

# Republic of South Africa

## Rating Review Annex



### Credit strengths

- A large and well-diversified economy
- Favourable public-debt profile
- Credible monetary-policy framework
- Robust financial system
- Access to bilateral & multilateral lenders

### Credit challenges

- Rising government-debt ratio and rising interest burden
- Moderate economic-growth potential
- Governance challenges
- Socio-economic vulnerabilities

### Rating rationale:

**Large and well-diversified economy:** South Africa has one of the largest economies (nominal GDP of around USD 382bn in 2023) of the African continent with furthermore comparatively elevated GDP per capita (USD 6,485) as compared with averages of sub-Saharan African economies.

**Favourable public debt profile:** Public debt is mostly denominated in domestic currency, on fixed-rate bases and having long average maturities, mitigating interest-rate, forex and debt roll-over risks.

**Credible monetary-policy framework:** Strong independence and governance support South African Reserve Bank's efficacy in the management of inflation and preserving financial stability.

**Strong financial industry:** A large and well-regulated financial industry anchors economic development and resilience to external crises and mitigates government funding dependencies on fickle international credit markets. However, an intensifying sovereign-bank nexus is a concern.

**Ratings challenges include:** i) a rising debt burden in view of elevated headline deficits and high contingent liabilities; ii) modest economic-growth potential, enervated by unsatisfactory energy infrastructure and elevated unemployment; iii) governance challenges; and iv) socio-economic risks hindering fiscal consolidation and structural reform.

### South Africa's sovereign rating drivers

| Risk pillars                     | Quantitative          |                   | Reserve currency | Qualitative* | Final rating |      |
|----------------------------------|-----------------------|-------------------|------------------|--------------|--------------|------|
|                                  | Weight                | Indicative rating | Notches          | Notches      |              |      |
| Domestic Economic Risk           | 35%                   | bb-               | ZAR<br>[+0]      | 0            | BB           |      |
| Public Finance Risk              | 20%                   | b+                |                  | -1/3         |              |      |
| External Economic Risk           | 10%                   | bbb               |                  | +1/3         |              |      |
| Financial Stability Risk         | 10%                   | aaa               |                  | +2/3         |              |      |
| ESG Risk                         | Environmental Factors | 5%                |                  | cc           |              | 0    |
|                                  | Social Factors        | 7.5%              |                  | a-           |              | -1/3 |
|                                  | Governance Factors    | 12.5%             |                  | ccc          |              | -1/3 |
| <b>Indicative outcome</b>        | <b>bb</b>             |                   | <b>0</b>         |              |              |      |
| <b>Additional considerations</b> |                       |                   | <b>0</b>         |              |              |      |

Note: The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. The reserve-currency adjustment applies to currencies in the IMF's SDR basket. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

### Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced over the forthcoming 12-18 months.

### Positive rating-change drivers

- Stabilisation of the public-debt trajectory
- Reforms raise economic-growth potential
- External-sector risk profile improves

### Negative rating-change drivers

- Public-debt burden rises further
- Growth outlook stays impaired
- External-sector risks rise
- Governance challenges escalate

### Ratings and Outlook

#### Foreign currency

|                          |            |
|--------------------------|------------|
| Long-term issuer rating  | BB/Stable  |
| Senior unsecured debt    | BB/Stable  |
| Short-term issuer rating | S-3/Stable |

#### Local currency

|                          |            |
|--------------------------|------------|
| Long-term issuer rating  | BB/Stable  |
| Senior unsecured debt    | BB/Stable  |
| Short-term issuer rating | S-3/Stable |

### Lead Analyst

Dennis Shen  
+49 30 221 823948  
[d.shen@scoperatings.com](mailto:d.shen@scoperatings.com)

### Team Leader

Dr Giacomo Barisone  
+49 69 6677389-22  
[g.barisone@scoperatings.com](mailto:g.barisone@scoperatings.com)

### Scope Ratings GmbH

Neue Mainzer Straße 66-68  
60311 Frankfurt am Main

Phone +49 69 6677389-0

### Headquarters

Lennéstraße 5  
10785 Berlin

Phone +49 30 27891-0

Fax +49 30 27891-100

[info@scoperatings.com](mailto:info@scoperatings.com)

