Economics | South Africa

Nedbank
Guide to the Economy

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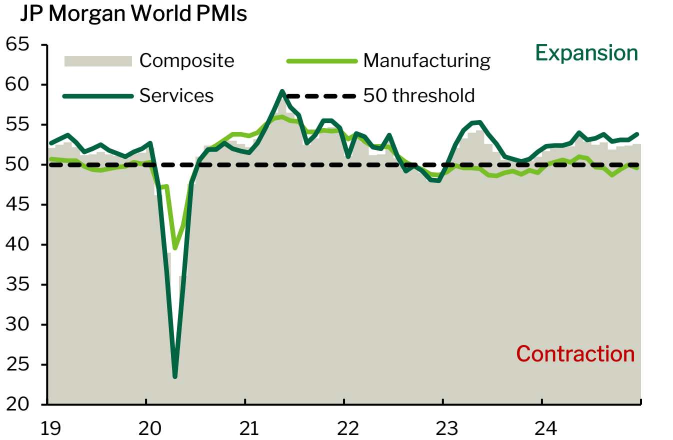
International background and outlook

Global growth improved moderately in the second half of 2024. A robust United States (US) economy provided the momentum, but the eurozone, the United Kingdom (UK) and Japan also fared slightly better. Performances varied across developing countries. The Chinese government announced more aggressive stimulus measures to revive its slowing economy and reverse the prolonged slump in the property market. Although inflation eased to, or moved within striking distance of, central bank targets in most countries, the direction of travel diverged toward year-end. Disinflation stalled in advanced countries but continued in most emerging economies. Even so, with inflation at much lower levels, major central banks eased monetary policy further. However, the lingering stickiness led to more cautious rhetoric, convincing market participants to scale back their expectations for interest rate cuts in 2025. Economic prospects for the year ahead remain relatively positive. Lower inflation will sustain real incomes, while easing interest rates will buoy confidence and gradually lift demand. Although the near-term outlook is reasonable, the world economy nonetheless faces downside risks from the likely change in US economic policies under a second Trump administration. US foreign policy is likely to become more unpredictable, potentially straining geopolitical relationships and accelerating global economic fracturing. Apart from these uncertainties, Trump's trade policy presents the most significant downside risk to global growth. Therefore, the big questions of 2025 will be: When, how much, and on which countries will US impose tariffs?

The world economy: New uncertainties cloud the outlook

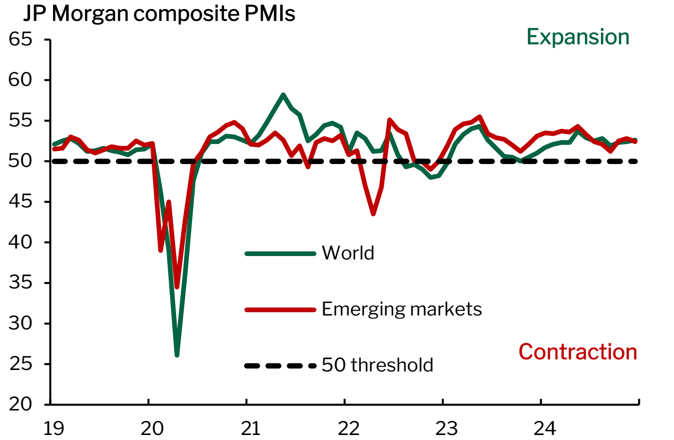
Global economic conditions improved over the final quarter of 2024. Survey data reflected firmer private sector activity. The JP Morgan Global Purchasing Managers Index (PMI) climbed further above the key 50 threshold, which signifies expansion. The main boost came from services, supported by healthy consumer demand on the back of rising real incomes, lower inflation, and positive wealth effects. In contrast, global manufacturing remained relatively sluggish, teetering on the brink between expansion and contraction. Despite the underlying weakness, factory output in advanced and emerging economies fared a little better as the year ended.

Chart 1: Private activity picked up slightly in Q4 2024.



Source: S&P Global

Chart 2: Advanced and emerging economies fared better.



Source: S&P Global

The US led the way among advanced countries, outperforming its peers considerably. The economy grew at a consistently robust pace throughout the first three quarters of 2024. Real GDP expanded by an annualised 3% qoq in Q2 and a slightly faster 3.1% in Q3. All sources of demand contributed to the expansion. Consumer spending accelerated by a remarkably strong 3.7% qoq in Q3. A healthy labour market, lower inflation, easing financial conditions, and positive wealth effects strengthened household finances and lifted consumer confidence. At the same time, government consumption and capital expenditure continued aggressively. The most substantial boost came from defence spending by the federal government. Private fixed investment also increased further, dominated by outlays on equipment and software. This reflected the ongoing race to develop and adopt artificial intelligence, which companies believe could reduce costs and raise productivity in the decades ahead. The net trade position weakened slightly in Q3. Given strong domestic demand, imports surged by 10.7%, overshadowing a 9.6% rebound in exports.

Chart 3: US domestic demand surged.

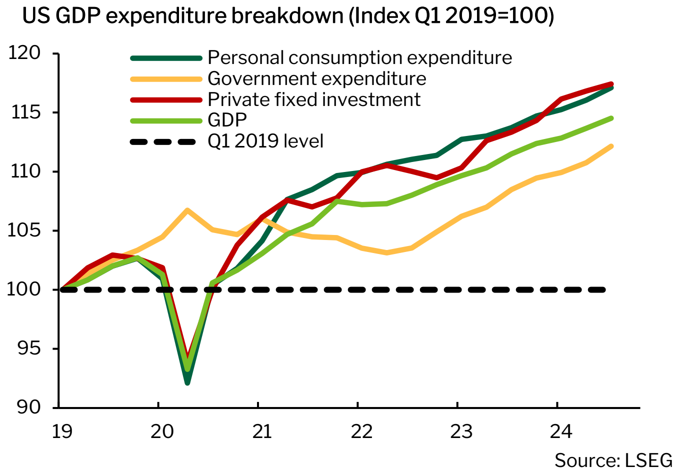
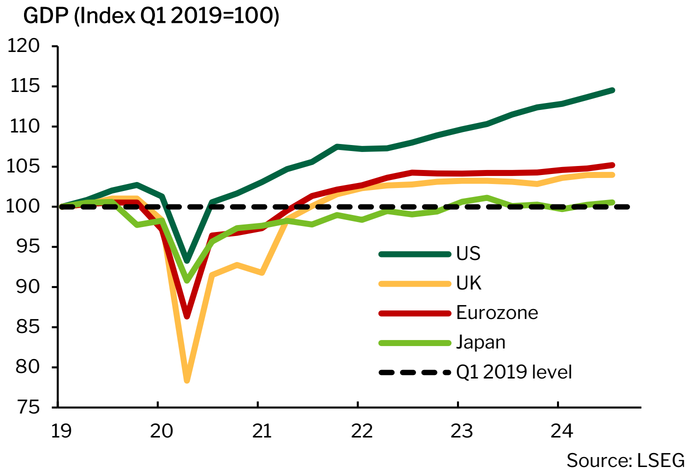


Chart 4: The US economy outperformed its peers.



Recent indicators suggest that the expansion continued in Q4 but at a slower pace. Consumer fundamentals remained broadly supportive. Job creation rebounded in November and December, overcoming the setbacks caused by hurricanes and labour strikes in October. The unemployment rate ended the year at 4.1%, still remarkably low by historical standards. Nominal earnings grew at a steady rate of 4% yoy, outpacing price inflation. As a result, real personal disposable income still rose by a healthy 2.6% yoy, matching the growth rate that prevailed before the pandemic. High employment and rising real incomes sustained household finances, outweighing the ongoing upward drift in debt service costs and supporting a moderate acceleration in retail sales over the final quarter. Amid strong consumer demand, the broader services sector also ended the year in good shape. In contrast, industry continued to struggle. Capacity utilisation dropped systematically from a high of 78.2% in June to 76.8% in November as industrial production declined throughout the year, falling by a further 0.9% yoy in November.

Chart 5: The US unemployment rate remains low.

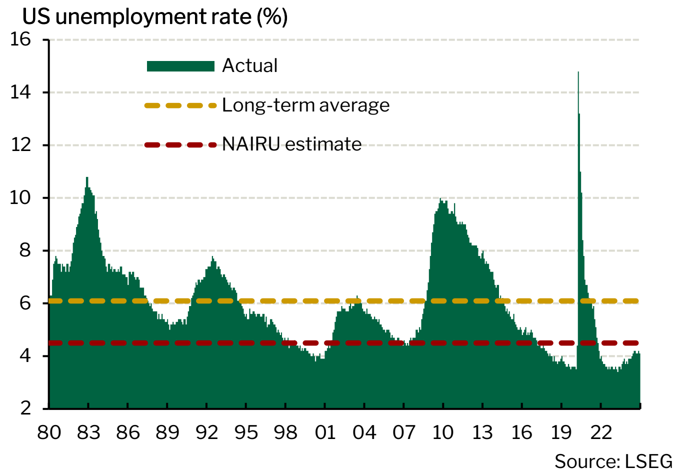
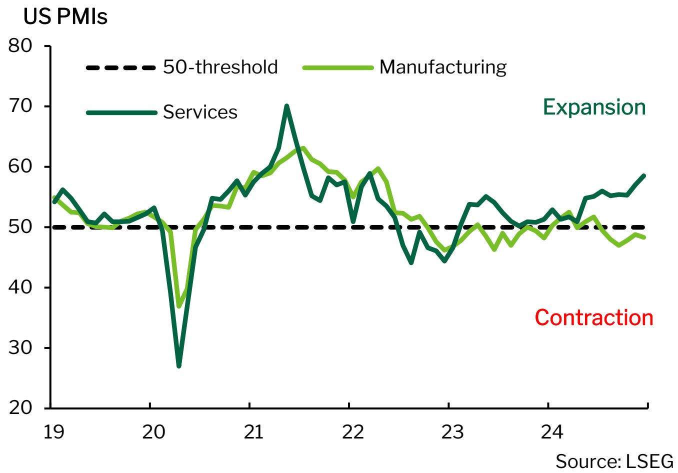


Chart 6: Services accelerated further in Q4 2024.



The US economy is widely expected to remain resilient in the year ahead. To be clear, most analysts forecast moderately softer GDP growth of around 2.2% for 2025. The forecasts reflect some moderation off last year's high base and the return to a growth rate more consistent with potential output as the earlier rise in interest rates, which remains high in real terms, gradually brings demand into better balance with supply. As the year progresses, subdued inflation, rising real household incomes, and softer interest rates will sustain consumer spending. At the same time, expansionary fiscal policy and ongoing fixed investment in generative artificial intelligence (AI) and energy will also help keep GDP growth around its potential pace. The International Monetary Fund (IMF) recently upgraded its forecast for the US economy. It expects cyclical tailwinds to sustain GDP growth at 2.7% in 2025, changing little from 2.8% in 2024. Thereafter, the IMF expects growth to moderate towards potential in 2026.

Although encouraging, considerable uncertainty clouds the outlook. Economic policies under the newly elected Republican administration, led by Donald Trump, will change significantly and likely become more unpredictable. Trump's policy agenda consists of 4 initiatives: tax cuts, deregulation, higher tariffs, and tighter immigration controls. While tax relief and deregulation tend to boost economic growth, higher tariffs and deportation generally have the opposite effect.

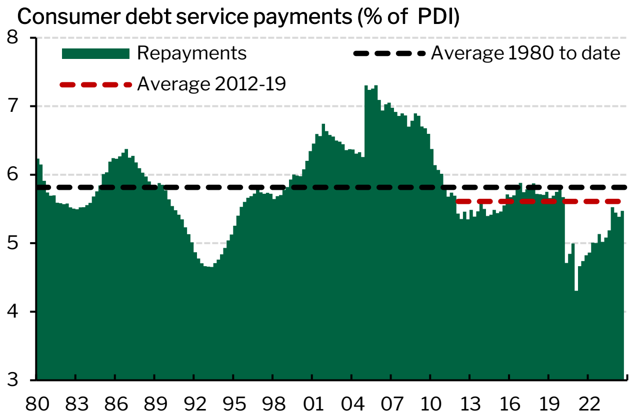
The details of the policies are still unknown, making it difficult to assess the impact. It seems certain that the Trump administration will extend the 2017 Tax Cuts and Jobs Act, which expires at the end of 2025. Companies will probably receive additional tax relief and incentives. Modest further personal tax cuts are also on the cards. While higher tariff revenue will partially compensate for lower income tax receipts, the net effect on government revenue will still be negative. Meanwhile, few expect commensurate reductions in government expenditure, suggesting that the tax changes will worsen the budget deficit and the public debt burden. These policies will, therefore, add to the country's fiscal challenges. According to the Congressional Budget Office, the US federal budget deficit already stood at a bloated 6.3% of GDP in 2023 and was projected to narrow slightly to 5.7% in 2024. The IMF calculations reflect an even bleaker picture, with the deficit projected at over 7% of GDP in 2024 and 2025, before narrowing slowly to 6.2% in 2027. Most sources put the gross government debt ratio at over 100% of GDP in 2024, and the IMF expects it to climb to 124% in 2025. All said, Trump's populist agenda is highly unlikely to place the US on a more sustainable fiscal path.

