South Africa

OUTLOOK 2026

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1.0 Executive summary

South Africa enters 2026 with slightly firmer growth momentum, easing inflation and a less acute electricity and logistics crisis, but structural constraints — high unemployment, elevated public debt and complex coalition politics — continue to cap the upside.

The National Treasury projects real GDP growth of about 1.2% in 2025 and 1.5% in 2026, while private-sector forecasts generally cluster higher, in the 1.5–2.0% range, reflecting improved power availability, better mining output and a gradual recovery in services. Growth remains well below potential, constrained by weak productivity, infrastructure bottlenecks and subdued private investment.

Inflation has moderated decisively, falling into the lower half of the South African Reserve Bank's 3–6% target band, with headline CPI at about 3.6% year on year in October 2025. In response, the SARB cut the repo rate to 6.75% in November 2025, marking the start of a cautious easing cycle. For 2026, inflation is expected to remain anchored around the midpoint of the band, allowing limited further rate cuts, provided currency stability and administered-price pressures are contained.

On the fiscal front, public debt is projected to stabilise at around 77.9% of GDP in 2025/26, before edging slightly lower later in the decade under baseline assumptions of continued consolidation and restrained support for state-owned enterprises. Interest costs remain one of the fastest-growing expenditure items, limiting space for counter-cyclical policy and reinforcing the importance of expenditure control, revenue efficiency and SOE reform.

Electricity supply conditions have improved markedly compared with 2022–23, with fewer and shorter episodes of load shedding as Eskom's operational performance stabilises and private embedded generation expands. Freight rail, ports and logistics remain a binding constraint, but Transnet's recovery plan has begun to ease bottlenecks in coal, iron-ore and container corridors. Both energy reliability and logistics reform remain key swing factors for the 2026 outlook.

Politically, the multi-party Government of National Unity (GNU) — formed after the African National Congress (ANC) lost its parliamentary majority for the first time — has reduced near-term instability and reassured markets, but has complicated decision-making and slowed reform execution. Tensions within the coalition over fiscal priorities, SOE restructuring and labour-market reform are likely to persist through 2026, making policy implementation, rather than policy design, the central risk.

Bottom line: South Africa's 2026 outlook is one of gradual stabilisation rather than acceleration. Improved macro conditions and infrastructure performance provide a firmer base, but unlocking materially higher growth will depend on sustained execution of energy, logistics, fiscal and labour-market reforms within the constraints of coalition governance.

2.0 Political outlook

South Africa's 2024 general election produced a hung parliament, ending three decades of outright African National Congress (ANC) majorities and ushering in a multi-party Government of National Unity (GNU). The GNU is centred on the ANC and includes several coalition partners spanning the political centre, united by a Statement of Intent that commits the government to constitutionalism, macroeconomic stability, and tackling poverty, unemployment (around 32%) and extreme inequality, among the highest globally.

While the GNU has provided short-term political stability and reassurance to markets, it has also proven fractious in practice. Prolonged bargaining over cabinet posts, policy sequencing and SOE oversight has slowed decision-making and weighed on private-sector confidence. Divergent ideological priorities within the coalition complicate reforms in sensitive areas such as energy pricing, logistics reform, labour policy and privatisation, raising execution risks into 2026.

At the same time, the GNU reduces the near-term risk of abrupt or populist policy shifts, anchoring South Africa within a broadly orthodox macro and institutional framework. For investors, the coalition acts as both a constraint on radical change and a brake on rapid reform, making implementation capacity the key variable in 2026.

South Africa assumed the G20 presidency in December 2024, elevating Pretoria's diplomatic profile and giving it a platform to shape discussions on debt relief, climate finance and development reform. However, the presidency has also absorbed significant political and administrative bandwidth through 2025–26, potentially diverting attention from domestic reform priorities. The government's core domestic agenda for 2026 centres on implementing the Medium Term Development Plan 2024–2029, with emphasis on infrastructure delivery, human-capital investment, energy and logistics reform, and strengthening governance.

President Cyril Ramaphosa has highlighted progress on governance, particularly enforcement of the ANC's "step-aside" rule for officials implicated in corruption. While this has improved perceptions among some institutional investors, opposition parties, civil-society groups and younger voters remain sceptical, citing slow prosecutions and persistent service-delivery failures.

