Industrial Development Corporation

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Economic overview:

Recent developments in the global and South African economies

May 2025

Department of Research and Information

Contents

Economic overview

Highlights

- **The outlook for global growth has been revised lower due to erratic US trade policies. The constantly changing US tariff regime is causing significant uncertainty,** increasing volatility in various financial markets. US growth prospects are substantially reduced reflecting the direct impact the Trump-administration has on the US economy.

- **The US-induced trade war and increased resistance to China's export-led orientation undermine the Chinese economy's ability to reach its 5% growth target.** The number of countries that are investigating raising import duties on, especially Chinese steel and electric vehicles, is increasing as their domestic companies come under increased pressure.

- **The Eurozone countries are increasingly investigating policies, such as a European defence fund, that indirectly support domestic manufacturers.** In Germany, the new German government announced increased spending on infrastructure and defence through the relaxation of the constitutional debt brake.

- **The recent flare-up in armed conflict between India and Pakistan highlights the significant geopolitical rivalries India faces with some of its neighbours.** Should these rivalries lead to prolonged or escalated armed conflict, the perception of India as an alternative manufacturing location could come under scrutiny.

- **Gold has become increasingly attractive due to its safe-haven status as uncertainty has increased.** Central banks are also providing support by increasing their holdings of physical gold in place of holding foreign exchange reserves. Industrial commodities have weakened as the global growth outlook deteriorated, although commodities linked to the green energy transition continue to encounter sustained demand.

- **Growth in Sub-Saharan Africa is projected to ease marginally to 3.8% in 2025, but the medium-term prospects appear more optimistic at an average of 4.1% over the 2025 to 2027 period.** Global headwinds, particularly those associated with the impact of shifting global policies and rising global trade tensions, will underpin the expected deceleration in 2025. Although the direct impact of US tariffs, for instance, is rather limited for the region as a whole, increased global uncertainty and its impact on the world economy and external demand will weigh on the region. But there are a few countries that are expected to show much faster rates than the aggregated annual averages for the region.

- **South Africa's real economic growth has been revised downward; nevertheless, it is expected to gain traction towards 2029.** As domestic and global uncertainties weigh on SA and global economies, lower inflation and interest rates will likely not benefit households and fixed investment spending in the country in the near term.

- **Lower employment levels do not bode well for households and overall economic growth performance**. Sub-optimal employment creation continues to hamper economic growth, with filter-through effects on the ability of households to spend.

- **Recent data outcomes point towards continued mining and manufacturing output struggles**. Although safe-haven commodities stood their ground, low commodity prices and weak demand impacted other key commodities in mining and manufacturing output.

Global GDP growth forecasts:

2025: 2.5% (f)
2026: 3% (f)

(IMF)

Global inflation forecasts:

2025: 4.3% (f)
2026: 3.6% (f)

(IMF)

Sub-Saharan Africa real GDP growth:

2025: 3.8% (f)
2026: 4.2% (f)
(IMF)

South African Growth Outlook
(% change):

2025 = 1.0%
2026 = 1.6%

2029 = 2.1%

(IDC forecast)

Introduction

The global environment continues to be plagued by uncertainty. In particular, the erratic US trade policy decisions have created significant uncertainty, leading to a sharp decline in growth forecasts. This instalment of the Economic Overview considers the implications of global developments focusing on the consequences of the US policy stance. The most significant implication is the downward revision of global growth by the IMF for 2025 and 2026.

Despite the downward revision to the growth of Sub-Saharan Africa, the majority of countries within this region are expected to grow at levels above the global average. The East African Community (EAC), in particular, is forecasted to post growth rates above 5%. To unpack some of the drivers of this growth, an analysis is undertaken for select EAC countries –Ethiopia, Kenya, Rwanda, Tanzania and Uganda. The analysis points to variances in growth drivers, however, what is common across these countries are structural transformation processes mostly linked to sectoral transitioning from agriculture into industry and services. Further processes of sectoral deepening could further boost growth. Gross fixed capital formation as a percentage of GDP is largely above 20% for the selected countries, indicative of further potential for growth. The section on Sub-Saharan Africa also provides an update on the implementation of the African Continental Free Trade Agreement (AfCFTA), focusing on the mechanisms and initiatives that have been put in place.

In the South African section, the focus is on updates on high-frequency indicators including output and trade. Mining and manufacturing output declined further in the first quarter of 2025. However, agriculture is expected to post an improved output in the 2024/25 season. South Africa recorded a trade surplus of R28.9 billion in the first quarter of 2025, driven primarily by gold exports. However, the overall export growth is hindered by declining demand for other commodities like PGMs and iron ore. StatsSA released the Q1 2025 employment data, which were disappointing and recorded an increase in the unemployment rate to 32.9%. The issue of jobs is a crisis for the country and must be prioritised.

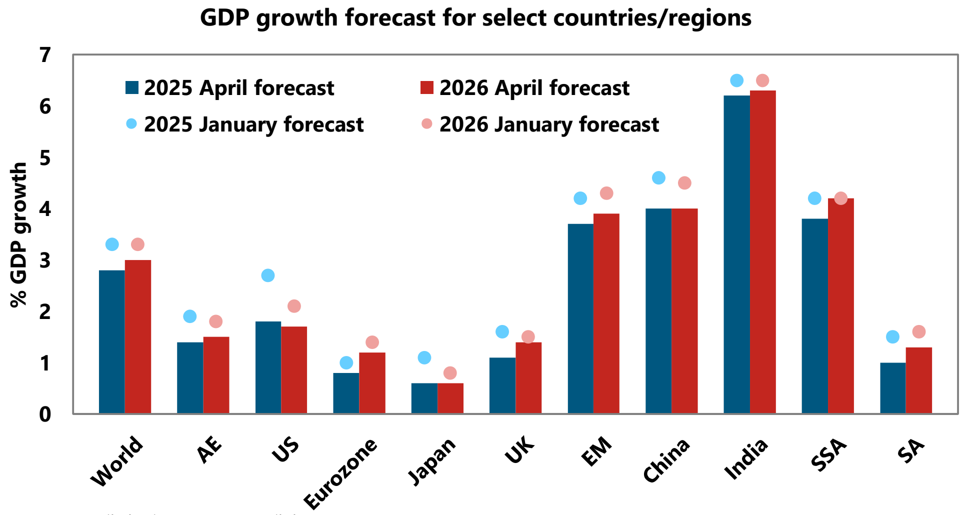
In terms of the outlook, the GDP growth projections have been revised downward from 1.4% in 2025 to 1% and from 1.7% in 2026 to 1.6% due to the developments in the world as well as in the domestic economy.

High levels of uncertainty cloud the global environment

The global environment has changed dramatically during the first quarter of 2025. By the end of 2024, expectations were of continued growth improvements, with inflation steadily moving towards the levels targeted by numerous central banks. However, since the inauguration of President Trump in the United States (US), the erratic deployment of import tariffs has shifted expectations significantly. This is reflected in the extensive global growth forecast revision by the International Monetary Fund (IMF) in their latest World Economic Outlook (WEO) released in April. The IMF revised its growth forecast for 2025 down from 3.2% in January 2025 to the current 2.4% (see Figure 1). Growth for 2026, which is now from a lower base, has also been revised down by 0.1 percentage points to 3%.

Global growth has been revised down sharply to 2.4% in 2025

Figure 1: The global growth outlook deteriorated significantly in Q1 2025



Source: IDC, compiled using IMF WEO April data

In the first quarter of 2025, the level of uncertainty increased globally as the Trump administration announced increased import tariffs on various goods and countries. The steel and aluminium tariffs first imposed during President Trump's first term were reimposed. In February, there was a brief period where the US wanted to impose a 25% import tariff on Mexico and Canada, the other two members of the USMCA free trade agreement. This tariff increase was abandoned for all products that qualify under the USMCA agreement. This action highlighted that the Trump administration does not feel bound by existing agreements, especially as President Trump negotiated the USMCA in his first term.

Erratic US trade policy is creating significant uncertainty

The threat of reciprocal tariffs also became prominent during February, raising concerns that US import tariffs could increase further than previously anticipated. However, the tariffs announced on the 2nd of April were as high as 50% on specific countries. Concerningly, the calculation of these tariffs had no trade or economic basis nor logic and seems to have been reverse-engineered to provide the tariff rate desired. China imposed retaliatory tariffs on US imports, prompting the Trump administration to ratchet the tariffs up to 145% on Chinese imports, and China imposed up to 125% tariffs on US goods.

