IDC

Industrial Development Corporation

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Economic overview:

Recent developments in the global and South African economies

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Department of Research and Information

Contents

Highlights i

Implications for South African businesses ii

Global economy: Increasingly divergent trends and impacts 1

Sub-Saharan Africa anticipated to pick up from 2024 6

South African economy reflecting challenging conditions 8

External trade analysis 13

Growth outlook for the South African economy 18

Highlights

- **Global growth is projected to remain steady around the 3.2% mark in 2024 and 2025.** However, aggregation at a global level mask increasing divergence in growth performance among the major economies. The International Monetary Fund (IMF) expects marginal growth from advanced economies, and more robust rates from emerging markets and developing economies.
- **Inflationary pressures globally are set to ease with most economies approaching their targeted levels over the next two years.** Inflation is taking longer than initially expected to decline to targeted levels mainly due to tight labour markets supporting higher wage demands.
- **There is increased uncertainty and volatility in global commodity and financial markets.** As a result, safe-haven and renewable energy related commodities and financial markets are seeing higher investor interest, while industrial commodities exposed to Chinese demand and carbon-intensive production are facing more challenging conditions.
- **Sub-Saharan Africa's economy is expected to expand by 3.8% in 2024 and by 4.0% in 2025.** Non-resource intensive economies such as Senegal, Rwanda, Côte d'Ivoire, Ethiopia, and Uganda are expected to post strong growth, while some marginal improvement in the region's largest two economies, Nigeria and South Africa, compared to 2023, should provide some impetus. The region's persistent vulnerabilities to a world that is becoming more prone to shocks reinforces the imperative of boosting regional integration including through intra-regional trade in Africa, which remained very modest and stood at only 13.6% in 2022, compared to 56.5% in the European Union.
- **South Africa's economy was under severe pressure in 2023 as real GDP growth moderated to just 0.6%, compared to 1.9% in 2022.** Economic performance has been adversely affected by infrastructure related constraints, such as the worst electricity supply interruptions on record, challenges on the rail network, inefficiencies at ports, lower commodity prices and worsening demand conditions globally and domestically. The constraints speak to fundamental challenges such as institutional and broad capabilities linked to infrastructure and the economy's vulnerability to commodity price movements.
- **Key sectors of the economy are not able to raise output on a sustained basis, considering the several headwinds affecting activity.** The modest up-tick in manufacturing output in 2023 was short-lived as reflected by lower production volumes in Q1 2024, with several sub-sectors not able to increase production. Mining output remains close to historical lows on the back of weaker demand, lower commodity prices and logistical challenges.
- **Despite a challenging economic environment in recent years, fixed investment spending rebounded strongly, albeit off a very low base.** Although capital expenditure recovered steadily over the past three years, it remains insufficient to lift economic growth to a much faster and sustained pace of expansion.
- **A difficult consumer environment is reflected in the weak performance of the retail trade sector.** Households are feeling the impact of high interest rates and cost of living pressures, while declining real disposable incomes, rising debt-service costs, excessive debt levels and high unemployment are affecting the ability of households to raise consumption spending.

World economic growth:

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

(IMF)

Global inflation (y-o-y):

2023 = 6.8% (e)
2024 = 5.9% (f)
2025 = 4.5% (f)

(IMF)

Sub-Saharan Africa growth:

2023: 3.4% (e)
2024: 3.8% (f)
2025: 4.0% (f)

(IMF)

Sectoral GDP growth in 2023 (y-o-y):

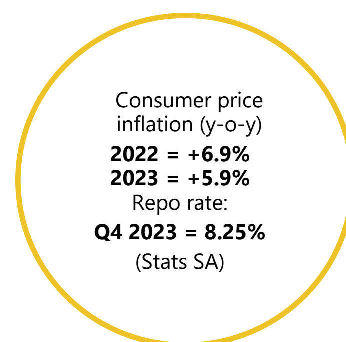
Agriculture = -12.2%
Mining = -0.3%
Manufacturing =0.5%

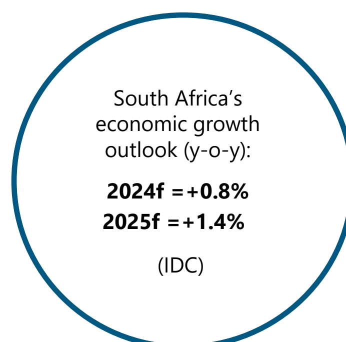
(Stats SA)

Retail trade growth (y-o-y):

2022 =+1.7%
2023 =-1.0%

(Stats SA)





- **Inflation is remaining sticky at higher levels than expected, with consequences for monetary policy.** The strong disinflation trend observed in 2023 is facing some challenges, with inflation likely to remain higher for longer. Thus, the South African Reserve Bank is likely to maintain a hawkish monetary policy stance for some time to anchor inflation expectations.

- **Subdued rates of economic growth are insufficient to provide employment opportunities to all new entrants into the labour market.** Over the past decade, employment increased by just 1.5 million people, whereas the working age population (i.e. between 15 and 64 years) has risen by 6.0 million. Consequently, the number of unemployed rose sharply by 3.1 million over this period to 7.9 million in Q4 2023. At 32.9% in Q1 2024, South Africa's unemployment rate is among the highest in the world, with no signs of a meaningfull reduction over the medium-term.

- **Exports of merchandise goods were under pressure in 2023 and increased by a mere 1.4% in nominal terms.** This was largely due to a 10.4% drop in mining and mineral exports on the back of weaker global demand and lower commodity prices, while logistics constraints also limited the export performance.

- **Growth prospects remain subdued over the period 2024 to 2028.** Real gross domestic product growth of just 0.8% is forecast for 2024, edging higher to 1.4% in 2025. Global and domestic factors continue to weigh on the performance of the South African economy. Consumer spending is expected to increase at only a modest pace (2%), as declining disposable income, high unemployment, weak employment prospects and relatively high debt service costs undermine demand, with improvements to be supported by falling inflation and lower interest rates over the outlook period. Similarly, fixed investement is expected to show a gradual recovery supported by sustaining capital expenditure (e.g., repairs and maintenance) improvements in global and domestic demand and the effective roll-out of the announced public infrastructure build programme. Export growth will continue to be subdued due to marginal economic growth expected in key trading partners such as the Eurozone and the UK.

Implications for South African businesses

Potential implications of global economic developments

- **The uneven growth performance of major South African trading partners means that companies may need to diversify export markets to maintain volumes.** Business enterprises need to be cognisant of the differing export market dynamics and position themselves strategically to balance relatively weaker demand in markets with subdued growth with exploring market access opportunities in those with more robust growth.

- **Improving growth in the volume of global trade in goods and services should support demand for South African exported products.** However, increasing manufacturing capacity in China will heighten competitive pressures in export markets. South African businesses need to continue to invest in increasing productivity, improving efficiencies and achieving economies of scale so as to gain and maintain international competitiveness.

- **Rising trade barriers, prompted by either protectionist policies, sanctions or climate change, are set to increase friction in global trade.** South African businesses could be impacted by the rising trade barriers. Diversifying export markets so as to reduce vulnerability to trade frictions will increasingly become important. Where the trade barriers are enacted on global competitors, South African companies can seize the opportunities for market access. Staying competitive in international

markets will require investments in up-to-date production processes and technology and/or decarbonisation.

- **There are investment opportunities in critical minerals linked to renewable energy and new energy vehicles (NEVs).** This includes platinum, which, has an improved outlook due to its application in the hydrogen economy.
- **Continued elevated geo-political tensions risk significant unforeseen movements in commodity and financial markets.** A significant source of uncertainty remains with the potential broadening of the Israel-Hamas conflict and the involvement of regional powers, creating uncertainty regarding oil market developments.

Potential implications of regional economic developments

- **The anticipated up-tick in growth in Sub-Saharan Africa over the medium-term** should provide improved market conditions for exports of manufactured goods, considering that the continent accounts, on average, for about 41% of all South Africa's manufactured exports. Recovery in the demand for imported goods should bode well for export-oriented businesses.
- **The AfCTA is progressing relatively well and should provide South Africa's private sector with 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.
- **Specific sectors and related value chains have been prioritised for development under the African Continental Free Trade Area's Private Sector Engagement Strategy.** The identified and prioritised sectors for development include agriculture and agro-processing, automotive, pharmaceuticals, as well as transportation and logistics. This should result in opportunities to partake in the development of associated cross-border value chains.
- **Substantial foreign direct investment is envisaged to flow into Africa's energy sector, as well as minerals and metals that are crucial to the global transition and digital transformation**. Considering the region's remarkable potential for renewable energy and abundant mineral resource endowments that are key for the energy-green transition value chains, attractive investment opportunities are growing across the continent including in exploration and extractive mining activities, thus warranting appropriate strategic positioning by African businesses.
- **Specific countries in the region are still facing macroeconomic vulnerabilities** including high levels of debt distress and fiscal constraints.

Potential implications of domestic economic developments

- **The recent improvements in electricity availability – due to improved baseload generation capacity – are encouraging, however uncertainty remains.** The country has recorded 50 consecutive days without load shedding as of 15 May, the longest period of uninterrupted power in almost 3 years. However, uncertainty regarding the durability of the improved performance of Eskom plants remains. The improved electricity availability should be having a positive impact on the South African economy through the reduction of direct costs from lower generator usage and sustained production without undue interruptions. However, the Q1 2024 has shown reduced output levels in manufacturing and mining. This is a reminder that resolving the challenges with the fundamentals of the economy (e.g. the energy reforms) is a necessary but insufficient condition for economic growth.

- **The manufacturing operating environment will be challenging in the short term, however, it remains critical for supporting sustained growth rates.** The challenges facing manufacturing, including infrastructure related constraints, broader competitiveness issues, lower commodity prices affecting basic manufacturing and weak domestic and global demand have implications for the South African economy. Despite the current challenges experienced, manufacturing remains a crucial sector in pulling along growth, with substantial inter-industry linkages (i.e. strong multiplier effects). Business activity in many supplier and supporting industries is associated with the manufacturing sector.