Trump will ramp up tariffs. On the campaign trail Trump proposed a universal 10–20% tariff on all imports and a 60% tariff on shipments from China. If implemented, these proposals would fuel inflation, tighten monetary policy, and probably trigger a tit-for-tat trade war, directly and indirectly hurting US economic growth. Most observers believe that the more extreme tariff threats are bargaining tools to secure more favourable terms for the US in future trade negotiations. Instead, the new administration is expected to raise tariffs on selective goods from specific countries. Trump has also intensified his rhetoric since being elected. He has threatened to use his emergency powers to end the trade agreement with Mexico and Canada. While the US will probably return to the negotiating table on trade and non-trade issues with Canada and Mexico – negotiations that will take time to conclude – tariffs on Chinese goods are likely to be increased quickly and sharply. Other countries and regions running large trade surpluses with the US, particularly the eurozone, could also become targets of more protectionist measures. With the threats coming thick and fast, the risk of a global trade war remains high.

Finally, reduced immigration coupled with significant deportations would weigh on the economy by limiting the growth of the labour force, driving up wages, thereby lifting inflation and potentially bringing the Fed's easing cycle to a premature end. It would also hurt some industries more than others, notably agriculture, construction, retail, hospitality, and travel. Net immigration climbed from an average of about 1 million per year before the pandemic to around 3 million in 2023 before slowing to an annualised 1.75 million by November last year. On this front, the new administration will likely encounter legal and logistical challenges. This could mean that the rate of deportations and curbs on immigration could be less dramatic than proposed. Given the offsetting nature of many of Trump's proposals, the policy mix is unlikely to derail the US economy in the year ahead, with downside risks more likely to manifest over the medium term.

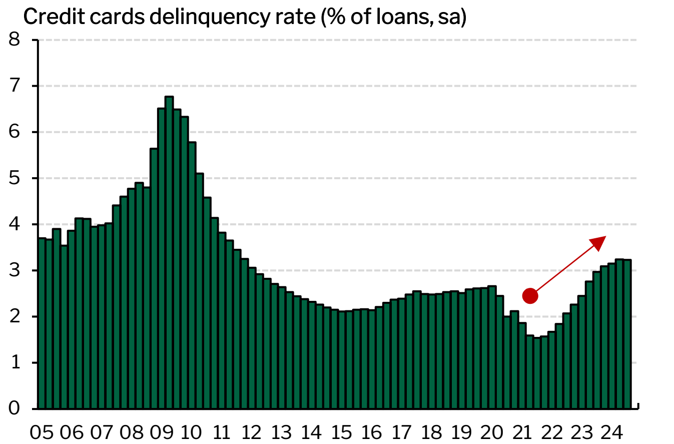
Another potential concern is the lingering drag from high interest rates. Although the US Fed has started easing monetary policy, cutting interest rates by 100 basis points (bps) between September and December last year, nominal rates are still more than double pre-pandemic levels, and real rates have increased significantly as inflation declined faster than interest rates. Consequently, debt servicing obligations continue to rise. Total household debt service payments consumed 11.3% of personal disposable income in Q3 2024, up from a low of 9% back in Q1 2021. While debt service payments on mortgages remain low by historical standards, absorbing 5.8% of disposable income, interest repayments on consumer credit have increased sharply, climbing to 5.5% of disposable income from 4.3% in Q1 2021. Within this category, signs of strain are emerging. Low-income earners are overextended and struggling to meet debt repayments on credit cards. US banking data shows credit card defaults spiked in the first 9 months of 2024. Write-offs jumped 50% yoy to $46 billion, reaching a 14-year high, and approaching levels last experienced during the 2008 global financial crisis. There is a risk that the Fed has been moving too slowly in lowering interest rates by underestimating the downside risks to economic growth.

Chart 7: Consumer debt service payments have shot up.



Source: FRED

Chart 8: Credit card delinquencies are rising.



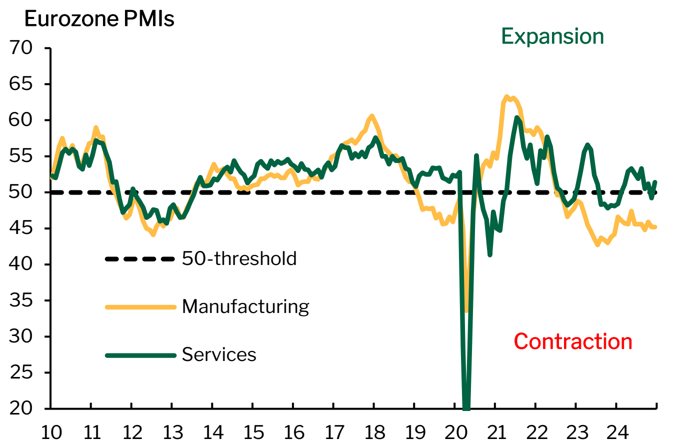
Source: FRED

The eurozone fared a little better towards the end of last year. GDP growth increased from 0.2% in Q2 to 0.4% in Q3. The lift came from a revival in consumer spending, supported by rapid disinflation and higher nominal wage growth. Consumer demand, augmented by booming inbound tourism, drove growth in services. However, manufacturing remained stuck in the doldrums. Eurozone industrial production shrunk throughout 2024, marking the second year of recessionary conditions. Encouragingly, the rate of decline at least moderated towards year-end. Given these trends, the momentum came from Southern Europe, where services dominate economic activity. Spain, Portugal, and Greece outperformed their neighbours, with growth driven by robust services, increased immigration, and higher fixed investment. In contrast, the industrial North struggled to stage a compelling recovery. Germany remained weak. The manufacturing-intensive economy lost international competitiveness due to elevated production costs amid persistently high energy costs, rising wages and much higher financing costs. Consequently, German manufacturers lost out to their Chinese counterparts, particularly in the automotive space. However, China gained market share across many manufacturing industries in Europe. Given excess manufacturing capacity, relatively cheap energy, generally deflationary conditions and lower borrowing costs, Chinese manufacturers could lower prices dramatically. France also underperformed, bogged down by political uncertainty, fiscal gridlock, and fading domestic confidence.

Despite challenges in some countries, the eurozone should manage slightly faster growth this year. The Reuters consensus forecast is for GDP growth of 1% in 2025, up from 0.7% in 2024. Consumer spending should strengthen further. Lower borrowing costs due to the ongoing easing in monetary policy and high personal savings should reinforce the recovery in real incomes and help lift consumer confidence. The region's structural challenges will still limit the upside, including faltering productivity growth, an ageing labour force, high energy costs, relatively weak fiscal positions, and political deadlock in several countries. Competition from China will likely intensify, placing even greater pressure on companies and governments to unlock significant cost savings and accelerate structural change. Higher US tariffs could incentivise China to sell its excess goods at reduced prices into Europe. On top of these constraints, business confidence will likely remain fragile, bogged down by heightened uncertainty about the eurozone's trade and security relationship with the new US administration. Apart from these unknowns, political and fiscal risks remain elevated within the bloc. France's coalition government remains vulnerable, while Germany's election is expected to result in a change in government. All said, the balance of risks to the economic outlook remains tilted to the downside.

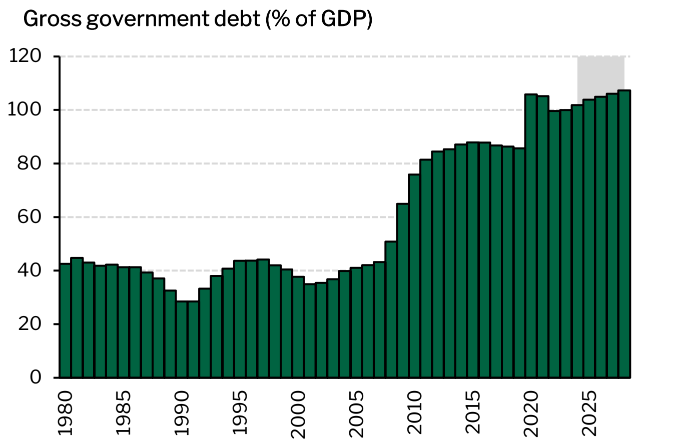
Unlike the eurozone, the UK economy lost momentum in the second half of 2024. GDP growth stagnated in Q3 after recovering in the first half from a technical recession at the end of 2023. Slower growth in government spending and a further rundown of inventories were mainly to blame for the stagnation. Otherwise, consumer spending grew a little faster, expanding by 0.5% qoq. Spending continued even though household finances weakened somewhat. Real personal disposable income growth slowed. Slightly higher unemployment and sticky inflation partly eroded the boost from brisk wage increases. Consumer confidence probably benefitted from the first interest rate cuts in August and expectations of more significant reductions in the quarters ahead. Businesses also upped fixed investment, which grew by 1.3% qoq. The net trade position remained negative but at least narrowed as imports fell by more than exports. The markets expect cyclical tailwinds to lift UK growth to 1.3% in 2025, up from an estimated 0.9% in 2024. Given hefty increases in public sector pay, consumers will likely continue to carry the economy. A healthy labour market and considerable personal savings will also offer support. The Brits should also see further interest rate cuts, but these could prove modest and only materialise gradually. Meanwhile, rising long bond yields caused by fears of persistent inflation and significant fiscal risks are driving up mortgage rates. As a result, debt service costs will continue to drift upward as waves of 5-year fixed mortgage rates reset to higher levels. These developments and higher taxes could dampen the boost from further rate cuts. Despite limited fiscal space, government spending will contribute to GDP growth in 2025. However, business investment will likely slow amid growing concerns over the nation's unsustainable public debt burden and potential trade tensions with the US.

Chart 9: Sluggish growth continued in the eurozone.



Source: LSEG

Chart 10: The UK remains on an unsustainable fiscal path.



Source: IMF WEO October 2024

In Japan, more evidence of recovery emerged in late 2024. The economy held onto growth in Q3, expanding by 0.3% qoq, albeit slower than the 0.5% of Q2. Like other advanced countries, rising wages led to faster growth in consumer spending. Most other sources of demand weakened. Government spending slowed noticeably while business investment relapsed. The country's net export position also deteriorated, with imports outpacing exports. High-frequency data suggest that the uneven recovery continued in Q4, with growth in services offsetting weakness in manufacturing. Altogether, Japan's economy likely grew by a subdued 0.4% in 2024. Japan is forecast to experience faster growth of about 1.1% this year. Again, consumers will deliver the momentum, supported by lower inflation and real wage gains.

Economic performances varied significantly across emerging and developing economies. After an extended lull, China's economy recovered late last year. Real GDP growth accelerated from 4.6% yoy in Q3 to 5.4% in Q4. Growth averaged 5% in 2024, matching the Chinese government's target. The improved pace followed more aggressive macroeconomic stimulus by the authorities, aimed at reviving domestic demand, defeating persistent deflationary pressures and ending the prolonged slump in the property market.

The government announced several additional measures between September 2024 and January 2025. The Peoples Bank of China (PBoC) injected liquidity, lowered interest rates to record lows, and implemented various financial market reforms. The government also paved the way for further monetary policy easing by changing its guidance for the PBoC from 'prudent' to 'appropriately loose'. Moreover, the government announced several measures to bolster the property market, the stock market and general consumer demand. These include initiatives to encourage second-home purchases, a CNY10 trillion debt restructuring package for struggling local governments, as well as tax incentives for home and land transactions. In December, Beijing indicated it would pursue a more expansionary fiscal policy, targeting a budget deficit of 4% of GDP, while maintaining the GDP growth target at 5%. More recently, the government gave civil servants a surprise wage increase, which would inject around $12–20 billion into the economy. They also expanded the scope of goods that qualify for the consumer trade-in scheme to include more home appliances and digital purchases. The scheme offers up to 15% subsidies for products under CNY6 000 to boost household spending. While these measures will prop up China's economy in 2025, they are unlikely to completely offset the drag from the country's structural challenges or dramatically soften the blow from the expected increase in US trade tariffs. Consequently, the markets still expect GDP growth to slow to around 4.5% in 2025.

