2

2025 BUDGET REVIEW

ECONOMIC OUTLOOK

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- Real economic growth is forecast to increase to 1.9 per cent in 2025.
- Lower-than-expected growth of 0.8 per cent in 2024 is due to unexpected weaknesses in agriculture and transport during the third quarter.
- Economic growth is expected to average 1.8 per cent from 2025 to 2027, with the continued recovery supported by improved investor confidence, stable electricity supply, lower interest rates and a declining risk premium.
- Continued implementation of structural reforms is essential to accelerate growth, supported by macroeconomic stability, infrastructure investment and a capable state.

OVERVIEW

South Africa's economy is forecast to grow at an average of 1.8 per cent over the next three years as momentum starts to pick up after more than a decade of stagnant growth. The medium-term outlook is supported by higher investment and household consumption, aided by a stable inflation outlook, moderate employment gains and improving household balance sheets. Continued easing of structural constraints will support the economy by fostering additional investment – including in infrastructure.

To bolster growth and employment, government's economic strategy prioritises:

- **Maintaining macroeconomic stability** and reducing volatility to reduce the cost of living and encourage investment.
- **Implementing structural reforms** to increase efficiency and promote a competitive economy, while addressing constraints to job creation and employment.
- **Building state capability** by identifying and solving problems in the delivery of core functions, supported by digital transformation.
- **Supporting growth-enhancing public infrastructure investment** to increase productivity and long-term economic prospects.

ENHANCING ECONOMIC GROWTH

A macroeconomic framework to support growth

A sound macroeconomic framework promotes stable prices and low interest rates, enhancing the economy's resilience to external shocks that tend to disproportionately affect poor households. Prudent fiscal policy in combination with moderate and stable inflation reduces uncertainty, lowering the sovereign risk premium. These factors in turn bring down borrowing costs, anchor investment expectations and boost confidence, promoting economic growth. South Africa's sovereign risk premium has declined since June 2023, but fiscal risks remain elevated. Debt-service costs consume 22 cents out of every rand of revenue and are growing faster than GDP. This underlines the need to improve the sustainability of public finances by bringing debt under control, while prioritising measures that directly enhance productivity and growth.

Catalysing economic growth through structural reforms

The first phase of Operation Vulindlela supported economic growth by alleviating power cuts, improving logistics performance, reducing data costs, enhancing water supply, attracting needed skills and supporting tourism. These reforms had significant benefits for the investment environment, as reflected in the RMB/BER Business Confidence Index, which in the fourth quarter of 2024 reached its highest level since mid-2021. Yet far more is needed to raise productivity and inclusive growth in a manner that does not lead to higher inflation.

Reforms under way in the rail, energy and water sectors will improve the functioning of these services to ensure businesses can produce more efficiently and investors can plan for the future.

In logistics, Transnet's freight volumes continue to be monitored against recovery plan targets. The utility's interim results show a 3.2 per cent improvement in freight rail volumes in the first six months of 2024/25 relative to the previous financial year. The Transport Economic Regulator, which begins operating on 1 April 2025, will consolidate the regulation of transport sectors and promote competition to improve efficiency. Together with the National Logistics Crisis Committee, it will advance private-sector participation and support investment in logistics.

Electricity generation capacity continues to recover. Between April and December 2024, the energy availability factor averaged 62.4 per cent – 7.1 percentage points higher than the same period in 2023. This coincided with a reduction in unplanned power cuts (Figure 2.1) and increased planned maintenance. Scheduled power cuts were suspended between 27 March 2024 and 30 January 2025. Additionally, household solar panels and private-sector generation projects continued to increase photovoltaic (PV) output.

