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2024 MTBPS

ECONOMIC OUTLOOK

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CHAPTER 2

ECONOMIC OUTLOOK

In brief

- The economy is projected to grow by 1.1 per cent in 2024, down from the 2024 *Budget Review* forecast of 1.3 per cent. However, the prospects for the economy are improving, with better energy supply supporting a marginal upward revision to medium-term growth.
- While global growth is predicted to stabilise around 3.2 per cent in the near term, significant risks remain, including flaring geopolitical tensions and narrower scope for additional interest rate cuts. Risks to the domestic outlook, however, are more balanced than at the time of the 2024 *Budget Review*.
- While there is cause for some cautious optimism on the medium-term growth outlook, low potential growth and stagnant per capita incomes and employment underscore the importance of maintaining macroeconomic stability, implementing reforms, boosting state capability and accelerating infrastructure investment.

INTRODUCTION

South Africa's economy is beginning to reflect the combined effects of a more stable global environment, structural reforms, uninterrupted electricity supply and cautious confidence in the new government of national unity. Although the 2024 growth forecast has been revised down, medium-term prospects have improved somewhat. GDP growth is projected to average 1.8 per cent from 2025 to 2027. A tentative return to confidence is evident in a rebound in financial markets, a stronger rand and comparatively lower sovereign borrowing costs.

However, this comes in the wake of more than a decade of economic underperformance, during which the economy has been weighed down by a range of structural constraints. The depth of these challenges, including weak state capacity, underscores the need to speed up reforms to make the economy more productive and competitive, accelerate inclusive economic growth and foster much-needed job creation.

Over the medium term, government's growth strategy will be anchored by the following pillars:

Maintaining macroeconomic stability. A stable, transparent and predictable macroeconomic framework remains fundamental for better growth outcomes. Greater certainty and less volatility – including through low and stable inflation and sustainable fiscal policy – create a conducive environment for businesses and households to save, spend, invest and grow, contributing to a sustainably higher economic growth path.

Implementing structural reforms. South Africa now has initial evidence of the tangible outcomes of reforms that reduce economic bottlenecks. This is best exemplified in the energy sector, supported by the first phase of Operation Vulindlela, which unlocked R390 billion worth of investment. The second phase of Operation Vulindlela will build on previous efforts.

Building state capability. A capable state that delivers a reasonable and reliable standard of public services will foster the necessary environment for more growth and jobs. Service delivery will be made simpler, more accessible and more effective through digital transformation and careful management of the public-service wage bill.

Supporting growth-enhancing public infrastructure investment. Investment in infrastructure will boost economic activity and enable higher growth over the medium term. Reforms outlined in greater detail in Chapter 5 will improve private-sector participation, infrastructure financing and investment pipelines, while supporting climate resilience.

