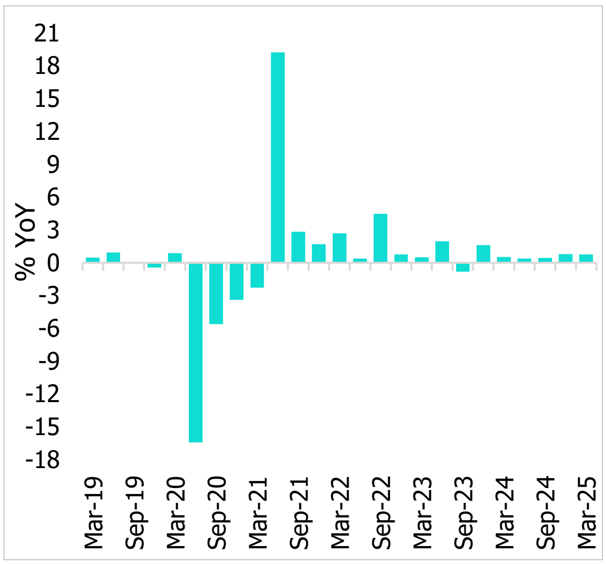
## Subdued Start to the Year

After recording subdued economic growth of 0.5% in 2024, South Africa's real GDP edged up by 0.1% QoQ (0.8% YoY) in Q1 2025 from a downwardly revised growth of 0.4% QoQ in Q4 2024 (0.6% previously). Real GDP growth was driven by a rise in household (H/h) consumption and restocking, offsetting downbeat gross fixed capital formation (GFCF) and net exports.

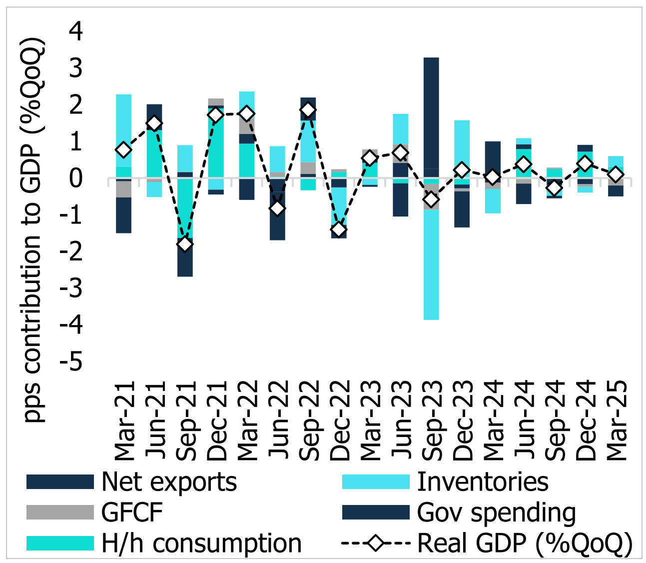
Household consumption rose by 0.4% QoQ and contributed 0.3 percentage points (pps) while restocking added 0.3 pps to real GDP growth in Q1 2025. These outweighed weak GFCF, which fell by 1.7% QoQ, and a 2% QoQ increase in imports that outpaced export growth and meant that net exports deducted 0.3 pps from overall GDP growth. Government spending fell for the third consecutive quarter.

