Q4 2024 GDP Rebounds but Short of Expectations

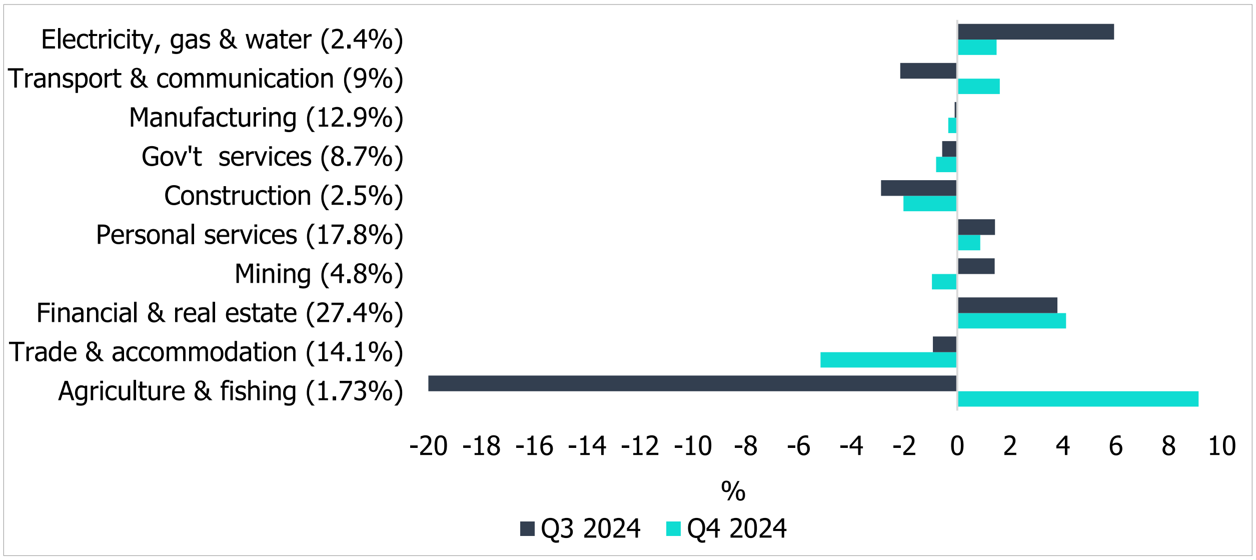
South Africa's real GDP expanded by 0.6 QoQ in Q4 2024 (seasonally adjusted) recovering from an upwardly revised contraction of 0.1 QoQ (-0.3% previously) recorded in Q3 2024. On an annual basis, the South African economy grew at the highest rate since the end of 2023, rising by 0.9% YoY. Nonetheless, slow growth in earlier quarters of 2024 resulted in a real GDP of 0.6%, slightly below the 0.7% recorded in 2023.

South Africa Real GDP Growth

Source: Statistics South Africa

In Q4 2024, the agriculture, domestic trade, accommodation, and finance sectors largely drove the production momentum. Enhanced field crops, livestock, and horticulture outcomes bolstered the agricultural performance industry. Trade was supported by the ongoing recovery in consumer spending, lower inflation, and significant withdrawals from retirement funds through the new two-pot retirement system. Conversely, the transport, storage, and communications sector significantly hindered growth, shrinking due to reduced activity in land and services transport. Even without load-shedding, the electricity, mining, and manufacturing sectors saw a decline in performance in the quarter.

Gross Value Added (GVA) Growth Rates YoY



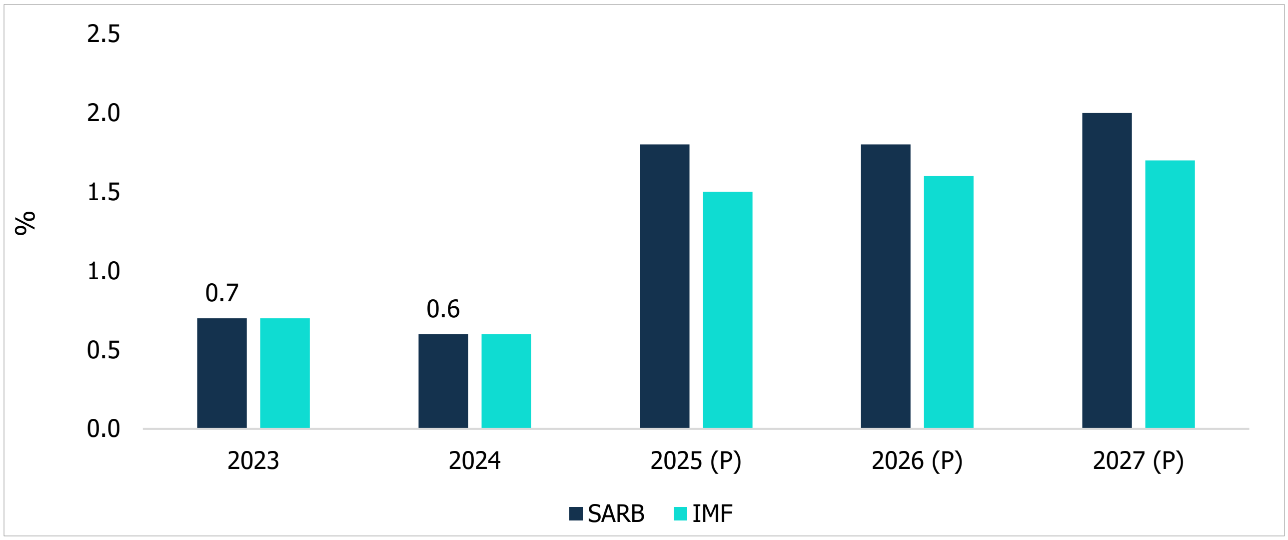
Source: Statistics South Africa; "Q4 2024 shares of each sector as % of gross GVA are indicated in the parenthesis ()"

In Q4 2024, growth on the expenditure side was primarily driven by household consumption, which increased by 1%. Meanwhile, net exports had a neutral impact on GDP, as exports grew by 2.1%, and imports increased by 2%. These factors offset reductions in government spending and investment, which fell for the third consecutive quarter of 2024.