Financial markets worldwide reacted swiftly and severely, with the US dollar depreciating, US bond yields increasing, equity markets declining, and gold and other safe-haven assets moving sharply higher. By April 7th, the S&P 500 dropped by 10.1%, the US dollar depreciated by 1% against a basket of currencies and US 10-year bond yields increased by almost 1 percentage point, placing significant pressure on the US administration to roll back the tariffs. As a result, President Trump announced a 90-day pause on the

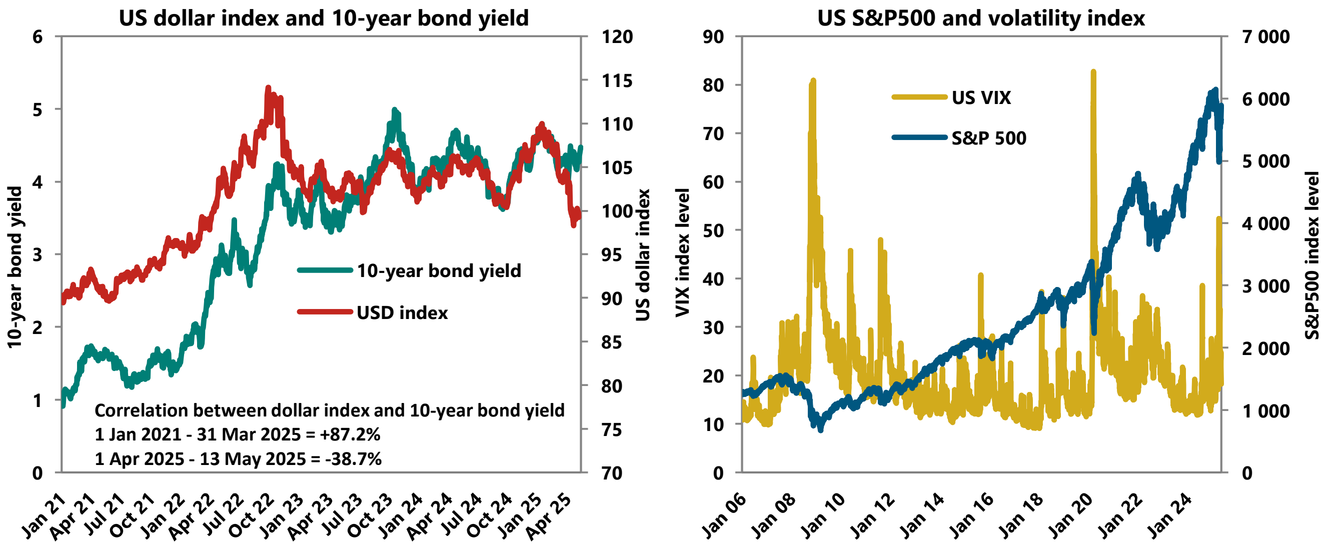
Financial markets in especially the US have reacted very negatively to the US reciprocal tariff announcement reciprocal tariffs, while maintaining a 10% import duty on all imports, except those qualifying under the USMCA and imports from China.

As evidence emerged of the severe impact that the import tariffs on Chinese goods would have on US companies, exemptions were granted for smartphones and laptops, automotive components, and pharmaceuticals before the US reduced the tariffs on all Chinese imports for 90 days to 30% on the 12th of May, at the same time China reduced their tariffs on US products to 10%. Since the tariff announcement on 2 April, the US has had numerous discussions with a wide range of countries to negotiate trade agreements, however, thus far, this has not been fruitful. The only agreement reached was with the United Kingdom (UK) to review the US tariffs on certain UK goods, especially steel, automotives and pharmaceuticals. The UK would investigate reducing restrictions or tariffs for US agricultural products and bioethanol.

Despite numerous discussions regarding trade agreements, the US has not reached any formal agreement while rolling back many of the tariffs announced

Financial markets reacted positively to the US, pausing the import duties, with the S&P 500 and bond markets regaining the losses suffered. However, the US dollar is still 4.8% weaker against a basket of currencies, supporting the view that the Trump administration has damaged the investor sentiment towards the US and has lost some of its safe-haven status.

Figure 2: US financial markets experienced significant volatility due to erratic trade policy



Source: IDC, compiled using Bloomberg data Latest data: 13 May 2025

Source: IDC, compiled using Bloomberg data Latest data: 13 May 2023

The direct economic damage to the US economy resulting from the continuously changing positions and pronouncements on import tariffs is evident in the IMF's adjustment to the US growth in 2025 to 1.8%, from the 2.7% forecast in January this year. This sharp reduction in growth results from an expectation that higher prices of imported goods will negatively impact household spending, while the significant uncertainty is pushing companies to postpone investment decisions. Furthermore, the increased cost of intermediate imports is expected to increase the overall costs of US-manufactured goods, negatively impacting their global competitiveness, resulting in lower exports.

The impact of the erratic US trade policy is reflected in the large lowering of US growth forecasts by the IMF

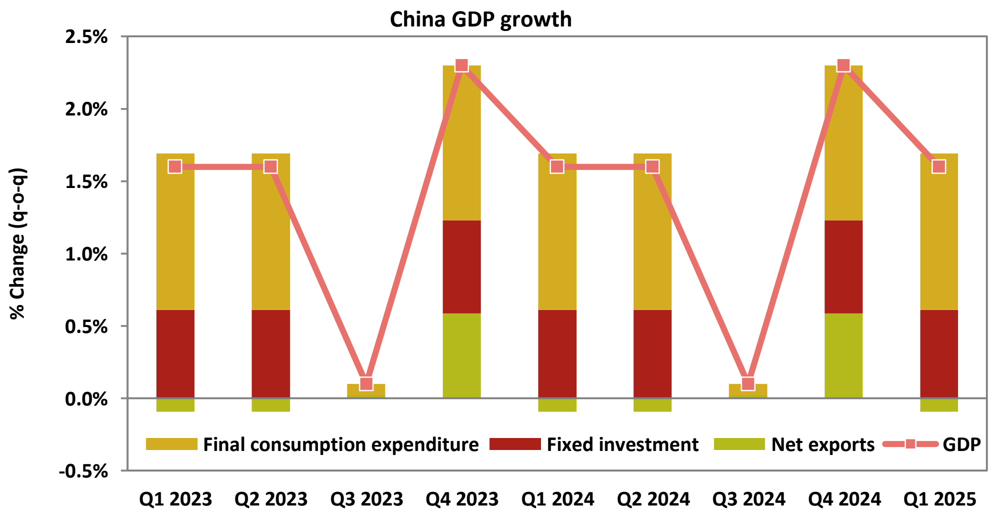
The weaker growth outlook for the US in 2025 is supported by the GDP data for the first quarter, which reflected a 0.1% contraction compared to the final quarter of 2024. During the quarter, US importers increased their imports in anticipation of the tariffs announced on the 2nd of April, making a -1.4 percentage point contribution to growth. US household spending activity increased by 0.4% in Q1 2025, a marked slowing from the 1.0% growth achieved in the previous quarter. Fixed investment activity recorded a robust 1.9% quarter-on-quarter (q-o-q) growth, following a 0.3% contraction in Q4 2024. Government consumption spending contracted by 0.4% q-o-q, a negative signal given the Trump administration's efforts to reduce government spending further.

The significant increase in uncertainty and a sharp increase in inflation expectations prompted the US Federal Reserve to maintain the Fed Funds rate at a range of 5.00% – 5.25%, despite the significant pressure placed upon it by the Trump administration. The outlook for US interest rates is being complicated by the distinct possibility that there could be a simultaneous contraction in growth and an increase in inflation, placing the monetary policy action in response to this in opposition to each other, with interest rate cuts required to stimulate growth while at the same time higher interest rates are needed to curtail inflation.

The IMF reduced its forecast for growth in China to 3.7% in 2025, significantly lower than the 5% target set by the Chinese authorities. The first quarter GDP data reflected growth of 1.6% q-o-q, which, if sustained, would put it on track to achieve the 5% target. However, the first quarter data may be temporarily boosted by the rush to ship products to the US in anticipation of the tariff announcements. There are broader concerns regarding the ability of the Chinese economy to maintain its rapid growth rate, as the country is facing increasing resistance to its export-driven model, with countries investigating trade protection measures for, among others, steel and electric vehicles.

The Chinese economic growth momentum is facing several headwinds bringing into question the achievability of its 5% growth target.

Figure 3: Chinese growth momentum maintained in Q1 2025, however, concerns remain



Source: IDC, compiled using NBS data

Concerns regarding the sustainability of Chinese growth have prompted the People's Bank of China to lower interest rates. The country is also experiencing episodes of deflation, which is worrying as this negatively impacts investment and spending decision making, as evidenced by the continued weak growth in Japan since the late 1990s.

The Eurozone growth outlook has not been reduced significantly by the IMF, with GDP forecasted to expand by 0.8% in 2025 and 1.2% in 2026. The growth outlook is predicated on an improvement in German growth, which contracted in the previous two years, as the new government of Chancellor Merz announced a relaxation of the German debt brake, with increased spending earmarked for infrastructure rehabilitation, as well as higher defence spending. At the European Union (EU) level, there have also been discussions on creating a regional defence fund, which would indirectly support European manufacturers.

Although improving, the Eurozone's muted growth of 0.3% in Q1 2025, in conjunction with inflation close to the European Central Bank's (ECB) target level, underpinned the decision to cut interest rates to 2.25% in April. The ECB has reduced its policy rate by a cumulative 175 basis points since June 2024.