**Real GDP Growth (% YoY)**




Source: Statistics South Africa

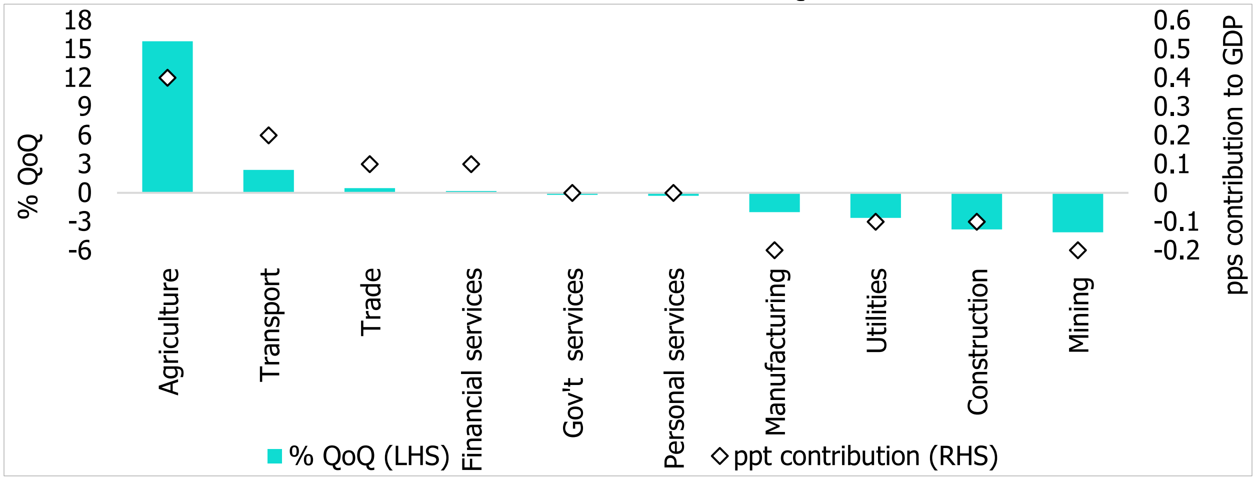
**Real GDP Growth (% QoQ)**




Source: Statistics South Africa

From a production perspective, four of the ten sectors recorded QoQ growth, offsetting declines in the other six sectors. Output in the agricultural sector rose by 15.8% QoQ, indicating the gains from improved climate conditions at the start of this year. Production in the transport sector also recorded strong gains, while there was a marginal uptick in the trade and financial services sectors. In contrast, output in the mining sector fell by 4.1% QoQ while there were sharp declines in the construction, utilities, and manufacturing sectors.

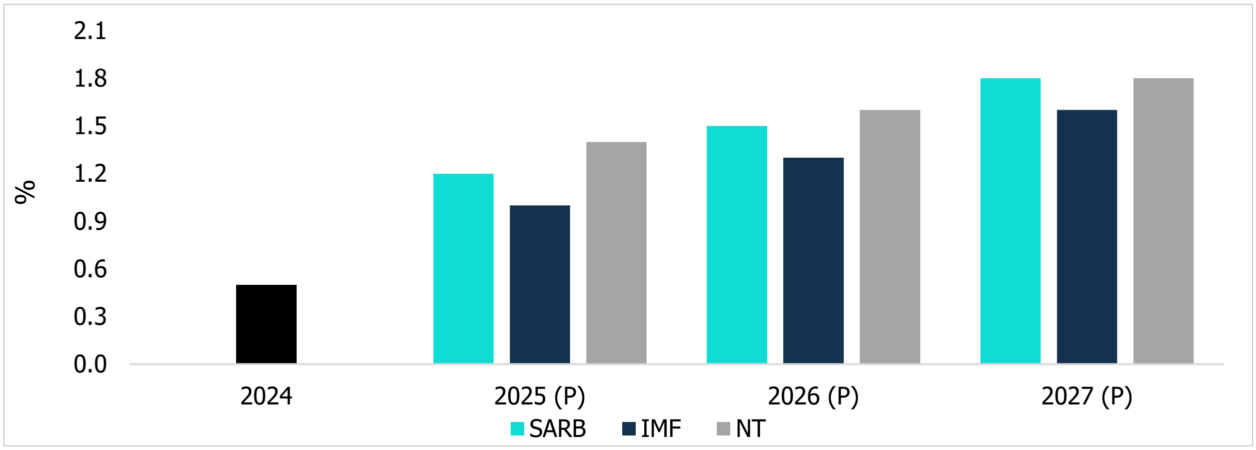
**Sectoral Growth and Contributions to Real GDP Growth in Q1 2025**




