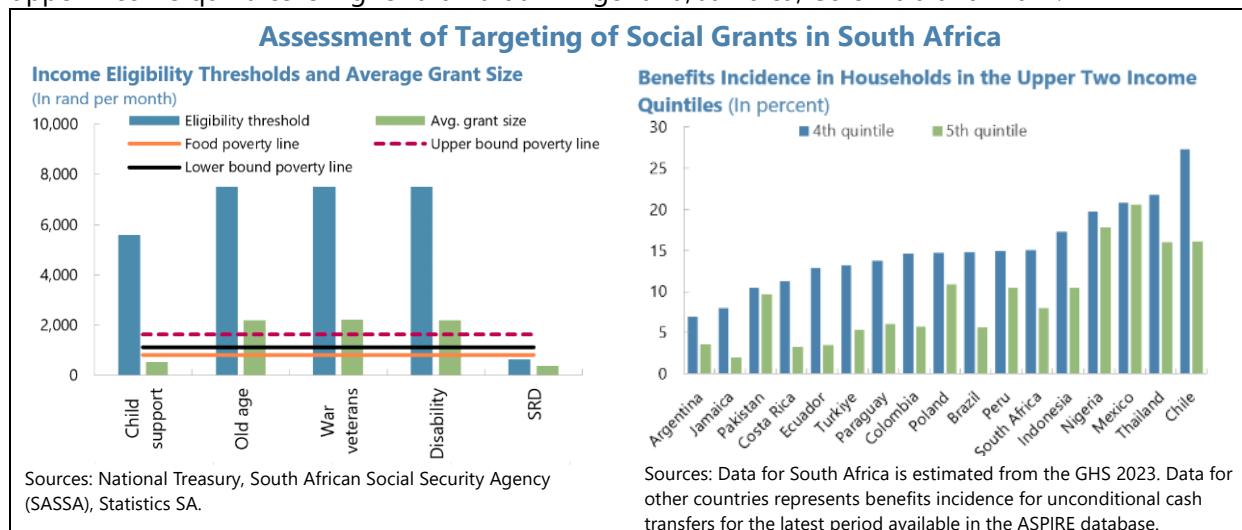
<sup>5</sup> A household is counted as covered if at least one of its members receives any social grant.

<sup>6</sup> [Unicef \(2022\)](#) identified pronounced geographical disparities in the exclusion of 17.4 percent of eligible children from the Child Support Grant. The analysis identified the lack of documentation, "misunderstanding of the means test and misperception of the application process" as main application barriers – however, the factors driving exclusion varied significantly by province.

Third, inaccuracies and delays in verification processes can also result in exclusion errors, particularly in informal income settings.<sup>7</sup> As a result, a segment of the poorest population remains unprotected.

#### 4. At the same time, part of grant resources is directed toward better-off households.

This is partly because means-testing is conducted at the individual level rather than the household level, which allows people in relatively well-off households to qualify if their personal income falls below the eligibility threshold.<sup>8</sup> In addition, thresholds are set at comparatively high levels: for example, thresholds for old age, war veterans, and disability grants are more than 10 times the country's food poverty line and 5 times the upper bound poverty line, equivalent to the 4<sup>th</sup> income quintile (GHS 2023). Similarly, about half of children (below 18 years) in the 4<sup>th</sup> income quantile and 10 percent in the 5<sup>th</sup> income quantile are eligible for the child support grant. While the system's design helps ensure inclusivity and reduces exclusion errors, it also means that a share of grants flows to individuals who may not need them. Indeed, nearly 20 percent of households in the top two income quintiles receive social grants that could be more effectively directed toward poorer households. While South Africa is not an outlier compared to peers, its benefit incidence in the upper income quintiles is higher than that in Argentina, Jamaica, Colombia and Brazil.



#### 5. Despite efforts to enhance data interoperability and verification processes, data challenges limit the effectiveness and efficiency of the means-testing process.

The system relies on income verification, whose accuracy is limited by the reliability and interconnectivity of underlying data systems. While the main administrative platform is linked to key government databases—such as those of the Department of Home Affairs and the government payroll

<sup>7</sup> See Meeting Summary of the Parliamentary Monitoring Group (Standing Committee on Appropriations) on briefing by [Department of Social Development on conditions set by National Treasury and disbursement of grants by SASSA, 16<sup>th</sup> September, 2025](#).

<sup>8</sup> The Constitution of the Republic of South Africa (1996) guarantees the right to social assistance in Section 27, under the Bill of Rights: "Everyone has the right to have access to social security, including, if they are unable to support themselves and their dependents, appropriate social assistance." Social Assistance Act (2004) operationalizes that right at the individual level — meaning eligibility and means testing apply to a person (the applicant), not to a household. While section 5(1) guarantees an *individual right* to assistance, other provisions (like Sections 9–11 on means tests) frame eligibility in relation to the applicant's income or that of a spouse, not the household.

system—allowing for identity, income, and death record verification,<sup>9</sup> data interoperability remains incomplete and not fully real-time. For instance, [World Bank \(2021\)](#) highlights weaknesses in dataset interoperability, lack of integration of the institutional and administrative frameworks, and last-mile accessibility of grants to the recipients.<sup>10</sup> It also notes that while authorities have a large database for grant management, there is no real functioning social registry in South Africa that has the ability to link all social programs. [AFD \(2025\)](#) identified barriers to the SRD grant application, including verification of eligibility via proxy-means testing, receiving payments after having been approved, and successfully appealing incorrect decisions. These barriers stemmed in large part from the rapid digitalization and automation of the grant system without adequate transparency, oversight and accountability.

**6. Reforms improving the system's effectiveness could help to better support vulnerable groups.** Achieving full coverage of the households in the bottom two income quintiles is estimated to cost approximately between 0.5 to 1 percent of GDP.<sup>11</sup> Given the constrained budgetary environment, such resources would need to be found through efficiency savings elsewhere. For example, moving from means-testing at individual level to household level and improving targeting and through adjustments to eligibility thresholds could help generate savings that could be redirected to the most vulnerable groups. Continuing to improve the interoperability of departmental databases so they can be integrated and function collectively as a comprehensive social registry would further improve identification of vulnerable individuals, help reduce inclusion errors, and improve the efficiency and equity of social assistance spending. Resources permitting, additional measures such as deploying mobile registration units, modernizing beneficiary databases, and introducing automatic enrollment for vulnerable groups could also improve coverage among poor households. In the meantime, the National Treasury's efforts to address existing weaknesses in the system should continue, including by tightening conditions for the release of social grants, including by strengthening income verifications and data cross-checks, and penalizing non-compliance.

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<sup>9</sup> The verification of beneficiaries typically involves cross-checks with banks, the South African Revenue Service (SARS), the Department of Home Affairs (DHA), the Unemployment Insurance Fund (UIF), the National Student Financial Aid Scheme (NSFAS), the Department of Correctional Services (DCS) and the Government Employees Pension Fund (GEPF).

<sup>10</sup> While the study acknowledges the presence of a highly digitized payment system in the country and a timely payout of a large number of grants, it also highlights beneficiaries' struggle in accessing funds queuing at retailers and other pay-points.

<sup>11</sup> To estimate the cost of extending coverage to all households in the bottom two income quintiles, staff assume that a household is considered covered if it receives one social grant. Using an average monthly grant amount of 1,664 rand, consistent with the average grant size reported in the 2025 Budget Review, the cost of full coverage is estimated at R42 billion (about 0.5 percent of GDP). As improving coverage among low-income households would likely result in multiple grants per household, and households in the first and second income quintiles currently receive, on average, two grants per household, the total cost of full coverage would approximately double, reaching about 1 percent of GDP.

## Annex IX. The Non-Bank Financial Institutions (NBFI) Sector: Systemic Presence and Policy Challenges<sup>1</sup>

### A. Overview of the NBFI Sector

#### 1. Non-bank financial institutions (NBFI) dominate South Africa's financial sector

(Figure 1).<sup>2</sup> With assets of about 183 percent of GDP at end-2023, the NBFI sector is the largest among G20+ EMs, although by absolute size (USD 0.7 trillion) it is slightly above the group median of USD 0.6 trillion. Since 2002, NBFI assets have expanded nine-fold; after an uninterrupted rise to 160 percent of GDP by 2007, they stabilized at about 180 percent of GDP post-2015.<sup>3</sup> As of end-2023, NBFI held approximately 49 percent of South Africa's total financial-sector assets (when including public financial institutions, the sector held roughly 66 percent of assets, and the size in percent of GDP would increase to 247.9), while banks accounted for 30 percent; the remainder was held by the central bank.<sup>4</sup> Among NBFI, Other Financial Intermediaries (OFIs), primarily consisting of Collective Investment Schemes (CIS), represent the largest category. Pension funds and insurers, though individually smaller, collectively form nearly one-third of the NBFI sector. Public Financial Institutions, dominated by the Public Investment Corporation (PIC)—an asset management company for public-sector employee pensions—make up roughly another third.

