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

Introduction 1

Global growth momentum varies across the globe 2

Sub-Saharan Africa's growth prospects set to improve 3

South African economy – a temporary setback, but recovery to continue 4

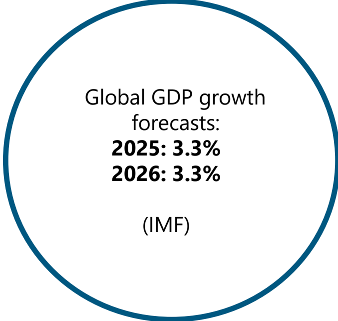
External trade analysis 11

Growth outlook for the South African economy 13

Conclusion 15

Highlights

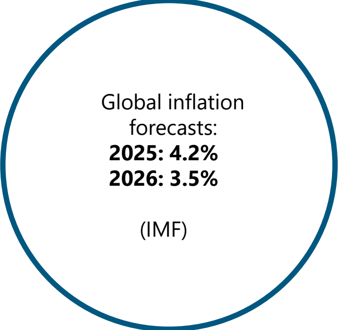
- **Global growth momentum could be undermined by the breakdown of multilateral cooperation** and the unintended consequences that could flow from increased bilateral agreements.



- **The Chinese government achieved its growth target of 5% for 2024,** despite several challenges in the economy. The excessive savings of Chinese households could be a source of growth going forward should the social safety net in China be adapted from its current residency permit system.

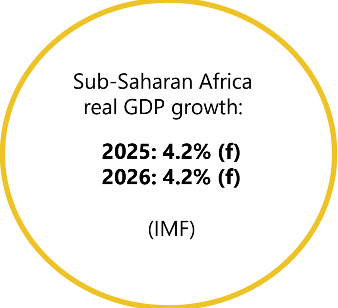
- **India has proved deft in positioning itself between the major global geo-political rivals,** resulting in the country being able to continue to benefit from the wide-ranging trade and business relationships.

- **The growth outlook for the global economy is uncertain** as the disruption caused by US import tariffs and countervailing tariffs can have unanticipated impacts seemingly removed from these measures.



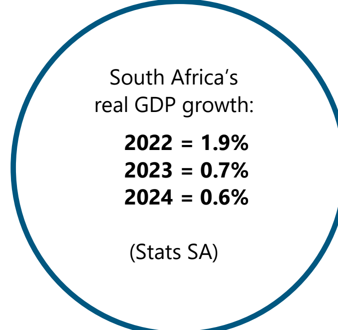
- **The increased uncertainty is having a significant impact on commodity markets, with most industrial commodity prices under pressure, while gold is benefitting from its safe haven status.** Copper and aluminium have thus far proven to be somewhat immune to the uncertainties as the continued roll-out of renewable energy generation (RE), new energy vehicles (NEVs) and grid expansions, especially in China and to some extent Europe, is supporting demand.

- **Growth in Sub-Saharan Africa (SSA) is expected to rise to an annual average of 4.2% over the 2025-26 period.** Relatively strong growth in several of its non-resource intensive economies is expected to underpin the acceleration in GDP growth above the 4% mark, while some improvement in the economic performance of the two largest economies, South African and Nigeria and an economic recovery in a number of the industrial metals exporting countries should provide added impetus to overall growth in SSA. **Development of critical infrastructure, increasing mining activity and efforts to diversify into higher value-added sectors and services** are some of key drivers of strong growth in various SSA countries.

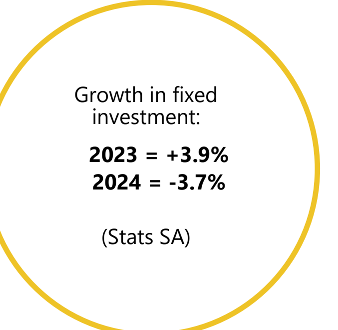


- However, **changing dynamics and headwinds on the global front could weigh on the SSA region's growth momentum**, with GDP growth remaining below long-term averages of nearly 5%.

- **South Africa's economic performance has disappointed in 2024, with real GDP having expanded by just 0.6%, recording the third consecutive decline in the growth momentum.** The economy continues to be plagued by several global and domestic factors undermining its growth performance. Hence, the urgent need to address structural bottlenecks, enhance competitiveness, provide a more enabling operating environment, introduce measures to raise business confidence and find ways to reduce excessive costs of doing business.



- **Sharply lower fixed investment is a major concern as it not only affects the current economic performance but also limits its future growth potential.** Having fallen by 3.7% in 2024, the quantum of capital outlays in real terms is some 11% below what it was pre-Covid, with the private sector remaining hesitant to commit new capital under yet trying business conditions. In 2024, the investment-to-GDP ratio stood at 14.5%, well below the desired 30% as per the National Development Plan, required to significantly raise the economy's growth trajectory on a sustained basis.



- **Household consumption spending continues to gain momentum, albeit at a relatively subdued pace.** The further up-tick in consumer spending in 2024 (+1.0%)

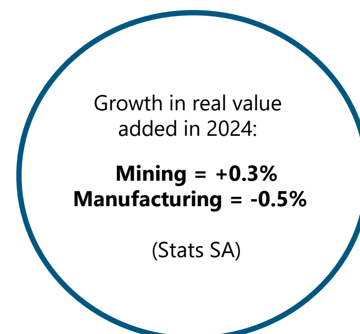
was underpinned by lower inflation and many households accessing their retirement savings via the two-pot system, while consumer sentiment reached its highest levels in five years during Q4 2024.

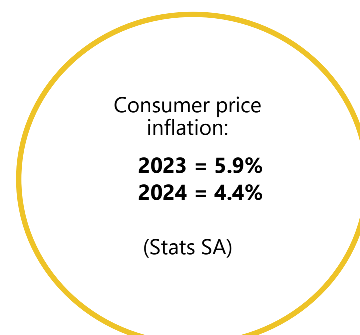
- **The poor performance of key sectors of the South African economy is concerning, with both the manufacturing and mining sectors taking severe strain at present.** These sectors are important for the economy at large with expectations of rather subdued growth prospects over the short-term.

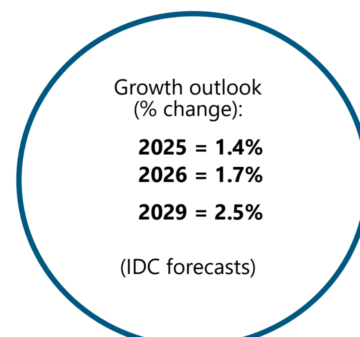
- **Consumer price inflation edged marginally higher to 3.2% in January 2025, from 3.0% in December 2024, remaining at the lower end of the inflation target band, providing room for easier monetary policy.** The substantial deceleration in food prices to a 14-year low should provide welcome relief to households, although steep rises in electricity prices (+13.3% in 2024) not only affect consumers but add to rising costs of doing business. Mindful of challenging economic conditions, the SARB lowered the repo rate by a cumulative 75 basis points since September 2024, with the repo rate currently at 7.50% and the prime lending rate at 11.00%.

- **Economic growth rates have been inadequate to provide enough employment opportunities for all new entrants into the labour market.** Many companies are not willing to employ more staff under difficult operating and trading conditions and a weak growth outlook for the South African economy. In Q4 2024, the unemployment rate stood at 31.9%, with 8.0 million people not able to find a job. Since Q4 2019, an additional 1.26 million people have joined the pool of unemployed, while many of the unemployed will find it difficult to re-enter the jobs market, especially in the formal sector.