[www.scoperatings.com](http://www.scoperatings.com)



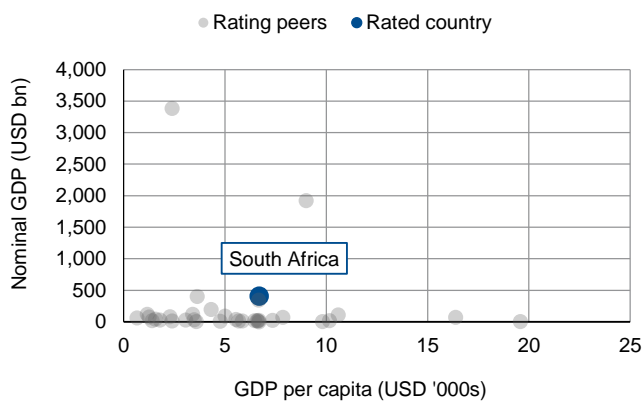
Bloomberg: RESP SCOP

### Domestic Economic Risk

Overview of Scope's qualitative assessments for South Africa's *Domestic Economic Risk*

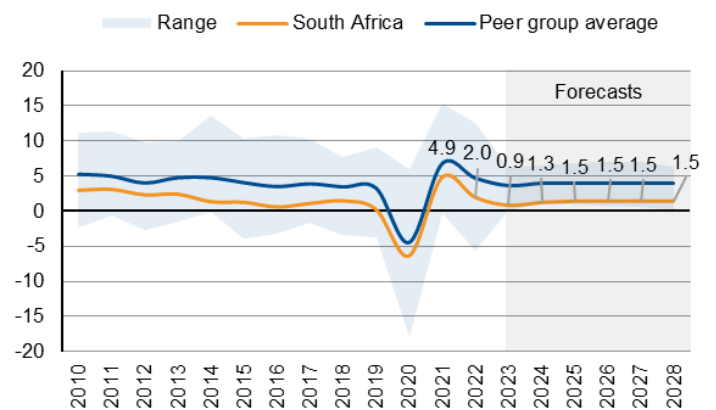
| CVS indicative rating | Analytical component                        | Assessment | Notch adjustment | Rationale  |
|-----------------------|---|------------|------------------|--|
| bb-                   | Growth potential of the economy             | Weak       | -1/3             | Energy and infrastructure bottlenecks and rigid labour markets dampen productivity, investment and long-run economic growth                |
|                       | Monetary policy framework                   | Strong     | +1/3             | Effective management of inflation supported by strong, independent central bank and robust monetary policy framework                       |
|                       | Macro-economic stability and sustainability | Neutral    | 0                | Large and highly-diversified economy anchors resilience to economic crises, but inflexible labour market and chronic electricity shortages |

Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



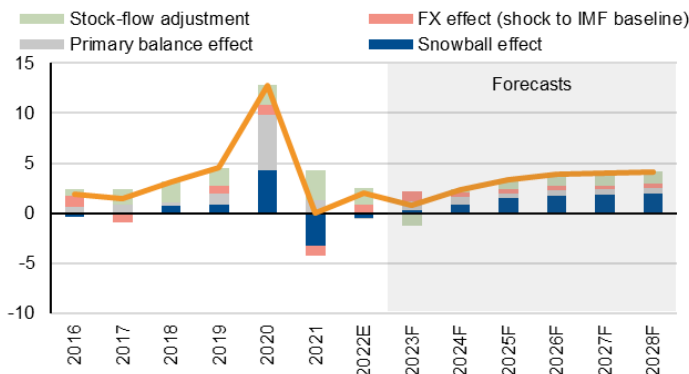
Source: IMF WEO, Scope Ratings forecasts

### Public Finance Risk

Overview of Scope's qualitative assessments for South Africa's *Public Finance Risk*