India's economy cooled somewhat in 2024. Real GDP growth moderated from a blistering 7.8% yoy in Q1 to 5.4% yoy in Q3. Slower activity in manufacturing and construction softened the ongoing boost from robust service growth. Fiscal consolidation also had a growth-subduing impact. Even so, India remained the fastest-growing emerging market. The expansion is forecast to continue in 2025. Market forecasts for GDP growth range between 6–6.8%. As inflation steadies and financial conditions ease, services will benefit from stronger domestic demand. India could also benefit from supply chain relocation away from China, which will likely accelerate once Trump follows through with higher tariffs on Chinese goods. Other export-orientated Asian countries also stand to benefit from the ongoing structural realignments in global supply chains and the looming shifts in US trade policies.

In Latin – and Central America most countries experienced moderate economic growth in 2024. Despite inclement weather and significant fiscal challenges across the region, robust services sustained the expansion, buoyed by lower inflation and easing monetary policies, albeit to varying degrees. Although still early days, Argentina has made some progress in tackling its complex structural imbalances, with the new government embarking on sweeping policy reforms. Softer conditions unfolded in Mexico. GDP growth slowed noticeably from 3.6% yoy over the first 3 quarters of 2023 to 1.5% over the same period in 2024. Brazil's economy held on to a relatively robust expansion. Real GDP grew by a solid 2.9% in the first 3 quarters of 2024 after expanding by a healthy 3.5% in 2023. While agriculture struggled due to adverse weather conditions, manufacturing recovered, and services boomed. The boost came from resurgent domestic demand, underpinned by expansionary fiscal policy. In the year ahead, most countries should benefit from lower inflation and interest rates. Brazil is an exception. The surge in government spending not only weakened the country's fiscal metrics but also reinflated the economy, forcing the central bank to pivot towards monetary policy tightening. These factors will likely subdue Brazil's growth rate to around 2% in 2025. The whole region will also be in the scope of the Trump administration. The US is likely to demand concessions on migrant control, drug trafficking and trade under the threat of punitive trade and other measures. Given that the currencies of the region are vulnerable to an ascending US dollar, the risk of renewed inflation and tighter monetary policy remains relatively high. Consequently, the balance of risks to the growth outlook is tilted to the downside.

Table 1: IMF global growth forecasts

Countries and regions	Estimate		Projections		Δ from Oct-24	
	2023	2024	2025	2026	2025	2026
World output	**3.3**	**3.2**	**3.3**	**3.3**	**0.1**	**0.0**
Advanced economies	1.7	1.7	1.9	1.8	0.1	0.0
United States	2.9	2.8	2.7	2.1	0.5	0.1
Eurozone	0.4	0.8	1.0	1.4	-0.2	-0.1
Japan	1.5	-0.2	1.1	0.8	0.0	0.0
United Kingdom	0.3	0.9	1.6	1.5	0.1	0.0
Emerging market and developing economies	4.4	4.2	4.2	4.3	0.0	0.1
Emerging and developing Asia	5.7	5.2	5.1	5.1	0.1	0.2
China	5.2	4.8	4.6	4.5	0.1	0.4
India	8.2	6.5	6.5	6.5	0.0	0.0
Emerging and developing Europe	3.3	3.2	2.2	2.4	0.0	-0.1
Russia	3.6	3.8	1.4	1.2	0.1	0.0
Latin America and the Caribbean	2.4	2.4	2.5	2.7	0.0	0.0
Brazil	3.2	3.7	2.2	2.2	0.0	-0.1
Mexico	3.3	1.8	1.4	2.0	0.1	0.0
Middle East and Central Asia	2.0	2.4	3.6	3.9	-0.3	-0.3
Saudi Arabia	-0.8	1.4	3.3	4.1	-1.3	-0.3
Sub-Saharan Africa	3.6	3.8	4.2	4.2	0.0	-0.2
Nigeria	2.9	3.1	3.2	3.0	0.0	0.0
South Africa	0.7	0.8	1.5	1.6	0.0	0.1

Source: IMF WEO January 2025

Sub-Saharan African (SSA) economies improved further in 2024, but performances differed across countries. Economies with large tourism sectors benefitted from the ongoing recovery in long-haul travel, while firmer demand in Europe and the US bolstered non-mining exports. Favourable gold, platinum, and copper prices supported mining exports, but oil exporters grappled with the subdued global prices and limited domestic production capacity. More stable exchange rates and lower international food prices helped moderate inflation, enabling some central banks to reduce their policy interest rates. Disconcertingly, social instability in Kenya and Mozambique hurt confidence and disrupted economic activity, weighing on the region's growth rate. Despite these setbacks, the IMF estimates that SSA will post growth of 3.8% in 2024, up from 3.6% in 2023.

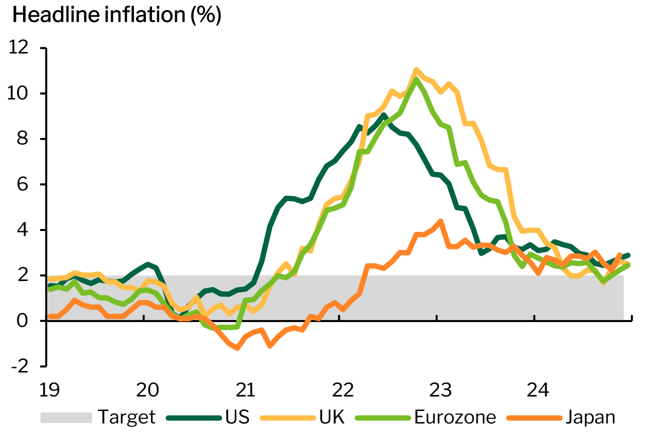
Growth is expected to climb to 4.2% this year on moderating inflation, easing monetary policy globally, and an upturn in non-energy commodity prices. However, the SSA's recovery remains contained by various domestic and global shocks. Drought and the effects of climate change hurt food production in some countries, making them more reliant on imports. As a result, about 30% of the region's economy still faces high inflation. Given limited fiscal space and renewed US dollar strength, elevated debt levels and high debt-servicing costs remain a concern. The risk of a trade war between the US and the other major economies poses the most serious threat to SSA due to the region's high reliance on global trade. Trump's policy moves will be closely watched as the proposed universal tariff policy could spell the end of duty-free access to the US under the African Growth and Opportunity Act (AGOA).

Altogether, the near-term global economic outlook is relatively positive, underpinned by favourable cyclical forces in the form of lower inflation and easing interest rates. The IMF expects the world economy to grow by a slightly faster 3.3% in 2025, up from 3.2% in 2024. The most significant downside risks stem from the increasingly unsustainable fiscal positions of many advanced countries and the seismic shift expected in US trade and foreign policy under Donald Trump.

Inflation: Not entirely vanquished

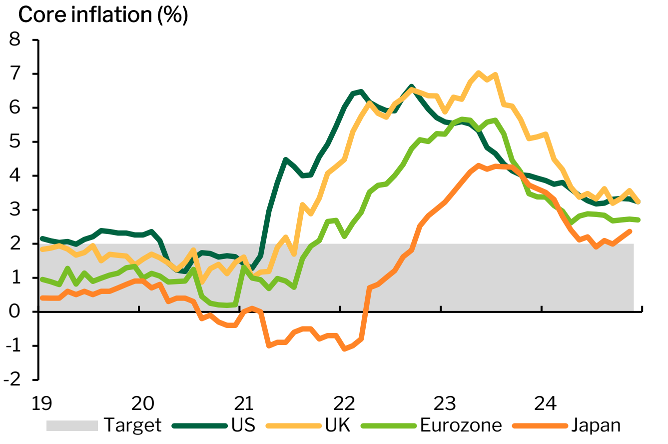
Global disinflation broadly continued throughout 2024. In advanced countries, the process lost some steam toward year-end, reflecting pockets of stubborn underlying price pressures. In the US, the UK, the eurozone and Japan, headline inflation rose further above 2% from September to December. At the same time, core inflation, which excludes food and energy prices, either held steady at elevated levels or edged up slightly. A key reason why inflation's descent petered out is that the drag from goods disinflation faded. Much of the rapid slide of inflation from its peaks in 2022 was due to the normalisation in global supply chains and labour market conditions after the disruptions inflicted by the pandemic. Similarly, key commodity markets adjusted and recovered from the shocks caused by Russia's war on Ukraine. The return to normal operations was a powerful disinflationary force in the goods markets.

Chart 11: Headline inflation edged up over Q4 2024



Source: LSEG

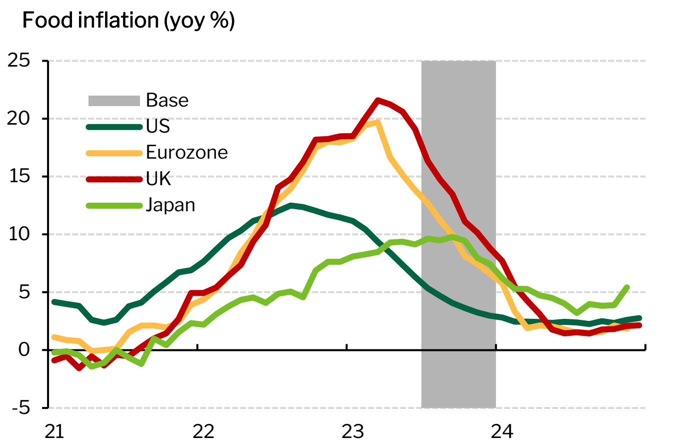
Chart 12: Core inflation remained sticky.



Source: LSEG

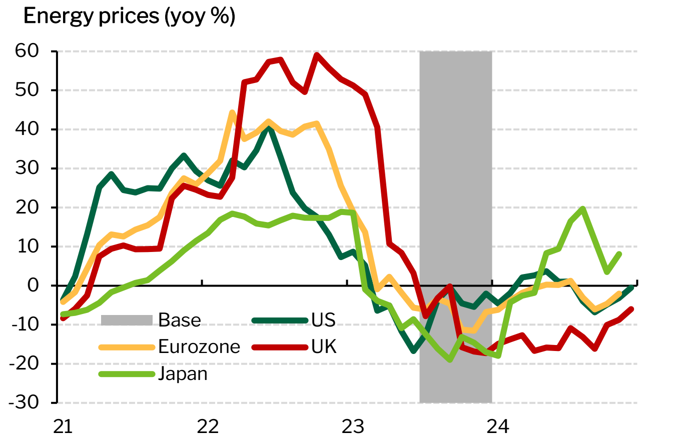
Services lagged goods inflation, starting its rise later in the past cycle. This is partly because pandemic restrictions remained in place for longer, but also because wages, the largest cost component in services, are inflexible and adjust only slowly. Over the past 2 years, wages have played catch-up as organised labour negotiated higher increases to compensate for the erosion in real wages caused by the 2021–22 inflation surge. This catch-up has kept wage growth elevated, causing stickiness in services inflation. While US wage growth slowed throughout last year, it remains above levels usually compatible with inflation anchored around the 2% target. In Europe and Japan wage increases accelerated further throughout 2024, lifting cost structures across services. Monetary policy tightening has helped to take the edge off some of these second-round effects, bringing demand and supply into better balance in labour markets and the broader economy, but the subduing impact has been uneven. Goods demand cooled, but services activity remains robust, making it easier for firms to pass wage and other cost increases onto consumers.

Chart 13: The slide in food prices is bottoming out.



Source: LSEG

Chart 14: Energy price disinflation also faded.



Source: LSEG

In emerging markets (EMs), disinflation generally continued uninterrupted. China still teetered on the brink of deflation. Inflation slowed for the fourth month in December last year, easing to a low 0.1%, down from an already timid 0.6% in August. Food inflation slowed, while non-food prices declined further. Most of the drag came from steeper declines in transport and housing costs. On a slightly brighter note, core inflation rose to 0.4%, ticking up slowly from a recent low of 0.1% in September. Meanwhile, most other EMs saw price pressures moderating further, driven mainly by softer global food and fuel prices, reinforced by a moderate, albeit choppy, pullback in emerging-market currencies compared to a year earlier. A notable exception is Brazil, where inflation returned, climbing to 4.8% in December after easing to a low of 3.7% in April from a high of 12.1% in April 2022. Mounting demand pressures were responsible for the resurgence in inflation, driven by robust government and household spending.