- **South Africa's growth prospects are expected to improve gradually over the next five years, with GDP growth rising from 1.4% in 2025 to 2.5% by 2029.** Fixed investment spending is projected to increase from 1.3% in 2025 to 4.8% by the end of the outlook period but remaining insufficient to propel the economy to a much faster pace of growth. As consumers may take some time to adapt to an improving inflation and interest rate environment, it is only from 2027 onwards that faster rates of consumption expenditure are being anticipated.







IDC

Introduction

This Economic Overview is largely focused on the performance of the domestic economy. Full-year 2024 data has been released and shows that the positive sentiment from higher electricity availability, peaceful elections, and the transition to the Government of National Unity has not led to increased investment (-3.7% for the private sector) or GDP growth (only +0.6%). In light of this poor performance, the 2025 Q1 instalment of the Economic Overview unpacks the performance of the South African economy.

The report briefly considers global and regional dynamics to provide a context for South Africa's economic performance. This is followed by a more detailed assessment of the South African economy.

Unpacking the main contributors to GDP growth to elucidate the sources of poor performance. The analysis shows that household expenditure has been the biggest contributor to growth, while fixed investments and exports weighed on growth. The importance of household expenditure for growth raises concerns regarding the Budget 2025 VAT increases by 1% cumulatively over two financial years. National Treasury also recognises the risk and has increased social grants by above inflation rate and committed to expanding VAT zero-rated food items. This emphasises the importance of supporting employment creating economic growth to raise the aggregate demand of households. The Budget's primary lever for supporting growth is increased infrastructure expenditure.

The above analysis is complemented by a sectoral analysis of economic performance focusing on manufacturing, mining, and agriculture. The report highlights the challenges and opportunities within these sectors and their implications for the broader economy. Agriculture reported significant declines, while mining output expanded marginally (+0.4%) with platinum group metals (PGMs), coal, manganese, chrome and copper among those sub-sectors that reported higher output. Within manufacturing, the output of transport equipment; textiles and clothing; metals and machinery; furniture and other industries decline. This is concerning as these are largely labour-absorbing or labour-intensive sectors. The decline in output in transport equipment including automobiles and parts is reflected in the -7.4% reduction in automotive exports linked to reduced domestic and external demand along with a shift to new energy vehicles that may further complicate the domestic automotive sector going forward.

The IDC macroeconomic forecasts estimate a gradual rise in growth from 1.4% in 2025 to 2.5% by the end of the outlook period. The growth is underpinned by continued growth in household expenditure due to expected lower inflation and interest rates, increased public investments (as announced by the Budget), and increasing competitiveness investments by the private sector.

Global growth momentum varies across the globe

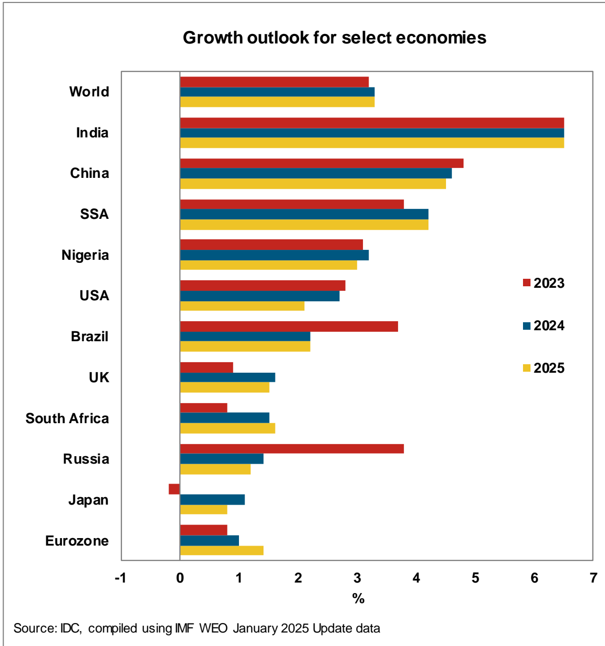
Global economy grew by 3.2% in 2024, down slightly from 3.3% in 2023

The International Monetary Fund (IMF) has estimated that the global economy grew by 3.2% in 2024, a slight deceleration from the 3.3% recorded in 2023. Two dynamics emerge from the global powers. First, continued resilience despite ongoing challenges. For example, the US economy remained resilient in 2024, growing by 2.8%, mainly due to increased fixed investment activity and household spending despite the relatively higher interest rate environment. Similarly, The Chinese economy achieved its growth target of 5% in 2024 despite the ongoing difficulties experienced in the property sector, and the knock-on effects on the willingness of households to increase their spending activity. The challenges faced by the Chinese economy are evident as manufacturers increasingly look to export markets to maintain their production levels. Second, slow growth. For example, the Eurozone recovered somewhat in 2024 increasing to 0.9% compared to 0.4% in the previous year, mainly due to faster growth in the smaller economies as the German economy contracted for the second consecutive year.

Thus far the Chinese economy has been able to sustain its growth momentum, recording growth of 5% in 2024, although there are signs that the economy is losing some momentum, which is inevitable as the Chinese economy has sustained strong growth rates over multiple decades. The slowing pace of growth in the Chinese economy is due to increased consumer uncertainty as the country's property market is experiencing significant difficulties, while the lack of widespread social safety nets is prompting the accumulation of significant savings, which are in excess of 40% of GDP. Despite signs of moderation in growth momentum, the Chinese government has set a growth target of 5% for 2025, with a focus on high-tech manufacturing.

In terms of developing countries, India is expected to remain among the fastest-growing economies, with the Reserve Bank of India having reduced interest rates in February 2025 for the first time in 5 years as some evidence of a weaker growth momentum is coming to the fore.

Figure 1: Uneven growth expected over the 2025-2026 period

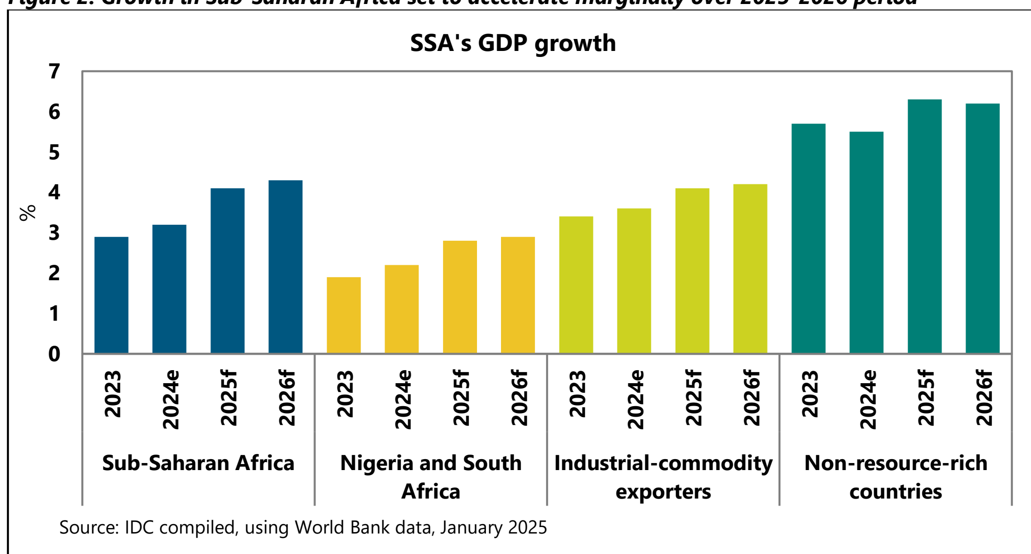


Sub-Saharan Africa's growth prospects set to improve

Relatively strong economic performance for Sub-Saharan Africa in 2025 and 2026

Growth in Sub-Saharan Africa (SSA) is expected to rise over the 2025-26 period, averaging 4.2% per annum from an estimated 3.8% in 2024, according to the latest IMF and World Bank forecasts. Robust growth in several of its non-resource intensive economies is expected to underpin the acceleration in GDP growth above the 4% mark. However, some improvement in the economic performance of the two largest economies in SSA (i.e., South Africa and Nigeria), albeit still weak for South Africa, as well as projected modest acceleration in growth for some industrial commodity exporters is likely to bolster overall growth.

