# Economic overview:

## *Recent developments in the global and South African economies*

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*Department of Research and Information*

## Contents

## Highlights

- **Although set to remain stable, the global economy is likely to face headwinds in 2024.** Growth is expected to remain steady at 3.1% in 2024, while international trade activity is anticipated to strengthen relative to the previous year. The stable growth outlook masks the multi-speed nature of global growth, with some countries' economies, such as the United States holding up well in the face of higher interest rates, while others such as Germany and the UK are showing severe strain.

- **Global inflation is set to continue on its moderating path, although strong labour markets could hamper the efforts to get to the targeted inflation levels.** The International Monetary Fund (IMF) expects inflation to decelerate towards the targeted levels in most economies, allowing monetary authorities to lower interest rates during the course of 2024.

- **Significant downside risks remain to the global economic environment going forward.** Key among these are the threat of inflation remaining above targeted levels, risks of a wider regional conflict in the Middle East and the outcomes of elections, taking place in several countries across the globe, impacting on policy stances.

- **Growth prospects for Sub-Saharan Africa (SSA) are set to improve,** with real GDP growth projected to rise to 3.8% in 2024, from 3.3% last year. Relatively strong economic expansion in several non-resource-intensive countries, should contribute to the anticipated growth momentum. But an increasingly uncertain external backdrop, characterised by global macro-, financial- and geopolitical challenges, alongside ongoing domestic-related risks pertaining to fiscal and debt issues, political risks and intensifying threats of climate shocks could undermine the region's prospects.

- **South Africa's economy came under renewed pressure in Q3 2023 as real GDP contracted by 0.2% on a quarterly basis.** Several sub-sectors are finding it difficult to raise output on a sustained basis as global and domestic factors remain at play and are adversely impacting on the economy's growth momentum. Fixed investment activity remains subdued, while a dificult consumer environment is affecting household consumption expenditure. In light of ongoing challenges and based on preliminary data, only very modest growth is expected for the final quarter of 2023.

- **Business confidence has been at low levels for an extended period and is not showing signs of a sustained recovery.** Sentiment has been low across all broad sectors being surveyed and thereby indicative of general weakness in the South African economy. In addition, infrastructure-related challenges regarding electricity, as well as transport and logistical constraints such as gridlocks at ports and harbours, remain key factors behind the difficult operating and trading environment.

- **Consumer sentiment is affected by an increasingly challenging environment.** Households balance sheets are under pressure as they face rising levels of indebtedness; increasing debt-servicing costs; higher living costs; while high unemployment and poor employment prospects all impact the ability and willingness of households to raise consumption expenditure in a meaningful manner.

- **Infrastructure bottlenecks are a major risk to the performance of the South African economy.** Persistent load shedding along with challenges on the rail network and port inefficiencies are having a substantial impact on the country's external trade. These challenges are affecting both exporters and importers and do not only threaten operational sustainability, but also add to cost of doing business.

- **Merchandise exports were under pressure in 2023, with both global and domestic factors at play.** Weaker global demand and lower commodity prices affected mining and mineral exports, which declined by 10.3%, whereas exports of manufactured goods increased by 10.8%, with vehicle exports having recorded a solid performance.

World economic growth:

**2023: 3.1% (e)**
**2024: 3.1% (f)**
**2025: 3.2% (f)**

(IMF

World trade in goods and services:

**2023: 0.4% (e)**
**2024: 3.3% (f)**
**2025: 3.6% (f)**

(IMF

Sub-Saharan Africa GDP growth:

**2023: 3.3% (e)**
**2024: 3.8% (f)**
**2025: 4.1% (f)**

(IMF

South Africa GDP growth (q-o-q):

**Q1 2023 = +0.4%**
**Q2 2023 = +0.5%**
**Q3 2023 = -0.2%**

(Stats SA)

Business confidence in Q4 2023 (index points)

**Overall = 31**
**Manufacturing = 26**
**Retail sector = 47**

(BER)

- **The growth outlook for the South African economy remains subdued, especially over the short-term.** Real GDP is forecast to expand by 0.8% in 2024 and by 1.3% in 2025. A somewhat stronger growth momentum is expected towards the latter part of the outlook period as declining inflation may permit a gradual lowering of interest rates. Easier monetary policy is anticipated to underpin an up-tick in household consumption expenditure and fixed investment activity, while exports may benefit from stronger world demand and a normalising of global trading conditions.

Merchandise trade in 2023 (% change, y-o-y)
**Exports = +1.5%**
**Imports = +8.7%**
(SARS)

## Implications for South African businesses

*Potential implications of global economic developments*

- **Improving growth in the volume of worldwide trade in goods and services should support demand for South African exported products.** Domestic exporters will have to position themselves appropriately in global markets as there is likely to be significant competition. South African businesses should continue to invest in competitiveness enhancement projects. It is important to increase the level of productivity, reduce input/operating costs and to raise economies of scale.

South Africa's economic growth (y-o-y):
**2023e = 0.5%**
**2024f = 0.8%**
**2025f = 1.3%**
(IDC)

- **The multi-speed nature of global growth over the outlook period will require adaptability from South African exporters.** As some existing large trading partners are facing growth challenges, market opportunities should be identified and developed in countries or regions with improving growth prospects. Countries such as the US and India, along with a number of African economies, are still experiencing sustained growth in their markets.

- **Commodity exporting businesses could experience a more challenging environment as China continues to battle with its recovery process.** Commodity markets are set to remain challenging in 2024, with prices generally set to remain at current lower levels. Mining companies will have to actively manage input costs to ensure their sustainability during the period of suppressed prices and demand, especially platinum-group metals (PGM) miners.

- **Weaker growth in the Chinese economy** is prompting Chinese companies to focus on the export market, which will increase competition not only in the global environment but also in South Africa. Expectations of subdued demand on the global front are anticipated to limit the upside potential for commodity prices, and as a result impact the performance of mining companies and their ability to distribute profits through dividends.

- **The sustained disinflationary trend will provide room for central banks across the globe to start easing monetary policy.** However, significant obstacles still remain, with businesses having to be prepared to persevere through the current higher interest rate environment for the opening half of 2024 at least. Importantly, expectations are that interest rates will decline slowly over time although remaining significantly higher compared to the ultra-low interest rate period prior to 2022.

- **The potential for the conflict in the Middle East to become more regional could have far-reaching implications.** A widening of this conflict (e.g. Iran/US drawn into the conflict) has the potential to result in heightened geopolitical tensions, with major implications for financial and commodity markets.

- **Increased levels of uncertainty across the globe can result in periods of significant volatility.** The large number of elections being held in 2024 and the potential for significant changes in government policy subsequently will impact on local and international commodity, financial and foreign exchange markets.

*Potential implications of regional economic developments*

- **Africa is an important market for South African exports, especially its manufactured goods.** With domestic consumption and investment activity in the region expected to gradually pick up as inflation eases and interest rates are lowered, demand for both consumer and capital goods imports should rise. This should augur well for export-oriented businesses across a wide range of manufacturing industries as well as in outward-oriented services industries (e.g., engineering and construction services).
- However**, South African exports to the continent are largely destined for the SADC region**, principally other SACU member states. Of concern has been the limited penetration of South African exports in several SSA economies with sizeable and fast-growing overall import demand, potentially indicating missed opportunities. Domestic enterprises should therefore pursue opportunities to increase the penetration of their products in such markets.
- **Increased regional cooperation efforts, particularly the implementation of the African Continental Free Trade Area (AfCFTA) agreement, could change this as new trade and investment opportunities open up over time**. More recently, trade under the new preferences set out in the AfCFTA was 'officially' launched in South Africa, resulting in the first shipment of goods to other markets covered under the agreement.

  The AfCFTA provides South Africa's private sector the opportunity to increase intra-African trade and investment activity and concurrently expand the industrial base. South African participation in regional infrastructure projects is also likely to increase on the back of the AfCFTA.
- **Considering the continent's enormous import requirements**, **there is a window of opportunity for South African producers** to substitute global counterparts in other African markets as they seek to diversify their external sources of critical input materials, intermediate products and end-products. Local companies should take note of these developments and plan strategically and invest timeously in expanding productive capacity, domestically and regionally, to meet the rising demand and to exploit the opportunities arising in countries elsewhere in the continent.
- **Benefits should accrue to several African countries from the growing green and digital economies globally**, for these will bring forth new investment activity (including FDI) and export trade development opportunities on the back of abundant mineral resource endowments critical for this transition.