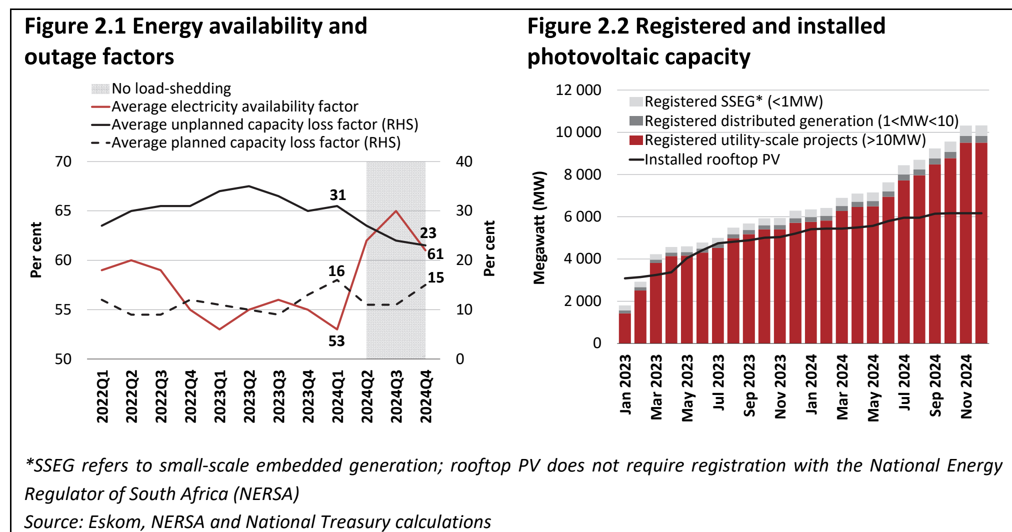


Figure 2.1 Energy availability and outage factors

Figure 2.2 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)*

Source: Eskom, NERSA and National Treasury calculations

The Electricity Regulation Amendment Act (2024), which will establish a competitive market for long-term energy security, took effect on 1 January 2025. Market rules and

procedures are being finalised and preparations to license the National Transmission Company of South Africa as a market operator are under way. Government is considering unbundling electricity tariffs into their different cost components, which would enhance transparency and fair cost recovery – and facilitate a competitive wholesale market.

Additional projects from government's 360-megawatt battery storage programme have reached close and will soon proceed to construction. Raising the embedded generation licensing threshold has catalysed private-sector energy projects. The 2024 South African Renewable Energy Grid Survey identified 133 gigawatts of potential in wind, solar and battery storage, but grid expansion is critical to support these projects.

In the water sector, the focus remains on improving municipal water services and promoting private-sector participation. Efforts are under way to introduce an independent economic regulator to ensure fair pricing and sustainable management of water services. The municipal turnaround strategy focuses on addressing critical maintenance backlogs, ensuring skilled personnel are in place and fast-tracking infrastructure investments to stabilise service delivery. A recent report on water-sector investment requirements estimated that R256 billion will be required annually between 2023 and 2050, totalling R7.2 trillion, to achieve water security and access for all.[1] The National Water Programme aims to address investment gaps, with initial commitments from the New Development Bank and the City of Cape Town.

Boosting growth through a capable state

Building a capable state goes beyond capacity-building initiatives focused on individual skills, focusing instead on accountability arrangements, strategic goals, government systems and state organisation. This approach is the basis of interventions described in chapters 1, 3 and 6, including institutional reforms to improve the delivery of infrastructure, additional resources to support rebuilding the South African Revenue Service, and an early retirement initiative to rationalise and rejuvenate the public service.

The second phase of Operation Vulindlela will consider and introduce reforms to improve municipal accountability and capacity. Reforms designed to overcome spatial inequalities, turn cities into engines of economic activity and improve the ability of local government to deliver services will support higher growth and job creation.

In addition, government is driving digital transformation to support service delivery. Reforms include relaunching the government website for improved access to services; implementing digital identity and payment systems; growing data interoperability by establishing data exchange for research and service delivery; and increasing access to data and information for transparency and accountability through the publication of a procurement payments dashboard. The Integrated Financial Management System will

[1] Development Bank of Southern Africa, National Planning Commission, Presidential Climate Commission and Southern Africa – Towards Inclusive Economic Development. 2023. South Africa's water sector investment requirements to 2050.

provide critical infrastructure and data capabilities needed to enhance financial oversight, automate processes and support greater integration and responsiveness.

