FRONTLINE AFRICA ADVISORY

SA: POLITICAL AND ECONOMIC REPORT

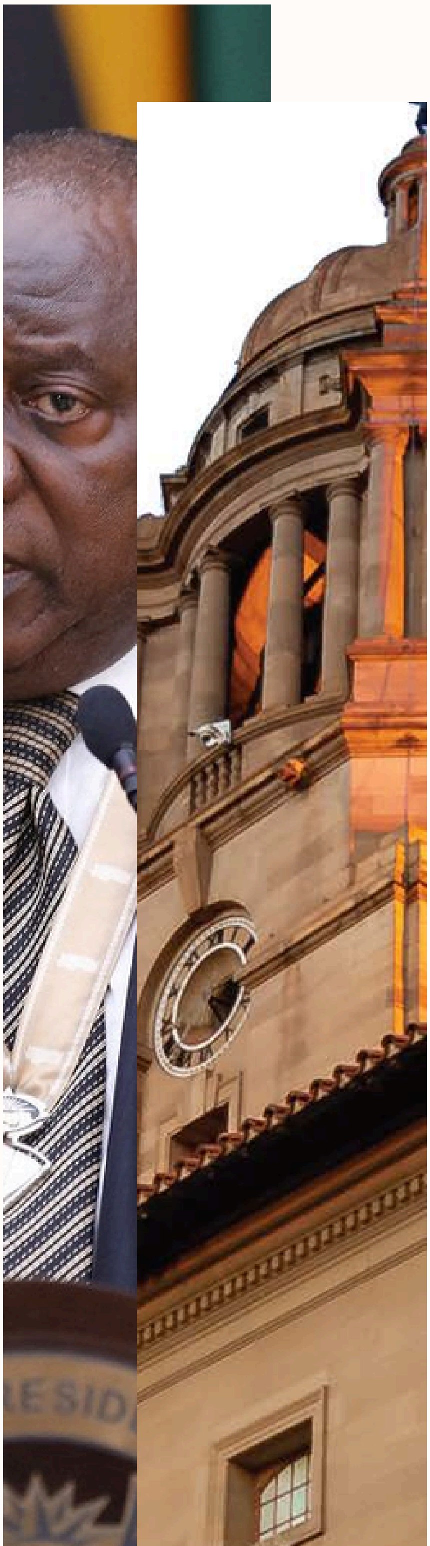
FEBRUARY 2025

by Frontline Africa Advisory

Introduction

- This February edition provides an analysis of South Africa's evolving governance, political, and economic landscape over the course of the month.
- It also covers key G20 cluster meetings convened by South Africa this month, as the forum's president for 2024-2025.
- Furthermore, the report evaluates the state of State-Owned Enterprises (SOEs) against the interventions mentioned by President Cyril Ramaphosa during the State of the Nation Address (SONA) earlier in the month.
- The report concludes with key potential risk factors facing South Africa in the near-to-medium-term.

Government Updates



Government of National Unity

South Africa's political landscape has undergone a significant transformation following the 2024 national elections, which ushered in new political dynamics, particularly with the formation of the Government of National Unity (GNU), with a semblance of shift in governance and policy orientation.

- Over the course of February, the stability of the GNU continued to be tested as differences among its partners escalated, particularly on contentious issues such as the National Health Insurance (NHI), Basic Education Laws Amendment (BELA), and Expropriation Act.
- Disagreements over the 2025 Budget's proposal for a 2% VAT hike from 15% to 17%, resulting in the postponement of the Budget tabling from 19 February to 12 March, became the pinnacle of policy divergence in the GNU. The proposed increase was, according to Finance Minister Enoch Godongwana, aimed at addressing funding gaps in essential sectors, including education and social services.
- The DA was quick to claim victory, because it had been vociferous in its opposition of the proposed VAT increase, while Finance Minister Enoch Godongwana of the ANC posited that the postponement occurred because Cabinet had not yet finalised the budget; that it was not a certain party that pushed back; and that the postponement was needed to allow for further deliberations.
- In further downplaying the postponement, Godongwana said Cabinet was united in the view that the Budget must strike a balance between interest of the public, economic growth, and fiscal sustainability. The approval by Cabinet on 26 February of the Medium-Term Development Plan (MTDP) (2024-2029) is effectively about this balance, though it does not mean partners to the GNU may not disagree on specific policy approaches.
- At the same meeting, Cabinet reiterated that the postponement of the tabling of the 2025 Budget was a result of efforts by Cabinet to collectively address the country's funding challenges within a constrained fiscal environment. It confirmed that deliberations within Cabinet on the Budget were continuing to determine the best ways to fund national priorities and ensure the budget reflects the aspirations of all South Africans.