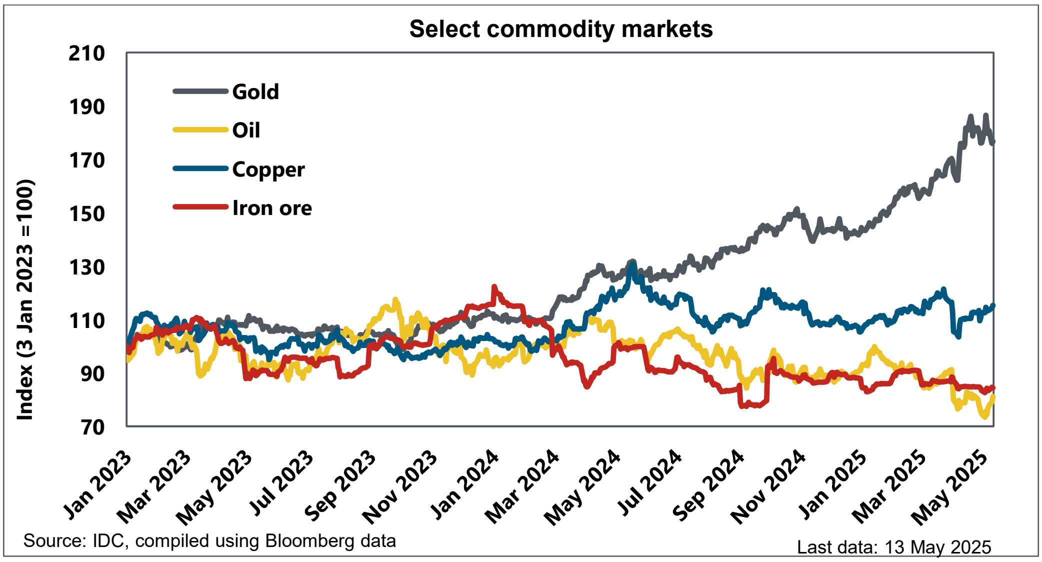
India is projected to continue its rapid growth over the IMF's forecast period, supported by continued efforts to attract manufacturers looking to diversify their manufacturing locations beyond China. However, India is facing growing resistance from China, which is preventing critical skilled workers from travelling to India to establish the new production facilities, while also constricting the transfer of critical machinery and components. Additionally, India has various geopolitical rivals, most notably Pakistan, with whom there was a recent armed conflict, as well as China. Should India become embroiled in a significant armed conflict, it could result in a growth slowdown as sentiment towards the country is impacted.

The IMF having to restart its forecasting process following President Trump's April 2nd tariff announcement highlights the highly uncertain global environment. The IMF also references the potential for diversions from its reference forecast depending on how events unfold. This elevated uncertainty is priced into various commodities, with gold being the most prominent. The gold price increased by 23.8% (up to 13 May 2025) thus far in 2025, with significant inflows recorded by gold-backed exchange-traded funds (ETFs), purchases of physical gold bars and coins by central banks and investors.

The gold price has been on a sustained upward trajectory since the Russian invasion of Ukraine, having increased by 80.6% since the start of 2022 to 13th of May 2025. The seizure of Russian foreign exchange assets in Europe and the US has highlighted the vulnerability of countries that hold assets in foreign countries. This has prompted especially emerging market central banks to step up their purchases of physical gold, with the World Gold Council reporting that central banks purchased a cumulative 3 216.8 tonnes of gold since the start of 2022.

The increased uncertainty in the global environment is making physical gold holding very attractive, supporting higher gold prices.

Figure 4: Commodity markets reflect the highly uncertain global environment



In contrast, the Brent crude oil price has retreated by 10.7% due to weaker growth prospects, exacerbated by OPEC reducing production restrictions on member countries. Iron ore prices have also come under pressure, declining by 4.4% year to 13 May 2025, due to concerns regarding Chinese growth prospects and above-average Chinese port inventory levels, while the development of the Simandou iron ore mine is set to increase global seaborne supply at a time where the market is already well supplied.

Commodities closely associated with the energy transition to greener fuels, notably copper, have remained resilient as demand increases. The increased adoption of hybrid-electric and full-electric vehicles and the roll-out of data centres is expanding the demand for transmission capacity, all of which have high copper content requirements. The price is further supported by a constrained supply side, with some large copper mines in South America struggling to increase or even maintain production levels, creating a shortage of

Green energy associated commodities are more resilient in the current economic environment as demand pressures remain.

copper concentrate. Aluminium is also closely associated with the green transition, with relatively strong demand. However, the aluminium price has declined by 2.4% in 2025 thus far, mainly because of a sharp moderation in alumina price, the raw material used to produce aluminium, while energy costs in especially Europe have also moved lower.

The overall uncertainty regarding the US trade policy actions and the responses and impact on its trading partners is making the operating environment very difficult for businesses. This difficulty is reflected in numerous listed companies globally withdrawing their financial and/or production guidance. In addition, companies are pausing or curtailing their investment decisions, especially projects located in the US, due to the uncertainty regarding trade policy and the continued commitment to previous incentives, such as those provided under the Biden administration's Inflation Reduction Act.

Sub-Saharan Africa's medium term outlook positive despite growing uncertainty

Regional economic growth expected to decelerate somewhat in 2025, but remain relatively strong at a projected 3.8%

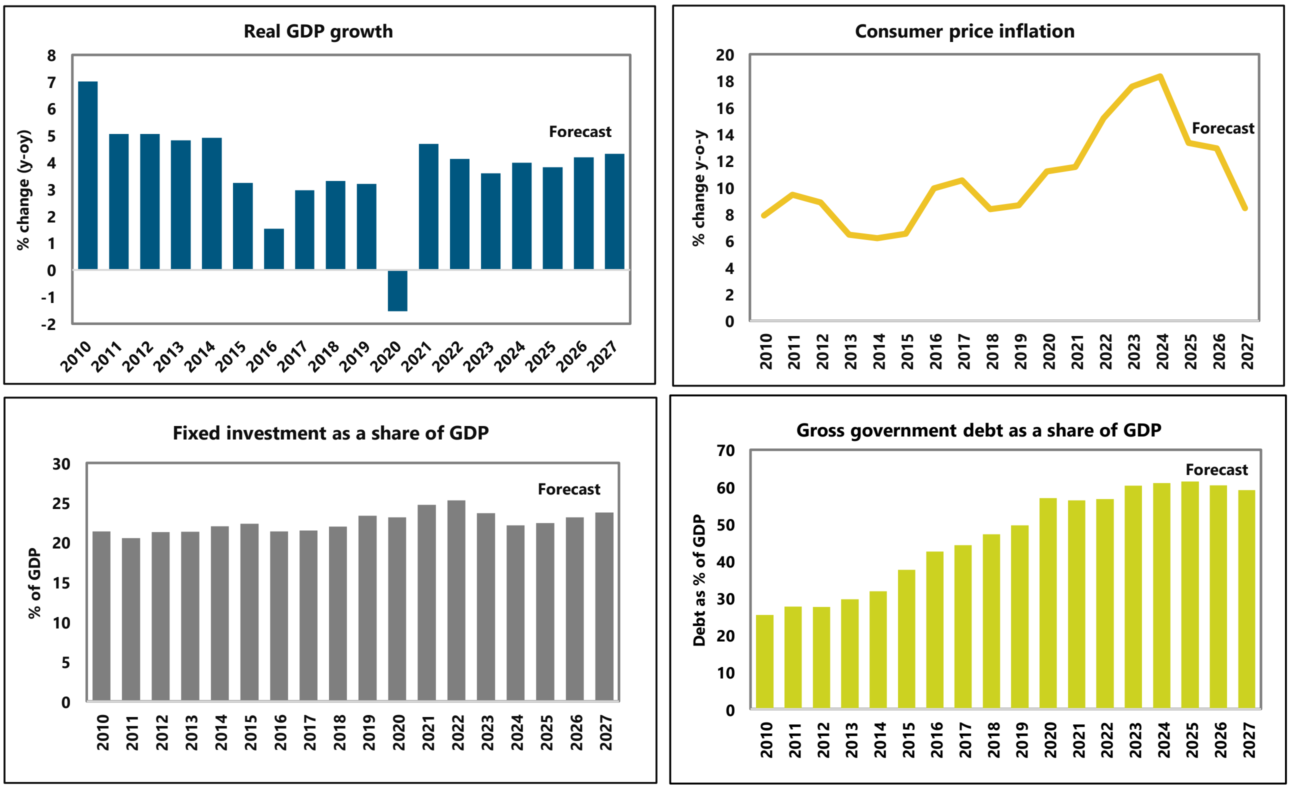
The pace of economic expansion in Sub-Saharan Africa (SSA) is expected to ease slightly in 2025, amidst a global environment characterised by global trade tensions, volatile geopolitical dynamics and heightened uncertainty. However, medium-term economic prospects remain relatively positive underpinned by the anticipated strengthening in demand at the country level. Investment activity is expected to gradually recover in various countries.

Increasing trade tensions and rising uncertainty likely to weigh on the region's growth prospects

The IMF has lowered its growth estimates for SSA to 3.8% in 2025, from 4.2% previously. The downside revision has been attributed to the unfavourable global conditions and outlook, which are likely to manifest in reduced external demand, subdued commodity prices and tighter financial conditions. These, together with increased uncertainty could weigh on investor sentiment and the region's activity, particularly for those heavily exposed to commodity exports and have larger trade exposures to the US. It is important to note that the direct impact of US tariffs will likely be limited on average in the region, given that the US remains a minor trading partner to most African countries, while most raw mineral exports are exempted from the US tariffs.