Source: Statistics South Africa; Note: Gov't=Government, Utilities= Electricity, gas and water

There have been downward revisions to real GDP forecasts. National Treasury (NT) expects real GDP to rise by 1.4% (1.8% previously) in 2025, 1.6% in 2026 (1.7% previously) and 1.8% in 2027 (1.9% previously). The South African Reserve Bank (SARB), meanwhile, projects real GDP growth of 1.2% in 2025 (1.7% previously), 1.5% in 2026 (1.8% previously) and 1.8% in 2027 (2% previously). The SARB remains optimistic about structural reforms but highlighted that lower global growth presents headwinds.

**South Africa Real GDP Growth Forecasts**

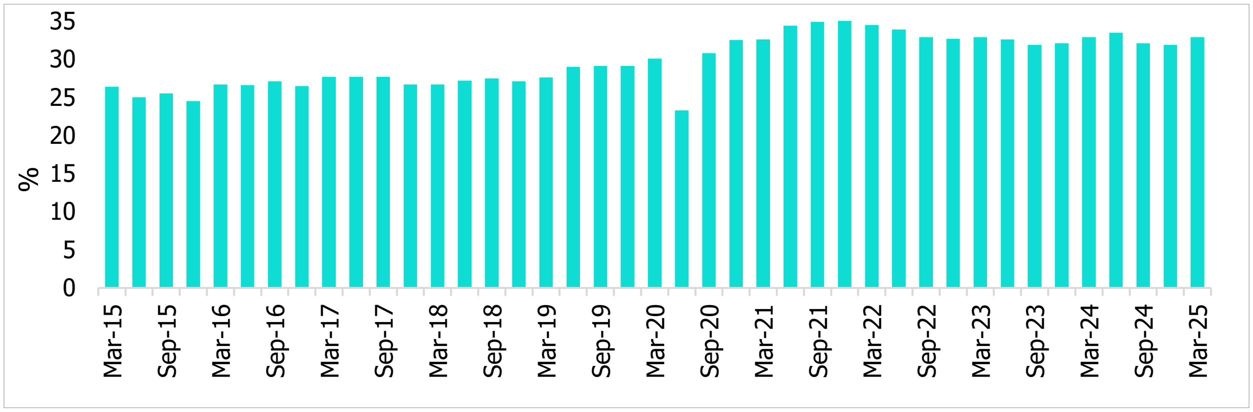



Source: SARB, National Treasury, IMF; P= Projections. 2024 represents actual GDP growth

### Weak Economic Activity Weighs on the Labour Market

The latest Quarterly Labour Force Survey (QLFS) showed that the unemployment rate worsened to 32.9% in Q1 2025 from 31.9% in Q4, reflecting sluggishness in the job market amid weak economic activity, while new entrants into the labour market also contributed to the deterioration in the unemployment figures. Overall, unemployed individuals rose by 3% to 8.2 million. Job losses were mainly recorded in the formal sector, with 245,000 jobs being lost, offsetting job growth in the informal sector.

**South Africa's unemployment rate (%)**




Source: Statistics South Africa, CEIC

Looking ahead, we expect the labour market to gradually improve from these depressed levels as the impact of reforms starts to transmit to the broader economy and yield employment gains. However, slowing global growth amid protectionist measures and US tariffs will limit the magnitude of improvement in the labour market, particularly in the manufacturing and agricultural sectors.

**FY26 Budget 2.0 Highlights**

The whirlwind ride endured by South Africa's FY26[1] Budget finally came to a conclusion when it was re-tabled by the Minister of Finance on May 21 (see our report, South Africa FY26 Budget 2.0, for more details). The re-tabled FY26 Budget continued highlighting NT's focus on fiscal consolidation and the government's intention to implement reforms and boost investments to generate faster growth.