Commentary

- Although many South Africans were taken by surprise at the unprecedented postponement of the national Budget, it is something that was to be expected for a number of reasons.
- Firstly, the DA had made it clear beforehand that it would not support a budget that would propose any tax increases. The National Treasury and the ANC ignored this message at own peril.
- Secondly, Budget is central to determining the functionality of a coalition. It would have been naïve to imagine that the DA and the ANC would not lock horns over this important governance and economic policy instrument.
- Thirdly, the coalition period South Africa is in is unchartered. It will have high and low moments – some will test the longevity of the GNU to the limit. There are many other jurisdictions in which budgets could not be passed because of political (or even ideological) differences.

Differences over Budget in other countries

> *All these countries are mature democracies, and disagreements over the budget are a norm. As South Africa's democracy matures within the context of coalitions, we should expect that future budgets will be contested by coalition partners, if no pre-agreements are reached.*

The State of Israel

- In December last year, Israeli Prime Minister Benjamin Netanyahu faced significant political challenges within his coalition government over the proposed 2025 state budget. The budget, totalling 756 billion shekels with a 4.4% deficit target, included substantial spending cuts and tax increases. The initial parliamentary vote narrowly passed with a 59-57 majority, revealing fractures within the coalition.
- Despite these challenges, Netanyahu managed to secure the necessary support to advance the budget, which required final approval by 31 March 2025, to prevent triggering new elections.

Germany

- A significant political crisis unfolded in Germany in November 2024, due to escalating tensions between Chancellor Olaf Scholz and Finance Minister Christian Lindner.
- The culmination of these disagreements led Chancellor Scholz to dismiss Lindner on 6 November 2024, citing a loss of trust. This action precipitated the withdrawal of the FDP from the governing coalition, effectively causing its collapse.
- Following the coalition's dissolution, Chancellor Scholz announced plans to seek a vote of confidence in the Bundestag. After losing this vote on 16 December 2024, President Frank-Walter Steinmeier dissolved parliament and scheduled snap elections that just happened on 23 February, in which Scholz was defeated.

The United States

- In the United States, a government shutdown occurs when Congress fails to pass appropriations bills or a continuing resolution to fund federal government operations.
- This results in the temporary closure of non-essential government agencies and services due to a lack of authorised funding. Notable government shutdowns occurred in 1995-1996 (21 days) due to a budget conflict between President Bill Clinton and House Speaker Newt Gingrich. In 2013 (16 days), it resulted from disputes over funding for the Affordable Care Act (Obamacare). In 2018-2019 (35 days) it was caused by disagreements over funding for Donald Trumps' border wall.

The United Kingdom

- In the United Kingdom, the Prime Minister and the Chancellor of Exchequer (an equivalent of Finance Minister) often conflict over economic instruments, including budget. Back in 1989, Chancellor Nigel Lawson resigned over policy disputes with Prime Minister Margaret Thatcher, particularly regarding economic control and exchange rate mechanisms.
- In 2022, Rishi Sunak, as Chancellor, pushed for fiscal responsibility and resisted Prime Minister Boris Johnson's push for increased government spending. Their disagreements contributed to Sunak's resignation, which played a role in Johnson's downfall.
- Also in 2022, there were dramatic clashes, where Prime Minister Liz Truss's radical tax-cutting economic plan (mini-budget) led to market turmoil, forcing her to sack Chancellor Kwasi Kwarteng. She later resigned as PM after just 44 days in office.