- **A difficult operating environment is anticipated for the mining sector due to weaker demand, logistics constraints and lower commodity prices.** Given that most mining output is destined for deep sea export markets, a concerted effort to address local challenges pertaining to the rail network and inefficiencies at ports is necessary to achieve sustained improved mining performance. The progress in the implementation of structural reforms should support performance of the industry. In January 2024, the DMRE appointed a service provider to design, implement and support a mineral rights system to address the 5 066 backlog of mining and prospecting right permit applications. Implementation of the system is expected within 12 months and would address one of the major hurdles constraining exploration, mine development and growth of the mining industry in South Africa.

- **With household spending likely to remain under pressure in the short-term, consumer markets are expected to continue to face challenges.** Businesses servicing consumer markets may continue to experience relatively weak demand and difficult trading conditions, although a gradual recovery is anticipated over the medium-term as inflation is contained and interest rates are lowered.

- **A gradual expansion of fixed investment activity is anticipated.** The sizeable public sector build programme announced in the 2024 National Budget could play a crucial role in boosting investment activity. The effective roll out of the programme could support the recovery of the construction sector and trigger demand for machinery and equipment, building materials and linked services.

- **Even though further downgrades are not anticipated, South Africa's sovereign credit ratings may remain in sub-investment territory for some time.** Though public finances are forecast to show some improvement over the next three years, principal credit rating agencies may delay adjustments to the ratings and monitor the country's performance against the fiscal metrics, structural reforms, and growth prospects.

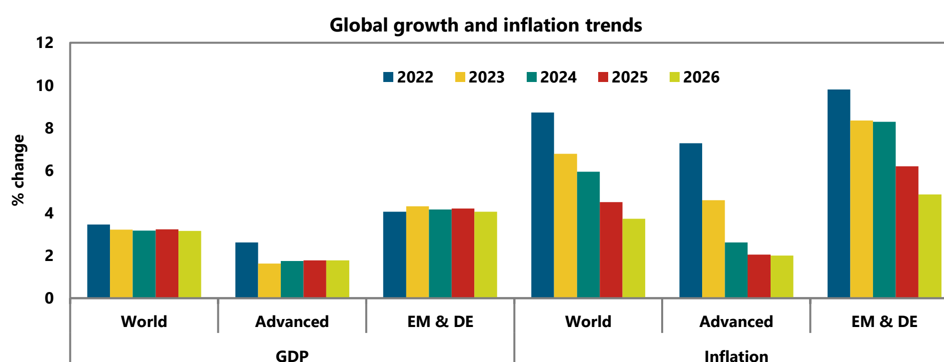
Global economy: Increasingly divergent trends and impacts

Economic performance across the globe is increasing diverging, with world growth anticipated to stagnate

The International Monetary Fund (IMF), in its April 2024 World Economic Outlook (WEO), projects that global growth will remain steady at 3.2% in 2024 and 2025. However, the aggregate masks increasing divergence in performance, principally between advanced and emerging and developing economies (EMDE) but also among countries within these categories. Advanced economies are projected to experience marginal growth from 1.6% in 2023 to 1.7% in 2024 and 1.8% in 2025. Although emerging market and developing economies are projected to post more robust growth of 4.2% both in 2024 and 2025, this is slightly lower than the 4.3% recorded in 2023.

The moderation in inflationary pressures from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025 is related to tighter monetary policy conditions adopted in most countries.

Figure 1: Global growth set to remain stagnant while inflationary pressures ease



Source: IDC, compiled using IMF WEO data

Although global economic growth rates are forecasted to be sustained at 2023 levels, the IMF projects a rebound in the volume of goods and services traded from 0.3% in 2023 to 3.0% in 2024 and 3.3% in 2025. The recovery in global trading activity is projected despite increasing use of trade protection measures deployed by the United States (US) and European Union (EU), especially targeted against Chinese products. The recovery is largely driven by growth in trade within geopolitical blocs.

The performance of the world's largest economies, the US, China, and the European Union, is important for South Africa due to the important trade and investment ties.

The US economy continue to show resilience, with domestic demand and investment major drivers

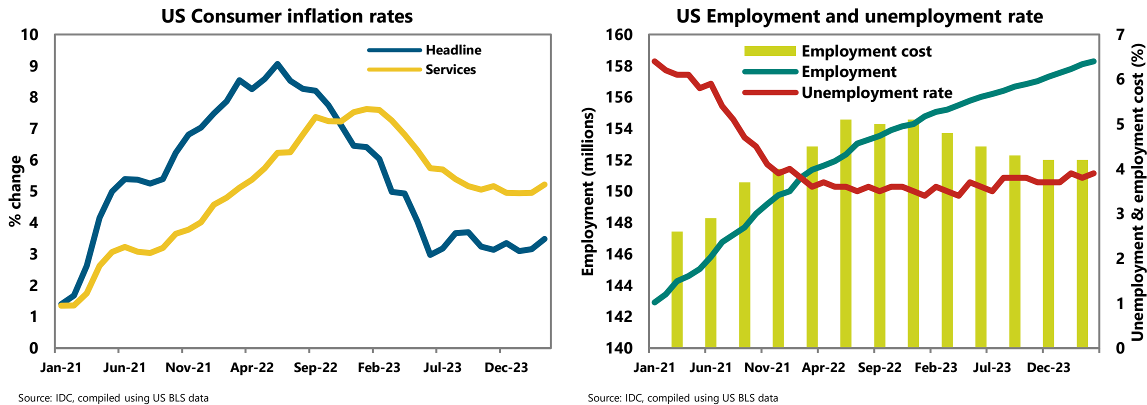
The **United States (US)** economy has proven to be more resilient in the face of the sharp increase in interest rates. However, with growth in the first quarter slowing to 0.4% quarter-on-quarter (not annualised), this is the weakest growth since the second quarter of 2022 when the US was exiting its Covid-related lockdowns. The main drivers of growth were personal consumption expenditure, specifically on services, as well as fixed investment activity, largely in intellectual property and residential property. International trade constrained the growth performance with a strong increase in imports being the main contributor.

The IMF projects that the US economy will record growth of 2.7% in 2024 compared to 2.5% in 2023, while slowing somewhat to 1.9% in 2025. The sustained growth in the US economy is supported by a labour market that remains resilient with unemployment remaining close to record lows. The continued strong labour market is supporting workers' demand for higher salaries and wages, creating a virtuous demand-pull economic cycle.

While a strong labour market underpins robust economic performance it is creating inflationary pressures, which is preventing overall inflation to moderate closer to the US Federal Reserve's target level of 2%. Since the end of 2022 the services inflation rate has

moderated to a lesser extent compared to headline inflation due to the sustained spending of households on services and the tight labour market.

Figure 2: Disinflationary trend in the US limited by a tight labour market



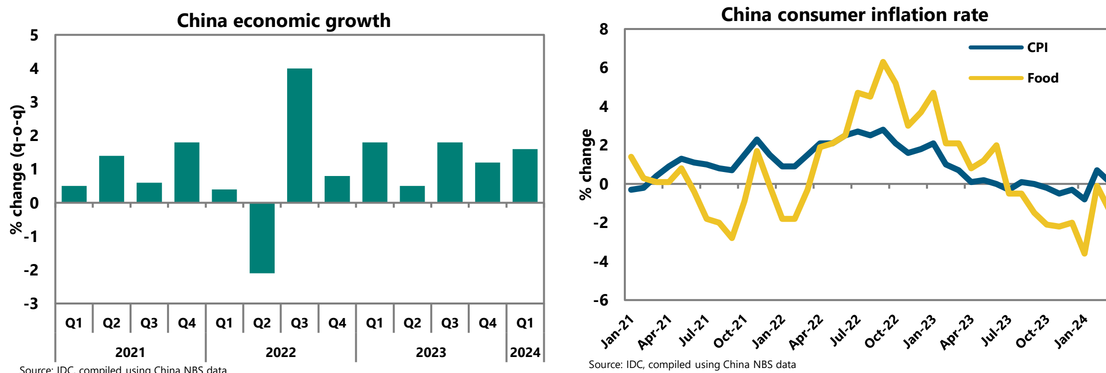
The slower than previously anticipated disinflationary trend has impacted the expected timing of interest rate cuts by the US Federal Reserve. Market expectations are that there might be one or two 25 basis points (bps) cuts in 2024 starting in September. However, the significant uncertainty of the timing and extent of interest rate cuts are reflected in the increased sensitivity of financial markets to all economic and labour data releases.

Significant uncertainty regarding the timing and extent of monetary policy remain

The **Chinese economy** sustained its growth momentum in the opening quarter of 2024, reporting growth of 1.6% quarter-on-quarter. The sustained momentum in Chinese growth is despite the continued difficulties faced by its property sector and more limited infrastructure development, which have been the major growth drivers in recent years. The Chinese government has increased its focus and support to the manufacturing sector, increasing productive capacity levels well beyond domestic Chinese demand, resulting in a significant increase in exports.

The Chinese economy is still maintaining its growth momentum despite severe challenges in its property sector and weak consumer demand

Figure 3: Chinese economic performance supported by manufacturing while deflationary pressures remain



The increase in Chinese production capacity, enabled through government support measures, has triggered increasing concerns about the potential dumping of excess production on global markets, undermining manufacturing sustainability in various countries. Historically, Chinese import penetration in South Africa has been associated with slower sales and employment growth and a higher probability of shutdown of manufacturing firms. It will be important for South African manufacturing firms to invest in skills development, updated production technologies and related process upgrading to remain competitive.

The emerging response strategy to fears of dumping has been the enactment of increased trade barriers for new energy vehicles and clean energy supply chain products amongst other goods, particularly by the US and EU. The effects of the rising tensions between China and two of its main trading partners are significant. For example, US Census Bureau data shows that China's share of US imports has fallen by 8 percentage points (from 22% in 2017 to 14% in 2023). This change in US trading patterns combined with the conditionalities of the Inflation Reduction Act incentives, has created opportunities for increased trade with the US and investment for supply chain diversification particularly for countries with free trade agreements with the US.

The durability of Chinese growth is undermined by the introduction of trade barriers by especially the US and EU

The IMF projects that the Chinese economy's growth momentum will slow from 5.2% in 2023 to 4.6% in 2024, which is below the 5% target set by the Chinese government, and 4.1% in 2025. Since mid-2023 the Chinese economy has experienced bouts of deflation prompting the People's Bank of China (PBoC) to reduce interest rates. The main driver of the deflationary pressure has been food prices, specifically pork prices.

Increased uncertainty regarding economic prospects and persistent deflation have prompted an increase in household savings. Chinese households have increasingly shunned traditional investment assets, namely residential property, and the stock market, instead turning to the purchase of physical gold, through the purchase of bean-sized gold ingots.