*Potential implications of domestic economic developments*

- **Fixed investment activity is likely to remain subdued in the short-term, including in the manufacturing and mining sectors**, considering the challenging operating and investment conditions in the South African economy. In addition, weak global and domestic demand and spare production capacity do not warrant any meaningful investment in new and/or the expansion of existing production capacity.
- **Despite difficult economic and investment conditions at present, numerous viable investment opportunities exist.** South Africa and many countries elsewhere in Africa have substantial reserves of critical minerals such as lithium, nickel, cobalt, copper, PGMS, vanadium and manganese, among others, which should be exploited. South African companies should position themselves timeously to take full advantage of such opportunities by putting strategies and measures in place to be at the forefront of investments and the development of such minerals.

- **Businesses that rely on public sector procurement, whether of a capital- or consumption spending nature, are likely to encounter reduced demand** due to ongoing financial constraints facing government and several SOEs. Many supplier industries whose own production activities are strongly aligned with public sector demand, whether those companies are supplying construction materials or other goods and services, may be adversely affected, especially in the short-term.

- **Ongoing infrastructure-related challenges, such as electricity supply, the rail network and gridlocks and inefficiencies at the ports,** will have a major impact on the performance of the South African economy for some time. Businesses must take these challenges into consideration in their planning and investment decisions and, where possible, try to mitigate against risks associated therewith. However, as structural reforms are being gradually implemented, these should bring along business and investment opportunities over the medium to long-term.

- **A very difficult consumer environment, especially during 2024, could have major implications for those businesses relying on the consumer market.** Household demand for durable goods (e.g. motor vehicles; furniture), as well as semi-durable items, such as clothing and household textiles, may be under pressure. Companies operating in this space may encounter some challenges and must be cognisant of difficult trading conditions in the months ahead.

- **The substantial worsening of the fiscal metrics is of major concern as it poses a key macro risk**. Principal credit rating agencies will be keeping a close eye on the fiscal performance, as well as structural reforms and South Africa's growth prospects. Although no further downgrades of the sovereign ratings are expected, it may take several years before such ratings move back into investment territory.

- **A gradual lowering of interest rates from the second half of 2024 onwards is anticipated**. This should alleviate some of the pressures for businesses and consumers and result in increased fixed investment and household consumption expenditure towards the latter part of the outlook horizon.

- **South Africa's economy is forecast to experience subdued rates of growth over the next five years.** Hence, private sector business enterprises will need to take such difficult conditions into account as they plan and strategise to withstand the challenging environment, whilst also be on the lookout for potential emerging opportunities, whether in the local, regional or global markets.

- **In his State of the Nation Address, President Ramaphosa reiterated and outlined several initiatives and structural reforms under way** that are aimed at addressing persistent binding constraints which are undermining the growth potential of the South African economy. An emphasis was made on the importance of developing the green economic sectors.

- **Other initiatives include** those focusing on the increasing activity in the mining sector (**modernisation of the mining rights licensing system and the exploration fund to support emerging miners**).

- The establishment of a **Climate Change Response Fund** to mitigate against the adverse impacts of climate related events.

- **South African businesses and financiers should position their strategies to support these initiatives including the critical transition to the green economy**, especially in light of the rising considerations of carbon border taxes or duties in some of South Africa's major export markets.

## Global economy: moderate growth with downside risks

*Albeit expected to remain relatively steady, the global economy is still facing multiple challenges in 2024*

Surprisingly, despite the harsh stance taken by central banks globally to raise interest rates in response to the unyielding inflationary pressures, heightened economic uncertainty, cost of living pressures and escalating geopolitical tensions, the performance of the global economy was better than initially anticipated. This was thanks to the resilience of several developed and various emerging market and developing economies.

However, the world economy faces multiple headwinds in 2024, which will weigh down on activity, including the lagged impact of monetary policy tightening, relatively subdued international trade, rising geopolitical conflicts and elevated political uncertainty as key markets are scheduled to hold elections in 2024. Notably on the global front will be the US elections in November 2024, which could have possibly far-reaching implications in terms of the US policy on a number of areas. Japan, the UK, India and South Africa will also be holding national elections.

*Inflationary pressures are anticipated to moderate, supporting the lowering of interest rates.*

However, against the backdrop of slowing inflation, albeit still high in various countries, central banks are expected to lower interest rates during the course of 2024. The timing of such cuts will be crucial though to ensure that there are no inflation flare-ups as monetary policy is being eased.

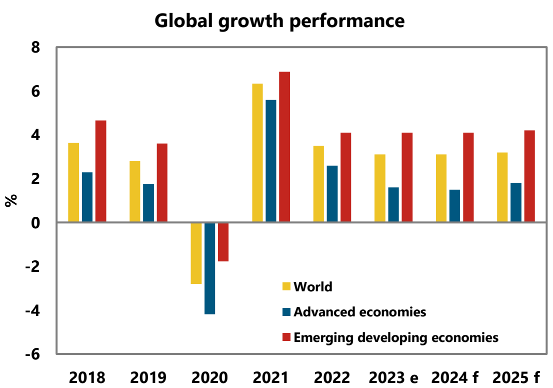
Although global shipping costs are reported to have risen due to disruptions of trade in the Red Sea and concerns of an impact of a regional escalation of the Israel-Hamas war on oil prices have increased, for now any spikes in prices are expected to be temporary. These factors and the expected effect of the El Nino climate phenomenon on prices, remain an upside risk to inflation. As a result, a more restrained loosening of global monetary policy is anticipated. In its latest World Economic Outlook update released in January 2024, the International Monetary Fund (IMF) expects global inflation to continue to moderate to an average of 5.8% in 2024, before slowing further to 4.4% in 2025.

However, tighter monetary policy currently in place is affecting world GDP growth, and the IMF forecasts global economic growth in 2024 to remain at 3.1%, the same pace as in 2023, followed by a slight acceleration to 3.2% in 2025.

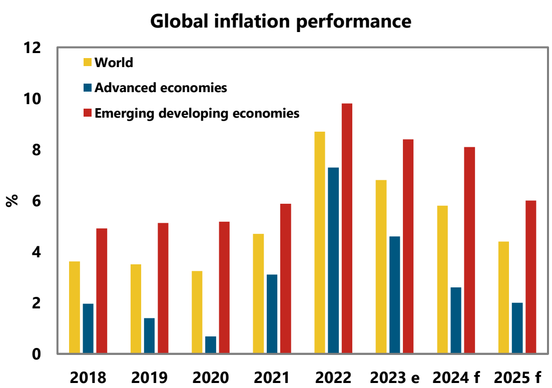
*Lingering effects of higher interest rates are anticipated to moderate growth, with some acceleration once interest rates move lower*

Although GDP growth is projected to remain stable in the short-term, the IMF forecasts that global trading activity is likely to improve noticeably in 2024 and 2025, with trade volumes projected to increase by 3.3% and 3.6%, respectively. This is substantially faster than the 0.4% expected for 2023. This anticipated improved global trade performance could provide opportunities for exporting countries such as South Africa and much-needed demand for their goods and services. However, the multi-speed characteristics of global growth will require countries to focus their efforts on areas with a higher growth potential.

***Figure 1: Easing of inflationary pressures will support growth prospects***



Source: IDC, compiled using IMF WEO data



Source: IDC, compiled using IMF WEO data

The most recent economic performance of some of South Africa's major trading partners, their future performance, as well as factors impacting thereon are discussed in Table 1 below.