Political Update

Party Politics

African National Congress

- The ANC set in motion the decision of its National Executive Committee (NEC) to reconfigure its Provincial Executive Committees (PECs) in Gauteng and KwaZulu-Natal while simultaneously working to sustain its coalition agreements under the GNU and PGU framework.
- Provincial Task Teams (PTT) in KZN and Gauteng, as well as in respective Regional Task Teams (RTTs), which are interim structures, have been inaugurated and will oversee the stabilisation of the organisation, drive political education, and work towards the revitalisation of ANC branches across the two provinces.
- The KZN PTT is led by Jeff Radebe, as the overall convenor. He is deputised by Weziwe Thusi and Sboniso Duma (former provincial chairperson). The former provincial secretary, Bheki Mtolo, though he remains on the ANC's payroll as the provincial secretary, was replaced by Mike Mabuyakhulu as the provincial coordinator. Mtolo is in the expanded PTT where he is the convenor for Policy, Monitoring and Evaluation. He is also a deployee to the Inkosi Bambatha region.
- The eThekwini, Moses Mabhida, Harry Gwala, Josiah Gumede, Inkosi Bhambatha, General Gizenga Mpanza and Mzala Nxumalo are some of the regions that have been reconfigured.
- In Gauteng, the PTT is led by Amos Masondo and Panyaza Lesufi. Former provincial secretary, TK Nciza, like his KZN counterpart, remains in the expanded PTT. He is also the convenor for Policy, Monitoring and Evaluation while being a deployee to the West Rand region.
- All the five regions of Gauteng – Greater Johannesburg, Greater Tshwane, Sedibeng, West Rand, and Ekurhuleni – were also reconfigured.

Commentary

- While there was initial confusion about the reconfiguration of PECs and RECs, the unveiling of the PPTs, RTTs and Convenors for KZN and Gauteng, including their mandate, it is now clear that the purpose it to take over from the structures elected at conference.
- The ANC preferred reconfiguration, as opposed to dissolution, ostensibly to have larger PPTs and RTTs so as to broaden the leadership cohort and space to avoid concentrating power in smaller groups of individuals (typically the Top 5).
- The provincial secretaries in both provinces wielded significant power, which power was not always used to advance organisational interests. Mtolo's loyalty, in particular, to the current national leadership could not be ascertained. He and Duma have vacillated on the question of ANC's support for former president Jacob Zuma during his trials, and even after he had formed the MKP, while the national leadership was on occasion firm that the party could not afford any further association with Zuma.
- Nciza in Gauteng is also reported to have been driving a factional agenda, with attempts to agitate for change at the Union Buildings even before Cyril Ramaphosa could start his second term. This was apparently done to shore up Paul Mashatile to take over the reigns. Nciza, along with Lesufi, was also behind resistance to include the DA in the PGU, something that must raised the ire of the national leadership, although Lesufi later toned down on his anti-GNU rhetoric.
- These dynamics explain, in part, why Mashatile, alongside the party's first deputy secretary-general Nomvula Mokonyane, were not sold on the idea of disbanding the PECs of Gauteng and KZN.
- The reader would also recall that Mashatile had the backing of KZN when he successfully contested the position of party deputy president in December 2022, on the same slate as former treasurer-general Zweli Mkhize who lost to Ramaphosa.
- Whether or not the reconfiguration actually strengthens the party in the affected provinces remains to be seen, more so given that the working relationship between the co-convenors in Gauteng is not entirely clear.
- While the party lost mainly to the MKP in KZN during last year's election, the picture is different in Gauteng. In KZN, the ANC can make significant inroads if it capitalises on the apparent implosion of the MKP, unless the IFP could perform a miracle and take supporters from the MKP. This scenario is unlikely, however. IFP's traditional support base has no discernible links to the ANC. As the ANC has made it clear already, it was weak in the build-up to the elections, such that some of its members voted MKP because of their allegiance to Zuma.
- If the ANC truly reconnects with its support base, taking into account MKP's current weakness, it can make a comeback. This is despite Social Research Foundation's (SRF) latest poll showing an ANC decline from 40% in last year's election to 32%, as a result of the postponed Budget and return of loadshedding. This is because, in SRF's own admission, the poll had a large number of undecided respondents, who are presumed to be former ANC voters. SRF concedes that if the ANC were to embark on an aggressive campaign, it would have a good chance of winning these voters back.

