National Planning Commission Report

SAR's Perspective

15 December 2025

Introduction

South Africa's monetary and financial architecture has undergone a remarkable transformation over the past four decades. Beginning in the early 1980s, the country's financial system shifted from a relatively closed and domestically focused structure to one that is deeply integrated into global capital markets. Liberalisation policies shaped this evolution, the transition to democracy, and the consolidation of institutional frameworks such as the South African Reserve Bank (SARB). The report authored by Mark Swilling and Steffen Murau for the National Planning Commission provides a comprehensive account of this journey, highlighting both the achievements and the vulnerabilities that remain embedded in the system.

For Sovereign Africa Ratings, this commentary is not simply an academic exercise. It is a strategic intervention that situates the findings of the NPC report within the broader context of sovereign creditworthiness. As an African domestic credit rating agency, SAR assesses reforms through the lens of transparency, independence, and regional integration.

South Africa's monetary architecture remains structurally incapable of directing sufficient capital toward productive investment. The NPC report argues that vast pools of financial assets, particularly those held by pension funds and asset managers, are not being reinvested into the domestic economy. Sovereign Africa Ratings (SAR) views the mobilisation of these assets as a critical reform that could materially strengthen sovereign creditworthiness by financing industrialisation, beneficiation, infrastructure, and inclusive growth.

The NPC's work is particularly timely given South Africa's current challenges in fiscal management and investor confidence. By engaging with the report, SAR underscores its role as a constructive partner in strengthening credibility and supporting reforms that can enhance resilience and reduce sovereign risk.

Important Findings and Structural Risks

The NPC report identifies several important findings that are central to understanding South Africa's monetary architecture. One of the most significant is the evolution of the South African Reserve Bank into a credible and independent institution. While this independence has provided stability in monetary policy, the report notes that co-ordination between fiscal and monetary authorities remains uneven, often undermining the coherence of macroeconomic management.

SARB Credibility and Policy Independence

The South African Reserve Bank (SARB) has successfully evolved into a credible and independent institution, with its independence formally entrenched in the 1996 Constitution. This autonomy provides a critical anchor of stability in the conduct of monetary policy and has reinforced confidence in the institution's role within the broader financial system.

Despite this consolidation, the SARB's independence has not directly translated into sufficient interventions to address the dual challenges of under-investment in gross fixed capital formation and the persistence of structural inequalities. These gaps highlight the limitations of monetary policy in tackling broader developmental objectives without complementary fiscal and structural reforms.

The resilience and independence of the SARB remain a key positive factor in the rating outlook. However, the pursuit of tight monetary policy, while effective in stabilising inflation, places constraints on economic growth and employment. This challenge becomes more pronounced in periods of rising global interest rates, where the balance between stability and growth is increasingly difficult to maintain.

Uneven Macro-Financial Governance

Co-ordination between fiscal authorities, represented by the National Treasury, and monetary authorities, represented by the South African Reserve Bank (SARB), remains uneven. The report highlights the absence of a comprehensive macro-financial governance framework capable of steering the financial ecosystem coherently. This gap often undermines the effectiveness of macroeconomic management and limits the ability to respond decisively to systemic challenges.

The Gold and Foreign Exchange Contingency Reserve Account (GFECRA) illustrates the practical interconnectedness between the two authorities, which stands in contrast to the strict separation that is often assumed. The lack of co-ordinated governance around this account prevents the strategic alignment of the national balance sheet and exposes weaknesses in the broader fiscal-monetary interface.

Weak co-ordination between fiscal and monetary policy is, therefore, a negative factor for the overall outlook. It undermines the coherence required for effective macroeconomic responses and heightens both political and policy risk. Without stronger alignment, the ability to balance stability with growth objectives remains constrained, leaving the economy vulnerable to external shocks and domestic pressures.

Financial Liberalisation and External Vulnerability

South Africa's integration into global capital markets has expanded access to financing and reinforced its position as a sophisticated emerging market. This openness has enhanced the country's profile among international investors and provided greater depth to domestic capital markets, strengthening the overall financial architecture.

At the same time, this exposure has heightened vulnerability to external shocks, including capital flight and currency volatility. The acceleration of outward financial flows, particularly by large corporations expanding offshore, underscores the risks associated with sudden shifts in investor sentiment. These dynamics reveal the fragility that accompanies openness when not balanced by measures to retain and channel investment domestically.

While the depth of South Africa's capital markets remains a positive structural factor, the unchecked outward flow of capital continues to act as a drag on domestic growth and investment. This persistent vulnerability limits the economy's ability to fully leverage its financial sophistication for inclusive development and leaves it exposed to global market fluctuations.

