OUT OF THE ORDINARY

Economic Review and Preview

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Investec

South Africa

Economic overview

January 2025 Annabel Bishop

Headlines:

SA's calendar year GDP growth rate seen at 1.3% y/y for 2025, 2.0% y/y for 2026

CPI calendar year inflation is expected to average 3.5% y/y for 2025, 4.6% y/y for 2026

75bp in cuts in the repo rate left in SA's interest rate cycle to end Q1.26

Rand expected to strengthen towards R18,00/USD

Financial markets in South Africa saw volatility over the turn of the year on the approach of the US presidential inauguration, with the rand, SA equities and domestic bonds strengthening up to early December, but then weakening from the second half of December after the FOMC meeting, and into 2025. The rand reached R17.62/USD early December then returned to above R19.00/USD, partly on US dollar strength over this period, but saw some modest weakness against the crosses too. Risk off prevailed on elevated uncertainty over the Trump administrations policies. Key in particular was the change in markets' expectations on the US interest rate trajectory due to the inflationary consequences anticipated from higher tariffs in the US, impacting the rand, SA inflation expectations and SA bond yields. Specifically, the US monetary policy meeting on the 18th December saw a quickening in inflation forecasts for the US for 2025, to 2.5% y/y from closer to 2.0% y/y in its previous forecasts made in September, which saw a market recalibration to fewer US rate cuts. Fewer US interest rate cuts are supportive of a stronger US dollar. Consequent USD dollar strength over the second half of December was instrumental in weakening the rand against the greenback, as US rate cut hopes have faded. South Africa's ten-year benchmark government bond yield approached 10.00% in the first half of December, but then weakened to 10.62% after the FOMC meeting as US markets factored in fewer US interest rate cuts in 2025.

Subsequently, the rand has strengthened towards R18.00/USD, with the underlying trend still one of rand strength, largely on the back of US dollar weakness. The US dollar has returned to levels of April last year, with the rand weaker against the euro and pound this year. The US dollar has been factoring out a substantial part of perceived investor risk that built from Q4.24 ahead of the incoming Trump administration, and ran until mid-January before market fears started to drop off as inflation concerns began to fade. Market fears of higher inflation in the US on a heady, universal tariff hike on imported goods began to fade as economic advisors to the Trump administration calmed market concerns from mid-January, and a universal tariff hike failed to occur. Financial market expectations see at least two more cuts in the US interest rate cycle this year on a perceived milder US inflation outlook than previously perceived, while next year a third cut is seen with certainty, and the possibility of a fourth is building. A lower interest rate environment in the US is supportive of rand strength against the US dollar, with the increased chance of US interest rate cuts growing weakening the US dollar as investors see a lower return on US interest rate instruments. While US tariffs have been used in the main as threats to achieve its many foreign policy agendas, there has been tariff implementation on various metals and articles there-off and on some US trade partners, but with cost cutting measures too. In particular, the US government is seeking to reduce its expenditure, including the size of its federal bureaucracy. The cost cutting drive is expected to meaningfully limit inflation in the US, and so has been spurring US interest rate cut hopes.

Q4.24 and 2024's weak GDP growth rates created a low base for 2025 to begin from. It will prove difficult for GDP growth to reach the consensus of 1.7% y/y (Bloomberg, Reuters), with electricity disruptions still a risk, and Transnet's repair slow. Electricity outages are broader than just load shedding, encompassing load reduction, where large industrial users are requested to shut off production for certain periods to conserve the grid, while unplanned outages can be high. 2024's GDP growth slowed, to 0.6% y/y versus 2023's outcome of 0.7% y/y, despite very little load shedding. Economic growth in 2025 is at risk of substantial disappointment as well, as business confidence remains depressed. The Bloomberg consensus since August last year to February this year has consistently been for an economic growth outcome of 1.7% y/y for 2025, but the data and a number of developments now points to closer to 1.3% y/y.

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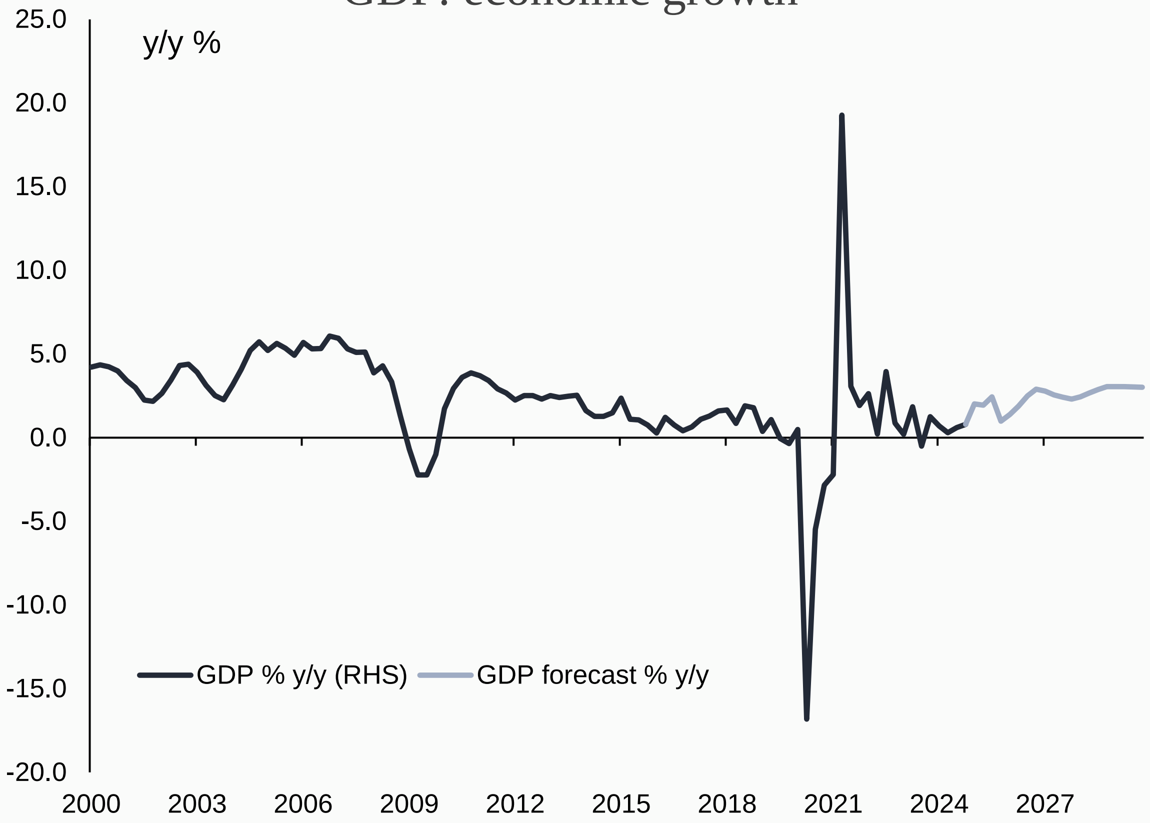
Macro view

South Africa: economic forecasts

GDP: economic growth



Source: Stats SA, Investec

Summary, % real growth rates	2023	2024	2025	2026	2027	2028	2029
GDP (real, %)	0.7	0.6	1.8	2.2	2.5	2.8	3.0
HCE (real, %)	0.7	1.0	2.1	2.2	2.6	2.8	3.0
GCE (real, %)	1.9	0.4	0.9	-0.4	-0.1	1.0	1.4
GFCF (real, %)	3.9	-3.7	4.8	5.0	5.3	5.8	6.5
GDE (real, %)	0.8	-0.7	2.1	2.0	2.6	2.9	3.2
Export (goods & non-factor services) - (real, %)	3.7	-2.0	3.6	4.4	4.6	4.8	4.8
Imports (goods & non-factor services) - (real, %)	3.9	-6.3	4.2	3.8	4.8	5.3	5.4
Balance: Current Account - (% of GDP)	-1.6	-0.6	-2.1	-2.2	-2.3	-2.4	-2.4
Imports as % of GDP	30.3	28.0	29.0	29.4	30.1	30.8	31.5
Exports as % of GDP	28.1	27.4	27.4	28.0	28.6	29.2	29.7

Source: Investec, Stats SA

Consumption Expenditure	2023	2024	2025	2026	2027	2028	2029
HCE, total (real, %)	0.7	1.0	2.1	2.2	2.6	2.8	3.0
HCE as % of GDP	66.9	67.2	67.4	67.4	67.5	67.5	67.5
Unemployment rate (%)	32.4	32.6	32.7	32.6	32.3	32.1	31.7
Population (million)	63.2	64.0	64.7	65.5	66.1	66.8	67.5
Employment growth rate (%)	6.2	2.2	2.7	1.6	1.7	1.7	1.8
Compensation of employees (%)	5.6	4.2	4.3	4.6	4.9	5.0	5.1
GCE as % of GDP	19.7	19.8	19.6	19.1	18.6	18.3	18.0

Source: Investec, Stats SA

Base Case: Investec vs Bloomberg forecasts

	Investec 2024	Bloomberg 2024	Investec 2025	Bloomberg 2025	Investec 2026	Bloomberg 2026
GDP (Year on year growth, %)	0.7	0.7	1.8	1.7	2.2	1.9
Unemployment Rate (ave, %)	32.6	33.0	32.7	33.5	33.5	32.0
Current account (ave, % of GDP)	-1.6	-1.3	-2.1	-1.9	-2.2	-2.2
Base Rate (end of period, %)	7.75	N/a	7.00	7.25	6.75	7.25
10y Government Bond Yield (period end, %)	10.20	N/a	10.20	10.12	10.00	9.95
CPI (ave, y/y %)	4.4	N/a	3.5	4.0	4.6	4.5

Source: Investec, Bloomberg February 2025

Base Case: Investec vs Bloomberg forecasts

	Investec 2024	Bloomberg 2024	Investec 2025	Bloomberg 2025	Investec 2026	Bloomberg 2026
GDP (Year on year growth, %)	0.8	0.7	1.8	1.7	2.2	2.0
Unemployment Rate (ave, %)	32.6	33.0	32.7	32.4	32.6	32.0
Current account (ave, % of GDP)	-1.4	-1.4	-2.1	-2.0	-2.2	-2.2
Base Rate (end of period, %)	7.75	7.75	7.00	7.00	6.75	6.88
10y Government Bond Yield (period end, %)	10.50	9.76	10.20	9.86	10.00	9.59
CPI (ave, y/y %)	4.4	4.5	3.5	4.1	4.6	4.5
USD: ZAR (ave)	18.34	18.34	18.10	18.05	17.80	18.00

Source: Investec, Bloomberg January 2025

Base Case: Investec vs Bloomberg forecasts

	Investec 2024	Bloomberg 2024	Investec 2025	Bloomberg 2025	Investec 2026	Bloomberg 2026
GDP (Year on year growth, %)	0.8	0.9	1.8	1.7	2.2	2.0
Unemployment Rate (ave, %)	32.6	33.0	32.7	32.0	32.6	32.0
Current account (ave, % of GDP)	-1.4	-1.4	-2.1	-2.2	-2.2	-2.2
Base Rate (end of period, %)	7.75	7.75	7.00	7.00	6.75	7.00
10y Government Bond Yield (period end, %)	10.50	9.76	10.20	9.59	10.00	9.08
CPI (ave, y/y %)	4.4	4.5	3.5	4.1	4.6	4.5

Source: Investec, Bloomberg December 2024

Base Case: Investec vs Bloomberg forecasts

	Investec 2024	Bloomberg 2024	Investec 2025	Bloomberg 2025	Investec 2026	Bloomberg 2026
GDP (Year on year growth, %)	1.0	1.0	1.7	1.7	2.0	2.0
Unemployment Rate (ave, %)	33.0	32.7	32.6	32.0	32.6	32.3
Current account (ave, % of GDP)	-1.7	-1.7	-2.2	-2.2	-2.5	-2.5
Base Rate (end of period, %)	7.75	7.75	7.00	7.00	6.75	7.00
10y Government Bond Yield (period end, %)	10.90	10.12	10.70	10.05	10.50	10.00
CPI (ave, y/y %)	4.6	4.6	4.2	4.2	4.6	4.5
USD: ZAR (ave)	18.29	17.80	17.68	17.84	17.50	18.02

Source: Investec, Bloomberg November 2024

GDP Summary, % real growth rates	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4
GDP (real, y/y %)	0.7	0.3	0.6	0.8	2.0	1.9	2.4	1.0	1.4	1.9	2.5	2.9
HCE (real, y/y %)	-0.3	0.8	1.4	2.3	3.4	2.4	2.0	0.7	1.3	1.9	2.5	2.9
GCE (real, y/y %)	1.6	0.8	-0.2	-0.6	1.2	0.4	1.1	0.8	0.5	-0.1	-0.6	-1.2
GFCF (real, y/y %)	-2.4	-7.1	-2.3	-2.8	2.6	5.2	6.2	5.1	5.1	5.0	5.0	5.0
GDE (real, y/y %)	-1.8	-2.2	1.0	0.2	2.9	2.1	2.5	1.1	1.4	1.8	2.3	2.6
Export (goods & non-factor services) - (real, y/y %)	1.0	-0.1	-5.3	-3.8	0.5	2.4	7.4	4.3	4.2	4.3	4.4	4.5
Imports (goods & non-factor services) - (real, y/y %)	-7.1	-8.5	-3.9	-5.7	2.7	2.1	7.5	4.4	4.2	4.0	3.7	3.4

GDP Summary, % real growth rates (incl. residual)	2027 Q1	2027 Q2	2027 Q3	2027 Q4	2028 Q1	2028 Q2	2028 Q3	2028 Q4	2029 Q1	2029 Q2	2029 Q3	2029 Q4
GDP (real, y/y %)	2.8	2.6	2.4	2.3	2.4	2.7	2.9	3.0	3.0	3.1	3.0	3.0
HCE (real, y/y %)	2.8	2.7	2.5	2.5	2.6	2.8	2.9	3.0	3.0	3.0	3.0	3.0
GCE (real, y/y %)	-0.8	-0.3	0.2	0.7	0.8	1.0	1.1	1.2	1.3	1.4	1.4	1.4
GFCF (real, y/y %)	5.1	5.3	5.4	5.5	5.6	5.7	5.8	5.9	6.2	6.4	6.5	6.7
GDE (real, y/y %)	2.6	2.6	2.6	2.6	2.7	2.9	3.0	3.1	3.1	3.2	3.2	3.3
Export (goods & non-factor services) - (real, y/y %)	4.6	4.6	4.6	4.6	4.7	4.8	4.8	4.9	4.9	4.9	4.8	4.8
Imports (goods & non-factor services) - (real, y/y %)	4.0	4.6	5.1	5.7	5.5	5.3	5.2	5.0	5.1	5.3	5.4	5.6

Note: The GDP figures are from the expenditure side and so include the residual. Source: SARB, Investec

GDP Summary, % real growth rates	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4
GDP (real, y/y %)	0.7	0.3	0.6	0.8	2.0	1.9	2.4	1.0	1.4	1.9	2.5	2.9
HCE (real, y/y %)	-0.3	0.8	1.4	2.3	3.4	2.4	2.0	0.7	1.3	1.9	2.5	2.9
GCE (real, y/y %)	1.6	0.8	-0.2	-0.6	1.2	0.4	1.1	0.8	0.5	-0.1	-0.6	-1.2
GFCF (real, y/y %)	-2.4	-7.1	-2.3	-2.8	2.6	5.2	6.2	5.1	5.1	5.0	5.0	5.0
GDE (real, y/y %)	-1.8	-2.2	1.0	0.2	2.9	2.1	2.5	1.1	1.4	1.8	2.3	2.6
Export (goods & non-factor services) - (real, y/y %)	1.0	-0.1	-5.3	-3.8	0.5	2.4	7.4	4.3	4.2	4.3	4.4	4.5
Imports (goods & non-factor services) - (real, y/y %)	-7.1	-8.5	-3.9	-5.7	2.7	2.1	7.5	4.4	4.2	4.0	3.7	3.4

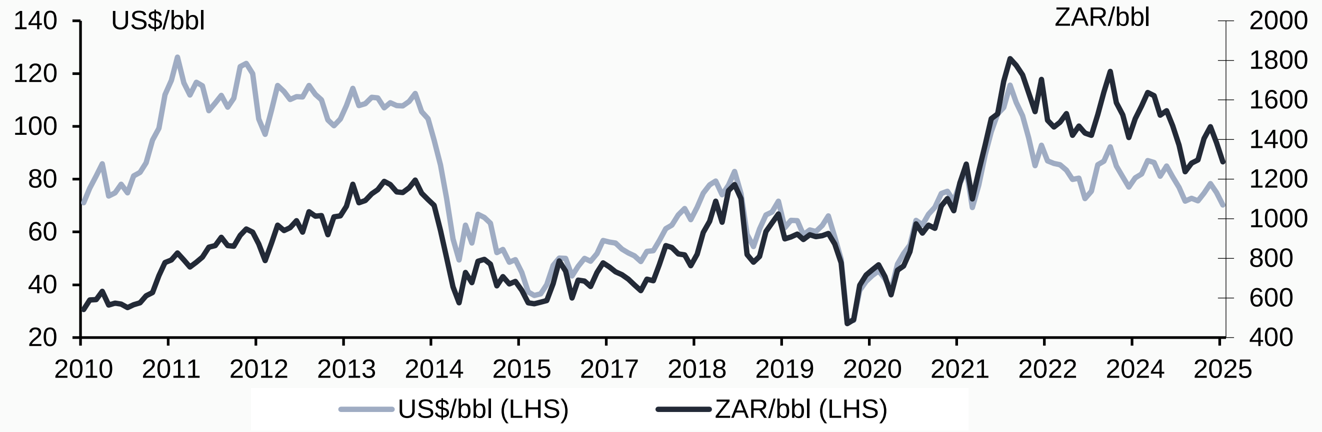
GDP Summary, % real growth rates (incl. residual)	2027 Q1	2027 Q2	2027 Q3	2027 Q4	2028 Q1	2028 Q2	2028 Q3	2028 Q4	2029 Q1	2029 Q2	2029 Q3	2029 Q4
GDP (real, y/y %)	2.8	2.6	2.4	2.3	2.4	2.7	2.9	3.0	3.0	3.1	3.0	3.0
HCE (real, y/y %)	2.8	2.7	2.5	2.5	2.6	2.8	2.9	3.0	3.0	3.0	3.0	3.0
GCE (real, y/y %)	-0.8	-0.3	0.2	0.7	0.8	1.0	1.1	1.2	1.3	1.4	1.4	1.4
GFCF (real, y/y %)	5.1	5.3	5.4	5.5	5.6	5.7	5.8	5.9	6.2	6.4	6.5	6.7
GDE (real, y/y %)	2.6	2.6	2.6	2.6	2.7	2.9	3.0	3.1	3.1	3.2	3.2	3.3
Export (goods & non-factor services) - (real, y/y %)	4.6	4.6	4.6	4.6	4.7	4.8	4.8	4.9	4.9	4.9	4.8	4.8
Imports (goods & non-factor services) - (real, y/y %)	4.0	4.6	5.1	5.7	5.5	5.3	5.2	5.0	5.1	5.3	5.4	5.6