Figure 2: Growth in Sub-Saharan Africa set to accelerate marginally over 2025-2026 period



Source: IDC compiled, using World Bank data, January 2025

Development of critical infrastructure, increasing mining activity and efforts to diversify into higher value-added sectors and services are main drivers of strong growth in some countries

Among the fastest-growing economies in the region, several factors have been identified as key drivers of strong growth. These include the development of infrastructure to meet connectivity demands, the infrastructure supporting rising export activities (such as in the case of Mozambique's LNG projects), rising levels of extractive mining/resources activity (particularly those associated with critical minerals for global energy transition) as well as the gradually rising focus on diversification into relatively higher value-added sectors and services.

However, changing global dynamics and headwinds may weigh on the growth momentum in the region, resulting in GDP growth remaining below long-term averages. Intensifying trade and geo-political tensions, increasing protectionism and policy uncertainty in the global trading arena will likely impact trade flows, production activity and global value chains. Commodity markets are experiencing increased price volatility as a result of these developments. Added to this is the potential of interest rates remaining relatively higher for longer thus adding to debt-servicing burdens and high borrowing costs for some of the SSA regional economies. Heightened insecurity as well as political instability and conflicts in certain parts of the continent, and increasing climate-related natural disasters continue to threaten the region's prospects.

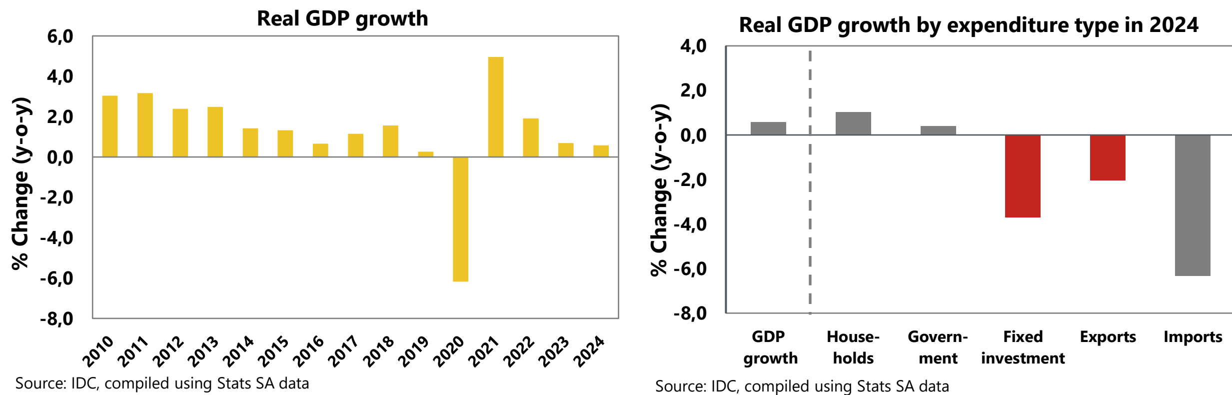
South African economy – a temporary setback, but recovery to continue

Recent economic developments

South Africa's economy encountered ongoing challenges during 2024 as real GDP expanded by a very modest 0.6%, the third consecutive annual deceleration in the growth momentum. Excluding the pandemic-induced downturn in 2020, the economy's pace of expansion in 2024 was the second lowest over the period 2010 to 2024.

Economy taking severe strain, with GDP rising at a sub-optimal pace

Figure 3: Economy facing renewed challenges as growth stalls



Source: IDC, compiled using Stats SA data

Source: IDC, compiled using Stats SA data

The sharp drop in fixed investment (-3.7% in 2024) means that South Africa is not investing enough in the expansion of productive capacity to raise production and thereby meet domestic demand. Hence, there is an increasing reliance on imported goods to satisfy domestic needs, with adverse balance of payments implications. Private sector capital expenditure fell sharply in 2024 (-4.1%) as many companies remain hesitant to commit substantial new capital for investment purposes under yet difficult economic conditions, ongoing uncertainty and subdued growth prospects.

Fixed investment was sharply lower under yet trying business conditions

The current pace of fixed investment is insufficient to raise the economy's growth trajectory to a much faster rate on a sustained basis, and the investment-to-GDP ratio stood at just 14.5% in 2024. This is significantly lower than the record high of 29.2% in 1976 and a more recent high of 18.6% in 2013 and well below the desired level of 30% as per the National Development Plan, to propel economic growth to a faster pace.

Household consumption expenditure is still expanding, albeit at a relatively modest pace, having increased by 1.0% in 2024 (+0.7% in 2023). The continued rise in consumer spending reflects the impact of lower inflation on households' disposable incomes and many consumers accessing their retirement savings under the two-pot system, while rising consumer sentiment, which reached its highest levels in five years by Q4 2024, is indicative of the willingness by households to raise spending. Considering that household spending accounts for roughly 60% of national GDP, the health of the consumer is critical in driving faster rates of economic growth.

Household spending on a sustained, albeit subdued expansion

South Africa's exports were impacted by weaker global demand along with domestic logistics challenges that adversely impacted the export performance (-2.0%) in 2024. Bearing in mind the high import-intensity of the economy, especially in terms of investment activity (electrical and non-electrical machinery and equipment), as well as its substantial energy requirements (refined petroleum, crude oil), subdued domestic demand saw imports declining sharply (-6.3%) in 2024.