While growth has seen little upward traction in 2024, we expect that the momentum from the government's reform agenda will see growth accelerate this year. Further, an improved investment environment and strong consumer spending will likely support growth prospects over the medium term. The SARB expects the economy to expand by 1.8% for 2025 and 2026, with a pick-up to 2% in 2027.

On the other hand, the IMF projects growth at 1.5% in 2025 due to improved electricity generation, monetary policy easing, and a return of investor and consumer confidence after the general elections in 2024. Thereafter, the IMF projects growth to marginally tick up, supported by ongoing electricity and logistics reforms and a lower inflation profile, ultimately providing an anchor to growth at around 1.8% by 2030

Growth Projections



Source: South Africa Reserve Bank (SARB); P=Projections

National Budget 2025 Postponement

General Government Projections for Key Economic Indicators as per MTBPS*

	Unit	FY24/25 E	FY25/26 F	FY26/27 F	FY27/28 F
Real GDP growth*	%	1.4	1.6	1.8	1.9
Fiscal balance	(% of GDP)	-5.0	-4.3	-3.6	-3.2
Borrowing requirement	(% of GDP)	5.7	7.6	5.4	6.9
Expenditure	(% of GDP)	31.8	31.3	30.8	30.4
Revenue	(% of GDP)	26.9	27.0	27.1	27.2
Debt	(% of GDP)	74.7	75.5	75.3	75.0
Debt service cost	(% of GDP)	5.2	5.2	5.2	5.2

Source: National Treasury (E=Estimate; F=Forecast); Data compiled represent general government; * Medium Term Budget Policy Statement

The Medium-Term Budget Policy Statement (MTBPS) presented in October 2024 highlights that the fiscal deficit for FY24/25 is estimated at 5% of GDP, followed by some fiscal consolidation over the medium term, with a fiscal deficit forecast of 4.3% in FY25/26, declining to 3.2% by FY27/28.

To track if the government's estimates and forecasts align with the MTBPS, we now await the National Budget for FY25/26, which was meant to occur in February 2025. However, this was postponed to 12 March following the failure of the finance minister to get cabinet approval for the proposal to increase the value added tax (VAT) rate to 17% from 15%. VAT is the second biggest contributor to tax revenues after personal income tax (PIT) and ahead of corporate income tax (CIT).

Withdrawn Budget documents indicate that the proposed increase of two percentage points in VAT, would add ZAR 191 billion in revenue over the medium term, reducing debt and accommodating rising spending pressures. This would translate to a reduced fiscal deficit estimate of 3.2% for FY25/26 as opposed to the projected 4.3% indicated in the MTBPS and continues to trend lower over the medium term, suggesting faster fiscal consolidation relative to the trajectory that was outlined in the MTBPS (see Table above).

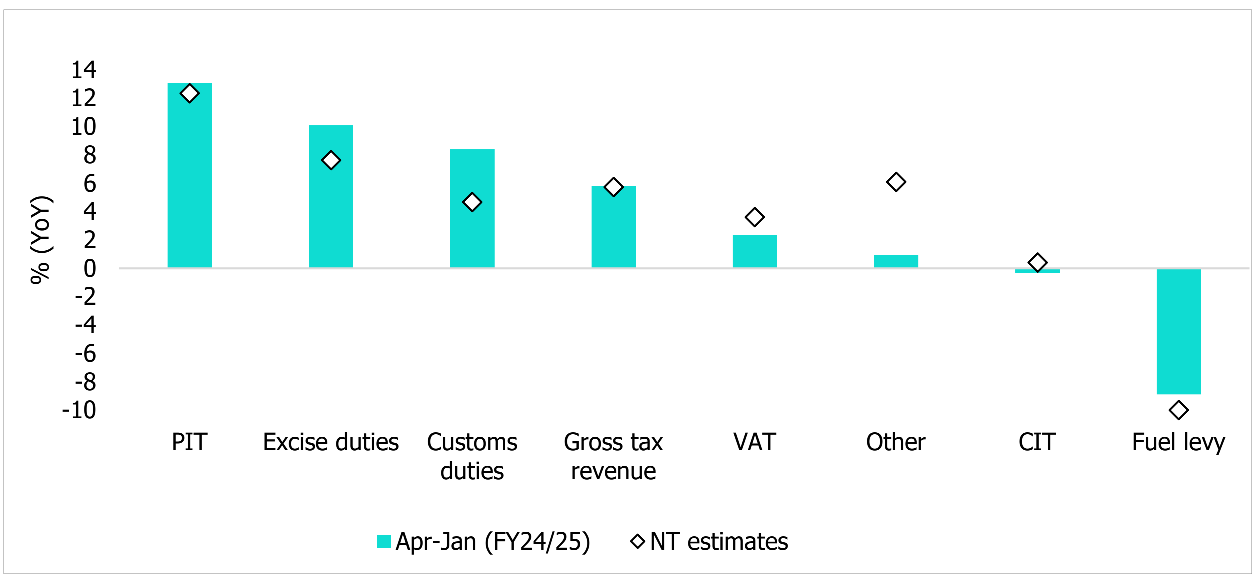
National Budget 2025 Preview

In anticipation of the upcoming Budget, we provide a mini analysis of both revenue and expenditure for FY24/25 to see whether the government remains on track to achieve its current projected targets as per the MTBPS.

On the revenue side, we note that total revenue is up by 4.1% YoY from April 2024 to January 2025, primarily supported by increased tax collections, mainly emanating from PIT, rising by 13.1% during the period. Robust gains in PIT can be attributed to tax collections from the two-pot pension reform that has already generated over ZAR 43 billion in withdrawals since the start of September 2024, boosting PIT by around ZAR 9 billion for FY24/25.

