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28 May 2026

Update

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RATINGS

Cape Town, City of

Domicile	Cape Town, South Africa
Long Term Rating	Ba2
Type	LT Issuer Rating - Dom Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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City of Cape Town (South Africa)

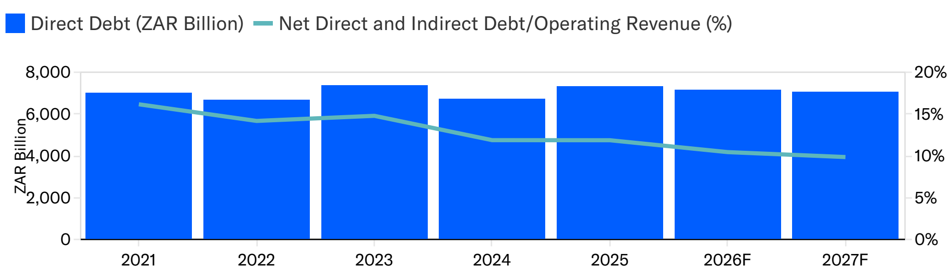
Update following rating action

Summary

The credit profile of the City of Cape Town (Ba2 positive) reflects its consistently strong operating performance and sound liquidity position. The city's low debt burden is expected to remain manageable over the medium term. The credit profile is further supported by a track record of solid management policies and practices, which should help the city maintain sound financial metrics despite increasing pressure to invest in infrastructure to address social and environmental risks, within a still constrained but gradually improving sovereign operating environment. The credit profile also reflects our assessment of a low likelihood that the Government of South Africa (Ba2 positive) would intervene in a timely manner to prevent a default.

Exhibit 1

Debt levels will remain low during FY2026-FY2027



F=Moody's Forecast; Fiscal year ending 30 June.
Source: Moody's Ratings, City of Cape Town

Credit strengths

- Robust operating performance supported by strong own source revenue and high collection rates
- Sound liquidity and prudent financial management
- Prudent and conservative debt management
- Large and diversified economic base

Credit challenges

- Increasing pressure to fund social, infrastructure, and environmental investments
- Residual exposure to electricity shortages despite material progress in energy diversification

Rating outlook

The positive outlook reflects the improving credit trajectory of the sovereign and our expectation that strengthening fiscal performance and continued implementation of structural reforms at the national level will further support the operating environment for metropolitan municipalities. The positive outlook also reflects our expectations that Cape Town will continue to generate sound operating surpluses, maintain very strong liquidity buffers, and a moderate debt burden over the medium term.

Factors that could lead to an upgrade

An upgrade of the City of Cape Town's ratings would require a similar upgrade of the sovereign rating given Cape Town is rated at the same level as the sovereign. In addition, an upgrade would be supported by the continued maintenance of the city's strong standalone credit profile, including continued strong operating performance, preservation of very strong liquidity buffers, debt metrics remaining low and affordable, as well as further reduction in key sovereign linked risks, particularly continued progress in mitigating electricity supply disruptions and other infrastructure constraints.

Factors that could lead to a downgrade

A downgrade of the sovereign's rating will lead to a downgrade of Cape Town's rating reflecting the strong linkages between the city and the sovereign credit profile. Absent a sovereign downgrade, downward pressure could also arise if there were a material and sustained deterioration in the city's standalone credit metrics, including a persistent weakening of operating margins, a significant erosion of liquidity, a sharper than expected increase in debt levels or interest burden, undermining debt affordability.

Key indicators

Exhibit 2
City of Cape Town

Cape Town, City of	2021	2022	2023	2024	2025	2026F	2027F
Operating Margin (Primary Operating Balance / Operating Revenue)	8.8	10.8	11.2	13.3	12.5	14.3	13.4
Liquidity Ratio (Cash and Cash Equivalents / Operating Revenue)	25.4	23.5	25.0	22.4	23.5	19.5	15.3
Debt burden (Net Direct and Indirect Debt / Operating Revenue)	16.1	14.1	14.7	11.8	11.8	10.4	9.8
Interest Burden (Interest Payments/Operating Revenue)	1.9	1.6	1.5	1.5	1.4	1.2	1.1
Capital expenses/total expenses (%) - CF	13.3	10.6	12.1	14.2	14.2	18.1	17.5
Cash Financing Surplus / Requirement (IS) as of total revenues (%)	-10.8	-5.2	-5.7	-5.3	-6.3	-3.2	-5.1