***Table 1: South Africa's 'select' major trading partners' recent performance and outlook***

| Region/Country | Trade data | Key economic trends and outlook |
|---|---|---|
| European Union<br> | **Share of SA exports (2023):** 18.5%<br><br>**Main sources of imports (2022):**<br>China – 18.8%<br>US – 11.7%<br>Russia – 4.9%<br>UK – 4.9%<br>Norway – 4.0%<br>South Africa – 0.9% | Inflation in the EU has been on a declining trend since October 2022 when it peaked at 11.5%. In December 2023 inflation stood at 3.4%.<br><br>In response to the elevated inflation levels the European Central Bank (ECB) increased interest rates by a cumulative 4.5 percentage points since July 2022, with the peak seemingly reached.<br><br>Higher interest rates, combined with a weaker global trading environment have resulted in the region's growth performance being under severe pressure. In 2023, real GDP growth is estimated to have decelerated to 0.5%, following a strong 3.4% expansion in 2022. The German economy contracted by 0.3% in 2023 (+1.8% in 2022).<br><br>Economic conditions are set to remain unfavourable as reflected in the January 2024 Purchasing manager's index (PMI) reading of 47.9 points. The Eurozone is anticipated to report modest growth of 0.9% in 2024, accelerating to 1.7% in 2025. |
| China<br> | **Share of SA exports (2023): 11.2%**<br><br>**Main sources of imports (2022):**<br>EU – 10.5%<br>Taiwan – 8.8%<br>South Korea – 7.4%<br>Japan – 6.8%<br>US – 6.6%<br>South Africa – 1.2% | Chinese inflation has been low since the start of 2023, recording periods of deflation late in the year. The threat of deflation prompted the People's Bank of China (PBoC) to lower interest rates during the course of 2023.<br><br>However, the threat of deflation, alongside the continued difficulties in the country's property sector have negatively impacted on the Chinese consumers' willingness to spend, thus weighing on overall economic performance.<br><br>The ongoing financial difficulties of large property developers are negatively impacting on the overall economic performance of the country as the property sector accounts for around a quarter of all economic activity. Furthermore, the EU's economic slowdown is negatively affecting the country's export performance, which is a significant contributor to economic activity.<br><br>The Chinese manufacturing PMI reading of 49.2 points indicates that this sector is anticipated to continue to under-perform, while the non-manufacturing index (50.7 points) indicates limited upside potential elsewhere. This is reflected in the IMF's growth projection for 2024 of 4.6% and 4.1% in 2025, well below the growth rates recorded in recent years. |

| Region/Country | Trade data | Key economic trends and outlook |
|---|---|---|
| United States<br> | **Share of SA exports (2023):** 7.6%<br><br>**Main sources of imports (2022):**<br>EU – 16.9%<br>China – 17.1%<br>Mexico – 13.6%<br>Cananda – 13.3%<br>Japan – 4.6%<br>South Africa – 0.4% | Inflation in the US decelerated substantially since reaching a peak of 9.1% in June 2022, slowing to 3.1% in January 2024. However, persistent inflation rates above the 3% level highlight the US Federal Reserve (Fed)'s concerns that getting inflation down to the 2% target level will be difficult.<br><br>The Fed re-emphasised that they expect interest rates to be lowered by a cumulative 75 basis points during 2024, provided that inflation continues to moderate.<br><br>The uncertainty regarding the trajectory in US inflation is fuelled by the continued strong performance of the overall economy, which recorded growth of 3.3% in the final quarter of 2023. This performance is also reflected in the continued strength of the jobs market, as the unemployment rate remains near record low levels at 3.7%.<br><br>The US manufacturing PMI recorded a reading of 50.7 points in January 2024, indicating that the US economy will experience a soft landing. The US GDP is projected to expand by a still robust 2.1% in 2024 and 1.7% in 2025. |
| Japan<br> | **Share of SA exports (2023):** 5.2%<br><br>**Main sources of imports (2022):**<br>China – 21.0%<br>US – 10.1%<br>Australia – 9.8%<br>EU – 9.6%<br>UAE – 5.1%<br>Saudi Arabia – 4.7%<br>South Africa – 1.1% | Japan has been battling against deflation over a prolonged period of time, which has negatively impacted on its overall economic performance. During 2023, Japan started to record consistent inflation around the 2% mark, raising the possibility that the Bank of Japan (BoJ) could end its policy of negative interest rates during 2024.<br><br>The return of moderate inflation has supported an improved economic outlook for the country, with its composite PMI recording readings above the 50-point mark for most of 2023. In January 2024 the PMI reading of 51.5 points supports the view of continued growth, albeit at subdued levels. The IMF forecasts that the Japanese economy will grow by 0.9% in 2024 and 0.8% in 2025, with growth still being constrained by its declining population and sluggish consumption expenditure. Latest figures indicate that the Japanese economy grew by 1.9% in 2023. |

| Region/Country | Trade data | Key economic trends and outlook |
|---|---|---|
| United Kingdom<br> | **Share of SA exports (2023):** 4.9%<br><br>**Main sources of imports (2022):**<br>EU – 37.7%<br>China – 12.6%<br>US – 8.7%<br>Norway – 6.5%<br>Canada – 2.1%<br>South Africa – 1.0% | The UK experienced the most persistent inflation among developed economies reaching a peak of 11.1% in October 2022, before decelerating to 4.0% by December 2023 and holding steady at 4.0% in January 2024.<br><br>In its attempts to get inflation under control, the Bank of England (BoE) has increased interest rates by a cumulative 5.15 percentage points since December 2021. Unlike most other advanced economies, UK inflation is not anticipated to return to the 2% target level over the short-term, increasing the possibility that the BoE will have to keep interest rates higher relative to its peers in the US or Europe.<br><br>The UK economy is projected by the IMF to continue to be under strain from higher interest rates and cost of living difficulties, but slightly improve from the dismal growth of only 0.1% in 2023. Growth is projected to rise to 0.6% in 2024, with a subsequent recovery to 1.6% in 2025, as interest rates are set to be lowered. |
| India<br> | **Share of SA exports (2023):** 4.4%<br><br>Main sources of imports (2022):<br>China – 14.0%<br>EU – 7.5%<br>UAE – 7.4%<br>US – 7.1%<br>Saudi Arabia – 6.3%<br>South Africa – 1.5% | India has a largely closed economy and is generally less exposed to global economic developments. However, global inflationary pressures have permeated into the Indian economy, with inflation having been persistently above the 4% target level throughout 2022 and 2023.<br><br>Elevated inflation prompted the Central Bank of India to increase interest rates by a cumulative 2.5 percentage points, between April 2022 and February 2023.<br><br>India has been one of the fastest growing economies in the world for some time. Optimism in the Indian economy is reflected in its PMI data, which remained close to the 60-point mark throughout 2023, recording a reading of 61.2 points in January 2024. The IMF projects that the strong pace of economic growth will be maintained, with growth of 6.4% in both 2024 and 2025. |

The lingering effects of high interest rates are likely to impact the global economy's performance in 2024, with the IMF forecasting world GDP to expand by 3.1%, edging marginally higher to 3.2% in 2025. However, the risks to the economic outlook are still tilted to the downside and are wide ranging.

*Risks to growth remain to the downside with the Middle East and record number of election being major factors*

The risk for a wider regional conflict in the Middle East is rising, especially with the sustained attacks on US troops in the region, as well as on ships in the Red Sea. Such a conflict will likely have a negatively impact on oil production and seaborne transport, inducing an increase in prices, and, in turn, inflationary pressures across the globe.

The disruption to marine traffic due to the attacks in the Red Sea and the drought impacting the capacity of the Panama Canal has resulted in a diversion around the Cape of Good Hope and Cape Horn, respectively. Although this will result in longer shipping times, it is not expected to result in significant supply-chain disruptions or inflationary pressures.

On the political front, a record number of countries will hold elections during 2024, with the outcome of several of these being uncertain. The potential for significant policy changes, as new governments are sworn in after elections, is particularly high, which can have substantial impacts on investment and trade flows.

Despite positive inflation trends in most countries, the continued strength in labour markets could result in a slower deceleration of inflation. This may result in central banks having to keep interest rates higher for longer than currently anticipated. The high level of risk and the wide-ranging nature, thereof, could see increased volatility in various commodity, financial and exchange rate markets impacting on business and investor decision making.

## Recent developments in, and outlook for sub-Saharan Africa

### *Economic growth performance*

*Growth outcomes likely to vary widely across Sub-Saharan African economies*

Sub-Saharan Africa (SSA) recorded an estimated 3.3% increase in its real GDP in 2023, according to the latest IMF estimates. Economic growth decelerated from the 4% registered in 2022. This reflects heightened external headwinds, including subdued foreign demand from China and the European Union in particular, and other domestic and country-specific challenges, which dampened economic activity, on an aggregated basis, across the region in 2023.