Key political risks for 2026 include:

- Coalition instability at national and provincial levels, especially as local-government dynamics feed into national bargaining;
- SOE reform tensions, particularly around Eskom, Transnet and logistics pricing;
- Social pressure from high unemployment, energy costs and service-delivery gaps, raising the risk of protest action.

On the foreign-policy front, relations with the United States have deteriorated. Tensions escalated when Washington boycotted the G20 summit hosted in Johannesburg, with the Trump administration accusing South Africa of abuses against its white minority — claims Pretoria has dismissed as unfounded. President Trump has since indicated that South Africa would not be invited to the next G20 summit in Miami, underlining a deepening diplomatic rift.

The strain has begun to spill into trade policy. A Republican-led U.S. House committee has signalled that South Africa could face more conditional treatment in future trade initiatives, including possible exclusion from an extension of the African Growth and Opportunity Act (AGOA) unless Pretoria addresses tariff and non-tariff barriers. Any disruption to AGOA access would pose downside risks to exports, employment and investor sentiment in 2026.

Bottom line: South Africa enters 2026 with a politically stabilising but operationally complex coalition. The GNU lowers tail-risk but raises execution risk, making policy delivery — rather than policy direction — the decisive political variable for growth, reform momentum and market confidence.

3.0 Macro economy

South Africa's macroeconomic outlook has improved modestly, supported by firmer growth, easing inflation and a gradual reduction in key supply-side constraints, though structural weaknesses continue to cap upside potential. Real GDP expanded by 0.5% quarter on quarter and 2.1% year on year in Q3 2025, with nine of ten sectors recording growth, although output in electricity, gas and water remained a drag. For 2026, National Treasury, the IMF and private-sector consensus forecasts point to growth in the 1.5–2.0% range, contingent on sustained improvements in power availability and freight logistics. S&P Global Ratings expects growth to average about 1.5% over 2026–28, following an estimated 1.1% expansion in 2025, as activity recovers gradually alongside stabilising fiscal dynamics.

Inflation dynamics have become more favourable. Headline CPI rose slightly to 3.6% year on year in October 2025, still well below the previous 4.5% midpoint and close to the new 3% target after authorities narrowed the inflation band. The South African Reserve Bank's r(SARB) repo-rate cut to 6.75% in November 2025 marked the start of a cautious easing cycle. Markets expect limited further rate cuts in 2026, conditional on inflation remaining anchored around 3–4% and the rand avoiding sharp volatility. Inflation expectations have eased in response to the lower target, with surveys pointing to forecasts of about 3.8% for 2026 and 3.7% for 2027, down from earlier expectations near 4.2%, suggesting improved policy credibility.

According to Natixis, the rand's strength is rooted in a supportive mix of external and domestic factors that could keep USD/ZAR on a gentle downward path through 2026. The bank notes that the rand was among the top-performing currencies last year, helped by record-high precious-metal prices that underpin South Africa's export revenues. Natixis also points to a more credible monetary framework after the SARB shifted to a 3% inflation target, reinforcing investor confidence in the currency. Meanwhile, according to Capital Economics, South Africa's large degree of spare capacity means the SARB will face little problem meeting its new inflation target, which will pave the way for the repo rate to be lowered to 5.75% – well below current market pricing.

External balances have also strengthened. The current account deficit narrowed to about 0.7% of GDP in Q3 2025, helped by improved terms of trade and incremental gains in rail and port performance. As domestic demand firms, the deficit is expected to widen modestly but remain contained at around 1–2% of GDP in 2026. Despite these macro improvements, unemployment remains structurally high at around 32% on the official measure, underscoring deep labour-market rigidities and limiting the extent to which growth translates into broad-based income gains.

4.0 Budget & debt

South Africa's fiscal position in 2026 is anchored by the National Treasury's May 2025 budget and the November 2025 Medium Term Budget Policy Statement, both of which aim to stabilise gross loan debt at around 77.9% of GDP in 2025/26 after more than a decade of near-continuous increases. In nominal terms, gross loan debt is projected to rise from about ZAR5.7 trillion (around $340bn) in 2024/25 to roughly ZAR6.8 trillion (around $400bn) by 2027/28, before levelling off, assuming sustained primary surpluses and moderate nominal growth.