F=Moody's Forecast; Fiscal year ending 30 June
Source: Moody's Ratings; City of Cape Town

Profile

The City of Cape Town is the metropolitan municipality governing South Africa's second largest urban economy and the capital of the Western Cape province. The city benefits from a diversified economic base spanning finance, tourism, logistics, manufacturing, and port activities. It operates within South Africa's municipal fiscal framework and relies predominantly on own source revenues, notably property rates and service charges.

Detailed credit considerations

On 26 May 2026, we affirmed the Cape Town's Baseline Credit Assessment (BCA) of ba2 and Ba2 ratings and changed the outlook to positive from stable. Please refer to respective press release for more information.

The credit profile of the City of Cape Town, as expressed in its Ba2 rating, combines a BCA of ba2 and a low likelihood of extraordinary support from the Government of South Africa (Ba2, positive) in the event that the city faced severe liquidity stress.

Baseline credit assessment

Robust operating performance supported by strong own source revenue and high collection rates

Cape Town's operating performance remained strong with primary operating balance (POB) at 12.5% of operating revenue in FY2025, broadly stable compared to 13.3% in FY2024, reflecting sustained growth in operating revenues alongside contained cost pressures. Revenue performance continued to benefit from tariff adjustments and strong collections, with payment ratios remaining close to 98%, significantly outperforming most domestic peers and underpinning the city's ability to translate revenue growth into cash generation.

Service charges remain the city's largest source of operating revenue, with electricity, water and sewerage charges together accounting for the majority of service charge revenues. Electricity alone represents more than one third of total operating revenue, supporting revenue resilience. Operating expenditure growth was contained through vacancy management and cost containment policies, allowing the city to maintain healthy operating surpluses.

FY2026 mid-year budget execution points to further near-term support for operating performance, with revenues running ahead of plan while operating expenditure undershot budget projections. This combination produced a higher interim operating results than initially expected with operating surplus of ZAR5.2 billion compared with a budgeted deficit of ZAR0.5 billion.

Forward looking projections for FY2026 and FY2027 reflect our expectation that operating margins will remain strong and broadly in line with levels recorded over the past two years, despite higher maintenance and social spending pressures. The city's operating performance is underpinned by its continued revenue resilience and disciplined expenditure management, which should allow it to absorb cost pressures without materially weakening operating performance. As a result, we expect operating results to remain resilient and to continue supporting the city's capacity to self-fund a portion of its capital programme over the medium term.

Sound liquidity and prudent financial management

Cape Town continues to demonstrate strong budget monitoring, timely adjustments and a high degree of transparency in financial reporting, supporting predictable fiscal outcomes and effective policy implementation.

Cape Town's liquidity remains strong, supported by disciplined treasury management and strong cash generation. Cash and cash equivalents slightly increased to 23.5% of operating revenue in FY2025 from 22.4% in FY2024. The mid-year FY2026 results indicate further improvement of Cape Town's liquidity, with cash and cash equivalents at ZAR13.8 billion, above the city's adjusted full-year cash budget of about ZAR7.6 billion, reflecting both strong collections and slower than planned capex and borrowing drawdowns. With the planned drawdown of cash to co-fund infrastructure investment, we expect the liquidity levels to remain comfortably strong at around 20% of operating revenue at year-end FY2026.

Liquidity metrics indicate substantial headroom relative to its own targets (cash/cost coverage ratio at around 2.6x, compared with a target of around 1.7x). Operating cash flow generation remained robust (net cash from operations year-to-date at ZAR6.3 billion; full year forecast at about ZAR8.6 billion), strengthening the city's internal funding capacity and supporting debt affordability. The key change compared to the previous year, is the extent of cash build-up and the outsized contribution of interest income to revenue performance, which underscores both the benefit of higher rates and the city's conservative liquidity stance.

The city's liquidity covers approximately 2.0x of net direct and indirect debt (NDID), providing a significant buffer against revenue volatility or temporary expenditure pressures.