Democratic Alliance

- The party's recent campaign against the 2% VAT increase proposal, which effectively prevented the tabling of the 2025 Budget on 19 February, found sympathisers in unlikely places, such as COSATU and civil society organisations.
- Its recently unveiled 6-point plan to pressurise Cabinet to consider other alternatives to raise revenue, as it is locked in internal consultations ahead of the Budget tabling on 12 March, will likely raise tensions within the GNU.
- The essence of the DA's 6-point plan is:
  - **No New Taxes** – including VAT, personal income tax and company income tax by finding R60 billion in savings from wasteful spending, while noting that this figure constitutes only 3% of the R1.9 trillion budget.
  - **Cut Unnecessary Government Expenditure** by introducing 50% reduction in government advertising budgets, 33% reduction in travel and catering expenditure across departments, a hiring freeze for all non-essential government positions for 12 months, and conducting a national audit of "ghost employees".
  - **Introduction of concrete, pro-business growth measures** by fast-tracking logistics and trade reforms by setting clear deadlines for the concessioning of freight rail and major ports like Cape Town and Richards Bay and establishing a $5 billion (around R92 billion) concessional lending arrangement with the World Bank for high-impact urban infrastructure projects without adding to the national debt.
  - **A Comprehensive Spending Review to Reprioritise R58 Billion** by reallocating funds to essential public services such as healthcare, policing, and education; fund legally mandated commitments, such as the R7 billion public sector wage increase; using the Adjustment Budget Mechanism to shift spending as new revenue streams are unlocked; and using adjustment budgets throughout the year by reallocating funds as inefficiencies are identified.
  - **Increasing Revenue (without raising taxes)** by increasing tax compliance from 63% to 67% to generate R60 billion per year, and selling underutilised state-owned land and properties to raise R10 billion per year.
  - **Protecting essential services and the most vulnerable** by ensuring that there are no cuts to frontline healthcare workers, teachers, SAPS personnel, or social grants, and converting the SRD grant into a Job Seekers' Allowance, ensuring that it supports employment-seeking efforts.
- This proposal may resonate with many in society, given the outrage at the National Treasury's proposed 2% VAT hike amidst the rising cost of living, as well as the fact that South Africans generally take a dim view of government's unfettered consumption on things they do not consider to be in the country's best interests. This is precisely what the DA is hoping for; however it is hardly any sufficient guarantee for electoral support. However noble its proposals may be, the party is still distrusted within the black segment of the population.
- While the DA prides itself on the 'stellar' performance of its ministers in the GNU, the party is experiencing internal rifts between Federal Council Chairperson, Helen Zille, and party leader and Agriculture Minister, John Steenhuisen. This friction is over the party's strategic direction within the GNU. Zille's faction remains sceptical about the long-term viability of cooperation with the ANC. These tensions could shape the nature of the DA's participation in the GNU (although the party has said it is not leaving the coalition) and its trajectory leading up to the 2026 local government elections.

uMkhonto weSizwe Party

- The MK Party is facing significant internal strife and leadership instability, caused in the main by the overbearing personification of the party in the name of its leader Jacob Zuma and senior leadership's struggle for access to and influence of Zuma. Nothing epitomises this struggle more than the confrontation between the party's deputy president, John Hlophe, and whip, Mzwanele Manyi, over the former's lackluster contribution to the SONA debate. It later emerged that Hlophe was given a copy of the speech by Manyi who in turn had been given by secretary-general Floyd Shivambu who claimed it had been approved by Zuma.
- Zuma's recalcitrant daughter, Duduzile Zuma-Sambudla, is another headache for him and other leaders alike. She has now been officially charged for bringing the party into disrepute, following her expletive-laden rants against Shivambu earlier in the month.
- Several founding members have resigned, including treasurer-general Thanti Mthanti, and Induna Phumlani Mfeka, citing strategic misalignment.
- The party's failure to form a coalition government in KZN was a major sore point for many in the leadership and the rank and file that voted for the MKP in last year's elections.
- All these events have weakened the MKP's national standing ahead of the 2026 local government elections.