**2. While the scale of the NBFI sector provides important benefits, its expansion exposes the financial system to new types of risks.** Benefits of having a considerably developed NBFI sector relate to deeper capital markets, wider risk-sharing, and improved access to finance. However, NBFI also add to vulnerabilities, linked to leverage, liquidity, and interconnectedness risks (Table 1). Globally, vulnerabilities have been found to be particularly pronounced in investment and hedge funds, while insurance and pension funds face moderate but rising risks. For EMs, currency mismatches and capital outflow sensitivities that stem from the NBFI intermediation of cross-border flows constitute an additional vulnerability. Drawing on IMF Monetary and Financial Statistics, the [Financial Stability Board's \(FSB\) Global Monitoring Report on Non-Bank Financial Intermediation 2024](#), and South African Reserve Bank (SARB) regulatory disclosures, this annex aims to assess South Africa's NBFI vulnerabilities through the lenses of interconnectedness and risk exposure (in line with the [April 2023 Global Financial Stability Report \(GFSR\)](#)) and proposes policy actions to reinforce the resilience of the financial sector. Due to data limitations, this analysis primarily utilizes public information on the overall NBFI sector. As a result, it may not capture important distinctions between subsectors, each of which may face unique risk factors that are not evident at the aggregate level.

<sup>1</sup> This annex was prepared by Jana Bricco (AFR) and Mario Mansilla (MCM).

<sup>2</sup> The NBFI sector comprises Other Financial Institutions (OFI's), Public Financial Institutions, Pension Funds and Insurance Corporations.

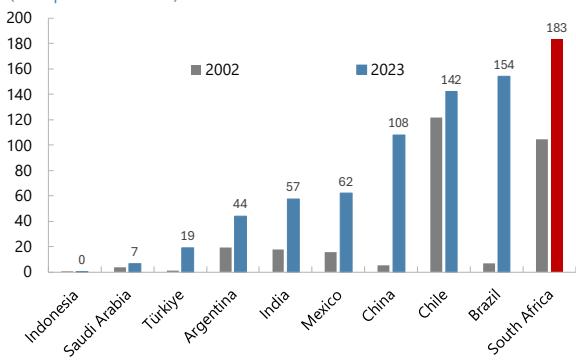
<sup>3</sup> Globally, the FSB (2024) reports that NBFI assets in G20+ jurisdictions expanded by 8.5 percent in 2023—more than twice the pace of banking-sector asset growth.

<sup>4</sup> For this analysis, we broadly group Public Financial Institutions into the NBFI sector, but the Financial Stability Board does not. Thus, data sourced from the FSB is lower compared to the data sourced from IMF's International Financial Statistics.

### Figure 1. South Africa: Size and Composition of the NBFI Sector

#### NBFI Sector in Comparison to G20+ EMs

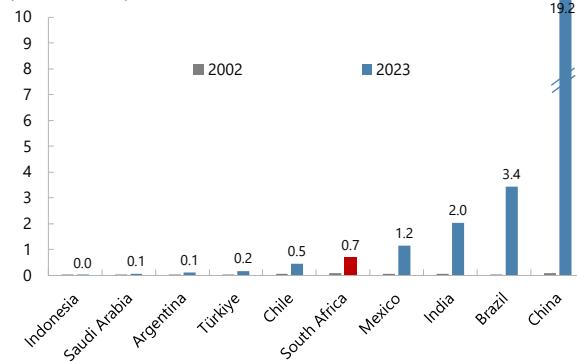
(In in percent of GDP)



Source: Financial Stability Board.

#### NBFI Sector in Comparison to G20+ EMs

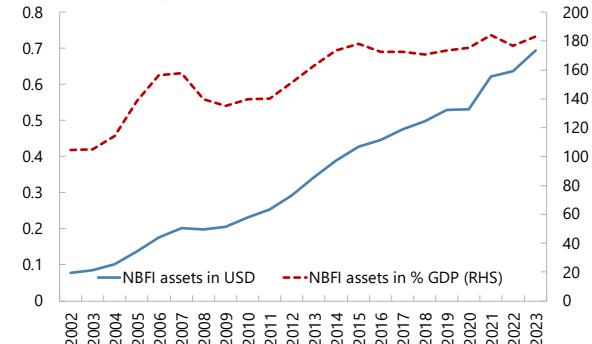
(In USD trillion)



Source: Financial Stability Board.

#### NBFI Asset Growth in South Africa

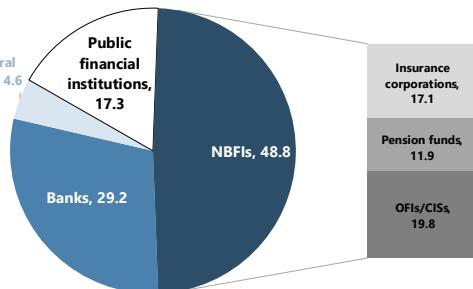
(In bn Rand and in percent of GDP (RHS))



Source: Financial Stability Board.

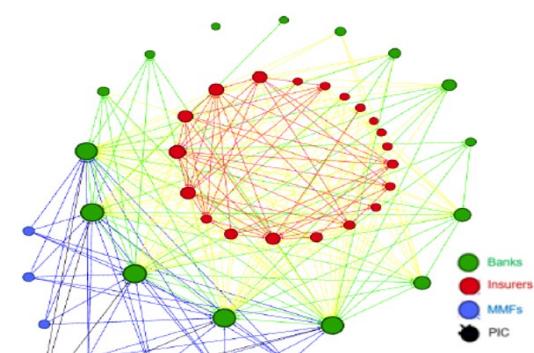
#### Financial Sector Composition

(In percent of total assets, 2023)



Source: Financial Stability Board.

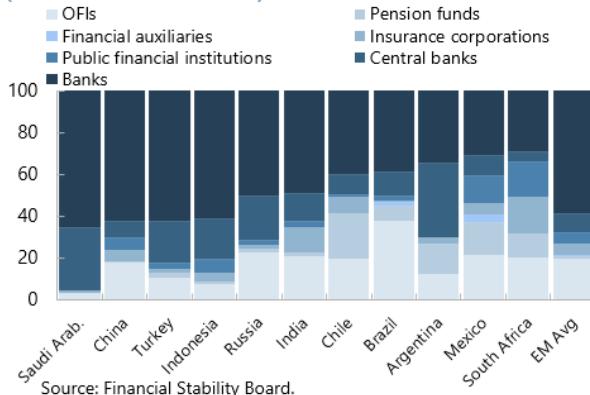
#### Financial System Interconnectedness



Source: South Africa 2021 FSAP.

#### Financial Sector Composition by Country

(In share of total financial sector)



Source: Financial Stability Board.