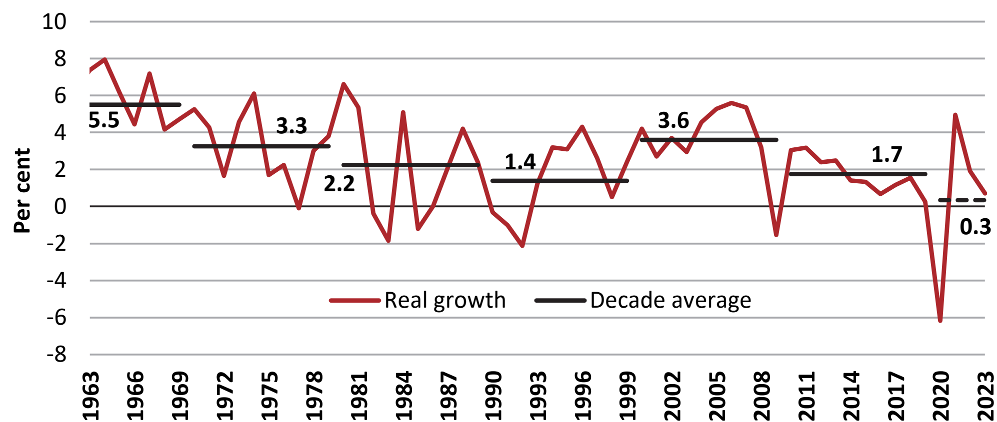
Supporting growth-enhancing public infrastructure

Government is tackling regulatory concerns to encourage private investment in public infrastructure. Amendments to the public-private partnership framework simplify processes and reduce delays. Efforts focus on improving investment in transport, communication, water and energy to reduce costs, boost efficiency and raise productivity.

Over the past decade, deteriorating infrastructure, electricity disruptions, crime, corruption, weak investment and poor education outcomes have reduced the economy's growth potential, or trend growth. South Africa's potential growth is estimated to have remained below 2 per cent since 2013, falling to an average of less than 1 per cent over the past four years. Raising potential growth is necessary to ensure a sustainable increase in growth – in other words, to expand the economy without stoking inflation or accumulating excessive debt. Productivity – the efficiency with which the economy uses its resources – is one of the main drivers of long-term trend growth.

Implementation of the four priorities outlined above will boost short-term economic growth, while supporting higher potential growth over the longer term.

Figure 2.3 Long-term economic growth



Source: Statistics South Africa and Reserve Bank

GLOBAL OUTLOOK

The International Monetary Fund projects that global growth will stabilise at 3.3 per cent in 2025 and 2026. In the short term, growth in the United States will benefit from robust consumption and investment, while China's expansion will be supported by fiscal measures to counter investment weakness. Growth in Sub-Saharan Africa, the Middle East and Central Asia is expected to increase in 2025 despite the drag from commodity production cuts. However, geopolitical tensions – including the threat of sharpening trade disputes – alongside slow productivity gains and trade and supply chain adjustments could limit growth across regions.

Global headline inflation is projected to ease from 5.7 per cent in 2024 to 4.2 per cent in 2025 and 3.5 per cent in 2026, driven by declining energy prices and cooling labour markets. Advanced economies are expected to return to their inflation targets faster than emerging economies, supported by moderating energy costs and improved labour supply. Inflation trends vary in emerging economies, with food inflation persisting in Sub-Saharan Africa, while China is experiencing subdued inflation given weak domestic demand.

Table 2.1 Economic growth in selected countries

Region/country	2023	2024	2025	2026
Percentage	Actual	Estimate	Forecast	
World	**3.3**	**3.2**	**3.3**	**3.3**
Advanced economies	**1.7**	**1.7**	**1.9**	**1.8**
United States	2.9	2.8	2.7	2.1
Euro area	0.4	0.8	1.0	1.4
United Kingdom	0.3	0.9	1.6	1.5
Japan	1.5	-0.2	1.1	0.8
Emerging and developing countries	**4.4**	**4.2**	**4.2**	**4.3**
Brazil	3.2	3.7	2.2	2.2
Russia	3.6	3.8	1.4	1.2
India	8.2	6.5	6.5	6.5
China	5.2	4.8	4.6	4.5
Sub-Saharan Africa	**3.6**	**3.8**	**4.2**	**4.2**
Nigeria	2.9	3.1	3.2	3.0
South Africa[1]	0.7	0.8	1.9	1.7
World trade volumes	**0.7**	**3.4**	**3.2**	**3.3**