Note: The GDP figures are from the expenditure side and so include the residual. Source: SARB, Investec

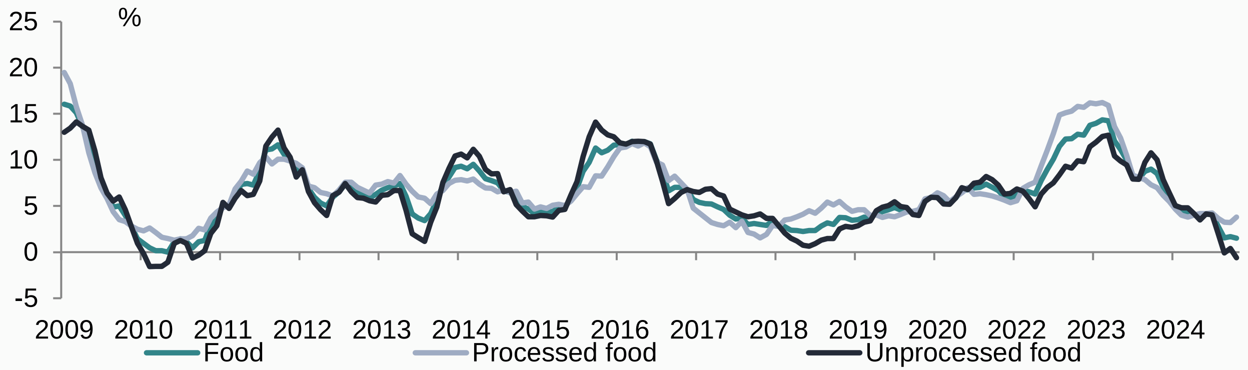
Inflation is below target

SA Inflation	2023	2024	2025	2026	2027	2028	2029
Consumer Inflation (Av: %)	5.9	4.4	3.6	4.6	4.5	4.6	4.7
(year-end: %)	*5.1*	*3.0*	*4.6*	*4.6*	*4.3*	*4.6*	*4.6*
Producer Inflation (Av: %)	6.8	3.0	2.5	5.1	5.0	5.1	4.9
(year-end: %)	*4.0*	*0.7*	*5.0*	*5.2*	*4.9*	*5.1*	*4.9*
Salary & wage increases (%)	4.5	5.1	4.1	4.5	4.7	4.9	5.1

Oil price: Rand vs USD



SA CPI: Food vs processed and unprocessed food price inflation



Source: Stats SA

Inflation has fallen below the target of 4.5% y/y, to 3.2% y/y in the latest print (January), after reaching 2.8% y/y in October. Substantial fuel price cuts of just below R5.00/litre since June 2024, rand strength, high statistical base effects of a year ago (which have a suppressing effect) and a moderation in international agricultural food prices contributed to significantly lowering inflation over 2024. The rand had a direct influence on prices in SA, through both fuel and food costs, strengthening from above R19.30/USD in April last year, to R17.03/USD, but then moving back towards R17.50/USD, then towards R18.00/USD.

This year, CPI inflation is expected average above 3.0% y/y, although high base effects (inflation) of a year ago, will serve to have some suppressing effect over February and March. Overall for 2025, the target measure of inflation (CPI) is likely to remain below 4.5% y/y, averaging 3.5% y/y. For 2026, CPI inflation is set to average 4.5% y/y. Risks to the outlook include a deterioration in weather conditions, and a worsening in geopolitical tensions, which lifts commodities prices. However, strengthening economic growth over the medium-term is expected to be mainly driven by the supply side, limiting inflationary pressure.

Demand pressures have been subdued in the economy, which has aided disinflation. The drop has come from 7.8% y/y in mid-2022, taking over two years to reach target. The inflation target is 3-6% y/y, with the mid-point 4.5% y/y.

Inflation forecasts	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4
Consumer Inflation (Av: y/y %)	5.4	5.2	4.3	2.9	3.1	2.9	4.0	4.6	4.6	4.6	4.5	4.6
Producer Inflation (Av: y/y %)	4.6	4.8	2.7	0.0	1.1	0.8	3.1	4.9	5.1	5.3	4.9	5.1
Salary & wage increases (y/y %)	4.9	5.5	5.0	4.9	4.2	3.9	4.3	4.0	4.3	4.5	4.6	4.7

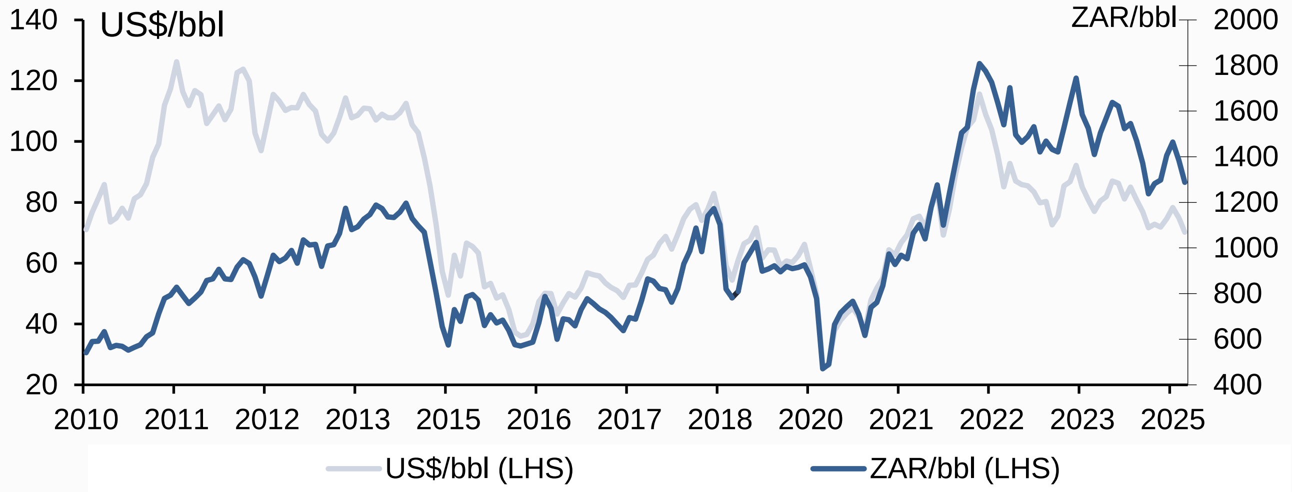
Inflation forecasts	2027 Q1	2027 Q2	2027 Q3	2027 Q4	2028 Q1	2028 Q2	2028 Q3	2028 Q4	2029 Q1	2029 Q2	2029 Q3	2029 Q4
Consumer Inflation (Av: y/y %)	4.6	4.5	4.3	4.3	4.4	4.6	4.7	4.6	4.8	4.8	4.6	4.6
Producer Inflation (Av: y/y %)	5.1	4.9	5.0	4.9	5.0	5.1	5.0	5.1	4.9	4.9	5.0	4.9
Salary & wage increases (y/y %)	4.5	4.6	4.8	4.9	4.8	4.9	5.0	5.1	5.1	5.1	5.1	5.3

Monetary sector, % year end	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4
Repo Rate (period-end: %)	8.25	8.25	8.00	7.75	7.50	7.50	7.25	7.00	6.75	6.75	6.75	6.75
Prime Overdraft Rate (period-end: %)	11.75	11.75	11.50	11.25	11.00	11.00	10.75	10.50	10.25	10.25	10.25	10.25
SA rand bond (Av: %)	11.80	11.89	10.51	10.40	10.50	10.40	10.30	10.30	10.30	10.20	10.10	10.20

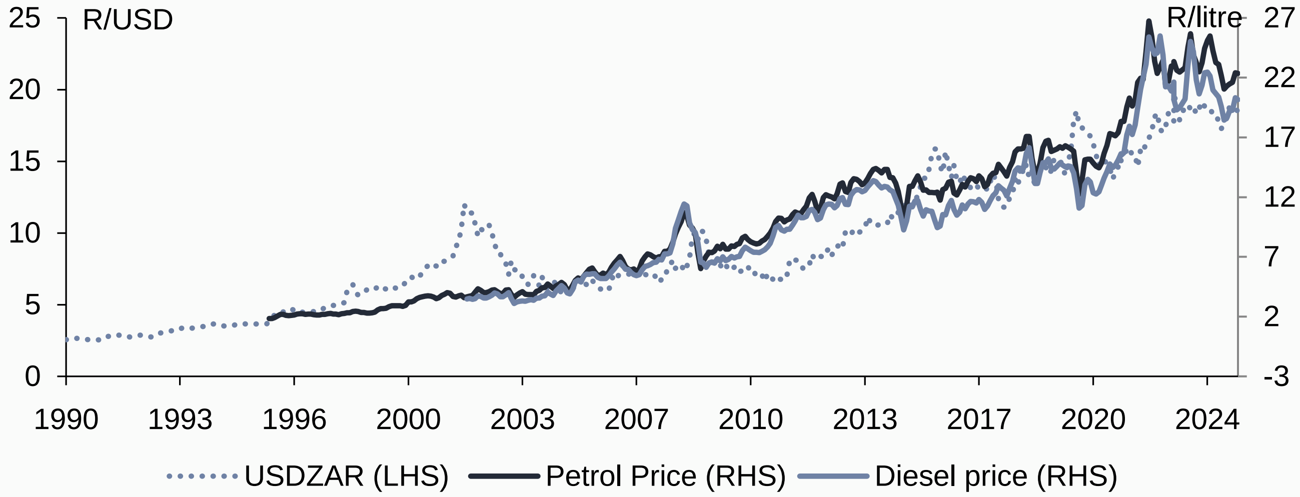
Monetary sector, % year end	2027 Q1	2027 Q2	2027 Q3	2027 Q4	2028 Q1	2028 Q2	2028 Q3	2028 Q4	2029 Q1	2029 Q2	2029 Q3	2029 Q4
Repo Rate (period-end: %)	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
Prime Overdraft Rate (period-end: %)	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25
SA rand bond (Av: %)	10.20	10.10	10.10	10.00	10.00	10.00	10.00	10.00	9.90	9.90	9.90	9.90

Note: % quarter-end. Source: SARB, Investec

Oil and fuel prices



Rand versus petrol and diesel prices – rand weakness pushes up fuel costs



Sources: Iress

The oil price has been volatile, and petrol price changes affect SA's CPI inflation outcomes directly in the month in which they occur, with fuel prices a large driver of inflation,. Higher oil and petroleum product prices are negative for inflation, and so consumers in South Africa, as SA is an oil importer, and also have a bolstering effect on the inflation forecast, which can be negative for interest rates by delaying repo rate cuts.

Tariff increases from the US on steel and aluminium had a dampening effect on oil prices, due to expectations of suppressing effects on global economic growth and so on the demand for energy, and oil. However, markets have since recovered and international petroleum product prices have lifted, as the global environment remains volatile.

The Brent crude oil price averaged US$57/bbl since 1995, and US$65/bbl since the year 2000. From 2018 OPEC+ further limited supply to maintain a higher level, closer to US$70/bbl, and now, since the pandemic is attempting to keep it nearer to US$90/bbl. OPEC+ (the Organisation of the Petroleum Exporting Countries and its allies) has reduced supply to push up prices to raise profitability on worries of a future phasing out of fossil fuels, and a phase down instead will likely have eased concerns.

The US administration has planned to target tariffs on critical goods to restart domestic industry, as opposed to universal, or across the board, tariffs against countries which would negatively affect US inflation.

Inflation forecasts	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4
Consumer Inflation (Av: y/y %)	5.4	5.2	4.3	2.9	3.1	2.9	4.0	4.6	4.6	4.6	4.5	4.6
Producer Inflation (Av: y/y %)	4.6	4.8	2.7	0.0	1.1	0.8	3.1	4.9	5.1	5.3	4.9	5.1
Salary & wage increases (y/y %)	4.9	5.5	5.0	4.9	4.2	3.9	4.3	4.0	4.3	4.5	4.6	4.7

Inflation forecasts	2027 Q1	2027 Q2	2027 Q3	2027 Q4	2028 Q1	2028 Q2	2028 Q3	2028 Q4	2029 Q1	2029 Q2	2029 Q3	2029 Q4
Consumer Inflation (Av: y/y %)	4.6	4.5	4.3	4.3	4.4	4.6	4.7	4.6	4.8	4.8	4.6	4.6
Producer Inflation (Av: y/y %)	5.1	4.9	5.0	4.9	5.0	5.1	5.0	5.1	4.9	4.9	5.0	4.9
Salary & wage increases (y/y %)	4.5	4.6	4.8	4.9	4.8	4.9	5.0	5.1	5.1	5.1	5.1	5.3

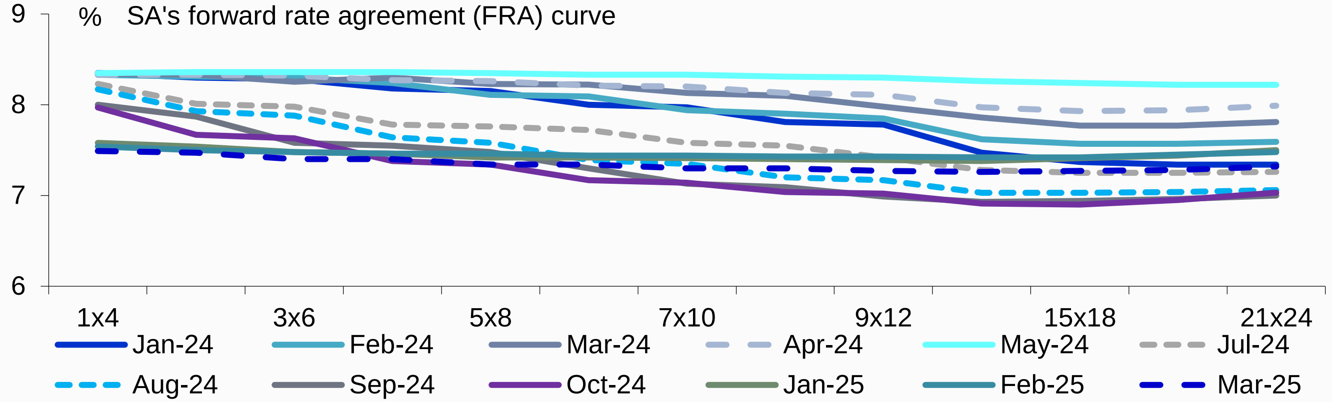
Monetary sector, % year end	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4
Repo Rate (period-end: %)	8.25	8.25	8.00	7.75	7.50	7.50	7.25	7.00	6.75	6.75	6.75	6.75
Prime Overdraft Rate (period-end: %)	11.75	11.75	11.50	11.25	11.00	11.00	10.75	10.50	10.25	10.25	10.25	10.25
SA rand bond (Av: %)	11.80	11.89	10.51	10.40	10.50	10.40	10.30	10.30	10.30	10.20	10.10	10.20

Monetary sector, % year end	2027 Q1	2027 Q2	2027 Q3	2027 Q4	2028 Q1	2028 Q2	2028 Q3	2028 Q4	2029 Q1	2029 Q2	2029 Q3	2029 Q4
Repo Rate (period-end: %)	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
Prime Overdraft Rate (period-end: %)	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25
SA rand bond (Av: %)	10.20	10.10	10.10	10.00	10.00	10.00	10.00	10.00	9.90	9.90	9.90	9.90

Note: % quarter-end. Source: SARB, Investec

Interest rates

South Africa's Monetary Sector	2023	2024	2025	2026	2027	2028	2029
Repo Rate (year-end: %)	8.25	7.75	7.00	6.75	6.75	6.75	6.75
Prime Overdraft Rate (year-end: %)	11.75	11.25	10.50	10.25	10.25	10.25	10.25
SA rand bond (year-end: %)	11.90	10.20	10.30	10.20	10.10	10.00	9.90



International interest rates (% end quarter)

	US Fed funds	Eurozone refi rate	Eurozone deposit rate	UK Bank rate	Australia cash rate
Current	4.50-4.75	2.65	2.50	4.50	4.10
2025					
Q1	4.25-4.50	2.65	2.50	4.50	4.10
Q2	4.25-4.50	2.15	2.00	4.25	3.85
Q3	4.25-4.50	1.90	1.75	4.00	3.60
Q4	4.00-4.25	1.65	1.50	3.75	3.35
2026					
Q1	3.75-4.00	1.65	1.50	3.50	3.25
Q2	3.50-3.75	1.65	1.50	3.25	3.25
Q3	3.25-3.50	1.90	1.75	3.00	3.25
Q4	3.25-3.50	2.15	2.00	3.00	3.25

Source: Macrobond, Investec UK

Sources: FOMC, Bloomberg, Investec, SARB. All forecast yields are of bonds traded on the stock exchange - Gov. bonds - Nominal yields: 10 years and over (Unit: % (Monthly average bond yield); Source: SARB QB (S-31) - June 2021 No. 300)

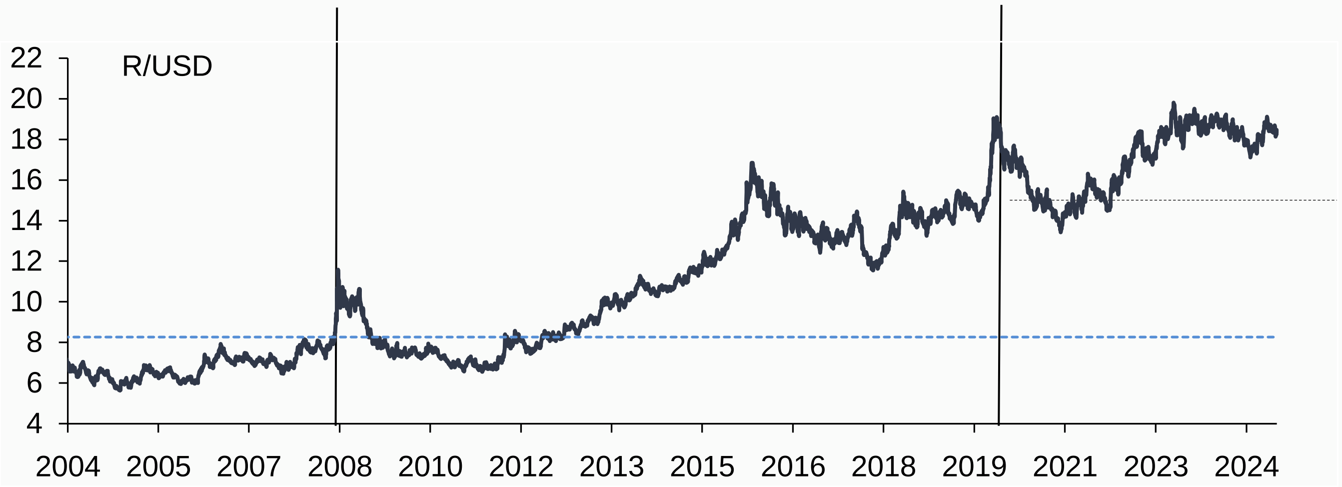
South Africa's Reserve Bank notes the global outlook remains uncertain, and the risk to the domestic inflation outlook is to the upside. VAT hikes will add 0.5% y/y to inflation as well, and the interest rate cutting cycle is expected to be paused until July 2025. Only two further interest rate cuts are expected this year, one -25bp easing in July and another -25bp cut in November.