Economic Freedom Fighters

- In recent months, the Economic Freedom Fighters (EFF) have faced significant internal challenges, marked by high-profile defections to the MKP and leadership changes at the Third National People's Assembly last December. Malema was re-elected for another five-year term. The new leadership is reflective of continuity and change. These events have tested the leadership and resilience of EFF Commander-in-Chief Malema.
- He has remained steadfast, downplaying the impact of the defections, and expressing confidence in the EFF's stability. The defections have strained relations between the EFF and MKP. Malema has publicly criticized Zuma, labelling him a "back stabber" and dismissing the possibility of collaboration between the two parties and the end of the 'progressive caucus' in parliament. He has emphasised that the EFF would not align with MKP, despite shared policy objectives such as land expropriation and nationalization of key industries.
- These developments have prompted discussions about Malema's leadership style and the future trajectory of the EFF. Analysts suggest that the defections may be partly attributed to his authoritarian approach within the party and a lack of clear succession planning. However, Malema continues to assert his commitment to the EFF's mission, focusing on internal unity and the party's strategic goals.
- Malema is navigating a complex period marked by internal dissent and external challenges. His ability to maintain cohesion within the EFF and address the factors leading to high-profile defections will be crucial in determining the party's future influence in South African politics.

Inkatha Freedom Party

- The IFP is set to hold its National Elective Conference in 2025, a pivotal event that will shape the party's leadership and strategic direction. This conference is particularly significant as it coincides with the IFP's 50th anniversary, marking half a century since its establishment.
- The National Elective Conference will serve as a platform for the IFP to reflect on its historical journey, assess its current political standing, and outline its future objectives. The conference will involve the election of new leadership, policy deliberations, and strategic planning to address the evolving political landscape of South Africa. As the party commemorates its 50th anniversary, this gathering offers an opportunity to honour its legacy while adapting to contemporary challenges.
- Party president Velenkosini Hlabisa's recent appointment as Minister of Cooperative Governance and Traditional Affairs in the GNU in June 2024 underscores his integral role in both the party and the national government. His leadership will be instrumental in steering the party through this transformative period.
- In his address at the launch of the IFP's 50th anniversary celebrations in January 2025, Hlabisa emphasised the party's enduring commitment to serving South Africans and its role in shaping the nation's history and future.

South Africa in the Global Context

South Africa's Hosting of Key G20 Cluster Meetings

- South Africa, as the current G20 President, hosted a series of crucial cluster meetings in February, focusing on economic development, global security, and multilateral cooperation. These meetings reinforced South Africa's leadership role in global affairs and emphasised Africa's priorities on the international stage.
- The First G20 Foreign Ministers' Meeting (FMM) under South Africa's G20 presidency took place from 20 to 21 February, hosted by the country's Minister of International Relations and Cooperation, Ronald Lamola, and officially opened by President Cyril Ramaphosa. The meeting focused on the theme of *"Solidarity, Equality, and Sustainability."*
- In his opening address, President Ramaphosa emphasised the importance of Africa's voice in global decision-making, highlighting cooperation on climate change, economic inequality, and geopolitical tensions.
- Key agenda items included:
  - Global geopolitical dynamics and South Africa's High-Level Deliverables for its G20 presidency.
  - A review of G20@20, assessing the forum's impact over the past two decades.
  - Strengthening multilateralism, global cooperation, and responses to pressing crises, including conflicts, climate change, and economic instability.
- The First G20 Finance Ministers and Central Bank Governors (FMCBG) Meeting was held from 26 to 27 February, bringing together global financial leaders to discuss economic stability and cooperation.
- President Ramaphosa reaffirmed the G20's role in promoting global economic resilience, emphasising the same four core priorities during South Africa's presidency.
- He also called for enhanced multilateral cooperation, warning against the erosion of global governance structures, which could undermine economic growth and stability.
- His address emphasised the need for a fair, transparent, and inclusive international order to reduce inequality and promote shared prosperity. It also underscored Africa's growing economic role, driven by a youthful population, technological advancements, and economic potential.
- The Finance Track and Sherpa Track will need to work together to drive inclusive global growth. South Africa's Minister of Finance Enoch Godongwana has been tasked with strengthening G20 financial working groups. The upcoming Financing for Development Conference in Spain (June 2025) presents an opportunity to push forward financial reforms.
- The meeting underscored the urgency of addressing global financial challenges while ensuring that Africa and the Global South have a stronger role in shaping international economic policies.