Global factors affecting exports, while weak domestic demand is limiting the need for imports

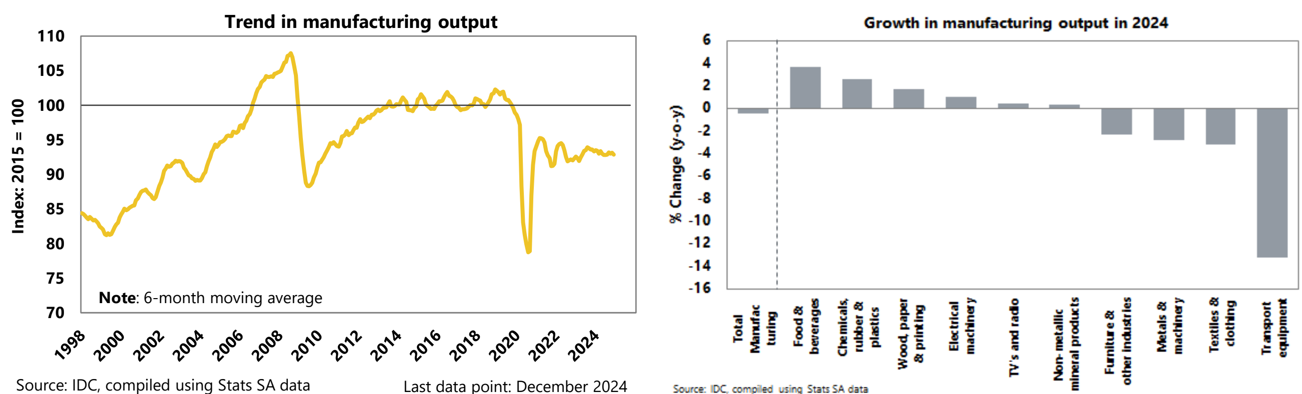
There is an urgent need to address several factors that are stifling economic activity, including structural impediments to growth; raise the level of competitiveness of firms; and industries, provide a more enabling operating environment; provide policy certainty and effective implementation of policy to boost investor, business and consumer confidence, while being mindful of finding ways to reduce high costs of doing business.

Sectoral performances

Although the **manufacturing sector** recorded modest increases in production in both Q2 and Q3 of 2024, on a quarter-on-quarter (q/q) basis, output declined in the final quarter of the year as several sub-sectors struggled to raise output on a sustained basis. For 2024, output declined by 0.4%, with lower production volumes recorded in several key sub-sectors (transport equipment, textiles and clothing, metals and machinery, furniture and other industries) while the Purchasing Managers' Index (a key indicator of the health of the economy) dipped further in February 2025 (44.7), indicating more hardship for the sector.

Manufacturing sector not able to raise output on a sustained basis under challenging operating conditions

Figure 4: Manufacturing sector not able to raise output on a sustained basis



The automotive sector was a major drag on the performance of the manufacturing sector, with the broader transport equipment sector (which includes motor vehicles, parts and accessories) having recorded a sharp decline of 13.3% in 2024. The 17.8% drop in output of parts and accessories and the 10.9% decline in vehicle production are of concern, reflecting reduced domestic and external demand along with a shift to new energy vehicles that may further complicate the domestic automotive sector going forward.

Automotive sector recorded sharply lower output, with external and domestic factors at play

Higher output in the broader chemicals, rubber and plastic sector during 2024 was from a very low base. A further increase in petroleum output was reported due to a refinery that was closed in 2020 and re-opened in 2023, having ramped up its production volumes, along with a rebound in chemical production, were key in this recovery, while the rubber sector recorded a sharp contraction (-6.5%) in 2024.

Several domestic and global factors are still at play that undermine the manufacturing sector from a sustained recovery. Manufacturers do, however, anticipate some improvement in business conditions over the year ahead according to the latest Manufacturing Survey (Q4 2024) by the Bureau for Economic Research (BER), as reflected by the up-tick in sentiment. In addition, manufacturers have indicated that they are likely to raise investment in plant and equipment, while exports could gain some momentum.

Manufacturers slightly more optimistic about operating conditions, investment and exports in 2024

Due to ongoing operational and other challenges over a prolonged period that have been hindering the manufacturing sector's performance, the relative share claimed by manufacturing in the South African economy declined steeply over time. Expressed as a ratio of national GDP (at basic prices), the share of the manufacturing sector tumbled to 14.2% in 2024, from a record high of 26.4% in 1981 and 22.8% in 1994, although being higher than the all-time low of 13.0% recorded in 2020.

Share of manufacturing sector in national GDP declined sharply over time

Nonetheless, the operating environment may be adversely impacted by current global developments, with the trade reforms in the US, such as the imposition of substantial import tariff increases, likely to have repercussions for global growth and world trade, inflation and monetary policy, as well as for financial, commodity and currency markets, in the process also impacting the South African economy.

De-industrialisation continues amidst difficult economic conditions

The closure of ArcelorMittal South Africa's (AMSA) long steel business can have far-reaching implications for many local supplier industries in the absence of new or alternative markets for their products. Due to several challenges facing the manufacturing sector, as well as the South African economy at large, the pace of de-industrialisation continues.

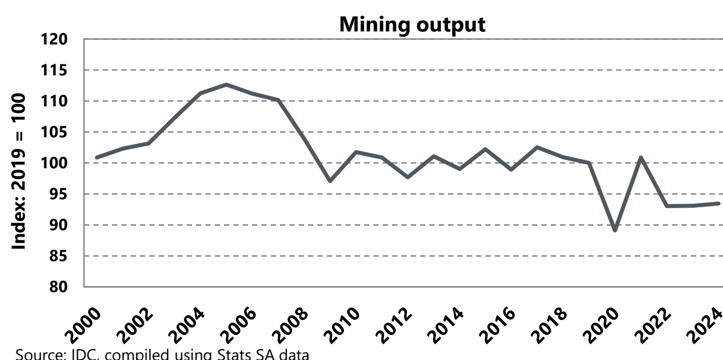
Mining sector facing ongoing challenges that constrain investment and production

Despite ongoing challenges on the logistics front, total **mining** output increased in 2024, albeit at a mere 0.4%, although the performance varied across sub-sectors. Platinum group metals (PGMs), coal, manganese, chrome and copper were among those sub-sectors that reported higher output, while sharply lower production was reported in the case of gold and other metallic minerals. In addition, iron ore and diamond mining also recorded modest declines in production volumes in 2024. Fixed investment declined sharply by 9.6% in 2024 (+0.1% in 2023), as the sector faces numerous obstacles and ongoing uncertainty.

Mining output at historical lows, with the downturn extending beyond the gold decline

Notwithstanding a modest improvement in 2024, mining output remains at historical lows, with the weak performance in recent years being widespread and extending beyond the long-term decline in the gold mining sector. Challenging business conditions domestically and/or weak external demand are adversely impacting key segments of mining, including gold, PGMs, coal and iron ore, though at varying degrees.

Figure 5: Mining activity at historical lows in a challenging operating environment



Source: IDC, compiled using Stats SA data

The poor performance of the mining sector has implications for the balance of payments, considering the substantial export-orientation of the mining and minerals sector and its sizeable contribution to South Africa's trade balance. In addition, this sector's performance also has adverse implications along entire supply chains, with many companies in the domestic economy reliant on the mining sector for their products.

Severe drought adversely impacted agriculture output in 2023/24

Agriculture output has fallen sharply in the 2023/24 production season due to severe drought conditions in several summer crop regions. The overall maize crop fell to 12.85 million tons (-21.8%), from 16.43 million tons in the preceding year, while soybeans declined markedly by 33.3% to 1.85 million tons over this review period.

Agriculture value added and fixed investment declined sharply

During calendar 2024, value added in the agriculture sector contracted by 8.0%, while fixed investment plummeted by 11.8%, in real terms, the second year in a row of lower capital outlays (-1.5% in 2023). Furthermore, agriculture employment stood at 924 000 people by Q4 2024, similar to the number a year earlier, and a mere 39 000 higher than pre-Covid levels. After falling to one of its lowest levels on record in Q2 2024 (37.9), business confidence among agri-businesses increased strongly to 58.5 in the final quarter of last year, its highest level in more than two years.