January did not see a universal decision from the MPC in cutting. Two votes were against the decision to ease by -25bp, and instead these two votes supported no change in the repo rate, which indicates that the next interest rate decision from the SARB (20th March) could be to leave the repo rate unchanged. A pause in South Africa's interest rate cutting cycle is also supported by the MPC statement, after cutting at each of the last three MPC meetings consecutively.

The MPC last noted (t)he risks to the inflation outlook are assessed to the upside." "In the near term, inflation appears well contained. However, the medium-term outlook is more uncertain than usual, with material risks from the external environment. Domestic factors such as administered prices are also problematic."

South Africa's consensus Reuters interest rate outlook shows no cut until July. The FRA or Forward Rate Agreement curve), shows up to one cut this year. However, the FRA curve is volatile and tends to be a poor longer-term predictor of rate moves.

South Africa: rand



Source: Investec

Exchange rates: averages	2023	2024	2025	2026	2027	2028	2029
USD/ZAR	18.46	18.32	18.10	17.80	17.78	17.60	18.08
GBP/ZAR	22.96	23.43	22.17	22.56	23.11	22.88	23.50
EUR/ZAR	19.97	19.91	18.33	18.91	20.26	20.59	21.15
ZAR/JPY	7.61	8.25	8.55	8.23	7.81	7.43	7.19
GBP/USD	1.24	1.28	1.23	1.27	1.30	1.30	1.30
EUR/USD	1.08	1.08	1.01	1.06	1.14	1.17	1.17
USD/JPY	141	151	155	147	139	131	130

Source: Investec, Iress

The rand was at R14.50/USD in April 2022 but weakened for the rest of the year, and over following years, on expectations of higher global interest rates, then the advent of US interest rate hikes themselves, which caused a prolonged, and worsening period of risk aversion. Slowing global growth saw further weakness in risk assets.

Expectations of early US rate cuts last year initially resulted in some mild rand strength, then weakness on a change in market expectations which pushed out the timing for the first US rate cut from Q1.24 to Q3.24, materialising in September.

The rand also strengthened from over R20.00/USD to R17.50/USD post election on the announcement of the formation of the GNU, and particularly on the advent of the US interest rate cut cycle, then lost ground as the Fed cautioned that the US would not cut by -50bp at each meeting.

The volatility of the rand is likely to persist. South Africa also tends to see more rand sensitivity over the northern hemisphere summer months, which tend to be more risk averse for market sentiment as market players tend to reduce risk taking positions in order to go on vacation. The rand is one of the currencies in the EM basket which tends to see the most volatility in this regard.

The rand remains undervalued, with fair (PPP) value against the USD around R16.00/USD, but having weakened over the US interest rate hike cycle. Such substantial weakness has been instrumental in contributing to higher fuel and food costs in SA, amongst other inflationary effects.

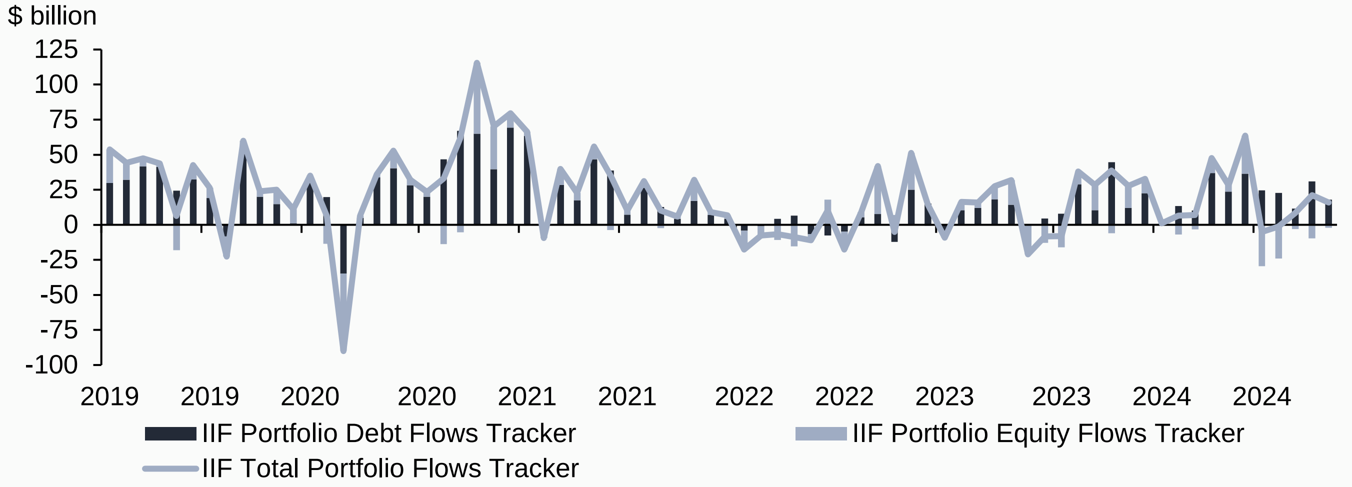
Looking forward the rand is expected to see further strength over the US interest rate cut cycle, which is expected to widen the differential between SA and US interest rates, and so allowing investors greater return on EM currency interest rate-based assets.

Exchange Rates, averages	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4
USD/ZAR	18.87	18.60	18.00	17.80	18.40	18.10	18.00	17.90	17.70	17.80	17.90	17.80
GBP/ZAR	23.96	23.44	23.22	22.96	22.63	21.90	21.96	22.20	22.13	22.43	22.73	22.96
EUR/ZAR	20.57	20.09	19.62	19.22	18.77	18.10	18.18	18.26	18.41	18.69	19.15	19.40
ZAR/JPY	7.84	8.39	8.44	8.48	8.48	8.56	8.61	8.55	8.47	8.31	8.10	8.03
GBP/USD	1.27	1.26	1.30	1.29	1.23	1.20	1.21	1.24	1.25	1.26	1.27	1.29
EUR/USD	1.09	1.08	1.10	1.08	1.02	1.00	1.01	1.02	1.04	1.05	1.07	1.09
USD/JPY	148	156	149	151	156	155	155	153	150	148	145	143

Exchange Rates, averages	2027 Q1	2027 Q2	2027 Q3	2027 Q4	2028 Q1	2028 Q2	2028 Q3	2028 Q4	2029 Q1	2029 Q2	2029 Q3	2029 Q4
USD/ZAR	17.70	17.80	17.90	17.70	17.50	17.60	17.70	17.60	17.80	18.10	18.30	18.10
GBP/ZAR	23.01	23.14	23.27	23.01	22.75	22.88	23.01	22.88	23.14	23.53	23.79	23.53
EUR/ZAR	19.65	20.11	20.76	20.53	20.48	20.59	20.71	20.59	20.83	21.18	21.41	21.18
ZAR/JPY	8.08	7.87	7.65	7.63	7.60	7.39	7.34	7.39	7.30	7.18	7.10	7.18
GBP/USD	1.29	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
EUR/USD	1.11	1.13	1.16	1.16	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17
USD/JPY	143	140	137	135	133	130	130	130	130	130	130	130

Note: averages, Sources: IRESS, Investec

South Africa: bonds



Source: IIF

Forecasts	2023	2024	2025	2026	2027	2028	2029
Extreme up case forecasts							
SA rand bond (year-end: %)	11.90	10.20	9.30	9.10	8.70	8.40	8.20
SA rand bond (average: %)	11.63	11.17	9.80	9.20	8.90	8.60	8.30
Up case forecasts							
SA rand bond (year-end: %)	11.90	10.20	9.90	9.40	9.30	9.10	8.90
SA rand bond (average: %)	11.63	11.17	10.00	9.60	9.40	9.20	9.00
Expected case forecasts							
SA rand bond (year-end: %)	11.90	10.20	10.30	10.20	10.00	10.00	9.90
SA rand bond (average: %)	11.63	11.17	10.40	10.20	10.10	10.00	9.90
Lite down case forecasts							
SA rand bond (year-end: %)	11.90	10.20	11.60	11.40	11.30	11.20	11.00
SA rand bond (average: %)	11.63	11.17	11.70	11.50	11.40	11.30	11.10
Severe down case forecasts							
SA rand bond (year-end: %)	11.90	10.20	12.90	12.50	12.40	12.40	12.20
SA rand bond (average: %)	11.63	11.17	12.60	12.70	12.50	12.40	12.30

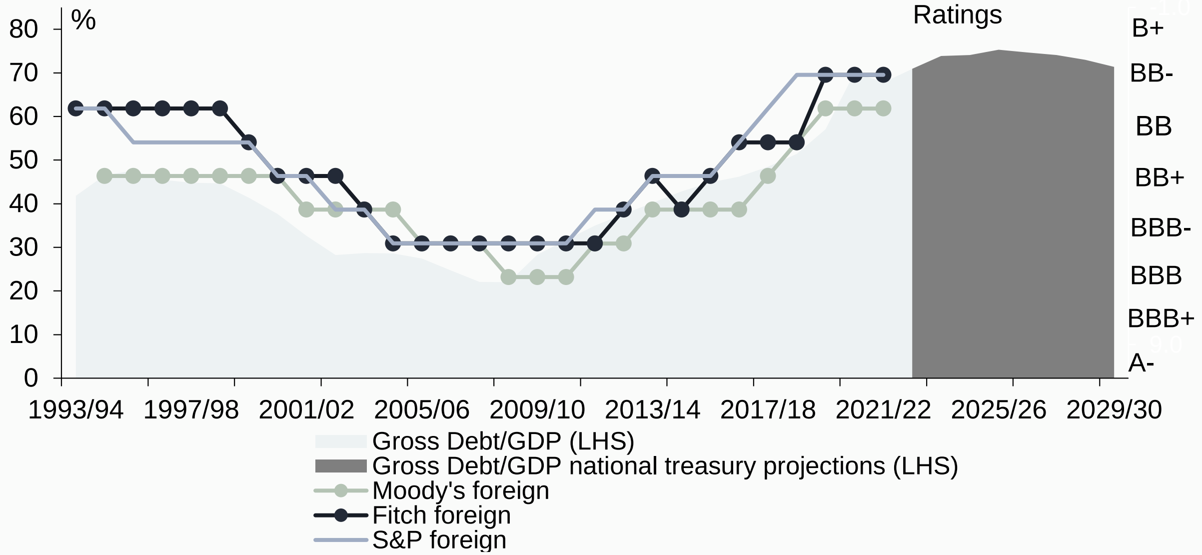
After opening this year at 10.17%, South Africa's benchmark (ten-year) government bond weakened, with the yield rising to over 10.50%, but also seeing volatility, as inflation ticked up, and worries over increased government borrowing rose. Higher projected borrowings for this fiscal year of 76.0% of GDP, versus 74.7% previously, and debt peaking at a ratio of 76.2% of GDP next year (2025/26), versus the prior peak of 75.5%.

The deterioration was partly due to the much lower than expected GDP growth outcome for 2024 (calendar year) of 0.6% y/y published this week by Stats SA, versus National Treasury's expectations of 1.1% y/y, all in real terms. The big difference in National Treasury's GDP nominal forecast versus the actual GDP outcome for the year greatly boosted borrowings on a ratio of GDP basis, but borrowings saw only a modest rise as well in rand terms, pushing yields up.

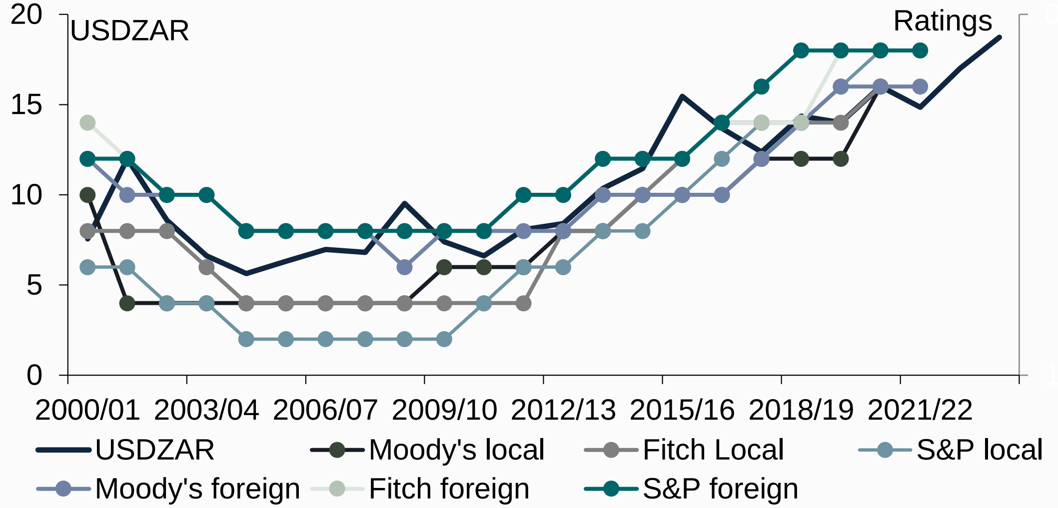
Projected higher borrowings on weaker GDP really matters, as does an improvement, with the substantial drop in February 2024's budget projections causing a swift recovery in the ten-year bond yield as forecast supply dropped off. Budget projections really matter, particularly gross loan debt, and have a substantial impact on bond yields. Inflation has also fallen in SA from above 5.0% y/y when SA's bond yield was above 12.0%, to below 10% as inflation fell below 10% y/y.

Credit risk

Foreign currency long-term sovereign debt credit ratings vs. government gross loan debt as % GDP



Long-term sovereign debt credit ratings vs USDZAR



Rating tier definitions

Moody's Long-term	Moody's Short-term	S&P Long-term	S&P Short-term	Fitch Long-term	Fitch Short-term	Equivalent to SVO Designations NAIC	Rating description	
Aaa		AAA		AAA			Prime	
Aa1		AA+	A-1	AA+	F1+			
Aa2		AA		AA			High grade	
	P-1					1		
A1		A+		A+				Investment-grade
A2		A	A-1	A	F1		Upper medium grade	
A3		A-		A-				
	P-2		A-2		F2			
Baa1		BBB+		BBB+				
Baa2	P-3	BBB		BBB		2	Lower medium grade	
Baa3		BBB-	A-3	BBB-	F3			
Ba1		BB+		BB+				
Ba2		BB		BB		3	Non-investment grade speculative	
Ba3		BB-		BB-				
B1		B+	B	B+	B			
B2		B		B		4	Highly speculative	
B3		B-		B-				
Caa1		CCC+					Substantial risks	Non-investment grade AKA high-yield bonds AKA junk bonds
Caa2	Not prime	CCC				5	Extremely speculative	
Caa3		CCC-	C	CCC	C			
Ca		CC					Default imminent with little prospect for recover	
		C						
C				DDD		6		
/		D	/	DD	/		In default	

Source: Wikipedia

Source: Rating agencies, SARB, Iress

Economic Scenarios: note change in probabilities

Extreme Up case 2% Previously 2%

	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/Rand (average)	17.00	16.00	15.30	14.50	14.40	14.10	13.80	13.90
Repo rate (end rate)	7.00	6.75	6.50	6.25	6.00	5.50	5.25	5.00

SA economic growth rises to 3–5%, then 5-7%. Good governance, growth-creating reforms, structural (including infrastructure) constraints eradicated, strong property rights, no nationalisation or expropriation without compensation. High business confidence and fixed investment growth, substantial FDI, fiscal consolidation drives debt to low ratios of 2000s. Very subdued domestic inflation on extreme rand strength, very favourable weather conditions. Short grey listing. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings. Strong transition away from fossil fuel usage, a quick transition to renewable energy, very comprehensive measures to alleviate climate change impact on economy. Geopolitical tensions subside.

Up case 15% Previously 12%

	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/Rand (average)	17.50	16.60	16.30	15.90	15.70	15.50	15.30	15.10
Repo rate (end rate)	7.25	7.00	6.75	6.50	6.25	6.00	5.75	5.50

Economic growth eventually lifts towards 5.0%, rising confidence and investment levels, structural (including infrastructure) constraints eroded, global growth strong, global financial markets risk-on. No nationalisation or expropriation without compensation. Low domestic inflation on favourable weather and global conditions, rand strength, lower state-controlled price inflation on increased privatisation. Positive outlooks on credit ratings turn into upgrades on substantial fiscal consolidation, debt projections fall substantially. Grey listed for a moderate period. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. Geopolitical tensions ease.

Base Case 50% Previously 50%

	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/Rand (average)	18.40	18.10	18.00	17.90	17.70	17.80	17.90	17.80
Repo rate (end rate)	7.50	7.50	7.25	7.00	6.75	6.75	6.75	6.75

Economic growth modest but lifts towards 3.0% y/y over five years on sufficient domestic policy support measures but is still limited by structural (including infrastructure such as freight transport) constraints. Global financial market risk sentiment is neutral to positive. South Africa is in the BB credit rating category bracket as fiscal consolidation (debt to GDP stabilisation) occurs, leading to some positive outlooks. The rand stabilises and strengthens somewhat, inflation is impacted by the course of weather patterns via food price inflation. A modest transition to renewable energy occurs and measures to alleviate the impact of climate change on the economy are implemented. Little expropriation without compensation occurs and has no significant negative effect on economy, there is no nationalisation. South Africa's grey listing lifted in the period. Geopolitical tension persist but do not exacerbate.

Lite (domestic) down case 32% Previously 35%

	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/Rand (average)	19.00	19.50	19.30	19.00	19.10	18.80	18.70	18.40
Repo rate (end rate)	8.50	8.75	9.50	9.50	9.50	9.25	9.25	9.25

The international environment (incl. risk sentiment) is that of the base case. South Africa fails to see government debt projections stabilise, falls into single B (local and foreign currency) credit ratings from all three agencies. Recession occurs. Business confidence remains depressed, load shedding and freight (infrastructure) constraints worsen, weak investment, civil and political unrest. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate the impact of climate change. Very limited expropriation of private sector property without compensation, with a slight negative impact on the economy. Substantial fiscal consolidation ultimately occurs, preventing ratings falling into the C grades. The greylisting is lengthy.

Severe down case 1% Previously 1%

	Q1.25	Q2.25	Q3.25	Q4.25	Q1.26	Q2.26	Q3.26	Q4.26
USD/Rand (average)	20.00	20.50	20.70	20.70	20.60	20.40	20.40	20.30
Repo rate (end rate)	9.00	9.75	11.00	11.50	11.00	10.75	10.00	10.25

Lengthy global recession, global financial crisis - insufficient monetary and other support domestically and internationally. Very high inflation on very adverse weather conditions, severe rand weakness. SA rated single B from all three key agencies, downgraded into CCC grade, increased risk of default, lengthy recession occurs. Government borrows from increasingly wider sources, sinks deeper into a debt trap, widespread, severe services load shedding, severe civil and political unrest. Failure to transition to renewable energy and measures to alleviate the impact of climate change on the economy. Limited expropriation of private sector property without compensation with a noticeable negative economic impact. SA is blacklisted. Geopolitical tensions worsen.