Persistent Debt Management Challenge

Rising fiscal deficits and a continued reliance on borrowing have significantly heightened sovereign risk in South Africa. Since 2014, the effective interest rate on public debt has consistently exceeded the nominal GDP growth trend, rendering debt dynamics unsustainable under prevailing economic conditions. This imbalance underscores the structural weakness in the fiscal framework and raises concerns about the country's long-term debt trajectory.

The pressure is most evident in the debt-to-GDP ratio, which reached 71.1% in the 2022/23 fiscal year. This level signals mounting vulnerability and intensifies questions around sustainability, particularly in the absence of decisive fiscal consolidation. The trajectory reflects not only cyclical challenges but also entrenched structural imbalances.

Rising sovereign debt levels and unsustainable debt dynamics continue to pose significant negative pressures on the outlook. These are driven in large part by repeated bailouts of state-owned enterprises, amounting to R252 billion in total, including R220.4 billion directed to Eskom, alongside persistent structural fiscal deficits. Without credible reforms to address these drivers, sovereign risk will continue to escalate, constraining fiscal flexibility and undermining investor confidence.

Structural Inequality and Misdirected Capital

Despite reforms, monetary and financial policies have not sufficiently addressed South Africa's distributional imbalances. Inclusive growth remains limited, and social cohesion has been undermined by a financial system that prioritises short-term returns and profit-taking over long-term productive investment in fixed capital and infrastructure. This orientation has constrained the economy's ability to generate sustainable development outcomes.

A paradox emerges in the role of Non-Bank Financial Institutions (NBFIs), including pension funds, which collectively held approximately R14.8 trillion in financial assets in 2021. Regulatory frameworks permit a significant share of these assets to flow offshore, with a maximum external limit of 45%, rather than being directed toward domestic gross fixed capital formation (GFCF). This regulatory allowance has contributed to a persistent investment gap. Since 1994, investment in GFCF has averaged only 15% of GDP, far below the National Development Plan target of 30%. Infrastructure-specific GFCF has declined even further, reaching just 5.3%.

This imbalance represents a structural weakness that perpetuates inequality and constrains growth. High unemployment, particularly concentrated among low-skilled to semi-skilled labour, could be alleviated through the expansion of the secondary sector, yet the lack of investment in infrastructure and productive capital continues to limit this potential. Pension funds, in particular, remain among the lowest investors in infrastructure compared to international peers, underscoring the inefficiency of capital allocation.

Chronic underinvestment in GFCF, combined with an extremely high Incremental Capital-Output Ratio (ICOR), signals highly inefficient capital deployment and stands out as a major negative factor in the rating outlook. Without reforms to redirect financial flows toward productive domestic investment, these dynamics will continue to weigh heavily on South Africa's growth prospects and sovereign risk profile.

Potential Impact of Policy Recommendations

The NPC report argues that co-ordinated Balance Sheet Reconfigurations (BSCRs), which aim to unlock at least R5 trillion in new investment in GFCF and the Just Transition, would have profound implications for sovereign creditworthiness.

Stabilising the Outlook

Mitigating downward pressures on South Africa's sovereign outlook requires unlocking long-term domestic financing. Instruments such as the Credit Guarantee Vehicle (CGV) and closer alignment between Development Finance Institutions (DFIs) and the South African Reserve Bank (SARB) could reduce reliance on short-term external borrowing. Such measures would strengthen fiscal sustainability and enhance resilience against external shocks, providing a more stable foundation for macroeconomic management.

Reforms of this nature would also deepen domestic capital markets and directly address structural weaknesses that perpetuate inequality and constrain growth. By broadening investor participation and channelling resources into productive sectors, these initiatives could materially improve the overall growth outlook and support more inclusive development.

A positive scenario emerges if the National Planning Commission's recommendations are successfully implemented, particularly the redirection of institutional assets into productive gross fixed capital formation (GFCF). This would stabilise South Africa's outlook and mitigate downward rating pressures by reinforcing long-term investment capacity. Conversely, failure to mobilise these assets risks continued underinvestment, persistent fiscal strain, and entrenched vulnerabilities. Such an outcome would undermine investor confidence and expose the sovereign rating to further downward pressure.

Recommendations and Implementation Feasibility

The NPC report offers a valuable blueprint for reform, and SAR supports recommendations that directly enhance creditworthiness by addressing the structural stagnation of Gross Fixed Capital Formation (GFCF). Strengthening debt management is essential. South Africa must institutionalise long-term debt strategies that reduce reliance on short-term financing and provide greater predictability for investors. However, debt management alone is insufficient without stimulating growth. The NPC report correctly identifies that the current monetary architecture has failed to co-ordinate investment across public and private balance sheets, necessitating a shift toward a system-wide macro financial governance framework.

