

# Navigating Lower Bond Yields and Inflation: Implications for Valuations in South Africa



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Over the past 12 months, the yield on the R2035 South African Government bond has dropped from 10.325% on 30 December 2024 to 8.195% on 31 December 2025. As the benchmark bond which KPMG in South Africa's Valuations team uses for the risk-free rate, the question is what impact this has on valuations.

It is important to understand what is driving this movement. According to KPMG's proprietary research, the country risk premium for South Africa has dropped and accounts for between 0.5% and 0.6% of the reduction. It is our view that the remaining 1.5% to 1.6% of the reduction in yield is the result of a lower inflation outlook. Much of this reduction in outlook resulted from the South African Reserve Bank's statement published on 31 July 2025 which discussed the "opportunity to achieve permanently lower inflation" and stated that the Monetary Policy Committee "now prefers inflation to settle at 3%".

While the drop in risk-free rate will result in lower discount rates, equity valuations should not increase in direct proportion. Instead, the forecast cash flows should be prepared using the new, lower inflation outlook and the terminal growth rate should similarly be adjusted downwards. Only that portion of the movement in the risk-free rate resulting from South Africa's lower country risk premium should drive increases in value.

Having considered these factors, what does this mean for valuation practitioners? It means our models must adapt. The combination of lower inflation and a lower risk-free rate require careful consideration to ensure that assumptions are internally consistent. Valuation practitioners that recalibrate discount rates, growth assumptions and terminal values to this new macro environment will produce valuations that are more robust, defensible and reflective of South Africa's evolving economic trajectory.