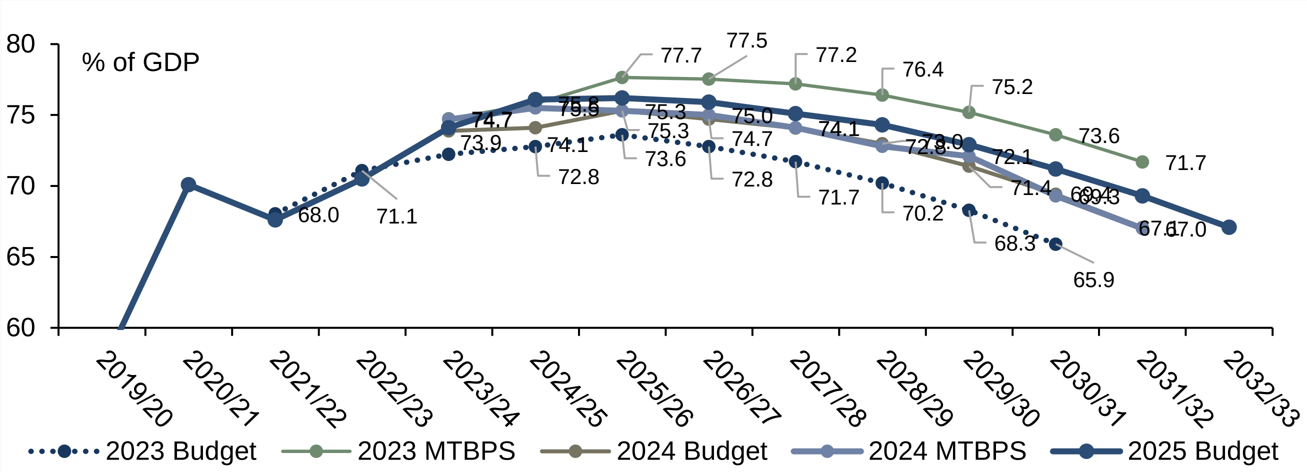
Note: Event risk begins Q1.25 Source: Investec

Investec

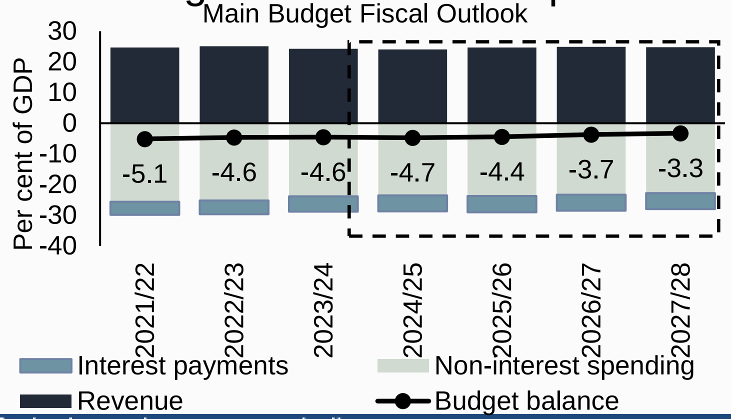
Budget Preview

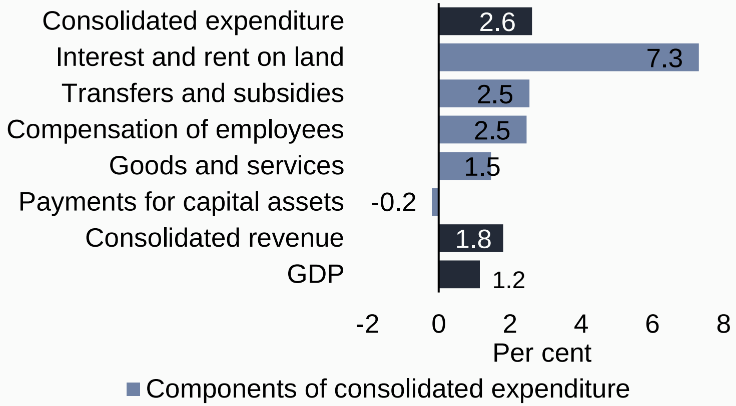
Budget: minor fiscal slippage

Gross debt-to-GDP outlook



Main budget revenue and expenditure*





Revised gross tax revenue projections

	2024/25	2025/26	2026/27	2027/28
Revised estimate	**1 843.7**	**2 032.1**	**2 175.9**	**2 319.2**
Buoyancy	1.09	1.45	1.10	1.00
2024 MTBPS	**1 840.8**	**1 971.8**	**2 111.1**	**2 255.2**
Buoyancy	0.95	1.09	1.09	1.04
2024 Budget	**1 863.0**	**1 991.2**	**2 133.0**	
Buoyancy	1.33	1.11	1.11	
2025 Budget	**24.5%**	**25.1%**	**25.4%**	**25.4%**
Buo9yancy	1.12	1.24	1.22	1.01

Source: National Treasury, Budget 2025

Source: National Treasury, Budget 2024

2025's Budget Review saw mild near-term fiscal slippage with a weakening in government's debt to GDP projections and fiscal deficits, but then a continuation of previous projections' moves to fiscal consolidation. Gross debt of government is consequently now projected to stabilise at 76.2% of GDP in 2025/26. Previously the projection was estimated to peak at 75.5% in 2025/26 in the MTBPS.

The budget deficit for 2025/26 is now estimated at -4.6% of GDP, widening from the prior estimate of -4.3 % of GDP, and expected to reach -3.5% by 2027/28. Vat rose by 0.5%, with no fiscal drag adjustment. The upwards revision of National Treasury's economic growth forecasts to 1.9% y/y from 1.7% y/y for 2025, is above our and the consensus forecast (Bloomberg, Reuters), and remains around 1.8% y/y thereafter.

Overall, the Budget is credit neutral versus the MTBPS, with modest fiscal slippage only in the short-term and fiscal consolidation longer-term, maintaining a primary balance. The debt consolidation runs at October's MTBPS projections. The rand saw little consequent change around R18.40/USD on the Budget.

S&P one of the three key credit rating agencies, (besides Fitch and Moody's) put SA on a positive outlook (indicating the potential for an upgrade from BB-) in November last year. S&P is unlikely to drop its positive outlook, on similar consolidation plans to October. The Budget now needs to be passed by parliament

Budget: minor fiscal slippage

Figure 23: Consolidated government expenditure by functions[1]

R billion	2024/25 Revised estimate	2025/26	2026/27	2027/28	Percentage of total MTEF	Average annual MTEF growth
		Medium-term estimates				
Learning and culture	**482,326**	**508,685**	**536,359**	**562,393**	**23.8%**	**5.3%**
Basic education	324,856	349,582	369,280	385,981	16.4%	5.9%
Post-school education and training	145,207	146,640	154,343	163,194	6.9%	4.0%
Arts, culture, sport and recreation	12,264	12,462	12,735	13,218	0.6%	2.5%
Health	**277,229**	**298,894**	**313,698**	**328,890**	**13.9%**	**5.9%**
Social development	**396,970**	**422,307**	**441,107**	**452,683**	**19.5%**	**4.5%**
Social protection	300,157	322,852	342,102	350,319	15.0%	5.3%
Social security funds	96,813	99,455	99,006	102,363	4.5%	1.9%
Community development	**267,800**	**286,603**	**293,499**	**305,611**	**13.1%**	**4.5%**
Economic development	**252,354**	**289,758**	**297,788**	**318,400**	**13.4%**	**8.1%**
Industrialisation and exports	39,379	40,760	41,402	43,400	1.9%	3.3%
Agriculture and rural development	28,600	29,383	30,634	31,917	1.4%	3.7%
Job creation and labour affairs	21,567	23,658	25,286	26,964	1.1%	7.7%
Economic regulation and infrastructure	143,280	175,738	179,033	194,392	8.1%	10.7%
Innovation, science and technology	19,528	20,220	21,434	21,728	0.9%	3.6%
Peace and security	**250,372**	**266,113**	**277,566**	**287,049**	**12.3%**	**4.7%**
Defence and state security	57,503	60,778	63,069	65,263	2.8%	4.3%
Police services	124,919	133,379	139,517	145,296	6.2%	5.2%
Law courts and prisons	54,507	58,059	60,765	63,664	2.7%	5.3%
Home affairs	13,443	13,898	14,216	12,826	0.6%	-1.6%
General public services	**77,133**	**78,661**	**81,064**	**84,200**	**3.6%**	**3.0%**
Executive and legislative organs	17,639	17,837	18,023	18,728	0.8%	2.0%
Public administration and fiscal affairs	50,454	51,679	53,747	55,784	2.4%	3.4%
External affairs	9,040	9,146	9,294	9,688	0.4%	2.3%
Payments for financial assets	**10,213**	**11,416**	**7,211**	**5,903**		
Allocated by function	**2,014,397**	**2,162,437**	**2,248,292**	**2,345,129**	**100.0%**	**5.2%**
Debt-service costs	389,561	424,869	449,185	478,611		7.1%
Contingency reserve	–	5,000	5,500	11,127		
Consolidated expenditure	**2,403,958**	**2,592,306**	**2,702,978**	**2,834,867**		**5.6%**

Source: National Treasury, Budget 2025

1) The main budget and spending by provinces, public entities and social security funds financed from own revenue

Overall, it is an unsurprising budget from a financial market perspective. Borrowings are largely contained, swelling in the near term as % of GDP mainly on disappointing GDP outcome, but then moderating back over the medium-term towards 67% of GDP on the same trajectory as in October 2024's MTBPS.

However, the recent weak economic growth outcome for 2024 is disappointing for financial markets, while the rail and port crisis (subtracting around 4% from GDP growth) and the unemployment crisis persist. A better economic environment is needed to raise more revenue, in particular a substantially faster economic growth rate of 3-5% y/y, with tax increases instead subtracting from economic growth.

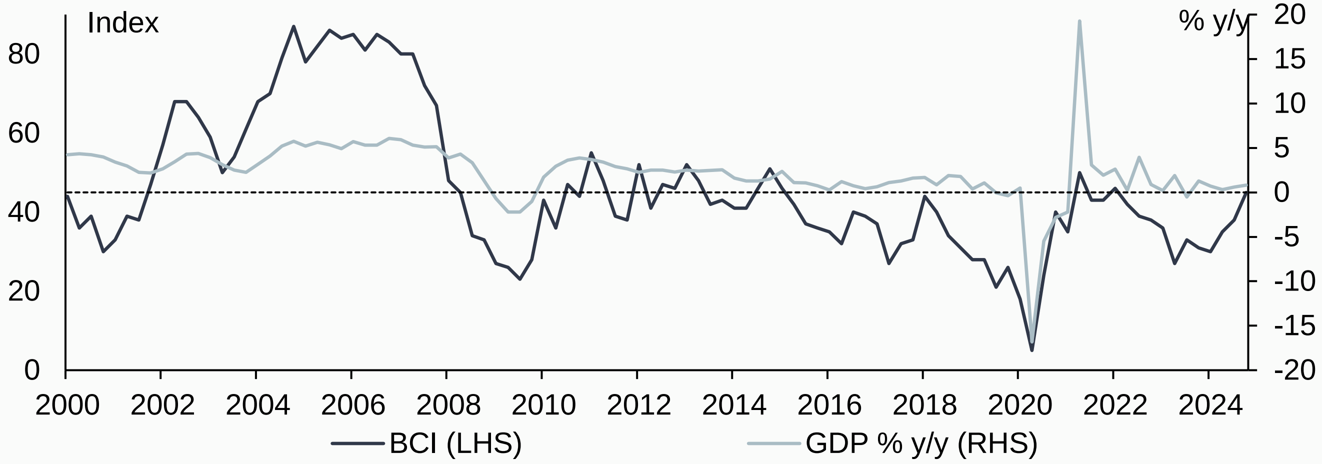
The Budget's tax proposals total R28bn. The additional revenue raised mainly comes from no adjustment for fiscal drag, i.e. no adjustment for the effect of inflation on income taxation, totalling R18bn followed by R13.5b from the 0.5% VAT increase. Medium-term, revenue is just under 28% of GDP.

There is a dire need for much higher tax compliance in SA, achieved through bolstering SARS capacity with the Commissioner estimating this would raise R800bn a year, eliminating the need for tax hikes, while allowing for lower borrowings and so credit rating upgrades and increased investment and growth.

Real Economy

South Africa: infrastructure

GDP vs BCI: Business Confidence leads growth



* Seasonally adjusted. Source: BER, Stats SA

Gross Fixed Capital Formation	2023	2024	2025	2026	2027	2028	2029
GFCF, total (real, %)	3.9	-3.3	4.8	5.0	5.3	5.8	6.5
GFCF as % of GDP	14.8	14.2	14.6	15.0	15.4	15.9	16.4
Private sector (real, %)	3.0	-5.0	4.7	5.2	5.4	5.9	6.5
Government (real, %)	6.1	1.0	4.9	4.6	5.2	5.5	6.4
Non-residential GFCF (real, %)	5.4	-4.7	4.7	5.2	5.4	5.9	6.6
Residential buildings (real, %)	-7.1	-6.6	4.9	4.8	5.3	5.6	6.0

Source: Investec

Please note: all data may be subjected to historical revisions

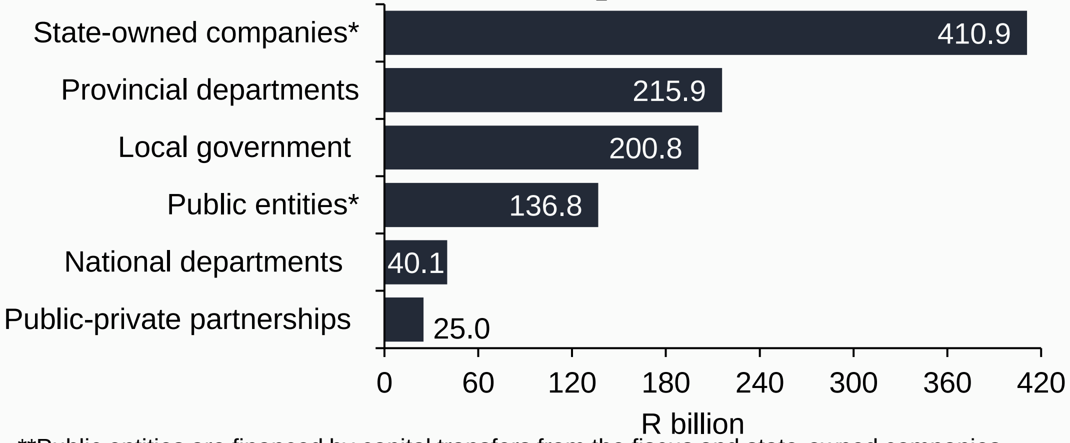
South Africa has maintained an average since 2017 of 71% of fixed investment carried out by the private sector versus the total. This is up from 65% of total in the prior eight years (South African Reserve Bank (SARB) data). In contrast, government, and the parastatals (or SOE's) respectively accounted for only 17.5% and 11.7% of total expenditure on fixed investment, or gross fixed capital formation (GFCF), in Q2.24, similar to Q1.24, and the period of 2017 onwards.

South Africa is expected to see fixed investment growth jump this year, by close to 5.0% y/y after a contraction over 2024, as private sector investment lifts, and the SOE's and government improve their capital expenditure. Fixed investment is expected to continue to be driven by the private sector over the medium-term, with similar growth rates to total fixed investment, aided by the business government partnership, with phase two launched recently.

The President, Ministers and Business CEOs launch of Phase 2 of Government Business Partnership focuses on improving sentiment and investment in order to quicken (inclusive) economic growth and the employment rate. Phase 1 tackled "some of the country's most pressing challenges in the areas of energy, transport and logistics, and crime and corruption". "(I)f we expedite reforms, more quickly achieve operational improvements at Transnet and Eskom, and swiftly mobilise private sector investment - we could see GDP growth reach 3.3% by the end of 2025, providing a crucial uplift from the current baseline." A 3.3% growth rate by the end of 2025, or annualised 0.7% qqsa, would require substantially faster repair and infrastructure build at Transnet than is currently being signalled by the SOE, with rail and port constraints currently key in limiting GDP growth. The current Bloomberg consensus forecasts do not take these plans into consideration, with GDP growth of 0.4% qqsa only envisaged, or near 2.0% annualised, by end 2025. However, materialisation of quickening reforms would lift consensus growth forecasts.

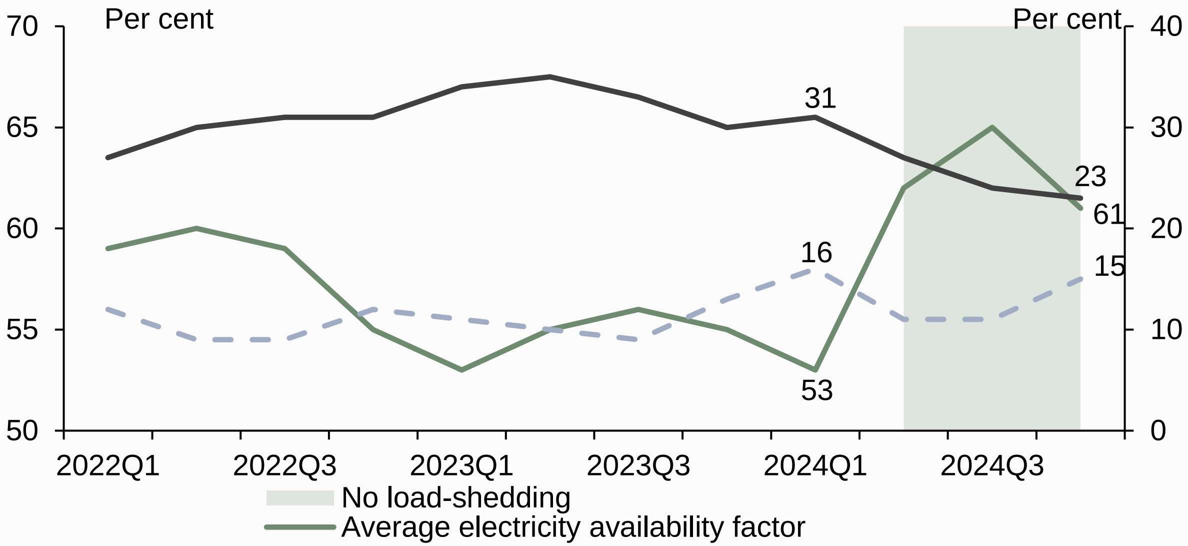
South Africa: infrastructure

Public-sector infrastructure expenditure, 2025-26-2027/28



**Public entities are financed by capital transfers from the fiscus and state-owned companies are financed by a combination own revenue and borrowing

Energy availability and outage factors



**SSEG refers to small-scale embedded generation; rooftop PV does not require registration with the National Energy Regulator of South Africa (NERSA)

Please note: all data may be subjected to historical revisions

South Africa has maintained an average since 2017 of 71% of Private sector fixed investment contracted last year, by -4.1% y/y in real terms, as business confidence remained depressed, with weak sentiment on underperforming economic growth and little government progress on PPPs. A high sixty-three per cent of businesses were dissatisfied with business conditions in 2024, with economic growth slumping from 0.7% y/y in 2023 to 0.6% in 2024, as weak demand conditions reduced the incentive for private sector fixed investment.