The gap left by the withdrawal of the VAT rate increase proposal was partially offset by an increase in the fuel levy for the first time since FY22, while other tax revenue measures will be announced in the FY27 Budget. Gross tax revenue is projected to increase by 7% YoY in FY26 and rise at an annual average of 7.2% over the medium term (FY26-FY28). PIT is estimated to do most of the heavy lifting, rising by 7.5% over the medium term (FY26-FY28), while VAT is estimated to account for 24.1% of gross tax revenue. Overall, NT estimates gross tax revenue to gradually climb to 25.7% of GDP in FY28 and alongside non-tax revenue measures, total revenue is expected to reach 28.2% of GDP by FY28.

In terms of expenditure, consolidated expenditure is projected to rise by 7.5% YoY in FY26 before easing sharply in FY27. It is estimated to increase by an annual average growth rate of 5.4% over the medium term (FY26-FY28). Overall, annual expenditure estimates have been reduced by around ZAR 23 billion, on average, over the medium term (FY26-FY28) relative to the forecast presented in the March 2025 Budget. Risks to expenditure remain tilted to the upside, especially considering that the Social Relief of Distress

[1] Fiscal Year in South Africa starts from 01 April to 31 March. FY26 represents the FY2025/2026 fiscal year and the 2025 calendar year.

(SRD) grant has not been extended beyond FY26. At the same time, the contingency reserves have been significantly reduced, which hinders NT's ability to respond to unplanned spending pressures.

The FY26 Budget continued to emphasize the National Treasury's (NT) commitment to fiscal consolidation. Following the downward revision to the growth outlook and the withdrawal of the VAT rate increase, the fiscal deficit to GDP ratio is estimated 0.2pps higher in FY26 at 4.8% of GDP, relative to the estimate presented in the March 2025 Budget. The fiscal deficit to GDP ratio is projected to narrow to 3.4% in FY28.

The biggest concern, however, stems from the worsening in South Africa's debt-to-GDP ratio, which is now projected to peak at 77.4% in FY26. Concerns regarding the debt profile are further fuelled by the NT providing a government guarantee to Transnet, the state-owned Logistics Company, worth ZAR 51 billion (0.6% of GDP) over FY26 and FY27 to help the State-Owned Entity (SOE) service its debt.

**General Government (GG) Forecasts for Key Economic Indicators**

| | Unit | FY26 F | FY27 F | FY28 F |
|---|---|---|---|---|
| GDP at current market prices | ZAR Billion | 7872 | 8351 | 8891 |
| Real GDP growth | % | 1.4 | 1.6 | 1.8 |
| Inflation | % | 3.7 | 4.2 | 4.3 |
| Fiscal balance | % of GDP | -4.8 | -3.8 | -3.4 |
| Revenue | % of GDP | 28.0 | 28.2 | 28.2 |
| Expenditure | % of GDP | 32.8 | 32.0 | 31.6 |
| Gross General Government Debt | % of GDP | 77.4 | 77.2 | 76.7 |
| Borrowing requirement | % of GDP | 7.5 | 5.2 | 6.6 |

Source: National Treasury (F=Forecast); FY26 corresponds to the 2025 calendar year. The borrowing requirement comprises Eskom's fiscal balance, redemptions, and debt relief, offset by any cash injections.