Higher crop yields expected in the 2024/25 season

Although weather conditions improved in the 2024/25 season, certain parts of the summer crop regions received late and/or inadequate rains, which may impact crop yields. However, early indications are that the overall maize crop could be 8.3% higher at an estimated 13.9 million tons (Crop Estimates Committee), with the white maize crop anticipated to be 22% higher. The soybeans crop could see a significant increase of almost 26% to an estimated 2.33 million tons in 2024/25, while total summer crops are expected to see an increase of 10.9%, according to the first crop estimates (27 February 2025).

Inflation and monetary policy

Disinflation trend continued throughout 2024

Consumer price inflation increased marginally to 3.2% in January 2025 (from 3.0% in December 2024), being at the lower end of the South African Reserve Bank's (SARB) inflation target band. A less deflationary trend in fuel prices (-4.2% in January vs -10.2% in December) pushed inflation slightly higher in January, with this deceleration reflecting the impact of a less deflationary trend in crude oil prices and a more stable Rand. Movements in fuel prices, along with an up-tick in housing and utility prices (e.g. electricity, water) and non-alcoholic beverages, as well as for restaurants and accommodation services, were key contributors to this modest rise in inflation at the start of the year.

Substantial deceleration in food prices to provide welcome relief

The substantial deceleration in food prices over the past 22 months to 1.5% in January 2025 (the slowest pace in almost 14 years), compared to 14.4% in March 2023, should provide welcome relief to households. However, drought conditions experienced in several parts of the country's summer crop regions in late 2024 are a matter of concern as they may result in rising food prices if weather conditions do not improve meaningfully.

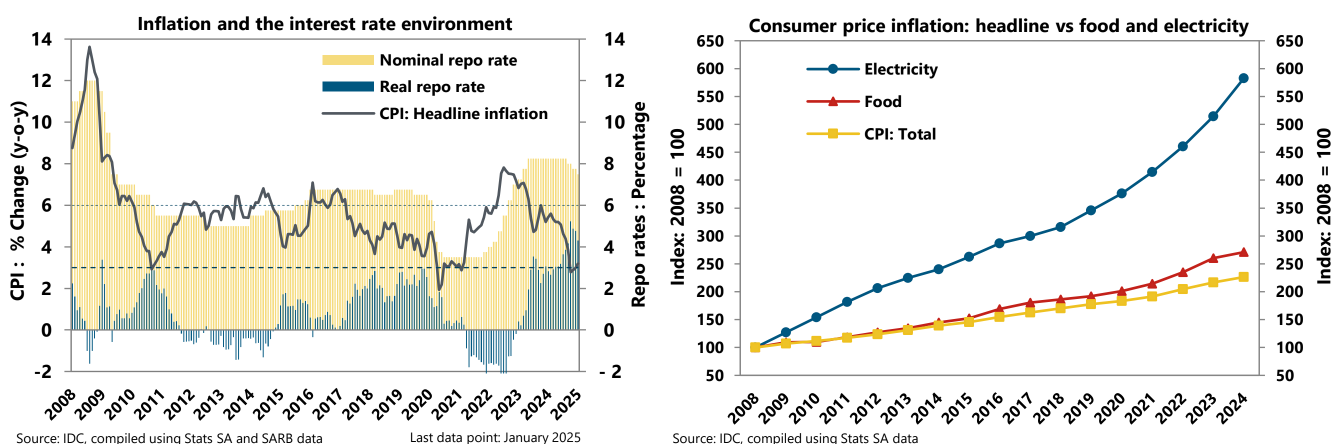
Moderation in underlying inflation providing room for interest rate cuts

Core inflation (i.e. excluding volatile food and energy prices), which is indicative of underlying inflationary pressures, slowed to 3.5% in January 2025, and is at a 3-year low. Despite inflation being at the bottom of the inflation target band, monetary policy remains restrictive at present, considering that in real terms (after accounting for inflation) the repurchase (repo) rate measured 4.3% in January 2025 (although down from the 4.8% in December 2024), substantially higher than the 2.3% about a year earlier. This remains a concern as it adversely affects the spending ability of households, while also limiting capital expenditure and complicating much-needed investment decisions.

Steep rise in electricity prices over time

Although headline inflation increased by 4.4% in 2024, electricity prices had once again risen at a substantially faster pace of 13.3%. Compared to 2008, when the electricity crisis started, the price of electricity has risen significantly over the years and has been a major factor behind rising operating costs and an increasing burden for many households. By 2024, the electricity price was 482% higher than in 2008, whereas overall consumer prices had risen by 126% over the past 16 years.

Figure 6: Inflation at a multi-year low, supporting easier monetary policy, but electricity prices significantly higher over time



Despite easing in monetary policy, the SARB cautioned against potential inflationary pressures

As inflationary pressures moderated towards the latter part of 2024, the SARB, along with central banks elsewhere in the world, started lowering interest rates. The repo rate has been lowered by a cumulative 75 basis points, with a 25 basis points reduction at each of the Monetary Policy Committee (MPC) meetings of September and November 2024, and January 2025. The repo rate currently stands at 7.50%, whereas the prime lending rate is at 11.00%. Nonetheless, the SARB has cautioned against potential inflationary pressures, while also appearing to be somewhat more measured in applying monetary policy going-forward.

Employment and unemployment

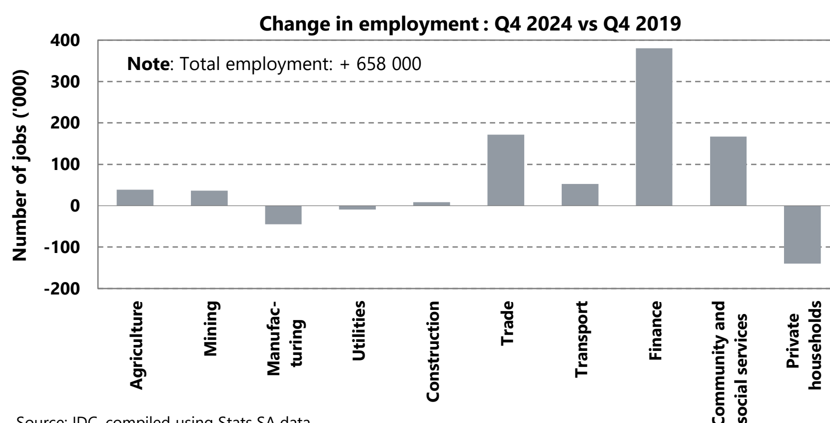
Poor labour absorption capacity resulting in rising unemployment

The subdued growth performance of the South African economy over a prolonged period is adversely impacting much-needed employment creation. Sub-optimal growth has seen the labour absorption capacity of the economy not being sufficient to provide enough employment opportunities to all new entrants into the labour market, with adverse implications for unemployment. Many companies remain hesitant to employ additional staff under yet challenging operating and trading conditions and weak growth prospects.

Covid-induced job losses have been recovered, but number of unemployed has risen sharply

All the pandemic-induced job losses (some 2.27 million jobs were lost due to Covid related restrictions) have been recovered, with overall employment in the formal and informal sectors combined having stood at 17.1 million by Q4 2024, approximately 658 000 more jobs than pre-pandemic (Q4 2019). This represents only a 4.0% increase in jobs between Q4 2024 and Q4 2019. However, the economically active population (i.e. those between 15 and 64 years of age) increased by 2.83 million people, or by 7.3% over this reference period. Consequently, some 1.26 million additional people joined the pool of unemployed over the past five years – an increase of 18.8% in the number of unemployed people over this review period.