Even excluding the effects of the drought in Q3.24, demand was weak, with GDP only coming out at 0.8% y/y in 2024 excluding the agricultural sector, and government fixed investment contracting by -2.9% y/y, with -2.2% for SOE's. Overall, GFCF (Gross Fixed Capital Formation, or fixed investment) was -3.7% y/y lower over 2024 versus 2023, and the recent budget notes "(G)overnment is tackling regulatory concerns to encourage private investment in public infrastructure."

"Several reforms under way are designed to help the state deliver infrastructure and encourage private-sector investment. A clear framework is being established to receive and process unsolicited PPP proposals or bids from the private sector." "During 2025/26, a single structure overseen by the National Treasury will be established to coordinate state participation in project preparation and planning, public-private partnerships (PPPs), funding and credit guarantees." "It will be established by merging two units currently in the Government Technical Advisory Centre that coordinate PPPs and capital appraisals with the Infrastructure Fund in the Development Bank of Southern Africa." "On 7 February 2025, amendments to Treasury Regulations for PPPs were gazetted. From June 2025, projects below a total value of R2bn will no longer have to clear onerous approval processes intended for large projects before proceeding." Despite the work and reforms outlined, freight constraints in particular will continue to provide limitations on SA's economic growth this year, seeing a relatively weak growth outcome of 1.3%, with risks stemming from the global economy too.

South Africa: budget

Provisional allocations not appropriated				
R million	2025/26	2026/27	2027/28	MTEF total
Provisional allocations from 2024 Budget				
SASSA free ATM withdrawal	5	183	191	379
BFI – Tygerberg Hospital	212	–	–	212
BFI - Klipfontein Hospital	60	–	–	60
Employment programmes	–	7 415	7 751	15 166
COVID-19 social relief of distress grant	–	36 756	38 411	75 167
Provisional allocations not appropriated to votes				
Early retirements costs	**4 400**	**6 600**	**–**	**11 000**
Infrastructure investment				
Infrastructure Fund	–	–	425	425
Disaster management	1 851	1 099	1 050	4 000
Passenger Rail Agency of South Africa	5 890	5 423	7 923	19 236
Turnaround of services in metros	2 404	2 031	4 022	8 457
Provisional allocations for frontline services				
Education	8 113	9 647	11 335	29 095
Health	9 311	9 644	9 991	28 946
Defence	2 500	2 090	2 184	6 774
Correctional Services	840	878	917	2 635
Home Affairs	1 470	1 245	550	3 265
Total	**37 056**	**83 011**	**84 749**	**204 816**

Source: National Treasury, Budget 2025

Source: National Treasury, Budget 2025

South Africa: infrastructure

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Source: National Treasury, Budget 2025

“Over the next three years, an estimated R1.03 trillion will be spent on public infrastructure projects by state-owned companies, other public entities, and national, provincial and local government.” “This includes R402 billion for road infrastructure”. “R100 billion of investments (will come from the) by the South African National Roads Agency Limited. An amount of R219.2 billion will be spent on energy infrastructure, and R156.3 billion will flow to water and sanitation infrastructure.”

“Of the total public-sector capital investment planned over the medium term, 72.7 per cent, or R748.5 billion, will be funded from the budgets of state-owned companies and public entities, as well as municipalities”. “The 2025 Budget adds R46.7 billion in funding for infrastructure projects over the next three years. New legislative amendments and regulations for municipal PPPs will also be introduced in 2025.”

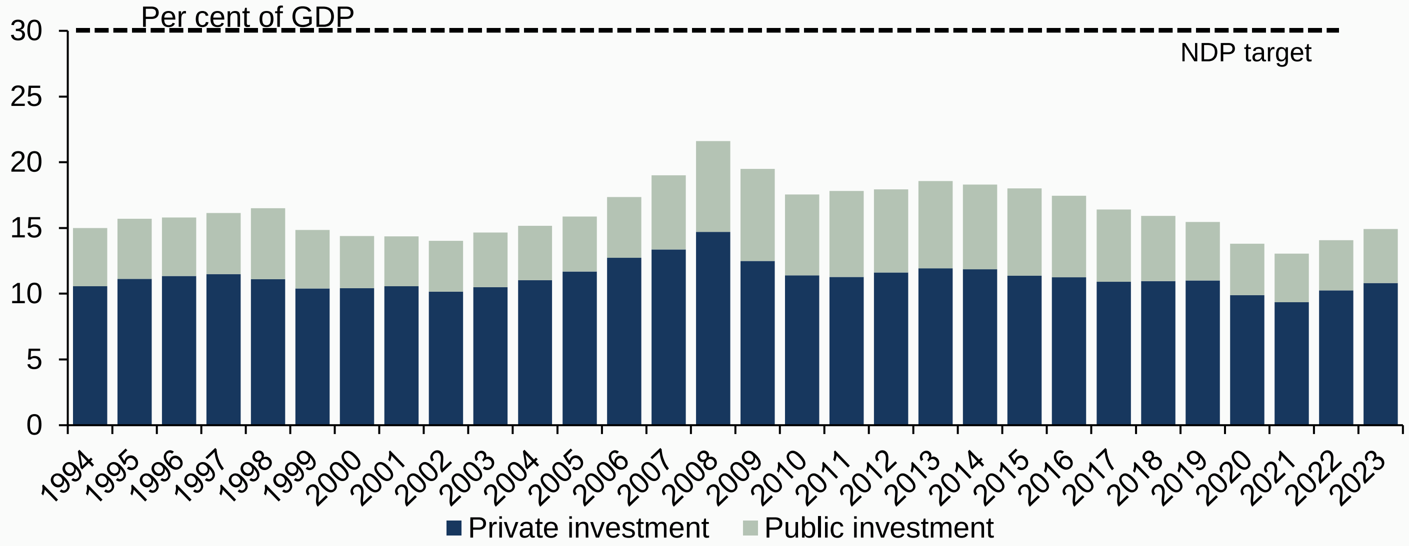
For the 2025 Budget cycle, the Facility has approved nine projects with a total value of R55.5bn, of which R15.3b will be funded by the Facility. The approved projects … range … (across) hospital infrastructure, transport and logistics, and water.” “The Budget Facility for Infrastructure plays a central role in the capital budgeting system by recommending funding for projects that are jointly funded from other sources, including (SOEs), municipal own resources and the private sector.”

“The Budget Facility for Infrastructure plays a central role in the capital budgeting system by recommending funding for projects that are jointly funded from other sources, including (SOEs), municipal own resources and the private sector.” “The 2025 Budget introduces a performance-based conditional grant for certain trading service entities that provide basic services, such as water … (to) incentivise financial and operational reforms to improve functioning and sustainability.” The Budget has not seen substantial progress to spur actual establishment and delivery from PPPs, instead still in the early stages, of planning, reforms and regulatory implementation, and GDP growth remains limited as a consequence.

Please note: all data may be subjected to historical revisions

South Africa: infrastructure

Public and private sector capital investment as a share of GDP, 1994-2023*



Macro-economic forecasts, Treasury vs Investec			
	2025	2026	2027
Real GDP	1.3	1.9	2.3
Final household consumption	1.4	1.9	2.4
Final Government consumption	0.3	-0.1	0.3
Gross fixed capital formation	3.0	4.1	4.9
Exports	1.8	3.9	4.2
Imports	2.6	3.7	4.4

Source: National Treasury, Budget 2025 and Investec

Octobers MTBPS saw significant focus on infrastructure development in South Africa, providing a broad approach encompassing a new financing and appraisal system, scaling up PPPs and a new approach to infrastructure borrowing. Infrastructure investment has fallen from 20% of GDP in 2008, to 14% in the last reading (Q2.24), for gross fixed capital formation (GFCF, another term for fixed investment) as weak GDP growth slowed investor appetite. The deterioration of the capacity of state infrastructure contributed heavily to the slowdown in economic growth, from above 3.0% y/y in the 2000s, and 3.0% y/y at the start of the last decade (the 2010s), to 0.2% y/y by its end (2019).

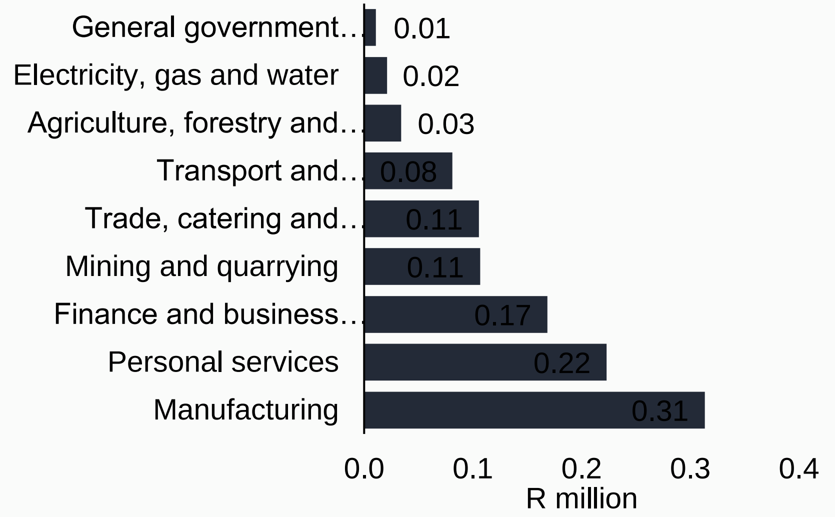
Largescale infrastructure new build, repair and maintenance is needed, ranging from transmission lines for new renewable energy, to reforms on the transport and other sectors to attract private sector investment into public infrastructure projects. The REIPPP (Renewable Energy Independent Power Producer Procurement Programme) is held up as a template for reform to scale up PPPs for risk analysis, blended finance, including a credit guarantee vehicle, starting with the energy sector.

Beginning with transmission line build from 2025, other sectors will be included over the medium term. National Treasury will explore alternative financing mechanisms, including bilateral loans, concessional financing and infrastructure bonds. In addition, from the next fiscal year, 2025/26, National Treasury will create a single structure for combining infrastructure project preparation support, transaction advice for PPPs and ringfenced financing from state borrowings.

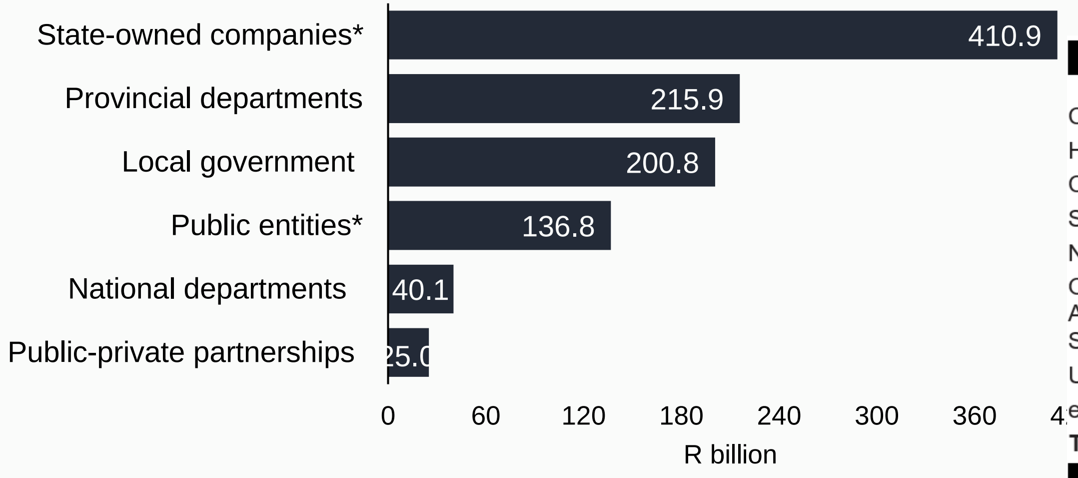
Our forecast for infrastructure spend in SA continues to run faster than those of government, in turn boosting our GDP growth outlook, with GDP growth below 2.0% y/y in government's forecasts, but running at 2.5% y/y in Investec's.

South Africa: infrastructure

Sectoral impact of increasing construction sector output by R1 million



Public sector infrastructure expenditure and estimates



Public- sector infrastructure expenditure and estimates

R billion	2021/22	2022/23 Outcomes	2023/24	2024/25 Revised estimate	2025/26	2026/27 Medium-term estimates	2027/28	MTEF Total
Energy	35.5	38.7	46.1	50.7	66.2	73.4	79.6	219.2
Water and sanitation	30.6	35.4	27.5	45.3	49.9	50.1	56.3	156.3
Transport and logistics	65.9	86.4	75.1	118.3	133.1	137.7	131.1	402.0
Other economic services	21.8	18.9	48.1	23.0	22.1	19.5	20.0	61.5
Health	16.4	11.9	13.1	14.5	15.6	14.8	15.0	45.5
Education	14.5	21.1	14.5	20.8	19.4	19.3	18.3	57.0
Human settlements[1]	13.4	14.3	21.3	17.8	17.3	15.6	16.3	49.2
Other social services	2.2	3.3	0.5	2.9	2.6	2.5	2.5	7.6
Administration services[2]	12.0	9.0	10.7	10.1	11.3	9.8	10.1	31.2
Total	**212.3**	**238.8**	**256.9**	**303.5**	**337.5**	**342.8**	**349.3**	**1 029.5**
National departments	12.5	13.2	14.2	15.0	15.0	12.6	12.6	40.1
Provincial departments	57.7	60.1	73.2	77.1	75.5	69.6	70.8	215.9
Local government	62.1	64.7	56.8	69.7	67.7	65.1	68.0	200.8
Public entities[3]	20.2	26.8	26.4	33.4	45.3	47.4	44.1	136.8
Public-private partnerships	6.5	6.0	6.8	7.1	7.9	8.4	8.7	25.0
State-owned companies[3]	53.4	67.9	79.4	101.2	126.0	139.8	145.1	410.9
Total	**212.3**	**238.8**	**256.9**	**303.5**	**337.5**	**342.8**	**349.3**	**1 029.5**

Source: National Treasury, Budget 2025

1. Human settlements includes public housing and bulk infrastructure amounting to R49.2 billion over the MTEF period
2. Administration services include infrastructure spending by the departments of International Relations and Cooperation, Home Affairs, and Public Works and Infrastructure, and Statistics South Africa and their entities
3. Public entities are financed by capital transfers from the fiscus and state-owned companies are financed from a combination of own revenue and borrowings

Projects approved for funding in Window 8 of the BFI

	2025/26	2026/27	2027/28	MTEF
Cape Town Container Terminal Expansion (Phase 2B)	320	888	92	1 300
Health Technology for the Tygerberg Hospital Redevelopment PPP	–	–	295	295
City of Johannesburg Alternative Waste Treatment Technology	–	578	533	1 111
Student Housing Infrastructure Programme		306	951	1 257
NECSA's Multi-Purpose Reactor	403	440	414	1 257
OMMP 2D and 2F Raw Water Pipeline, WTWs, Reservoirs and Ancillary Reticulation Infrastructure	1 500	1 000	700	3 200
Siloam District Hospital	858	259	–	1 117
Ukuvuselela: Gauteng-Eastern Cape High-Capacity Rail Corridor	209	1 800	–	2 009
eThekwini Non-Revenue Water (NRW) Project	56	109	101	266
Total	**3 346**	**5 380**	**3 086**	**11 812**

Source: National Treasury, Budget 2025

South Africa: infrastructure

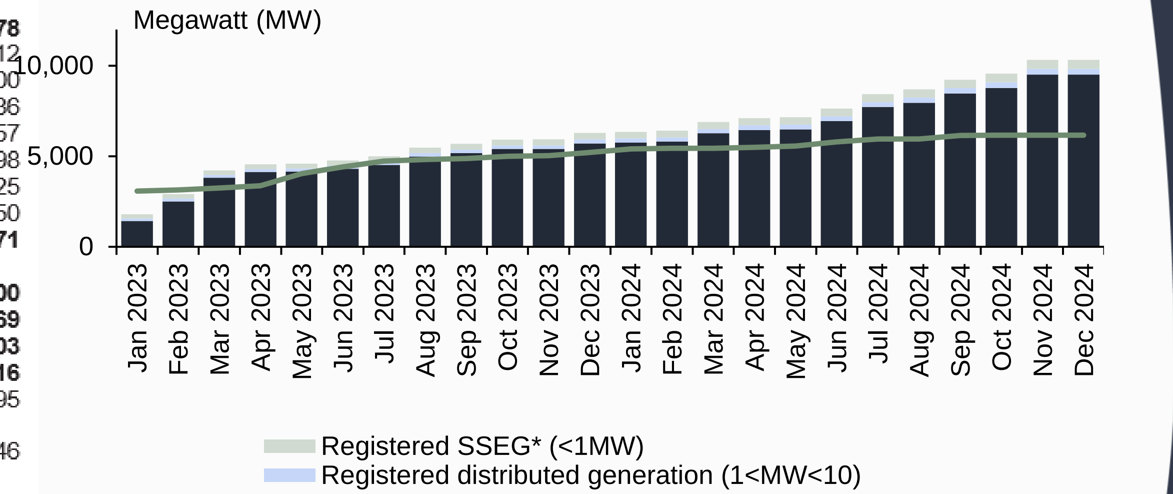
Spending additions funded over the MTEF period				
R million	2025/26	2026/27	2027/28	MTEF total
Infrastructure investment	**14 104**	**15 833**	**16 741**	**46 678**
Budget Facility for Infrastructure window 8 projects	3 346	5 380	3 086	11 812
Disaster management*	1 851	1 099	1 050	4 000
Passenger Rail Agency of South Africa*	5 890	5 423	7 923	19 236
Turnaround revenue-generating services in metros*	2 404	2 031	4 022	8 457
Western Cape Rapid Schools Build Programme	1 048	1 250	–	2 298
Drakenstein project allocation	–	225	–	225
Rescheduling of MyCiTi	-435	425	660	650
2025 public-service wage agreement and carry-through costs	**7 317**	**7 842**	**8 211**	**23 371**
Early retirement costs*	**4 400**	**6 600**	**–**	**11 000**
COVID-19 social relief of distress grant	**35 169**	**–**	**–**	**35 169**
Social grants above-inflation increases	**1 594**	**3 265**	**3 344**	**8 203**
Provisional allocations for frontline services	**22 234**	**23 504**	**24 978**	**70 716**
Education: provincial education compensation costs and expansion of ECD provision*	8 113	9 647	11 335	29 095
Health: provincial health compensation costs, unemployed doctors and goods and services*	9 311	9 644	9 991	28 946
Defence: compensation costs shortfalls*	2 500	2 090	2 184	6 774
Correctional services: compensation costs shortfalls*	840	878	917	2 635
Home Affairs: digitisation and human resource capacitation*	1 470	1 245	550	3 265
Other spending additions	**17 619**	**11 135**	**8 707**	**37 460**
SARS spending adjustments and further support	500	1 500	1 500	3 500
Employment programmes	4 592	–	–	4 592
SANRAL GFIP phase 1 debt repayment[1] and maintenance backlog	8 681	4 639	3 314	16 634
SANDF troop deployment in DRC	1 800	1 747	1 480	5 027
Spending additions to various institutions[2]	1 443	871	917	3 231
Local government elections	–	1 435	–	1 435
Direct charges[3]	603	942	1 496	3 042
Total additions to baselines and provisional allocations	**102 438**	**68 179**	**61 981**	**232 598**

