

2025 Economic Outlook: Key Trends and Considerations



South Africa: Growth Prospects and Market Performance

The South African economy faced challenges in the third quarter of 2024, with the country's Gross Domestic Product (GDP) reducing by 1.4%. However, excluding agriculture, the economy showed resilience with 1.9% growth. Economic activity likely improved in the fourth quarter, supported by increased household spending due to pension fund withdrawals under the two-pot legislation which was introduced in September last year. The real GDP is expected to recover to 1.7% in 2025, aided by the easing of inflation, lower interest rates, and improved trade conditions. Structural reforms, including private sector participation in energy and rail, could drive further economic growth.

In addition, if policymakers continue to implement practical reforms, the current low levels of fixed investment should improve. The unknown factor, though, is whether the expected return on investments promised by these reforms is adequate to compensate for the perceived risk by businesses.

Global and local markets saw increased uncertainty in the fourth quarter of 2024 due to high US inflation, tighter monetary policy, and geopolitical risks. The FTSE JSE All Share Index declined by 2.1% in quarter four but posted an annual gain of 13.4%. South African bonds remained strong, with the All Bond Index (ALBI) returning 0.4% in quarter four and 17% for the year. Listed property posted a 0.8% loss in the fourth quarter, but delivered an impressive 30% annual return.

Inflation, Interest Rates, and Currency Trends

US inflation remains high, prompting the Federal Reserve (the central bank of the United States) to signal fewer rate cuts in 2025. In contrast, South African inflation dropped to 2.8% in October 2024 before edging slightly higher. Forecasts suggest an average inflation rate of 4.2% in 2025, still within the Reserve Bank's target range. The South African Reserve Bank (SARB) is expected to lower the repo rate (the rate at which SARB lends money to banks) to 7.25% this year, improving household spending and investment conditions. However, risks such as a strong US dollar and trade tensions could affect economic stability. Another development, which requires monitoring, is the Reserve Bank's apparent support for a lower inflation target. If the inflation target is, indeed, decreased at some point, it would initially require tighter monetary policy than currently projected.



The Rand weakened against major currencies, with the US dollar appreciating by 9.5% following the post-election Republican win. While South Africa's terms of trade have improved slightly, exiting the FATF greylist (a list of countries that the Financial Action Task Force (FATF) monitors more closely for money laundering and terrorist financing) and sustaining economic reforms will be key to supporting the currency.

The FATF called for enhanced monitoring on South Africa in February 2023, at which time it identified 22 action items relating to Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) which needed to be addressed. As at October 2024, South Africa still had six action items left to address. If the FATF Plenary determines in February 2025 that South Africa has addressed or largely addressed all 22 Action Items, it will schedule an onsite visit of the Joint Group in April/May 2025 to confirm that assessment and make a recommendation to the June 2025 FATF Plenary. If not removed from the list, SA will be required to continue reporting to the FATF every 4 months, until all the deficiencies have been addressed.

Global Economic Trends and Outlook for 2025

Global growth is expected to be moderate in 2025. China faces structural challenges despite recent policy interventions, while the US economy remains strong due to a resilient labour market and consumer spending. However, higher borrowing costs could dampen growth. Global equities declined by 1% in the fourth quarter, but gained 21.2% for the year, reflecting strong overall performance despite volatility.

Risks for 2025 include potential US trade policy shifts under the Trump administration, a strong US dollar, and fiscal pressures. South Africa's outlook remains challenged by structural constraints, but positive credit rating revisions and expected rate cuts offer some relief. A balanced investment approach remains crucial in navigating these uncertainties if South Africa is to come out stronger.

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