While the FY2025 audit process experienced a procedural delay due to technical disputes with the auditor, the city received an unqualified audit opinion, underscoring the continued strength of its financial reporting, internal controls and compliance with South African public sector accounting and fiscal legislation.

Large and diversified economic base

Cape Town continues to benefit from one of the largest and most diversified metropolitan economies in South Africa, with strong contributions from services, tourism, logistics, and port activities. This underpins its comparatively strong revenue autonomy and collection capacity. The city's operating revenues remain primarily sourced from economically broad based streams such as service charges and property rates (service charges at about ZAR32.6 billion and property rates at about ZAR12.8 billion in FY2025), supporting stability even in a low growth national context.

Cape Town's economic diversification and the revenue base structure remain broadly unchanged, but FY2026 execution indicators suggest resilience in cash generation and receipts, with year-to-date revenues exceeding budget assumptions (revenue excluding capital transfers at ZAR37.5 billion compared with ZAR36.2 billion budgeted). These trends support our view that the city's economic diversity continues to translate into relatively stable fiscal performance compared with domestic peers. The city also continues to outperform national averages on several socioeconomic indicators, including employment and income levels, despite persistently high unemployment.

The diversified revenue base underpins the city's strong revenue autonomy, limiting reliance on intergovernmental transfers. This structural strength supports more stable revenue generation across economic cycles and enhances the city's capacity to absorb macroeconomic shocks. Over the medium term, infrastructure led growth, particularly in energy and transport, is expected to support economic resilience, although national growth constraints will continue to weigh on overall momentum. The economic base therefore remains a stable and supportive factor for credit quality.

Prudent and conservative debt management

The city's NDID stood at 11.8% of operating revenue in FY2025, unchanged from FY2024, and among the lowest across South African metropolitan municipalities. The pace of debt accumulation remains broadly in line with expectations, but improved grant availability for trading services allows partial substitution away from debt and internal funding for selected projects.

Debt is projected to decrease slightly to 10.4% of operating revenue in FY2026, before stabilizing just below 10% in FY2027, despite ongoing borrowing, due to strong revenue growth, operating surpluses and ample liquidity buffers. Current budget execution suggests that near-term borrowing drawdowns may be back loaded, with debt issuance delayed relative to plan (new borrowing drawn year-to-date FY2026: ZAR2.8 billion compared with a full year budget of ZAR5.0 billion), which has supported lower than budgeted outstanding debt and interest spending in FY2026.

This trajectory confirms that debt remains structurally affordable, with interest costs projected to stay low at around 1.2% of operating revenue in FY2026 and 1.1% in FY2027 from 1.4% in FY2025, reflecting prudent debt management, a favourable debt structure, and contained refinancing risk.

Debt service remains manageable, with debt servicing costs at 5.4% of total revenue in FY2025, and projected to remain broadly contained over the medium term.

The city maintains good access to funding, including domestic banks and development finance institutions, and avoids material foreign currency risk. Overall, rising capital spending forecasted for FY2026-FY2027 could represent a credit challenge, but it remains consistent with the city's investment driven strategy and does not materially weaken its credit profile.

Increasing pressure to fund social, infrastructure, and environmental investments

Cape Town faces sustained pressure to increase capital investment to address infrastructure needs, energy security, social risks, and resilience priorities, which is reflected in the size and execution of its multi-year capex programme. Capital spending in FY2025 was strong, with capex outturn of about ZAR9.3 billion and execution of around 92% of the capex plan, supporting service delivery and asset maintenance. In FY2026, capex execution was slightly behind the plan at mid-year with capex at ZAR5.1 billion representing 37.4% of the annual capital budget of ZAR13.5 billion, reflecting procurement delays, contractor performance issues and security disruptions.

Environmental and social risks, including water stress, inequality, and service delivery demands, continue to necessitate high levels of investment. While grant funding has become somewhat more supportive, the city will still rely on a mix of debt and own resources.

The city's exposure to water management risks are a key driver of our environmental risk assessment. Moreover, electricity shortages as well as historically poorly maintained infrastructure – which, among inequality and labour market constraints, are key drivers of social risks – also place all South African municipalities under growing capital spending pressure.