Commentary

- The First FMM and FMCBG meetings mark a critical moment in global governance, particularly in light of geopolitical and economic uncertainties. Key takeaways from the G20 Meetings include:

  1. A Shift Toward Inclusive Multilateralism
  - The theme of *"Solidarity, Equality, and Sustainability"* highlights South Africa's commitment to reshaping multilateral cooperation, ensuring economic inclusivity, and amplifying Africa's role in global decision-making.
  - The review of G20@20 emphasised the forum's evolving role in economic governance, particularly amid rising geopolitical tensions and shifting trade policies.

  2. Global Diplomatic Dynamics at Play
  - The absence of U.S. Secretary of State Marco Rubio at the Foreign Ministers' Meeting, though known beforehand, raised speculation about waning U.S. engagement.
  - However, the strong participation of other foreign ministers reaffirmed the G20's continued relevance as a platform for international diplomacy.
- While South Africa's leadership has been widely acknowledged, several challenges remain. These include geopolitical tensions, especially China-U.S. trade disputes and Russia's role in the G20 which could impact consensus-building.
- Debt relief efforts require stronger commitments from creditor nations and private lenders to ensure effective debt restructuring.
- Scaling up climate financing remains an urgent need, as developing nations continue to face high borrowing costs and limited investment in green transitions.
- The upcoming Financing for Development Conference in Spain (June 2025) is expected to be a defining moment for advancing discussions on global capital flows, debt relief, and financial system reforms.
- South Africa's push for G20 reforms reflects a broader movement toward inclusive economic growth, financial sustainability, and climate resilience. The success of its presidency will ultimately be measured by how well these discussions translate into concrete policy shifts and financial commitments.

Strained South Africa-U.S. relations

- On 26 February, PEPFAR-funded HIV/AIDS organisations in South Africa woke up to letters telling them their grants had been permanently ended because their priorities did not align with U.S. national interests. This followed an executive order issued by President Donald Trump earlier in the month, on grounds that South Africa was seizing Afrikaner land and property without compensation within the context of the recently signed Expropriation Act.
- The letters came as South African public interest group AfriForum and trade union Solidarity embarked on a tour of the U.S. to engage with U.S. officials to express concerns over South Africa's land reform policies and alleged discrimination against the white minority. Their visit included meetings at the White House, where they discussed these issues with members of the Trump administration.
- President Ramaphosa has criticised these groups for internationalising domestic matters, accusing them of sowing division within South Africa. He emphasised that such issues should be resolved internally rather than seeking external intervention.

Commentary

- The intersection of the U.S. aid withdrawal and the advocacy efforts by AfriForum and Solidarity has put further strain on diplomatic relations between the U.S. and South Africa, raising concerns about the future of international support for critical health programs and the broader bilateral relationship.
- Earlier in the month, U.S. Congress wrote to Trump exhorting him to reconsider South Africa's participation in AGOA. This is after the Joe Biden administration had, in December last year, given a green light for South Africa to continue enjoying trade benefits under this preferential instrument.
- Meanwhile, South Africa's Competition Commission released provisional findings from a 16-month investigation into the practices of major tech companies, including Google and Meta, concerning their interactions with local news media. The Commission determined that these companies engaged in anti-competitive behaviours detrimental to South African media outlets.
- To address this, the Commission recommended that Google compensate South African news organisations between R300 million and R500 million (approximately \$16.3 million to \$27.2 million) annually over a three to five-year period. This compensation aims to rectify the financial losses incurred by local media due to reduced visibility and traffic.
- Should Google, Meta, and other implicated companies fail to implement the recommended changes within six months following the final report, the Commission suggests imposing a digital advertising tariff or levy ranging from 5% to 10% on their South African operations.
- While the Competition Commission's investigation has been ongoing for the past 16 months, in response to over-the-top media services' (OTT) oversized dominance of South Africa's content space due to increased internet connectivity, demand for on-demand content, and advertising strategies, its release of the provisional findings coincides with deteriorating diplomatic relations between the U.S. and South Africa. It may thus appear as if it is retaliation against Trump's executive order and the immediate cessation of HIV/AID funding.
- The next four years will most certainly prove difficult for the relations between the two countries.