**Table 1. South Africa: From GFSR 2023: Preliminary Assessment of Vulnerabilities of NBFIs Globally**

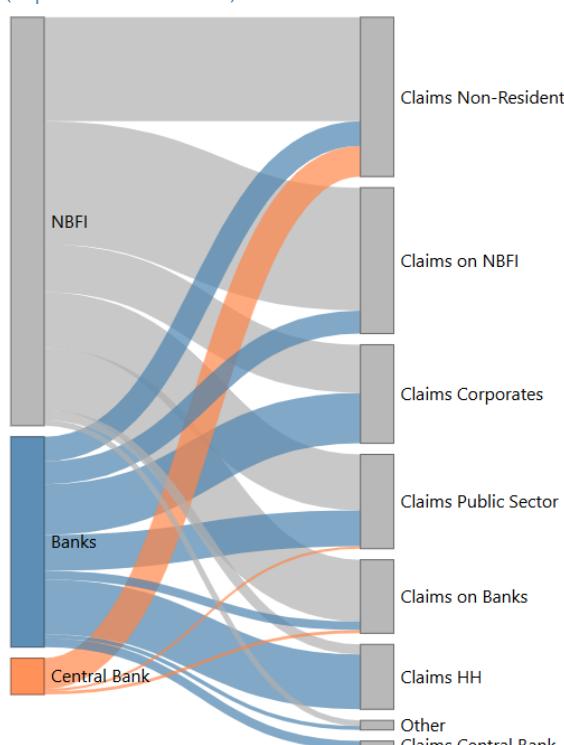
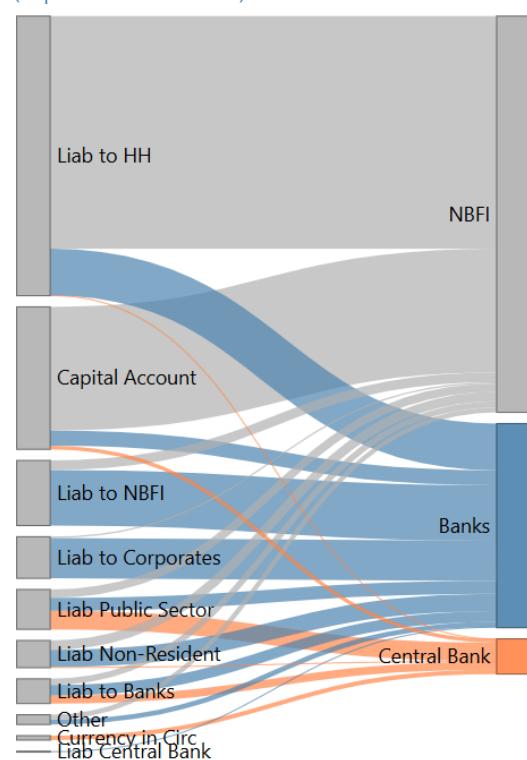
NBFI (GFA)	Financial Leverage	Liquidity Risk	Interconnectedness	Currency Mismatches
<b>Investment funds</b> , excluding money market funds and hedge funds (\$58 trillion, 12 percent of GFA)	<b>Low</b> , but medium for bond funds with derivative exposures	<b>High</b> for fixed-income funds holding illiquid emerging market/high-yield assets; medium otherwise	<b>High</b> , cross-border spillovers (EMDEs) and potential links to banks on derivative exposures	<b>Low</b> , but significant externalities to FX market
<b>Insurance companies</b> (\$40 trillion, 9 percent of GFA)	<b>Low</b>	<b>Low</b> , but medium if subject to policy surrenders	<b>Medium</b> ; large holders of bank debt; some exposure to margin calls	<b>Low</b> , but medium if subject to policy surrenders
<b>Pension funds</b> (\$43 trillion, 9 percent of GFA)	<b>Low</b> , but medium in jurisdictions with large DB schemes	<b>Low</b> , but could be high in some jurisdictions with large DB schemes and negative cash flows	Severe data gap; could be high in some jurisdictions with large DB schemes and negative cash flows	<b>Low</b>
<b>Money market funds</b> (\$8.5 trillion, 2 percent of GFA)	N/A	<b>Low</b> , but medium for prime funds	<b>High</b> ; key players in core funding markets	N/A
<b>Structured finance vehicles</b> (\$6 trillion, 1 percent of GFA)	<b>Medium/high</b>	<b>Medium</b>	<b>Medium</b> ; insurance and pension funds can be large investors	<b>Low</b>
<b>Hedge funds</b> (\$6 trillion, 1 percent of GFA)	<b>Medium/high</b>	<b>Medium</b> ; most hedge funds strengthened liquidity terms	<b>Medium/high</b>	<b>Medium</b>
<b>Central counterparties</b> (\$0.7 trillion, 0.1 percent of GFA)	N/A	<b>High</b> , but strong risk and financial management controls	<b>High</b> , given systemic position across markets	N/A

Sources: Financial Stability Board 2022c, and IMF staff. Note: GFA= global financial assets.

## B. Interconnectedness

### 3. South Africa's NBFIs are highly interconnected with the broader financial system and the global economy (Figure 2):

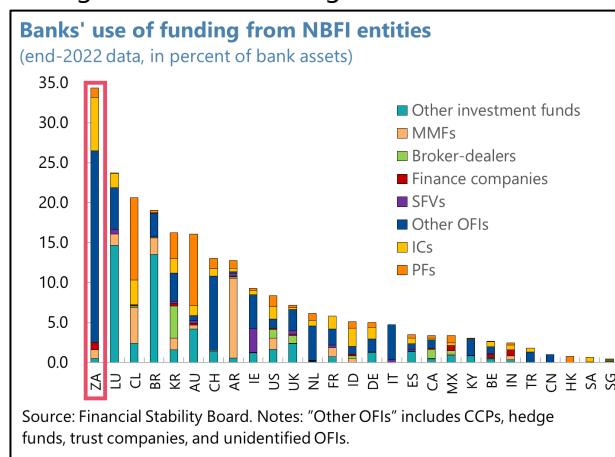
- **On the asset side**, NBFIs hold significant claims on other NBFIs (67 percent of GDP and almost 1/3 of their assets), they comprise largely loans and prepayments of insurance premiums and reserves. They also hold significant investments abroad, with claims on non-residents amounting to 58 percent of GDP and 1/4 of total NBFI assets, largely comprised of investments in shares and “re-insurance” claims from abroad. Other main assets of NBFIs are claims on banks (34 percent of GDP and 15 percent of NBFI assets), comprised mainly of holdings of securities and shares as well as deposits held at banks and holdings of public government debt (30 percent of GDP, 13.7 percent of NBFI assets).
- **On the liability side**, NBFIs are largely funded by households, through pensions, insurance, and deposits, totaling 131 percent of GDP (58.7 percent of NBFI total liabilities) and investor capital contributions, retained earnings and reserves, amounting to 70 percent of GDP (31.2 percent of liabilities).

**Figure 2. South Africa: Financial Sector Interconnections****Figure 2a. Total Sectors Assets/Claims**  
(In percent of 2024 GDP)**Figure 2b. Total Sectors Liabilities**  
(In percent of 2024 GDP)

	Claims Public	Claims CB	Claims Banks	Claims NBFI	Claims to HH	Claims Corps	Claims Non-Resident	Other	Total Assets (Percent of GDP)		
Central bank	1.3	-	1.7	0	0	0	16.8	0.1	19.8		
Banks	19.6	4.9	4.7	12.5	29.9	27	13.4	2.1	114.7		
NBFI	30.5	0	33.7	67.1	5.5	26.2	56.7	3.1	222.8		
Sum	51.4	4.9	40	79.7	35.4	53.8	86.9	5.2	357.3		
	Liab Public	Liab CB	Liab to Banks	Liab to NBFI	Liab to HH	Liab to Corps	Currency in Circ	Liab Non-Resident	Capital Account	Other	Total Liab (Percent of GDP)
Central bank	10.4	-	4.4	0	0.1	0	2.5	0.3	2.1	-	19.8
Banks	7.3	0.5	6	31.2	26.3	22.8	-	9.7	8.4	2.8	114.7
NBFI	4.7	-	3.5	5.4	130.8	0.8	-	5.3	69.6	2.7	222.9
Sum	22.3	0.5	13.9	36.6	157.2	23.4	2.5	15.2	80.2	5.5	357.3
Net (A-L)	29.1	4.4	26.1	43.1	-121.9	30.4	-2.5	71.7	-80.2	-0.4	0

Source: IMF MFS, and IMF staff calculations. Note: NBFI data from 2024M8, and bank data from 2024M12.

**4. The bank-NBFI nexus in South Africa stands out in international comparison.** As noted above, banks are significantly exposed to NBFI through wholesale funding, which amounted to close to 35 percent of bank's assets end-2022, among the largest globally. This reflects the fact that NBFI are important liquidity providers, as domestic savings are, to a large extent, channeled to pension funds, insurance products and investment funds and subsequently placed with banks as wholesale deposits. Moreover, some major banks are affiliated with insurance companies and fund managers; and bank-affiliated insurers underwrite a substantial proportion of private pension assets.



**5. The nexus between banks and NBFI is further amplified by benchmark effects.** Low liquidity of T-bills and the lack of a risk-free benchmark money-market index further drive the nexus by directing fund managers away from risk-free investments in T-bills toward bank deposits.<sup>5</sup> In terms of credit exposure, the most widely used index by money-market fund managers is the "StEFl," which contains only bank risk (85 percent Negotiable Certificate of Deposit (NCD)<sup>6</sup> rates, 15 percent SABOR).<sup>7</sup> Since most of the money-market funds' performance is benchmarked to the StEFl index, to maintain a neutral position against their benchmark, they must mimic this non-tradable index by holding the same positions (i.e. investing 85 percent of their funds in NCD and the remainder in assets that pay the SABOR rate).<sup>8</sup> This creates a strong demand for money-market fund managers to hold deposits at banks.