Source: National Treasury, Budget 2025

* Provisional allocations not appropriated to votes

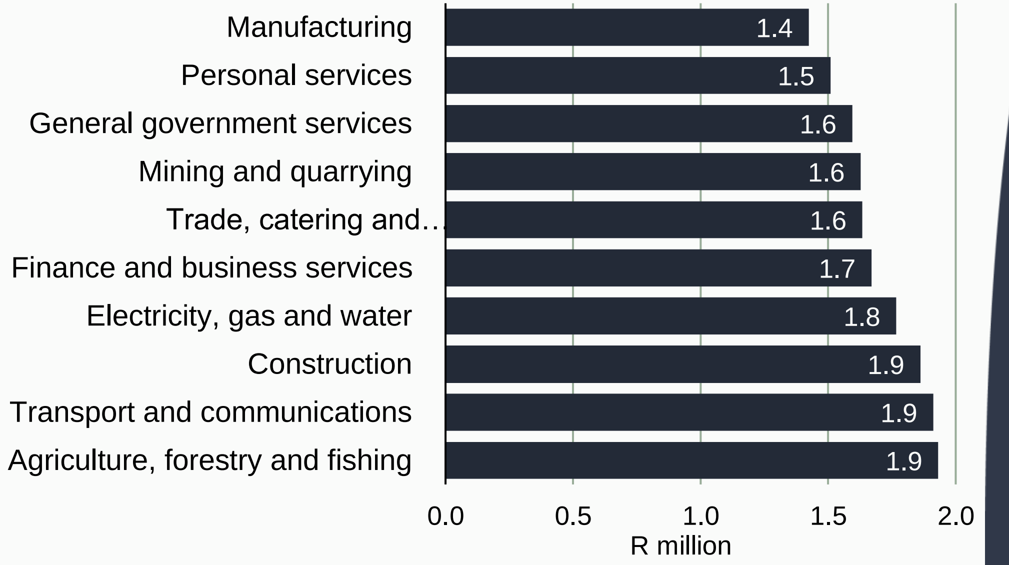
1. Includes the national government portion of R3.2 billion in 2025/26
2. Includes G20 and ICASA spectrum auction cost in 2025/26, new ministries and deputy ministries carry-through costs and financing of Parliament and Office of Chief Justice funding pressures
3. Include additions for injury on duty and post-retirement medical benefits

Registered and installed photovoltaic capacity



**SSEG refers to small-scale embedded generation; rooftop PV does not require registration with the National Energy Regulator of South Africa (NERSA)

Domestic output multipliers*



Source: National Treasury, Budget 2025

South Africa: infrastructure

Project pipeline

Project name	Sector	Project description	Estimate of potential total investment (R million)	Progress to date
Lanseria Wastewater Treatment Works	Water and sanitation	The project entails the planning, design and implementation of the Lanseria wastewater treatment works and associated bulk outfall sewer. The objective is to construct and commission a module of 50 Ml/day (Ml/d) as part of a programme to deliver 150 Ml/d	3 400	Addressing gaps raised by 2022 BFI. Resubmission in 2025
Beitbridge - Musina Water Transfer Scheme	Water and sanitation	The project entails the construction of a pipeline (about 20km) crossing the Limpopo River from Beitbridge to Musina with bidirectional capacity to transfer 15 million m^3/annum (41 Ml/d) of treated water from Beitbridge WTW to the terminal reservoirs in Musina	2 000	Feasibility study stage
Ngqura Manganese Export Terminal Project	Transport	Development of a world-class 16 million ton per annum (mtpa) manganese export facility at the port of Ngqura to complement 6mtpa from the port of Saldanha to cater for projected demand of 22mtpa	10 000	Addressing gaps raised by 2022 BFI. Resubmission in 2025
Nkuna Smart City Mixed Use Development	Human settlements	Nkuna Smart City is a mixed-use development that is being developed on 119 hectares of land and consists of an industrial park, warehousing, shopping centre, public- and private-sector offices, intermodal facility, petrol station, drive-thru food outlets, university campus, schools, hotel, private hospital, business park, residential walk-ups and single stands	3 100	The project was registered with ISA and is expected to be in the early business case stage. The project consists of 10 phases, with two already completed. A cost-benefit analysis is under way
Cornubia Boulevard Development Project	Human settlements	Cornubia is a greenfield integrated human settlement development that will incorporate a variety of land uses, including mixed-income residential, industrial, commercial, open space, education and other amenities, as well as the associated bulk infrastructure services	25 000	Phase 1 of the project has been completed and phase 2 is currently at feasibility study stage
eThekwini Avoca Node Phase 2	Human settlements	The programme is located on a 350-hectare site in the northern corridor of the metro in KwaZulu-Natal. It consists of the Brickworks, Northfield and Caneridge developments and will provide for industrial and social housing needs	12 000	Advanced project preparation. Processes are in place to submit the project to the BFI in 2025
Total			**55 500**	

Source: National Treasury, Budget 2025

Project pipeline (continued)

Project name	Sector	Project description	Estimate of potential total investment (Rm)	Progress to date
Nelson Mandela Bay N2 Nodal	Human settlements	The programme consists of various residential and non-residential components and bulk services to be delivered around the Baywest Mall. It will deliver a mix of land uses, including residential units across different market segments (fully subsidised to upper-middle-range private developments), large-scale retail, commercial and office facilities, and light industrial and warehousing facilities	19 700	Early project preparation. Processes are in place to submit the project to the BFI in 2025
Southern Farms Human Settlements Project	Human settlements	The development has capacity to deliver a smart city with 11 014 dwelling units for over 8 000 poor families and 3 000 middle-class families, retail facilities, transport hub, offices, hotel, light industrial centre, agricultural area, recreational area, educational facilities and health facilities	9 700	The project was submitted to the BFI and unsuccessful. Gaps are currently being addressed to resubmit in 2025
Leeuwpoort Integrated Human Settlements Project	Human settlements	The project is on a 1 300-hectare site with a variety of land uses, including mixed-income residential, industrial, commercial, open space, education and other amenities. It is in Ekurhuleni across three sub-township extensions:		
Rieger Park, Park Dene and Sunward Park	15 600	The project was submitted to the BFI and unsuccessful. Gaps are currently being addressed to resubmit in 2025		
First Land Mixed Use and Agri-hub	Agriculture	First land precinct is a mixed-use development by Atterbury. The project aims to develop a state-of-the-art fresh produce hub and agri-hub for Gauteng	10 762	The project was submitted to the BFI and unsuccessful. Gaps are currently being addressed to resubmit in 2025
6 District Municipalities Project Preparation Interventions*	Water and sanitation and energy	To improve the integrity of the bulk water and sanitation infrastructure in selected priority district municipalities, to improve supply reliability	1 600	Feasibility studies being completed
Chris Hani Baragwanath Academic Hospital	Health	Construction of a PPP central hospital facility with the private sector	10 000	Feasibility study is currently under way
George Mkhari Academic Hospital	Health	Construction of a PPP central hospital facility with the private sector	10 000	Feasibility study is currently under way
Joburg Fresh Produce Market	Agriculture	The project entails the refurbishment work and modernisation of the JFPM to be a "smart facility" to fulfil current and future needs, and ensure sustainability and that it is fit for purpose. The market needs an upgrade and expansion of its existing infrastructure	2 820	Feasibility study is currently under way
Total			**135 682**	

Source: National Treasury, Budget 2025

Source: National Treasury, Budget 2025

South Africa: infrastructure

Pipeline of other major public-sector projects

Project name	Project stage	Project description	Estimated project cos
Salvakop Precinct PPP Project	Various	A mixed-use development that includes the construction of offices for four national government departments in Pretoria's inner city	R18.1 billion
Kopanong Precinct PPP Project	Procurement	Construction of Gauteng Provincial Government office to consolidate administration function of 19 buildings in the Johannesburg CBD	R6.5 billion
Phase 2 - Rural Bridges Programme	Various	Construction of rural bridges in various parts of the country	R12 billion
KwaMashu Wastewater Treatment Works	Feasibility	Design, finance, build and operate wastewater treatment works in KwaMashu, eThekwini Municipality	R1.2 billion
City of Cape Town Water Desalination	Feasibility	Desalination of sea water for bulk and reticulation	R2.5 billion
Limpopo Central Hospital Project	Implementation	Construction of a new 488-bed central hospital in Polokwane, which will form part of an academic health complex attached to the University of Limpopo's medical school	R4.5 billion
Gauteng Rapid Rail Network Extension Parts 1 and 2	Procurement	A two-phase extension of the existing Gautrain rail system	R65.4 billion
Midvaal Electricity Distribution Project	Procurement	Refurbishment and expansion of the existing distribution lines owned by the municipality	R1 billion
Small Harbours Development Programme	Implementation	Upgrading and refurbishment of 12 proclaimed fishing harbours in the Western Cape, and nodal-based refurbishment and development of new harbours in the Northern Cape, Eastern Cape and KwaZulu-Natal	R7.1 billion
Expansion of the MyCiTi Bus Rapid Transit System in Cape Town	Implementation	Expansion of the MyCiTi bus rapid transit system in Cape Town	R7.1 billion
Belhar Regional Hospital	Concept design	Construction of a 550-bed regional hospital	R4.6 billion
Klipfontein Hospital	Concept design	Construction of a new hospital to replace the GF Jooste Hospital	R4.3 billion
Berg River Voëlvlei Dam Pipeline BRVAS (Western Cape)	Construction	Construction of a weir and abstraction works with a pump station on the Berg River, with a 6.3-km-long pipeline to the Voëlvlei Dam	R1.1 billion
Lower uMkhomazi Bulk Water Supply Scheme	Construction	Construction of an off-channel storage dam at Ngwadini, construction of two weirs within the uMkhomazi River, raw water transfer to a 100 Ml/d water treatment plant at Craigieburn and potable water infrastructure to supply the South Coast Quarry Reservoir	R 6.2 billion

Source: National Treasury, Budget 2025

Source: National Treasury, Budget 2025

Ending the energy crisis (shortfall of 6,000 MW)

Generation

Eskom will procure emergency power that can be deployed within six months to close the immediate gap.

Eskom fast-tracking construction of a temporary solution to bring back three units at Kusile power station whilst repairing the permanent structure.

Investing in new transmission lines and substations, especially in areas such as the Eastern Cape, Northern Cape and Western Cape.

This power will be in line with our diverse mix of energy sources, including our current coal- fired power stations, solar, wind, gas, nuclear, hydro and battery storage.

Private developers to generate electricity - there are now more than 100 projects, which are expected to provide over 9,000 MW of new capacity over time.

A number of companies that have participated in the renewable energy programme will soon enter construction and deliver a total of 2,800 MW of new capacity.

The South African Police Service established a dedicated team to deal with the pervasive corruption and theft at several power stations that has contributed to the poor performance of these stations. Intelligence-driven operations at Eskom-related sites have so far resulted in 43 arrests.

Finance

National Treasury is finalising a solution to Eskom's R400 billion debt burden in a manner that is equitable and fair to all stakeholders, which will enable the utility to make necessary investments in maintenance and transmission.

Government will support Eskom to secure additional funding to purchase diesel for the rest of the financial year. This should reduce the severity of load shedding as Eskom will be able to use its diesel-run plants when the system is under strain.

Programme to buy excess power from private generators and has already secured 300 MW from our neighbouring countries.

In his Budget Speech, the Minister of Finance will outline how households will be assisted and how businesses will be able to benefit from a tax incentive. Proceed with the rollout of rooftop solar panels.

National Treasury is working on adjustments to the bounce-back loan scheme to help small businesses invest in solar equipment, and to allow banks and development finance institutions to borrow directly from the scheme to facilitate the leasing of solar panels to their customers.

Repair and rebuild

Steps to improve the performance of Eskom's existing coal fired power stations

Eskom new board is deploying people and resources to improve the reliability of the six power stations that have contributed the most to load shedding.

Rebuilding lost skills, already recruited skilled personnel at senior levels to be deployed at underperforming power stations. We have deep skills and expertise right here in South Africa – we just need to use them.

The Engineering Council of South Africa has offered as much assistance as required by deploying engineers to work with the management teams at power stations.

Structure and management

Restructuring of Eskom is proceeding, and the National Transmission Company will soon be operational with an independent board.

Later this year, we will table the Electricity Regulation Amendment Bill to transform the energy sector and establish a competitive electricity market.

To fully implement this plan, we need strong central coordination and decisive action. In a time of crisis, we need a single point of command and a single line of march.

Eskom debt-relief arrangement

Eskom's operational failures are intertwined with its untenable financial position. Since 2008/09, government has provided the utility with R263.4 billion in bailouts. These allocations failed to stem the collapse of Eskom's balance sheet and operations. The utility imposed an enormous drain on the economy and its debt stands at over R423 billion.
Government guarantees R350 billion of this debt, which is at risk of default – a contingent liability that raises South Africa's risk premium and borrowing costs.

Government provided Eskom with debt relief of R254 billion (about R168 billion in capital and R86 billion in interest) over three years hjhto strengthen the utility's balance sheet, enabling it to restructure and undertake the investment and maintenance needed to support security of electricity supply. The key features of this arrangement are as follows:

- Government will provide Eskom with advances of R78 billion in 2023/24, R66 billion in 2024/25 and R40 billion in 2025/26. These advances will cover capital and interest payments as they fall due and may only be used for that purpose.
- These amounts will be financed through the R66 billion MTEF baseline provision that was in the 2022 MTBPS, and R118 billion in additional borrowing over the MTEF period ahead.
- In 2025/26, government will directly take over up to R70 billion of Eskom's loan portfolio.

This arrangement has been the subject of extensive consultation with Eskom and its stakeholders. Annexure W3 (online) reviews the provision of debt relief and spells out the strict conditions governing the arrangement. Its success rests on the implementation of key reforms that address the inadequacies of the transmission network and performance of existing power stations, which form part of the following obligatory conditions:

- Eskom, the National Treasury and the Department of Public Enterprises have agreed to design a mechanism for building new transmission infrastructure that will allow for extensive private-sector participation in the development of the transmission network.
- The National Treasury has appointed an international consortium with extensive experience in the operations of coal-fired power stations to review all plants in Eskom's coal fleet and advise on operational improvements. The review is scheduled to conclude by mid-2023. Eskom is required to implement the operational recommendations emanating from this independent assessment. This will include a determination of which plants can be resuscitated to original equipment manufacturers' standards, following which Eskom must concession all these power stations with clear targets for the electricity availability factor and operations.

1.

Source: National Treasury, Budget 2023

Start of Government business partnership initiative

- Working to expedite the passage of the Electricity Regulation Amendment Bill within the Sixth Parliament, following its tabling in the National Assembly on 20 July 2023. The ERA Bill is crucial to ending load shedding, expediting energy development, expanding transmission infrastructure, establishing a competitive electricity market, and attracting investment in the energy sector.
- Completing the establishment of the National Transmission Company of South Africa (NTCSA). This is necessary to create a level playing field for electricity generators and enable increased investment in transmission infrastructure.
- Fully operationalizing the One Stop Shop to fast-track renewable energy projects. This includes ensuring that adequate capacity and systems are in place to facilitate authorisations for energy projects and reduce lead times to construction.
- Finalising the Freight Logistics Roadmap. This will outline the short- and long-term actions to support operational recovery and fundamentally reform the logistics system. Implementation of the roadmap will be coordinated by a dedicated work stream of the NLCC, focused on structural reform. Implementation of these actions could increase export revenues by an estimated R50 billion by 2024. It is expected that a draft roadmap will be agreed by the end of August 2023, with the objective of Cabinet approval by September 2023.
- Addressing procurement challenges and putting in place a fit-for-purpose procurement regime for state-owned enterprises. This is necessary to enable greater speed and efficiency while preserving and strengthening the integrity of the procurement system.
- Finalising the NPA Amendment Bill to establish the Investigating Directorate (ID) as a permanent entity within the National Prosecuting Authority with investigating powers. This is a key commitment of the response to the State Capture Commission of Inquiry and will bolster the independence and capability of the ID to fight complex corruption-related crimes. The NPA Amendment Bill will be approved by Cabinet and tabled in Parliament by the end of August 2023 to give effect to this goal.
- Operationalising the Joint Initiative on Crime and Corruption. The JICC is being operationalised, including identifying clear focus areas and establishing appropriate structures to facilitate support.

Source: SA Government

Solve the SOE challenge - CDE

Impact on Economy of poor functioning SOE’s

South Africa missed out on around R2 trillion in output between 2011 and 2020 on declining productivity of key network industries. Updated to 2024 over R4 trillion.

More than R330 billion was spent on SOE bailouts between 2008 and 2021, excludes the transfer of debt of R254 billion from Eskom to the state since then

In the early 2000s, the amount of power actually available from Eskom’s fleet on any given day was 90 per cent of total generation capacity. By 2017 this had fallen to 70 per cent, and by 2023 it was down to 55 per cent, although it has subsequently recovered.1 At the same time, the passenger rail system overseen by PRASA has all but collapsed. Passenger rail trips per month dropped from 54 million in 2008 to 1.7 million in 2022.2 South Africa’s ports, for which various divisions of Transnet are responsible, are among the worst in the world. The World Bank’s 2023 Container Port Performance Index ranked Cape Town last out of the 405 ports surveyed. Durban and Gqeberha didn’t fare much better, ranking at 398 and 391 respectively.3

SOEs in crisis

In general, the performance of the major SOEs since 2009 has been disastrous. Eskom and Transnet have wrought the most damage, but many others, including, but not limited to, Passenger Rail Authority of South Africa (PRASA), Denel, South African Broadcasting Corporation (SABC), the South African Post Office (SAPO), and South African Airways (SAA) have malfunctioned significantly.

Diagnostic

Non-payment for services.. As of February 2024, municipalities owed Eskom over R74 billion, while vast amounts of electricity are stolen by illegal connections.

Over-spending on capital projects. Medupi and Kusile power stations more than eight years late and R300 billion over budget. Causes range from skills deficits higher costs associated with transformation policies (considerable) malfeasance and corruption in procurement processes.

Unfunded mandates. example, SAA’s loss-making international routes, Post Office, government has tended to “Users of the services of many SOEs don’t pay what they owe, and the state does not enforce payment obligations. avoid rationalising branches in rural areas regardless of profitability, prolonged financial distress has now resulted in hundreds of branches being closed. if government imposes them but does not fund their delivery, then the SOEs’ finances must be compromised.