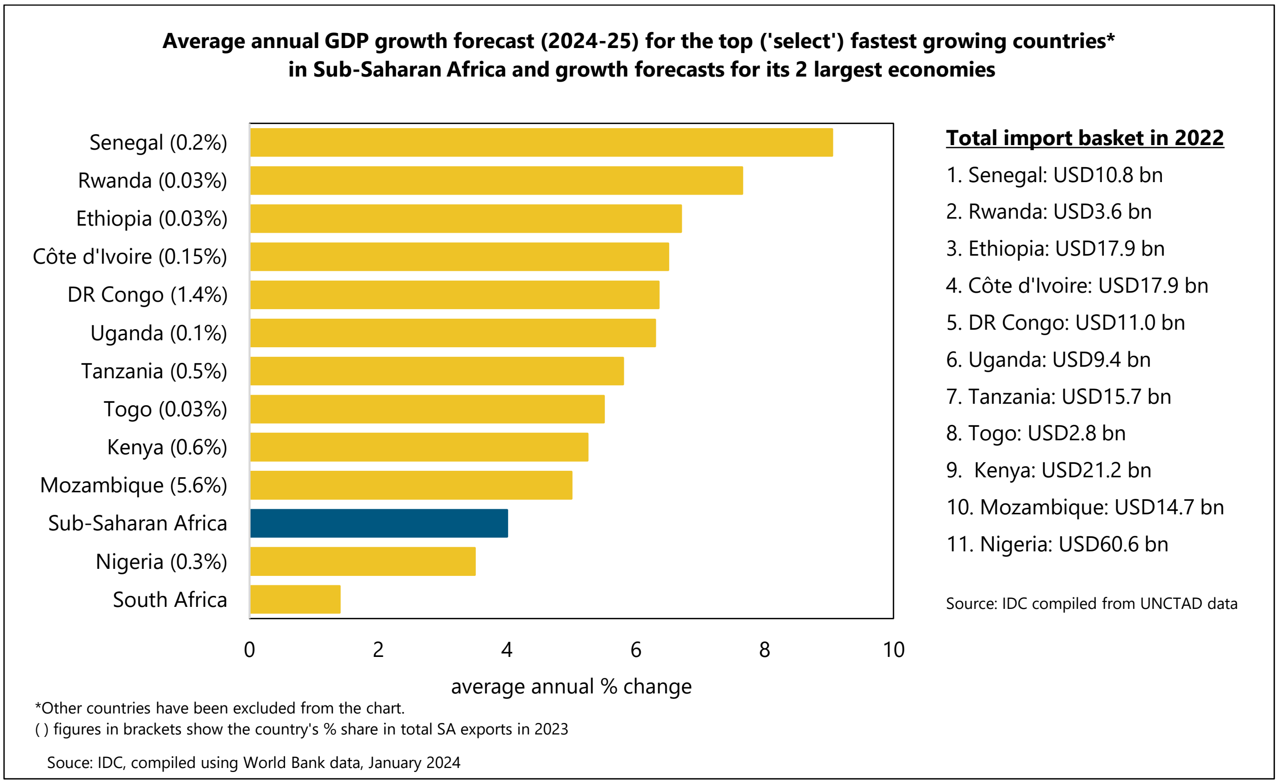
However, a fairly strong expansion is anticipated for the region in 2024 and 2025, potentially posting growth rates of 3.8% and 4.1%, respectively. A gradual recovery in domestic consumption and investment activity, as inflationary pressures subside thus allowing for a gradual easing of interest rates, should support the region's economic expansion in 2024 and 2025. However, the dynamics and growth outcomes will vary widely across SSA countries and sub-regional groupings.

Notwithstanding the expected improvement in their economic performance from 2024 onwards, persistent structural weaknesses in the region's major economies such as Nigeria and South Africa will continue to be a drag on the region's overall performance. On the other hand, robust performances in some relatively diversified and less-resource-intensive economies such as those of Ethiopia, Kenya, Uganda, Tanzania, Rwanda, Côte d'Ivoire, Rwanda and Senegal should underpin the region's positive economic outlook. Activity levels in these economies is likely to be supported by robust domestic demand, especially continued investment in and development of government-led infrastructure projects as well as services-related sectors such as tourism. Increased mining activity should underpin the projected growth rates of minerals and metal-exporting economies such as the Democratic Republic of the Congo and Mozambique.

As the pace of economic expansion in the region gathers momentum from 2024 onwards, alongside the progressing implementation of the AfCFTA, South Africa's export sector should pursue opportunities to increase its market penetration in the rest of the continent. In 2023, Africa accounted for 26.8% of all South Africa's merchandise exports, while 41% of South Africa's manufactured exports were destined for countries elsewhere in Africa.

However, the market penetration potential in African economies outside of the Southern African Development Community (SADC) region remains largely untapped. Not only are some of these markets expected to register the fastest rates of economic growth over the 2024-25 period as depicted in Figure 2 below, but also their overall merchandise imports from the world at large are relatively large and projected to post strong average annual growth in merchandise import demand over the next few years. Collectively, African markets outside of the SADC region accounted for a mere 2.6% of South Africa's total merchandise exports in 2023 and only 4.0% of its total exports of manufactured products.

*Figure 2: South Africa's limited export penetration in some of Africa's fastest growing economies, with relatively large import markets*




*Significant downside risks to regional growth*

Although positive, the economic outlook for SSA is subject to downside risks. An external environment that is becoming less supportive and more uncertain, characterised by global macro-, financial- and wider geopolitical risks could dampen sentiment towards the SSA region. Furthermore, the region continues to be burdened by severe fiscal pressures, largely on the back of higher debt servicing costs. There are heightened risks of external debt distress in several regional economies, which continue to provide a reason for concern, particularly in light of the upcoming maturing international bonds issued over the past decade, and this is amid elevated borrowing costs. Increased policy uncertainty and instability in certain cases as several countries prepare to hold general elections during 2024 could weigh on growth, trade and investment into the region.

## South African economy – recovery facing challenges

### Economic performance

*SA economy facing ongoing challenges*

South Africa's economy came under renewed pressure in Q3 2023 with real GDP contracting by 0.2% on a quarter-on-quarter (q-o-q) basis, following an up-tick in growth in the first two quarters of the year. Several sub-sectors are finding it difficult to raise output on a sustained basis as various global and domestic factors remain at play and are adversely impacting on the country's growth momentum.

*Several key sectors are under strain and not able to raise output on a sustained basis*

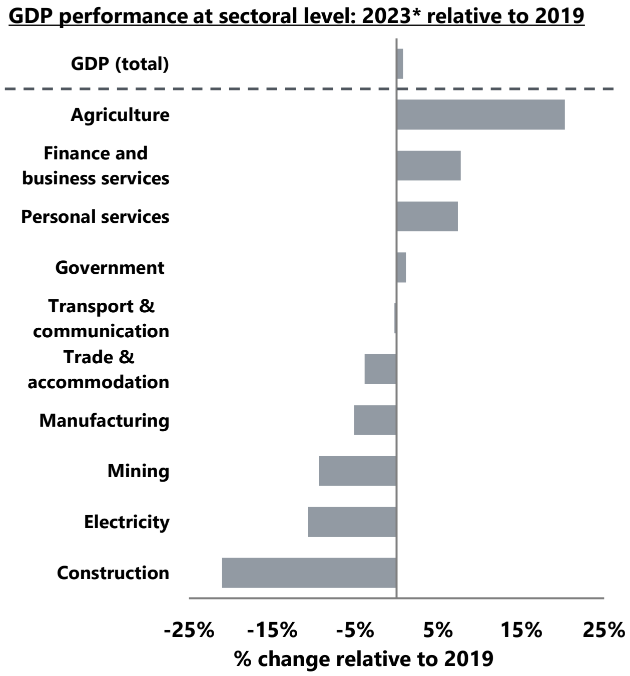
Lower output was recorded for several broad sectors, including agriculture (-9.6%; q-o-q), construction (-2.8%), manufacturing (-1.3%), mining (-1.1%), as well as trade, catering and accommodation (-0.2%). Although seasonal factors may have affected the agriculture sector, manufacturing and mining are feeling the impact of ongoing structural constraints (e.g., persistent load shedding, rail transport challenges, inefficiencies at ports/harbours), as well as weak demand, among other factors. However, there are some encouraging signs of a gradual improvement in terms of logistics, but much more needs to be done to increase port efficiency levels and to normalise activity on the rail network.