Figure 7: Sub-optimal growth affecting the economy's labour absorption ability



Source: IDC, compiled using Stats SA data

Unemployed to find it increasingly challenging to re-enter the jobs market

Although the unemployment rate declined to 31.9% in Q4 2024, from its record high of 35.3% in Q4 2021, this disguises the fact that by Q4 2024 some 8.0 million people found themselves without a job, compared to 6.73 million people in Q4 2019. Moreover, around 78% of all the unemployed in Q4 2024 had been without a job for more than a year and, considering the relatively low skill levels of a large portion of the unemployed, along with the fact that the economy is steadily moving towards more advanced and technology-intensive production/operating processes, the likelihood of many of the unemployed being re-employed is diminishing, at least in the formal sector.

Substantially faster rates of growth and improved labour absorption required to reduce unemployment

South Africa, therefore, needs faster rates of economic growth over a protracted period, underpinned by significantly higher levels of fixed investment and a substantial increase in the economy's labour absorption capacity and through targeting more labour absorbing and labour-intensive sectors, as well as addressing the skills requirements needed for a more services-oriented and technological advanced economy, in order to be able to create sufficient jobs on a sustained basis for an increasing labour force. Only if this is achieved, can meaningful inroads be made in reducing the excessive levels of unemployment, especially among the youth, as well as in addressing the issues pertaining to poverty and inequality.

Public finances

Modest VAT increase to avoid increased borrowings

Following widespread speculation about how Finance Minister Enoch Godongwana would address fiscal challenges in the 2025 National Budget—particularly after the controversial 2% Value Added Tax (VAT) increase that sparked significant media attention—the budget was unveiled on 12 March 2025. The budget proposes to support economic growth primarily by focusing on infrastructure investment. The budget also introduced 0.5% VAT increases in 2025/26 and 2026/27, which have the potential to undermine household expenditure in lower-income households. Recognising this, the budget provided measures to offset this, including above-inflation social grant increases; expanding the basket of zero-rated food items and keeping the fuel levy unchanged. The budget once again highlighted the challenges that are linked to the country's public finance position.

Table 1: Budgeted financial trajectory positive over the medium-term

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
R billion / % of nominal GDP	**Outcome**			**Revised estimate**	**Medium-term estimates**		
Revenue	**1 754,8**	**1 900,8**	**1 948,0**	**2 029,2**	**2 221,9**	**2 377,4**	**2 520,6**
% of GDP	*27,7%*	*28,1%*	*27,5%*	*27,1%*	*27,8%*	*27,9%*	*27,8%*
Expenditure	**2 047,3**	**2 145,4**	**2 259,5**	**2 404,0**	**2 592,3**	**2 703,0**	**2 834,9**
% of GDP	*32,4%*	*31,7%*	*31,8%*	*32,1%*	*32,4%*	*31,8%*	*31,3%*
Non-interest expenditure	*1 771,3*	*1 829,7*	*1 896,0*	*2 006,1*	*2 158,9*	*2 244,6*	*2 346,2*
% of GDP	*28,0%*	*27,1%*	*26,7%*	*26,8%*	*27,0%*	*26,4%*	*25,9%*
Budget balance	**-292,6**	**-244,6**	**-311,6**	**-374,7**	**-370,4**	**-325,6**	**-314,2**
% of GDP	*-4,6%*	*-3,6%*	*-4,4%*	*-5,0%*	*-4,6%*	*-3,8%*	*-3,5%*

Source: National Treasury

Government debt to peak at 76.2% of GDP in 2025/26 financial year

The Main Budget deficit as a percentage of GDP is estimated to peak during the 2024/25 fiscal year, whereafter the ratio is expected to decline gradually up to 2027/28. In comparison to one year ago in the Budget Review of 2024, there is a slight deterioration in these ratios (for example, the 2024/25 budget deficit was estimated to be around -4.5% of nominal GDP). However, in comparison to a few months ago the debt-to-GDP ratio increased somewhat over the medium-term, peaking at 76.2% (compared to 75.5% during the MTBPS 2024) in 2025/26 and thereafter gradually moderating in the outer-years to 75% in 2027/28. Despite this gradual decline, the financial trajectory of the country still poses a risk to the overall macro-economic performance.

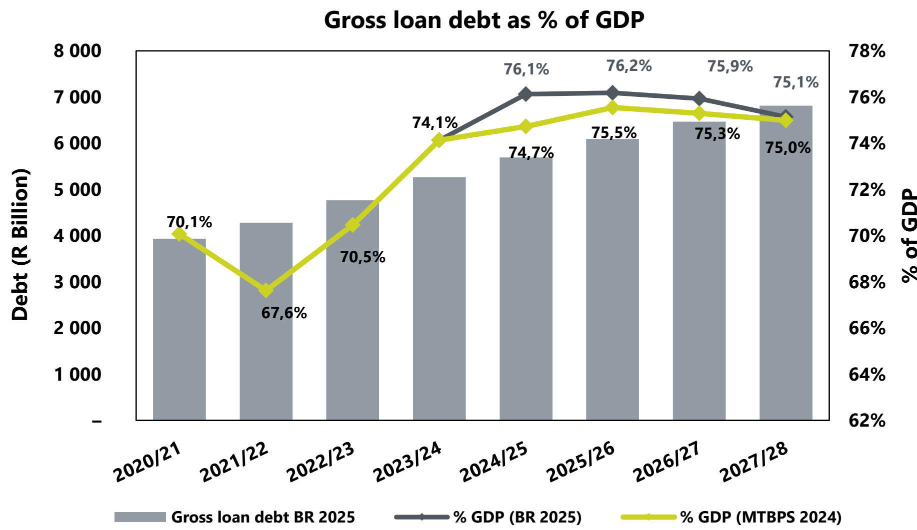
Expenditure as a percentage of GDP to peak at 32.4% in 2025/26

The Main Budget revenue is estimated to amount to R2 029 billion during the 2024/25 fiscal year (27.1% of nominal GDP) and increasing to an average of 27.8% of GDP over the period up to 2027/28. Although expenditure is projected to exceed revenue, the expenditure-to-GDP ratio is forecast to decline gradually from 32.4% in 2025/26 to 31.3% of GDP by the end of the period. In addition, non-interest expenditure as a percentage of nominal economic growth is foreseen to fall to 25.9% in 2027/28 from a revised ratio of 26.8% in 2024/25. In comparison to the MTBPS 2024, tabled in October 2024, the debt-to-GDP ratio increased over the current year and MTEF period.

Debt as a percentage of GDP remains high

Despite a decline in gross loan debt as a percentage of GDP, relative to the MTBPS 2024, debt service costs remain high and are one of the fastest-growing spending items. Interest payments, or debt-service costs, as a percentage of tax revenue estimates are foreseen to reach 21.1% during the 2024/25 fiscal year and estimated to rise marginally to 21.2% in 2025/26, after which a gradual decline is expected in the last years of the MTEF period (20.8%).

Figure 8: Debt trajectory remains a concern for fiscal consolidation



Going forward, government's priority should be to increase growth which supports higher tax revenues, and the ability of the country to service its debt. According to a media interview with the Minister of Finance, the strategy to manage finances through reducing expenditure has not yet delivered the desired results. The budget (speech) also emphasised the importance of broadening the tax base.