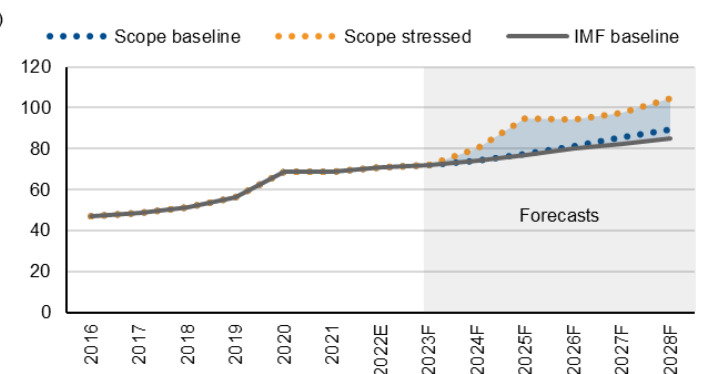
| CVS indicative rating | Analytical component           | Assessment | Notch adjustment | Rationale   |
|-----------------------|--------------------------------|------------|------------------|---|
| b+                    | Fiscal policy framework        | Weak       | -1/3             | The national fiscal framework has been undermined during recent years due to overspending and has failed to curtail rising debt |
|                       | Debt sustainability            | Weak       | -1/3             | Steady rise of the public-debt burden, which remains elevated by emerging-market standards                                      |
|                       | Debt profile and market access | Strong     | +1/3             | Mostly local-currency denominated debt with long average maturities but high borrowing rates; deep domestic capital markets     |

Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



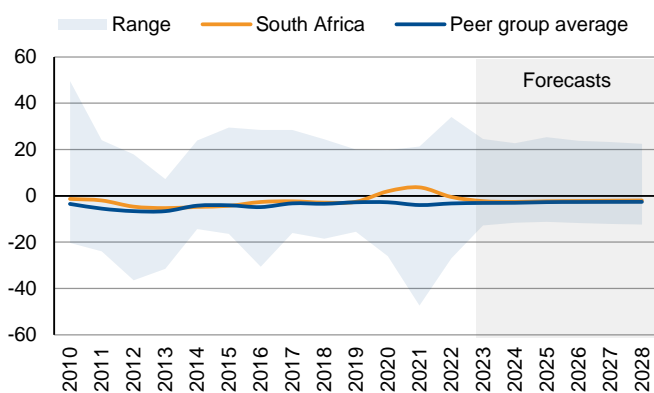
Source: IMF WEO, Scope Ratings forecasts

### External Economic Risk

#### Overview of Scope's qualitative assessments for South Africa's External Economic Risk

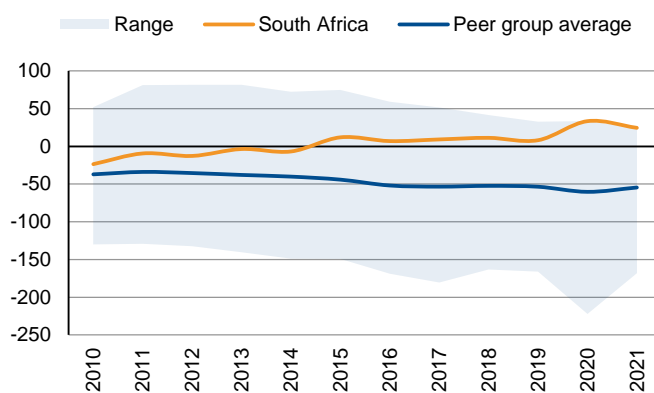
| CVS indicative rating | Analytical component                     | Assessment | Notch adjustment | Rationale  |
|-----------------------|--|------------|------------------|--|
| bbb                   | Current account resilience               | Neutral    | 0                | Current-account surpluses after the Covid-19 crisis have re-reverted to deficits. Vulnerability to global crises and to capital outflows.  |
|                       | External debt structure                  | Strong     | +1/3             | Manageable levels of external debt with a strong external-debt structure   |
|                       | Resilience to short-term external shocks | Neutral    | 0                | Moderate levels of foreign-currency reserves, but strengthened coverage of short-term external debt. Vulnerability to large and sustained capital outflows, but floating exchange-rate regime is a shock absorber. Access to bilateral & multilateral channels of liquidity. |