**South Africa Seeks to Reset Relations With the US**

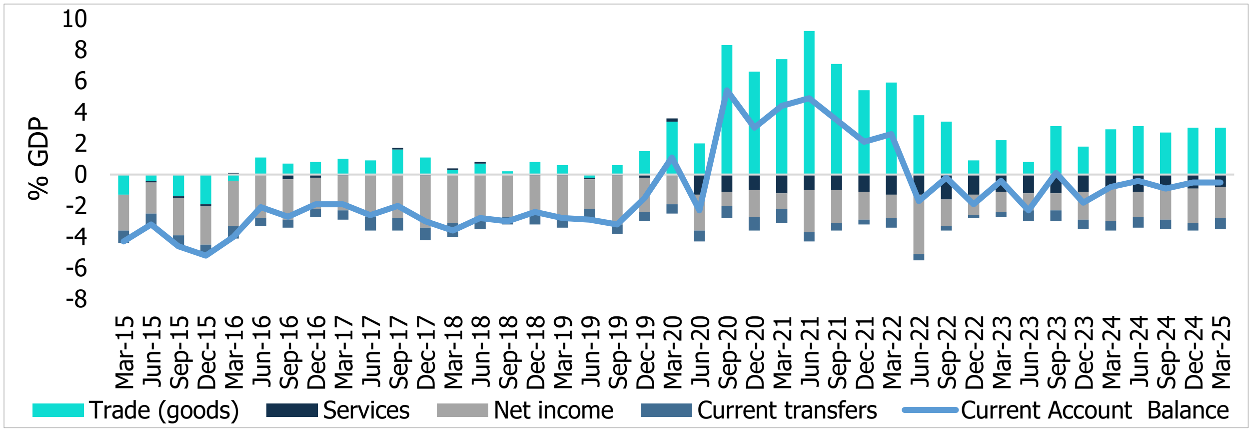
On May 21, 2025, South Africa's President, alongside his delegation, met with the US President to try to mend relations between the two nations. The main objective for the meeting was to reset US-SA relations and work out a favourable trade deal following the imposition of US tariffs on vehicles and steel in early April and reciprocal tariffs of 30% on South Africa, with the latter being suspended until July 9. The US accounts for just over 7% of South Africa's exports, suggesting that the direct impact of tariffs would be limited (see our report, US tariff Implications on South Africa, for more details).

News flow from South Africa's Ministry of Trade and Industry indicate that there has been progress with negotiating a trade deal with the US. We will continue to monitor developments in US-SA trade negotiations. Another important monitorable will be whether South Africa can reach a trade deal regarding steel and aluminium tariffs, which account for 6.7% and 6.5% of South Africa's exports to the US, respectively. This will be important as the US administration has increased tariffs on steel and aluminium to 50% from 25%.

### Current Account Deficit Little Changed

South Africa's current account deficit (CAD) was little changed in Q1 2025, as it narrowed to ZAR 35.6 billion from a revised ZAR 39.3 billion but remained at 0.5% as a share of GDP. The trade surplus remained robust at 3% of GDP. The non-trade deficit, meanwhile, narrowed slightly to 3.5% of GDP from 3.6% of GDP in Q4 2024 as a slight improvement in the deficit in the services and primary income account outweighed a worsening deficit in the current transfer account.