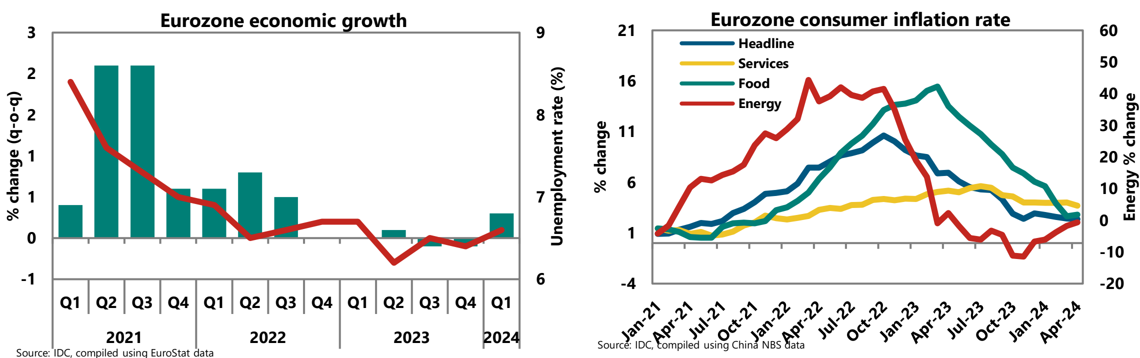
The move away from residential property investments has contributed to the challenges faced by the Chinese property sector. These include debt sustainability difficulties with a large number of property developers having defaulted on their foreign debt obligations, without signs of significant government support, except to ensure projects are completed. Concerns regarding the debt accumulated by regional and local authorities resulted in infrastructure projects being cancelled, further impacting the construction and supplier industries.

Eurozone growth to remain lacklustre as its constituent economies are still recovering from multiple challenges

The **Eurozone** economies have experienced significant challenges in recent years ranging from Covid induced lockdowns, the resultant supply chain challenges and the spike in energy prices following the Russian invasion of Ukraine. The cumulative impact has been weak GDP growth of only 0.4% in 2023. However, with conditions starting to normalise the IMF is projecting growth to accelerate to 0.8% in 2024 and 1.5% in 2025.

The Eurozone emerged from its technical recession in the first quarter of 2024, reporting growth of 0.3%, supported by sustained growth in Ireland (+1.1%) and Spain (+0.7%), while the emergence of growth in Germany (+0.2%), France (0.2%) and Italy (+0.3%) also made a positive contribution.

Figure 4: Weak Eurozone growth and disinflationary trend providing room for interest rate reductions



The sharp increase in fuel and food costs in short succession following the Russian invasion of Ukraine triggered a significant cost of living crisis. Despite a tight employment market, wages did not increase sufficiently to negate the price increases in basic necessities. This

resulted in households reducing their spending activity significantly, impacting overall economic growth.

Weak economic conditions and lower inflationary pressures create room for the ECB to start cutting rates in June 2024

The subdued growth performance and the disinflation trend are providing the necessary room for the European Central Bank (ECB) to potentially start reducing interest rates from June 2024. The ECB has cautioned that rates might not be reduced at each successive meeting, indicating a more gradual decline in interest rates. Lower borrowing cost combined with recent wage increases and muted inflationary pressures, although services inflation remain a concern, will support a recovery in household spending in the Eurozone.

The weaker trade performance globally had a significant impact on the Eurozone, especially the export focussed German economy. The Eurozone trade deficit widened substantially in 2023 to €218 billion, as Chinese manufacturers who invested in increased capacity started seeking export markets to counter muted Chinese domestic demand. The sharp deterioration and the impact this has on manufacturers in the Eurozone has prompted the European Commission to launch anti-dumping probes against Chinese imports. In addition, investigations are underway regarding the potential Chinese state support of Chinese companies that have operations in the wider EU, which is against EU regulations.

Outside of the top three economies, South Africa has important trading relationships with the UK, Japan and India.

Stagflation in the UK does not provide room for the easing of monetary policy

The **United Kingdom (UK)** is facing a variety of challenges, such as a persistently elevated inflation underpinning a cost-of-living crisis as wage increases are constrained and weak economic growth. The stagflation conditions do not allow the Bank of England to reduce interest rates to support economic growth, whereas limited fiscal room does not support stimulatory fiscal spending. The IMF projects UK growth to accelerate from 0.1% in 2023 to 0.5% in 2024, improving further to 1.5% in 2025.

Japan is experiencing inflationary pressures prompting tighter monetary policy

In **Japan**, the persistent inflation currently being experienced, although at much lower levels compared to other advanced economies, is leading to an adjustment in business and consumer behaviour. The tight labour market, a result of a declining population and strict immigration policies, is supporting higher wage increases. Businesses are under pressure as their ability to pass on higher costs are constrained by the yet weak economic conditions. The Bank of Japan (BoJ) increased interest rates in March 2024 to 0.1%, moving interest rates in Japan above zero for the first time since January 2016. Japanese growth is anticipated to remain muted, growing at a rate of 0.9% in 2024, from 1.9% in 2023, and 1.0% in 2025.

The Indian economy is set to sustain its growth performance supported by favourable conditions

The **Indian economy** is continuing on its robust growth trajectory, having expanded by 7.8% in 2023, but it is forecast to slow slightly to 6.8% in 2024 and 6.5% in 2025. Strong growth in the Indian economy is supported by a young and growing population, industrial support measures and a relatively closed economy, making it less exposed to changes in global conditions. Competitiveness in the Indian economy is supported by efforts of global companies to diversify part of their production away from China as well as its large domestic market. Inflationary pressures in India are being kept in check by relatively higher interest rates and the ability to procure Russian oil supplies at below global benchmark costs. The Indian elections currently underway, running from 19 April to 1 June 2024, are anticipated to retain the Modi government, supporting continuity in the country's economic policies.

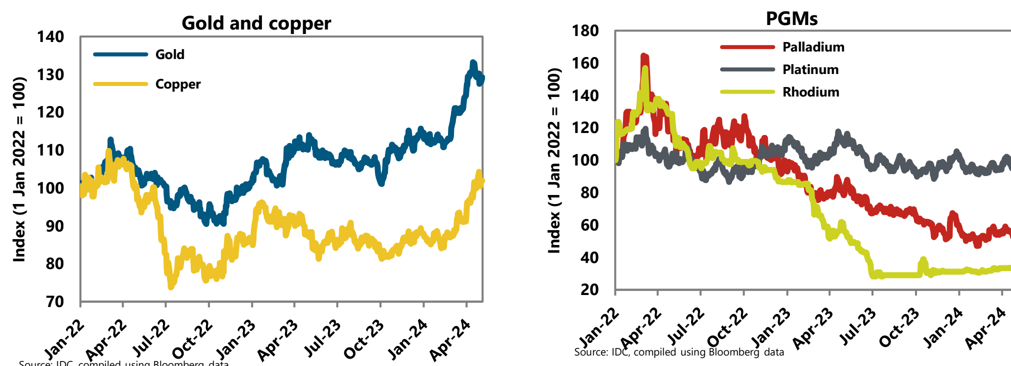
Commodity and financial markets: Balancing uncertainty and optimism

Commodity and financial markets are facing more divergent and specific drivers

The divergence in performance of major economies and challenges faced by consumers and businesses are creating uncertainty for commodity and financial markets, while decarbonisation patterns support optimism for some linked commodities. The higher level of uncertainty and lower consumer sentiment in China are supporting the **gold price**, which has been trading at historic highs in recent months, despite the higher interest rate environment. The changing demand patterns in global automotive markets is making for a difficult trading environment for **platinum group metals (PGM)** such as platinum, palladium, and rhodium. In 2023 there was a marked shift towards battery electric vehicles (BEV), undermining the physical demand for PGMs due to the loss of catalytic convertors.

However, the early part of 2024 has seen a shift towards hybrid-electric vehicles, which continue to use catalytic convertors, setting a floor under PGM prices, but is insufficient to support higher prices.

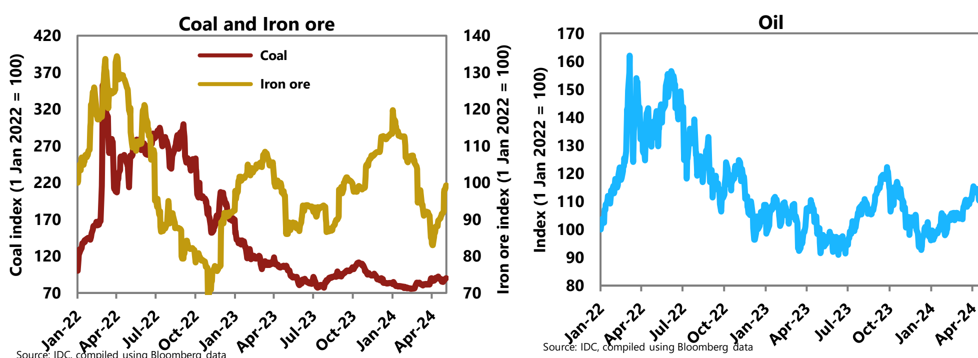
Figure 5: Gold and copper benefitting from physical demand, while PGMs struggle with shifting preferences



The shift to new energy vehicles (NEV), such as hybrid-electric and BEVs, in conjunction with the increasing roll-out of renewable energy (RE) generation across large parts of the world is supporting the price of **copper,** which has increased significantly in recent months, especially as mine supply is constrained. With the price of copper increasing rapidly, alternatives for copper, mainly aluminium, in especially electricity transmission applications are introduced. This has supported an increase in aluminium prices.

Iron ore and coal prices have returned to more normal levels after having recorded sharp price increases in 2021 and 2022**,** respectively. Iron ore is being constrained by the relative weakness in Chinese demand, while lower natural gas prices and the roll-out of RE projects are limiting the demand for coal.

Figure 6: Industrial and energy commodity prices are normalising as previous shocks have been digested



Oil prices increased significantly in the wake of the Russian invasion of Ukraine, however, despite the sanctions imposed on Russian oil and increased regional tensions in the Middle East the oil price remained at more muted levels in recent months. This reflects the impact of significantly higher production in non-OPEC countries such as the US, Canada, and Guyana, among others.