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



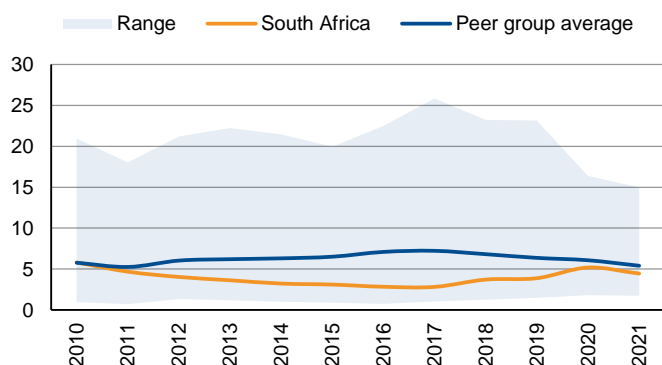
Source: IMF, Scope Ratings

### Financial Stability Risk

#### Overview of Scope's qualitative assessments for South Africa's Financial Stability Risk

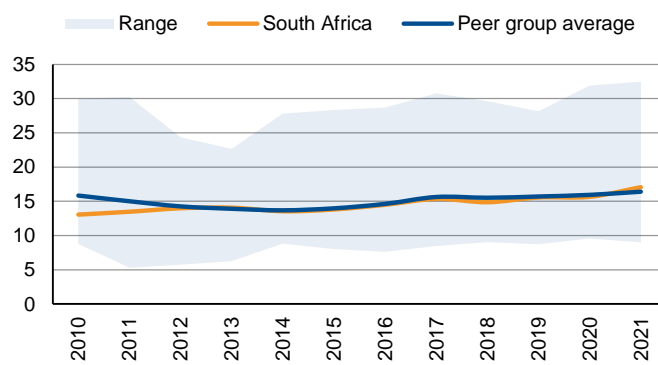
| CVS indicative rating | Analytical component       | Assessment | Notch adjustment | Rationale   |
|-----------------------|----------------------------|------------|------------------|---|
| aaa                   | Banking sector performance | Strong     | +1/3             | Robust funding structure with well-developed and deep domestic capital markets  |
|                       | Banking sector oversight   | Neutral    | 0                | Well-regulated banking sector in line with Basel-III requirements, although deficits in anti-money-laundering   |
|                       | Financial imbalances       | Strong     | +1/3             | Moderately-indebted households, but corporate debt levels are low; rising sovereign-bank nexus; curtailed dependency of banks on financing from international investors |