Despite the macroeconomic environment that was stabilising and expected to improve as evidenced by declining inflation rates, stabilising public debts and improving fixed investment activity as depicted in Figure 5 below, risks have tilted to the downside on the back of an external environment that is becoming less favourable and highly uncertain.

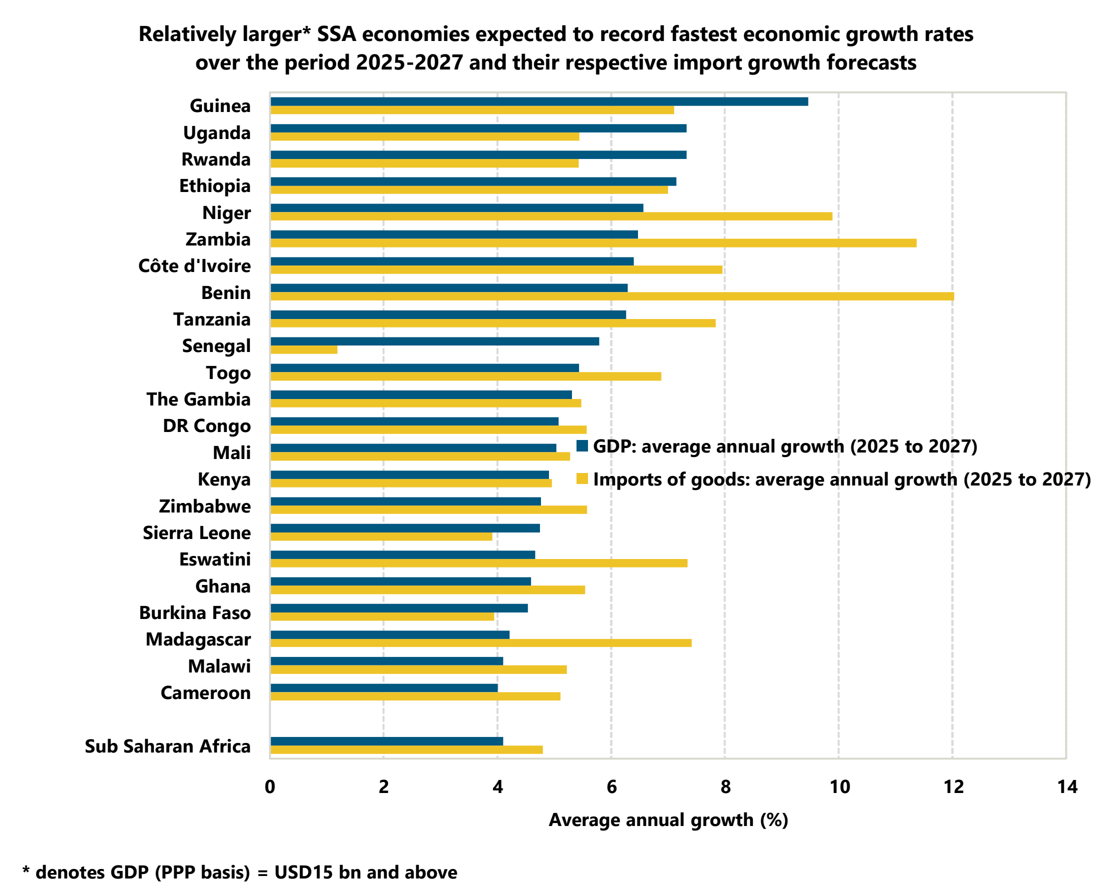
***Figure 5:* Despite a marginal easing in growth in 2025, Sub-Saharan Africa's economic outlook improving across key indicators**



Source: IDC, compiled using IMF data

A moderate pick-up to 4.2% is projected for 2026, although these aggregated figures mask wide variations across countries. Excluding the region's largest economies - Nigeria and South Africa - which are still expected to post muted (albeit improved) rates of economic expansion, growth in the SSA region is projected at 4.8% and 5.4% in 2025 and 2026, respectively. This will be driven by robust growth performances in some of the relatively larger economies such Ethiopia, Côte d'Ivoire, Uganda, Senegal and others, which are projected to post strong growth rates of 6% and above over the 2025 to 2027 forecast period as shown in figure 6 below. Most of these countries are also expected to register strong growth in merchandise imports, which should bode well for various export categories including inputs for infrastructure development.

Figure 6: Potential export opportunities in some of the fastest growing economies in Sub-Saharan Africa



Source: IDC compiled, using IMF data (April 2025)

There are ever-present risks to the region's macroeconomic outlook. Despite the anticipated rise in growth during the three-year period to 2027, the SSA region's economies will have to navigate a changing global trade environment and persistent geopolitical shifts that may impact commodity prices; reduced foreign aid budgets globally as well as growing political and military tensions in parts of the region and climate-related shocks (which are becoming more frequent and severe).

The region has been on the 'frontline' of the global crises and its vulnerabilities have been made worse by its persistent heavy reliance on external markets, volatile commodity exports, high levels of debt, which continues to constrain fiscal space for long-term growth and development as well as weak levels of infrastructure. To build the region's resilience, raise its growth potential and benefit from the opportunities presented by its abundant resources, UNCTAD in its latest Economic Development in Africa Report[1], proposes a few key actions and policy priorities to reduce the continent's vulnerabilities. These include: the diversification of economies to reduce their dependence; stronger

[1] https://unctad.org/publication/economic-development-africa-report-2024

intra-African trade networks to reduce reliance on global markets; targeted and strategic investments in transport and digital infrastructure to lower trade costs and improve production and logistics; enhance energy security through investment in renewable energy sources; better debt management and improvement of access to financing as well as climate-adaptive polices to reduce risks.

Boosting intra-African trade (currently at around 16% of total) is regarded as one of the continent's greatest opportunities, with the African Continental Free Trade Area (AfCFTA) offering a means to enhance deeper regional integration that would boost the continent's resilience, support sustainable growth, facilitate the development of regional supply chains and enhance global competitiveness. The use of more innovative financing mechanisms to boost investment in the region and the channelling of capital spending towards climate change adaptation and mitigation projects are also deemed to be particularly important. Considering its remarkable potential for renewable energy generation and an enormous endowment of mineral resources that are key for the green transition, the region presents unparalleled investment opportunities.

Initiatives and mechanisms for the implementation of the AfCFTA progressing gradually

Leveraging the potential benefits of the African Continental Free Trade Area (AfCFTA) becomes all the more crucial. Not only will this preferential trade agreement between 54 African countries unlock a multitude of new trade and investment opportunities across several sectors and enabling-oriented services, but it also has the potential to provide much-needed stimulus to their economic expansion in the years ahead and will increase their resilience to external shocks and risks. Various initiatives and mechanisms have been put in place to accelerate the AfCFTA's implementation, while also improving the utilisation of existing operational tools (refer to Table 1 below).

Table 1: Progress on the roll-out of the Africa Continental Free Trade Area agreement

Some of the key milestones, initiatives and/or mechanisms being put in place	
Pan-African Payment and Settlement System	This was developed by the African Export-Import Bank (Afreximbank) in collaboration with the African Union and the AfCFTA Secretariat and is a centralised financial market infrastructure aimed at enabling the efficient and secure flow of money across African borders. PAPSS works in collaboration with central banks on the continent to provide a payment and settlement service to which commercial banks, payment service providers and fintech organisations across the continent can connect to as participants.
AfCFTA Guided Trade Initiative	This initiative was developed to facilitate the commencement of preferential trade under the AfCFTA by 'connecting businesses and products for export and import between interested State Parties'. Initially, seven countries participated in the initiative, trading several products among themselves. By the end of 2024, several State Parties were participating in this initiative, which is likely to be extended to cover trade in services over time.
AfCFTA Private Sector Engagement Strategy	Regional value chains are being developed under the AfCFTA Private Sector Engagement Strategy, which has initially prioritised four sectors or value chains: agro-processing, automotive, pharmaceuticals as well as transportation and logistics.
AfCFTA Adjustment Fund	The AfCFTA Adjustment Fund has been operationalised (in relation to the Base Fund), but also entails a General Fund (for the mobilisation of concessional funding) and a Credit Fund (for mobilisation of commercial funding). This Adjustment Fund is intended to support both member states and private sector to participate in the new trading environment established under the AfCFTA.
AfCFTA e-Tarrif Book	The AfCFTA electronic Tariff Book was launched in November 2022, thus allowing for a 'digitalised trade facilitation'. It contains updated Schedules of Tariff Concessions, including information on rates of duty applied by State Parties. As of early May 2025, 48 State Parties had submitted their offers of tariff concessions, with the Provisional Schedules of Tariff Concessions available in the electronic Tariff Book.
AfCFTA Dispute Settlement Mechanism	This will allow State Parties to settle disputes related to trade. The AfCFTA Dispute settlement mechanism has been established, with a Dispute Settlement Body (DSB) already operational following the appointment of the members of the Appellate Body.
AfCFTA Online Mechanism for Reporting, Monitoring and Elimination of Non-Tariff Barriers	This is a facility/platform intended to allow businesses/users (including formal traders, women etc.) to report obstacles encountered during cross border trade thus allowing concerned authorities to address the issues in a collaborative manner.
African Trade Observatory	This is a continent-wide trade information portal to facilitate intra-African trade and to support the roll-out of the AfCFTA.