State-Owned Enterprises: Reforms and Challenges

- In his 2025 SONA, President Ramaphosa outlined significant reforms for state-owned enterprises (SOEs), focusing on governance improvements, financial sustainability, and reducing political interference.
- A central component of these reforms is the National State Enterprises Bill (SOE Bill), which has been finalised and is ready for submission to Parliament. The Bill aims to codify SOE board appointment processes and introduce sanctions for non-compliance, fostering greater accountability and professionalism in SOE leadership.
- The President acknowledged the severe financial and operational challenges facing many SOEs, including heavy debt burden, under-investment in critical infrastructure, lingering effects of state capture, and a shortage of skilled personnel.
- While the SOE Bill is positioned as a key solution, critics argue that it falls short of addressing the deep-rooted financial, structural, and leadership issues in key national SOEs, such as Ithala Bank, Eskom, South African Airways (SAA), Denel, Transnet, and the South African Post Office (SAPO).
- There is ongoing debate over whether business rescue remains a viable option for financially distressed SOEs, as concerns persist about its effectiveness in stabilizing struggling entities.

Commentary

- The SOE reforms outlined in SONA 2025 reflect a renewed government commitment to tackling inefficiencies, corruption, and financial mismanagement in these entities. However, several key challenges remain.
- First, there are implementation risks. Many past SOE reform efforts have failed due to political interference, weak oversight, and financial mismanagement. The real test lies in whether these reforms will be executed effectively and without undue political influence.
- Second, the creation of SAMSOC is intended to streamline SOE management, however its centralization under the presidency raises concerns. While it could enhance efficiency, it may also lead to greater political interference if not properly managed.
- Third, the proposed independent selection process for SOE boards is a step forward in reducing political patronage. However, its success hinges on true independence —without transparent criteria and accountability, the risk of political influence remains high.
- Fourth, SOEs like Eskom, Transnet, and PRASA continue to drain public funds, requiring repeated bailouts to remain operational. Without well-defined turnaround strategies, these reforms may fail to reduce government dependency.
- Fifth, the government's planned R375 billion infrastructure investment has the potential to stimulate economic growth; however it also carries risks of cost overruns, inefficiencies, and corruption - issues that have plagued previous infrastructure projects.
- Sixth, encouraging private investment and partnerships (PPPs) in SOEs could enhance efficiency and reduce fiscal strain. However, the government has historically been reluctant to relinquish control. The success of PPPs will depend on ensuring investor confidence through transparency and regulatory stability.
- The 2025 SOE reform agenda presents a critical opportunity to restore stability and credibility of South Africa’s SOEs. If implemented effectively, these reforms could lead to stronger, more efficient SOEs, reducing the financial burden on the state and improving service delivery. However, without transparent governance, strict financial discipline, and genuine independence from political interference, South Africa risks repeating past failures, leading to continued inefficiencies and economic stagnation.

Economic Updates

Economic Outlook

- South Africa's economic landscape remains challenging but shows some signs of stability, with GDP growth, inflation, employment, and fiscal issues shaping the country's outlook.
- The World Bank raised South Africa's GDP growth forecast for 2025 from 1.3% to 1.8%, citing improvements in energy supply and logistics. The South African Reserve Bank (SARB) projects 2% growth for this year. However, this is still insufficient to significantly reduce poverty and unemployment.
- GDP growth of 1.6%–1.8% is modest but positive, driven by infrastructure projects, regulatory reforms, and private sector investments.
- The government signed a three-year wage agreement, with public sector unions, offering a 5.5% salary increase for public servants, with future increases linked to inflation.
- The public sector wage bill remains a major concern, surpassing R700 billion annually, accounting for about 37% of government spending.
- The latest Quarterly Labour Force Survey (QLFS) for Q4:2024 revealed that the official unemployment rate is currently 31.9%, showing a slight improvement with a 0.2 percentage point decrease compared to the previous quarter.
- The number of employed individuals increased by 132,000, bringing total employment to 17.1 million. At the same time, the number of unemployed persons decreased by 20,000, lowering the total number of unemployed to 8.0 million.
- This resulted in a net increase of 112,000 in the labour force, representing a 0.4% growth in Q4:2024. However, the number of discouraged job seekers rose by 111,000 (a 3.3% increase), highlighting the persistent disillusionment many South Africans feel toward the labour market.
- Inflation is expected to average 4.5% in 2025, within the South African Reserve Bank (SARB) target range, but higher food, electricity, and water prices remain risks.
- The SARB has reduced interest rates by 0.5 percentage points, which could lower borrowing costs and stimulate spending.
- White maize prices have surged by 50% year-on-year due to poor crop yields, pushing up food prices.
- Electricity tariffs are expected to rise by 10%–20%, impacting businesses and households.
- The weak rand and trade uncertainties could worsen import costs, further increasing living expenses.