### Composition of Current Account Balance



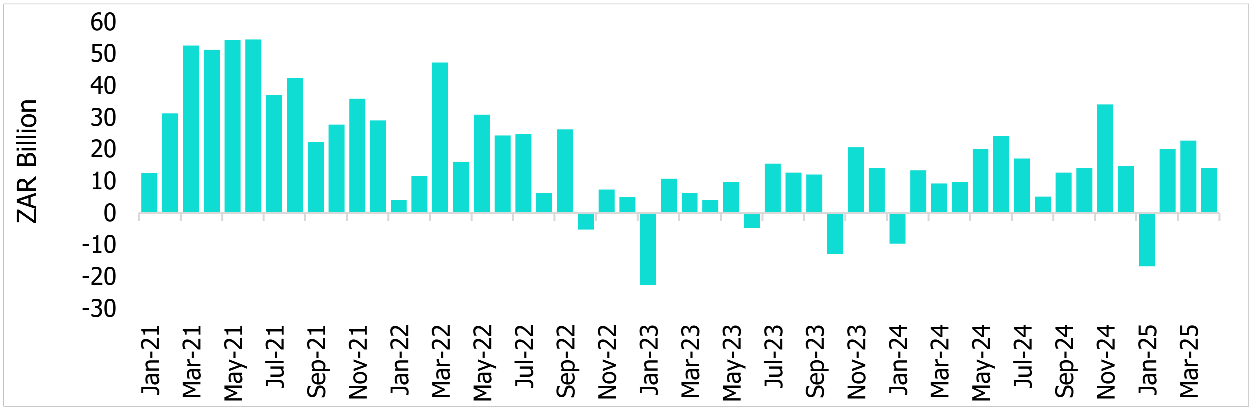

Source: South African Reserve Bank (SARB), CEIC

While the sustained trade surplus played a key role in containing the CAD in Q1 2025, this momentum is expected to dissipate going forward, reflecting the impact of US tariffs on vehicles, steel and aluminium, as well as a 10% baseline universal tariff on other goods except for critical minerals and metals. Moreover, a gradual recovery in activity at South Africa's import-concentrated ports alongside an expected recovery in domestic demand is set to fuel import growth. On the other hand, exports will likely come under pressure as trade wars between South Africa's major trade partners and lower global economic growth could weigh on commodity prices. The SARB forecasts the CAD to GDP ratio to widen to 1% in 2025.

### Trade Surplus Narrows in April

South Africa's trade surplus eased to ZAR 14.1 billion in April from a downwardly revised surplus of ZAR 22.7 billion in March. The cumulative trade balance for 2025 (January-April) posted a surplus of ZAR 39.7 billion, lower than the ZAR 40.6 billion surplus for the comparable period in 2024. In April, exports were down by 1.5% YoY, with cumulative exports little changed on an annual basis during the first four months of the year. Imports fell by 4.4% YoY during the month, while cumulative imports edged up by 0.1% YoY.

**South Africa's monthly trade balance**

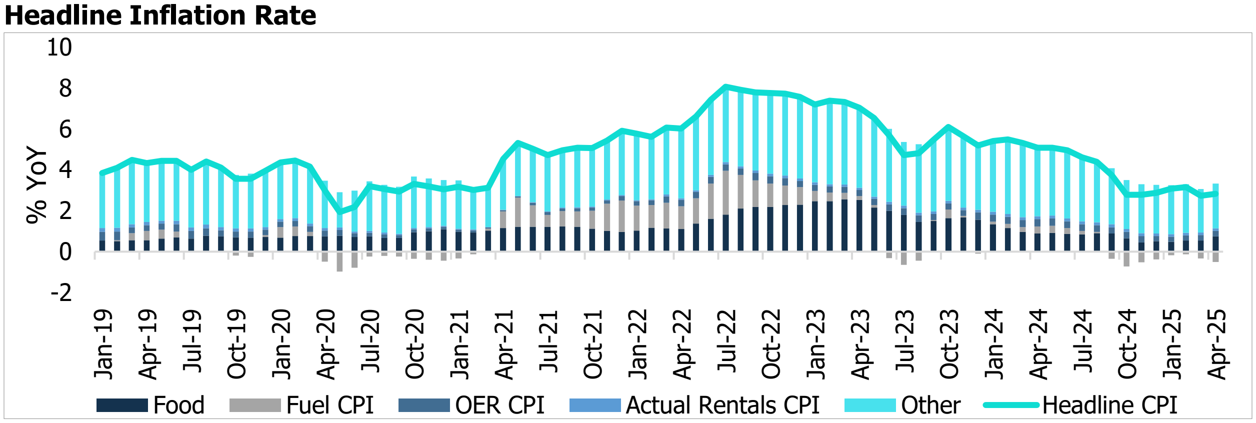



Source: South African Revenue Services (SARS), CEIC

### Inflation Remains Subdued in April

South Africa's headline inflation rate rose by 2.8% YoY in April from 2.7% in March, still below the SARB inflation target range of 3%-6%. Upward price pressures stemmed from food inflation, up by 3.3% YoY from 2.2% in March, which was partly offset by quickening fuel deflation. Meanwhile, core inflation continued to trend lower, slowing to 3% YoY in April, the lowest reading since July 2021.