Budget deficits are expected to narrow gradually, from about 4.7% of GDP in 2025/26 to around 3.5–3.6% by 2027/28, driven mainly by expenditure restraint rather than large new revenue measures. The consolidation path nonetheless accommodates continued support for key state-owned enterprises, notably Eskom and Transnet, as well as elevated allocations for social grants, public-sector wages and frontline services, limiting the pace of adjustment. Interest costs remain the fastest-growing spending item, absorbing a rising share of revenue and constraining fiscal flexibility into 2026.

Credit-rating actions in late 2025 reflect a cautiously improving external assessment of South Africa's macro framework. S&P Global Ratings upgraded the sovereign, lifting the foreign-currency rating to BB and the local-currency rating to BB+, both with a positive outlook — the first upgrade in roughly two decades — citing improved fiscal discipline, easing energy constraints and better growth prospects. Moody's Investors Service, by contrast, kept its Ba2 rating with a stable outlook, pointing to persistent structural headwinds including weak potential growth, infrastructure bottlenecks and high social spending pressures. Fitch Ratings affirmed its BB- rating with a stable outlook, projecting that debt will peak just below 80% of GDP.

The resumption of Eurobond issuance in late 2025, alongside a narrower current-account deficit and foreign-exchange reserves of around $70bn, has helped extend the sovereign yield curve, diversify funding sources and reduce reliance on domestic markets. Domestic bond yields remain elevated in real terms but have eased from earlier peaks as inflation moderates and policy credibility improves, supporting Treasury's refinancing strategy.

Looking into 2026, fiscal risks remain skewed to the downside. Slower-than-expected growth, renewed pressure for SOE support, wage demands and the political difficulty of enforcing spending restraint within a multi-party Government of National Unity all pose challenges to consolidation. The credibility of the debt-stabilisation path will hinge on sustained improvements in electricity supply and logistics, containment of contingent liabilities, and the government's ability to translate policy commitments into consistent execution.

5.0 Real economy

South Africa's real-economy performance in 2025 has been broad-based but uneven, reflecting easing supply constraints alongside persistent structural headwinds. Growth strengthened to 1.3%, supported by more reliable electricity supply, a bumper agricultural harvest, and a pickup in business confidence toward year-end. Fiscal consolidation efforts and a lower inflation target further bolstered investor sentiment.

Mining and agriculture have been among the stronger performers, benefiting from improved logistics, firmer global demand for some commodities and, in agriculture's case, generally supportive rainfall conditions after earlier drought stress. Mining continues to anchor exports and FX earnings, particularly in platinum-group metals, coal, iron ore and gold, even as price volatility and regulatory uncertainty weigh on longer-term investment decisions.

Manufacturing output has improved only modestly and remains below historical potential, with capacity utilisation constrained by lingering power disruptions, high administered electricity tariffs, and softer external demand. Energy-intensive segments such as basic metals, chemicals and some downstream processing have been particularly affected, while automotive and food processing have shown greater resilience due to export linkages and supply-chain diversification. Global trade headwinds and competition from lower-cost producers continue to cap manufacturing momentum heading into 2026.

Agricultural performance has been mixed, reflecting variable weather patterns, rising input costs and infrastructure gaps. While field crops and horticulture benefited from improved logistics and export access, livestock and smaller commercial producers remain exposed to feed costs, biosecurity risks and climate variability. Over the medium term, productivity gains, irrigation investment and logistics reforms will be critical for agriculture to contribute more consistently to growth and employment.

Supply-side constraints remain the central drag on potential growth. Electricity availability has improved materially compared with 2023, as Eskom reduced unplanned outages and load-shedding intensity through 2025, supported by maintenance, additional generation and private-sector embedded capacity. However, generation shortfalls, grid congestion and rising tariffs — with regulated increases of more than 11–12% in 2025 — continue to weigh on industrial competitiveness and household purchasing power. Structural reform of the electricity market, faster grid expansion and private-sector participation will be decisive for sustaining gains into 2026–27.

Logistics reforms are progressing gradually. Transnet's recovery plan, backed by a ZAR51bn government guarantee facility, has begun to lift rail volumes and improve port performance, particularly for bulk commodities. The broader Freight Logistics Roadmap, including network access for private operators, is expected to support export capacity in mining, agriculture and manufacturing over the medium term, though execution risks remain high.