Figure 2.1 Emerging market currencies vs US dollar*

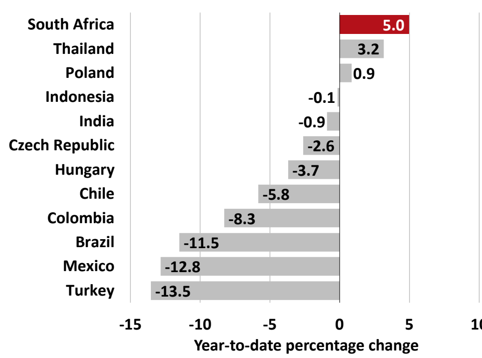


Figure 2.2 Bond yield curve

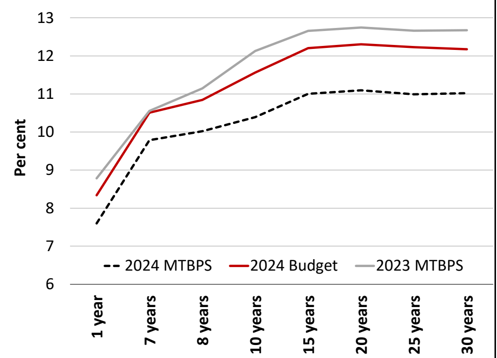
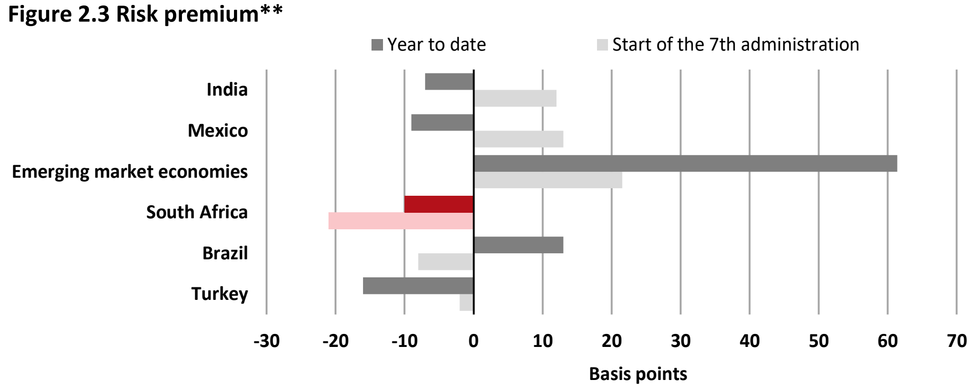


Figure 2.3 Risk premium**



**Positive changes indicate an appreciation of the currency; negative values a depreciation.*
***Year to date refers to data as reported up to 30 August 2024, while the beginning of the 7th administration (government of national unity) is marked from 19 June to 30 August 2024*
Source: Bloomberg

OPERATION VULINDLELA CONTINUES TO SUPPORT GROWTH

South Africa's economic growth prospects are closely tied to the success of structural reforms, including those led by Operation Vulindlela, to improve competitiveness and productivity and boost investment. In its first phase, this initiative implemented 35 reform actions in five network industries, including reducing power cuts, improving the performance of the logistics system, lowering data costs, improving water supply and enabling the country to attract critical skills. The next phase of reforms will support higher medium-term growth, which is required to significantly expand employment. New initiatives aim to reverse local government decline, tackle spatial inequality and advance digital government to improve large-scale service delivery.

Priority will be given to continued restructuring of Eskom and to establishing a competitive energy market with adequate supply for a growing economy. The cumulative effects of reforms include improved power station performance and no “load-shedding” since 26 March 2024. The Electricity Regulation Amendment Bill was signed into law in August of this year. This, together with the creation of the National Transmission Company of South Africa, which began operating on 1 July 2024, is establishing rules and procedures for a competitive electricity market. The ongoing Energy Action Plan has boosted efforts to restore energy availability and procure new generation. By end-August 2024, project registrations with South Africa’s energy regulator exceeded 8 500 megawatts.

Transport reforms that open the freight rail network to private operators will reduce inefficiencies and costs, helping firms offer lower prices and boosting economic growth. To this end, the Economic Regulation of Transport Bill – enabling private-sector use of the rail network – was signed into law in June 2024. Transnet freight volumes grew from 149.5 million tonnes at the end of the previous financial year to approximately 151.7 million tonnes by end-March 2024, supported by the implementation of a recovery plan from October 2023 and reversing a years-long decline (Figure 2.4). Port cargo handled has stabilised relative to 2023 levels (Figure 2.5).