CIT growth remains adverse, contrary to MTBPS estimates, we note that tax payments by companies tend to rise sharply as the end of the tax year approaches (year-end is February). As such, there is a good chance that total CIT collections for FY24/25 may improve. Meanwhile, VAT has risen slower than the estimated 3.6% in the MTBPS, mainly due to the moderation of collections in import VAT due to logistics constraints. Lastly, the fuel levy is down by 9% over the period, broadly in line with the 10% drop estimated in the MTBPS.

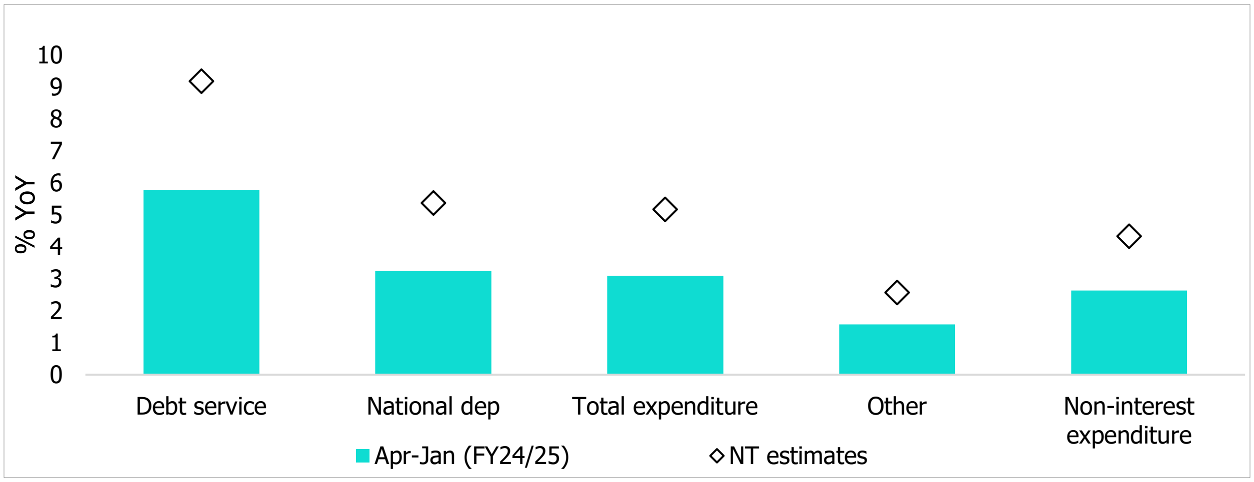
Revenue Collections vs TBPS Estimates



Source: National Treasury

On the expenditure front, total spending only increased by 3.1% YoY from April 2024 to January 2025, well below the National Treasury's (NT) full fiscal year expectations of 5.2% YoY as per the MTBPS. Much of the lag in spending figures can be attributed to better contained national department spending. At the same time, debt service cost growth has also slowed compared to previous fiscal years, reflecting the benefit of lower yields on government bonds and the utilisation of the Gold and Foreign Exchange Contingency Reserves (GFECRA) account to limit new borrowing[1].

Expenditure vs MTBPS Estimates



Source: National Treasury

Overall, while revenue growth is higher than targeted and expenditure growth is lower, we believe the economy is on track to achieve either a lower than estimated fiscal deficit of 5% of GDP or come in line with that projected in the MTBPS.