External trade analysis

Regional trade performance

Exports impacted by weaker global demand and lower commodity prices

In 2024, the South African economy encountered several domestic and global challenges that adversely affected its capacity to export merchandise. Considering the high import intensity of the domestic economy, weak domestic demand, such as the sharp contraction in fixed investment along with subdued household consumption expenditure, was reflected in a decline in merchandise imports.

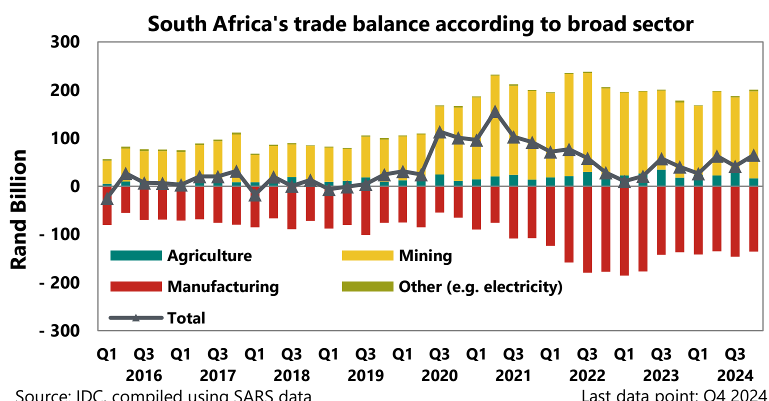
South Africa records a trade surplus during 2024

Total merchandise exports, in nominal terms, amounted to R2 040 billion in 2024, recording a 1.6% decline from 2023, while imports fell by 5.1% to R1 844 billion. Consequently, a surplus on the country's balance of trade in the amount of R195.6 billion was recorded in 2024, compared to a surplus of R130 billion in 2023. From a broad sector perspective, manufactured exports saw the largest decline (-3%), with exports amounting to R1 091.6 billion in 2024, of which the basic iron and steel (-11.7%) and motor vehicle parts and accessories (-7.4%) categories, weighed significantly on the overall decline.

Mining exports affected by logistics challenges and weak global demand

Logistics problems, such as inefficiencies at the ports and challenges on the rail network, along with weak global demand resulting in lower prices, hampered mining exports. The mining sector saw its exports decline by -0.5% in 2024, with PGMs along with bulk commodities, such as iron ore and coal, having recorded sharply lower exports in nominal value terms. Gold exports saw a significant increase of 29.3% to R149.9 billion due to higher prices, resulting from strong demand for the commodity considered a safe haven investment asset amid geopolitical uncertainty.

Figure 9: Trade surplus on the rise during 2024 due to lower import demand



Source: IDC, compiled using SARS data Last data point: Q4 2024

Apart from South Africa's merchandise exports to Africa, the export basket to other destinations is mostly dominated by a few broad export categories. PGMs took the majority share in the US export basket at 31.8% of all South Africa's merchandise exports to the US in 2024, followed by motor vehicles and parts at 21.8%. For the EU, motor vehicles and parts accounted for 41.3% of the export basket, while in the case of China, exports of other mining and mineral products such as manganese and chrome (41%), as well as iron ore (25.8%) have dominated the export basket. Exports to Japan were dominated by PGMs, which took a 56.9% share South Africa's export basket to this country in 2024.

African economies accounted for 27.9% of all South African exports in 2024

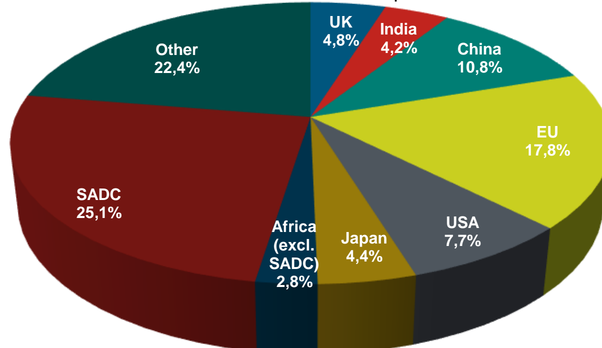
The rest of the African continent is a very important market for South African merchandise exports, considering that the continent accounted for 27.9% of all such exports in 2024. More importantly, African countries accounted for 42.0% of South Africa's manufactured exports in 2024, signifying the strong reliance of many local exporters in the manufacturing sector on demand emanating from the rest of the continent.

At a sectoral level, Africa accounted for 86.3% (or R3.5 billion) of South Africa's overall furniture exports, followed by plastic products (84.0% or R10.5 billion) and non-electrical machinery (at 77.5% or R65.9 billion), with the continent also having accounted for 57.0% (or R35.9 billion) of petroleum exports. Some 14.2% (or R39.9 billion) of all motor vehicle & parts exports are destined to countries in Africa. Having peaked at 45.8% in 2013, the share claimed by Africa in South Africa's manufactured export basket declined steadily over time to 37.4% in 2021, followed by an up-tick in subsequent years.

Exports to China declined marginally

Overall South African exports to China saw a decline of R5.6 billion (-2.5%), with a very sharp decline of R7.3 billion in iron ore (-11.4%) to R58.9 billion, followed by basic iron and steel (-R4.5 billion or a drop of 14.9%). Over and above these declines, coal mining and basic chemicals also experienced a decline in exports. The R8.8 billion (or +11%) improvement in exports of mining of non-ferrous metal ores (e.g. chrome, manganese) to China was not enough to counter the drop seen in other commodities traditionally exported to China.

Figure 10: Africa remains the largest merchandise exporting region in 2024



Source: IDC, compiled using SARS data

Growth outlook for the South African economy

Real GDP growth disappointed at 0.6% in 2024 (+0.7% in 2023), reflecting the ongoing challenges facing the domestic economy and undermining the capacity to raise the pace of expansion on a sustained basis and in a more synchronised manner. Nonetheless, the pace of growth is expected to rise gradually from 1.4% in 2025 to 2.5% by the end of the outlook period.

Bearing in mind the infrastructure-related bottlenecks, policy uncertainty and weak global demand (especially in some of South Africa's key external markets), expectations are for a gradual rise in the growth momentum over the outlook period. Fixed investment and consumer spending are likely to benefit from lower inflation and a reduction in interest rates, but in both instances, growth is expected to remain sub-optimal.

A normalisation in global growth and improvements on the logistics front domestically could result in an improving export performance over the medium-term. However, considering the several challenges facing the domestic economy, such as excessive unemployment, poverty and inequality, economic growth needs to be elevated significantly to make inroads in addressing these challenges in a meaningful manner over a prolonged period.