Figure 2.4 Freight transportation rail payload*

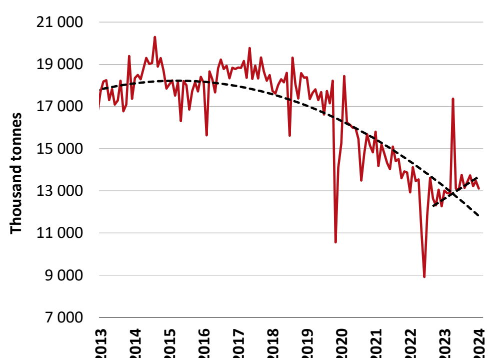
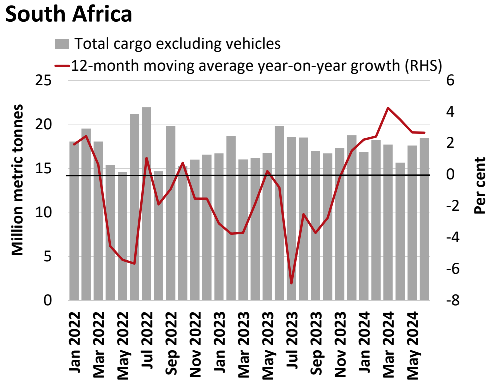


Figure 2.5 Total cargo handled at the ports of South Africa



**Seasonally adjusted*
Source: Statistics South Africa, GAIN Group and Transnet National Ports Authority

The Department of Home Affairs has reformed the visa system to attract skills and boost tourism, including implementing an eVisa system for 34 countries, a trusted employer scheme and revised immigration regulations from May 2024. The rollout of 5G infrastructure is lowering data costs, expanding connectivity and improving access to network services.

Water management reforms tackle supply and infrastructure issues. The National Water Resources Infrastructure Agency Bill, signed on 27 August 2024, creates an independent agency to oversee bulk water resources. The Water Services Amendment Bill, allowing for intervention in failing municipalities, has received public comment and will soon be submitted to Cabinet for approval.

Critical reforms needed to support water security and economic growth

Water is vital for society and is a critical enabler of economic activity. However, poor water management, reflected in R19 billion in municipal debt to water boards, and ageing infrastructure threaten the economy. The Department of Water and Sanitation's 2023 Green Drop report shows that 34 per cent of water supply systems and 10 per cent of wastewater systems are at high or critical risk, with critical water quality risks tripling over the past decade. Concerningly, South Africa's per capita water consumption of 218 litres per day exceeds the global average of 173 litres.

Water sector reforms being prioritised by Operation Vulindlela include independent regulation, strengthening local water services by licensing water service providers, legal proceedings on non-compliance by municipalities and trading services reforms. Trading services reforms refer to governance, institutional, management and financial reforms to improve essential services, enabled by a new performance-based grant. The National Treasury is also working closely with the Water Partnerships Office to identify opportunities for private-sector participation, such as non-revenue water projects. Non-revenue water refers to the revenue lost from leaking water infrastructure.

Figure 2.6 National non-revenue water and water loss trends*

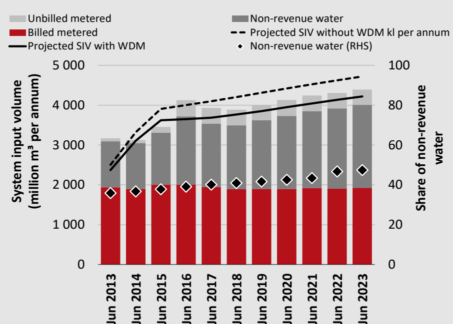
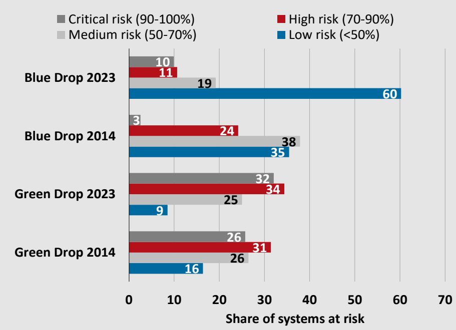


Figure 2.7 Risk levels in water quality (Blue Drop) and wastewater systems (Green Drop): 2014 vs 2023



**SIV refers to system input volume while WDM refers to water demand management*
Source: Department of Water and Sanitation