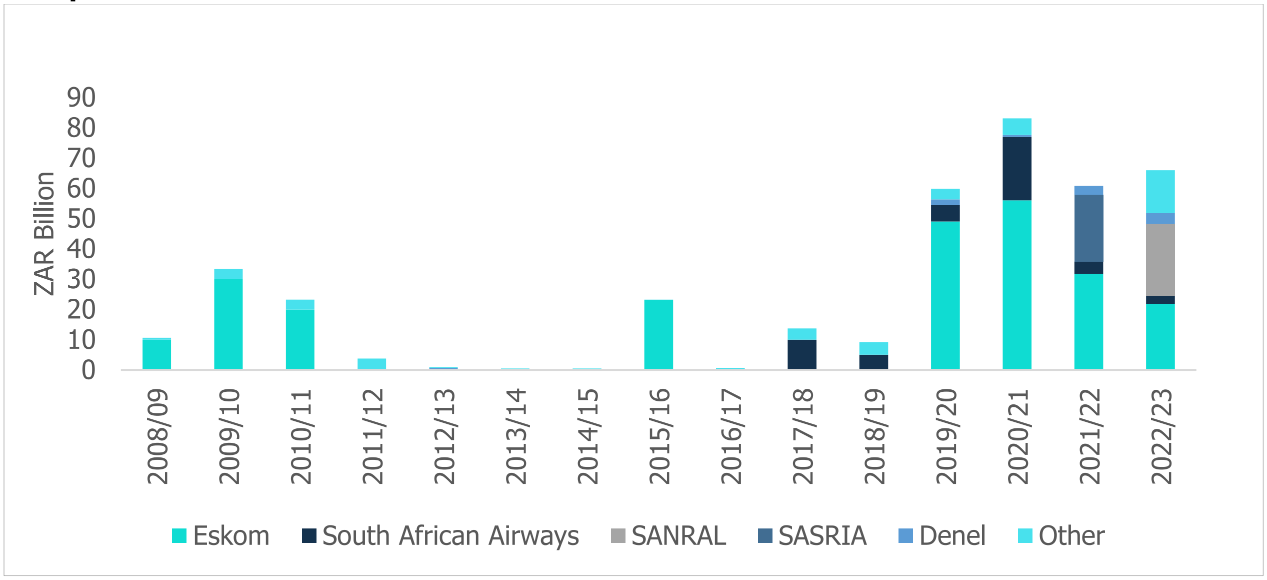
Downside Risks Over the Medium Term

Revenue undershooting: The medium-term outlook carries several downside risks. Tax revenues may fall short beyond FY24/25. The MTBPS anticipates a 7.1% YoY increase in tax receipts during the medium term (FY25/26 - FY27/28). However, this projection hinges on achieving a GDP growth rate of 1.8% for that period, alongside ongoing efforts to enhance tax compliance and administration. Additional downside risks include logistical constraints that could negatively affect import VAT revenues. Nonetheless, media reports indicate that the government may proceed with a VAT rate increase, likely between 0.5 and 1 percentage point. This adjustment could alleviate some revenue risks, as the extra revenue may generate approximately ZAR 30 billion to ZAR 60 billion, thereby aiding in more rapid fiscal consolidation over the medium term.

1 In a bid to bring borrowing requirements down, the government plans to use the profit from the SARBs gold and foreign exchange contingency reserve account (GFECRA) to reduce borrowing needs over the next three years. The GFECRA captures valuation gains on South Africa's foreign exchange reserves. This approach will help repay debt and improve public finance management. The government expects savings in debt service costs in FY24/25 and aims to lower the debt over the same period.

Contingent liabilities: We continue to be concerned about the risks associated with additional financial support for State-Owned Enterprises (SOEs), especially after Eskom was only able to secure a 12.74% tariff increase in July 2025, falling short of its 36% target. Additionally, Transnet's performance remains poor. Since fiscal year 2008/09, approximately ZAR 389 billion has been allocated for the recapitalisation of SOEs, with 62% of that amount going to Eskom alone. Overall, this has hindered capital expenditure efforts.

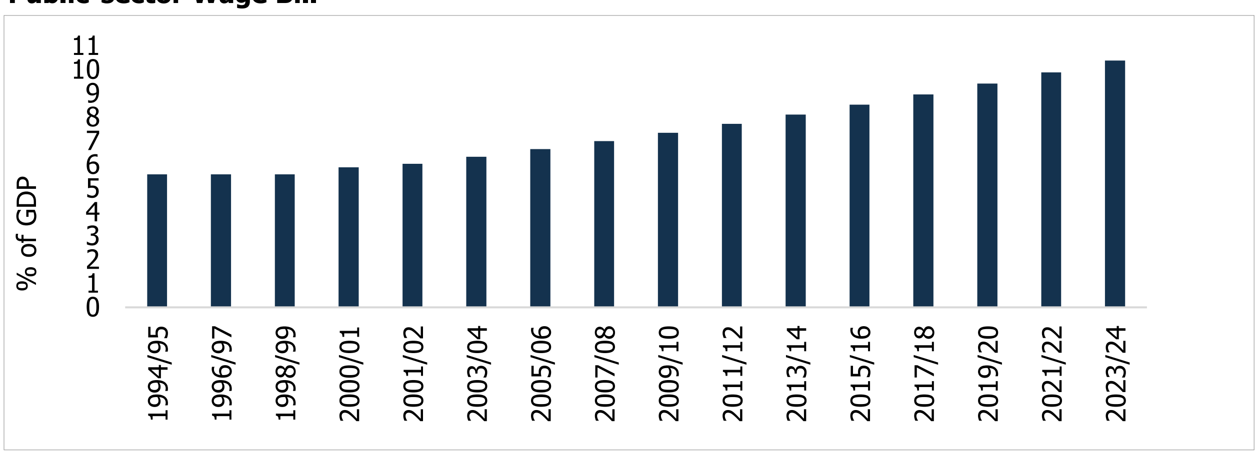
Recapitalisations and Bailouts of SOEs



Source: National Treasury

Public wage growth is expected to exceed inflation, rising by 5.5% YoY in FY25/26 before easing to 4.5% in subsequent fiscal years. Above inflation wage growth has meant that public sector wages continue to trend higher as a ratio of GDP. Overall, public sector wages comprise around 31.6% of total expenditure and 10% of GDP in FY23/24.

Public-sector Wage Bill

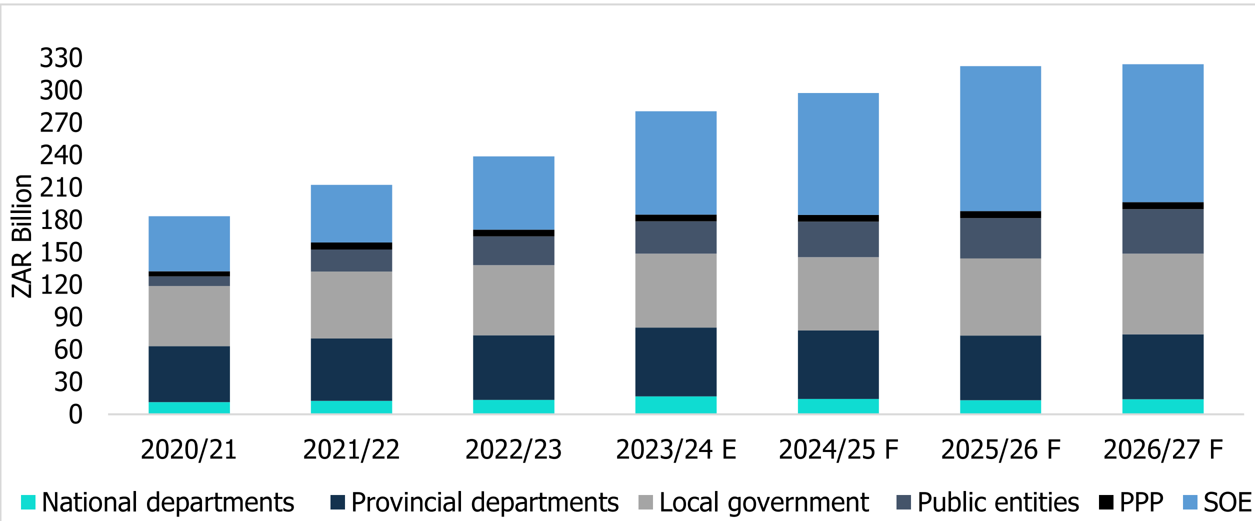


Source: National Treasury

Public infrastructure expenditure: Spending priorities must also account for infrastructure spend. In the State of the Nation Address by President Cyril Ramaphosa, it was announced that ZAR 940 billion would be spent on infrastructure over the medium term, however, this aligns with the MTBPS figures.