Sources: AfCFTA Secretariat and African Union Information and Communication Directorate; tralac trade law centre

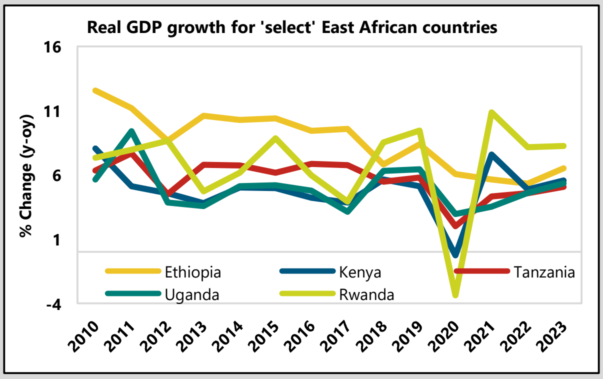
Box 1: Special focus: Growth and fixed investment performance of a 'select' East African economies

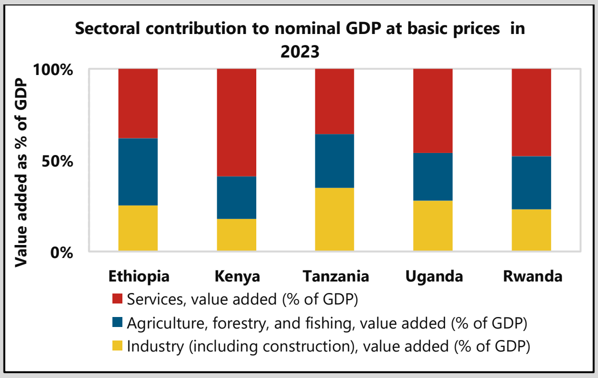
Despite growing uncertainty globally, growth in a handful of African economies is expected to hold up relatively well. These economies are expected to post sharply robust growth performances over the three-year outlook period to 2027.

Among the Sub-Saharan African region's top growth performers, with expected average annual growth rates of 5% and above, as depicted in Figure 6 will be those in East Africa, like Ethiopia, Kenya, Tanzania, Uganda, and Rwanda. These countries fall into two income groups – Uganda, Rwanda and Ethiopia are low income (GNI per capita of $1 145 or less), while Kenya and Tanzania are lower-middle income (GNI per capita between $1 146 and $4 515 (according to World Bank classifications). The income status of all the countries indicates that they are still at relatively early stages of development and growth is coming from a relatively low base.

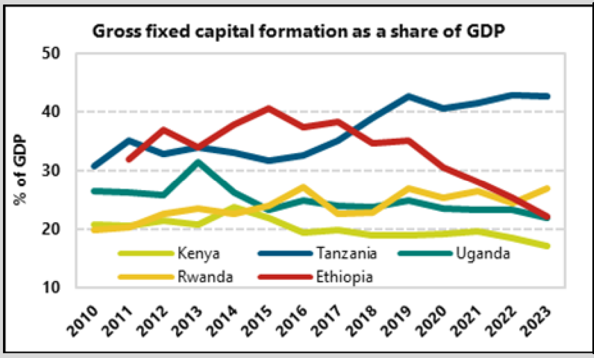
While the key drivers of growth in these economies are varied, similar factors can be identified across a number of these economies. These include among others: significant infrastructure development, new minerals projects in some instances, diversification into value-added sectors such as agro-processing, light and medium manufacturing activities, and services, implementation of broader business and market friendly reforms to attract foreign investments as well as the underpinnings of the region's favourable demographic trends, including increasing middle-class and urbanising populations. These economies' relative diversification and less reliance on volatile commodities have provided a more sustainable foundation for long-term growth and development.

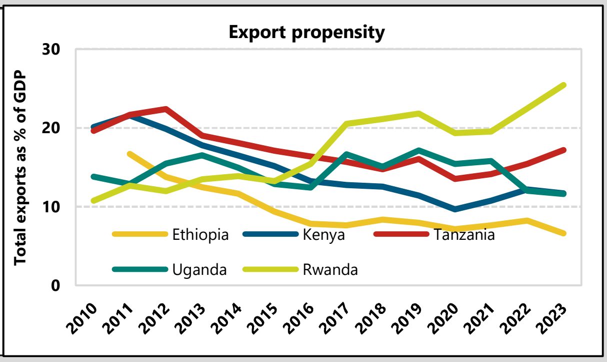
Over the past decade, the East African Community (EAC) subregion has remained one of the fastest-growing subregions in Africa, posting an annual average growth rate of just above 5.5% from 2011 to 2024 (excluding 2020), higher than that of SSA at 4%, according to the IMF (April 2025 data). Growth rates in some of the EAC's key economies are shown in the chart below. The sectoral contributions to GDP vary across the countries, including within income groups. The services sector dominate, accounting for the largest share of GDP across the East Africa subregion, albeit revealing different degrees of diversification. The sectoral composition of the respective economies reflects the growing importance of retail, ICT, financial services and tourism, amongst others, but also country-specific development strategies, industrial policy choices, natural endowments and investment environments. Importantly, the selected economies have undergone significant strauctural transformations between 2010 and 2023. For Example, in Ethiopia, industry (including construction) accounted for 9.4% of GDP in 2010 and this increased to 24.5% in 2023, representing a rapid industrialisation.





GDP growth in the selected EAC countries has been supported by fixed investment with gross fixed capital formation as percentage of GDP as high as 42% for Tanzania, indicating potential for long term growth. According to the AfDB (2024), high levels of fixed investment activity, particularly in infrastructure, industry, and extractive sectors, have been a major driver of East Africa's growth trajectory. However, investment intensity has varied by country and sector. For instance, in the case of Ethiopia, the country's pursuit of an aggressive industrialisation strategy and a commitment to economic liberalisation, with large-scale investments in physical infrastructure and industrial parks to improve logistics and the manufacturing and agriculture sectors, has sustained the high ratio of fixed investment to GDP. Heavy bias towards infrastructure investments in rail, ports, roads, power transmission and distribution grids has underpinned Tanzania's fixed investment activity. At the same time, Rwanda has similarly prioritised fixed capital formation through public investment and PPPs, with strong inflows into services and technology-driven sectors, as it seeks to be the innovation and logistics hub. Rwanda's exports as a share of GDP grew from 10.7% in 2010 to 25.4% in 2023 largely driving by mining exports.





Source: IDC compiled (charts), using World Bank Development Indicators data (April 2025)

South African economy – Modest growth on the cards for 2025

After a very modest economic performance in 2024, with economic growth at 0.6%, recent economic indicators such as energy availability, mining and manufacturing output, and employment indicate that 2025 may be another challenging economic year. On the upside, early indicators are that the field crops segment of the agricultural sector is expected to show a substantial improvement compared to the 2023/24 season. This could have a positive impact on overall growth figures, despite the relatively small share (2.5%) of the agricultural sector in the overall economy.

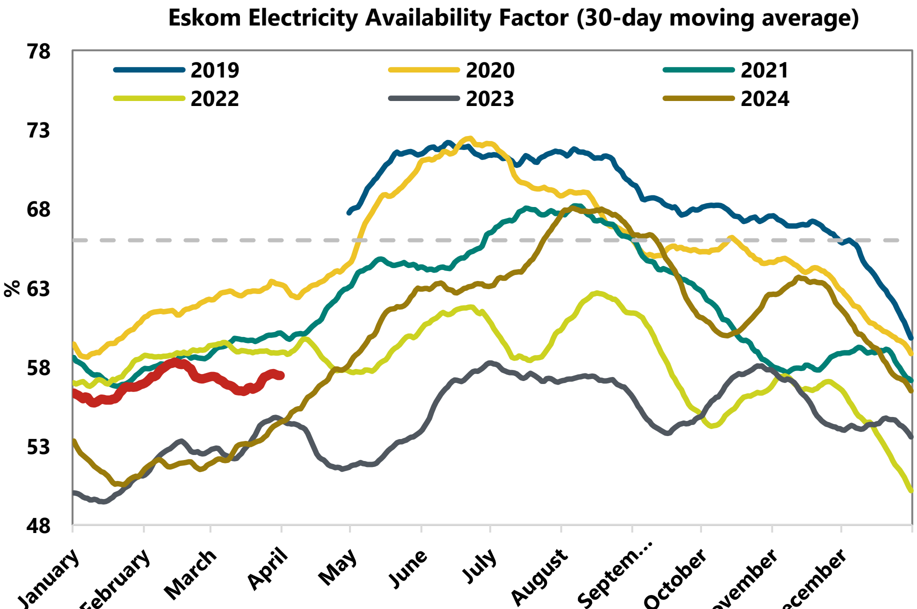
Inflation in South Africa (SA) has been muted in recent months, enabling the SARB to lower interest rates, providing much-needed relief to indebted households and businesses. However, global and domestic uncertainties, especially the relationships between political parties forming the Government of National Unity (GNU), will impact spending and investment decision-making.