GLOBAL OUTLOOK

The International Monetary Fund projects that global growth will moderate from 3.3 per cent in 2023 to 3.2 per cent in 2024 and 2025. Slowing inflation has opened the way for major central banks to ease monetary policy. Lower interest rates and strong investment in technology, particularly in emerging Asia, are expected to support growth. Yet overall risks are to the downside. Fiscal policy has begun to contract in some countries, in part to manage the rapid increase in sovereign debt levels since the COVID-19 pandemic, and some countries are in debt distress. Persistent geopolitical tensions continue to flare, with potentially far-reaching effects on global trade, and the threat of escalating conflict in the Middle East remains a concern. The years-long downturn in China's property sector, notwithstanding new stimulus support, could continue to weaken Chinese growth.

Table 2.1 Economic growth in selected countries

Region/country	2022	2023	2024	2025
Percentage	Actual		Forecast	
World	**3.6**	**3.3**	**3.2**	**3.2**
Advanced economies	**2.9**	**1.7**	**1.8**	**1.8**
United States	2.5	2.9	2.8	2.2
Euro area	3.3	0.4	0.8	1.2
United Kingdom	4.8	0.3	1.1	1.5
Japan	1.2	1.7	0.3	1.1
Emerging and developing countries	**4.0**	**4.4**	**4.2**	**4.2**
Brazil	3.0	2.9	3.0	2.2
Russia	-1.2	3.6	3.6	1.3
India	7.0	8.2	7.0	6.5
China	3.0	5.2	4.8	4.5
Sub-Saharan Africa	**4.1**	**3.6**	**3.6**	**4.2**
Nigeria	3.3	2.9	2.9	3.2
South Africa[1]	1.9	0.7	1.1	1.7
World trade volumes	**5.7**	**0.8**	**3.1**	**3.4**

1. National Treasury forecasts
Source: IMF World Economic Outlook, October 2024

Global equity prices have risen as inflation decelerates, accompanied by interest rate cuts that are expected to continue into 2025. Further declines in bond yields are consequently anticipated, creating a favourable environment for emerging market assets. Declining production and shipping of commodities, particularly oil, has dampened the outlook for some emerging and developing economies, including in Sub-Saharan Africa. Oil prices are anticipated to fall slightly in 2024 given weak global demand, despite production cuts agreed by major producers. Global food prices are also projected to fall, supported by record-high grain production, reducing inflationary pressures.

DOMESTIC OUTLOOK

The National Treasury has lowered its 2024 economic growth forecast to 1.1 per cent, from the 1.3 per cent projected in the 2024 *Budget Review,* weighed down by stop-start economic growth and stubborn inflation in the first half of the year. The economy has since strengthened in response to the suspension of power cuts since March 2024, improved confidence following the formation of the government of national unity in June, better-than-expected inflation outcomes in recent months and reduced borrowing costs. All these factors are expected to continue supporting the economy over the period ahead.

GDP growth is projected to average 1.8 per cent from 2025 to 2027, up from 1.2 per cent in the preceding three years. The pace of growth is still being limited by persistent – though gradually easing – constraints, particularly in logistics infrastructure. Faster growth depends largely on maintaining macroeconomic stability, the continued implementation of structural economic reforms, improving state capabilities and supporting higher infrastructure investment.