In financial markets, bonds and equities, have recorded increased volatility in the face of a more uncertain economic environment. Markets are increasingly sensitive to economic indicators such as GDP growth, inflation, employment, and wage increases. Investors have increasingly moved their holdings to perceived safe-haven assets such as those in the US and to a lesser extent the Eurozone, away from emerging markets, notably China. Still high volatility in financial and commodity markets can be anticipated to persist until more certainty regarding the growth performance of major economies emerge.

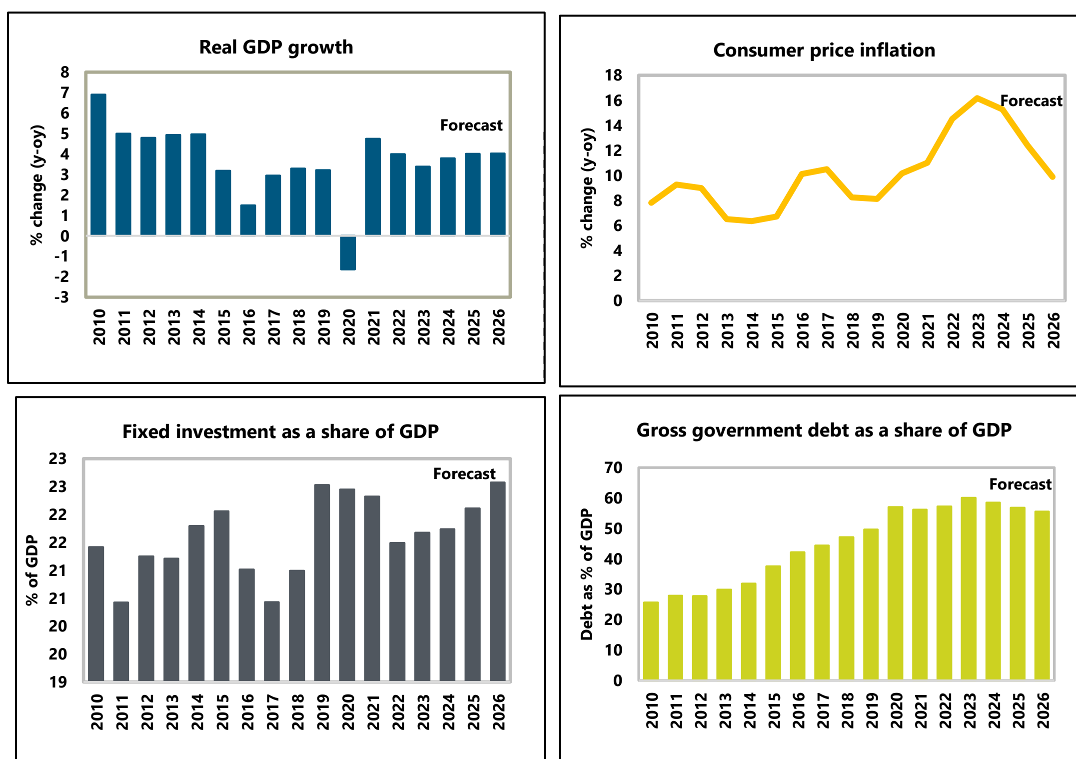
Sub-Saharan Africa anticipated to pick up from 2024

Following a modest slowdown in economic performance in 2023, growth in the sub-Saharan African (SSA) region is expected to pick up from 2024 onwards, moving to just above the annual average rate of 4% over the next few years. However, growth in the region's two largest economies, Nigeria (3.3% in 2024) and South Africa (0.9% in 2024), is expected to lag the rest of the region, albeit less of a drag than in 2023. Latest forecasts from the IMF (April 2024) anticipate regional economic growth of 3.8% and 4.0% in 2024 and 2025 respectively, from 3.4% in 2023

Regional economic growth expected to accelerate in 2024 to 3.8% and remain relatively strong over the next few years at projected rates of just above 4%.

Although not out of the woods yet, there are tentative signs to be optimistic about the region. On an aggregated level, the SSA region's economic outlook is improving across various key indicators. GDP growth is expected to gain momentum, inflation is trending downwards, fixed investment activity is anticipated to improve, while the public debt-to-GDP ratio is forecast to gradually reduce over the period to 2026.

Figure 7: Sub-Saharan Africa's economic outlook improving across key indicators



Source: IDC, compiled using IMF data

However, the positive outlook will vary widely across the region's economies and other regional groupings and is also subject to various risks, which may weigh down on economic activity. As a group, non-resource-intensive countries are expected to be the fastest growing, with growth of 5.7% and 6.1% in 2024 and 2025, respectively. Combined, the resource-intensive countries, which are largely dependent on mineral and metal resources, including the likes of Angola, Nigeria, Botswana, Democratic Republic of the Congo (DRC), Ghana and Zambia, amongst the others, are projected to post average annual growth rates of 3.0% in 2024 and 3.2% in 2025. Risks to the region's macroeconomic outlook include shocks emanating from the global economy, including weaker performances of its key trading partners such as China and the EU and heightened geopolitical risks, as well as rising political instability and insecurity in some parts of the region, and climate-related shocks (which are becoming more frequent and severe).

Non-resource intensive economies such as Senegal, Rwanda, Côte d'Ivoire, Ethiopia, and Uganda to post strong growth

Notwithstanding the strides that have been made over the past few years, the region's economic performance continues to be closely connected to global developments,

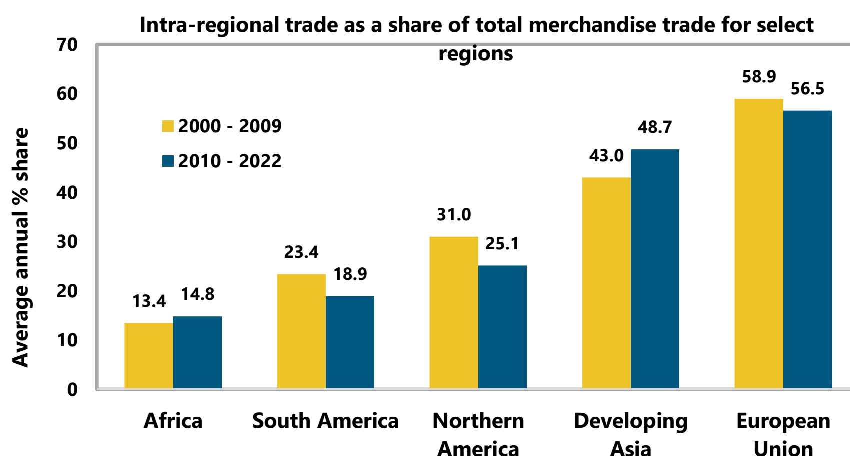
particularly on the fortunes of and developments in its major trading, investment, and development partners, which have been less favourable in recent years.

Given the region's persistent vulnerabilities to a world that is becoming more prone to shocks, ambitious reforms are necessary to strengthen its resilience and raise its growth potential. In its latest regional outlook report, the IMF suggests some targeted policy priorities in this regard, including the acceleration of economic diversification, the development of new industrial capabilities and effective implementation of the African Continental Free Trade Area to enhance deeper regional integration that will not only build a 'larger and more connected market' but boost the region's attractiveness to potential investors, provide much-needed stimulus to regional economic expansion in the years ahead and increase the economies' resilience to external shocks and risks.

Intra-regional trade stood at only 13.6% in 2022. Effective and accelerated implementation of the AfCFTA is imperative for deeper regional integration and SSA's resilience.

Vulnerabilities to global shocks continue to reinforce the imperative of boosting intra-regional trade in Africa, which remains very modest when compared to other regions of the world. According to UNCTAD, only 13.6% of Africa's total merchandise trade was of an intra-regional nature in 2022 or about 14.8% on average, during the 2010-2022 period. This compares with about 19% in South America, 25% in North America, almost 50% in developing Asia and 56.5% amongst the members of the European Union, over the same period.

Figure 8: Africa's relatively low intra-regional trade could be enhanced by the AfCFTA



Source: IDC, compiled using UNCTAD data

Foreign direct investments (FDI) could play a critical role in providing a more affordable and stable alternative source of funding (particularly in the current environment characterised by higher borrowing costs and fiscal constraints), while at the same time providing technology access and job creation. The region presents unparalleled investment opportunities, considering its enormous endowment of mineral resources that are key for the green transition.

The private sector can tap into the potential benefits of the AfCFTA which are expected to be brought about by the accelerated rollout of key initiatives and mechanisms and various operational tools aimed at facilitating the start of preferential trade under the AfCFTA. South Africa commenced its preferential trade under the AfCFTA in January 2024 by shipping its first consignment of 'industrial goods' destined to Ghana and Kenya, which are outside SADC – South Africa's key export market for its goods (See *IDC's February 2024 Economic Overview* report). Though South Africa already exports to these markets, albeit limited, trade is now benefiting from lower tariffs, which supports competitiveness of South African goods in these markets.

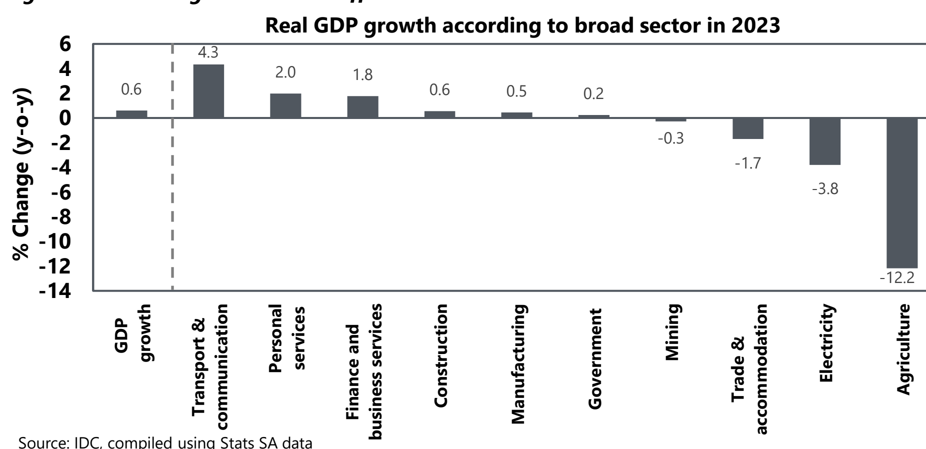
South African economy reflecting challenging conditions

Economic performance

SA economy affected by several headwinds, with a sharp growth moderation in 2023

South Africa's economic performance has been adversely affected by several headwinds in 2023 including infrastructure related constraints (such as the worst electricity supply interruptions on record), challenges on the rail network, and inefficiencies at ports. In addition, lower commodity prices and worsening domestic and international demand conditions, and challenging trading conditions further impacted the growth performance. In 2023, real GDP growth moderated sharply to just 0.6%, compared to 1.9% in 2022 and 4.7% in 2021. At a sectoral level, the agriculture sector experienced the poorest performance.