Sub-optimal fixed investment activity in recent years, especially public sector infrastructure spending, has consequences for the construction industry and related sectors, while also constraining private sector investment. A difficult consumer environment is being reflected in lower sales volumes by the retail trade and accommodation sector. Furthermore, household spending on durable goods has been particularly hard hit, with a 0.7% (q-o-q) contraction in Q3 2023, the third consecutive quarterly decline. Consumers are also refraining from spending on non-essentials as reflected by the decline in outlays on recreational and entertainment goods.

*Size of the SA economy in 2023 only marginally bigger than pre-pandemic*

By 2023 (based on data for Q1 to Q3), the size of the South African economy was only marginally bigger than in 2019 (pre-covid), although varying substantially at a sectoral level. Despite the recent decline in agricultural output, the size of this sector in 2023 was roughly 20% larger than in 2019. The construction sector, in turn, is 21% smaller, compared to 2019, whereas output of mining and manufacturing also remains below pre-pandemic levels.

***Figure 3: Challenging conditions constraining the economic recovery***




Source: IDC, compiled using Stats SA data

**Note**" * 2023 (Q1 to Q3)

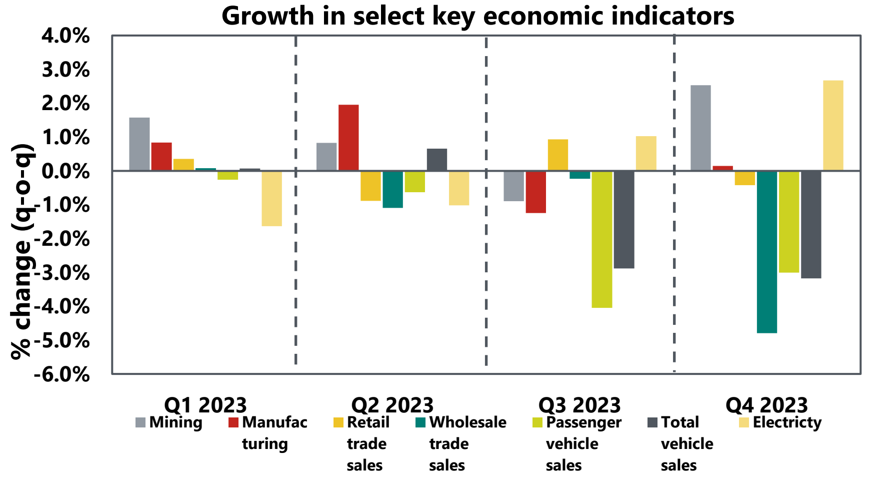
*Mining performance unlikely to be sustained*

Preliminary data for select sectors of the economy is pointing to challenging operating and trading conditions during the final quarter of 2023. Even though mining output rebounded quite strongly in Q4 2023, it is unlikely that this momentum will be sustained going forward. The challenges experienced in transport-related infrastructure and port inefficiencies, along with weak global demand will weigh on the performance of the mining sector for some time.

*Manufacturing output showing a modest up-tick*

The poor performance by the manufacturing sector is largely due to sharply lower output in the beverages; chemical products (e.g. pharmaceuticals); sawmilling; household appliances; electrical machinery, as well as in food processing (e.g. meat, fish and fruit; grain milling) sub-sectors, among others.

*Figure 4: Very modest growth expected for Q4 2023*




Source: IDC, compiled using Stats SA, SARB data

*Consumer segment of the economy under severe pressure*

The weak retail trade and passenger vehicle sales figures reflect the worsening consumer environment, as household balance sheets are under strain. In addition, high interest rates and cost of living pressures (as indicated by steep price increases in key segments of the consumer basket such as food and electricity), are adversely impacting household consumption expenditure.

Based on these preliminary trends and cognisant of ongoing challenges facing various segments of the South African economy, it is anticipated that real GDP may only have expanded marginally in the final quarter of 2023.

## Business sentiment

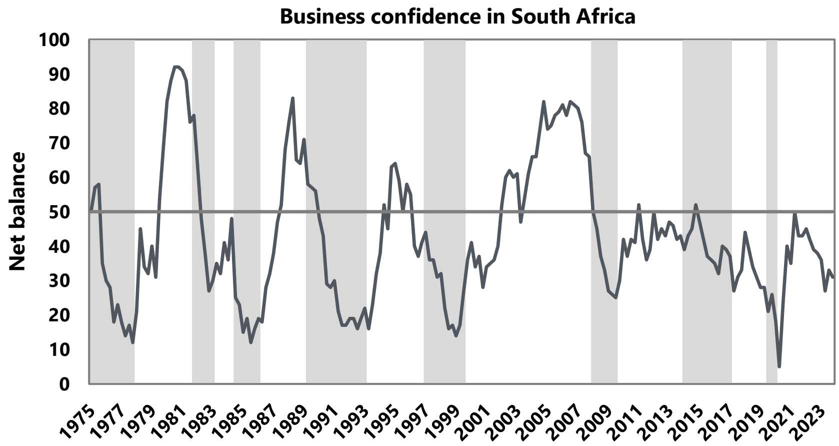
*Sentiment among business community remains low*

Business confidence fell slightly in Q4 2023 to a reading of 31 points, indicative of difficult business and trading conditions. Lower business sentiment was mainly due to a very sharp 24-point drop in confidence among new vehicle dealers, outweighing a strong 15-point increase in sentiment by the retail sector.

*Manufacturers expecting challenging business conditions to persist*

For the manufacturing sector, confidence edged marginally higher to a reading of 26 points, the highest reading in 2023 although still highly negative. Nonetheless, the outlook for the next 12 months (i.e. for 2024) remains unsatisfactory, considering several factors that are expected to remain binding constraints. The low business sentiment at present does not bode well for a sustained recovery in manufacturing activity.

*Figure 5: Business confidence unlikely to increase meaningfully*




Source: IDC, compiled using BER data

**Last data point: Q4 2023 = 31**

Moreover, manufacturers are expecting challenging business conditions to persist throughout 2024, while a difficult operating environment could be affecting investment in plant and equipment. Even though exports are expected to show a very marginal improvement, downside risks abound on the back of weak global demand, challenging global trading conditions and infrastructure-related constraints domestically.

*Household spending impacted by worsening consumer environment and low sentiment*

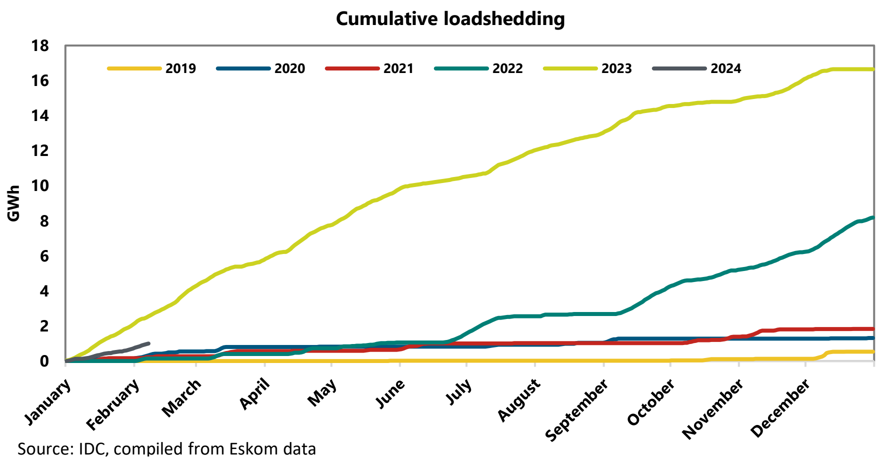
A difficult consumer environment is being mirrored by low sentiment among the household sector as confidence dipped slightly to a reading of -17 in Q4 2023 (-16 in Q3). Consumers are facing numerous challenges, such as increasing levels of indebtedness, high unemployment and weak employment prospects. As high interest rates and inflation erode disposable incomes, this also affects discretionary spending, while a worsening consumer environment impacts the ability and willingness of consumers to raise household consumption expenditure.