**6. The NBFI-sovereign nexus adds to overall financial-sector interconnectedness.** While NBFI hold close to 53 percent of domestic central government bonds, one of the highest shares among emerging markets, general government assets constitute only 13.7 percent of NBFI's total assets,<sup>9</sup> a relatively modest share compared to peers. This also helps diversify sovereign exposures across the financial sector. "Other Financial Institutions," particularly collective investment schemes (CIS), have more than doubled their share of domestic government bond holdings from 10 percent

<sup>5</sup> [South Africa: Financial Sector Assessment Program-Technical Note on Systemic Liquidity Management](#)

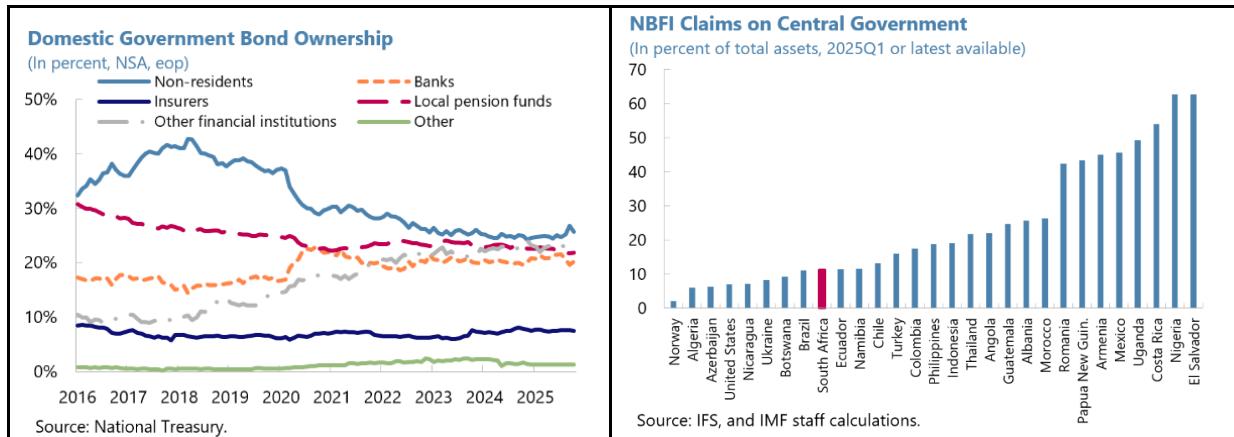
<sup>6</sup> Issuances of Negotiable Certificate of Deposits by individual banks take up a considerable part of their funding. These marketable securities are sold daily up to 8-year maturity (sometimes even longer). There are fixed and floating rate NCD. The notes are mainly fixed against different maturities of JIBAR, mostly 3 months. There is an active secondary market supported by daily market-making by the main issuers. The five main issuers are the five largest banks.

<sup>7</sup> While ZARONIA (South African Rand Overnight Index Average) is replacing JIBAR (Johannesburg Interbank Agreed Rate) to reflect the interest rate at which rand-denominated overnight wholesale funds are obtained by commercial banks, it remains an overnight benchmark that does not address the need for risk-free index for time horizons up to 12 months. There is an indication from industry that StEFl needs to change with the JIBAR - ZARONIA move.

<sup>8</sup> StEFl is used as the primary benchmark by almost 16 percent of the CIS funds domiciled in South Africa, which amounts to 29.4 percent of funds invested in South African-domiciled CISs. See SARB Consultation Paper on Selected Interest Rate Benchmarks, 2018.

<sup>9</sup> When considering central government exposure only, the ratio is at 11.1 percent of NBFI assets, which is the number shown in the chart for cross-country comparability reasons.

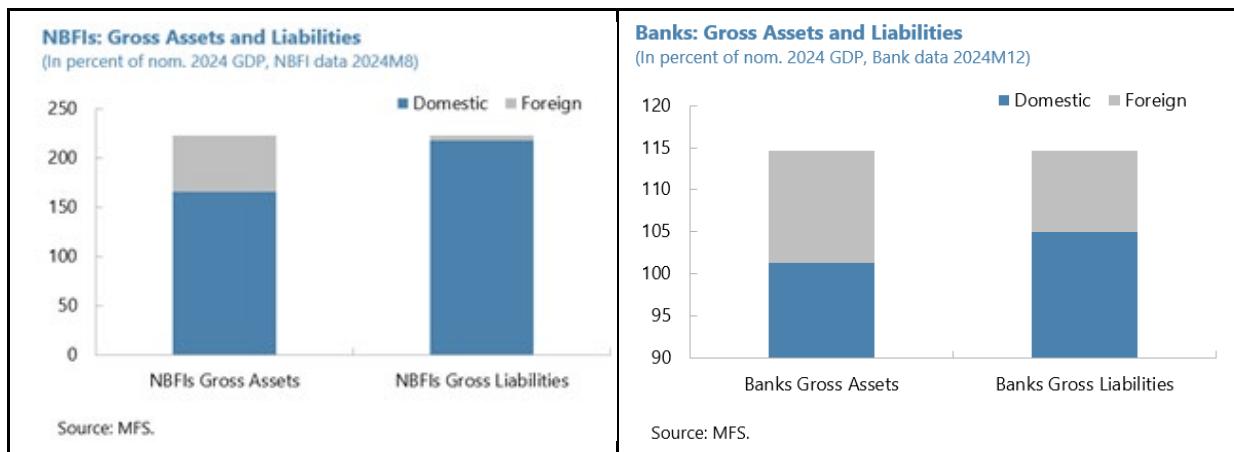
in 2018 to 22.5 percent in 2025, while pension funds and insurance companies have largely maintained stable shares over the same period. In addition, banks' holdings of public government claims amount to 16.5 percent of bank assets. While banks' and NBFI's exposures to government debt are not out of line with peers, such common exposure to sovereign risks adds to the interconnectedness between banks and NBFIIs, which can amplify overall risks to financial stability in periods of stress (for example, deleveraging by NBFIIs could lead to fire sales of bonds which would also affect banks who are holding large amounts of government bonds, and could lead to runs on banks' wholesale funding).



## C. Capital, Leverage and Currency Composition

**7. Overall, South Africa's NBFIIs are moderately leveraged and minimally exposed to currency mismatch risks, although important differences exist across subsectors.** The financial system collectively holds capital equivalent to approximately 80 percent of GDP, resulting in a capital-to-total-assets ratio of 22 percent. NBFIIs have the highest capital buffers, at 31.2 percent of their assets, compared to banks, at 7.4 percent. The system as a whole has a moderate leverage (debt-to-equity) ratio of 3.5. NBFIIs in particular are even more conservative, with a leverage ratio of 2, compared to banks, which have a leverage ratio of 12.5 (standard ratio for banks). In terms of currency composition, NBFIIs' assets are 75 percent domestic and 25 percent foreign, while their liabilities are largely domestic (i.e. 2 percent of their liabilities are in foreign currency), resulting in a positive net foreign-asset position of 23 percent. This suggests that the NBFI sector faces limited currency mismatch risk, although important heterogeneity exists across subsectors.<sup>10</sup> In comparison, banks hold about 90 and 10 percent of assets in domestic and foreign currency respectively, while their liabilities are 92 and 8 percent in domestic and foreign currencies.

<sup>10</sup> CIS and pension funds' foreign assets were found by IMF TA in 2024 to represent around 30 percent and 33 percent of total assets, respectively.