1. National Treasury forecast
Source: IMF World Economic Outlook, January 2025

DOMESTIC OUTLOOK

The National Treasury projects real GDP growth of 1.9 per cent in 2025, from a downwardly revised estimate of 0.8 per cent growth in 2024. The downward adjustment is due to a third-quarter GDP contraction driven by weak activity reported for agriculture and transport. Fourth-quarter growth figures are expected to show an improvement, reflecting higher consumer spending in response to easing inflation and the onset of the two-pot retirement reform, which is discussed in Chapter 4.

GDP growth is expected to average 1.8 per cent from 2025 to 2027. Medium-term growth will be underpinned by household consumption on the back of rising purchasing power, moderate employment recovery and wealth gains. Continued investments in renewable energy and easing structural constraints are expected to support higher investment. Key factors for achieving faster economic growth and creating much-needed jobs include greater collaboration with the private sector in energy and transport, rapid implementation of structural reforms, easing of regulatory constraints and increased infrastructure investment.

Table 2.2 Macroeconomic performance and projections

Percentage change	2021	2022	2023	2024	2025	2026	2027
	Actual			Estimate	Forecast		
Final household consumption	6.2	2.5	0.7	1.0	1.9	1.6	1.6
Final government consumption	0.6	0.6	1.9	1.6	3.6	-0.4	0.8
Gross fixed-capital formation	-0.4	4.8	3.9	-3.6	5.0	5.2	3.8
Gross domestic expenditure	4.9	4.0	0.8	-0.0	2.5	1.7	1.8
Exports	9.7	6.8	3.7	-2.8	3.4	3.1	3.0
Imports	9.6	15.0	3.9	-5.3	5.4	3.1	2.7
Real GDP growth	**5.0**	**1.9**	**0.7**	**0.8**	**1.9**	**1.7**	**1.9**
GDP inflation	6.3	5.2	4.8	4.1	4.9	4.8	4.6
GDP at current prices (R billion)	**6 220**	**6 656**	**7 024**	**7 365**	**7 873**	**8 394**	**8 945**
CPI inflation	4.6	6.9	5.9	4.4	4.5	4.6	4.4
Current account balance (% of GDP)	3.7	-0.5	-1.6	-1.6	-2.2	-2.3	-2.4

Sources: National Treasury, Reserve Bank and Statistics South Africa

Employment

The pace of employment growth is expected to have slowed in 2024, with average growth for the first three quarters at 2.2 per cent compared with an average of 6.2 per cent in 2023. Although employment reached an all-time high of 16.9 million people in the third quarter of 2024, the year-to-date average unemployment rate of 32.8 per cent exceeds the long-term average of 27.5 per cent as labour force growth outpaces economic growth. Over the medium term, employment growth is expected to increase gradually, in line with GDP.

South Africa’s employment rate – the percentage of the working-age population that is employed – is about 40 per cent, far below the global average of 55–65 per cent. Compared with similar economies, South Africa has low levels of agricultural employment, self-employment and informal economic activity. Addressing this challenge requires stronger economic growth, and labour demand and absorption.