## Infrastructure-related constraints

*Electricity supply interruptions remain a key macro risk*

Severe load shedding is one of the key risks affecting the performance of the domestic economy. It threatens operational and trading activity, while also raising the cost of doing business. To mitigate against the adverse impact of electricity supply interruptions, many companies are investing in self-generation to remain operational. Following an already difficult year in 2022, load shedding intensified during 2023, with dire consequences for the economy at large, as business operations, trading activity and households were affected.

***Figure 6: Electricity supply interruptions intensified in 2023***




Source: IDC, compiled from Eskom data

*Gridlock at ports affecting trade flows and impacting operational activity*

The ongoing and intensifying crisis at South African ports, along with challenges on the rail network, has implications for both export-oriented businesses and those companies reliant on imports. Export-focused companies are facing difficulty in exporting their products timeously, while volumes are also affected. In the case of bulk commodities, increasing volumes of exports (e.g. coal, iron ore, chrome) are currently being shipped via the port of Maputo in Mozambique, among others, to destinations elsewhere in the globe.

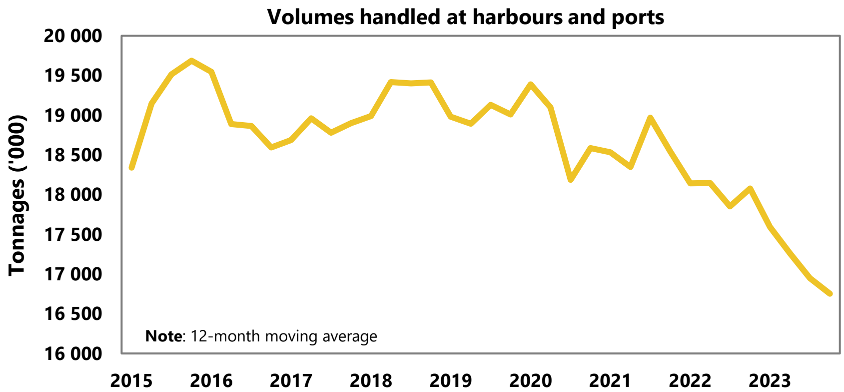
The gridlock at key harbours and ports is having a profound impact on South Africa's trade flows, with major implications across all trade-related sectors, from mining and mineral exporters to exporters of manufactured goods and agricultural products. Similarly, imports are being delayed, with dire consequences for production and trading activity across various sectors and segments of the domestic economy.

*Logistical challenges affecting local and foreign businesses*

The implications for the South African economy are two-fold, as logistical challenges not only affect local business operations, but also influence neighbouring countries' transport decisions. Countries elsewhere in Africa have been making use of South Africa's transport and logistical networks to ship their products to global destinations for many years but are now looking for alternative transport routes in light of challenges encountered in South Africa.

Even though South Africa may be able to reverse some of the export volumes being shipped via Maputo in Mozambique if the country addresses its infrastructure challenges swiftly, timeously and effectively, this may not be the case regarding transport from other African countries. In this regard, the DRC and Zambia are increasingly making use of the Lobito corridor through Angola to ship their commodities to global markets.

***Figure 7: Port inefficiencies reflected in reduced trade volumes being handled***



Source: IDC, compiled using SARB data

Last data point: Q3 2023

*Production and trading activity impacted by bottlenecks at the ports*

The declining trend in the volumes being handled at South African ports is illustrative of the increased challenges faced by many domestic industries. Long delays at the ports have a major impact on local companies reliant on imports (e.g. raw materials, intermediate inputs, final goods) as it affects their production and/or trading operations. Lack of timeous access to imported goods not only impacts on production but has ramifications for sustained operational capabilities as well as the financial feasibility of many businesses.

Furthermore, such delays have implications on the cost of doing business, as higher shipping/container charges cannot always be fully absorbed by companies themselves, with consequences for consumer prices.

*SA ports performing poorly in a global context*

Also noteworthy is that South Africa's port performance, in terms of container handling, compares extremely unfavourable from a global context, with key ports being at the lower end of the rankings. According to the World Bank's Container Port Performance Index (CPPI) for 2022, Cape Town was ranked at 344 and Durban at 341 out of a total of 348 ports that form part of this index.

This is a clear reminder that much more needs to be done to address the inefficiencies at our ports in a comprehensive manner to support improved trade flows, alleviate supply chain bottlenecks, reduce costs of doing business and to raise the level of competitiveness.

## External trade analysis

### Recent trade performance

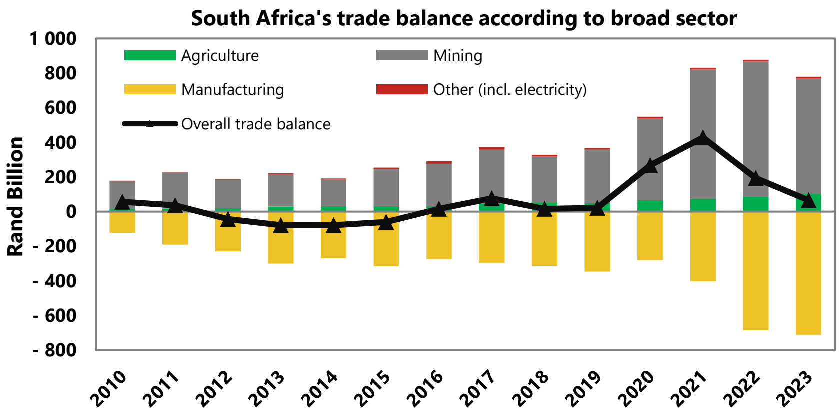
*Exports under pressure on the back of global and domestic factors*

South Africa's merchandise exports were under pressure in 2023 on the back of weaker global demand, softer commodity prices and logistical challenges, showing a modest increase of just 1.5% on a year-on-year (y/y) basis, in nominal value terms. Mining exports declined by 10.3% due to lower commodity prices and inefficiencies at ports, whereas manufactured goods saw an increase of 10.8%, supported by a strong rise in motor vehicle exports.

*Imports have been surprisingly strong despite weakness in the SA economy*

Although imports have risen quite strongly (+8.7%; y/y) in nominal value terms in 2023, worsening domestic economic conditions and gridlocks at the ports may have contributed to the slowdown experienced towards the end of the year. For the year as a whole, the trade surplus narrowed substantially to R65.5 billion, compared to a surplus of R192.5 billion in 2022.

*Figure 8: Exports under pressure, while imports are sharply higher*

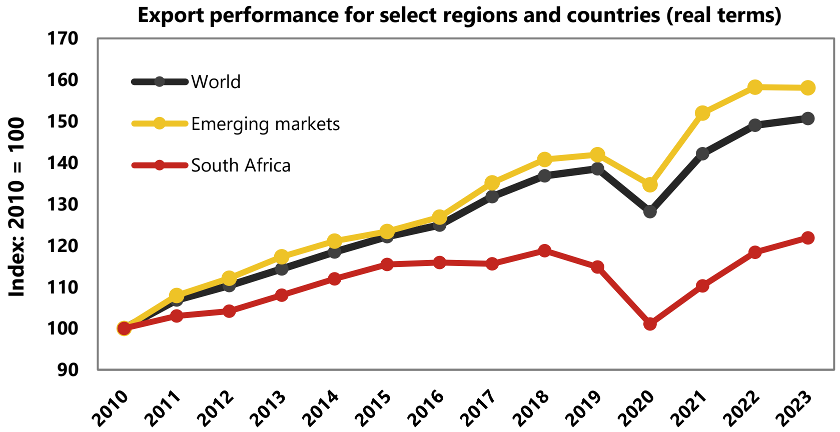



Source: IDC, compiled using SARS data

*SA's export recovery lagging that of the world at large*

Despite a strong recovery in recent years, as real growth in exports of goods and services outperformed the economy at large, South Africa's export performance is lagging that of the world economy by a substantial margin. This is even more pronounced if compared to the export trend of emerging markets and developing economies as a grouping. Although weak global demand and challenging trading conditions are impacting South Africa's exports, it is mostly domestic factors that are limiting the export performance.