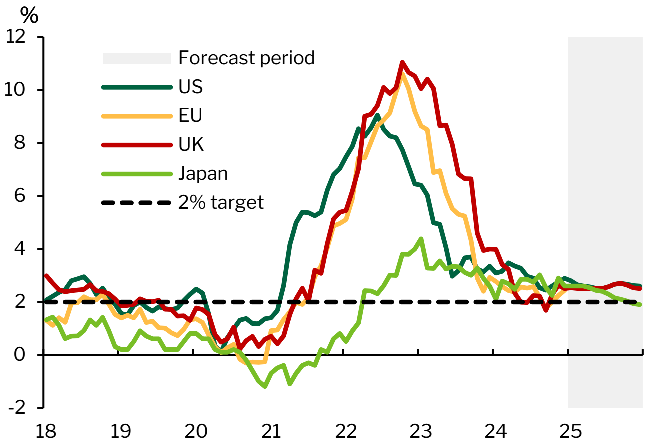
Inflation will decline further in 2025, but only slowly, with stops and starts. The US trajectory is uncertain. Although the rate-cutting cycle has started, monetary policy remains restrictive. In the labour market, supply and demand are more balanced. Wage growth is cooling, while the other catch-up elements in housing, insurance, and administrative prices are fading. Moreover, inflation expectations have normalised, subduing pricing power and wage demands of companies in the year ahead. However, domestic demand remains remarkably robust, fuelled by strong consumer and government spending. The economy is expected to slow modestly in 2025, suggesting demand pressure on prices will remain elevated, particularly in services. And then, there is the Trump administration's policy agenda, which poses upside risks. Tariffs will lift prices immediately, albeit to varying degrees. It usually takes the form of a once-off increase in the price level. Immigration restrictions and deportations will be more damaging but harder to implement. Even so, the clampdown will restrict labour supply and pressure wages. Unfunded tax cuts will worsen the budget deficit, elevating underlying price pressures. In contrast, deregulation will take time to materialise in cost savings and productivity gains. While some of these forces will offset each other, the US Fed and most market analysts have raised their forecasts for 2025. According to the latest Reuters poll, the consensus forecasts now reflect inflation at 2.6% by the end of the year, barely down from 2.9% at the end of 2024.

Inflation will likely follow a similar path in the UK, ending 2025 little changed from 2024 at 2.5%. Subdued domestic demand and softer wage growth will contain inflation, but the downside will be limited by renewed currency weakness amid mounting fiscal woes. The eurozone's outlook is more encouraging, with weak domestic demand forecast to drive inflation down. The consensus view is that inflation will converge on the 2% target by mid-year and stay there. In Japan, last year's high base, a firmer currency, and patchy demand amid further monetary policy tightening are expected to lower inflation to 1.9% by year-end. In emerging economies, the disinflationary process will continue at a slower pace. The lingering impact of restrictive monetary policy, expectations of lower oil prices, and relatively steady food prices will exert downward pressure, likely offsetting the impact of currency weakness and volatility. Altogether, we expect inflation to be sticky but contained, with significant upside risks to the outlook.

Monetary policy: A slow decline towards neutral ground

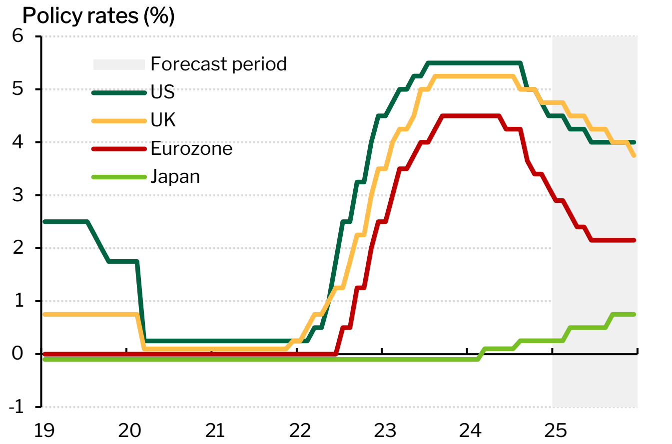
With inflation receding to or within striking distance of central bank targets, monetary policy easing started around the middle of last year and mostly continued throughout the final quarter. While the pace of rate cuts varied based on inflation and growth dynamics, the stated aim of most central banks was to return monetary policy to neutral ground, meaning the level where interest rates are neither restrictive nor accommodative. In advanced countries some hesitancy and caution crept into the messaging of central banks as the progress of inflation towards their targets stalled and policy uncertainty clouded the inflation outlook. The Federal Open Market Committee (FOMC) followed through on the widely expected 25 bps rate cut in December but signalled a slower pace of easing this year. The FOMC described inflation as 'somewhat elevated'. The Committee also took a more negative view of inflation's trajectory. They expected inflation to hover above 2% over the next 2 years, only aligning with their target in 2027, a whole year later than they had projected in September. They still expected the economy to remain relatively robust and the unemployment rate to stay at a low 4.3% over the next 3 years. Given this context, the FOMC pared back its rate-cut projections for 2025 to a meagre 50 bps, about 25 bps less than it had expected in September. In short, the Fed is worried about the inflationary outlook and is clearly not ready to declare victory.

Chart 15: Consensus view on inflation.



Source: Reuters Poll, January 2025

Chart 16: Consensus forecasts of policy rates.



Source: Reuters Poll, January 2025

The monetary policy responses of the other major central banks diverged. The European Central Bank reduced its key policy rates by a further 25 bps in December. Their forecasts reflected confidence in returning inflation to its target, given the expectation that demand would remain relatively subdued and only recover slowly over the next 3 years. Policymakers expected headline inflation to ease gradually from 2.4% in 2024 to 2.1% in 2025 and 1.9% in 2026. They expected demand to recover only gradually, still held back by relatively high borrowing costs. Real GDP growth was forecast to pick up from 0.7% in 2024 to 1.1% in 2025 and 1.4% in 2026. As expected, the Bank of England opted for a cautious approach, keeping its bank rate unchanged at 4.75%. They cited concerns over the inflationary outlook amid robust wage growth and indications of rising inflation expectations. The central bank indicated that monetary policy would have to remain restrictive until the upside risks to the inflation outlook have subsided. The Bank of Japan (BoJ) left its short-term interest rate at 0.25%. The BoJ held that more time was needed to assess the risks posed by the upcoming wage settlements and the likely changes in US economic policies under Donald Trump. The board still expected Japan's economy to stage a moderate recovery, while inflation forecasts ranged between 2–2.5%.

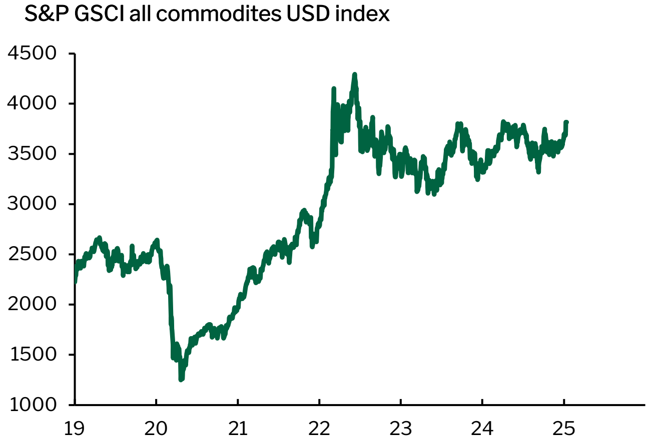
Apart from Brazil, emerging-market central banks also started loosening monetary policy as inflation subsided and the Fed's easing provided their currencies with some breathing space. The PBoC stepped up its efforts to rejuvenate its economy and shake off the persistent deflationary threat. The central bank used its entire toolkit. It reduced the required reserve ratio, injected liquidity, lowered its 7- and 14-day reverse repo rates, and cut its 1- and 5-year loan prime rates. Moreover, the PBoC extended support for the beleaguered real estate market through various other measures, including changes to minimum downpayment ratios and central bank lending to government-subsidised housing. On the opposite end of the spectrum, Brazil's central bank tightened aggressively, raising its policy interest rate to 12.25% from 10.5% in August as it leaned against rising inflation and rapid exchange rate depreciation. Within a short 6 months, Brazil reversed more than half of its 325 bps cuts between August 2023 and May 2024.

Recent inflation developments suggest that this rate-cutting cycle will be quite shallow. Consequently, the market's interest rate expectations gradually increased throughout the second half of last year. By early January, the Fed's futures were pricing in only 2 cuts in the second half of the year, but that switched to only 1 cut in July after the strong December payrolls data had been released. Analysts and economists are more optimistic. According to the Reuters Poll conducted in January, analysts forecast rate cuts totalling 50 bps for the US in 2025, while the UK and the eurozone were expected to cut by 100 bps.

Commodity prices: The start of a mild upswing

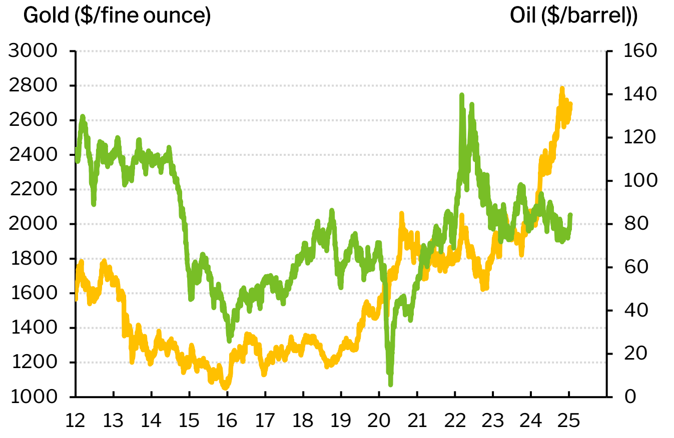
International commodity prices were relatively stagnant for much of 2024 but gained some traction in the year's second half. The firmer trend continued into 2025. The S&P Goldman Sachs Commodities Index had ended 2024 up 9.2% and rose by a further 4.4% in early January. The most significant lift came from a soaring gold price, which increased by an impressive 27.2% in 2024 before drifting up another 2.5% in January. Gold benefited from robust central bank buying, strong safe-haven demand amid persistent geopolitical and economic uncertainties, and the easing in US monetary policy. Prices of most other metals were volatile but also fared better in 2024, recovering from heavy losses in 2023. Metals gained momentum after the Chinese government announced additional stimulus measures, leading to growing expectations of stronger demand in 2025. After falling for almost 23 months, food prices stabilised around February last year and started rising from around September. According to the United Nations' Food and Agriculture Association, global food prices ended last year up 7.8% yoy, driven by meat, dairy, and oils. The upside for commodities was capped lower oil prices. Despite temporary spikes caused by the conflict in the Middle East, Brent crude ended last year 4.7% lower. However, oil prices bounced back in January due to strong seasonal demand from the Northern Hemisphere caused by a colder-than-usual winter. Markets also priced in constrained oil supplies following the OPEC+ decision to extend production cuts and the prospect of stronger global demand on lower interest rates and more expansionary fiscal policy in the US and China.

Chart 17: Commodity prices strengthened recently.



Source: S&P Goldman Sachs

Chart 18: Gold prices rallied while oil slumped.



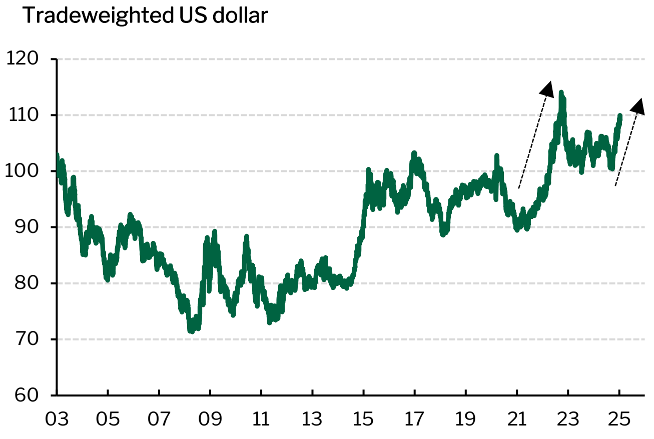
Source: Reuters

Commodity prices are expected to increase steadily but moderately in the year ahead. Steady global growth will support the upward drift, but a strong US dollar will contain the gains. Gold looks overvalued but could run further, given the Trump administration's combative approach to foreign trade and the US dollar's likely strength. The outlook for critical minerals is less rosy as Trump is unlikely to extend incentives for the green transition. Despite the recent optimism, global oil prices are expected to fall back as the US will likely increase production and demand out of China will probably fall short of current high expectations. Finally, food prices will be mixed. Improved rainfall in the Southern Hemisphere should support higher crops, particularly of grains and sugar.