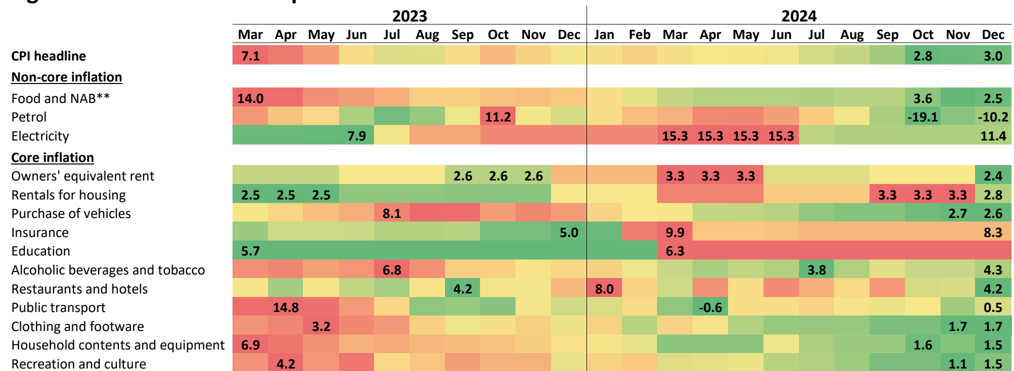
Several regulatory obstacles hinder South Africa’s ability to create jobs. Amendments to labour market regulations to boost employment have been considered by the National Economic Development and Labour Council. The reform process has centred on simplifying labour regulations – including hiring and dismissal, enhanced protections for vulnerable workers and greater flexibility – with a particular focus on small businesses. Updates will be provided as the process unfolds.

Inflation

Headline inflation declined to 2.9 per cent in the fourth quarter of 2024, resulting in average inflation of 4.4 per cent for the year. Consumer inflation is projected to average 4.5 per cent in 2025 and 4.6 per cent in 2026, picking up slightly as the value-added tax (VAT) increase pushes up prices. The VAT effect is seen mainly in core inflation, which, after averaging 4.3 per cent in 2024, is projected to rise to 4.7 per cent in 2026, slightly above the midpoint of the Reserve Bank’s 3–6 per cent target range. Lower global crude oil prices are expected to support muted fuel price inflation.

Risks to the inflation outlook include upward pressure on food prices from adverse weather patterns and events resulting from climate change. Geopolitical tensions continue to cloud the fuel price outlook.

Figure 2.4 Inflation heatmap*



**Green indicates lower rates of inflation and red indicates higher rates of inflation*
***NAB refers to non-alcoholic beverages*
Source: Statistics South Africa

Household consumption

Household consumption growth averaged 0.6 per cent in the first three quarters of 2024 compared with the same period in 2023. Household expenditure is expected to grow by 1 per cent in 2024 and 1.9 per cent in 2025. Despite weaker growth momentum, household consumption will be supported in the near term by stable inflation expectations, lower borrowing costs, withdrawals under the two-pot retirement reform and government transfers to poorer households. Consumer confidence improved gradually throughout 2024, driven by lower inflation, stable electricity supply and domestic political developments. Household consumption is forecast to average 1.7 per cent from 2025 to 2027, supported by enhanced consumer sentiment, increased household purchasing power, gradual employment gains and wage recovery, and increased credit extension.

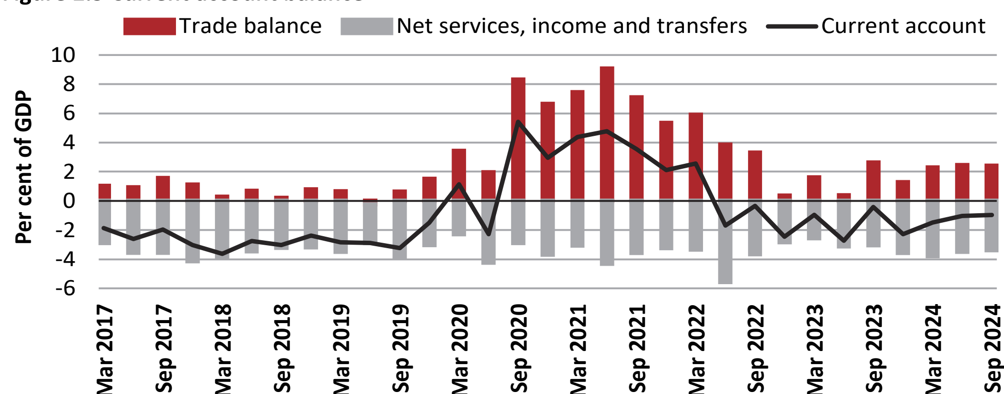
Investment

Gross fixed-capital formation contracted by 4.4 per cent in the first three quarters of 2024, largely led by the private sector. Capital expenditure categories showed mixed results in the third quarter of 2024, with construction works up but residential and transport equipment investments down due to high borrowing costs and low confidence. Total fixed investment remains 9.6 per cent below the pre-pandemic level, mainly owing to weak private investment. Gross fixed-capital formation is estimated to contract by 3.6 per cent in 2024, following two years of growth. It will rebound to 5 per cent in 2025 and average 4.7 per cent over the medium term. The stronger outlook will be supported by the global recovery, lower interest rates, an increase in major export commodity prices and the rollout of public infrastructure investment.