*Figure 9: South Africa's export performance lagging that of select regions*




Source: IDC, compiled using IMF, Stats SA data

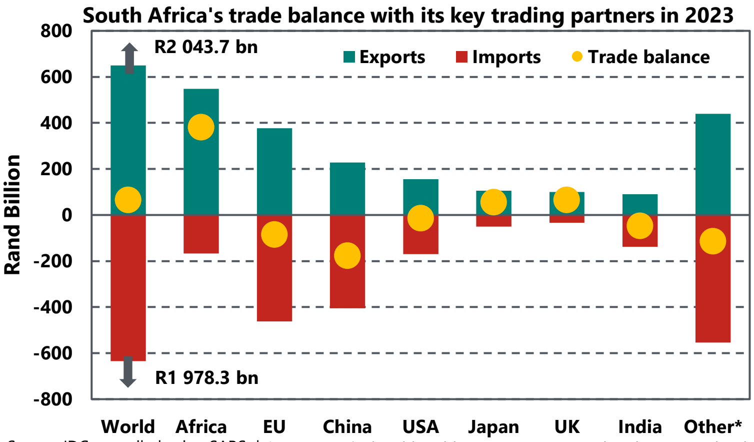
## A regional trade perspective

*Varying trade balance at the regional level*

South Africa recorded a sizeable trade surplus of R381.7 billion with Africa in 2023, whereas a large surplus was also recorded with the UK (R65.7 billion) and Japan (R56.0 billion). However, a substantial trade deficit of R176.5 billion was reported in the case of China, followed by a deficit of R85.2 billion with the EU, while deficits were also recorded with the US and India.

Despite a challenging global trading environment, South Africa's **merchandise exports** to China increased at a solid pace of 21.8% (+R40.8 billion) to R228.0 billion and by 11.9% (+R58.2 billion) to R548.4 billion in the case of Africa in 2023.

*Figure 10: Regional trade flows showing a mixed performance*




Source: IDC, compiled using SARS data **Note:** * incl. gold (gold exports not reported at the country level)

**Growth in external trade flows for select regions and countries in 2023 (% change)**

| Region/country | Exports | Imports |
|---|---|---|
| **World** | **1.5%** | **8.7%** |
| Africa | 11.9% | 9.7% |
| European Union | -11.3% | 15.8% |
| China | 21.8% | 10.2% |
| United States | -12.8% | 26.6% |
| Japan | -24.0% | 8.0% |
| United Kingdom | -2.9% | 13.5% |
| India | 0.9% | 5.5% |
| Other | 9.6% | -1.4% |

Source: IDC, compiled using SARS data

*Sharp increases in exports to China and Africa*

Higher exports to Africa were mostly due to a 90.5% increase (+R14.6 billion in nominal value terms) of non-ferrous ores' mining products (e.g. chrome, manganese) as shown in table 2 below. However, these numbers may be distorted by the fact that increasing volumes of bulk commodities from South Africa are being shipped via the port of Maputo in Mozambique to destinations elsewhere in the globe, considering logistical challenges and port inefficiencies in South Africa. Other export categories to Africa, such as motor vehicles; iron and steel; refined petroleum products, as well as primary agricultural goods have also risen at a very rapid pace in 2023.

*Table 2: Exports to China and Africa rising sharply despite difficult trading conditions*

**South Africa's exports to Africa and China in 2023, with the top-5 sectors showing the largest increases in nominal value terms**

| Rank | Africa: Total exports: R548.4 bn | Change in exports (R billion) | % change | China: Total exports: R228.0 bn | Change in exports (R billion) | % change |
|---|---|---|---|---|---|---|
| | **Total exports** | **58.2** | **11.9%** | **Total exports** | **40.8** | **21.8%** |
| 1 | Mining of non-ferrous metal ores (e.g. chrome, manganese) | 14.6 | 90.5% | Mining of non-ferrous metal ores (e.g. chrome, manganese) | 15.2 | 23.6% |
| 2 | Motor vehicles | 8.4 | 38.7% | Iron ore mining | 13.1 | 24.7% |
| 3 | Basic iron and steel | 7.4 | 21.0% | Basic iron and steel | 8.5 | 39.2% |
| 4 | Petroleum refineries & synthesisers | 6.8 | 20.2% | Pulp, paper and paperboard | 2.1 | 52.8% |
| 5 | Agriculture (cereals and other crops) | 4.6 | 26.4% | Basic precious and non-ferrous metals | 1.6 | 11.5% |

Source: IDC, compiled using SARS data
**Note**: Exports of non-ferrous metal ores to Africa may most likely be shipped to countries elsewhere in the world via the port of Maputo in Mozambique

*Export basket to China comprising mostly of commodities*

South Africa's exports to China were dominated by mining and mineral products, with a 23.6%, or R15.2 billion increase in exports of non-ferrous mineral products (e.g. chrome and manganese). In addition, exports of iron ore (+24.7%); basic iron and steel (+39.2%) as well as pulp and paper products (+52.8%) have all recorded substantial increases during 2023.

In turn, South Africa's merchandise exports to other key external markets came under pressure in 2023 as reflected by the sharp contraction of 24% in the case of Japan, while exports to the EU (-11.3%), the US (-12.8%) and the UK (-2.9%) also declined.

*Exports to SA's traditional external markets under pressure*

Exports to these key destinations, as per table 3 below, recorded sharply lower mining and mineral exports, while exports of motor vehicles and parts; basic chemicals; chemical products; jewellery; basic iron and steel, as well as rubber products (e.g. tyres) and primary agriculture products, also recorded sharp declines in 2023.

In the case of the EU, the sharp drop in South Africa's merchandise exports to this regional bloc was primarily due to the 72.9% decline (-R49.2 billion) in coal exports. This a result of both lower coal prices, which declined by 55.7% in 2023 as well as lower volumes.

***Table 3: Weak domestic demand and lower commodity prices affecting SA exports to key external markets***

**South Africa's exports to select regions/countries in 2023, with the top-5 sectors showing the largest contractions in nominal value terms**

| Rank | European Union: Total exports: R377.2 bn | Change in exports (R billion) | % change | United States: Total exports: R155.1 bn | Change in exports (R billion) | % change |
|---|---|---|---|---|---|---|
| | **Total exports** | **-48.2** | **-11.3%** | **Total exports** | **-22.8** | **-12.8%** |
| 1 | Coal mining | -49.2 | -72.9% | Platinum group metal mining | -26.4 | -34.8% |
| 2 | Jewellery and related articles | -13.3 | -67.1% | Basic iron and steel | -3.9 | -30.8% |
| 3 | Platinum group metal mining | -7.3 | -44.8% | Coal mining | -1.4 | -69.2% |
| 4 | Mining of non-ferrous metal ores (e.g. chrome, manganese) | -6.7 | -22.6% | Motor vehicle parts and accessories | -1.2 | -15.9% |
| 5 | Basic chemicals | -6.3 | -33.0% | Mining of non-ferrous metal ores (e.g. chrome, manganese) | -1.2 | -28.7% |
| **Rank** | **Japan: Total exports: R105.9 bn** | **Change in exports (R billion)** | **% change** | **United Kingdom: Total exports: R99.4 bn** | **Change in exports (R billion)** | **% change** |
| | **Total exports** | **-33.4** | **-24.0%** | **Total exports** | **-3.0** | **-2.9%** |
| 1 | Platinum group metal mining | -35.6 | -36.4% | Mining of non-ferrous metal ores (e.g. chrome, manganese) | -2.8 | -30.9% |
| 2 | Motor vehicles | -2.9 | -37.0% | Platinum group metal mining | -2.3 | -4.7% |
| 3 | Agriculture (cereals and other crops) | -1.0 | -20.2% | Coal mining | -2.2 | -80.9% |
| 4 | Motor vehicle parts and accessories | -0.2 | -59.7% | Basic precious and non-ferrous metals | -1.5 | -50.6% |
| 5 | Tyres & tubes of rubber, retreading & rebuilding of tyres | -0.2 | -69.2% | Other chemical products, nec. | -0.7 | -44.0% |

Source: IDC, compiled using SARS data

*SA's import basket dominated by automotives and parts, as well as machinery and equipment*

As far as South Africa's **imports of merchandise goods** are concerned, these remained very strong in the case of the US (+26.6%), the EU (+15.8%) and the UK (+13.5%). The import baskets from these countries were dominated by capital goods such as motor vehicles and parts as well as machinery and equipment, which have recorded sharp increases in 2023. Higher imports from China were mostly due to increased demand for electrical machinery and equipment (e.g., lithium-ion batteries, inverters), while imports of parts and accessories for motor vehicles also featured strongly.