The currency markets: Another year of US dollar strength

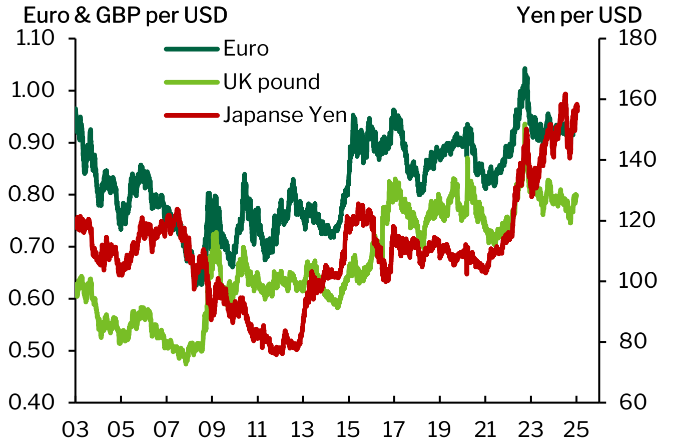
The US dollar ended 2024 and started 2025 with a bang. The trade-weighted dollar shot up 7.6% over Q4 2024, ending the year 7.1% stronger compared with end-2023. The rally continued in early January, with the greenback gaining a further 1.1%. The dollar's strength was broad-based, driven by expectations of continued US economic outperformance and increased safe-haven demand in anticipation of higher US trade barriers. The markets reasoned that the anticipated US policy shifts would hurt the rest of the world much more than the US. Investors also argued that interest rate differentials would still support the dollar as the inflation-inducing elements of the incoming administration's policies would likely convince the Fed to reduce its policy rate by less than other advanced and emerging economies. Within this context, the US dollar will probably remain strong throughout 2025 despite further monetary policy easing. The dollar will likely appreciate further against the euro and the pound. However, the Japanese yen will probably buck the trend. The yen should strengthen from a heavily oversold position on the back of narrowing interest rate differentials as the US Fed eases while the BoJ tightens monetary policy further. Emerging-market currencies will likely struggle against a resurgent US dollar. The US's increasingly protectionist and isolationist approach will also weigh disproportionately on developing economies through their exposure to global trade and remittances. Both China and Mexico are key targets for US trade barriers, a situation which suggests that their currencies will likely remain under pressure for much of 2025.

Chart 19: The US dollar weakened on the Fed's rate cut.



Source: LSEG

Chart 20: Risk-on sentiment lifted equity prices.

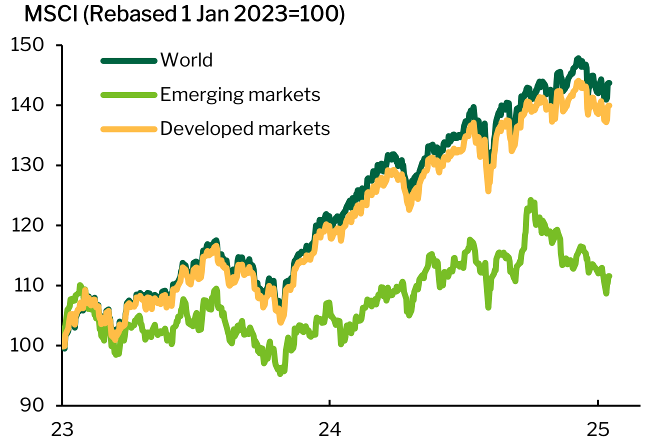


Source: LSEG

Global equity markets: Looking expensive, with the good news largely priced in.

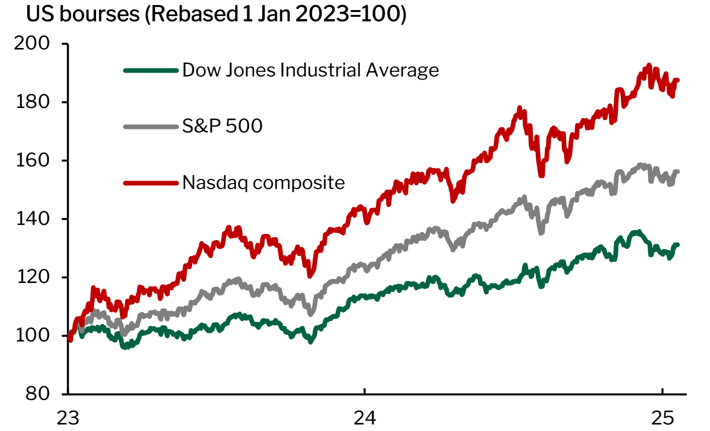
Global stock markets were mixed in 2024. The US markets lost momentum in December and early January after the Fed turned more hawkish on evidence of sticky US inflation. However, this followed a rally from March to November, driven almost entirely by technology stocks based on expectations of significant productivity gains from AI. Later, investors adjusted portfolios to maximise returns in anticipation of Trump's policy agenda. Equity investors mostly embraced Trump's policies, concluding that the growth-supporting elements would overshadow the harmful components. The markets were most excited by the earnings boost likely to flow from Trump's tax cuts and deregulation efforts. Consequently, the Nasdaq gained a further 5.2% in Q4, taking its gain in 2024 to an impressive 19.2%. Other developed markets were less fortunate. Weak economic growth and the threat of higher US tariffs weighed on most European bourses. The French CAC fell by 3.3% in Q4, losing 2.5% of its value in 2024. In contrast, the German DAX bucked the trend, propped up by optimism that the economy would fare better in 2025, supported by falling interest rates. As such, the DAX gained 3% in Q4 and 18.8% in 2024.

Chart 21: AC equities rallied, widening the gap with EMs.



Source: Morgan Stanley Capital Index

Chart 22: The US markets accounted for almost all gains.



Source: LSEG

Concerns over the impact of US foreign and trade policies weighed heavily on EMs towards the end of last year. Morgan Stanley's EM index fell by 2.5% in Q4, but still gained 15.7% over the full year. Chinese equities were under consistent pressure. The initial concern stemmed from the underwhelming performance of the economy, which was partly countered by more aggressive macroeconomic stimulus. Thereafter, the focus turned to the likely negative implications for China of Trump's return to the White House, with investors expecting higher US trade and other restrictions to hurt earnings. The outlook for equities differs significantly across jurisdictions. US economic fundamentals remain sound, but much depends on which components of Trump's conflicting policies ultimately dominate. The rise in long bond yields suggests that some nervousness is starting to creep in. At the same time, US equities have already risen significantly, suggesting the scope for further upside seems limited. On top of navigating more unpredictable US trade and foreign policies, some of Europe's largest economies face significant domestic challenges, notably increased political instability amid subdued growth prospects and mounting fiscal burdens. These uncertainties could unsettle markets, containing the boost from lower inflation and interest rates. Finally, US tariffs and its impact on China's economy will weigh on general sentiment towards EMs, suggesting the risk is tilted to the downside.

Nicky Weimar, Isaac Matshego, and Liandra da Silva

Domestic background and outlook

Underlying economic conditions improved somewhat in 2024. Government made some headway with structural reforms, thereby limiting the drag from the most damaging supply-side constraints. Load-shedding ended in late-March and electricity supply stabilised. The country's strained port, rail and road networks also functioned a little better. Although encouraging, these gains were not substantial enough to meaningfully boost economic activity within such a short timeframe. While inflation declined significantly, the squeeze from high interest rates lingered. Consequently, the economy remained weak for much of last year. However, the outlook for 2025 is more promising. GDP growth is forecast to improve from a weak 0.5% in 2024 to about 1.4% in 2025, driven mainly by more vigorous consumer spending, underpinned by rising real incomes, subdued inflation, and lower interest rates. Fixed investment is also forecast to recover as business confidence improves amid easing structural constraints, firmer domestic demand, and steady global growth. Other sources of demand will probably remain relatively subdued. Inflation is expected to remain contained, averaging 4% in 2025. With inflation well below the 4.5% target of the South African Reserve Bank (SARB), further monetary policy easing is likely. We expect interest rates to decline by a cumulative 50 bps, taking the prime lending rate down to 10.75%.

The economy: Moderately faster growth, supported by structural and cyclical tailwinds.
The economy remained weak in 2024. After recovering off a low base in Q2, GDP unexpectedly contracted by 0.3% in Q3. Viewed from the supply side of the economy, a sharp decline in agricultural output was mainly to blame. Flooding led to a disappointing winter crop, while lingering animal diseases plagued the livestock industry. On top of these shocks, value added by transport and communications, domestic trade and general government also declined. There were some bright spots, though. Mining production recovered from 2 quarters of contraction. Manufacturing expanded for the second consecutive quarter. Both sectors benefited from increased electricity supply and slightly smoother logistics. Encouragingly, the recovery in construction continued, driven by increased capital expenditure by the public sector.

Table 2: GDP breakdown by sector and expenditure category

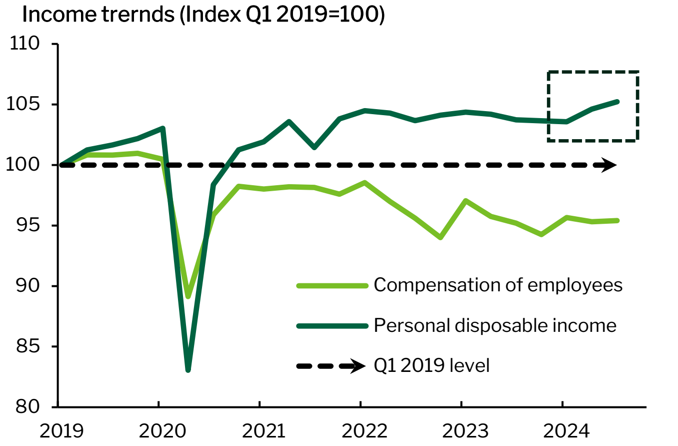
Industries	Size	Annual growth rates				Quarterly growth rates			
	% of GDP	yoy %				qoq % (not annualised)			
	2023	2021	2022	2023	YTD' 24	Q4'23	Q1'24	Q2'24	Q3'24
Agriculture	2.6	5.6	2.0	-4.8	-10.5	-2.4	13.5	-4.8	-28.8
Mining	6.3	12.9	-7.3	-0.5	0.2	2.6	-1.7	-0.3	1.2
Manufacturing	13.0	6.9	-0.4	0.3	-0.9	0.3	-1.4	0.7	0.5
Power and water	3.1	2.3	-2.9	-4.0	3.4	2.3	-0.4	3.1	1.6
Construction	2.2	-2.2	-3.2	-0.1	-7.8	-1.5	-3.1	0.5	1.1
Domestic trade	12.5	6.8	3.4	-1.8	-2.6	-2.8	0.3	1.0	-0.4
Transport and communications	7.0	5.9	8.6	4.1	1.0	3.1	-0.5	-2.4	-1.6
Finance	21.0	2.8	3.3	1.6	3.0	0.8	0.2	1.5	1.3
General government	7.8	-0.9	0.4	0.5	0.9	-0.5	-0.1	0.2	-0.1
Personal services	14.3	5.8	2.5	1.8	2.3	0.9	0.1	0.2	0.5
Value added	89.8	4.7	1.9	0.7	0.4	0.3	0.0	0.4	-0.4
GDP	100.0	5.0	1.9	0.7	0.4	0.3	0.0	0.3	-0.3
HCE	64.6	6.2	2.5	0.7	0.1	0.1	-0.2	1.2	0.5
GCE	19.4	0.6	0.6	1.9	1.3	-0.4	-0.2	0.9	-0.5
GFCF	15.0	-0.4	4.8	3.9	-5.0	-0.2	-1.7	-1.2	0.3
Δ in inventories (Rbn)	0.6	-12.1	53.4	26.0	2.1	19.4	3.8	19.0	-6.6
GDE	99.7	5.3	3.9	0.8	-1.5	1.3	-0.8	1.1	-0.3
Exports	32.9	9.7	6.8	3.7	-1.8	0.5	-2.9	-0.7	-3.7
Imports	32.6	9.6	15.0	3.9	-7.7	4.0	-5.0	1.7	-3.9
Expenditure on GDP	100.0	5.3	1.8	0.7	0.3	0.3	-0.1	0.4	-0.2

Source: Stats SA

Viewed from the demand side, the relapse in GDP was caused by cutbacks in government consumption expenditure (GCE) and a sharp rundown in inventories. The net trade position remained dismal, but the shortfall at least narrowed. Unfortunately, this was because imports fell by more than exports. In contrast, the recovery in household consumption expenditure (HCE) continued, albeit at a slower pace. The best news was the uptick in gross fixed capital formation (GFCF), which rose for the first time in 4 quarters. As alluded to above, the lift came from the public sector. Both government and state-owned enterprises increased capital expenditure significantly over the quarter, which just managed to offset a further decline in private sector fixed investment.