Table 2.2 Macroeconomic performance and projections

Calendar year	2021	2022	2023	2024	2025	2026	2027
Percentage change	Actual			Estimate	Forecast		
Final household consumption	6.2	2.5	0.7	1.2	1.8	1.7	1.9
Final government consumption	0.6	0.6	1.9	1.4	0.9	-0.4	-0.1
Gross fixed-capital formation	-0.4	4.8	3.9	-2.5	4.7	4.2	3.8
Gross domestic expenditure	4.9	4.0	0.8	0.5	2.0	1.7	1.9
Exports	9.7	6.8	3.7	-1.6	3.1	3.1	3.1
Imports	9.6	15.0	3.9	-3.2	4.1	2.8	3.0
Real GDP growth	**5.0**	**1.9**	**0.7**	**1.1**	**1.7**	**1.7**	**1.9**
GDP inflation	6.3	5.2	4.8	4.2	5.0	4.6	4.5
GDP at current prices (R billion)	**6 220.2**	**6 655.5**	**7 024.0**	**7 396.7**	**7 897.6**	**8 404.1**	**8 953.6**
CPI inflation	4.6	6.9	5.9	4.6	4.4	4.5	4.5
Current account balance (% of GDP)	3.7	-0.5	-1.6	-1.8	-2.1	-2.2	-2.5

Source: National Treasury, Reserve Bank and Statistics South Africa

Employment

After averaging 32.4 per cent in 2023, the official (narrow) unemployment rate worsened to 33.2 per cent during the first half of the year. Structural reforms are needed to increase job creation significantly and sustainably; to confront the country's low employment intensity of growth; to address its comparatively low contribution of informal and self-employment; and to strengthen the effectiveness of government's suite of employment initiatives. Ongoing economic policy analysis conducted by the National Treasury will address these considerations in more detail.

Inflation

During 2024 headline inflation has cooled to its lowest rate in over three years, supported by lower food and transport prices. Underlying inflation – measured by the core inflation rate, which excludes volatile items such as food, non-alcoholic beverages, fuels and energy – has also moderated to two-year lows, supported by lower imported inflation. Headline inflation is projected to stabilise around the midpoint of the 3–6 per cent inflation target range in the medium term. Lower food prices, a stronger rand and comparatively low oil prices present favourable risks. Meanwhile, unfavourable risks to the outlook include higher administered prices and unfavourable weather conditions for agriculture.

Household consumption

Growth in household consumption expenditure is expected to improve to 1.2 per cent in 2024, up from 0.7 per cent in 2023. Households have seen growth in real incomes as this year has progressed and inflation has cooled, while consumer confidence has been buoyed by a number of factors, including stable electricity supply and expectations of improving financial conditions following a September cut in interest rates. Real purchasing power is expected to be bolstered by a further moderation in inflation and lower interest rates supporting household balance sheets. The newly implemented two-pot retirement system, which allows consumers to withdraw a portion of their savings before retirement, may also boost household consumption over the next few years depending on the eventual use of the withdrawn funds. To the downside, renewed price pressures from excessive increases in administered prices as well as fewer-than-expected domestic interest rate cuts could rein in consumption.

Investment

After having grown by 3.9 per cent in 2023, gross fixed-capital formation is forecast to contract by 2.5 per cent in 2024. Private-sector investment, which accounts for more than 70 per cent of the total, has been affected by elevated operating costs, particularly in logistics and energy. Public-sector investment has also declined amid underspending relative to capital expenditure budgets, with administrative and construction delays also leading to reductions and deferments in infrastructure spending in the first half of the year. Gross fixed-capital formation is expected to average 4.2 per cent over the medium term, supported by a gradual recovery in global growth, less restrictive global monetary policy, supportive commodity prices and investment in energy infrastructure through public procurement programmes and private embedded generation.

Balance of payments

The deficit on the current account is expected to widen from 1.6 per cent of GDP in 2023 to 1.8 per cent in 2024, with both imports and exports contracting. This is a favourable revision compared to the 2024 *Budget Review*, which forecast a current account deficit of 2.8 per cent of GDP for this year. The revision is driven by imports contracting faster than exports, widening the trade surplus, and better terms of trade than previously forecast. The current account deficit is forecast to widen to 2.5 per cent of GDP by 2027. Growth of imports is expected to exceed that of exports, reducing South Africa's trade surplus, premised on faster growth in gross domestic expenditure.