Services have been relatively resilient and are providing much of the near-term growth impulse. Retail, financial services, tourism and business services have benefited from improved power supply, easing inflation and greater policy certainty. Tourism in particular has gained from stronger arrivals and the visibility associated with South Africa's G20 presidency, although household consumption remains constrained by very high unemployment, weak real income growth and elevated debt-service burdens.

Looking into 2026, the real-economy outlook hinges on sustaining gains in electricity supply and logistics, translating reforms into higher private investment, and preventing administered-price pressures from undermining competitiveness. Without faster progress on these fronts, growth is likely to remain constrained near the 1.5–2.0% range, limiting meaningful reductions in unemployment and inequality.

6.0 Banking outlook

The SARB's 2025 *Financial Stability Reviews* continue to characterise South Africa's banking system as resilient and well capitalised, despite a prolonged period of weak growth and infrastructure constraints. Sector profitability remains solid, with return on equity still above the 10-year average, supported by wide net interest margins during the high-rate cycle and disciplined cost control. Capital adequacy ratios remain comfortably above regulatory minima, while liquidity coverage ratios indicate ample buffers against funding shocks.

Asset-quality indicators have softened relative to pre-pandemic levels but remain manageable. Non-performing loans (NPLs) in corporate and SME portfolios have risen, reflecting subdued activity, logistics disruptions and pressure on smaller firms, while household NPL ratios have stabilised and eased modestly, helped by falling inflation and the start of the SARB's easing cycle. Banks have responded by strengthening provisioning, tightening underwriting standards and enhancing early-warning systems, limiting risks to balance-sheet health.

Large diversified lenders, including Absa, Standard Bank, Nedbank and FirstRand, have continued to report solid earnings through 2025, with management guidance pointing to mid-single-digit revenue growth and a gradual normalisation of credit losses into 2026 as power supply improves and interest rates edge lower. However, credit growth remains subdued, reflecting cautious borrower demand, weak fixed investment and banks' preference for high-quality exposures, including government securities.

Looking ahead to 2026, the baseline outlook is for continued profitability and strong capital buffers, but only gradual recovery in private-sector credit extension, particularly to SMEs and households. The main downside risks include a renewed deterioration in electricity supply, further logistics disruptions, global risk-off episodes affecting capital flows, and pockets of stress among highly leveraged households and small firms if growth undershoots expectations. Even so, SARB stress tests suggest that systemic risks remain contained under baseline scenarios through at least late 2026, with the banking sector well positioned to absorb moderate macroeconomic shocks.

7.0 Energy & power

Electricity supply remains central to South Africa's 2026 outlook. After record outages in 2023, Eskom's generation recovery plan, improved maintenance discipline and greater private-sector participation have materially reduced unplanned outages. Eskom returned to a pre-tax profit of about ZAR23.9bn (roughly $1.4bn) in FY2025, reflecting higher energy availability, tariff increases and lower diesel spend.

That said, system vulnerability persists. Episodic Stage 2–3 load shedding re-emerged in parts of 2025, underlining the fragility of ageing coal plants and the sensitivity of supply to nuclear and coal maintenance schedules. Stage 2 typically removes around 2,000MW from the system, while Stage 3 curtails roughly 3,000MW, enough to disrupt industrial production, mining operations and logistics on affected days.

Private generation has become the single most important structural buffer. Since the removal of licensing thresholds, private firms have registered more than 12,000MW of generation projects, with an estimated 6,000–7,000MW already at advanced construction or operational stages by late-2025. These projects are dominated by solar PV (about 65–70%) and onshore wind, concentrated in mining, manufacturing, data centres and commercial real estate. Rooftop and embedded generation alone are now estimated to supply 8–10% of daytime demand at peak solar output.

The macro impact is significant. Treasury and SARB analysis suggest that severe load shedding (Stage 4–6) can shave 1.5–2.0 percentage points off annual GDP, with mining, basic metals, chemicals and automotive manufacturing the most exposed. The easing of outages in 2024–25 has therefore directly supported the recovery in mining output, export volumes and manufacturing capacity utilisation, and is a key assumption behind growth forecasts of 1.5–

2.0% in 2026. Conversely, any relapse into sustained high-stage outages would disproportionately hit tradables and weaken the current account.