Sectoral performances

The energy sector faces various challenges. It is crucial that the industry focuses on energy reforms, improves and modernises infrastructure, expand the transmission network, and ensures sufficient electricity supply to households and businesses. During the first quarter of 2025, Eskom's Energy Availability Factor (EAF) was at 57%, remaining below the 66% target. However, the EAF was 4.8% higher than in Q1 2024.

Stable electricity supply important for economic growth

Figure 7: Energy availability is impacted by planned maintenance

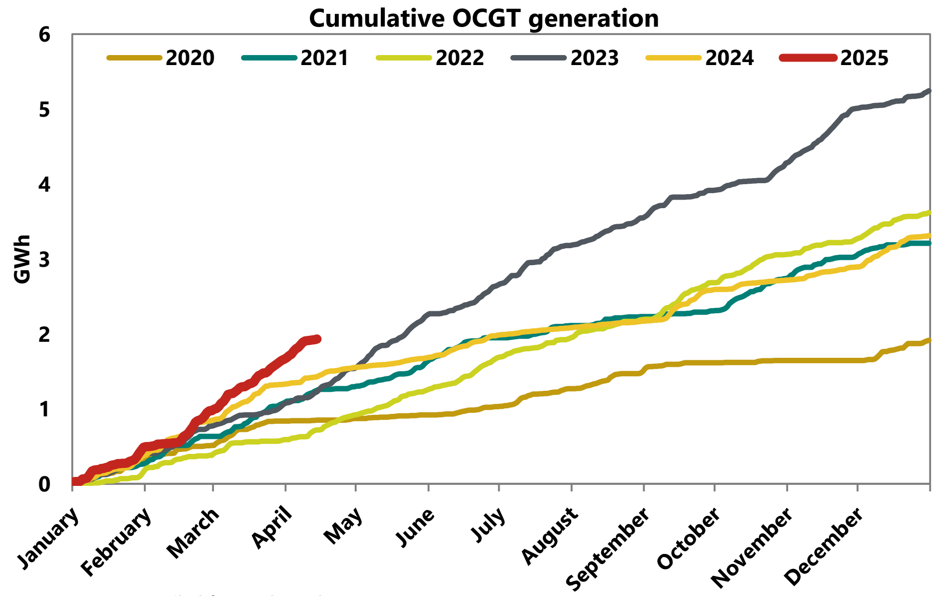


Source: IDC, compiled from Eskom data

The improvement in the EAF is a result of a more intensive maintenance. Due to the unreliability of SA's coal-fired power station performance, OCFT, which are meant to be used only during emergencies and peak periods, are used more intensively, requiring a significant use of diesel. The sustained high Open Cycle Gas Turbines (OCGTs) usage, as shown in Figure 8, outside of peak periods leaves SA's electricity network vulnerable should unexpected capacity losses occur, resulting in load-shedding. The cost of running OCGT generators are significantly higher compared to other electricity generation sources. Thus, Eskom's financial position could come under severe pressure, with demands for fiscal support being a distinct possibility. In the absence of additional support, Eskom would have to reduce spending elsewhere, and potentially on investment in the infrastructure.

Q1 2025 EAF lower than 2020 and 2022

Figure 8: OCGT usage in 2025 is significantly higher than in previous years

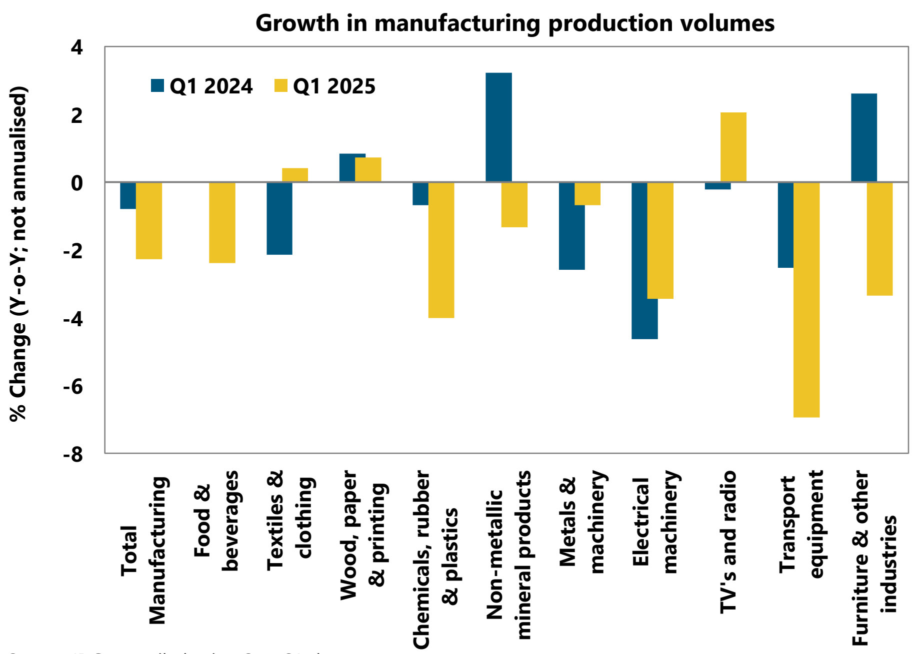


Source: IDC, compiled from Eskom data

Manufacturing sector continues to struggle, not raising overall production output

In 2025, the environment for the **manufacturing sector** is expected to remain challenging, with the output growth contracting by 2.4% year-on-year (y-o-y) during the first quarter as most sub-sectors struggled to gain growth momentum again. The textile and clothing industry production output decreased by 4.6% while the broader transport and equipment sector declined by 10.7%. For the better part, key sub-sectors such as metals and machinery gained some traction during the latest quarter of output production, although very modestly. Positively, furniture production volumes gained some traction on the back of negative production volume growth in the first quarter of 2024, growing by 3.4% in Q1 2025.

Figure 9: Manufacturing sector output declines once again



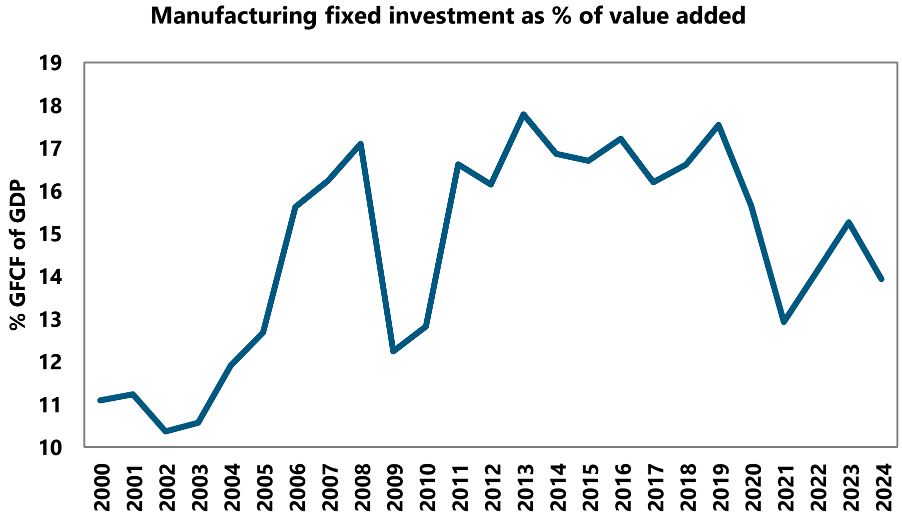
Source: IDC, compiled using StatsSA data

Automotive sector remains under pressure as global trade tensions continue

As the broader transport and equipment sector continued to decline in Q1 2025 from the first quarter of 2024, automotive parts and accessories and bodies for vehicles; and trailers and semi-trailers; and motor vehicles declined by 11.4%, -18.6% and 10.6%, respectively. The decline in output is also reflected by the downward trend of motor vehicle components exports, which fell from R66.9 billion in 2023 to R63.4 billion in 2024[2]. The 25% tariff imposed by the US on the South African motor industry would add to these challenges, though automotive exports to the US were less than 10% of total automotive exports in 2024.

The levels of investment in the manufacturing sector, measured as fixed investment as a proportion of value addition (GDP) are low at 14.5% in 2024, this means that there is an insufficient expansion of manufacturing productive capacity to ensure faster growth in the future (Figure 10). This level is substantially below the 20-25% that is required to support rapid industrialisation.

Figure 10: Manufacturing fixed investment activity has declined since COVID



Source: IDC, compiled from StatsSA data

Business conditions over the next twelve months are not foreseen to improve, with manufacturing confidence declining during the first quarter of 2025. However, the Q1 2025 BER Manufacturing Business Survey shows that investment in machinery and equipment over the next year is expected to increase, marking it as the second consecutive increase for two quarters in a row. In addition, export volumes are also foreseen to increase in twelve months, which indicates a modest recovery.