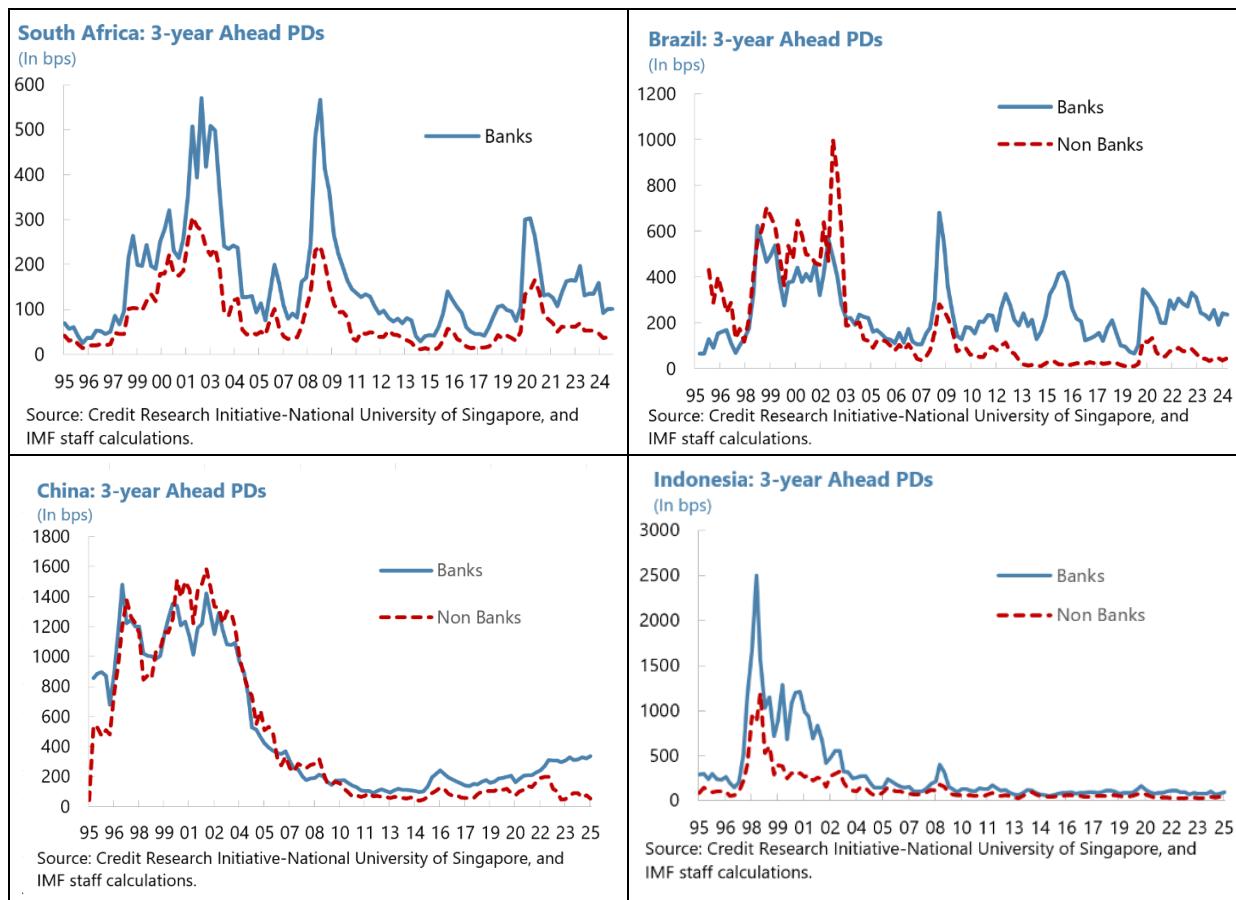


## D. Bank-NBFI Interlinkage Risk Indicators

**8. One way to assess the relative riskiness of financial entities is the probability of default (PD).** PDs are typically defined as the probability that a firm will default at a given point in the future (t), provided it has survived in the period between the present and the specified time t. To estimate a proxy of the degree of interdependency of banks and NBFI, we compare the median PDs of banks and non-banks to check for levels, trends, and for co-movements, and compare them to peers for the period 1995-2025, on a quarterly basis.<sup>11</sup>

**9. South Africa's NBFI have been exposed to default risk, albeit at relatively lower levels than banks.** The estimated 3-year ahead PDs for South African financial entities identify three key periods when default risks reached historical peaks: the Asian crisis, the GFC, and the pandemic period. Both banks and NBFI's PDs show similar inflection points, though NBFI's PDs have been less volatile and have stayed below those of banks. The correlation of these two series for the entire sample period is 94 percent; but if calculated by subperiods, the correlation since 2020 drops slightly to 87 percent, a still high level. Such positive correlation implies that about 90 percent of the time an increase of the PD in one sector coincides with a similar increase in the average PD of the other. While these stylized facts don't imply causality, the strong co-movement of default risk in banks and NBFI suggests they are affected by the same factors, e.g. shared exposures, and thus they tend to behave as one integrated sector. In comparison to peers, South African entities' PDs are less volatile, and the relative riskiness of banks versus NBFI has remained more stable during the sample.

<sup>11</sup> There are several techniques to estimate PDs in the literature, we use series computed by the Credit Research Initiative (CRI) of the National University of Singapore, which bases its estimates on [Duan et al. \(2012\)](#). The methodology includes both macro-financial risk factors and firm-specific attributes to estimate intensity functions, the regressions include some region-specific features, and the PDs are derived from distance-to-default estimates using market data.

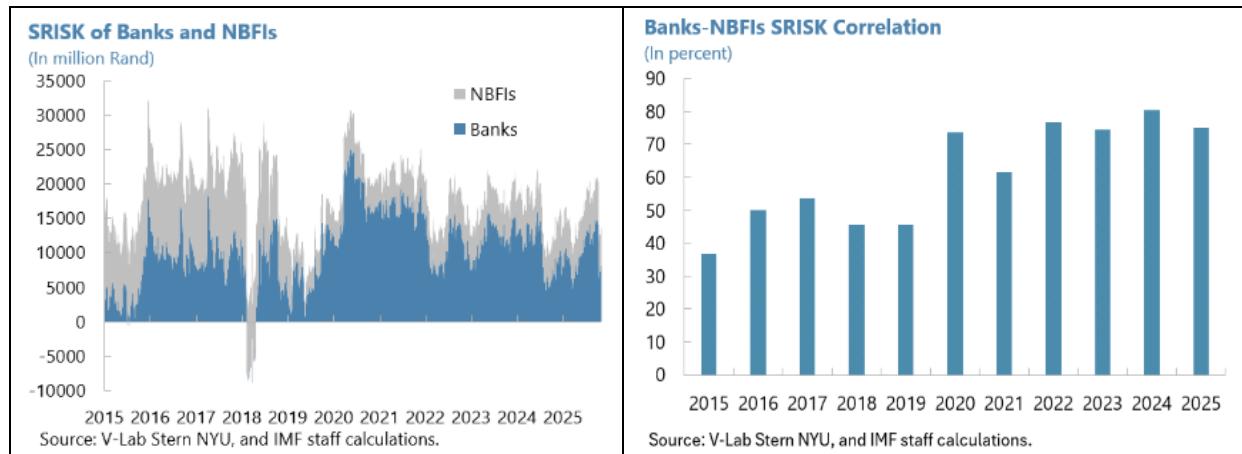


**10. An alternative measure of financial-sector risks is offered by the SRISK indicator.** This indicator is a widely used metric for the capital shortfall (at market prices) resulting from a systemic market shock, conditional on historic volatility and for a given minimum capital requirement. In the case of South Africa, we aggregate SRISK measures of those banks and non-banks that quote in the market and exhibit positive shortfalls.<sup>12</sup> To quantify a proxy for the potential systemic effect of the Banks-NBFIs linkages, we compute the monthly rolling correlation of the change in the aggregate SRISK for banks and NBFIs.

**11. While the SRISK of NBFIs is relatively smaller compared to that of banks, the correlation between the two has increased in recent years.** The total capital shortfall in scenarios of systemic shocks, as estimated by the SRISK, has been fairly volatile in the last decade (fluctuating between 10 and 30 Billion Rand for this data sample), with NBFIs contributing less in recent years to the total SRISK in comparison to banks. Similar to PDs, there are significant co-movements between the variation of SRISKs of both types of institutions (61 percent correlation during the sample

<sup>12</sup> Data estimated and published by [V-Lab Stern NYU](#). Compared to banks fewer NBFIs show positive capital shortfalls, i.e. they are better capitalized, especially in the latter part of the sample. For the purpose of this note, we follow the methodology shown in V. Acharya et.al. (2024), using a sample of daily SRISK estimates for the period 2015-2025 on the basis of market quotes for banks and NBFIs. The estimates assume a 40 percent price shock in the market as a whole, and the positive capital shortfalls for banks and non-banks are aggregated separately. These estimates are based on data of listed entities only, hence the results do not capture the vulnerabilities related to market participants that are not quoted in the market.

period). Interestingly, the correlation has increased in the last decade (from a median of 36 percent in 2015 to about 75 percent at present),<sup>13</sup> likely reflecting the limited room for diversification in the economy, which leads to common risk exposures, making the system prone to contagion across segments and synchronized financial cycles.