While these pressures increase the likelihood of higher borrowing over time, the city's strong liquidity provides a buffer against timing mismatches between project execution and funding.

Residual exposure to electricity shortages despite material progress in energy diversification

Cape Town remains exposed to electricity supply risks, despite having made material and measurable progress in reducing its reliance on Eskom (B2 stable) and differentiating its risk profile from that of the sovereign and most peer metropolitan municipalities. Over recent years, the city has implemented a comprehensive and multilayered energy diversification strategy, including large scale independent power producer (IPP) procurement, small scale embedded generation, and regulatory innovations that allow cash payments for surplus electricity fed into the municipal grid. These initiatives significantly mitigate the operational and economic risks associated with national load shedding and are expected to protect the city against up to four stages of load shedding by 2026.

Nevertheless, the city remains structurally integrated into the national electricity system and continues to rely on Eskom for a substantial share of its supply, particularly during peak demand and system stress events. Full energy independence is neither achievable nor targeted in the medium term, leaving Cape Town exposed to residual transmission, regulatory and system wide risks beyond municipal control. In addition, the execution of large scale IPP procurement and grid integration requires sustained capital investment, complex contracting and regulatory stability, introducing implementation and coordination risks.

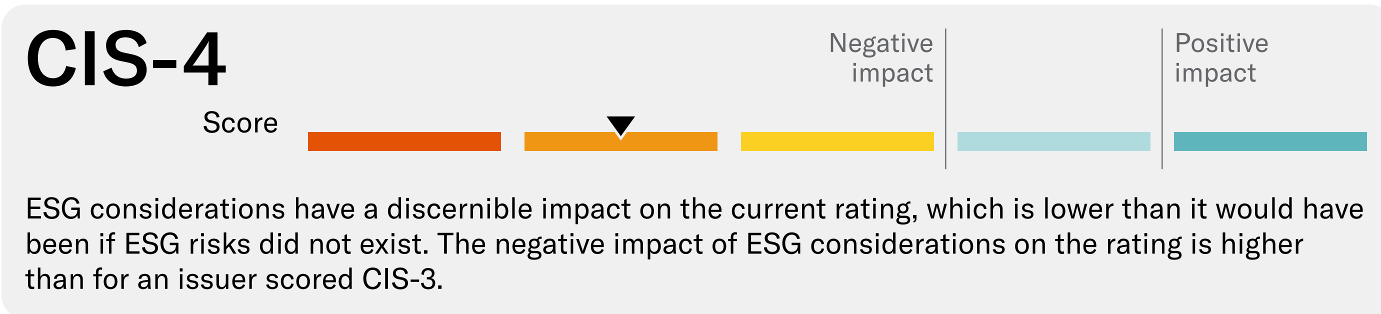
Extraordinary support considerations

The City of Cape Town has a low likelihood of extraordinary support from the national government, reflecting, at the jurisdictional level, the national government's policy stance of promoting greater accountability for South African municipalities. This assessment is in line with the national government's stance to encourage municipalities to be self-sustainable. Although the legal framework regulates the recovery of municipalities experiencing financial difficulties, it does not suggest timely extraordinary bailout actions to avoid defaults on debt obligations.

ESG considerations

Cape Town, City of's ESG credit impact score is CIS-4

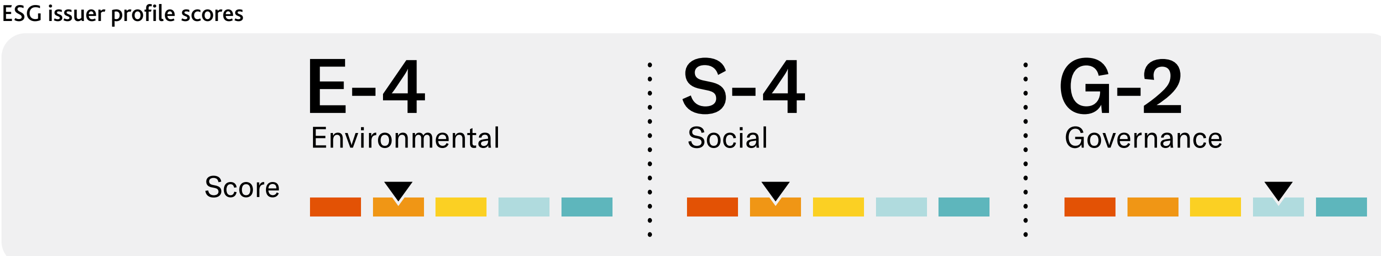
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