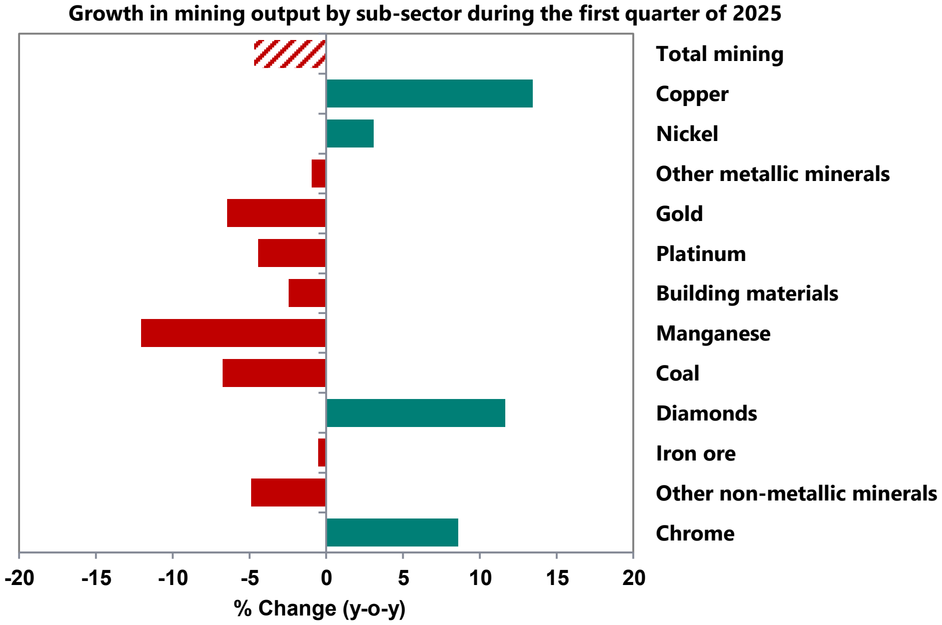
Although **mining** output strengthened somewhat by 0.4% in 2024, production output fell by 4.7% during the first quarter of 2025 compared to the same period during 2024. The largest declines were recorded in PGMs (-12.1%), iron ore (-6.7%) and gold (-4.9%). In contrast, manganese (+13.4%) and copper (+8.6%) recorded substantial increases in production volumes.

Mining sector highly reliant on the successful implementation of Phase II of Operation Vulindlela

A key aspect of Phase II of Operation Vulindlela is improving freight rail performance and port efficiency, supporting mining activities by providing cost-efficient access to global markets. Mining operations are highly energy-intensive, and as such, a reliable electricity supply is critical for future mine developments. The current lack of a functioning mining cadastre is further inhibiting mineral exploration and greenfield mine development.

[2] 2025 Naamsa Automotive Trade Manual.

Figure 11: Mining activity declines across major sub-sectors



Source: IDC, compiled from Stats SA data

Lack of mine development and investment will also have a detrimental impact on the overall value of SA exports, with potential negative implications for the rand exchange rate. The global transition to green energy provides substantial opportunities for the South African mining sector to supply commodities such as copper, manganese and nickel, among other commodities, to global markets.

From the previous severe drop in **agriculture** output and growth performance, agriculture output is expected to improve in the 2024/25 production season. The summer crop output is set to increase by 3.2 million tonnes (+19.6%) from the 2023/24 production year. The Crop Estimates Committee expects that total maize production, which includes white and yellow maize, will increase by 1.8 million tons, growing at 13.9% from the preceding production season. Other summer crops are also set to benefit from the good climatic conditions thus far in the season, with substantial increases projected for dry beans (+56.5%), sorghum (+40.2%), groundnuts (+28.7%), soybeans (+26.1%) and sunflower seeds (+17.5%).

Severe drought impact of production season 2023/24 has run its course, crop estimates indicate recovery

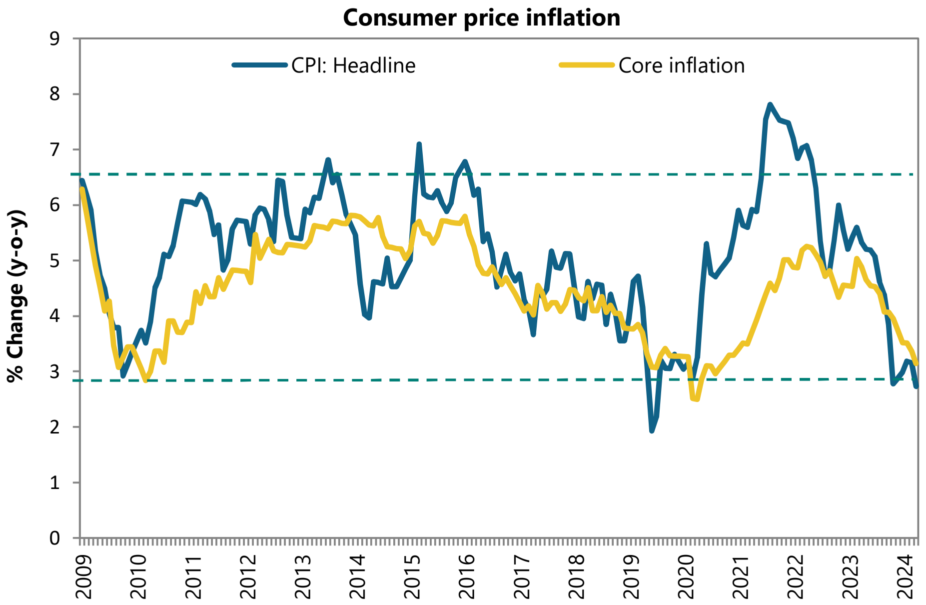
The US tariffs of 10%, while a further 24% duty has been suspended for 90 days from 7 April 2025, on South African products will negatively impact the price competitiveness of South African products, especially oranges, leading to a loss of earnings for citrus farmers. An outbreak of foot-and-mouth disease in Mpumalanga has prompted the Chinese to suspend the import of South African beef in May 2025. Significant efforts are underway to prevent the disease from spreading, as a broader outbreak could result in other countries curtailing imports of South African livestock products.

Inflation and monetary policy

In March 2025, consumer price inflation eased to 2.7% from 3.2% in February, while core inflation, which excludes volatile food and fuel prices, declined to 3.1% (February 2025: 3.4%). The muted inflation outcomes result from lower petrol prices, having declined by 8.8% y-o-y in March, while food inflation has also moderated. The relative stability of the rand exchange rate, lower global oil prices and an improved summer harvest outlook are expected to keep inflationary pressures muted over the remainder of 2025.

Low petrol prices provide much needed relief to commuters

Figure 12: Low food and petrol inflation paves the way for lower headline inflation



Source: IDC, compiled using Stats SA data
Latest data: March 2025

Despite inflation being at the lower end of the South African Reserve Bank (SARB's) inflation target range of 3% to 6%, the Monetary Policy Committee (MPC) remains cautious about lowering interest rates further. This cautious stance is predicated on the significant global uncertainty and the risk that monetary policy easing could result in a substantial exchange rate depreciation, fuelling inflationary pressures.

SARB weighs their options at repo rate cut as the bank remains cautious

Employment and unemployment

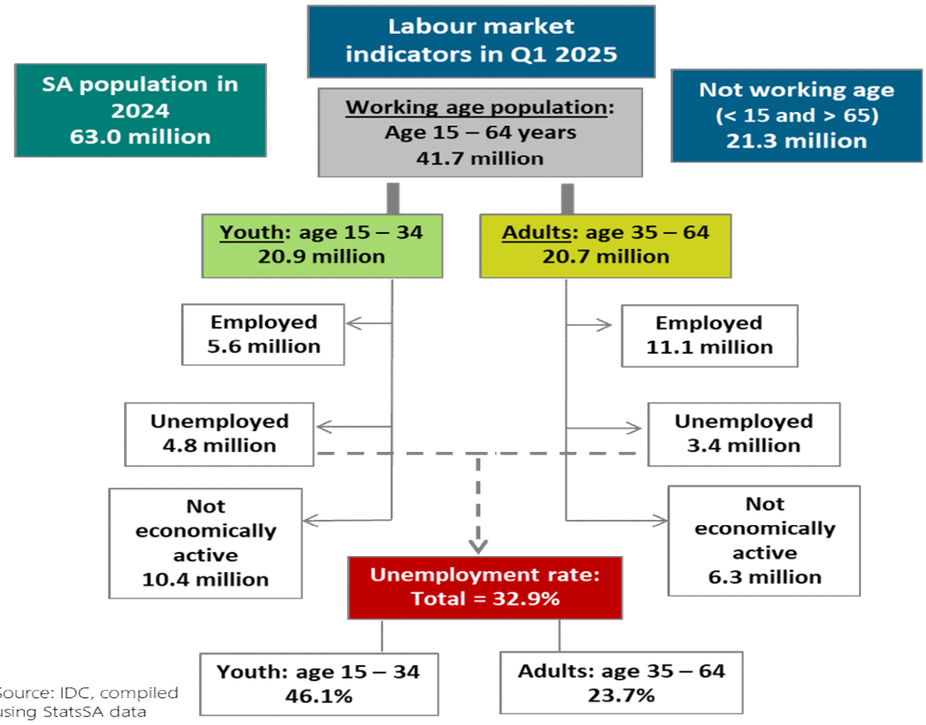
First-quarter employment figures reflect the structural constraints in the South African economy and the continued struggles that sectors such as mining and manufacturing are experiencing. The unemployment rate increased to 32.9%, as the formal and informal employment increased by only 0.3% y-o-y, with a 1% decline in formal sector employment. The weak employment outcomes reflect the still challenging operating environment as reflected in the RMB/BER Business Confidence Index (BCI) reading of 45 points, remaining well below the 50-point neutral mark. Global and local uncertainty does not bode well for employment creation as investment decision-making becomes increasingly stalled.