**12. These results underscore the interlinkages between banks and NBFIs in South Africa, which appear to be growing stronger.** This is likely associated with the structure of their operations, balance sheets, and portfolios. It may also be a result of the supervisory and regulatory framework applicable to both segments and the general market structure of the South African financial sector.

## E. Conclusions and Policy Recommendations

**13. South Africa's NBFI sector stands out relative to peers, given its scale relative to the domestic economy and its central role in financial intermediation.** The sector provides substantial benefits—mobilizing long-term savings, deepening capital markets, and fostering inclusion—yet it also introduces vulnerabilities through its size, interconnectedness, exposure to sovereign risk, and broader exposure to domestic and global risks. The co-movement of risk indicators of banks and NBFIs suggests that both sectors have substantially integrated activities. However, their contribution to systemic risk is not only derived from extreme scenarios of default risks, but also from procyclical behavior where, for instance, liquidity shocks or deleveraging behavior would be quickly transmitted across the financial sector, potentially exacerbating episodes of stress, including in the sovereign bond and FX market.

**14. Safeguarding macro-financial stability while harnessing NBFI's developmental potential requires a comprehensive policy response across five dimensions:**<sup>14</sup>

- *Regulatory and supervisory standards:* To reduce regulatory arbitrage, the authorities should apply consistent prudential standards on leverage, liquidity, and risk management across

<sup>13</sup> This means that currently in about three out of four periods a one percent increase in the SRISK of banks is accompanied with a similar increase in the SRISK of NBFIs.

<sup>14</sup> Policy recommendations are based on South Africa's 2021 FSAP, the April 2023 GFSR, the [Financial Stability Board](#), and advice by the Monetary and Capital Markets (MCM) Department of the IMF.

economically similar activities, irrespective of institutional form, and treat the different market segments as interdependent and integral parts of a whole. The implementation of the FSR Act will provide the appropriate backdrop to develop these prudential standards. Moreover, the supervisory focus should be on the liquidity risk transmission channels, especially through the oversight of wholesale funding concentration at banks, and the enhanced redemption and portfolio-liquidity risk management frameworks for NBFIs. To prevent the buildup of systemic vulnerabilities, the macroprudential toolkit can also be expanded to introduce sector-specific tools (e.g., leverage limits for CIS, liquidity risk buffers for MMFs). Finally, developing resolution frameworks for large, interconnected NBFIs can help mitigate contingent fiscal risks and ensure continuity of critical functions under stress

- *Data, surveillance, and systemic-risk analytics:* To be able to monitor NBFIs risks and their buildup in real time, the authorities should mandate detailed, high-frequency data submissions by NBFIs on balance-sheet composition, counterparty exposures, redemptions and portfolio-liquidity profiles. Developing a unified analytical platform within the Prudential Authority and the FSCA could help monitor cross-sector exposures (banks–NBFIs–sovereign). Institutionalizing a system-wide stress-testing exercises incorporating bank–NBFIs linkages, intra-NBFI exposures, and sovereign shocks will be key to manage and preempt systemic risks.
- *Risk-free money-market benchmarks:* The authorities are also encouraged to follow up on FSAP recommendation to introduce 1-, 3-, 6-, and 12-month T-bill benchmark indices, supported by credible market-making and transparent pricing.
- *Systemic frameworks for liquidity provision and counterparty risk management:* NBFIs direct access to central bank liquidity could prove necessary in time of stress, but implementing appropriate guardrails is paramount, by providing liquidity through the repo facility to non-banks during market dysfunction, while maintaining the bar for such access very high to avoid moral hazard. Specifically, access should not be granted without the appropriate regulatory and supervisory regimes for the different types of NBFIs (some of which may not qualify). Since 2023, the authorities have taken early steps in this area. Following a formal public consultation, the SARB initiated work on an operational readiness framework to assess the feasibility of implementing the facility, identifying operational aspects and stakeholders.<sup>15</sup>
- *Preserving and leveraging sector strengths:* High capital ratios—especially among pension funds and insurers—are a salient stabilizing feature that should be safeguarded through prudent investment mandates and robust risk management. The authority should also continue to support innovation in NBFIs service delivery to deepen financial inclusion, subject to proportionate oversight that addresses operational and cyber risks.

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<sup>15</sup> Discussion Paper: [Publication Notice Invitation to comment on a discussion document on the repo facility to assist non-bank financial institutions with liquidity during a market dysfunction](#).

## Annex X. Anti-Corruption Reforms: Recent Progress and Future Reform Agenda<sup>1</sup>

**1. In response to the recommendations of the Zondo Commission, the authorities have developed an ambitious reform plan.** The State Capture Commission, known as the Zondo Commission, was established in 2018 and spanned over four years. The commission found that fraud, money laundering, racketeering and various other illegal activities took place in government agencies, private sector, law enforcement and intelligent services among others. The Commission made extensive recommendations on prosecutions and on overhauling various government processes and institutions. In response, the government announced its reform plan in October 2022 comprising 60 high level reform commitments in the areas of whistle-blower protection and incentives, procurement, the capacitation and strengthening of law enforcement and other accountability institutions, the professionalization of the public administration, and the protection of public institutions from abuse.

**2. Implementation of the Zondo commission recommendations has advanced.** According to the July 2025 Presidency report on the progress on the implementation of the response plan to the Zondo Commission's recommendations, out of the 60 actions identified in the Response Plan, 29 (48 percent) have been completed or substantially completed, 14 (23 percent) are on track, and 17 (29 percent) are delayed or requiring attention. In particular, significant advancements have been made with asset recovery, nearing R11 billion in recovered funds and R10.6 billion under restraint by July 2025. Moreover, the National Prosecuting Authority (NPA) has been actively implementing 218 criminal investigation recommendations, of which 21 percent were finalized or in trial by March 2025, and four state capture cases have already resulted in guilty verdicts.



**3. Moreover, the government has made important institutional and legislative advancements under its 2020–30 National Anti-Corruption Strategy:**

- ***The National Anti-Corruption Advisory Council (NACAC) established in September 2022*** has a mandate to advise the government on critical preventive measures, institutional capabilities, and resources required to proactively curb a recurrence of state capture and to prevent fraud and corruption by providing specific proposals to implement Zondo Commission recommendations, implement the National Anti-Corruption Strategy, ensure public support for whistleblowers, and strengthen electoral integrity.

<sup>1</sup> This annex was prepared by Tidiane Kinda (Res Rep Office in South Africa), Hermine Mwenyi Ilunga (Res Rep Office in South Africa), and Asma Khalid (FAD).

- **The General Laws Amendment Act of 2022** addressed the deficiencies identified by the Financial Action Task Force, paving the way for South Africa's exit from the FATF "grey list" in October 2025.
- **The National Framework for Public Sector Professionalization, published in 2023**, provides for mandatory lifestyle audits for senior officials and supply chain personnel, with 138 departments implementing these audits by 2024.
- **The Public Procurement Act of 2024** consolidated previously fragmented systems into a single regulatory framework designed to enhance transparency and combat corruption.
- **The National Prosecuting Authority Amendment Act of 2024** established the Investigating Directorate Against Corruption (IDAC) as a permanent entity with enhanced police powers and criminal investigation capabilities. IDAC officially commenced operations in August 2024.
- **The 2024 Electoral Matters Amendment of the Political Party Funding Act (2018)** regulates how political parties receive public and private funding.
- **The 2024 Judicial Matters Amendment of the Prevention and Combating of Corrupt Activities Act (PRECCA, 2004)** criminalizes the failure to prevent bribery and corruption activities in public and private sectors. However, implementing regulations remain pending.
- **The 2025 General Intelligence Laws Amendment Act**, enacted in March, dis-established the State Security Agency and created two separate entities: the South African Intelligence Service (foreign intelligence) and the South African Intelligence Agency (domestic intelligence), restoring the pre-2009 structure and strengthening oversight mechanisms.
- A draft **Whistle-blower Protection Bill** is being finalized and remains to be adopted.

**4. Despite progress so far, challenges remain.** Key weaknesses include: (1) slow prosecution of corruption cases due to resource constraints and, in some cases, insufficient admissible evidence for criminal conviction—no high-profile persons have been successfully prosecuted or imprisoned for state capture-related crimes; (2) vulnerabilities in public procurement systems, implementing regulations of the new procurement bill remain pending; (3) limited financial and administrative independence of the National Prosecuting Authority; and (4) insufficient protection for whistleblowers and investigators. Moreover, the Zondo commission's recommendations to establish a Standing Appointment and Oversight Committee for SOEs and an Anti-State Capture and Corruption Commission remain outstanding. In response to new corruption allegations, a new commission (the Madlanga Commission) was established in July 2025 to investigate allegations of criminality, corruption, and political interference within South Africa's criminal justice system, including law enforcement (South Africa Police Service (SAPs), prosecution (National Prosecuting Authority), intelligence agencies (State Security Agency), the judiciary, and correctional services, and to recommend reforms to strengthen institutional integrity and accountability.