Figure 9: Subdued growth under difficult conditions



Source: IDC, compiled using Stats SA data

The delivery of much-needed structural reforms, along with greater policy certainty and implementation and combating crime and corruption, among other factors, are required to create a more enabling operating and trading environment.

Trends in GDP per capita and disposable incomes reflective of poor economic performance

The poor performance of the South African economy in recent years has been reflected in a decline in the real GDP per capita. By 2023, GDP per capita (at 2015 prices) was 5.9% lower than in 2013 and stood at R75 458, compared to R80 191 in 2013. This trend, along with very modest growth in real disposable income per capita of households over the same period is a clear indication of worsening living standards for the South African population in general.

Sectoral performances

Manufacturing sector is not able to raise output on a sustained basis.

Manufacturing output increased by a modest 0.5% in 2023 (-0.3% in 2022), though several sub-sectors are not able to raise output on a sustained basis. However, this recovery appears to have been short-lived considering that manufacturing output declined sharply in March 2024 by -6.4% on an annual basis, while production volumes for Q1 2024 were marginally lower than a year ago. The contraction in output was recorded despite increased electricity availability in Q1 2024. Key sectors such as motor vehicles, as well as parts and accessories for motor vehicles, recorded sharply lower output (on a year-on-year (y/y) basis) at -6.9% and -21.7%, respectively, in Q1 2024. In addition, general purpose machinery (-12.3%), special purpose machinery (-8.9%); as well as other textiles (-10.0%), footwear (-11.2%) and rubber products (-5.6%), were among those sub-sectors that also recorded sharply lower output. The contraction in output is in part a result of weaker domestic and international demand.

Despite modest output growth and ongoing infrastructure related challenges, fixed investment by the manufacturing sector increased at a robust pace of 7.2% in 2023 (+8.2% in 2022). This may be linked to capital spending for investing in own energy generation, repairs and maintenance, technology upgrades, and the need to remain competitive.

Mining output at historical lows, with output declining further in 2023

The **mining sector** recorded a modest contraction of 0.3% in real GDP during 2023, following sharply lower output in 2022 (-7.2%), with global and domestic factors constraining production activity. In Q1 2024, output declined by a further 1.7% (q/q), with only two sub-sectors, namely iron ore (+16.7%) and diamonds (+2.2%), reporting higher production volumes. Lower output was recorded for the following key commodities: PGMs (-5.5%), coal (-3.3%) and gold (-2.9%). In addition, nickel (-21.8%), copper (-17.6%) and manganese (-4.8%) also recorded a drop in production volumes. Excluding the crisis-period of 2020, output is at historical lows, reflecting ongoing challenges encountered by mining companies to maintain production. Lack of investment, infrastructure constraints, weak demand, lower commodity prices, rising operating costs and low sentiment are all affecting activity in the mining sector.

Agriculture output sharply lower, while drought conditions may affect activity in the current season

Agriculture GDP (in real terms) contracted by 12.2% in 2023, as activity in the livestock and poultry industries, as well as horticulture, faced severe challenges. The sharp drop in output was mirrored by a steep decline in confidence among the broader agri-business sectors. Despite policy uncertainty and infrastructure-related challenges, fixed investment activity has been on a steady up-trend over the past decade, with a focus on increased mechanisation.

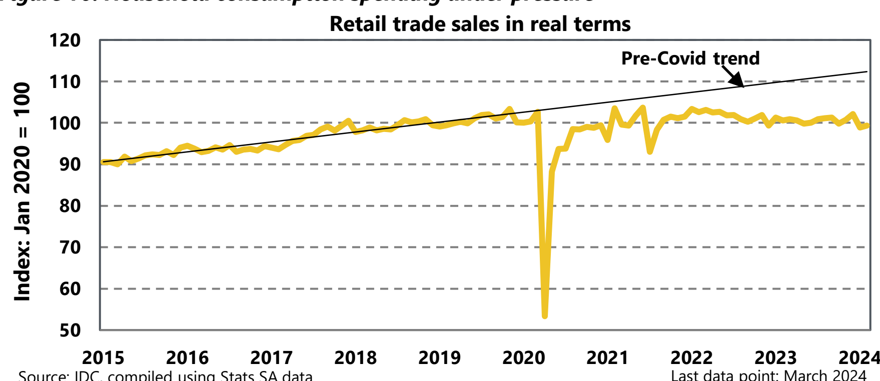
Drought conditions associated with the El Niño cycle in several parts of the country's grain-growing regions are affecting crops in the 2023/24 season. This could result in a sharp drop in many summer crops, such as maize, with estimates of a total crop of 13.4 million tons, being 18.5% lower than in the preceding year. In addition, the soybeans crop is expected to fall by 34.5%, while sunflower seeds are estimated to be 14.6% lower.

Difficult consumer environment reflected in poor performance in retail trade sales

Retail trade sales (in real terms) declined by 0.9% in Q1 2024 (on a quarter-on-quarter basis), with spending on textiles, clothing, footwear, and leather products sharply down by 8.9%. The quarterly decline is despite a 1.4% increase in March 2024 (month-on-month). Moreover, retail trade sales dropped by 1.0% in 2023, as households are taking severe strain. In real terms, disposable incomes of households declined by 0.3% in 2023; debt service costs as a share of disposable incomes increased by 8.8% in nominal terms; arrears in debt repayments are on the rise; demand for credit by households (in real terms) has declined for the past six months, whereas household’s net savings have fallen to their lowest level in ten years (i.e. dissaving of R36.9 billion in 2023).

Households are feeling the impact of high interest rates, cost of living pressures; difficulty in accessing, as well as the affordability of new credit; high unemployment and weak employment prospects; along with stretched balance sheets, which all contribute to low consumer sentiment. At a reading of -15 in Q1 2024, sentiment is well below the long-term average (-1.3).

Figure 10: Household consumption spending under pressure



Hence, consumers may refrain from spending on luxury items (e.g. motor vehicles, furniture) especially in the short-term, as they struggle to cover their day-to-day expenses. Low- and medium-income earners are most affected, although many households are buckling under a high debt burden.

Even though overall consumer price inflation has fallen back into the target band since June 2023, key items in the consumer basket (such as food and energy prices), remain at elevated levels, adding pressure on disposable incomes of households. Only once price pressures subside and interest rates are lowered, will consumer spending gain a firmer momentum. As household finances may take time to recover and adjust to a lower interest rate environment, the up-tick in consumption expenditure is only expected from 2025 onwards.

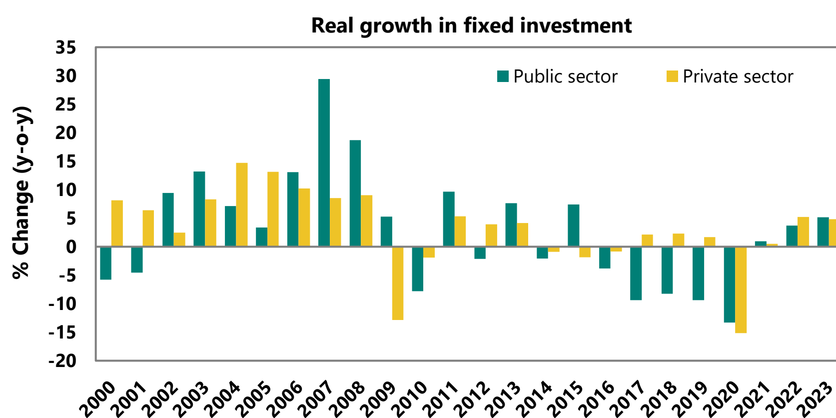
Fixed investment

Fixed investment has rebounded, but challenges remain

Fixed investment increased by a further 4.2% in 2023, following a robust 4.8% expansion in 2022, albeit from a very low base. Of some concern is the loss in momentum in the second half of 2023 as real capital outlays declined by 3.8% and 0.2% (on a quarter-on-quarter basis) in Q3 and Q4, respectively. Private sector fixed investment increased at a robust pace of 4.9% in 2023 (+5.2% in 2022), with investment in own electricity generation and road transport equipment likely to have made a strong contribution.

From a sectoral perspective, capital outlays were particularly strong in the case of trade, catering and accommodation (+15.0%); construction (+14.6%); manufacturing (+7.2%), as well as the 6.5% increase in the transport, storage and communication sector. Even though the electricity, gas and water sector recorded a strong increase of 8.6% in 2023, this comes off a very low base, considering that investment declined over the period 2016 to 2022. Moreover, the quantum of real capital spending by this sector in 2023 was 56% lower than its peak in 2013.

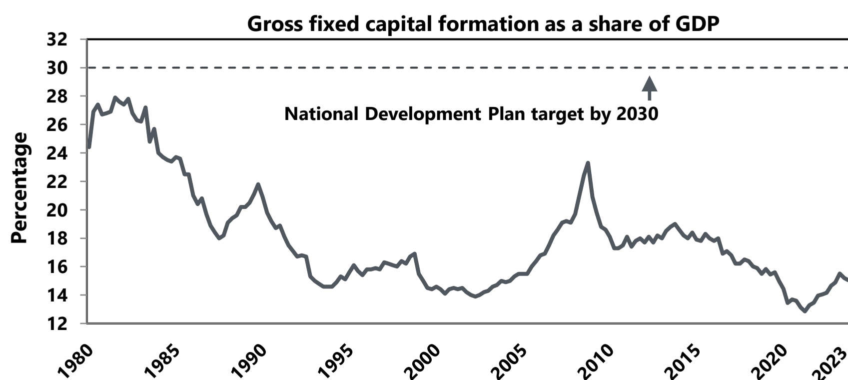
Figure 11: Fixed investment on a gradual recovery path



Source: IDC, compiled using SARB data

Although capital expenditure has been on a steady recovery over the past three years, it remains insufficient to lift economic growth to a much faster and sustained pace of expansion.