**Headline Inflation Rate**

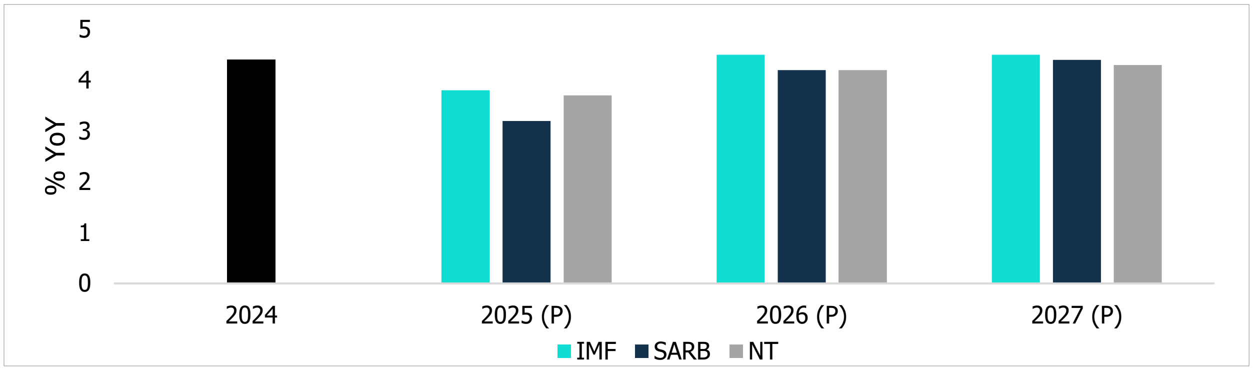



Source: Statistics South Africa, CEIC

### Favourable Inflation Trajectory allows SARB to cut

Following subdued inflation prints that remained below the inflation target range over the last two months, the SARB's Monetary Policy Committee (MPC) unanimously decided to reduce the policy rate by 25 bps to 7.25% in May 2025. Furthermore, the SARB revised its inflation forecasts downward amid a stronger exchange rate assumption and lower oil prices. At the same time, the withdrawal of the proposed hike in the VAT rate also contributed to lower inflation projections. These factors are expected to outweigh fuel and transport price pressures due to the increase in the fuel levy announced in the FY26 Budget. Overall, the SARB expects the headline inflation rate to average 3.2% in 2025 (3.6% previously), 4.2% in 2026 (4.5% previously), and 4.4% in 2027 (4.5% previously).

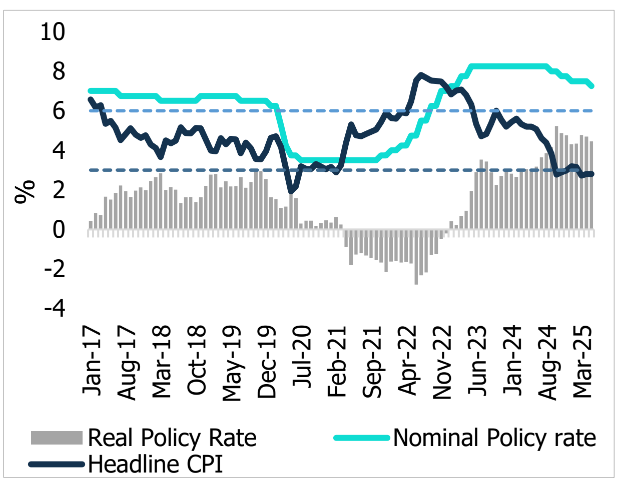
**South Africa Headline Inflation Rate Projections**




Source: SARB, National Treasury, IMF; P=Projections. 2024 represents the actual inflation rate.