5. **To address these challenges, the National Anti-Corruption Advisory Committee (NACAC) has recently finalized its recommendations in August 2025, including:**

- **Establishing the Office of Public Integrity (OPI) – entrenched in the Constitution – as a permanent, independent, overarching anti-corruption body.** While absorbing the powers and resources of the existing Special Investigating Unit (SIU), OPI should become operational immediately with a mandate to prevent, investigate, and remedy systemic corruption involving government and other organs of state, enhancing transparency, accountability and integrity in their operations. OPI should also have full budget and human resource control along with a governance structure that safeguards its integrity and independence.
- **Strengthening existing anti-corruption law enforcement agencies (LEAs),** ensuring a coherent and effective multi-agency system. This would require reorganizing and clarifying mandates of key LEAs (Investigating Directorate Against Corruption and the Directorate for Priority Crime Investigation-DPCI) for investigating and prosecuting serious corruption and serious commercial and organized crime, and introducing statutory, transparent procedures for appointing senior leaders in the criminal justice system to ensure ethical, qualified, strong leaders.
- **Strengthening the National Prosecution Authority** by granting it full control over its budget and human resources, reforming the appointment processes for senior leadership, improving conditions of service to attract and retain critical skills, and increasing resources for NPA's Specialized Commercial Crime Unit and Asset Forfeiture Unit.
- **Establishing an independent National Police Board** to oversee leadership appointments in South Africa Police Service. This would require legislative amendments to strengthen accountability mechanisms, targeted lifestyle audits, and strengthening the Anti-Corruption Investigation Unit's (ACIU) capacity and independence, along with enhanced data-driven monitoring, robust disciplinary processes, the integration of ethics into performance systems, and stronger promotion of corruption-reporting channels.
- **Providing more resources to protect law enforcement and auditing staff and witnesses.** Mechanisms extending these protections to civil investigations and oversight personnel, such as investigators, prosecutors, and forensic auditors, would need to be instituted, requiring a collective effort by the SAPS, NPA, DPCI and SIU.
- **Integrating digital technologies and advanced analytics law enforcement agencies** to support the shift towards an intelligence-led, risk-based enforcement model. This should include artificial intelligence (AI)-driven anomaly detection tools and a comprehensive anti-corruption data sharing framework to overcome fragmented data practices. At the same time, LEAs will need to be equipped with detection tools and training to verify digital evidence.



# SOUTH AFRICA

January 22, 2026

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The African Department in collaboration with other  
Departments

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# RELATIONS WITH THE IMF

As of November 30, 2025

## Membership Status

Joined: December 27, 1945

*Accepted the obligations of Article VIII Sections 2, 3, and 4 of the IMF's Articles of Agreement on September 15, 1973.*

General Resources Account	SDR Million	%Quota
Quota	3,051.20	100.00
IMF holdings of currency	2389.71	76.62
Reserve tranche position	652.85	21.40
Lending to the Fund		

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	4,709.85	100.00
Holdings	4,526.64	96.11

Outstanding Purchases and Loans	SDR Million	%Quota
	None	

## Latest Financial Commitments:

### Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-By	Nov 03, 1982	Dec 31, 1983	364.00	159.00
Stand-By	Aug 06, 1976	Aug 05, 1977	152.00	152.00
Stand-By	Jan 21, 1976	Aug 06, 1976	80.00	80.00

### Outright Loans:

Type	Date of Commitment	Date Drawn	Amount Approved (SDR million)	Amount Drawn (SDR million)
RFI	Jul 27, 2020	Jul 28, 2020	3,051.20	3,051.20

### Projected Payments to the IMF

(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2025	2026	2027	2028	2029
Principal					
Charges/interest		5.13	5.09	5.09	5.08
Total		5.13	5.09	5.09	5.08

### **Exchange Rate Arrangements**

The currency of South Africa is the South African rand (ZAR). The exchange rate of the rand is determined by market forces in the foreign exchange market. South Africa's de-jure exchange rate arrangement is classified as free floating, while the de-facto exchange rate arrangement is classified as floating. South Africa has accepted the obligations under Article VIII, Sections 2, 3, and 4 of the IMF's Article of Agreement, and maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. South Africa has continued to gradually liberalize the system of exchange controls in place since the apartheid regime.

With the abolition of the financial rand in 1995, all exchange controls on nonresidents were eliminated. Nonresidents are free to purchase shares, bonds, and other assets, and to repatriate dividends, interest receipts, and current and capital profits, as well as the original investment capital. Foreign companies, African governments, and institutions may list equity and debt instruments on South Africa's securities exchanges.

Exchange controls on capital transactions by residents have been gradually relaxed. The authorities' main objective has been to move toward a system based on prudential limits and supervision, and away from a rigid system of quantitative controls. The National Treasury and the SARB will continue to develop the legislative framework for the new capital flow management system.

### **Article IV Consultation**

The 2024 Article IV consultation was concluded by the Executive Board on January 27, 2025. South Africa is on the standard 12-month Article IV consultation cycle.

### **Technical Support**

The Fund has been providing technical assistance and training to assist South African authorities on various macroeconomic and financial issues and policies. Specific capacity development projects in 2025 include the following:

		Date of Delivery	Beneficiary Agency
<b>Fiscal Affairs Department</b>	Strengthening Critical Revenue Administration Functions and Tools	Nov-25	SARS
	Customs Administration	Oct-25	SARS
	Strengthening Critical Revenue Administration Functions and Tools	Feb-25	SARS
<b>Monetary and Capital Markets Department</b>	Review of Monetary Policy Framework	Dec-25	SARB
	Foundation Supervision Training	Feb-25	SARB
<b>Statistics Department</b>	Energy Accounts Update and Air Emissions Compilation	Oct-25	Stats SA
	Rebasing National Accounts	Jul-25	Stats SA
	Energy Accounts Update and Air Emissions Compilation	Feb-25	Stats SA
	External Sector Statistics	Jan-25	Stats SA & SARB

SARB = South Africa Reserve Bank; NT = National Treasury; Stats SA = statistics South Africa

## RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: <https://www.worldbank.org/en/country/southafrica>
- African Development Bank: <https://www.afdb.org/en/countries/southern-africa/south-africa>
- Regional Technical Assistance Center for Southern Africa (AFRITAC South—AFS): <http://www.southafritac.org/>

**Statement by Mr. Adriano Isaias Ubisse, Executive Director for South Africa,  
Ms. Vuyelwa Vumendlini, Alternate Executive Director, and  
Ms. Linda Motsumi, Senior Advisor to Executive Director**  
**February 9, 2026**

## **Introduction**

1. The South African authorities appreciate the constructive engagement with the Fund staff and broadly share the staff's assessment of macroeconomic and financial performance, including the key policy issues and priorities.
2. South Africa's most pressing challenge is to shift from a decade of anemic growth towards a higher investment-led expansion to generate the much-needed jobs, to tackle the stubbornly high unemployment rate and foster inclusive growth. That said, since the 2024 Article IV consultation, South Africa's medium-term outlook has improved significantly. The economy has expanded for four consecutive quarters, with recent data suggesting further growth, marking the longest uninterrupted expansion since 2018. This growth momentum reflects strong economic resilience anchored on strong institutions and sound macroeconomic frameworks, including a credible and strengthened inflation-targeting framework and a flexible exchange rate regime amid renewed global turbulence and heightened policy uncertainty. Moreover, improved investor confidence—following South Africa's removal from the Financial Action Task Force (FATF) grey list and subsequently, from the European Union's list of high-risk third-party jurisdictions—along with steadfast implementation of reforms, strengthening macroeconomic stability, infrastructure development and state capability, and also supported growth.
3. The 2025 Budget and Medium-Term Budget Policy Statement (MTBPS) reaffirmed government's commitment to debt stability, demonstrated by consistent fiscal discipline that has achieved a primary surplus for two consecutive years and is projected for a third year. This led to an upgrade in the sovereign credit upgrade by Standard & Poor's Global

Ratings, the first such upgrade by a major credit rating agency in nearly two decades. The authorities have also adopted a lower 3 percent inflation point target with a  $\pm 1$  percentage point tolerance band, replacing the 3-6 percent target range. On the structural reforms front, remarkable progress has been achieved in implementing reforms under Operation Vulindlela (OV) phase I. The authorities are committed to following through the ongoing electricity and logistic reforms, while expanding focus on spatial, digital and state capacity reforms under OV phase II.