While infrastructure is crucial to growth, the government has often failed to live up to its ambitious infrastructure investment objective, with public sector infrastructure investment struggling to breach the 5% of GDP mark since the pandemic. Overall investment at 15% (2023) remains significantly below the National Development Plan target of 30% of GDP. Allocation to capital projects has always been commendable; however, these funds are often utilized to prioritize other spending. As such, infrastructure investment objectives will also have to be driven by support from the private sector.

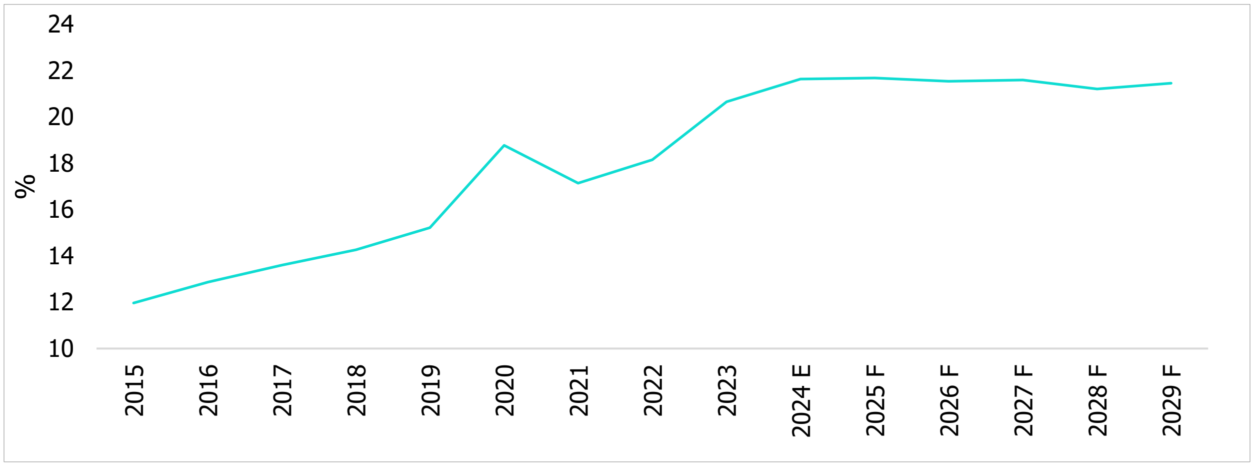
Public Sector Infrastructure Spending



Source: National Treasury; PPP- Public Private Partnerships; E=Estimate, F=Forecasts

Regarding debt service costs, the NT estimates interest payments will exceed the main Budget estimate by ZAR 16.6 billion. Consequently, the interest-to-revenue ratio is projected to peak at 21.7% in FY25/26 and average 5.2% of GDP over the next two fiscal years. Interest payments are estimated to rise at an annual average of 6.9% over the medium-term framework.