Commentary

- Many challenges to the economy remain. The growth remains constrained and fiscal outlook is weak.
- While government is aiming for 3% annual growth over the medium-term, realising that target, in the current environment, will prove difficult. South Africa's debt-to-GDP ratio is projected to have reached almost 75% in 2024/25, up from 23.6% in 2008/09 – back when the country had a coveted investment grade credit rating.
- The country's economic situation will most likely be compounded by weakening trade relations with some of the country's trading partners, notably the U.S. as South Africa's future participation in AGOA hangs in the balance.
- Expected inflationary pressures arising from the U.S. will also have a bearing on South Africa's inflation outlook and currency depreciation. The SARB may be forced to return to its restrictive monetary policy, with wide-ranging implications for the economy.
- The permanent freeze of U.S. health aid to South Africa, primarily as a result of Trump's economic policies, though constituting only 17% of the national HIV/AIDS programme, as well as bourgeoning public expenditure pressures, such as the recently concluded multi-year public service agreement, will exert pressure on the fiscus, pushing the public sector wage bill to over R700 billion.
- Although there is a slight improvement in unemployment numbers, 31.9% unemployment remains worrying high by any measure. This means, among others, that of these unemployed people must necessarily benefit from the social security net provided by government which accounts for R387 billion in 2024/25. The recent high court ruling that the SRD grant still excludes millions of deserving South Africans means this social security net must be expanded, costing the fiscus approximately R32 billion more.
- South Africa is nearing removal from the Financial Action Task Force (FATF) grey list, having addressed 20 out of 22 required action items. The remaining two are expected to be resolved by mid-2025, with a potential delisting in October 2025. The FATF recognised progress during its February 2025 plenary but emphasised the need for more prosecutions of complex money laundering cases. The National Treasury is optimistic, anticipating an on-site assessment by May 2025. While significant strides have been made, continued enforcement against financial crimes is crucial for a successful exit.
- The recent bouts of loadshedding (on the first weekend of February and on the weekend of 22 February) also remain a concern. Although government states that these bouts were unforeseen, given the aggressive implementation of Eskom's Generation Action Plan, some energy experts suggest that loadshedding returned because, following a breakdown of various units in several power stations, Eskom ended up relying on emergency reserves – especially in the week leading to the 22 February – and therefore loadshedding could not have been unforeseen.
- Fortunately, several of those units have now returned, resulting in 4 800 megawatts (MW) recovery. There is also an expected addition of 1 600 MW with the synchronisation of Kusile Unit 6 scheduled for 9 March 2025 and Medupi Unit 4 at the end of March 2025 will further bolster our nation's energy supply.

Key Risks

South Africa faces a complex web of economic, social, and political risks that could significantly impact its stability and growth.

Economic Instability & Fiscal Challenges
South Africa's economy remains fragile, with slow GDP growth, high debt levels, and ongoing fiscal constraints posing major risks.

Unemployment & Social Unrest
With unemployment at record levels, social unrest is an increasing concern. Youth unemployment exceeds 50%, leading to frustration and possible social instability.

The formal sector is not growing fast enough to absorb new entrants, and informal work lacks stability and security.

Energy & Infrastructure Risks
The energy crisis remains one of South Africa's most pressing challenges, with Eskom's struggles and failing infrastructure threatening economic recovery.

Political & Governance Uncertainty
The 2024–2029 political cycle carries major governance risks escalation. GNU politics and instability can lead to policy gridlock and governance inefficiencies, as we saw with disagreements over the tabling of the 2025 Budget.

Crime & Security Concerns
South Africa faces a rising crime wave, undermining business confidence and public safety.