The import basket from Africa was largely dominated by crude oil, with a 20.6% increase to R64.1 billion in 2023. Other key import products from countries elsewhere in Africa included chemical products; basic chemicals; non-ferrous metal products; wearing apparel; agriculture products, as well as electricity.

## Growth outlook for the South African economy

Despite the continued, albeit very gradual, recovery, economic output has only just exceeded its pre-pandemic levels by Q3 2023. Several global and domestic factors continue to affect the performance of the South African economy. For 2023, **gross domestic product (GDP)** is projected to have expanded by a modest 0.5% in real terms.

**Consumer spending** is estimated to have expanded by just 0.6% in 2023 (+2.5% in 2022) as households are grappling with a challenging environment and worsening finances. Overall household expenditure is forecast to edge slightly higher to 0.9% in 2024 and 1.7% in 2025. The full impact of higher interest rates and ongoing inflationary pressures are expected to take a toll on household expenditure in the short-term. Spending on interest rate sensitive items, such as motor vehicles; household furniture; clothing and textiles; appliances and electronics, will be most impacted by challenging economic conditions – especially in 2024.

A faster growth momentum is projected as inflation declines, while interest rates are also forecast to be lowered, albeit very gradually. Nonetheless, growth projections in consumer spending will fall well short of those rates recorded in the early 2000s.

**Fixed investment** activity is anticipated to gain some momentum over the outlook period, with the private sector raising capital expenditure as structural reforms are being rolled out, providing a more enabling operating environment. Public sector infrastructure investment will be limited by financial constraints and operational challenges.

Ongoing structural impediments to growth (e.g. electricity supply; rail network; port inefficiencies) will continue to pose a major macro risk, compounding an already challenging business environment. In addition, weak demand conditions, both domestically and globally, are further limiting the immediate need for investment as surplus production capacity exists in many industries. Low investor and business confidence levels at present are testimony to difficult economic conditions, while also affecting investment decisions.

***Table 4: Projections for key performance indicators of the South African economy***

| Variable (% change or % of GDP) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023e | 2024f | 2025f | 2026f | 2027f | 2028f |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Real GDP growth and its components:*** | | | | | | | | | | | |
| Household consumption expenditure | 3.2 | 1.3 | -6.1 | 5.8 | 2.5 | 0.6 | 0.9 | 1.7 | 2.2 | 2.5 | 2.8 |
| Government consumption expenditure | 1.1 | 1.8 | 0.9 | 0.5 | 1.0 | 2.4 | 1.4 | 0.6 | 0.7 | 1.1 | 1.0 |
| Gross fixed capital formation (GFCF) | -1.2 | -1.7 | -14.6 | 0.6 | 4.8 | 3.7 | 2.3 | 3.1 | 4.0 | 3.5 | 2.9 |
| Exports | 2.7 | -3.3 | -12.0 | 9.1 | 7.4 | 3.6 | 2.8 | 2.5 | 3.1 | 3.8 | 2.8 |
| Imports | 3.5 | 0.6 | -17.6 | 9.6 | 14.9 | 4.5 | 3.5 | 4.0 | 4.4 | 3.7 | 3.3 |
| **GDP** | **1.6** | **0.3** | **-6.0** | **4.7** | **1.9** | **0.5** | **0.8** | **1.3** | **1.8** | **2.4** | **2.2** |
| Consumer price inflation | 4.6 | 4.1 | 3.3 | 4.6 | 6.9 | 5.9 | 5.1 | 4.7 | 4.5 | 4.6 | 4.6 |
| Current account balance (% of GDP) | -2.9 | -2.6 | 1.9 | 3.7 | -0.5 | -2.0 | -2.2 | -2.9 | -3.5 | -3.4 | -3.5 |
| GFCF as % of GDP | 15.9 | 15.5 | 13.8 | 13.2 | 14.2 | 15.0 | 15.3 | 15.8 | 16.4 | 16.7 | 16.9 |
| Repo rate (%) end of period | 6.75 | 6.50 | 3.50 | 3.75 | 7.00 | 8.25 | 7.50 | 6.75 | 6.50 | 6.50 | 6.50 |
| Rand per USD (average per year) | 13.23 | 14.45 | 16.46 | 14.78 | 16.36 | 18.45 | 18.76 | 18.31 | 18.10 | 18.19 | 18.34 |

*Source: IDC, compiled using SARB data, IDC forecasts*

South Africa's **public finances** remain of major concern. A combination of factors contributed to a substantial deterioration in the fiscal metrics in recent times. Subdued rates of economic growth, softer commodity prices and ongoing pressure on government expenditure (e.g. public sector wages; social grants) have resulted in a widening budget deficit during the current fiscal year (i.e. 2023/24).

Moreover, overall gross loan debt of government has been on a steep rising trend and measured 74% of GDP in Q3 2023, compared to a much lower ratio of 67.3% three years earlier. Borrowing requirements increased sharply to R442.4 billion for April to December 2023, compared to R204.0 billion for the same period in the 2022/23 fiscal year.

Worsening public finances along with weak economic growth prospects and ongoing infrastructure constraints are expected to remain firmly on the radar screen of principal **credit rating agencies.** Even though no further downgrades are anticipated, South Africa's sovereign credit ratings will remain in sub-investment territory for quite some time.

Real growth in **exports** is estimated to decelerate sharply to 3.6% in 2023 (+7.4% in 2022), followed by a further moderation to 2.8% in 2024 and 2.5% in 2025. Ongoing domestic rail and port inefficiencies, along with low commodity prices, will have a negative impact on South Africa's export performance.

Exporters to the rest of Africa could benefit from relatively stronger growth in the region, while commodity exporters may be adversely impacted by reduced demand out of China as its growth momentum is expected to decelerate. An up-tick in global growth towards the latter part of the outlook horizon should provide some relief to export-oriented businesses.

The **Rand exchange rate** has been under immense pressure since the start of the year, trading at around R19.00 per USD and is anticipated to remain highly undervalued in the short-term. Several factors are likely to weigh on the Rand's performance, including the narrowing trade surplus, precarious public finances, uncertainty in the build-up to the national elections, increased risk aversion altering portfolio flows and potentially lower FDI.

**Consumer price inflation** is projected to decelerate to 5.1% in 2024 (5.9% in 2023) and to move closer to the mid-point of the target band over the latter part of the forecast period. Although electricity and food prices are anticipated to remain high, price pressures in general should be easing as economic conditions improve.

Cognisant of the impact of high interest rates on businesses and consumers, the South African Reserve Bank (SARB) may respond by lowering **interest rates** once inflationary pressures and expectations are deemed to be under control. The SARB is expected to only start lowering the repo rate (currently at 8.25%) in Q3 2024 by 50 basis points (bps), followed by a further 25 bps in Q4. In total, a 175 bps reduction is projected over the forecast period, with the repo rate forecast to remain unchanged at 6.50% as from Q2 2026 onwards.

Real **GDP growth** is estimated at a rather modest 0.8% and 1.3% in 2024 and 2025, respectively. Somewhat stronger, but still sub-optimal rates of expansion are anticipated in the last three years of the outlook period. Some moderation in interest rates may support an up-tick in household consumption expenditure and fixed investment activity, more visibly from 2026 onwards.

Subdued demand in key external markets, along with ongoing domestic infrastructure-related challenges, may limit South Africa's export performance, especially in the shorter term. Risks to the growth outlook are tilted to the downside, especially in the absence of any meaningful progress in addressing critical structural challenges and other binding constraints.

**Department of Research and Information**

**16 February 2024**