Global and domestic uncertainty puts pressure on the desire to appoint new employees

On a quarterly basis, the number of unemployed people increased by 236 731 to 8.2 million people without work, while the number of people employed declined by 290 575, with 245 236 jobs being lost in the formal sector and 68 326 in private households. The quarterly job losses are not unusual, as the final quarter of the year sees increased employment in the retail sector for the festive season, while the agricultural sector requires workers for the planting period. The lower employment levels have implications for expected household spending, as lower disposable income weighs negatively on the ability to spend.

Seasonality taken into account when interpreting job losses

Figure 13: The unemployment rate increases during the first quarter of 2025



Source: IDC, compiled using StatsSA data

The sectors that saw a decline in y-o-y employment were wholesale and retail trade and accommodation (-243 602), private households (-100 217), mining and quarrying (-23 686) and agriculture, forestry and fishing (-11 198). The significant loss of jobs in the wholesale and retail trade and accommodation sector reflects the still difficult financial position households find themselves in.

Job losses in wholesale and retail trade confirms financial pressure on households

International trade performance

During the first quarter of 2025, the value of merchandise exports totalled R485.1 billion, a R9.6 billion increase from the same quarter in 2024 (+2%). Merchandise imports increased by R7 billion (+1.6%) to R456.3 billion. The trade balance recorded a surplus of R28.9 billion, an increase of R2.6 billion (+9.8%) compared to the first quarter of 2024.

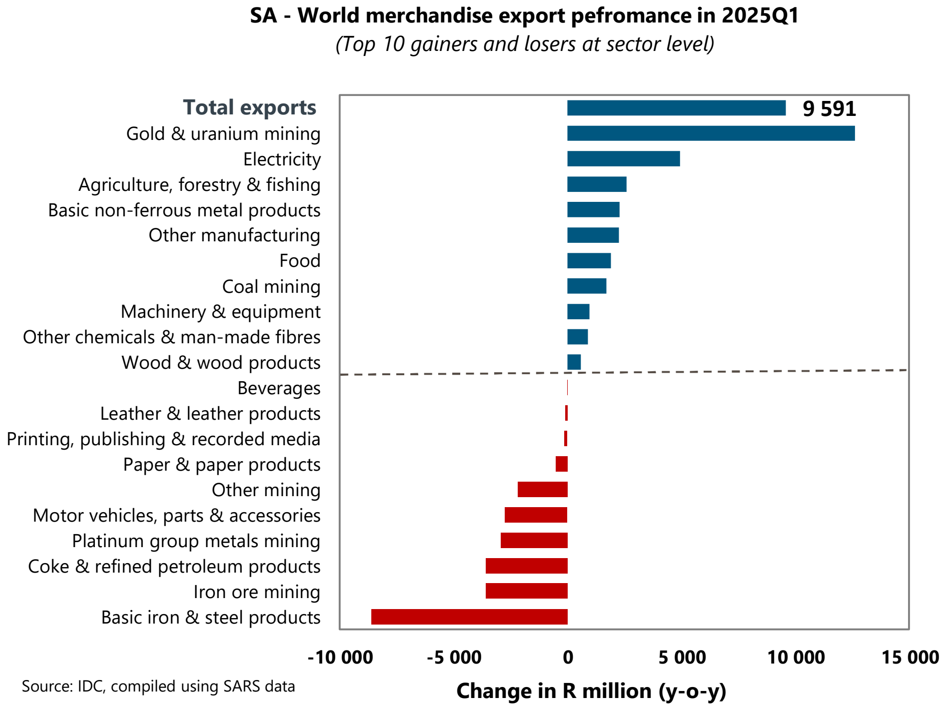
Trade surplus recorded during the first quarter of 2025

During the quarter under review, the increase in merchandise exports was primarily driven by gold exports (R12.6 billion increase) due to higher gold prices as investors shifted towards safe-haven assets. The value of iron ore exports declined by R3.6 billion and PGMs declined by 7.6% (-R2.9 billion) in the first quarter as PGM prices remain under pressure due to more muted automotive demand. Basic iron and steel exports decreased by 28.3% (-R8.6 billion) in the first quarter of 2025, largely due to the smelting capacity of ferrochrome being idled due to difficulties in competing internationally, as electricity prices have increased significantly in recent years. Motor vehicles, parts and accessories exports fell by R2.7 billion (-4.1%), reflecting subdued global demand.

Mixed commodity prices drive gold exports but PGM exports decline

Imports of motor vehicles, parts and accessories increased by R5.4 billion in Q1 2025 as especially Chinese cars gained greater market share. The value of crude oil imports declined by R9.9 billion, mainly due to the inland crude oil refinery (Natref) temporarily shutting down due to a fire that occurred in January 2025 and a lower oil price. The decline in local refined petroleum production necessitated increased imports to meet the fuel demand of the country, with imports of coke and refined petroleum products increasing to R5.4 billion.

Figure 14: Gold mining exports thrive on global uncertainty



Source: IDC, compiled using SARS data

Growth outlook for the South African economy

Over the past few months, domestic and global developments have created significant uncertainty and a challenging economic environment. The South African economy has been under strain for a prolonged period, with real GDP growth averaging 1.5% over the past ten years and managing only 0.6% growth in 2024.

Since the previous three consecutive interest rate reductions, the SARB has pivoted towards a more conservative monetary policy stance in light of the highly uncertain environment. This cautious approach by the SARB is despite consumer inflation being well below its mid-point target of 4.5% in recent months. The SARB is concerned that the easing of monetary policy could result in the rand exchange rate coming under pressure, fuelling inflation.

The rand experienced significant volatility in the aftermath of the US April 2nd tariff announcement. However, it has returned to the levels before April against the US dollar. However, the rand has depreciated against the euro, one of South Africa's major exporting destinations. It is projected that the currency could gain some further ground against the US dollar, however, remaining relatively weaker against the euro.

Inflation for 2025 is expected at 3.2%, just above the lower band of the targeted range. Moderate inflation over the next few years will move towards the mid-range target. Despite the relatively low inflation environment, only one interest rate cut of 25 basis points is assumed during the third quarter of 2025. The SARB is expected to reduce interest rates by a further 25 basis points in 2026 and two cuts in 2028. Cumulatively, that is a 1-percentage point reduction over the forecast period.

Employment creation over the forecast period is insufficient to provide a much-needed domestic growth impetus. Although household activities are estimated to improve gradually over the outlook period, the current consumer environment remains under pressure despite more muted inflation and relatively lower interest rates, as households are still cautious in taking on further debt.

The government announced infrastructure spending amounting to over R1 trillion in nominal terms over the next three fiscal years. However, in real terms, the announced spending does not meaningfully contribute to fixed investment activity. Total fixed investment activity is expected to record limited growth in 2025 as the repo rate is likely to remain at the current 7.5% level while high levels of uncertainty and infrastructure-related constraints remain.

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

Variable (% change or % of GDP)	2024 actual	2025f	2026f	2027f	2028f	2029f
Real GDP growth and its components:						
Household consumption expenditure	1.0	1.6	1.7	2.3	2.5	2.7
Government consumption expenditure	0.4	0.8	1.3	0.7	1.0	1.5
Gross fixed capital formation	-3.7	1.2	2.3	2.4	2.5	3.7
Exports	-2.0	2.7	2.2	3.7	3.4	3.5
Imports	-6.3	3.2	3.7	4.0	3.7	3.8
GDP	0.6	1.0	1.6	2.1	2.2	2.5
Consumer price inflation	4.4	3.2	4.1	4.6	4.2	3.9
Current account balance (% of GDP)	-0.6	-1.6	-2.7	-3.2	-3.7	-4.4
GFCF as % of GDP	14.5	14.1	13.9	13.7	13.5	13.6
Repo rate (%) end of period	7.75	7.25	7.00	7.00	6.50	6.50
Rand per USD (average per year)	18.33	18.43	18.41	18.64	18.79	18.88

Source: IDC, compiled using StasSA and SARB data, IDC forecasts

Although the direct impact of US tariffs on SA is expected to be relatively limited, their indirect effect due to weaker growth prospects for other important export markets, such as China and the EU, is expected to reduce demand for SA goods. Limited household spending and fixed investment activity also reduce import demand, although it will likely increase faster than exports over the forecast period.

Economic growth is expected to increase marginally to 1% in 2025, compared to 0.6% in 2024, with an increasing momentum over the outlook period. However, the average growth rate of 1.9% for the period 2025 to 2029 is still far too low to reduce unemployment and poverty meaningfully. Notably, there remains significant uncertainty regarding the future economic environment, which can result in periods of considerable uncertainty and volatility.

Department of Research and Information

19 May 2025