Figure 12: Subdued fixed investment activity over a prolonged period



Source: IDC, compiled using SARB data

Last data point: Q4 2023

The share of fixed investment in overall nominal GDP increased to 15.2% in 2023 after having fallen to a record low of 13.2% in 2021. Nonetheless, this ratio remains well below the 30% required (as per the National Development Plan) to significantly improve the capabilities of the South African economy to compete globally.

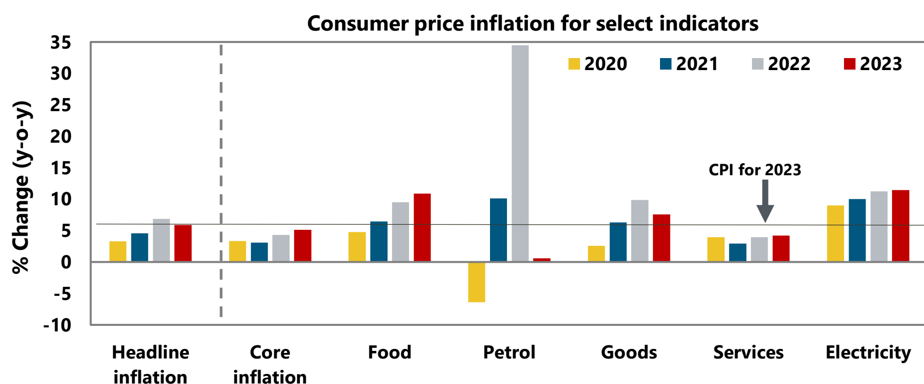
Inflation and interest rates

Inflation remaining sticky and delaying monetary policy easing

Consumer price inflation moderated from 6.9% in January 2023 to a low of 4.7% in July 2023, before increasing again to 5.3% in March 2024. Moreover, inflation has averaged 5.9% in 2023 (6.9% in 2022). Core inflation (i.e. excluding volatile fuel and food prices), remained fairly contained throughout 2023 at an average rate of 4.8%, but declined to 4.4% in October, before edging higher to 4.9% in March 2024.

However, households are feeling the cost-of-living pressures as a result of elevated prices of key consumer items such as food and electricity, which increased by an average of 10.9% and 11.4%, respectively, in 2023, being substantially faster than headline inflation and wage increases.

Figure 13: Key elements of consumer inflation still rising at a fast pace



Source: IDC, compiled using Stats SA data

In the short-term, however, higher oil prices and severe drought conditions in certain parts of the country (which are affecting summer crops and subsequently also prices), as well as an undervalued exchange rate, could exert renewed inflationary pressures. The up-tick in services inflation is also of concern, as it increased from a low of 3.8% in October 2023 to 5.0% by March 2024. Moreover, producer prices also edged slightly higher in March to 4.6% (+4.5% in February), confirming that the fight against inflation may not be over yet.

The South African Reserve Bank (SARB) will keep a close eye on local inflation developments, as well as on monetary policy actions elsewhere in the globe, before deciding on when to start lowering the repo rate.

Employment

Job creation affected by sub-optimal rates of economic growth

South Africa's economy is not able to create sufficient jobs for new entrants into the labour market. Although all COVID-related job losses (i.e. 2.1 million jobs) have been regained, the long-term employment trend is reason for concern.

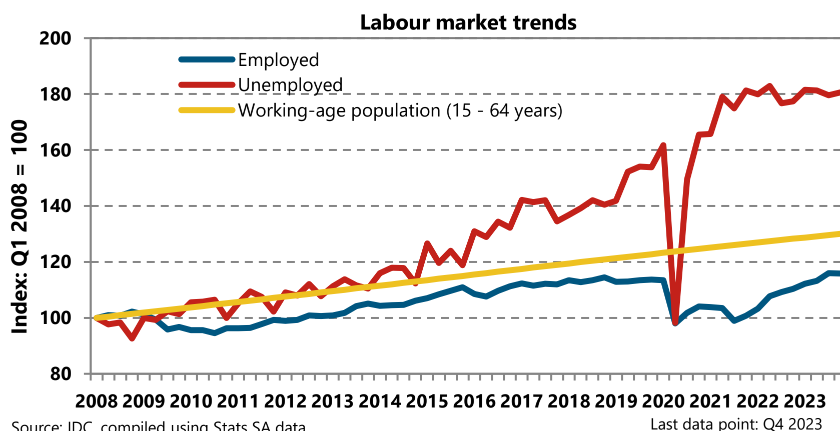
Over the past decade (i.e. 2013 to 2023), total employment in the formal and informal sectors increased by just 1.5 million to 16.7 million by Q4 2023. However, the number of unemployed rose sharply by 3.1 million over this period to 7.9 million in Q4 2023, as the working age population (15 to 64 years) had risen by 6.0 million people to 41.0 million by the end of 2023. In addition, discouraged work-seekers increased by 848 000 to just more than 3.0 million over this review period.

Thus, only about 26% of all new entrants into the labour market were able to find a job over the past 10 years. Put differently, over the period 2013 to 2023, employment rose by only

10.2%, while the working-age population (i.e. 15 to 64 years) increased substantially faster at 17.1% over this reference period. Consequently, the number of unemployed people was a staggering 63.5% higher than 10 years ago.

Furthermore, in Q1 2024, the unemployment rate increased to 32.9%, with an additional 330 000 unemployed people on a quarterly basis and 8.2 million people not able to find work. South Africa's unemployment rate is among the highest in the world, and subdued growth prospects over the next few years will not meaningfully change the current labour market dynamics.

Figure 14: Economic growth insufficient to provide jobs to all new entrants into the labour market



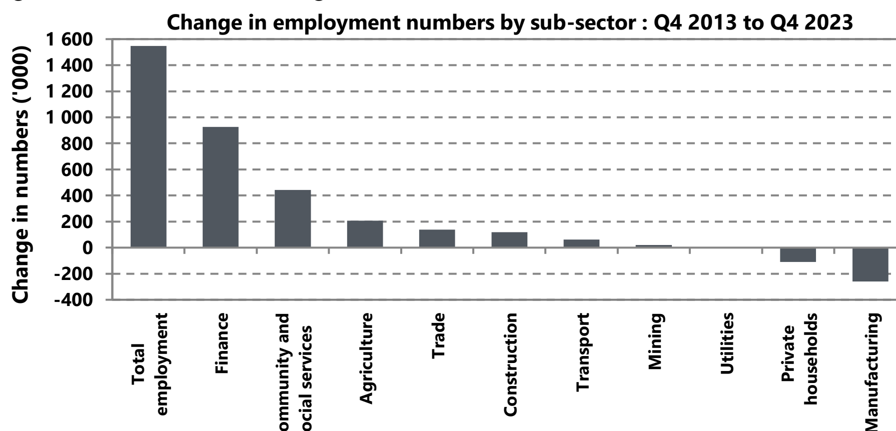
Source: IDC, compiled using Stats SA data

Last data point: Q4 2023

Manufacturing sector not able to create new jobs

From a sectoral perspective, finance and business services (+926 310) and community and social services (including government), with an additional 442 790 jobs, were the main contributors to the 1.55 million jobs created over the past decade (2013 to 2023). The manufacturing sector, in turn, has reported 259 054 job losses, while private households now employ 110 231 fewer people than in 2013.

Figure 15: Job creation according to broad economic sector



Source: IDC, compiled using Stats SA data

Faster rates of growth on the back of higher levels of fixed investment are required to create more jobs

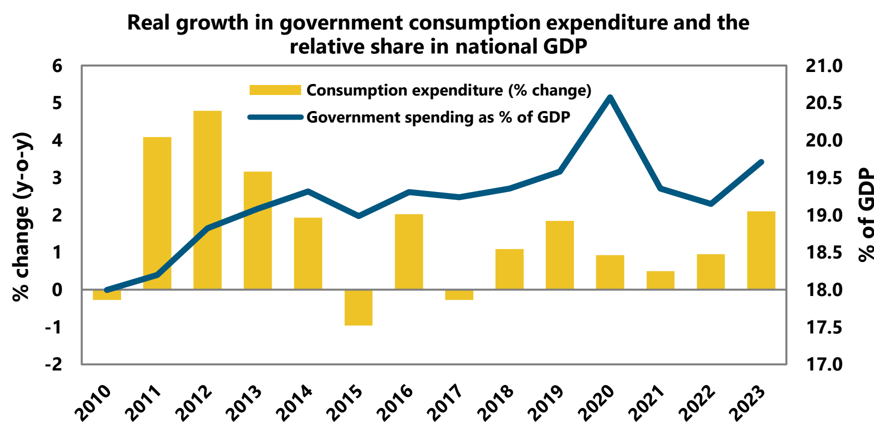
South Africa, therefore, needs rapid economic growth over a prolonged period, with substantially higher levels of fixed investment and a significant increase in the economy's labour absorption capacity (targeting more labour-intensive sectors), to be able to create sufficient jobs on a sustainable manner for an increasing labour force. Without success in this regard, South Africa will not be able to meaningfully reduce the high levels of unemployment, while poverty and inequality will remain key social challenges.

Public finances

The government's real consumption expenditure increased at a robust pace of 2.1% in 2023, well above overall GDP growth of 0.6%, in a year that it had committed to fiscal consolidation. Consequently, government spending accounted for 0.4 of a percentage point of total GDP growth in 2023, while having claimed a share of 19.7% (in nominal terms) of national GDP. Excluding the COVID-pandemic period (2020), the relative share of government consumption expenditure in national GDP was at a record high in 2023.

Government consumption expenditure increasing at a strong pace

Figure 16: Government consumption expenditure gaining stronger momentum



Source: IDC, compiled using Stats SA data

South Africa's fiscal situation is being aggravated by subdued growth, the adverse effects of failing infrastructure that limit economic activity and potential government revenue, while bailouts of SOEs also add to deteriorating public finances. A widening budget deficit was recorded over time as expenditure continuously exceeded revenue, with the budget deficit as a ratio of GDP having measured -6.0% in calendar 2023, compared to -3.5% in 2018.

Public finances have deteriorated substantially in recent years

Overall government debt has been on a steep upward trajectory and as a ratio of GDP increased to 73.9% by Q4 2023, substantially higher than the 51.5% at the end of 2018. However, government debt is forecast to peak at 75.3% of GDP in 2025/26 (according to the 2024 National Budget estimates), and to moderate thereafter.