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

Variable (% change or % of GDP)	2019	2020	2021	2022	2023	2024	2025f	2026f	2027f	2028f	2029f
Real GDP growth and its components:											
Household consumption expenditure	1.3	-6.1	6.2	2.5	0.7	1.0	1.8	2.0	2.5	2.6	2.7
Government consumption expenditure	1.8	0.9	0.6	0.6	1.9	0.4	0.8	1.6	0.9	1.4	1.3
Gross fixed capital formation (GFCF)	-1.7	-14.8	-0.4	4.8	3.9	-4.2	1.3	2.7	4.2	4.6	4.8
Exports	-3.3	-12.0	9.7	6.8	3.7	-2.0	4.2	2.5	3.3	3.2	4.0
Imports	0.6	-17.6	9.6	15.0	3.9	-6.3	3.7	4.4	4.5	3.8	4.7
GDP	**0.3**	**-6.2**	**5.0**	**1.9**	**0.7**	**0.6**	**1.4**	**1.7**	**2.1**	**2.4**	**2.5**
Consumer price inflation	4.1	3.3	4.6	6.9	5.9	4.4	3.9	4.6	4.4	4.2	4.3
Current account balance (% of GDP)	-2.6	2.0	3.7	-0.5	-1.6	-0.6	-2.9	-3.7	-4.3	-4.8	-5.0
GFCF as % of GDP	15.5	13.8	13.1	14.1	14.9	14.7	14.7	14.9	15.3	15.7	16.1
Repo rate (%) end of period	6.50	3.50	3.75	7.00	8.25	7.75	6.50	6.50	6.50	6.50	6.50
Rand per USD (average per year)	14.45	16.46	14.78	16.36	18.45	18.34	18.54	18.15	18.28	18.43	18.52

Source: IDC, compiled using Stats SA and SARB data, IDC forecasts

Although the consumer environment may remain somewhat challenging in the short-term, a gradual improvement is anticipated over the medium- to long-term. Consumer sentiment has rebounded to its best reading in about 5 years during 2024, while lower inflation and a further reduction in interest rates are likely to support an up-tick in household consumption expenditure.

Nonetheless, a modest rise in real disposable income, modest growth in job creation and yet subdued demand for more debt, considering the high levels of indebtedness by many households (especially in the lower to middle-income categories) may limit household spending in 2025. As consumers may take some time to adapt to an improving inflation and interest rate environment, it is only from 2027 onwards that faster rates of consumption expenditure are being anticipated. The improving economic landscape should allow households to restore, at least to some degree, their balance sheets, as lower interest rates should result in reduced debt-servicing costs.

Ongoing infrastructure related bottlenecks, although being addressed, along with policy uncertainty, weak demand and surplus production capacity in several sectors are likely to continue to constrain much-needed fixed investment activity for some time.

Even though overall business confidence has been on a steady up-trend, it is still at low levels. Considering the strong correlation between business sentiment and private sector investment, the uptrend in confidence may take time to be reflected in faster rates of investment expenditure. In addition, the massive public sector infrastructure build programme of R1 trillion over the next three years, as announced in Budget 2025, along with various initiatives under project Vulindlela, should support a gradual rise in public sector fixed investment and in the process also crowding in private sector investment.

Despite a relatively fast pace of expansion in investment spending, it is only by 2029 that the quantum of capital outlays (in real terms) will surpass the record high achieved in 2015. At just 16.1% of GDP in 2029, the pace of expansion in fixed investment remains sub-optimal to support much faster rates of economic growth on a sustained basis.

Looking ahead, a strong rebound in exports is expected for 2025 (+4.1%), while a normalisation in world growth could see relatively strong export growth over the outlook period. The potential implications of import tariffs to be imposed by the US have not been factored in, which may have substantial implications for export-focused countries if implemented.

Demand for imports has fallen sharply in 2024 (-6.3%) on the back of weak domestic demand, with subdued fixed investment activity limiting the need for capital goods imports. The gradual recovery anticipated for the South African economy over the outlook period should result in rising demand for imports. Higher fixed investment may result in increased imports of machinery and equipment, while the country's high energy needs are likely to see imports of refined petroleum and crude oil also on the rise.

The Rand has been under immense pressure since the latter part of 2024, with a surging US dollar (USD) and subdued domestic growth behind the currency's depreciation. Although the Rand has recovered some lost ground, the currency remains undervalued and may experience ongoing volatility.

Factors that may see the Rand and other emerging market (EM) currencies under pressure include the performance of the US economy, monetary policy action by the Federal Reserve, the anticipated imposing of a wide range of trade reforms, including higher import tariffs by the new US administration, as well as ongoing geopolitical developments that are likely to result in investors focusing on the US as a safe haven investment destination.

The Rand could see potential gains if domestic growth prospects strengthen. This improvement can be driven by enhanced competitiveness in domestic production through capability upgrades, essential structural reforms, better public finances, and increased investor confidence, all of which could contribute to higher capital inflows. In addition, improving terms of trade (i.e. ratio of export and import prices) could also be Rand-supportive.

Although inflation is projected to moderate to 3.9% in 2025, a modest up-tick is forecast in subsequent years, albeit remaining around the mid-point of the target band.

In view of favourable inflation prospects, the SARB is expected to gradually relax monetary policy, providing welcome relief to businesses and households. Consequently, fixed investment, production and consumption expenditure are likely to record faster growth, although still subdued, over the outlook period to 2029.

Conclusion

- The sustained **weakness in growth and private sector fixed investment activity** is concerning as the lack of investment continues to erode the competitiveness of the South African economy and its growth potential.

- Nonetheless, as the **economic environment improves and growth picks up momentum towards the latter part of the outlook horizon**, investment activity in expansionary and/or greenfield projects is likely to be on the rise as the private sector raises capital spending to increase productive capacity to meet rising demand, both domestically and globally.

- **Areas of investment opportunity can be grouped into three buckets:**

  Despite the withdrawal of the US from the Global Climate Change accords, **the global energy transition continues**. This momentum is underpinned by the continued cost competitiveness of renewable energy and new energy vehicles, supporting demand for related commodities such as copper and aluminium.

  Sub-Saharan Africa's (SSA) growth performance is expected to average just above 4% in the medium term, varying by country. Improved economic activity and demand for imports should enhance market conditions for manufactured exports, benefiting export-oriented businesses in manufacturing and services. This trend supports investment opportunities within Africa and domestic investments for exports. The limited penetration of South African exports in several SSA economies, which are growing at a much faster pace than the aggregated SSA's average GDP growth forecast of 4.2% for 2025, suggests missed opportunities.

  Sustainably increasing employment opportunities continues to be crucial. To address high unemployment, South Africa needs a government-led structural transformation of the economy, aligning fiscal, industrial, trade, and monetary policies.

- As the **global trading environment** is altered, global exporters may be looking for alternative markets/destinations for their products, potentially targeting the South African market. Hence, South Africa may experience increased import penetration in cases where the displaced global products (e.g. from the US, China, EU, Canada, Mexico) can compete effectively with the locally produced items in the domestic market.

- In addition, South African exporters may face **increased competition in global markets** as affected countries may shift their export focus to new/alternative markets, thereby complicating an already challenging global trading environment.

- Though there is increased electricity availability, the rising electricity prices (482% between 2008 and 2024 vs 126% for CPI) may place the energy-intensive industries under pressure. Emerging evidence indicates that Eskom plants remain well below the targeted electricity availability levels and thus any unexpected events at a generation plant cannot be accommodated, thereby increasing the risk of loadshedding.

- However, the **deployment of committed public infrastructure expenditure should support demand for infrastructure intermediate goods** such as metals, machinery and equipment, cement, and certain petrochemicals and thus potentially and partially alleviating pressure created by overcapacity in steel.

- The increased possibility for weaker growth is resulting in **substantial commodity price weaknesses.** In particular, crude oil and iron ore reflect the more muted economic conditions globally.

The **lower inflation and interest rate** environment in South Africa could provide some cushioning to already struggling households while also promoting borrowings for capital projects.

Department of Research and Information

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