SAR endorses specific structural interventions proposed in the report that would deepen domestic capital markets and reduce external vulnerabilities:

- **Pension Fund Reform:** We strongly support the recommendation to reform Regulation 28, not only to manage offshore limits but to actively incentivise domestic real-economy investment. The NPC suggests requiring pension funds to draft "annual infrastructure investment plans and aligning the Government Employees Pension Fund (GEPF) mandate with the National

Development Plan's target of 30% of GFCF. Redirecting just 20% of pension fund assets could unlock a R1 trillion project pipeline, providing a massive non-fiscal stimulus to the economy.

- **DFI and SARB Alignment:** To address the undercapitalisation of Development Finance Institutions (DFIs), SAR supports the proposal for the SARB's Prudential Authority to assume supervision of major DFIs like the DBSA and IDC. This regulatory shift could facilitate a collective balance sheet expansion of up to R1.4 trillion, significantly boosting the capacity to fund infrastructure without immediate fiscal strain.
- **Credit Guarantee Vehicle:** The establishment of a public-private credit guarantee vehicle to unlock R50 billion in infrastructure investment is a pragmatic step to de-risk projects for the private sector.
- **SOE Governance:** Given the historical hollowing out of state-owned entities (SOEs) described in the report, SAR agrees that a diversified shareholder model may be necessary to leverage SOE balance sheets worth R1.3 trillion, potentially attracting R650 billion in capital while retaining majority public ownership.

The question of whether the NPC report and its commission can exert real influence is central to this analysis. The Commission provides intellectual leadership, yet it lacks binding authority. The report candidly notes that previous economic frameworks have failed because the state attempted to drive transformation through isolated levers rather than governing the financial ecosystem as a complex adaptive system.

For implementation to succeed, SAR believes that the following enabling conditions must be met:

- A dedicated mechanism for macro-financial governance is required to co-ordinate the interlocking public and private balance sheets of South Africa's financial ecosystem. Such a mechanism would ensure that Development Finance Institutions (DFIs), state-owned enterprises (SOEs), and the National Treasury operate with aligned mandates rather than pursuing fragmented project pipelines. This alignment is critical to achieving coherence in investment strategies and maximising the impact of capital mobilisation.
- The report cautions that without addressing constrained institutional capacity, particularly in areas of accountability and procurement, increased capital mobilisation could generate inflationary pressures rather than productive growth. Strengthening institutional capacity is therefore essential to ensure that resources are deployed efficiently and that reforms translate into tangible developmental outcomes.
- Legislative backing is also necessary to safeguard reforms against policy reversals. Achieving this requires building political consensus around difficult negotiations, including the reconfiguration of balance sheets to discipline private capital toward domestic reinvestment while still ensuring competitive returns. Such a consensus would provide the stability needed to anchor reforms and reinforce investor confidence in South Africa's long-term economic trajectory.

Conclusion

The analysis of South Africa's monetary architecture from 1983 to 2024 reveals a systemic misalignment between the country's substantial financial depth and its urgent developmental needs. The current trajectory: characterised by fiscal deterioration, stalling GFCF, and entrenched inequality, is fundamentally credit negative. Without structural intervention, the sovereign faces a slow drift toward a debt trap, necessitating ever-higher interest rates to attract capital, which further stifles the real economy. However, the monetary architecture approach highlights that South Africa is not capital-poor; it is co-ordination-poor. The aggregate balance sheet of the nation remains solvent. The liquidity exists (in pension funds, corporate cash piles, and the banking sector), but it is trapped in unproductive circuits due to risk aversion and institutional incoherence.

The recommendations outlined above do not require a miraculous commodity boom or an impossible fiscal windfall. They require balance sheet reconfiguration; the intelligent use of regulation, guarantees, and governance to bridge the gap between risk-averse capital and development-critical assets. The technical feasibility of these interventions is high. South Africa possesses the necessary financial engineering expertise, robust regulatory institutions in the South African Reserve Bank (SARB) and the National Treasury, and sufficiently deep capital markets to execute complex blended finance structures. The primary constraint lies not in capacity but in the political economy.

The formation of the Government of National Unity (GNU) in 2024 provides a unique window of opportunity to break the cycle of policy paralysis. Markets have already responded positively to the stability this arrangement has introduced, signalling renewed confidence in South Africa's governance framework. If the state can position itself as a "market maker" for infrastructure, de-risking projects through the Credit Guarantee Vehicle (CGV), aligning Development Finance Institution (DFI) and SARB balance sheets, and providing regulatory certainty, the country could unlock the estimated R1.5 trillion funding gap.

Such progress would catalyse a virtuous cycle of gross fixed capital formation (GFCF)-led growth, broaden the tax base, and stabilise the debt-to-GDP ratio. Under this scenario, South Africa would be well placed to regain investment-grade credit ratings within the medium term of three to five years, as assessed by global rating agencies.

Conversely, failure to reconfigure public and private balance sheets would entrench the current trajectory of low growth and high debt. This path risks eroding fiscal sustainability further and could ultimately culminate in a sovereign debt restructuring, undermining both investor confidence and long-term economic resilience.

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