Looking ahead, public finances are expected to show some improvement in terms of a narrowing budget-deficit-to-GDP ratio and a lowering of the debt-to-GDP ratio, considering that government is tapping into the gold and foreign exchange contingency reserve account (GFECRA) in the amount of R150 billion over the period 2024/25 to 2026/27. Tapping into GFECRA is only a temporary solution, with fiscal reforms critical for long-term sustainability of public finances in an anticipated low-growth environment over the next couple of years.

GFECRA only a temporary solution, with urgent need for critical fiscal reforms

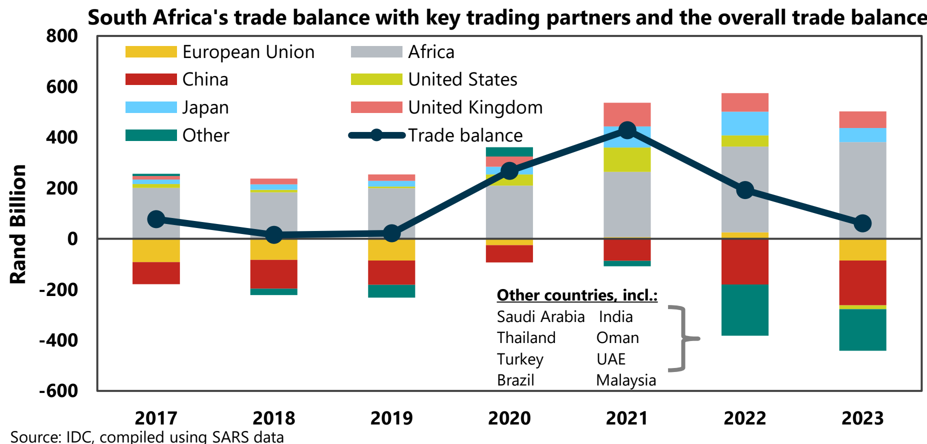
External trade analysis

South Africa's trade surplus declined further to R61.0 billion in 2023 (+R192.0 billion in 2022), with a sharp drop in mining and mineral exports (-10.4%) behind this deteriorating merchandise export performance. Manufactured exports expanded by 10.6%, whereas that of agriculture was 14.0% higher in 2023. Growth in total exports, however, moderated to just 1.4% in nominal values during 2023, from 11.2% in 2022.

Narrowing of the trade surplus mainly due to weak mineral exports

The drop in mining and mineral products is a combination of lower commodity prices (mainly the 55% drop in coal prices), as well as reduced volumes. Moreover, coal volumes fell by 5.8% in 2023, while PGM export volumes were 7.5% lower. In nominal value terms, coal exports declined by 37.5% to R141.3 billion in 2023, whereas PGM exports were 27.6% lower at R197.6 billion.

Figure 17: Trade surplus has narrowed as import demand outpaced exports



Source: IDC, compiled using SARS data

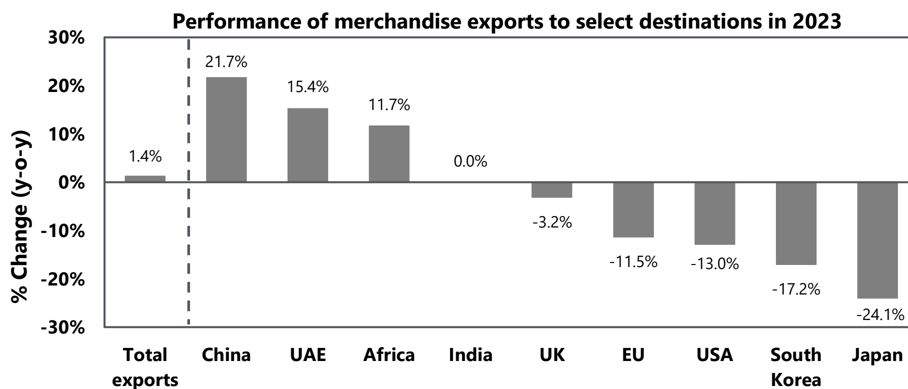
SA economy reliant on imports to meet domestic demand

Despite subdued domestic economic growth, merchandise imports increased by 8.7% in nominal value terms, reflecting the ongoing reliance by the South African economy on imports to meet local demand. Higher imports were underpinned by strong increases in machinery and equipment, motor vehicle parts and crude oil, among others.

South Africa's balance of trade with its key trading partners recorded a large surplus in the case of Africa (R380.8 billion), the UK (R65.5 billion) and Japan (R55.9 billion) during 2023. However, trade deficits were recorded with China (-R176.6 billion), the EU (-R86.1 billion) and the US (-R14.4 billion).

From a destination market perspective, export performance has been mixed with some of the contraction attributable to normalisation following the 2022 trade shock triggered by the Russian invasion of Ukraine.

Figure 18: A mixed export performance by destination



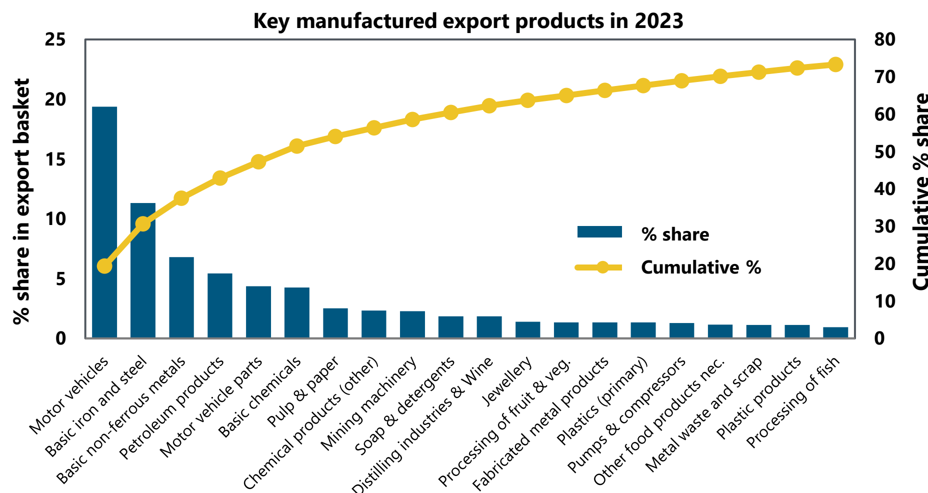
Source: IDC, compiled using SARS data

A highly concentrated manufacturing export basket

Even though manufactured exports increased at a strong pace (+10.6%) in 2023, accounting for just more than 53% of all merchandise exports, the export basket is highly concentrated. Out of a total of 120 manufacturing sub-sectors, the top-20 accounted for 73.3% of all exports of locally manufactured goods.

The largest export category is motor vehicles, with a 19.4% share, followed by basic iron and steel (11.3%), basic non-ferrous metal products (6.8%), petroleum products (5.4%), parts for motor vehicles (4.4%) and basic chemicals at 4.3%. Combined these sectors took a share of 51.5% in the manufactured exports basket, illustrating South Africa's significant reliance on only a few sectors for its manufacturing exports.

Figure 19: A highly concentrated manufactured export basket



Source: artners, compiled from SARS data

Agriculture exports accounted for a 6.6% share in the overall merchandise export basket in 2023, with an increase of 14.0% to R134.2 billion. The European Union was the main destination, with exports in nominal values at R32.4 billion or 24.2% of all agriculture exports. Citrus dominated the exports basket to the EU at 37.2%, followed by grapes (21.1% share). The top-10 agriculture exports to the EU claimed a share of 90.8% in 2023.

The EU s is the key market for SA's agriculture exports

Considering the relatively subdued growth outlook for the South African economy over the medium-term, many companies are likely to target the export market to sell their products. However, South Africa will urgently need to find ways to diversify the export basket in terms of the product mix (specifically manufactured goods), as well as from a regional perspective to take advantage of stronger growth in non-traditional external markets, including African countries beyond SADC. Moreover, local companies will need to raise the level of competitiveness in order to reduce the country's high import reliance.

A diversification of the export basket is required to raise exports beyond traditional external markets

South Africa's manufactured exports to Africa

The African continent is a key market for South Africa's manufactured exports, having claimed a 41.1% share (after having peaked in 2013 at 45.8%) of total manufactured exports of R1 087.6 billion in 2023. In 2023, manufactured exports to the continent amounted to R447.2 billion, compared to R239.0 billion a decade ago. Exports of manufactured goods to Africa are dominated by machinery and equipment (e.g. mining and construction machinery), processed food, iron and steel, petroleum and chemical products (e.g. soaps and detergents, pharmaceuticals), as well as motor vehicles.

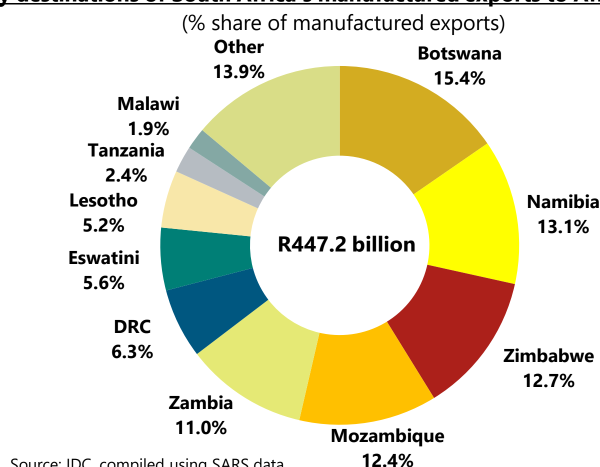
Africa is a key market for SA's manufactured exports

Figure 20: Manufactured exports to Africa on the increase

Source: IDC, compiled using SARS data

The key destinations for manufactured products were countries within the SADC region. Botswana, with a share of 15.4% or exports valued at R68.8 billion, Namibia (13.1%), Zimbabwe (12.7%), Mozambique (12.4%) and Zambia (11.0%), were the principal export destinations in 2023. Combined, these 5 countries accounted for almost 65% of all South Africa's manufactured exports to countries in Africa, having totalled R289.1 billion in 2023. Moreover, the ten main export destinations (as per the chart below) accounted for 86.1% of all South Africa's exports of manufactured goods to Africa.