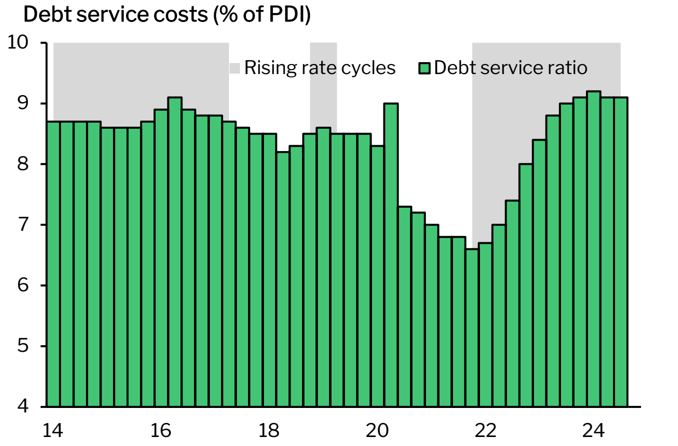
The economy likely recovered in Q4 2024. Consumers probably led the rebound. Households were in a stronger financial position at the start of the final quarter. Real personal disposable income increased by 1% in Q2 and a further 0.6% in Q3. Rapidly receding inflation boosted real pay, helping to counter lower formal sector employment. According to Quarterly Employment Statistics, part-time jobs declined by a steep 9.4% in Q3, while permanent employment eased by a much more modest 0.1%. Debt service payments still absorbed a punishing 9.1% of households' disposable income but interest rates had started to drop in September and fell further in November. In addition, withdrawals from the 2-pot retirement system, which exceeded R80 billion, entered consumers' bank accounts in Q4. Consumers could use these windfall gains to repay their debt and potentially spend more. Various data sources suggest consumers did just that. Retail sales picked up in October and November. Moreover, anecdotal reports suggest spending gained further upward traction in December. Retailers reported a good turnout for Black Friday, Cyber Monday and much of the festive season. Credit card purchases also rose robustly in October and November. And, new car sales increased by a further 9.9% over the final quarter. Consequently, we believe consumer spending grew by a faster 1.2% qoq in Q4.

Chart 23: Real incomes are growing again.



Source: SARB

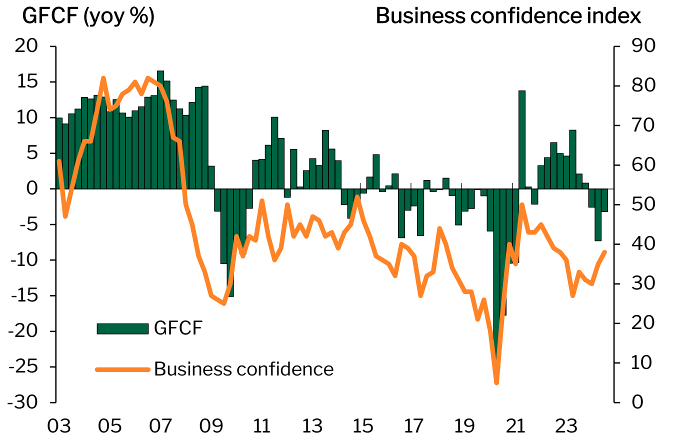
Chart 24: Debt service costs remains high.



Source: SARB

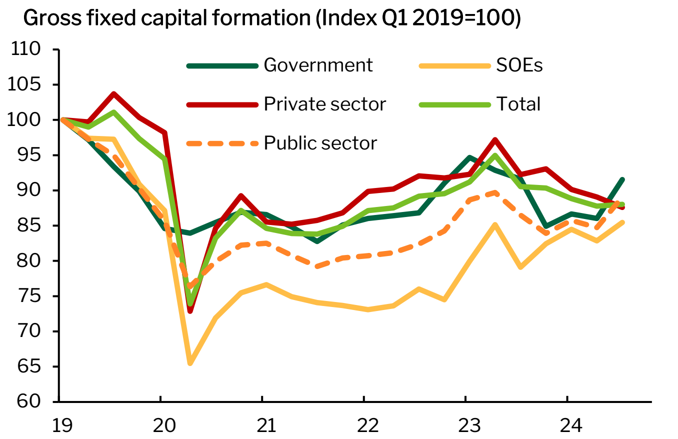
Elsewhere in the economy activity remained relatively sluggish in Q4. It is harder to get a read on fixed-investment trends. Further declines in commercial vehicle sales, softer activity in residential and non-residential buildings, and muted demand for machinery and equipment point to further weakness in private sector capital outlays. However, continued growth in capital expenditure by the public sector could still offset the drag from the private sector. Our GFCF forecast is for growth of around 0.4% qoq in Q4, with significant downside risks. As for net exports, the position likely deteriorated. After 2 months of growth, mining production declined in October and November. Manufacturing output also struggled to gain traction, shrinking in November after rising moderately in October. The forward-looking BER Absa Purchasing Managers' Index points to further weakness in December. It had dipped below 50 in November, before falling to a gloomy 46.2 in December. These outcomes suggest export volumes probably remained under pressure in Q4. Given our expectation of stronger consumer demand, import volumes likely rose further, outpacing exports and aggravating the net position. Altogether, we forecast GDP growth of 0.6% qoq in Q4, which translates into weak growth of 0.5% in calendar 2024.

Chart 25: The underlying weakness in GFCF continued.



Source: SARB

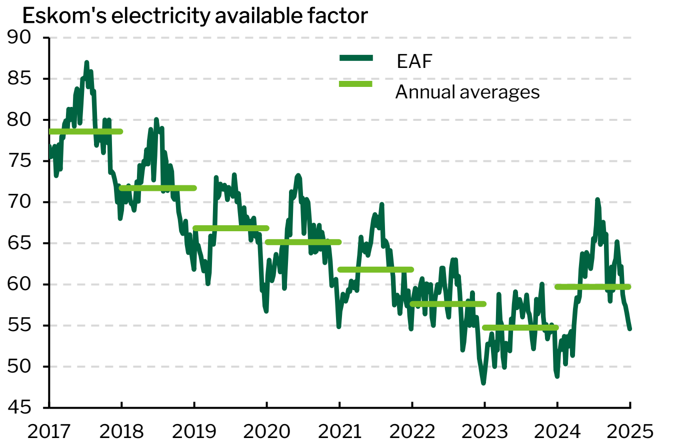
Chart 26: Public sector capital outlays picked up.



Source: SARB

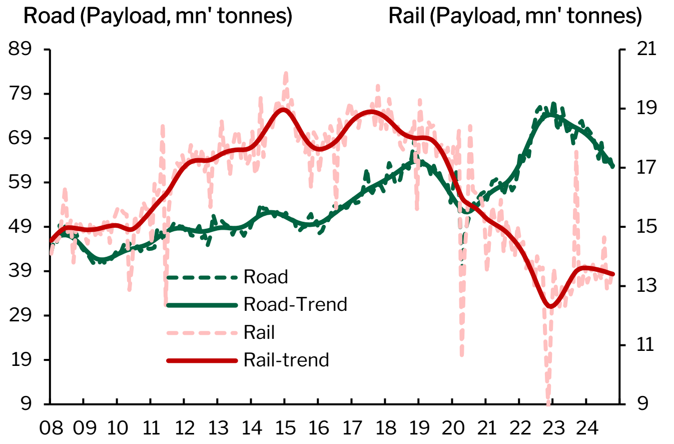
Despite the sluggish growth story, South Africa (SA) nonetheless ended 2024 in a better place. The ongoing structural reforms yielded some results. The most significant among these was the end of load-shedding, which helped normalise operations and reduce the heavy costs associated with prolonged outages. Although the country's transport network remains highly inefficient, slightly more volume moved by rail and the delays at the ports eased somewhat. Plans are afoot to accelerate logistics reforms, but the benefits of reduced operating costs and improved international competitiveness will take time to filter through. Stage 2 of Operation Vulindlela, which aims to accelerate reforms to remove the obstacles to faster growth, will now focus on municipalities where public infrastructure has fallen into disrepair and services have deteriorated dramatically. However, these incremental improvements will likely continue and accumulate, creating some breathing space for moderately faster growth in 2025.

Chart 27: Eskom improved its performance in 2024.



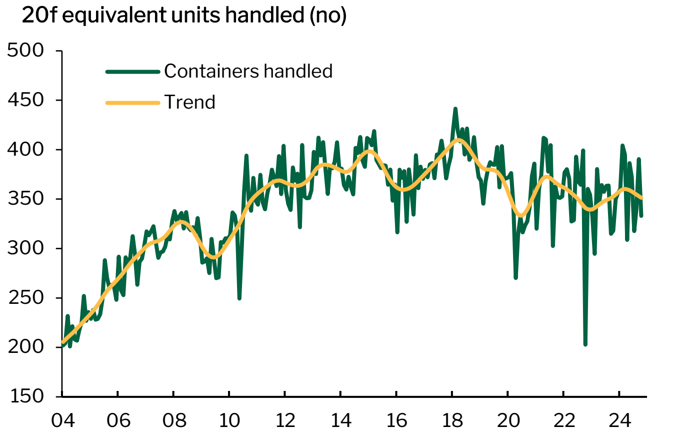
Source: Eskom

Chart 28: Rail freight volumes stabilised.



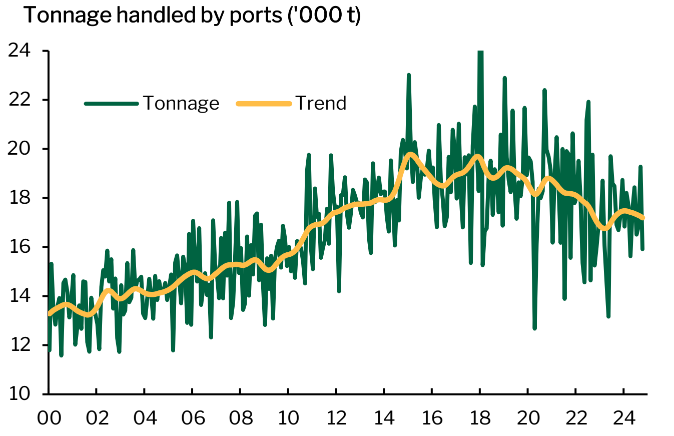
Source: Stats SA

Chart 29: Container processing also improved slightly.



Source: SARB

Chart 30: Ports are still struggling with bulk processing.



Source: SARB

Cyclical forces will also be more supportive in the year ahead. We still see consumer spending carrying the economy. We expect nominal salary and wage increases to moderate. But, with inflation below 4%, the recovery in real pay will continue in 2025. Employment is expected to remain subdued in early 2025 but should increase later this year once companies see evidence of an upturn in the business cycle. We also expect further declines in debt service costs as monetary policy easing continues. Then, there is the ongoing boost from retirement fund withdrawals, which will add more to household income and consumer spending this year than last year. Rising real incomes, the boost from contractual savings and lower debt service costs are forecast to lift consumer spending by around 2% in 2025.

Fixed capital formation will increase further. We anticipate the government will continue to prioritise capital expenditure as promised in its October 2024 Medium-Term Budget Policy Statement. Given substantial spare capacity in many industries, private sector fixed investment will likely take longer to recover. We expect private sector outlays to turn the corner in the year's second half, supported by easing structural constraints, firmer domestic demand, and steady global growth. Nedbank's Capital Expenditure Project Listing also reflected a sound increase in fixed investment plans in 2024. Spending on a sizeable portion of these projects will likely start this year, lifting GFCF by about 1.2% in 2025.

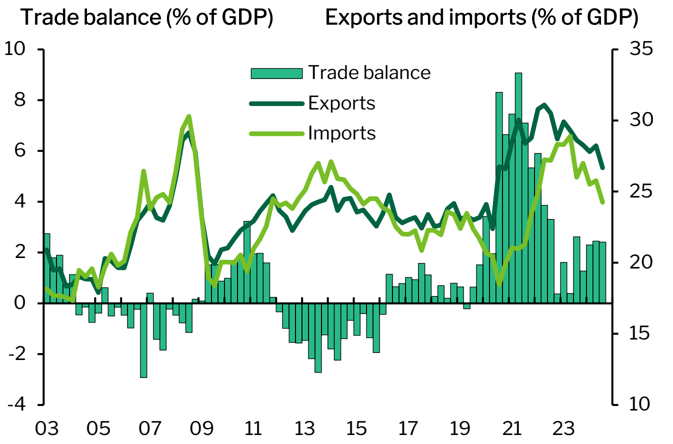
Government expenditure growth will remain constrained. Given National Treasury's plans to reduce the budget deficit and stabilise the public debt burden, our forecast is for modest growth of about 0.9% in 2025. Higher-than-expected increases in public sector wages and transfers to households pose upside risks. The net export position will remain a drag on GDP growth. We believe that firmer domestic spending will lift import volumes by more than easing structural constraints, and steady global growth will elevate exports (see section below). Taken together, the stage is set for a gradual economic recovery. We expect real GDP to grow by about 1.4% in 2025 and a slightly faster 1.8% in 2026. The balance of risks is still tilted to the downside. The global landscape will likely become more unpredictable with potentially harmful consequences as US foreign and trade policies change under the second Trump administration.