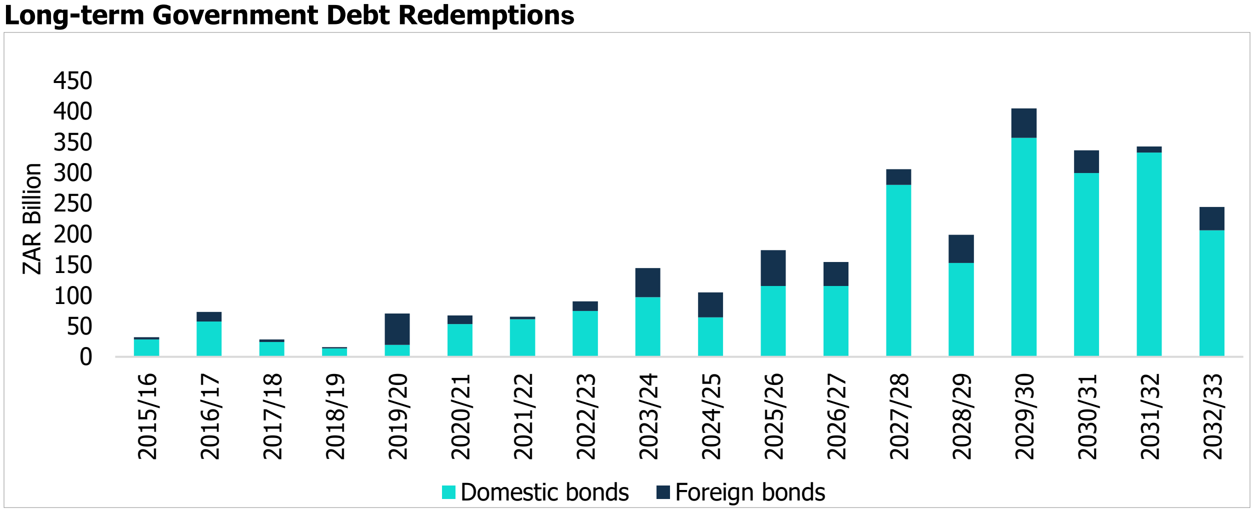
Debt Service Costs As % of Revenue



Source: National Treasury; E=Estimates, F=Forecasts

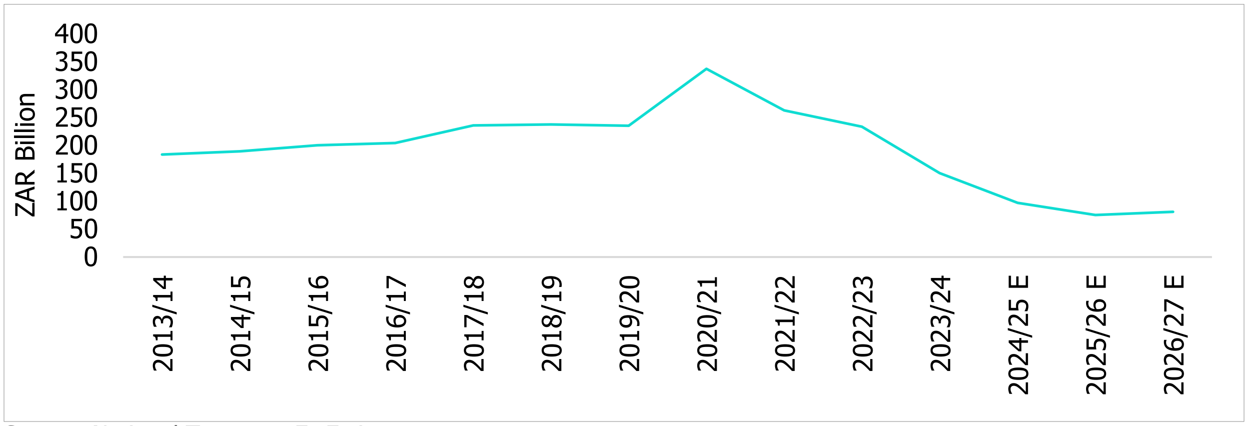
Large upcoming redemptions and dwindling cash balances: The government also faces large debt redemptions of ZAR 634.4 billion over the medium term (FY25/26- FY27/28). This suggests that refinancing will remain in the spotlight. Moreover, we note that cash balances, which have helped bring down the borrowing requirement in the past, have been decreasing, with cash balances estimated at ZAR 75 billion in FY25/26 and ZAR 81 billion in FY26/27, lower than the ZAR 150 billion recorded in FY23/24.

Long-term Government Debt Redemptions



Source: National Treasury

Government Cash Balances



Source: National Treasury; E=Estimates

Lastly, the still unfunded National Health Insurance (NHI) Bill signed by President Cyril Ramaphosa in 2024 presents a significant spending risk. Still, we do not expect major announcements concerning this over the medium term.

Ultimately, the government would need to display access to additional revenue or funding sources, such as the proposed VAT increase, coupled with expenditure containment, a sound debt management strategy for near-term debt redemptions and a sustained reduction of SOE financial support, ultimately displaying fiscal consolidation efforts and a reasonable reduction of debt over the medium term. We will look to the FY25/26 National Budget presentation on 12 March 2025 for more details.

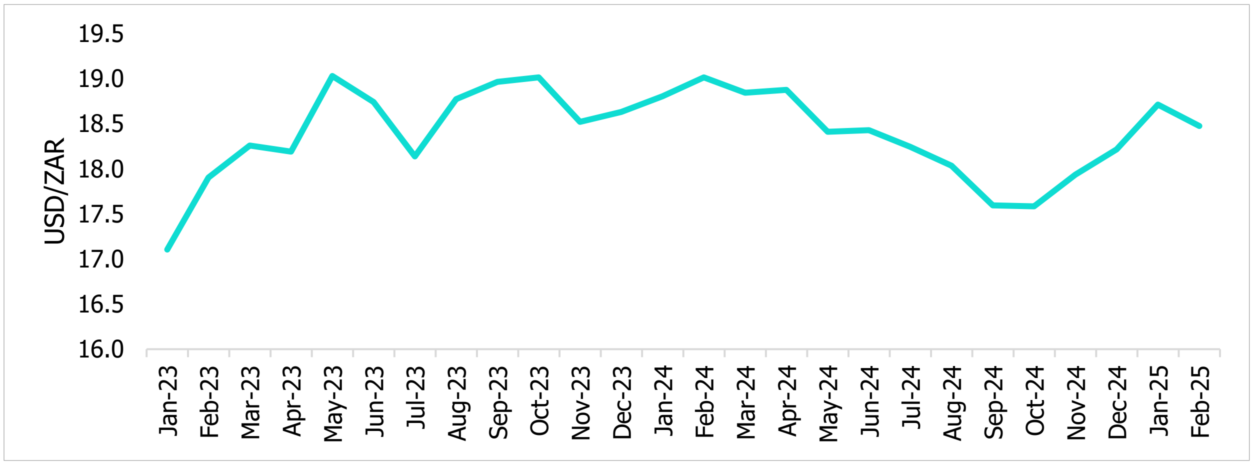
Rand Moves in Line with Global Risk Aversion and Domestic Factors

The Rand continues to align with global risk aversion due to the looming global trade war, which has also weighed on other emerging market currencies. Domestic sentiment has also played a role in the Rand's movements, particularly concerning the re-introduction of loadshedding in Q1 2025, although this has now ended, as well as political disagreements.

Overall, the South African Rand weakened by 1.4% against the US Dollar over the past three months (December 2024 to February 2025) and weakened by 5.0% over the last 6 months (September 2024 - February 2025). The Rand's fluctuations underscore the market's sensitivity to both domestic and international economic developments.

Over the near term, the Rand will likely take direction from the outcomes of the FY25/26 Budget in the weak ahead.