Figure 21: SADC countries dominate manufactured exports to Africa



The export basket to Botswana is dominated by petroleum and related products with a value of R16.9 billion or a share of 24.5% of all manufactured exports. This was followed by motor vehicles (5.9%); soaps, detergents, cleaning preparations, perfumes (3.6%); basic iron and steel (3.6%), as well as machinery and equipment (2.8%). These five products accounted for a cumulative share of 40.5% in the export basket. Important to note is that the entire manufactured export basket comprises of 120 sub-sectors at the 4-digit SIC level.

Similarly, for Namibia, the top-5 export categories accounted for 25.2% of the export basket and in the case of Zimbabwe it was 33.0%. The composition of South Africa's manufactured export basket to its top-10 destinations in Africa in 2023 are illustrated in the table below.

Table 1: Sectoral composition of South Africa's manufactured export basket to Africa in 2023

South Africa's manufactured exports to key destinations in Africa in 2023
(top-5 export products at the 4-digit SIC level)

Rank	Botswana: Total exports: R68.9 bn	Exports (Rand Billion)	% share	Namibia: Total exports: R58.5 bn	Exports (Rand Billion)	% share
1	Petroleum & related products	16.9	24.5%	Motor vehicles	6.2	10.5%
2	Motor vehicles	4.1	5.9%	Soap, detergents, cleaning, perfumes	2.5	4.3%
3	Soap, detergents, cleaning, perfumes	2.5	3.6%	Machinery for mining & construction	2.3	4.0%
4	Basic iron and steel	2.5	3.6%	Pharmaceuticals, etc	1.9	3.3%
5	Machinery for mining & construction	1.9	2.8%	Wearing apparel; excl. fur apparel	1.8	3.1%
Rank	**Zimbabwe: Total exports: R56.9 bn**	**Exports (Rand Billion)**	**% share**	**Mozambique: Total exports: R55.6 bn**	**Exports (Rand Billion)**	**% share**
1	Motor vehicles	4.6	8.1%	Basic iron and steel	21.5	38.8%
2	Petroleum & related products	4.2	7.4%	Soap, detergents, cleaning, perfumes	2.4	4.3%
3	Basic iron and steel	3.5	6.2%	Other food products nec.	2.2	3.9%
4	Soap, detergents, cleaning, perfumes	3.5	6.2%	Motor vehicles	1.6	2.9%
5	Machinery for mining & construction	2.9	5.0%	Machinery for mining & construction	1.3	2.4%
Rank	**Zambia: Total exports: R49.3 bn**	**Exports (Rand Billion)**	**% share**	**DRC: Total exports: R28.2 bn**	**Exports (Rand Billion)**	**% share**
1	Motor vehicles	3.9	7.9%	Machinery for mining & construction	3.2	11.3%
2	Fertilisers and nitrogen compounds	3.3	6.7%	Pumps, compressors, taps & valves	2.7	9.7%
3	Machinery for mining & construction	3.1	6.4%	Petroleum & related products	1.6	5.6%
4	Plastics in primary form	2.4	4.8%	Basic iron and steel	1.5	5.3%
5	Basic iron and steel	2.3	4.6%	Grain mill products	1.3	4.8%
Rank	**Eswatini: Total exports: R25.2 bn**	**Exports (Rand Billion)**	**% share**	**Lesotho: Total exports: R23.1 bn**	**Exports (Rand Billion)**	**% share**
1	Petroleum & related products	4.3	17.2%	Petroleum & related products	4.3	18.5%
2	Motor vehicles	1.2	4.6%	Grain mill products	1.4	6.0%
3	Plastic products	1.1	4.2%	Motor vehicles	1.1	4.9%
4	Grain mill products	0.9	3.4%	Slaughtering, processing of meat	1.1	4.6%
5	Vegetable & animal oils & fats	0.7	2.9%	Spinning & weaving of textiles	0.8	3.7%
Rank	**Tanzania: Total exports: R10.8 bn**	**Exports (Rand Billion)**	**% share**	**Malawi: Total exports: R8.7 bn**	**Exports (Rand Billion)**	**% share**
1	Basic iron and steel	1.8	17.0%	Plastics in primary form	0.9	9.8%
2	Motor vehicles	1.3	11.9%	Motor vehicles	0.7	8.1%
3	Distilling industries	0.9	8.8%	Soap, detergents, cleaning, perfumes	0.5	6.1%
4	Other chemical products, nec.	0.6	5.3%	Basic iron and steel	0.5	5.4%
5	Machinery for mining & construction	0.5	4.7%	Other chemical products, nec.	0.3	3.9%

Source: IDC, compiled using SARS data

Growth outlook for the South African economy

Global and domestic factors are likely to weigh on the performance of the South African economy, with real **GDP growth** of just 0.8% forecast for 2024, edging higher to 1.4% in 2025. On average, subdued economic growth of only 1.6% per annum is forecast over the period 2024 to 2028.

Economic growth is projected to gain some momentum towards the latter part of the outlook period as household spending and fixed investment activity adjust to a lower inflation and interest rate environment. Furthermore, implementation of reforms in the energy and logistics sectors may also contribute to stronger growth in the outer years of the forecast period.

Even though job creation is forecast to pick-up over the outlook period, the pace of economic growth remains sub-optimal to reduce the high levels of unemployment and to address other social challenges (e.g. poverty; inequality). Considering several headwinds facing the global and domestic economies, risks to this growth outlook are believed to be on the downside.

Table 2: Projections for key performance indicators of the South African economy

Variable (% change or % of GDP)	2019	2020	2021	2022	2023	2024f	2025f	2026f	2027f	2028f
Real GDP growth and its components:										
Household consumption expenditure	1.3	-6.1	5.8	2.5	0.7	1.0	1.8	2.0	2.4	2.7
Government consumption expenditure	1.8	0.9	0.5	1.0	2.1	1.3	0.5	0.6	1.0	1.1
Gross fixed capital formation (GFCF)	-1.7	-14.6	0.6	4.8	4.2	2.1	3.5	4.1	3.5	4.0
Exports	-3.3	-12.0	9.1	7.4	3.5	2.6	2.5	2.7	3.6	2.6
Imports	0.6	-17.6	9.6	14.9	4.1	3.5	4.0	4.3	4.0	4.3
GDP	**0.3**	**-6.0**	**4.7**	**1.9**	**0.6**	**0.8**	**1.4**	**1.6**	**2.2**	**2.1**
Consumer price inflation	4.1	3.3	4.6	6.9	5.9	5.2	4.5	4.4	4.5	4.6
Current account balance (% of GDP)	-2.6	1.9	3.7	-0.5	-1.6	-2.3	-2.4	-3.0	-3.0	-3.5
GFCF as % of GDP	15.5	13.8	13.2	14.2	15.2	15.3	15.8	16.3	16.5	16.8
Repo rate (%) end of period	6.50	3.50	3.75	7.00	8.25	7.75	6.75	6.50	6.50	6.50
Rand per USD (average per year)	14.45	16.46	14.78	16.36	18.48	18.67	18.21	18.15	18.35	18.49

Source: IDC, compiled using SARB data, IDC forecasts

The **consumer** environment is set to remain quite challenging over the short-term, considering high interest rates and living costs (e.g. food, energy, fuel prices). Declining real disposable incomes, rising debt-service costs, elevated unemployment, weak employment prospects and stretched household balance sheets are reflected in low consumer sentiment. These factors are likely to affect the ability and willingness of households to raise consumption expenditure meaningfully, especially in the short-term. Thus, consumer spending is forecast to increase by just 1.0% in 2024, with durable and semi-durable items under pressure as households are expected to refrain from spending on such items as they face several challenges.

Only once inflation is brought under control and interest rates are lowered, consumer spending will increase, albeit gradually. Although spending is forecast to pick-up some momentum towards the latter part of the outlook period, growth in consumption expenditure is projected to average only 2.0% per annum over the period 2024 to 2028.

Fixed investment is forecast to increase at a steady pace over the outlook period, although capital spending will remain insufficient to address the various challenges facing the South African economy. Considering ongoing infrastructure related impediments to growth, private sector investment is expected to be subdued in 2024, with capital outlays mainly focussed on repairs and maintenance, as well as on self-generation of electricity to reduce grid-reliance.

However, as demand conditions improve, both globally and domestically, and companies operating closer to full capacity, the need for increased expansionary and/or new productive capacity will arise. Nonetheless, it is only by 2028 that the quantum of fixed investment (in real terms) may exceed the record high achieved in 2015. Furthermore, the effective roll-out of the announced R944 billion infrastructure build-programme in Budget 2024, could play a crucial role in creating a more enabling and business friendly environment, thereby contributing to reviving economic activity.

The **export performance** is likely to be impacted by relatively subdued growth in some of South Africa's key external markets (e.g. Eurozone, UK), especially over the next two years. Although a weaker Rand exchange rate could assist in increasing the competitiveness of local exporters, this benefit may be short-lived as the costs of imported intermediate goods into the production process rise. There is an opportunity for South Africa to expand its exports through increased geographical and product diversification. From a regional perspective, export opportunities beyond the SADC region could also be explored.

Even though the **Rand** may experience a high degree of volatility in the short-term, on the back of ongoing Middle East tensions and the run-up to South Africa's elections on 29 May 2024, the currency is expected to appreciate over the outlook period, although remaining highly undervalued. The Rand may experience a weakening bias against the backdrop of the country's fiscal challenges, structural constraints, and weak growth prospects, all contributing to a higher risk premium of investing in and doing business with South Africa.

Consumer price inflation is likely to remain sticky at higher levels for some time, before subsiding towards the mid-point of the inflation target band in the second half of 2025. Elevated electricity and food prices are anticipated to exert upward inflationary pressures, in the short-term. Nonetheless, inflation is forecast to decline to an average of 5.2% in 2024 (+5.9% in 2023), with a disinflation trend projected over the medium-term.

Mindful of the adverse impact of high **interest rates** on the economy at large, households and businesses, the SARB is expected to start lowering the repo rate once inflation is believed to be well anchored. Monetary policy easing is expected as from Q3 2024 onwards, with a 25 basis points (bps) reduction being forecast at the September and November 2024 Monetary Policy Committee meetings, followed by a 100 bps drop in 2025. By Q2 2026 the repo rate is projected at 6.50% and to be kept unchanged for the remainder of the outlook period.

Department of Research and Information

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