Balance of payments

The current account deficit is expected to widen from 1.6 per cent of GDP in 2024 to 2.2 per cent of GDP in 2025, averaging 2.3 per cent over the medium term. This is due to a weaker trade balance, with exports anticipated to grow more slowly than imports. Easing logistical constraints, stable electricity supply and improvements in export commodity prices should support export volumes. Import volume growth in the near term will be supported by easing oil prices, higher domestic demand and energy-related fixed investment. However, the risks to the outlook are tilted to the downside, including geopolitical tensions, trade policy uncertainty and a slower-than-anticipated easing of logistical bottlenecks.

Figure 2.5 Current account balance



Source: Reserve Bank

Macroeconomic assumptions

Global demand growth is expected to recover from an estimated 2.9 per cent in 2024 to 3.8 per cent in 2025 as growth rises among South Africa's major trading partners. Despite easing prices compared with 2023, the overall export commodity price assumption has been revised upwards due to heightened geopolitical risk, strong US demand and steady Chinese imports, as well as lower output from key producers. The oil price assumption remains unchanged from the 2024 *Medium Term Budget Policy Statement* (MTBPS).

The sovereign risk premium averaged 3.1 per cent in 2024 – a small improvement from the expectation at the time of the 2024 MTBPS – and is expected to stabilise at 2.7 per cent over the medium term, compared with 3 per cent projected at the time of the MTBPS.

Table 2.3 Assumptions informing the macroeconomic forecast

Percentage change	2022	2023	2024	2025	2026	2027
	Actual		Estimate	Forecast		
Global demand[1]	3.8	3.6	2.9	3.8	3.6	3.2
International commodity prices[2]						
Brent crude oil	99.0	82.3	79.9	75.1	71.1	69.4
Gold	1 801.5	1 943.1	2 386.5	2 832.5	2 970.2	3 074.6
Platinum	960.9	966.6	955.2	992.8	1 026.3	1 063.3
Coal	271.1	120.6	105.5	104.4	107.5	108.0
Iron ore	120.7	120.3	110.9	109.3	104.3	100.3
Palladium	2 107.4	1 339.5	980.7	998.4	1 032.5	1 062.5
Food inflation	9.2	10.7	4.5	5.1	4.5	4.5
Electricity inflation	11.1	11.8	13.3	12.1	9.4	6.8
Sovereign risk premium	4.1	3.9	3.1	2.7	2.7	2.7

1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, January 2025)
2. Bloomberg futures prices as at 6 February 2025
Source: National Treasury

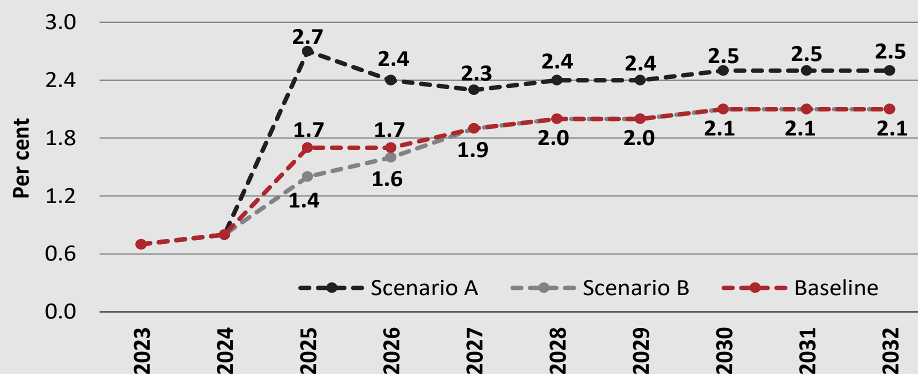
Comparing the baseline forecast with optimistic and pessimistic scenarios

The National Treasury has modelled two alternative scenarios to the baseline forecast.