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



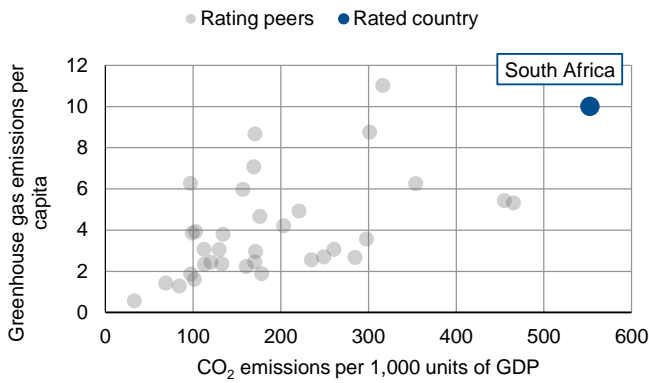
Source: IMF, Scope Ratings

### Environmental, Social and Governance (ESG) Risk

#### Overview of Scope's qualitative assessments for South Africa's ESG Risk

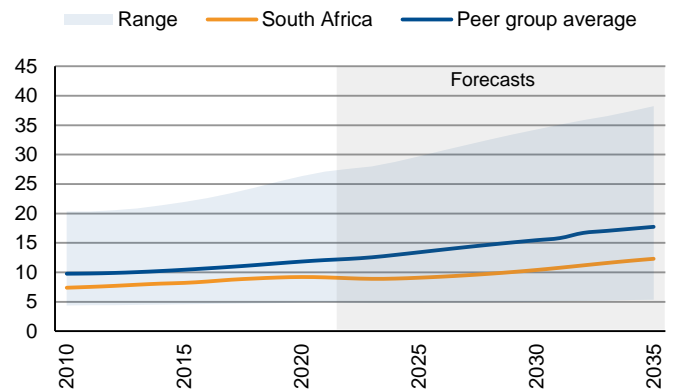
| CVS indicative rating | Analytical component  | Assessment | Notch adjustment | Rationale   |
|-----------------------|-----------------------|------------|------------------|---|
| b-                    | Environmental factors | Neutral    | 0                | Significant greenhouse gas emissions and transition costs as compared with economies of sovereign rating peers  |
|                       | Social factors        | Weak       | -1/3             | Acute socio-economic risks amid elevated poverty and elevated unemployment; below-average education and health outcomes   |
|                       | Governance factors    | Weak       | -1/3             | Heightened political instability ahead of the 2024 elections. FATF's grey listing signals persistent deficiencies in the combatting of money laundering & terrorism financing, and addressal of corruption. |

CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



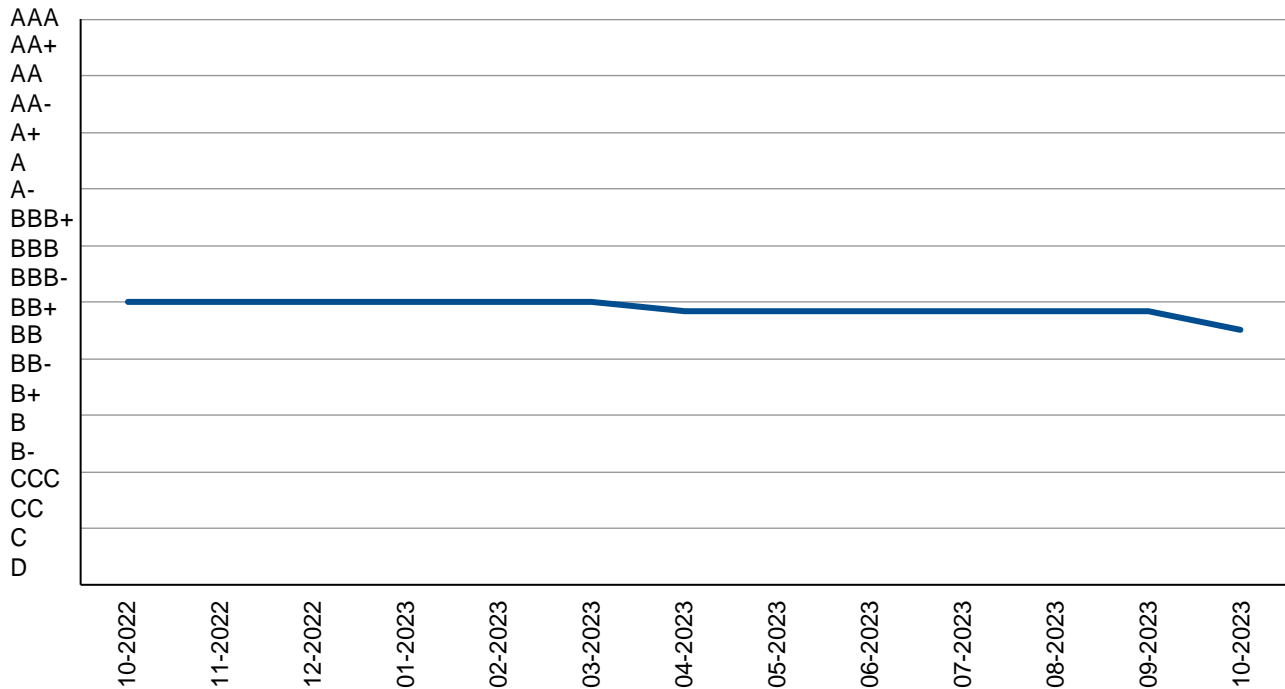
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

## Appendix I. Rating history



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

## Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, with Scope's core variable scorecard embedding a methodological reserve-currency adjustment.

| Peer group* |
|-------------|
| Georgia     |
| Turkey      |

Publicly rated sovereigns only; the full sample may be larger.

### Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global peers and may therefore differ from national and other selective international statistics.

| Pillar              | Core variable   | Source | 2018  | 2019  | 2020  | 2021  | 2022  |
|---------------------|---|--------|-------|-------|-------|-------|-------|
| Domestic Economic   | GDP per capita, USD '000s                                 | IMF    | 7.0   | 6.6   | 5.7   | 7.0   | 6.7   |
|                     | Nominal GDP, USD bn                                       | IMF    | 404.0 | 388.4 | 337.5 | 418.9 | 405.7 |
|                     | Real growth, %  | IMF    | 1.5   | 0.3   | -6.3  | 4.9   | 2.0   |
|                     | CPI inflation, %  | IMF    | 4.6   | 4.1   | 3.3   | 4.6   | 6.9   |
|                     | Unemployment rate, %                                      | WB     | 24.2  | 25.5  | 24.3  | 28.8  | 29.8  |
| Public Finance      | Public debt, % of GDP                                     | IMF    | 51.7  | 56.2  | 69.0  | 69.0  | 71.0  |
|                     | Net interest payment, % of revenue                        | IMF    | 12.8  | 13.4  | 16.3  | 15.6  | 16.4  |
|                     | Primary balance, % of GDP                                 | IMF    | -0.4  | -1.1  | -5.5  | -1.3  | 0.1   |
| External Economic   | Current-account balance, % of GDP                         | IMF    | -2.9  | -2.6  | 2.0   | 3.7   | -0.5  |
|                     | Total reserves, months of imports                         | WB     | 4.8   | 5.4   | 7.1   | 5.6   | 4.9   |
|                     | NIIP, % of GDP  | IMF    | 11.2  | 8.0   | 33.3  | 24.4  | 15.6  |
| Financial Stability | NPL ratio, % of total loans                               | IMF    | 3.7   | 3.9   | 5.2   | 4.5   | -     |
|                     | Tier 1 ratio, % of risk-weighted assets                   | IMF    | 14.9  | 15.2  | 15.0  | 15.9  | 16.8  |
|                     | Credit to the private sector, % of GDP                    | WB     | 118.7 | 117.9 | 111.2 | -     | -     |
| ESG                 | CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e | EC     | 582.6 | 586.1 | 569.5 | 552.6 | -     |
|                     | Income share of bottom 50%, %                             | WID    | 5.8   | 5.8   | 5.3   | 5.3   | -     |
|                     | Labour-force participation rate, %                        | WB     | 60.0  | 60.1  | 58.3  | 59.5  | -     |
|                     | Old-age dependency ratio, %                               | UN     | 8.9   | 9.1   | 9.2   | 9.1   | 9.0   |
|                     | Composite governance indicators*                          | WB     | 0.0   | 0.1   | 0.1   | 0.0   | -     |

\* Average of the six World Bank Worldwide Governance Indicators.

### Appendix IV. Economic development and default indicators

IMF Development Classification

5y USD CDS spread (bps) as of 4 October 2023

Emerging market and developing economy

288.2



## Scope Ratings GmbH

### Headquarters Berlin

Lennéstraße 5  
D-10785 Berlin

Phone +49 30 27891 0

### Oslo

Karenslyst allé 53  
N-0279 Oslo

Phone +47 21 09 38 35

### Frankfurt am Main

Neue Mainzer Straße 66-68  
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

### Madrid

Paseo de la Castellana 141  
E-28046 Madrid

Phone +34 91 94 91 66 2

### Paris

10 avenue de Messine  
FR-75008 Paris

Phone +33 6 6289 3512

### Milan

Via Nino Bixio, 31  
20129 Milano MI

Phone +39 02 8295 8254

## Scope Ratings UK Limited

### London

52 Grosvenor Gardens  
London SW1W 0AU

Phone +44 20 7824 5180

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)

## Disclaimer

© 2023 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Fund Analysis GmbH, and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.