Table 2.3 Assumptions informing the macroeconomic forecast

	2021	2022	2023	2024	2025	2026	2027
Percentage change	Actual			Estimate	Forecast		
Global demand[1]	6.7	3.7	3.6	3.2	3.5	3.2	3.7
International commodity prices[2]							
Brent crude oil (US$ per barrel)	70.8	99.0	82.3	80.5	71.5	70.4	69.8
Gold (US$ per ounce)	1 799.8	1 801.5	1 943.1	2 344.5	2 561.4	2 646.9	2 712.8
Platinum (US$ per ounce)	1 090.8	960.9	966.6	955.4	987.3	1 021.6	1 057.2
Coal (US$ per ton)	125.2	271.1	120.6	104.8	111.7	114.1	114.1
Iron ore (US$ per ton)	158.2	120.7	120.3	109.5	98.5	92.6	87.5
Palladium (US$ per ounce)	2 398.2	2 107.4	1 339.5	972.6	990.8	1 033.5	1 082.7
Food inflation	**6.1**	**9.2**	**10.7**	**4.9**	**5.4**	**4.5**	**4.5**
Electricity inflation	**10.1**	**11.1**	**11.8**	**13.3**	**12.3**	**11.4**	**9.6**
Sovereign risk premium	**3.5**	**4.1**	**3.9**	**3.2**	**3.1**	**3.0**	**3.0**

1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, October 2024)
2. Bloomberg futures prices as at 27 September 2024
Source: National Treasury

Alternative scenarios

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

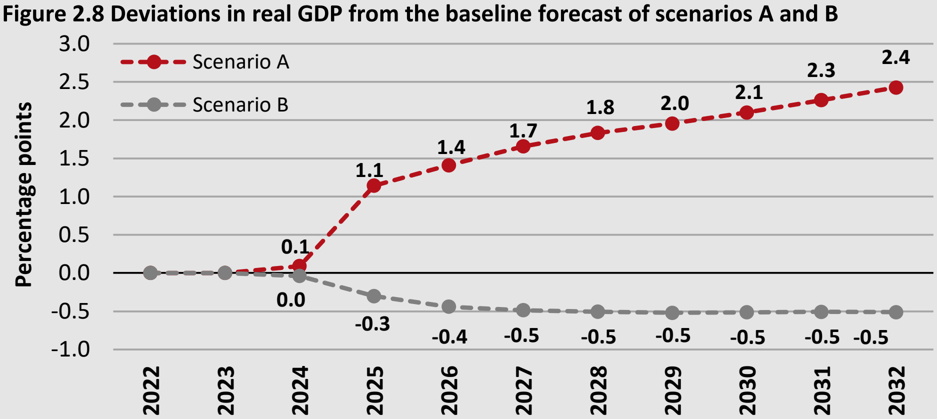
Scenario A

Scenario A incorporates additional capacity from energy investments, coupled with effective moves by the National Logistics Crisis Committee to resolve problems in ports and certain rail corridors. These reforms would enhance productive capacity, build confidence and reduce the sovereign risk premium. In Scenario A, real GDP is 2.4 percentage points above the baseline forecast by 2032 as supply-side constraints are alleviated, raising capital stock accumulation and yielding productivity improvements that support overall trade volumes.

Scenario B

Scenario B incorporates slower-than-projected global growth in 2025 and possibly into 2026. This reduces commodity demand and global trade, with significant knock-on effects for South African exports. Additionally, weaker growth heightens risk aversion towards emerging and developing economies as investors shift to safe-haven assets in advanced economies, reducing South African financial asset prices and weakening the rand. Real GDP underperforms in the near term, before levelling off 0.5 percentage points below the baseline forecast by 2032.

Figure 2.8 Deviations in real GDP from the baseline forecast of scenarios A and B



Source: National Treasury

Risks to the outlook

The balance of risks to global growth are weighted to the downside, while risks to the domestic outlook appear more balanced compared with the 2024 *Budget Review* assessment. Global growth may weaken due to financial market volatility, tightening conditions for developing economies, slower disinflation from rising commodity prices and a prolonged contraction in China’s property sector.