The upside Scenario A models a rapid infrastructure investment programme, supported by a successful scale-up of capital spending by public entities. Investments increase energy supply more than forecast, and rail and ports recover lost ground in transport volumes. As a result, productive capacity and business and investor confidence pick up, reducing the sovereign risk premium. Producer and consumer inflation decline in the short term, settling at the midpoint of the target in the medium term. Real GDP growth increases to a high of 2.7 per cent in 2025, reaching 2.5 per cent in 2032 due to higher capital stock accumulation and productivity, supporting increased trade volumes and boosting potential growth. This implies that the additional GDP generated over the simulation period amounts to R1.1 trillion relative to the baseline.

The downside Scenario B models a once-off shock of slowing global growth due to increased trade fragmentation and uncertainty. Restrictive trade policies and bloc divisions weaken global trade and investment. Rising costs, persistent supply constraints and sticky inflation limit major central banks' ability to cut rates, while subdued business activity and weak demand weigh on trade sentiment. In South Africa, import inflation, low exports and subdued global demand, combined with higher interest rates and foreign capital costs, reduce GDP growth to 1.4 per cent in 2025 and 1.6 per cent in 2026. Inflation exceeds the baseline in the short term. Beyond 2026, growth returns to the baseline trajectory. Although the growth rate catches up to the baseline over the medium term, GDP losses accumulate to R190 billion relative to the baseline over the horizon.

Figure 2.6 GDP growth scenarios



Source: National Treasury

Risks to the outlook

Risks to the domestic outlook are balanced, but the global outlook faces downside risks from rising trade disputes and geopolitical tensions, financial market volatility, tightening financial conditions for developing economies, rising commodity prices and China's property sector slowdown. Domestically, fiscal risks, adverse weather events, rising input costs and logistical issues could threaten growth. Conversely, lower interest rates, greater-than-expected withdrawals from the two-pot retirement system and progress on economic reforms could boost confidence and demand.

SECTOR PERFORMANCE AND OUTLOOK

Agriculture

Gross value added in the agriculture sector fell by 15.5 per cent over the first three quarters of 2024 compared with 2023, driven by a major contraction reported for the third quarter. Production of summer crops such as maize, soybeans and sunflowers was affected by El Niño-linked heatwaves, while the livestock sector recovered following the avian influenza outbreak in 2023. A rebound is anticipated in 2025 as a weak La Niña brings higher rainfall and lower temperatures, and the livestock sector continues to recover. A strong export-oriented horticulture season is expected over the medium term.

Mining

Gross value added in the mining sector expanded by 0.6 per cent in the first nine months of 2024 compared with the same period in 2023. Production remains subdued due to rail and port constraints affecting bulk commodities, low commodity prices and consequential business restructuring affecting platinum group metals. Safety stoppages, unrest and crime also weighed on production. Improved energy availability, reduced logistics constraints and the introduction of a new mining cadastre system – used to track mineral rights and related licensing information – should support the sector over the medium term.

Manufacturing

Gross value added in the manufacturing sector was 0.3 per cent lower in the first three quarters of 2024 relative to 2023. Production declined by 0.4 per cent during this period, driven by decreases in the production of motor vehicles, parts and accessories and other transport equipment. Although weak demand and competition from imports persist, consistent energy supply, lower borrowing costs, and accelerated implementation of reforms in energy and transport are boosting the outlook.

Construction

The construction sector contracted by 6.2 per cent in the first three quarters of 2024 relative to 2023. Improved policy certainty boosted investment sentiment, but activity remains slow. The so-called construction mafia – organised extortion gangs that use

violence to gain a share of lucrative projects – continue to disrupt projects in KwaZulu-Natal, Gauteng and the Western Cape. Government and industry stakeholders have agreed on an approach to end criminal disruption at sites. A recovery is expected during 2025 as sentiment rises and interest rates ease.