Increases in operational costs. SOEs failed to keep operational costs at commercially sustainable levels - ballooning salary bills, excessive emphasis on the role played by preferential procurement in achieving economic transformation, and intense corruption. Skimped on maintenance, which increases costs over the long-term. Reports suggest that over the past 11 years Transnet underspent by R30 billion on maintenance, while spending on salaries increased by R5 billion.

The impact of crime on sales. PRASA, Transnet and Eskom have all severely affected by crime and sabotage. raise costs (replacement, security, insurance) reduce sales. In 2024, Transnet’s said at least 4 million of the 12 million tonnes of the freight volume the entity could not deliver was due to criminal activity.

Shareholder interference and weak boards/managerial appointments compromised by direct intervention by the shareholder minister in ordinary business decisions. Minister Gordhan blamed exodus of top management in Transnet and Eskom in 2023 due to interference.

Subversion of procurement processes and/or failure to adhere to processes, regulation challenges

Repair and rebuild

Increase the competitive pressures on some of the major SOEs as a broad and long-term approach to solving the SOE challenge and leading to a more coherent reform programme . Our focus is primarily on Transnet and Eskom, as they play a prominent role in providing the electricity, rail and port services that businesses require to function. “Appoint a high-level team led by business leaders to conduct a review of the financial position of all major SOEs to identify solutions to the most pressing challenges”. Change the way the state manages SOEs. For now, manage the SOEs from the National Treasury. When the time is right, establish a small, new, highly skilled department. Review SOE boards and management. Effective boards. Strengthen the PPP framework. Focus on regulatory institutions. Develop an overarching competition policy for SOEs. Implement additional reforms relating specifically to individual SOEs. Restructuring TFR to attract long-term investment.

Gross Fixed Capital Formation	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4
GFCF, total (real, y/y %)	-2.4	-7.1	-2.3	-2.8	2.6	5.2	6.2	5.1	5.1	5.0	5.0	5.0
GFCF as % of GDP	14.3	14.1	14.2	14.2	14.4	14.5	14.7	14.8	14.9	15.0	15.0	15.1
Private sector (real, y/y %)	-2.5	-7.4	-3.5	-2.9	0.9	3.9	7.3	6.9	5.9	5.2	4.8	4.7
Government (real, y/y %)	-2.3	-6.4	0.8	-2.4	7.0	8.5	3.7	0.9	3.3	4.5	5.3	5.5
Non-residential GFCF (real, y/y %)	0.4	-7.6	-3.7	-2.2	-0.4	4.0	7.8	7.5	6.3	5.4	4.8	4.6
Residential buildings (real, y/y %)	-15.1	-6.6	-2.8	-6.5	7.6	3.2	4.9	4.1	4.0	4.6	5.1	5.5

Gross Fixed Capital Formation	2027 Q1	2027 Q2	2027 Q3	2027 Q4	2028 Q1	2028 Q2	2028 Q3	2028 Q4	2029 Q1	2029 Q2	2029 Q3	2029 Q4
GFCF, total (real, y/y %)	5.1	5.3	5.4	5.5	5.6	5.7	5.8	5.9	6.2	6.4	6.5	6.7
GFCF as % of GDP	15.2	15.4	15.5	15.6	15.7	15.8	15.9	16.0	16.2	16.3	16.5	16.6
Private sector (real, y/y %)	5.0	5.3	5.5	5.7	5.8	5.8	5.9	6.0	6.2	6.4	6.6	6.8
Government (real, y/y %)	5.4	5.3	5.1	5.1	5.1	5.4	5.6	5.9	6.1	6.3	6.5	6.5
Non-residential GFCF (real, y/y %)	4.9	5.3	5.6	5.8	5.9	5.9	6.0	6.0	6.2	6.5	6.7	6.9
Residential buildings (real, y/y %)	5.4	5.2	5.2	5.2	5.4	5.5	5.6	5.7	5.8	6.1	6.1	6.2

Sources: SARB, Investec

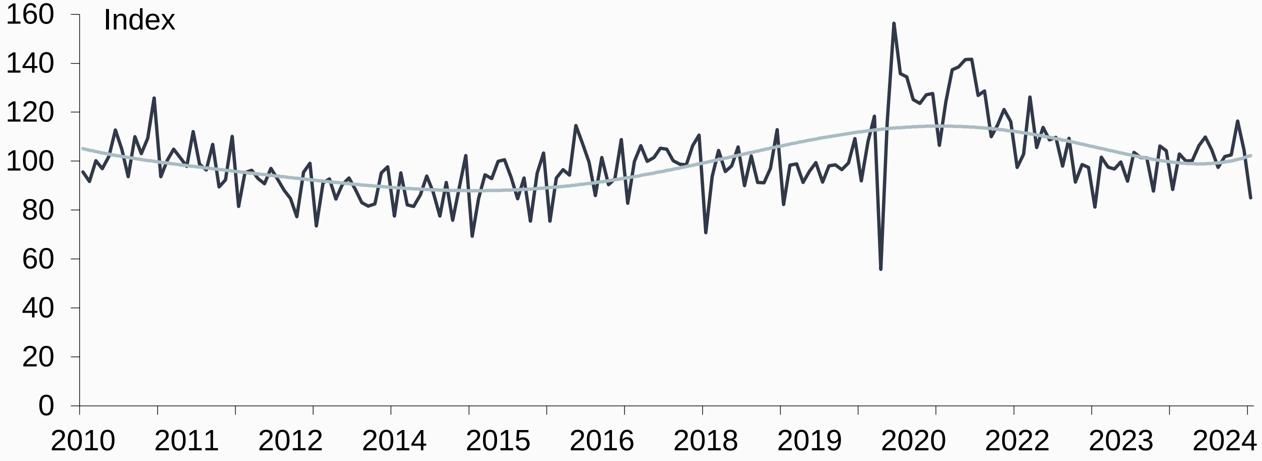
Consumption Expenditure, % real growth rates	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4
HCE, total (real, y/y %)	-0.3	0.8	1.4	2.3	3.4	2.4	2.0	0.7	1.3	1.9	2.5	2.9
HCE as % of GDP	66.5	67.0	67.4	67.7	67.4	67.3	67.4	67.4	67.4	67.4	67.4	67.4
Unemployment rate (%)	32.9	33.5	32.1	31.9	32.9	32.4	32.7	32.6	32.7	32.6	32.5	32.4
Population (million)	63.7	63.9	64.1	64.3	64.5	64.7	64.8	65.0	65.2	65.4	65.5	65.7
Employment growth rate (y/y %)	3.4	1.9	1.2	2.2	2.7	3.5	2.8	1.8	1.5	1.6	1.6	1.9
Compensation employees (y/y %)	4.0	4.4	4.1	4.5	5.0	4.1	4.2	4.0	4.3	4.6	4.8	4.8
GCE as % of GDP	19.7	19.8	19.8	19.5	19.6	19.6	19.6	19.6	19.4	19.2	19.0	18.8

Consumption Expenditure, % real growth rates	2027 Q1	2027 Q2	2027 Q3	2027 Q4	2028 Q1	2028 Q2	2028 Q3	2028 Q4	2029 Q1	2029 Q2	2029 Q3	2029 Q4
HCE, total (real, y/y %)	2.8	2.7	2.5	2.5	2.6	2.8	2.9	3.0	3.0	3.0	3.0	3.0
HCE as % of GDP	67.4	67.4	67.5	67.5	67.5	67.5	67.5	67.5	67.5	67.5	67.5	67.5
Unemployment rate (%)	32.4	32.4	32.4	32.2	32.2	32.1	32.0	32.0	31.8	31.8	31.6	31.5
Population (million)	65.9	66.1	66.2	66.4	66.6	66.7	66.9	67.1	67.3	67.4	67.6	67.8
Employment growth rate (y/y %)	1.8	1.8	1.5	1.6	1.6	1.7	1.9	1.7	1.9	1.7	1.9	1.9
Compensation employees (y/y %)	4.8	4.9	5.0	4.8	4.9	5.0	5.0	5.0	5.1	5.1	5.2	5.2
GCE as % of GDP	18.7	18.6	18.6	18.5	18.4	18.3	18.2	18.2	18.1	18.0	18.0	17.9

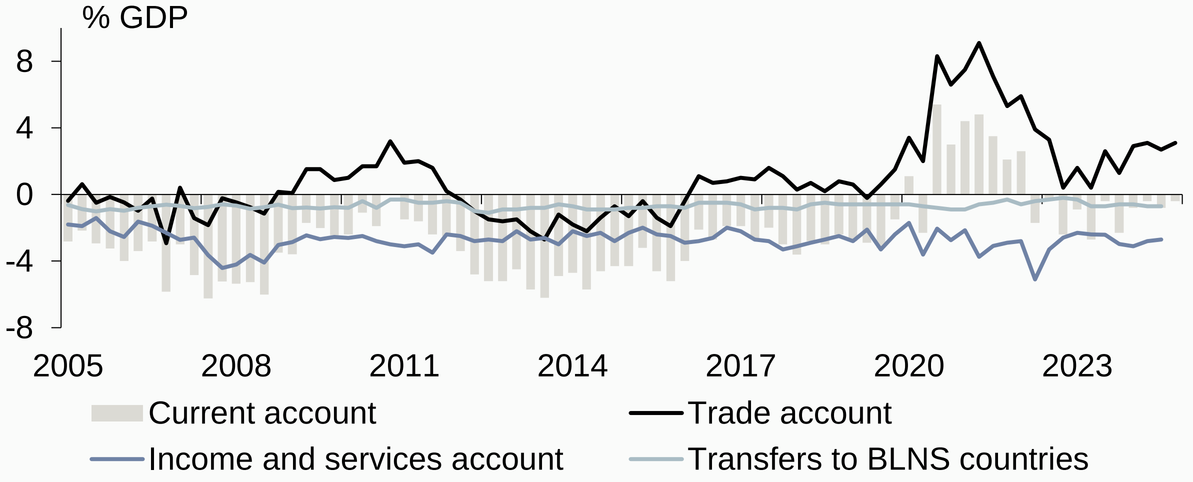
Sources: SARB, Investec

Trade account tends to surplus on weaker imports

Terms of trade (base year 2011)



Current account deficit consists mainly of coupon and dividend payments to foreigners



Source: SARB, National Treasury

Last year saw a decided lift in South Africa's trade balance, to R165bn, well up from R66bn for 2023, as imports were lower with rand oil prices dropping over 2024 compared to 2023, and oil and petroleum products SA's largest import. While exports were lower for SA for 2024 versus 2023 on the weak global environment, with global manufacturing mostly in decline, the drop in imports exceeded the drop in exports, and so SA's trade balance still benefited. South Africa is a commodity exporter, with metals and minerals making up the bulk of exports, and consequently movements in global commodity prices, and the US dollar does have an impact on the rand and so inflation, interest rates and growth.

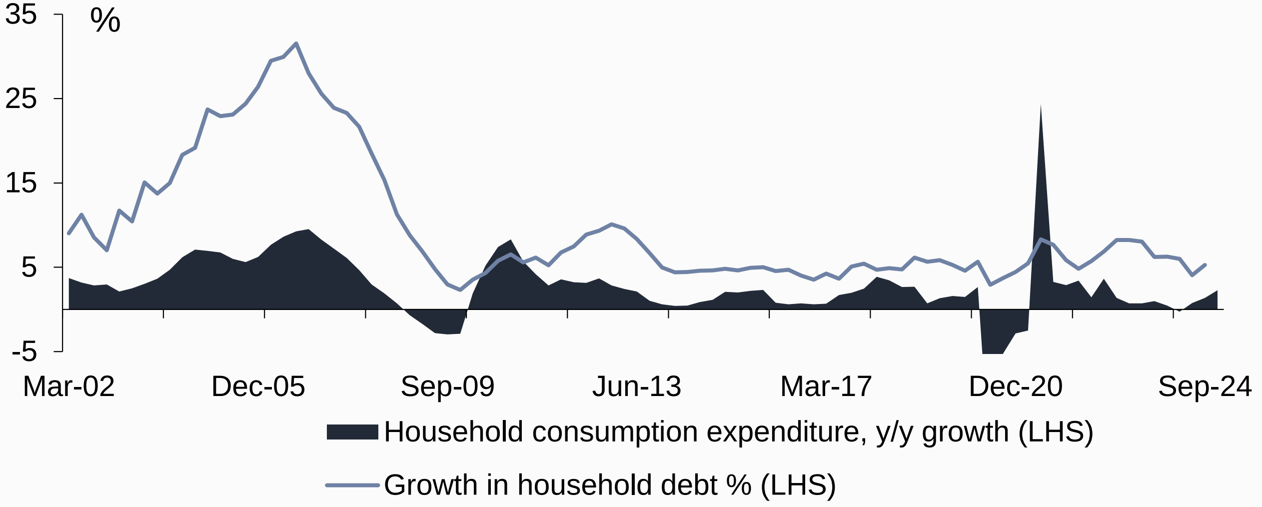
The weakness of SA's exports was not solely due to suppressed global demand however, as congestion, insufficient working infrastructure and insufficient maintenance in South Africa's freight system continued to impede export capability. And for South Africa, metals and minerals are its key export, with little change in prices on the year, of just 2.4% y/y, but volumes remained suppressed by port and rail constraints, also affecting other bulk exports.

The current account on the balance of payments is still not out for the full year for 2024, but with scope to improve on the first three quarters, as the terms of trade show a definite improvement for 2024 over 2023, as does the rand. Looking forward, while there is significant uncertainty around the global trade environment, world manufacturing activity has shown some expansion in January recorded by the J.P. Morgan Global Manufacturing PMI.

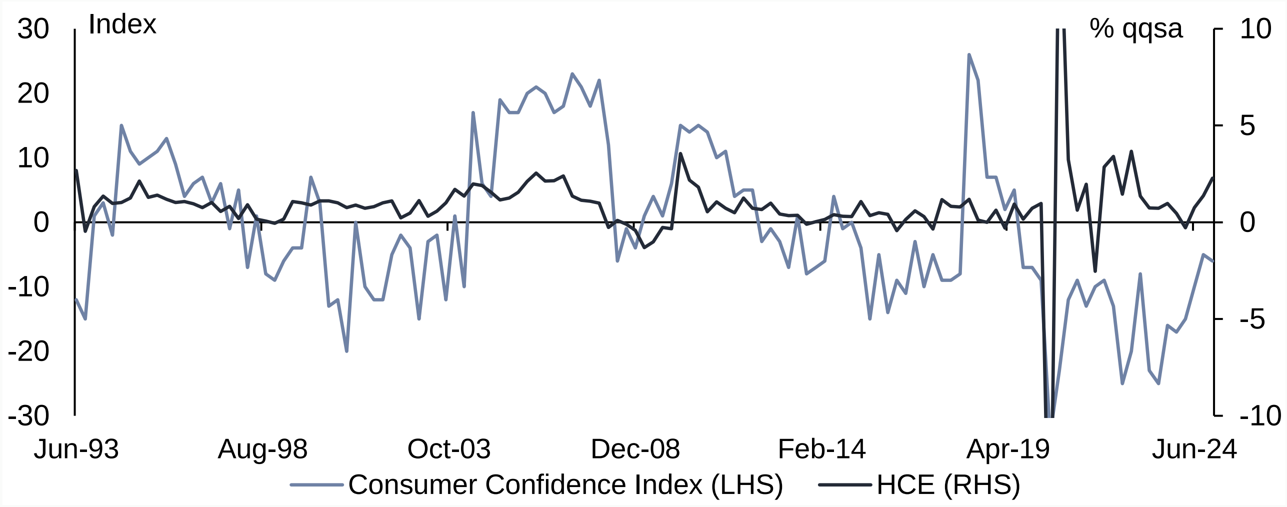
There have been concerns over the impact of tariffs, but the Trump administration has proved judicious with these so far, mainly wielding protectionism (and other penalties) as a threat to force countries to fall in line with its foreign policies. Most of the tariffs imposed under the Trump administration this year have been paused, but concerns remain over retaliatory US tariffs with countries which enjoy free trade with the US but have tariffs against US imports.

HCE: salaries fall in real and nominal terms as South African's earn less

Household incomes, debt and consumption expenditure



FNB/BER consumer confidence index vs household consumption expenditure



Source: Ber, SARB,

Real incomes (inflation adjusted) saw a hefty increase in December, of 8.7% y/y (BankservAfrica's real take home pay or BTPI), after November's 7.7% y/y lift, and October's rise of 5.2% y/y, on the sharp drop in inflation versus a year ago. In December 2023, CPI inflation was at 5.1% y/y in South Africa, but by the end of this year had fallen to 3.0% y/y, averaging 2.9% y/y in Q4.24 and 5.5% y/y in Q4.23, on a downwards trend over 2024, averaging 4.3% y/y by Q3.24.

BankservAfrica notes "(t)he upward momentum in average salaries was evident throughout the year, despite some monthly volatility. The BTPI consistently highlighted 2024 as the strongest salary year since 2020." Real incomes saw a substantial lift on the year, but only rose by 0.4% q/q in Q4.24, while Q3.24 rose 6.7% q/q, with Q3.24 HCE (Household Consumption Expenditure) rising 0.5% qqsa, but 1.2% qqsa in Q2.24 as the BTPI fell -2.9% q/q.

While lagged effects have impacted the data, Q4.24 HCE growth is expected to show a markedly improved outcome, at 1.7% qqsa compared to Q3.24's 0.5% qqsa outcome, and so boosting GDP growth in Q4.24 to 1.8% qqsa. On a nominal basis (not adjusted for inflation), take home pay reached R17 202 in December, up 11.9% y/y, and for the year as a whole rose by 7.9% y/y, with CPI inflation averaging 4.4% y/y, and expected at 3.5% y/y for 2025. With GDP growth likely at 1.8% y/y this year, driven by faster infrastructure spend forecast at 4.8% y/y for 2025 (after 2024's contraction), and HCE growth of 2.1% y/y (2024 is expected to have seen 1.3% y/y), support for wage increases are expected.

For the heavily indebted, the pension withdrawal option offers some relief. However, a number of individuals may also opt to leave their pensions untouched to accrue maximum growth for their retirement, if they do not have a need for withdrawal. While drawing down pensions to pay down/off debt could contribute to around half the withdrawal amount, taxation will also remove a significant portion, while adjusting for inflation (converting to real terms) further reduces the effect on HCE.

Investec

Greylisting

SA makes substantial progress, on track to get off grey list

South Africa was grey listed over a year ago, on 24th February, by the Financial Action Task Force (FATF), as it was deemed insufficiently compliant in being able to prevent money laundering, terrorist financing and proliferation financing. Specifically, in the mutual evaluation report FATF identified South Africa's compliance (in being able to prevent money laundering, terrorist financing and proliferation financing) in only 20 of the 40 FATF recommendations, and so had 20 deficiencies.