## **Recent Economic Developments**

4. Growth is projected to increase from 0.5 percent in 2024 to about 1.2 percent in 2025 and 1.5 percent in 2026, rising gradually toward 1.8 percent over the medium term. The rebound was supported by easing inflation and resilient household consumption, with investment beginning to recover on the back of infrastructure reforms. However, downside risks remain, these include elevated global uncertainty, trade restrictions, financial market volatility, and reform delays, while upside potential depends on faster reform implementation and stronger export diversification.
5. Inflation eased to 3.2 percent in 2025 from 4.4 percent in 2024, aided by a stronger rand, lower fuel costs and softer core inflation. The decline in inflation expectations allowed for 150 basis points of rate cuts since September 2024, bolstering economic activity and reducing borrowing costs. Inflation is projected to rise slightly to 3.3 percent in 2026 but align with the new target by late 2028.
6. The external position remained stable in 2025, with the current account deficit estimated at about 0.9 percent of GDP in 2025, up from 0.7 percent in 2024, reflecting weaker export volumes amid heightened trade policy uncertainty, partly offset by subdued imports. The deficit is projected to widen to 1.2 percent in 2026 and gradually worsen to 1.7 percent of GDP over the medium term, while remaining adequately financed and supported by reserve buffers of around five months of imports.

## **Fiscal Policy and Debt Management**

7. The authorities are committed to a fiscal strategy that stabilizes debt. Public debt is expected to stabilize in 2025/26 at 77.9 percent of GDP—the first stabilization since 2008—and gradually declines below 70 percent by the early 2030s. Debt-service cost growth is projected at 3.8 percent annually over the Medium-Term Expenditure Framework (MTEF), down from the average growth of 7.4 percent as per the 2025

Budget, reflecting lower borrowing costs, improved market confidence, and a diversified financing strategy. Recent market operations, including a US\$3.5 billion Eurobond issuance and the first infrastructure bond, underscore improved conditions following the sovereign rating upgrade. To further entrench fiscal sustainability, the authorities are exploring options for a formal fiscal anchor, supported by stronger parliamentary oversight, enhanced fiscal risk reporting, and greater transparency on distributional impacts.

8. The primary surplus is projected at 0.7 percent of GDP in 2025/26—outperforming the 2025 Budget—and is expected to strengthen to about 2.3 percent of GDP in 2028/29, reflecting fiscal discipline through expenditure management, targeted savings, and stronger ambition to improve revenue collection.
9. Year-to-date revenue in FY2025/26 exceeds MTBPS estimates, supported by stronger collections and the temporary boost from the mining upswing. While welcomed, the authorities acknowledge that the mining revenue windfall is cyclical and not a substitute for structural revenue strengthening. Thus, the sustained revenue growth will rely on broader-based economic growth, enhanced tax administration, and expanded use of digital tools and AI for compliance, fraud detection, and debt collection.
10. The authorities reaffirmed their commitment to controlling non-interest spending while protecting core services. Although FY25 expenditure rose for infrastructure and wages, spending is set to decline over the medium term through ongoing efficiency reviews and the Targeted and Responsible Savings (TARS) initiative. Alongside, restraining the public-sector wage bill remains central to sustaining investment and social programs, supported by headcount management, payroll oversight, and moderated compensation growth. Containing fiscal risks from state-owned enterprises is a priority, with support focused on credible operational reforms to enhance governance and self-sustainability. The authorities remain committed to protecting vulnerable households, with around 61 percent of medium-term consolidated non-interest spending allocated to the social wage, including education, health, and social protection, supporting redistribution and cushioning adjustment impacts.
11. Infrastructure investment is a key lever for promoting growth and employment in South Africa. In this regard, the public investment is expected to exceed R1 trillion over three years, supported by the reconfigured Budget Facility for Infrastructure, infrastructure

bonds, a new credit-guarantee vehicle, strengthened public-private partnership reforms with streamlined regulations, and improved management of contingent liabilities.

### **Monetary and Exchange Rate Policies**

12. The South African Reserve Bank (SARB) remains firmly committed to maintaining low and stable inflation to preserve the value of the domestic currency. Following 25 years of operating within a 3–6 percent inflation target range, the Minister of Finance in November 2025 announced a new point inflation target of 3 percent with a 1 percent tolerance on either side of the band. The lower target is expected to better anchor inflation expectations, reduce risk premia and borrowing costs, and support real incomes and growth, while allowing flexibility to absorb shocks through clear and consistent communication.
13. The authorities remain committed to a flexible exchange rate regime while gradually accumulating reserves without disrupting the functioning of the market. They note that further enhancements to the monetary policy implementation framework (MPIF) could support market functioning and policy transmission.

### **Financial Sector Policies**

14. Despite tighter global financial conditions, South Africa's financial system remained resilient in 2025, with stability expected to continue into 2026. Markets rebounded after the April 2025 bout of volatility, with equities reaching record highs and bond yields falling to multi-year lows. Banks remained profitable and well capitalized, supported by the cycle-neutral countercyclical capital buffer (CCyB) increase of 1 percent over the course of 2025.
15. While non-performing loan ratios remained elevated, the pace of deterioration stabilized at 4.9 percent in 2025. The sovereign debt exposure of banks continued to grow, but at a slower pace, while higher non-resident participation in the government bond market is expected to mitigate concentration and market risks. The sovereign credit rating upgrade by Standard and Poor's Global in November 2025 is also expected to support stable non-resident investment in domestic bonds.
16. The authorities are closely monitoring the interconnectedness between banks and non-bank financial institutions (NBFIs). Efforts to strengthen system-wide resilience are ongoing, including enhancing NBFIs monitoring and reporting, improving consistency in regulation, and expanding stress testing and crisis simulation exercises.

17. South Africa's removal from the FATF grey list in 2025 marked a significant strengthening of the anti-money laundering and countering the financing of terrorism (AML/CFT) framework, reflecting sustained reform efforts and positioning the authorities well for the FATF Fifth Round Mutual Evaluation scheduled for 2026.

### **Structural Reforms**

18. Electricity market reform has reached a key implementation milestone. In November 2025, the National Energy Regulator of South Africa (NERSA) approved the Market Operator license for the National Transmission Company of South Africa (NTCSA), enabling the formal establishment of the South African Wholesale Electricity Market. The revised Market Code, developed through extensive stakeholder consultation that concluded in September 2025, will be submitted to NERSA following licensing. Supporting regulations are being finalized, with Grid Capacity Allocation Rules issued by the end of 2025 and Electricity Trading Rules scheduled for finalization by early 2026.

19. Freight logistics reforms have resulted in higher rail volumes, a 75 percent decline in vessel anchorage times, greater throughput, and quicker container handling. Open access is underway, with 11 private operators set to run trains on 41 routes. The Interim Rail Economic Regulator has sent recommendations for the 2025/26 Network Statement and tariffs, supporting a new framework in early 2026. The appointment of a Transport Economic Regulator board prepares for its launch in FY2026/27.

20. Water sector reforms are advancing, with a new law establishing the National Water Resources Infrastructure Agency (NWRIA) in 2026 to improve water infrastructure planning, funding and management. The Water Services Amendment Bill, now before Parliament, clarifies the separation of roles between Water Services Authorities and Providers and introduces licensing requirements to improve accountability and enable earlier intervention where service delivery deteriorates. Progress toward an independent water economic regulator is advancing, supported by an interim advisory framework, while private investment is being mobilized.

21. The ongoing reforms implemented during OV phase II are advancing effectively to encourage investment and lower unemployment rates. Recent data indicate a slight decline in unemployment, suggesting positive momentum in reform efforts. The modernization of the visa application process is anticipated to bolster the inflow of investment and skilled professionals, thereby supporting job creation in the long term. Concurrently, spatial

reforms, including measures to decrease urban development costs, foster higher-density development, and increase affordable housing in strategically located areas, are expected to improve employment access and further support job growth over the medium term.

## **Conclusion**

22. The authorities welcomed the assessment by the IMF mission team given the alignment of views. They are committed to safeguarding the macroeconomic stability of the country with a specific focus on strengthening the credibility of the fiscal framework, achieving debt sustainability, enhancing financial stability, and advancing the implementation of reforms to boost productivity.