USD/ZAR Movement



Source: CEIC

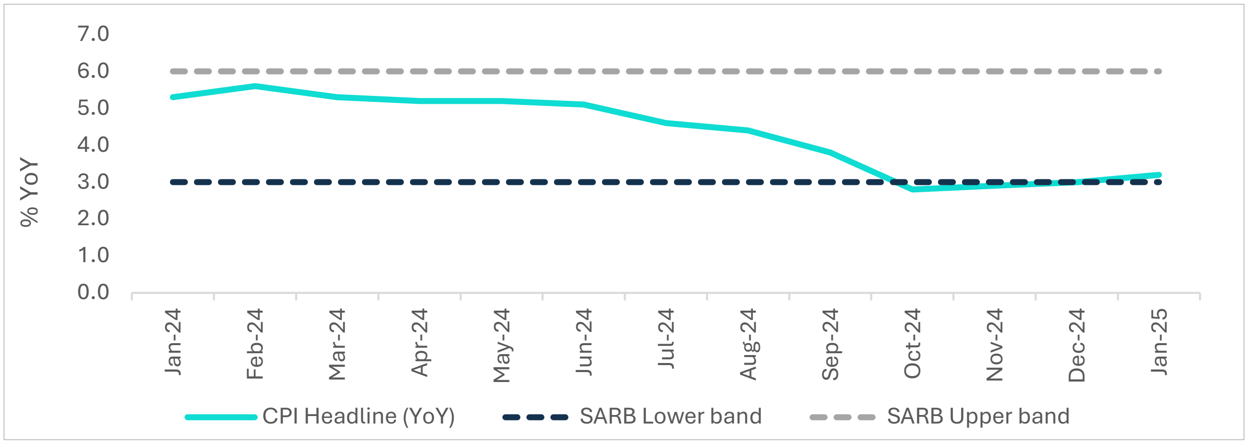
Inflation Still Subdued

Headline inflation increased to 3.2% YoY in January from 3.0% in December 2024. The uptick in the headline rate can be attributed to the change in Consumer Price Index (CPI) weights as the January CPI print was the first publication with the new weights for the various CPI components under the new base year (2024), replacing the previous base year (2021).

However, both food and core inflation eased while fuel deflation continued, albeit at a slower pace. Core inflation peaked at 3.5% in January 2025 from 3.6% in December, the lowest since February 2022.

Despite still subdued price pressures, the SARB will likely remain cautious to upside risks stemming from the external environment, the 12.7% electricity tariff increase that will take effect from 1 July 2025, alongside other administered price pressures and potential implications of a VAT increase on the overall trajectory of inflation dynamics. Given these risks, the SARB will likely pause its rate cutting cycle for this year.

Headline Inflation Rate



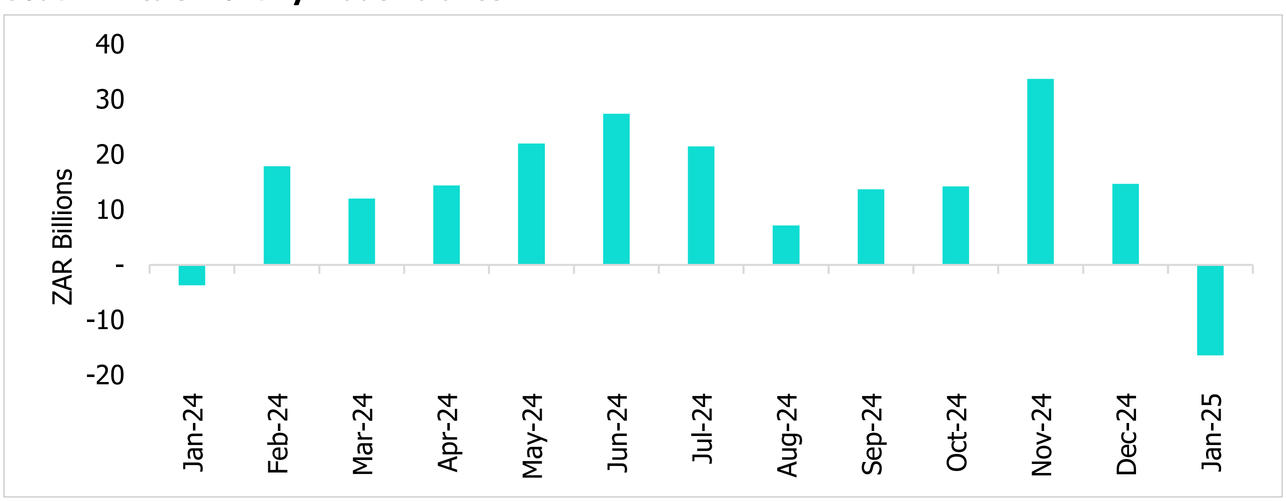
Source: Statistics South Africa, South African Reserve Bank

January Trade Shifts from Surplus to Deficit

In January, South Africa's trade balance swung to a deficit of ZAR 16.4 billion, after recording a surplus of ZAR 14.7 billion in December. This deficit is significantly larger than the ZAR 3.7 billion in January 2024. During the month, exports increased by 1% YoY to ZAR 149.0 billion, while imports surged by 10% YoY to ZAR 165.4 billion.

The trade outlook in 2025 indicates some risks arising from international factors such as the increased geo-economic fragmentation arising from the US new administration, whereby major trading partners of South Africa may be involved. Particularly concerning is the recent executive order by the US President to freeze aid to South Africa. This move has also intensified fears that South Africa's duty-free access to the US market may be revoked.