The balance of payments: Uncertain amid shifting global winds

The current account deficit narrowed slightly from R75.3 billion in Q2 2024 to R70.8 billion in Q3 2024. As a ratio of GDP, the deficit was unchanged at 1%. The trade surplus held relatively steady at 2.4% of GDP, while the deficit on the services, income and transfer accounts narrowed slightly to 3.4% of GDP. The stable trade surplus masked underlying weakness. Both exports and imports declined over the quarter. However, import volumes and prices fell by a little more than export volumes and prices.

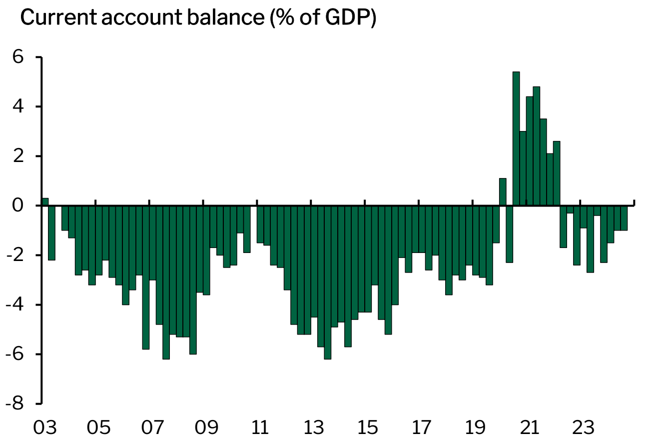
Given stronger consumer demand in the final quarter of last year, imports probably recovered, leading to a slightly smaller trade surplus and, therefore, a marginally wider current account deficit. These trends are expected to continue in 2025. The trade surplus is forecast to narrow as imports outpace exports. Imports will be driven by stronger domestic demand for both consumer and capital goods. At the same time, exports should also fare better than last year, supported by easing structural constraints, steady global demand, and firmer international commodity prices. The non-trade deficit will also widen as corporate earnings recover, resulting in higher dividend payments. As a ratio of GDP, the current account deficit is forecast to widen from a projected 1.3% in 2024 to 1.8% in 2025.

Chart 31: Trade surplus holds, but for bad reasons.



Source: SARB

Chart 32: A wider trade surplus provided the boost.



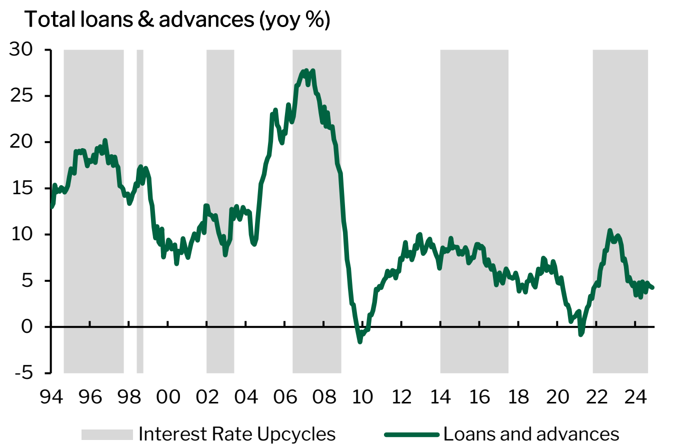
Source: SARB

The financial account improved significantly in Q3 2024, switching to a net capital inflow of R39.1 billion or 2.1% of GDP, from an outflow of R18.1 billion or -1% of GDP. The most significant boost came from net portfolio inflows, which totalled an impressive R81.1 billion in Q3, a sharp reversal from the heavy outflows recorded in Q2. SA's peaceful election and the formation of the Government of National Unity lifted investor sentiment and lowered the country's risk premium, leading to net foreign purchases of R41.4 billion of domestic bonds and R4.1 billion of domestic equities.

Credit demand: The cycle will likely turn

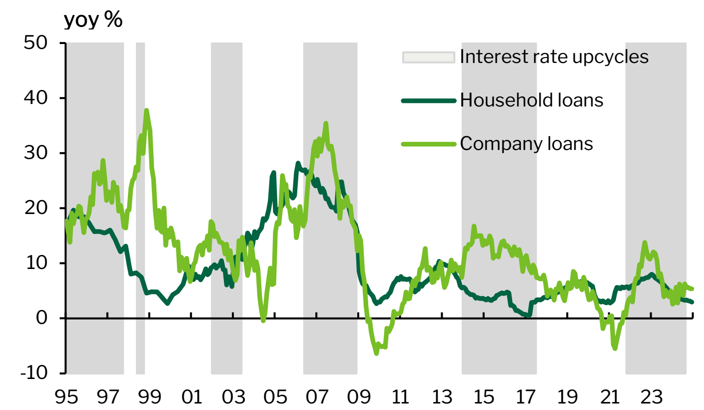
Credit growth remained subdued for much of 2024, softening slightly towards year-end. Growth in private sector credit extension slowed from 4.6% in September to 4.2% yoy in November. The softer trend was broad based. Household loan growth slowed from 3.3% in September to 3.1% in November, while corporate loan growth moderated from 5.6% to 5.4% over the same period. In the household market, high borrowing costs weighed on credit demand. Commercial banks also tightened lending standards amid elevated defaults on loan repayments, reducing credit availability and reinforcing the downward trend. The slowdown was most pronounced in asset-backed credit, notably home loans and vehicle finance.

Chart 33: Credit growth remains subdued.



Source: SARB

Chart 34: Household and company loans.



Source: SARB

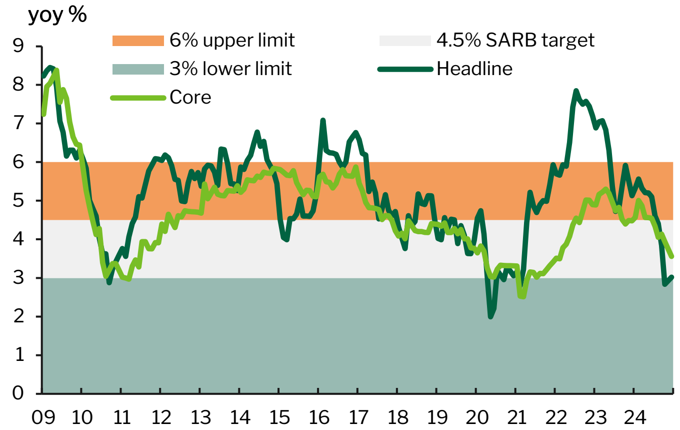
In contrast, demand for transactional credit remained relatively robust. In the corporate market, the weak economy and the sharp decline in private sector fixed investment were mainly to blame. Softer growth in general loans and a sharp slowdown in instalment sales and leasing finances exerted the most downward pressure. On the upside, the gradual recovery in commercial mortgages continued, and overdrafts remained relatively strong.

Credit growth is likely to improve in 2025. Household credit demand should turn the corner in the months ahead as consumer finances strengthen due to rising real incomes, lower inflation, falling interest rates, and the windfall boost from the 2-pot retirement system. Company loan growth will likely remain volatile, but nonetheless gather moderate upward pace as fixed investment recovers, the general operating environment improves further, and the world economy expands at a steady pace.

Inflation: The trough is likely behind us

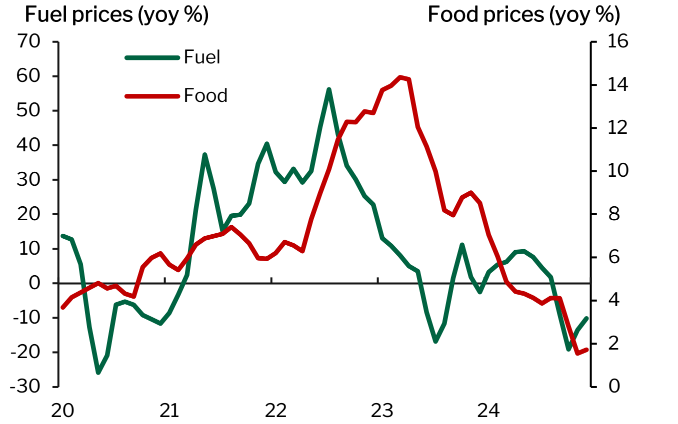
Headline consumer inflation remained subdued in Q4, hovering well below the SARB's 4.5% target. CPI fell to a low of 2.8% in October before creeping up to 2.9% in November and 3% in December. Fuel and food prices exerted modest upward pressure towards the end of the year. The rate of decline in fuel prices moderated, as both the rand and global oil prices reversed course in late November. Oil prices rose on constrained supplies and higher winter demand in the Northern Hemisphere, while the rand weakened against a resurgent US dollar. Food prices also increased slightly off a low base, ticking up from a 14-year low of 1.6% in November to 1.7% in December, enabled by stronger demand and amplified by seasonal factors. Core inflation, which excludes volatile food and fuel prices, eased from 3.7% in November to 3.6% in December, contained by general subdued domestic demand, still elevated interest rates and easing supply-side constraints.

Chart 35: Key inflation metrics are below the SARB target.



Source: SARB

Chart 36: Falling food and fuel prices have been key.



Source: SARB

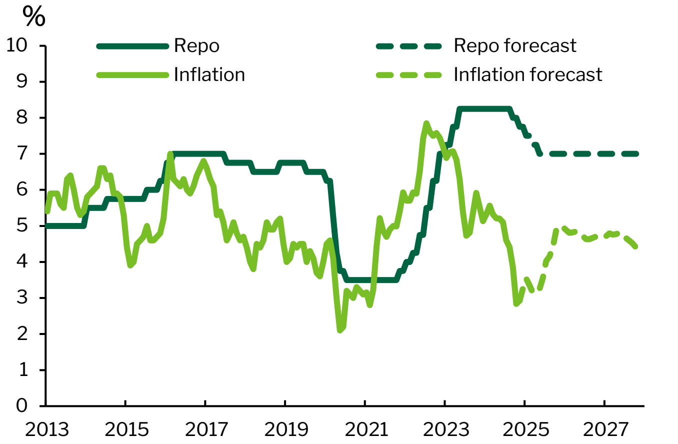
We expect the gradual upward drift to continue in 2025. Food inflation will rise slowly as base effects fade and reverse. Imported food prices will also increase as the rand remains under pressure and global food inflation slowly climbs off a very low base. The upside will be kept in check by higher domestic production amid more favourable weather conditions in most parts of the country. The drag from lower fuel prices will also slowly dissipate. The recent rise in global oil prices is not expected to last. Ample spare capacity, higher US oil production and lower Chinese oil demand due to the widespread adoption of electric vehicles will lead to lower prices. However, further rand weakness will partly erode the benefits subdued global oil prices. Meanwhile, still restrictive monetary policy, price-sensitive local demand, and lower domestic operating costs on fewer power outages and other disruptions should contain core inflation to around the SARB's 4.5% target in 2025. All said, we forecast inflation to average 4% in 2025, before ticking up to 4.7% in 2026. The rand poses the most significant upside risk to our forecast. The rand and other emerging market currencies could remain under pressure as the dollar benefits from the changes in some US economic policies during Donald Trump's administration. Rand weakness will intensify if stricter US trade barriers derail global growth or prematurely end the Fed's rate-cutting cycle. Other concerns centre around the threat of higher wage settlements and another round of hefty increases in electricity tariffs and other administrative prices.

Monetary policy: Looking at a shallow rate-cutting cycle

SARB's Monetary Policy Committee (MPC) unanimously decided to reduce the repo rate by another 25 bps to 7.75% at their November meeting. The decision was likely based on 2 major developments: inflation's slide to well below the 4.5% target and the ongoing monetary policy easing in the US and other rich countries. At the time, the MPC also viewed the risks to the inflation outlook as balanced. SARB expected headline inflation to remain below its 4.5% target for most of the year, averaging a low 4% in 2025. They lifted their forecast for 2026 to 4.6% from 4.4% in September as they raised their assumptions on the likely increase in electricity tariffs. Thereafter, they saw inflation returning to 4.5% in 2027. On the growth front the SARB expected the recovery to continue. They saw GDP growth accelerating from a projected 1.1% in 2024 to 1.7% in 2025, 1.8% in 2026 and 2% in 2027. In the near term, the momentum would be sustained by lower inflation, higher disposable income, and withdrawals from the 2-pot retirement system. Over the medium term, the benefits of structural reforms would take effect and drive the economy's expansion. The MPC argued that economic recovery would not have a material impact on inflation as rising demand would be met by supply-side improvements.