On the domestic front, food prices are vulnerable to weather-related shocks and logistical challenges. Positive domestic risks include the possibility of a quicker pace of disinflation and interest rate reductions than assumed in the baseline forecast, which would boost demand. Stable electricity supply and faster progress on reforms could boost business and consumer confidence. As outlined in Annexure A, fiscal risks remain significant, though somewhat more balanced than a year ago. The materialisation of major risks could threaten fiscal projections, with negative consequences for investment and economic growth.

SECTOR PERFORMANCE

Agriculture

Gross value added in the agriculture sector contracted by 10.1 per cent over the first six months of 2024 compared with the same period in 2023. This was due to the summer drought brought on by El Niño and animal disease outbreaks. Logistics and transport constraints offset improved electricity availability and lower production costs. Sector growth is expected to remain depressed during the second half of 2024 given contractions in grain production and a slow recovery in the livestock subsector. Agriculture is expected to rebound during 2025 with the return of La Niña, improved crop production, an uptick in animal production and growth in export opportunities.

Mining

Gross value added in the mining sector contracted by 0.1 per cent in the first half of 2024 compared with the same period in 2023. Production remains below pre-pandemic levels due largely to poor rail and port performance, and regulatory bottlenecks. Strikes, illegal mining and crime also strain the sector. These non-energy-related constraints offset gains from improved power supply.

Manufacturing

Gross value added in the manufacturing sector contracted by 0.7 per cent in the first six months of 2024 compared with the same period in 2023. Manufacturing production rebounded from a 1.2 per cent contraction in the first quarter to 0.5 per cent growth in the second quarter due to stable electricity supply. Although weak demand and competition from imports persist, consistent energy supply, lower borrowing costs and the prospect of faster reform implementation in key network industries are cause for cautious optimism in the sector.

Construction

The construction sector recorded a 7.8 per cent contraction for the first six months of 2024 compared with the same period in 2023 due to slowdowns in the residential, non-residential and construction works subsectors. The construction sector remains well below pre-pandemic levels and activity indicators remain subdued. Lower interest rates and improved sentiment should support an improved performance, but sustained growth is dependent on both private- and public-sector investment.

Utilities

The electricity, gas and water sector grew by 3.4 per cent in the first six months of 2024 compared with 2023. This reflects the improved performance of the Eskom generation fleet, owing to the continued repair and maintenance of key power stations. Ongoing energy reforms are critical for restructuring the sector to achieve long-term energy security and supply. Risks related to grid constraints and structural challenges within the distribution industry need to be addressed to ensure sound performance.

Transport and communication

The transport, storage and communication sector expanded by only 1 per cent in the first six months of 2024 compared with 2023 due to poor road and rail conditions, inefficient port operations and reduced demand. Rail improvements are possible but rely on sizeable investments over the medium term and continued restructuring. In telecommunications, the sector is expected to grow, supported by the continued 5G expansion and the proposed introduction of spectrum trading.

Finance and business services

The finance, real estate and business services sector grew by 2.9 per cent in the first six months of 2024 compared with the same period in 2023. Credit risk remains elevated, but banks are profitable in line with historical trends and capital adequacy remains above the minimum requirements. Over the remainder of 2024, the sector is set to expand. Upside risks include consecutive interest rate cuts, strengthening real income and lower borrowing costs.

CONCLUSION

Despite the downward revision to growth for the current year, there is cautious optimism for the medium-term outlook as the early benefits of reform implementation continue to materialise. The stabilisation of electricity supply has improved the overall investment climate. This positive momentum will be sustained by a new phase of Operation Vulindlela, which aims to accelerate structural reforms implementation. To support these efforts, it will be essential to maintain clear and stable macroeconomic policies while strengthening state capability and supporting investment in growth-enhancing public infrastructure.