Eskom's unbundling programme, particularly the legal separation of National Transmission Company South Africa (NTCSA), is progressing gradually and is critical for scaling renewables. Grid constraints remain binding in parts of the Northern Cape and Eastern Cape, but planned transmission investment of over ZAR200bn (around $11–12bn) over the next decade is intended to unlock new wind and solar corridors.

Looking into 2026, baseline scenarios assume fewer and shorter outages than in 2023–24, supporting incremental gains in mining, manufacturing and services. However, risks remain skewed to the downside: delays to maintenance, coal-fleet setbacks, nuclear outages or grid congestion could quickly re-introduce supply stress. Above-inflation tariff increases and municipal arrears also pose affordability and balance-sheet risks across the electricity value chain.

South Africa's Just Energy Transition Investment Plan (JET-IP) and related green-finance initiatives provide medium-term upside. Commitments of more than $8.5bn from international partners are aimed at grid expansion, renewables, storage and green hydrogen. If execution accelerates, these flows could materially raise private investment, lower energy costs over time and improve the growth potential of energy-intensive sectors beyond 2026.

8.0 Markets outlook

South Africa's financial markets enter 2026 in a transitionary phase, shaped by easing inflation, cautious monetary policy, a tentative fiscal stabilisation path and still-binding structural constraints. Market sentiment has improved since mid-2025, but remains finely balanced between incremental reform gains and persistent domestic and global risks.

The rand strengthened into late 2025, trading below ZAR17.0/$ at times, supported by a narrower current-account deficit, improved terms of trade, reduced load shedding and the resumption of international bond issuance. For 2026, baseline scenarios point to a volatile but modestly firmer trading range, contingent on continued progress at Eskom and Transnet, disciplined fiscal execution under the GNU, and a benign global rates environment. Currency performance will remain highly sensitive to portfolio flows, commodity prices and shifts in global risk appetite.

In local fixed-income markets, disinflation and the November 2025 repo-rate cut have driven a rally across the curve. Benchmark 2035 government bond yields around 8.3% imply still-attractive real yields, while longer-dated Eurobonds trade in the high-6% to high-7% range, down sharply from crisis peaks.

Removal last year from the FATF grey list, and from the European Union's (EU) list of "high-risk third country jurisdictions" effective on 26 January, the S&P sovereign upgrade, and signs of debt stabilisation have helped compress spreads and lower funding costs. Into 2026, further gains are possible if inflation remains anchored near the new 3% target and fiscal risks are contained, though upside is capped by South Africa's high debt stock and low trend growth.

Foreign participation in domestic bond markets has stabilised after years of outflows, aided by improved macro credibility and high real yields. Sustaining inflows in 2026 will depend on policy predictability, progress on SOE reform and avoidance of renewed fiscal slippage in a coalition setting.

Equity markets have been supported by global risk-on phases, resilient commodity prices and recovering domestic cyclicals. The JSE All-Share Index reached record highs near 114,000 in late 2025, driven largely by mining, financials and select industrial names. For 2026, sectoral performance is expected to remain uneven.

• Mining and resource stocks should benefit from resilient demand for precious metals and selected base metals, particularly if rail and port efficiency continues to improve.
• Banks and insurers stand to gain from lower funding costs and easing credit stress, though loan growth is likely to remain moderate.
• Domestic-demand-exposed sectors such as retail and consumer services face headwinds from high unemployment, weak real income growth and elevated household debt burdens.

Corporate bond and equity capital markets remain underdeveloped relative to the banking system. Progress on the government's state-ownership and privatisation strategy, including strategic equity sales and listings, could deepen markets and improve liquidity over the medium term, but execution risks remain high in the GNU context.

Overall, 2026 offers scope for further market gains, particularly in bonds and rate-sensitive equities, provided reform momentum is sustained and inflation remains anchored. However, downside risks remain material. These include global risk-off shocks, renewed commodity-price volatility, delays in Eskom or Transnet reforms, fiscal slippage, or political instability within the coalition. Markets will remain highly responsive to signals on policy execution rather than policy intent.