South Africa's February Budget last year gave an update on the progress SA has made since its greylisting, as FATF re-rated 15 of the prior 20 deficiencies to being no longer deficient, with 14 of these either fully or largely compliant:

- One recommendation is no longer applicable.
- This means SA needs to meet only five outstanding technical deficiencies, in which it is already partially compliant, and is aiming to make these areas fully complaint by the end of October this year.
- The five areas that SA still needs to show full technical compliance are in 1) national and international cooperation, 2) NGOs, 3) targeted financial sanctions related to terrorism and terrorist financing, 4) new technologies and 5) cash couriers.

FATF has said "(o)verall, the expectation is that countries will have addressed most, if not all, technical compliance deficiencies by the end of the third year from the adoption of their Mutual Evaluation Report." South Africa has addressed most of the technical compliance deficiencies within 2 years of the publication of its Mutual Evaluation Report". This is strong progress and SA provides FATF with progress reports every four months on its Action Plan. However, National Treasury warns it "will require a significant effort from all the relevant South African authorities … to address the remaining 5 deficiencies … for South Africa to exit the FATF greylist".

South Africa has shown marked progress in meeting the requirements to get off the greylist by February 2025. Once all items are implemented and the improvements are deemed sustainable FATF will reconsider South Africa's greylisting status. South Africa is working closely with the FATF to implement the items in the Action Plan, to deal with financial crimes, including corruption, through using digital and other information to assist investigations, asset recoveries and prosecutions. It is building "a financial system that is less vulnerable to abuse and where abuses are effectively prosecuted" involving both "legislative and regulatory changes" and "improvements in the implementation and application of these laws and regulations". Already in late 2022, government had enacted two key legislative amendments to address the identified problem areas, the first being the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act (2022). The second piece of legislation enacted was the Protection of Constitutional Democracy Against Terrorist and Related Activities Amendment Act (2022). "These amendments address most of the legislative deficiencies identified".

Overall, the focus is on strengthening the South Africa's capability to deal with financial crimes by substantially improving the effectiveness of the system. The next FATF Follow-Up report in October/November 2024.

Greylisting, a macro view

South Africa's Greylisting by the Financial Action Task Force (FATF) on 24th February 2023, came as SA is deemed to not be sufficiently internationally compliant in preventing money laundering, terrorist financing and proliferation financing.

The rand weakened on the expectation that SA would be greylisted, ahead of the event, along with other factors such as the slower interest hike trajectory and smaller quantum of hikes in SA than in the US. The likelihood of greylisting had been building for longer, and the rand reached R18.49/USD from its open on the day of R18.24/USD, with the event largely factored in. That is, the highly anticipated event was priced into financial markets, and in itself does not represent any necessarily increased chance credit rating downgrade/s from the key agencies, with the events entirely separate. The rand's depreciation since April 2022 as global growth forecasts fell and financial markets became more risk averse, has added to some modest inflation pressure (mainly via imported fuel costs), but has a relatively low pass-through effect.

The rating agencies noted the prior likelihood of SA being greylisted, and again do not believe, on its own on a standalone basis that the greylisting of SA is credit negative, i.e. it does not add to the likelihood of a downgrade, although it increases risks if SA does not get off the greylist. Credit rating agencies' primary objective is to assess the likelihood of repayment of debt, or creditworthiness, of the borrower.

While greylisting is not expected to negatively affect growth directly, greylisting has some indirect consequences, and has been shown to reduce portfolio flows, as well as FDI, although SA's FDI is already exceptionally low, foreigners have been selling SA portfolio assets in anticipation over the course of the past twelve months. It should be noted, the purpose of greylisting by FATF is not to destroy or damage a country, and not to make the economic environment more difficult, prevent flows of monies in and out of borders or bring impediments to legal businesses. Many banks are indeed well placed to help clients with what will amount to likely extra paperwork and some delays.

SA's deficiencies are not in financial sector – instead the report is critical of non-financial sector businesses and professionals. SA also needs to make progress on international financing, available and accurate information – with more sanctions from all supervisiors, such as the PA. The criminal justice system needs to demonstrate results. Investigating serious crime after years of state capture means SA will remain on the list for two to three years at least. The impact of greylisting will ramp up if not fixed in three years – like Myanmar – SA could go onto a black list due to lack of progress.

Once a country is added to the FATF grey list, it is also added to the "EU high-risk third countries list" by the European Union and to the UK's "high-risk jurisdictions" list by HMT. The EU list of enhanced due diligence of all business relationships and transactions.

UK and European regulations require enhanced due diligence on clients that transact from, reside in or generate their income and/or wealth in a greylisted country. The regulations allow international banks to leverage the knowledge that may exist within financial groups that have an operation within the greylisted country to ensure the additional due diligence is commensurate with the risks in that country.

What is needed to get off the greylist

During 2019, South Africa underwent what is known as a mutual evaluation by the FATF, the results of which were published in October 2021. The country was given a year to make certain key changes to its anti-money laundering (AML) and combatting the financing of terrorism (CFT) framework.
The FATF has done a follow-up review, and whilst they acknowledge the substantial progress made, SA needs to work to implement the action plan agreed with the FATF by January 2025:

Improving the legal framework and its effectiveness for targeted financial sanctions. Amendments passed to South Africa's laws in December 2022 must still be fully implemented.

Updating the country's collective understanding of terror financing risks and threats.

Sustain the increase already observed in the investigation of complex money laundering cases, especially professional money laundering networks/enablers.

Strengthening asset recoveries where the proceeds of crime have not been confiscated.

Better capacitating the relevant authorities, in particular, the South African Police Service and National Prosecuting Authority

Improving the supervision of the non-financial sectors that can be used to facilitate financial crime.

Ensuring that authorities such as the police have access to the ownership information of legal entities and arrangements such as companies and trusts.

It is important to note that the FATF mutual evaluation covers a country's AML/CFT system as a whole and not just the financial sector and its regulators. There is no set time for being on the grey list. South Africa will provide regular updates to the FATF, which evaluates the improvements made to the country's framework. Once the key issues are satisfactorily addressed, South Africa will be removed. If South Africa fails to meet the deadlines agreed with the FATF, the risks and potential consequences rise, including the possibility of the FATF issuing further public statements (highlighting missed deadlines) that put more pressure on SA to complete its action plan.

Consequence of greylisting

The effects of greylisting have been studied by the International Monetary Fund, which found it difficult to isolate the FATF greylisting from other economic challenges faced by a greylisted country. Countries worst affected by a greylisting are the ones that had a prolonged stay on the list.

Here are some of the general consequences, in no particular order:

South Africa's reputation may be negatively affected by the greylisting, which could discourage foreign investment and the establishment of new business relationships.

International financial institutions may be required to perform increased due diligence and compliance involving transactions from South Africa, resulting in higher costs, which may be passed on to customers by some financial institutions.

Inward capital flows may decrease in the immediate term after the greylisting, as international investors and funders come to grips with the issues that have been raised by the FATF.

Increased compliance costs for financial institutions.

Domestic interest rates could be higher due to increased required returns by foreign institutional investors following the greylisting. Consequently, the cost of funding government debt is anticipated to increase (this is possibly priced in already).

Accessing green finance for the energy transition may become more complicated if South Africa has a prolonged stay on the grey list.

Greylisted countries often find it more difficult, but not impossible, to transact internationally. This may extend to raising new funding in the financial markets.

Where banks use other financial institutions, such as correspondent banks or administrators, to transact internationally, these institutions may perform additional due diligence on the South African banks. In specific circumstances, this may extend to the clients of the South African banks and/or transactions processed by the South African banks.

As a result of the additional due diligence, transactional costs increase, but these are typically already priced into the market by the time the greylisting is announced. Coming off the greylist means SA would end up with stronger defenses – stronger basis for investors to invest in SA .

Investec

Global

Global economy expected to see divergent country outcomes

The rand, and other commodity currencies, have seen investor sentiment sway this year, as the US dollar has gained substantially against other currencies in general since October in the run up to, and then over, the Trump administration to date. The US dollar has reached its strongest point over the last few months excluding the financial crisis of 2001/2002, and the period over most of the 1980's as the 1980s saw one of the most severe economic recessions in the world in recent times. In addition, 2022's period of elevated market risk aversion stemming from the Covid-19 lockdowns, high inflationary environment, and the impact of the Russian/Ukraine war would need to be excluded in this US dollar scrutiny.

All these three periods have tended to see financial market risk-off (risk aversion) which saw safe haven flows into the US, particularly into US treasuries (US bonds) as investors worried about the impacts on growth and equities performance. However, financial markets are not risk-off now and have not generally been over the past several months, US equities saw substantial support (including foreign flows), and the US economy is expected to see robust growth this year and next.

There have been concerns over the impact of tariffs, but the Trump administration has proved judicious with these so far, mainly wielding protectionism (and other penalties) as a threat to force countries to fall in line with its foreign policies. That is, the US has imposed harsh tariffs on some countries, then in the main rolled these back (paused institution) on acquiescence to the US's demands, mainly on stemming illegal immigrants and drug flows.

The US's recent tariffs on steel and aluminium, have also been focused, as opposed to feared universal tariffs, this time not at specific countries but at specific goods (steel and aluminium and articles thereof). Commodities prices are directly affected by movements in the dollar, as international commodities are US dollar denominated, with commodities prices also impacting commodity currencies, which has also added to weakness against the US dollar.

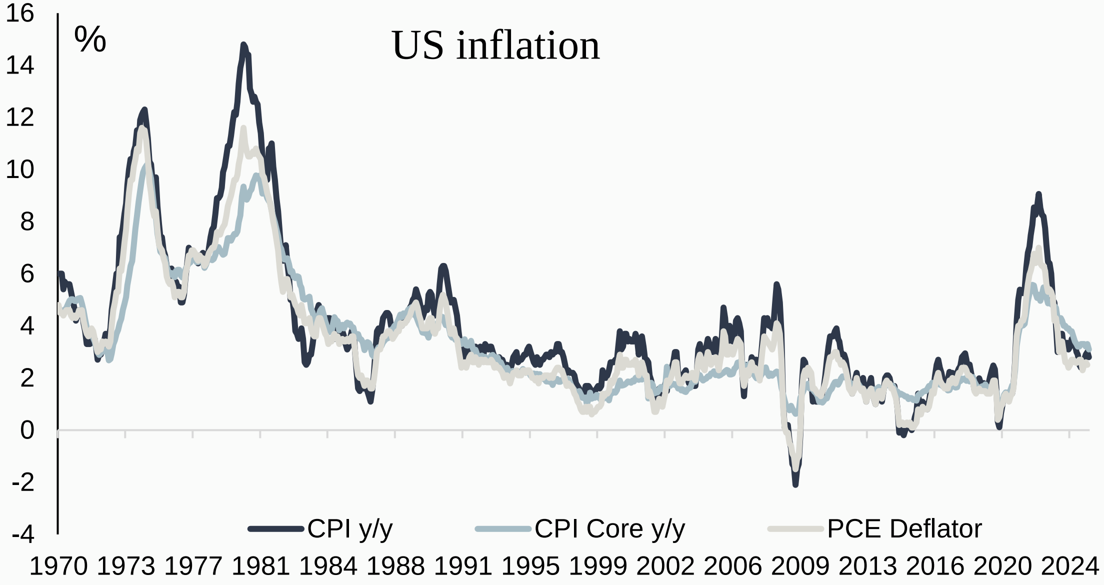
The IMF also notes "(g)lobal growth is projected at 3.3 percent both in 2025 and 2026, below the historical (2000–19) average of 3.7 percent. The forecast for 2025 is broadly unchanged from that in the October 2024 World Economic Outlook (WEO), primarily on account of an upward revision in the United States offsetting downward revisions in other major economies. Global headline inflation is expected to decline to 4.2 percent in 2025 and to 3.5 percent in 2026, converging back to target earlier in advanced economies than in emerging market and developing economies."

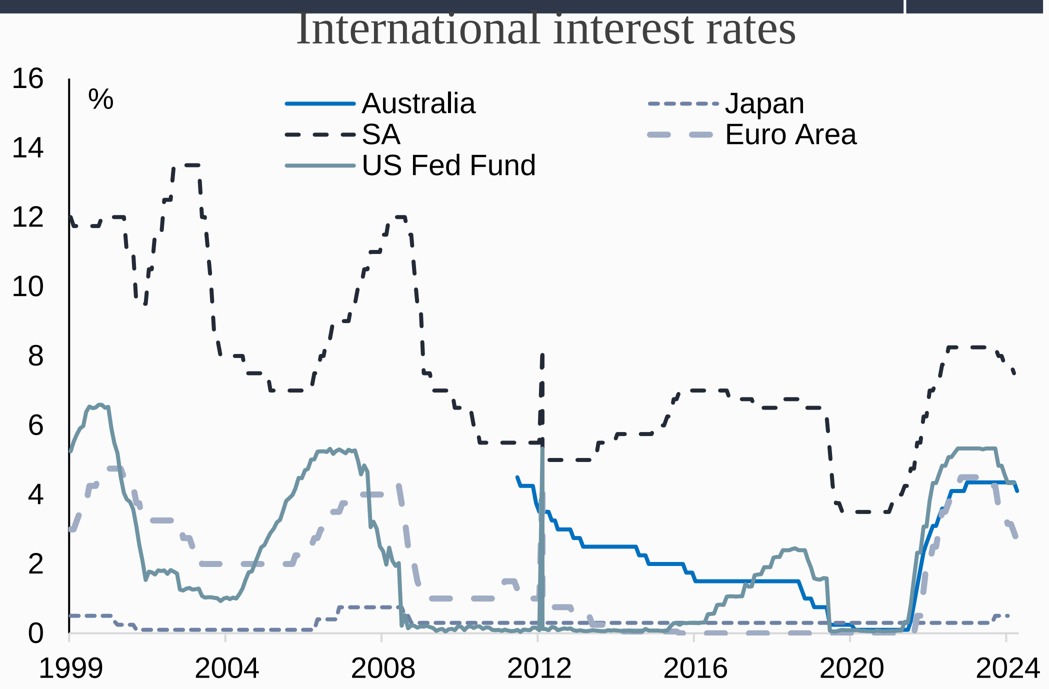
"Medium-term risks to the baseline are tilted to the downside, while the near-term outlook is characterized by divergent risks. Upside risks could lift already-robust growth in the United States in the short run, whereas risks in other countries are on the downside amid elevated policy uncertainty. Policy-generated disruptions to the ongoing disinflation process could interrupt the pivot to easing monetary policy, with implications for fiscal sustainability and financial stability. Managing these risks requires a keen policy focus on balancing trade-offs between inflation and real activity, rebuilding buffers, and lifting medium-term growth prospects through stepped-up structural reforms as well as stronger multilateral rules and cooperation".

Sources: IMF

The global economic outlook

Global Environment: averages	2023	2024	2025	2026	2027	2028	2029
Oil price, Brent USD/barrel	82.5	80.5	72.8	70.4	69.4	69.0	69.6
World GDP (real, %)	2.6	2.7	2.6	2.6	2.6	2.7	2.6
US CPI (Av, %)	4.1	3.0	3.5	2.4	2.1	2.0	2.1
US GDP (Av, %)	2.5	2.9	1.9	1.5	2.1	2.0	2.0
US Fed rate (year-end %)	5.50	5.00	4.25	3.50	3.50	3.50	3.50
Source: Investec							





Summary

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Prior to the shocks to economic systems of the past few years, which also includes decades of high inflation for advanced economies and substantial interest rate hikes; and prior to the effects of the pandemic over the last two years, SA's economic growth rate was slowing notably over the 2010s decade. By 2019 it had dropped to 0.1% y/y, from above 3.0% y/y in 2011. The 2000's high growth outcome in comparison was an endorsement of the good policies, strengthening economic growth and declining unemployment engineered under the Mbeki Presidency, from 1999 to 2008 as the private business sector expanded rapidly. The 2009 general election saw the ANC lose ground on the ousting of Mbeki and incoming President Zuma, with support dropping to 66%, and then to 62% by 2014, and in 2016's municipal election seeing national support for the ANC decline to 54%, rescued by new President Ramaphosa in 2019 with a rise to 58%.

So far, progress on reducing crime, load shedding and freight congestion by the state/ business collaboration notes reduced congestion at SA's ports, in the main cessation of loadshedding and a moderation in criminal incidents on the rail networks. Overall, weak growth and rising unemployment over the past decade and a half, along with load shedding, has negatively affected support for the ANC, and this year's currently projected 1.8% y/y economic growth rate will not make meaningful inroads into the high unemployment rate, with a persistent growth rate of 3.0% y/y - 5.0% y/y needed instead at the least, a performance the country is removed from in the medium-term.

Freight constraints remain huge growth impediments and weak growth around 1.0% y/y to 2.0% y/y for SA will not make meaningful inroads into the high unemployment, nor will a persistent growth rate below 5.0% y/y, a performance the country is far removed from. Investing successfully in infrastructure (without high levels of corruption, inefficiencies, wastage, poor build capacity and ineffective results) has a twofold benefit, both adding to the economic growth potential of the economy by providing more productive capacity as the growing economy demands it, but also the build programme itself contributes to growth. These positive knock-on, or multiplier, effects is what has been missing from SA's economy, depressing business confidence and the incentive to invest in physical infrastructure, along with a suppressing regulatory environment which still needs to be unwound further. SA also needs to transition away from coal to renewable energy and cut out all regulations prohibiting and /or hindering the private sector from fully and swiftly taking part in electricity generation and transmission. Transitioning away from fossil fuel usage will occur in the medium- to longer-term by necessity given CBAM and other penalties on exports produced with fossil fuel energy. The Carbon Border Adjustment mechanism (or CBAM) will penalise carbon intensive goods, with SA's Reserve Bank warning in a recent study that it could have up to a -10% suppressive effect on SA's GDP, negatively affecting the rand.

South Africa's greylisting was largely priced in, with the event occurring during a risk off period in global financial markets, which had seen the rand weaken materially since April 2022 already, as the global growth outlook deteriorated. In addition, the growing energy crisis in South Africa, and consequent negative effect on domestic economic growth forecasts, had added to negative investor sentiment in early 2023 already, contributing to rand weakness and foreign disinvestment. On the day the domestic currency saw mild weakness, although this was more likely due to the publication of a worse than expected key US inflation figure (core PCE deflator), heralding likely higher US interest rates than previously expected. SA's recent greylisting raises sovereign risk, placing upwards pressure on interest rates, which will underpin rand weakness (along with risk averse rand sentiment), and so exert some upwards pressure on inflation. The IMF has found that when a country is grey listed there is "a large, significant negative effect … on capital inflows". In particular, "capital inflows decline on average by 7.6 percent of GDP when the country is grey-listed". In contrast, foreign direct (fixed) investment, or FDI, "inflows decline on average by −3.0 percent of GDP, portfolio inflows decline on average by −2.9 percent of GDP, and other investment inflows decline on average by −3.6 percent of GDP". South Africa attracts an extremely low level of FDI inflows as it is, with the bulk of the activity on its capital account instead consisting of portfolio flows (purchases and sale of bonds and equities), with heavy foreign portfolio disinvestment already occurring for SA prior to greylisting this year on the risk averse global financial environment, SA's deteriorated economic growth outlook and rising risks, which includes the anticipation of greylisting.

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