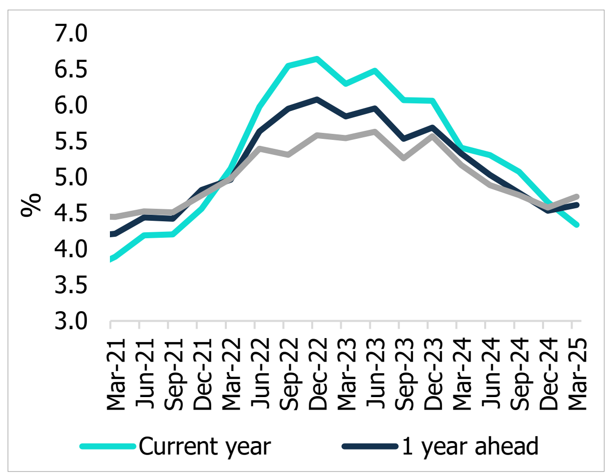
Besides the benign inflation outlook and unanimous decision by the MPC, the key takeaway from the May MPC meeting was the SARB signaling that a lower inflation target for the country is being finalised. The Central Bank Governor highlighted that subdued price growth has presented an opportunity to target a lower inflation target of 3%, at minimum costs. Nonetheless, there is room for further policy rate easing even if the SARB officially targets a lower inflation target. We expect the SARB to further cut the policy rate by 50 bps this year. However, risks to this view are tilted towards fewer policy rate cuts due to risks presented by global developments linked to tariffs.

**South Africa Policy Rate (%)**




Source: SARB, Statistics South Africa

**Inflation Expectations (%)**



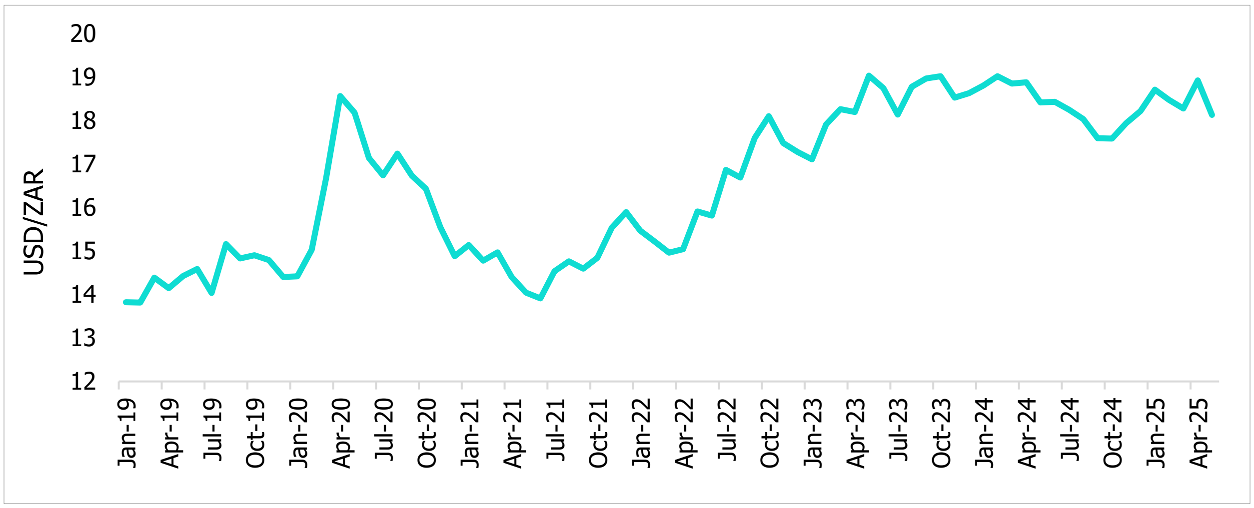

Source: Bureau of Economic Research

## Rand Movements

The Rand has gained by 3% against the US dollar since the start of May, driven by broad-based US dollar weakness, improving sentiment and the intended resetting of US-SA relations. Meanwhile, the re-tabling of a realistic FY26 Budget with limited disagreements among Government of National Unity (GNU) members has also been positive for the Rand.

Over the past 3 months (March 2025 to May 2025), the Rand has appreciated by 0.5% against the US dollar, while gaining by 0.8% over the last 6 months (December 2024 – May 2025). The trajectory of the Rand will continue to be dominated by sentiment, particularly around South Africa's debt profile and the stability of coalition government, the impact of US tariffs and the outcome of the US-South Africa Bilateral Relations Review Act of 2025.

## Exchange Rate




Source: CEIC

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