City of Cape Town's ESG Credit Impact Score (**CIS-4**) reflects highly negative exposure to environmental and social risks that are largely driven by water stress and weak labor and income, and neutral-to-low governance risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

The City of Cape Town's exposure to environmental risk (**E-4**) mainly relates to physical climate risk (4) and water management (4). The city's main exposures relate to water shortages. Droughts are the most frequent environmental constraint that directly affect the city's revenue. This challenge is managed through partnerships between the central government's department of water and the city. However, some of the financial burden of implementing and maintaining diverse water sources is borne by the city. A recent three-year drought caused Cape Town's dam system levels to deteriorate significantly, and the city has, in response, launched a new strategy to build an integrated water management system that will result in more diverse water sources.

Social

Exposure to social risk (**S-4**) mirrors high labor & income risks (4) as well as high exposure to health and safety risks (4), limited access to basic services (4) and housing shortages (4). The city has a high unemployment rate, which directly affects the ability of the city's residents to pay for services, and increases the number of households that are entirely dependent on the city for basic services. In addition, South Africa has one of the highest inequality rates in the world, and this also filters through to local governments, giving rise to risks of social unrest.

Governance

City of Cape Town's governance risk (**G-2**) reflects high data transparency, with all financial statements, along with medium-term budgets, published publicly on the city's and National Treasury's websites. We view improved management policies and practices, which should help the city to maintain sound financial metrics despite significant partly debt funded capital investments.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of ba2 is close to the BCA scorecard-indicated outcome of ba3.

The principal methodology used is the Regional and Local Governments rating methodology, published 28 May 2024.

Exhibit 5

Cape Town, City of

Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
Factor 1: Economy					**25%**	**2.41**
Regional Income [1]	11.09	20432.25	15%	1.66		
Economic Growth	12.00	ba	5%	0.60		
Economic Diversification	3.00	aa	5%	0.15		
Factor 2: Institutional Framework and Governance					**30%**	**3.15**
Institutional Framework	15.00	b	15%	2.25		
Governance	6.00	a	15%	0.90		
Factor 3: Financial Performance					**20%**	**1.08**
Operating Margin [2]	6.58	12.45%	10%	0.66		
Liquidity Ratio [3]	2.42	23.47%	5%	0.12		
Ease of Access to Funding	6.00	a	5%	0.30		
Factor 4: Leverage					**25%**	**0.57**
Debt Burden [4]	1.09	11.78%	15%	0.16		
Interest Burden [5]	4.10	1.37%	10%	0.41		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						**(7.22) a3**
Idiosyncratic Notching						**0.0**
Preliminary BCA SIO After Idiosyncratic Notching						**(7.22) a3**
Sovereign Rating Threshold						**Ba2**
Operating Environment Notching						**-1.0**
BCA Scorecard-Indicated Outcome						**(13.00) ba3**
Assigned BCA						**ba2**

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars
[2] Primary Operating Balance / Operating Revenue
[3] Cash and Cash Equivalents / Operating Revenue
[4] Net Direct and Indirect Debt / Operating Revenue
[5] Interest Payments/ Operating Revenue
Source: Moody's Ratings; Fiscal 2025.

Ratings

Exhibit 6

Category	Moody's Rating
CAPE TOWN, CITY OF	
Outlook	Positive
Baseline Credit Assessment	ba2
Issuer Rating -Dom Curr	Ba2
NSR Issuer Rating	Aa2.za
Senior Unsecured MTN -Dom Curr	(P)Ba2
NSR Senior Unsecured MTN	Aa2.za
ST Issuer Rating -Dom Curr	NP
NSR ST Issuer Rating	P-1.za

Source: Moody's Ratings

REPORT NUMBER 1484246

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