South Africa's Monthly Trade Balance



Source: South African Revenue Service (SARS)

CAD Narrows to 0.6% of GDP in 2024

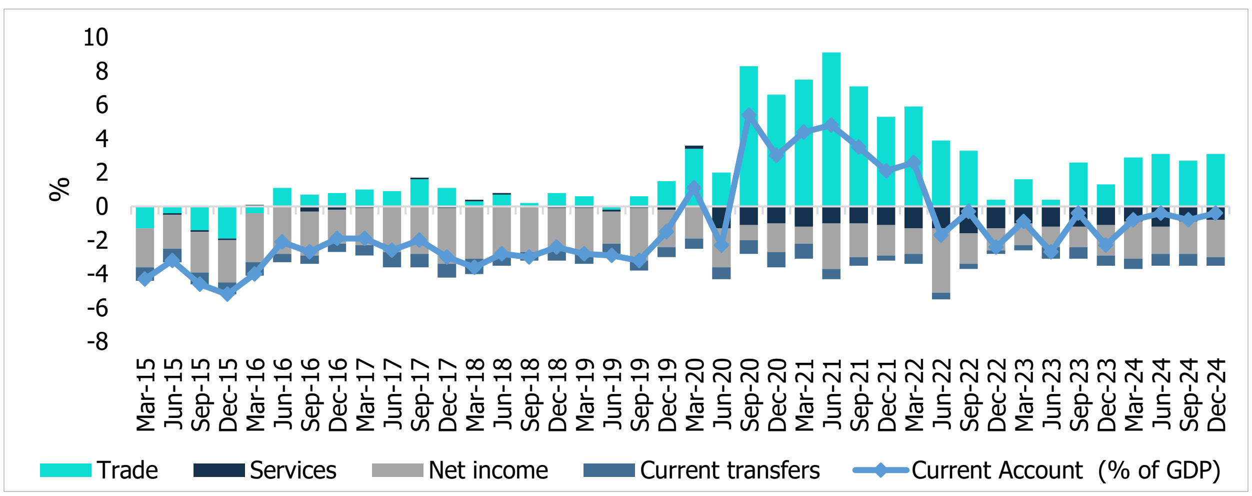
South Africa's current account deficit (CAD) improved to 0.4% of GDP in Q4 2024 from a downwardly revised deficit of 0.8% (1% previously). A wider trade surplus drove the narrower CAD while the deficit on the services and current transfer accounts narrowed. Combined, these were enough to offset a broader deficit on the primary income account.

The wider trade surplus was due to exports volume growth outpacing slightly slower import volume growth. Meanwhile, the Rand price of exported goods and services increased contrary to a decline in import prices which meant that South Africa's terms of trade improved for a fourth consecutive quarter in Q4. For the full year, the trade surplus widened to 3% of GDP while the terms of trade ticked up by 1% YoY.

The non-trade deficit was unchanged at 3.5% of GDP in Q4 due to a more significant deficit on the income account, which was offset by smaller deficits on the services and current transfer accounts.

Overall, the CAD narrowed to 0.6% of GDP in 2024 from 1.6% in 2023. While the sustained trade surplus through 2024 has played a key role in containing the CAD, this momentum is set to dissipate in 2025 amid an expected recovery in domestic demand, which is expected to get an additional boost from easing logistics constraints, especially at import-concentrated ports. On the other hand, exports will likely come under pressure as trade wars between South Africa's major trade partners and the global economy could weigh on commodity prices. The SARB forecasts point to a widening CAD at 1.9%, 2.6% and 2.7% in 2025, 2026 and 2027 respectively.

Current Account Balance as % of GDP



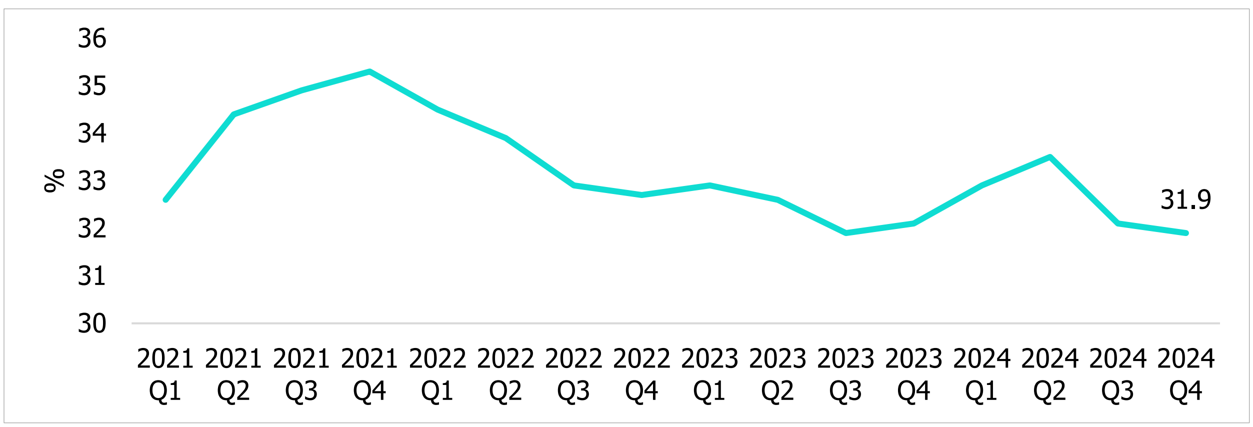
Source: South African Reserve Bank, Statistics South Africa

Faster Growth to Support a Still Sluggish Labour Market

The latest Quarterly Labour Force Survey (QLFS) showed South Africa's unemployment rate eased to 31.9% in Q4 2024 from 32.1% in Q3. In Q4, the number of unemployed individuals declined by 19,600 to 8 million while the number of employed individuals was up by 131,700 to 17.1 million. The slight improvement in the labour market can likely be attributed to seasonal job growth during the festive season, especially in the trade sector, and is often short-lived. The number of discouraged workers increased by a further 110,620 over Q4.

Looking ahead, we expect the labour market to fare better as power supply improves steadily and other structural constraints ease. Steady global growth and firmer commodity prices should also support exporters in the mining and manufacturing sectors. The agricultural sector should also benefit from more favourable weather conditions. Overall, the anticipated improvement in sentiment and higher growth prospects over the medium term may improve firms' profitability, encouraging companies to employ more people. However, public sector employment freezes may hinder employment growth.

Unemployment Rate



Source: Statistics South Africa

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