Construction sector multipliers

Government's plans to forge an inclusive growth path include large-scale investment in infrastructure, with the construction sector at centre stage.

Figure 2.7 shows that for every R1 million in construction output, total domestic output expands by R1.86 million. Although the sector is small, accounting for only 3 per cent of total gross value added in 2023, it has strong connections to the broader economy. The 2024 MTBPS noted that the construction sector has the highest employment multiplier of any sector: every R1 million spent on a construction project creates more than three jobs for individuals whose highest qualification is a matric certificate. Sectors such as transport, storage and communication, domestic trade sales, mining and quarrying, finance, personal services and manufacturing are poised to benefit most from a construction stimulus.

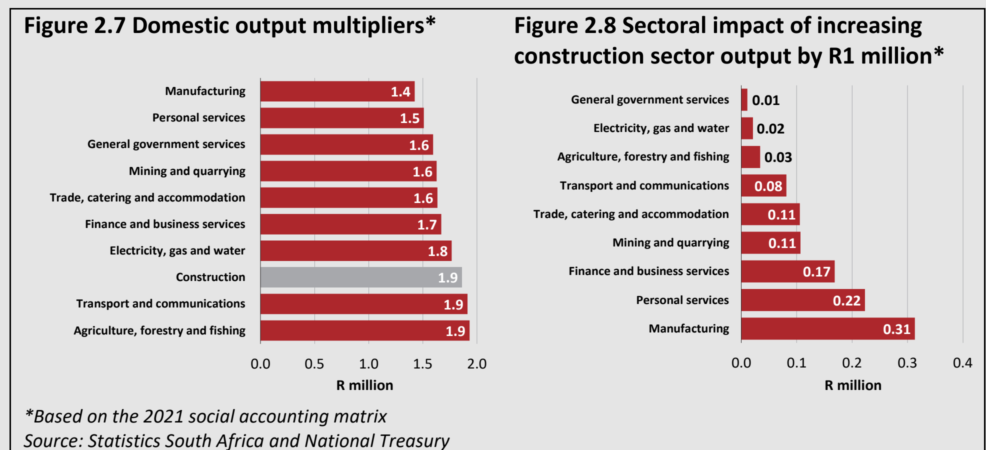


Figure 2.7 Domestic output multipliers*

Figure 2.8 Sectoral impact of increasing construction sector output by R1 million*

**Based on the 2021 social accounting matrix*
Source: Statistics South Africa and National Treasury

Utilities

The electricity, gas and water sector expanded by 4.4 per cent in the first nine months of 2024 relative to 2023, reflecting sustained improvements in Eskom's operational performance. Many reforms are still under way, including those aimed at increasing generation capacity and establishing a competitive wholesale electricity market. This should support long-term energy security, alongside efforts to address grid availability and structural challenges within the distribution industry.

Transport and communication

The transport, storage and communication sector expanded by 0.1 per cent in the first nine months of 2024 compared with 2023. Ongoing rail constraints, inefficient port operations and decelerating road transport have weighed on output. Increased investments to improve operations and expand rail and port capacity should support recovery over the medium term. The telecommunications sector will receive a boost from 5G expansion, spectrum releases and a focus on digital transformation.

Finance and business services

The finance, real estate and business services sector grew by 3.3 per cent in the first nine months of 2024 compared with 2023, driven by improved investor sentiment and commercial bank income. Household financial distress from rising interest rates since late 2021 has led to mortgage defaults, but easing borrowing costs are expected to support the sector. In response to higher non-performing loans in retail and small, medium and micro enterprises in 2024, banks increased provisions for doubtful exposures as a safety buffer. Real estate expectations for business volumes and conditions have improved, but limited rate cuts could hinder the recovery.

CONCLUSION

The growth outlook underscores the opportunity to move to a significantly faster economic growth path through sustained progress in raising investment and productivity. The outlook will be supported by stable macroeconomic policies, improved efficiency and competitiveness driven by structural reforms, enhanced state capability to deliver services and improved infrastructure investment over the medium term.