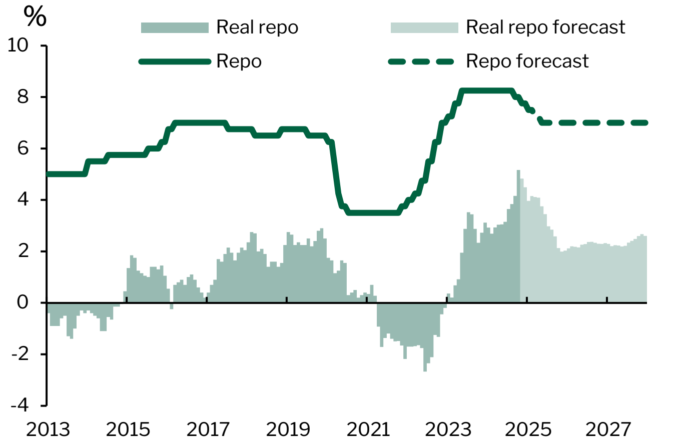
The MPC saw upside risks to the inflation outlook stemming from the uncertain and changing global environment, which could cause renewed pressure on the rand and a surge in international oil prices. To some extent, these risks already materialised. While oil prices are unlikely to hold onto recent gains, the rand faces another volatile year. With the rand hovering near R19 to the US dollar, the MPC will become even more cautious. Even so, inflation has declined significantly, and the outlook remains relatively subdued, kept in check by various offsetting forces. More importantly, real interest rates have increased sharply, rising to just short of 5%. Consequently, monetary policy remains too restrictive for an economy that only managed growth of 0.5% last year. We, therefore, see room for further rate cuts. We forecast 2 more rate cuts of 25 bps each in January and March, taking the repo and prime lending rates to 7.25% and 10.75%, respectively. This aligns with the latest estimates of the SARB's Quarterly Projection Model, which also pointed to reductions of about 50 bps in 2025. At this level, interest rates will still be 50 bps higher than just before the Covid-19 pandemic struck.

Chart 37: There is space for further rate cuts.



Source: SARB, Stats SA, and Nedbank

Chart 38: Real interest rates are high and still rising.



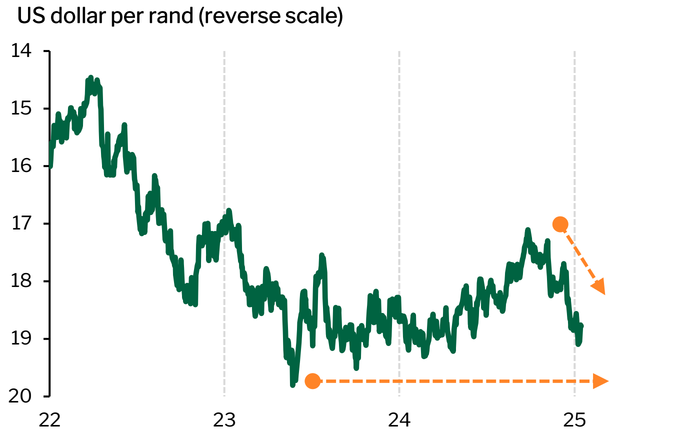
Sources: SARB, Stats SA, and Nedbank

Local financial markets: Prepare for turbulence

The local markets also got caught in the Trump trade. Investor sentiment towards EMs soured in the face of another round of US tariff hikes. China and its major trading partners, including the large commodity exporters, were hardest hit. The risk-off resurgence intensified as US disinflation stalled and the Fed signalled fewer rate cuts at its December meeting. A robust US jobs report reinforced fears that the US rate-cutting cycle may prove very shallow and that US interest rates could stay high for longer. Against this backdrop, local equity prices lost ground, gradually sliding from their best levels in September. The FTSE/JSE all-share index declined by 2.8% over Q4 but ended 9.7% stronger over the year. Resources were volatile, falling sharply towards the end of last year, before rebounding strongly in January. Financials and industrials also came under pressure, registering steeper declines in early 2025. Global developments will likely set the tone for the local stock market in 2025. Resources and segments of industrials with significant exposure to China will probably remain under pressure. Once greater clarity emerges on the shape of US trade policies, risk appetites towards EMs will likely stabilise, potentially leading to some correction in the local equity markets. Financials are expected to hold up relatively well in 2025, with earnings supported by improving credit quality amid further declines in domestic interest rates.

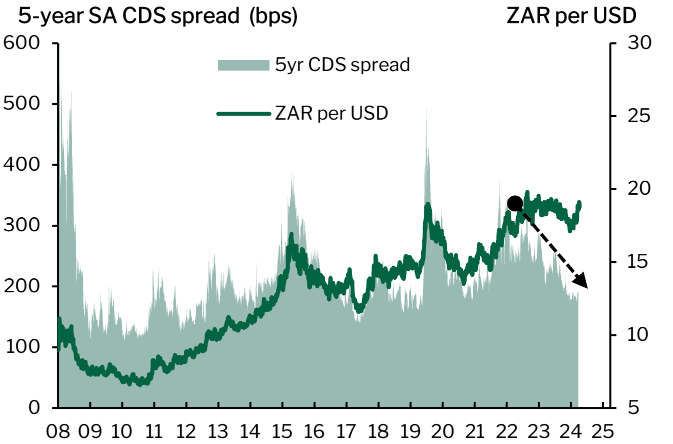
Bond yields also reversed course, mainly reflecting jitters in the global bond markets. International investors are concerned about the potential inflation and fiscal consequences of the Trump administration's tax and trade policies. These policies are expected to worsen an already unsustainable fiscal position, elevate inflation, and raise the floor on US interest rates. As a result, the yield on the 10-year US Treasury shot up from 3.7% in September last year to 4.8% in mid-January. With US yields serving as the market's risk-free benchmark, the risk premium attached to South African bonds also increased. At the same time, the markets' expectations on the likely trajectory of interest rate differentials shifted in the US's favour, driving the US dollar to even higher levels. Consequently, the rand came under considerable pressure, clouding the domestic inflation and interest rate outlooks. These ripple effects raised the 10-year benchmark government bond yield from 9.95% in September last year to 10.57% by mid-January. Despite recent setbacks, we still expect local bond yields to gradually drift lower in the year ahead. Relatively favourable domestic fundamentals will likely offset global uncertainties. SA's fiscal position is expected to improve over the next 3 years, supported by firmer economic growth and continued spending discipline, potentially setting the stage for sovereign risk rating upgrades over the medium term. Furthermore, local inflation and interest rate fundamentals will support easing bond yields.

Chart 39: The rand strengthened as the risk premium fell.



Source: LSEG

Chart 40: SA's risk premium remained contained.



Sources: LSEG

The rand weakened significantly late last year and remained under pressure in early 2025 as global risk appetites faded, and the US dollar surged following Donald Trump's election victory. On a trade-weighted basis, the rand held up relatively well for much of last year, appreciating by a modest 0.9% over Q4 and a significant 6.6% over the whole year. The local unit strengthened against the euro and the British pound, which initially helped to offset the depreciation against the US dollar. Since the start of this year, the weakness has become more broad based, with the rand depreciating against most major currencies, dragging the trade-weighted measure down by a further 2.8%. Volatile global risk appetites cloud the rand's prospects for the year ahead. Risk appetites for emerging market assets will likely remain fluid, heavily influenced by the news flow on US inflation, interest rates and tariff changes. As a result, the rand is likely to experience bouts of weakness but should hold relatively steady, supported by reasonably sound domestic fundamentals. The positives for the rand include firmer growth prospects, a subdued inflation outlook, and the strong likelihood that interest rate differentials between the US and SA will end the year essentially unchanged.

Nicky Weimar and Johannes (Matimba) Khosa

FACTS AND FORECASTS OF KEY ECONOMIC VARIABLES

Updated 06 February 2025

Annual forecast	2019	2020	2021	2022	2023	2024	2025	2026	2027
Growth (real, % change)									
GDP	0.3	-6.2	5.0	1.9	0.7	0.5	1.4	1.8	1.6
GDE	1.1	-8.0	5.3	3.9	0.8	0.1	1.7	1.7	1.7
HCE	1.3	-6.1	6.2	2.5	0.7	1.1	2.3	1.8	1.8
GDFI	-1.7	-14.8	-0.4	4.8	3.9	-3.8	1.2	2.5	3.0
Exports	-3.3	-12.0	9.7	6.8	3.7	-4.4	1.3	3.9	3.4
Imports	0.6	-17.6	9.6	15.0	3.9	-6.0	2.8	3.1	4.2
Current account balance									
R bn	-146.5	108.2	226.7	-30.0	-112.5	-94.4	-139.5	-159.1	-173.2
% of GDP	-2.6	1.9	3.6	-0.5	-1.6	-1.3	-1.8	-1.9	-2.0
Gold price (average per ounce)									
USD	1404.4	1783.4	1795.6	1817.1	1942.7	2404.8	2750.0	2793.1	2863.9
Rand	20261.8	29568.4	26743.0	29892.2	35900.8	44145.8	50851.6	53013.3	55920.4
Exchange rates									
Rand per USD	14.43	16.58	14.89	16.45	18.48	18.36	18.49	18.98	19.53
USD per euro	1.118	1.147	1.180	1.053	1.082	1.079	1.038	1.039	1.042
Yen per USD	109.0	106.4	110.4	131.7	141.4	151.9	149.3	142.3	139.5
USD per UK pound	1.279	1.292	1.374	1.233	1.247	1.278	1.250	1.246	1.243
Rand per euro	16.12	19.00	17.55	17.27	19.98	19.78	19.19	19.71	20.35
Yen per rand	7.56	6.43	7.42	8.00	7.65	8.27	8.07	7.50	7.15
Rand per UK pound	18.45	21.40	20.46	20.20	23.04	23.39	23.11	23.65	24.27
Interest rates (end of period)									
3-month JIBAR	6.80	3.63	3.87	7.21	8.34	7.83	7.35	7.35	7.37
Prime	10.00	7.00	7.25	10.50	11.75	11.25	10.75	10.75	10.75
Long bond	8.96	8.93	9.65	10.84	11.04	10.22	9.77	9.79	9.72
Inflation (average)									
Headline CPI	4.1	3.3	4.6	6.9	5.9	4.5	4.0	4.7	4.6
Core CPI	4.1	3.4	3.1	4.3	4.9	4.3	4.1	4.7	4.5

Disclaimer:

FACTS AND FORECASTS OF KEY ECONOMIC VARIABLES

Updated 06 February 2025

	2024				2025			
	Q1'24	Q2'24	Q3'24	Q4'24	Q1'25	Q2'25	Q3'25	Q4'25
GDP (qoq %)	0.0	0.3	-0.3	0.6	0.2	0.5	0.6	0.6
Interest rates (end of period)								
3-month JIBAR	8.29	8.29	8.00	7.83	7.37	7.35	7.35	7.35
Prime	11.75	11.75	11.50	11.25	10.75	10.75	10.75	10.75
Long bond (10-yr)	11.98	11.22	9.95	10.22	9.95	9.93	9.85	9.77
Inflation (end of period)								
CPI	5.3	5.1	3.8	3.0	3.1	3.6	4.4	5.2
Core CPI	4.9	4.5	4.1	3.6	4.3	3.9	3.7	3.6
Exchange rates (end of period)								
Rand per USD	18.92	18.19	17.26	18.85	18.40	18.48	18.54	18.45
USD per euro	1.08	1.07	1.11	1.08	1.07	1.11	1.04	1.04
Yen per USD	151.31	160.83	143.62	151.31	160.83	143.62	157.18	150.59
USD per UK pound	1.26	1.26	1.34	1.26	1.26	1.34	1.25	1.26
Rand per euro	20.35	19.48	19.22	20.35	19.71	20.57	19.19	19.21
Yen per rand	8.02	8.84	8.30	8.03	8.74	7.77	8.48	8.16
Rand per UK pound	23.92	22.99	23.05	23.80	23.26	24.71	23.19	23.17
Gold price per ounce								
USD	2232.4	2325.7	2634.5	2768.9	2774.4	2782.7	2724.3	2713.4
Rand	42239.7	42292.9	45464.5	52194.5	51053.7	51419.5	50494.9	50054.4

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