

LATEST FORECASTS | FOURTH QUARTER 2025

# Economic Prospects

Executive summary

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# Forecast in a nutshell

| Real annual % change*                             | 2025         | 2026         | 2027         |
|---------------------------------------------------|--------------|--------------|--------------|
| <b>Final household consumption expenditure</b>    | <b>2.6</b>   | <b>1.7</b>   | <b>1.9</b>   |
| Durable goods                                     | 3.9          | 2.6          | 2.7          |
| Semi-durable goods                                | 5.1          | 3.0          | 2.6          |
| Non-durable goods                                 | 1.5          | 1.2          | 1.5          |
| Services                                          | 2.6          | 1.6          | 1.8          |
| <b>Gross fixed capital formation</b>              | <b>-2.2</b>  | <b>3.1</b>   | <b>2.2</b>   |
| Private                                           | -1.5         | 3.8          | 2.2          |
| Government                                        | -2.7         | 1.5          | 1.8          |
| Public Corporations                               | -6.1         | 1.5          | 2.6          |
| <b>Gross domestic expenditure</b>                 | <b>1.8</b>   | <b>1.9</b>   | <b>1.7</b>   |
| Exports of goods and services                     | -2.1         | 1.4          | 3.3          |
| Imports of goods and services                     | -0.3         | 2.8          | 3.3          |
| <b>Gross domestic product</b>                     | <b>1.3</b>   | <b>1.5</b>   | <b>1.7</b>   |
| <b>Current account as % of GDP</b>                | <b>-0.7</b>  | <b>-1.0</b>  | <b>-1.0</b>  |
| <b>Interest rates (% , last quarter average)</b>  |              |              |              |
| 3-month NCD rate                                  | 7.31         | 6.57         | 5.65         |
| 10-year government bond yield                     | 9.99         | 9.47         | 9.08         |
| Prime overdraft rate                              | 10.50        | 9.25         | 9.00         |
| <b>Inflation rates (%)</b>                        |              |              |              |
| Producer prices                                   | 1.6          | 3.2          | 3.6          |
| Consumer prices                                   | 3.3          | 3.5          | 3.2          |
| <b>Labour and employment (private and public)</b> |              |              |              |
| Nominal wage rate                                 | 4.4          | 3.6          | 3.4          |
| Employment growth                                 | 0.1          | 1.7          | 1.6          |
| <b>Exchange rates (Q4 average)</b>                |              |              |              |
| R/US dollar                                       | 17.25        | 16.90        | 17.03        |
| R/Euro                                            | 20.18        | 19.94        | 20.43        |
| R/Pound sterling                                  | 23.28        | 23.49        | 24.18        |
| R/100 Japanese Yen                                | 11.89        | 12.16        | 12.61        |
| <b>Fiscal indicators as % of GDP</b>              | <b>25/26</b> | <b>26/27</b> | <b>27/28</b> |
| Main budget balance                               | -4.7         | -3.7         | -3.6         |
| Gross government debt                             | 78.5         | 79.6         | 80.4         |

\* unless specified otherwise

# Executive summary

We have upwardly revised our 2025 real GDP growth forecast<sup>1</sup> relative to our July update, largely due to the second quarter data being better than expected. Our view on the medium-term growth trajectory, however, remains largely unchanged. Growth is expected to rise from just above 1% in the near term to around 1.5%. We have made a change to our interest rate forecast relative to July, with rate cuts now helping to lift growth to just above 1.5% rather than hovering below it. The rand is also expected to remain notably stronger than we pencilled in before and reflects a more stable currency in light of a lower inflation target.

Following the better-than-expected Q2 GDP print, we already signalled in our interim forecast update in September that real growth would likely come in around 1.2% in 2025. We have now settled on 1.3%, accelerating to 1.7% by 2027. Consumer spending appears to be slowing as anticipated, yet it remains a key driver of growth. Household expenditure is projected to rise from 1% in 2024 to 2.6% this year, before moderating to around 1.7% over the medium term. Despite the slowdown, it continues to marginally outpace GDP growth over our forecast period. Gross fixed capital formation is forecast to contract once more in 2025, but a recovery to about 3% growth is expected next year. It is important to note that, in level terms, private fixed investment is unlikely to return to pre-COVID levels within the next couple of years.

Net trade and inventory dynamics remain difficult to forecast amid ongoing global trade uncertainty and the effects of front-loading and other disruptions. In the near term, net trade is expected to remain a drag on growth, with growth in gross domestic expenditure (GDE, essentially domestic demand) running slightly ahead of gross domestic product (GDP, which includes exports and subtracts imports). Slow progress on lifting the logistics constraint should aid exports over the medium term.

Overall, the growth picture remains broadly consistent with our earlier view: a welcome near-term upside surprise, but limited structural reform progress constrains the scope for any meaningful upward revision to medium-term growth potential.

We have made more significant adjustments to our inflation, interest rate and exchange rate forecasts. Following our July forecast update, the SA Reserve Bank (SARB) announced during its end-July interest rate meeting that it would prefer to target 3% inflation instead of 4.5% (i.e. the midpoint on the inflation target range of 3-6%). The SARB argues that achieving and maintaining lower inflation over time would bring substantial benefits to the SA economy, including a reduced risk premium, improved investor confidence, lower government borrowing costs, and the potential for lower policy interest rates over the long term.

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<sup>1</sup> The forecast was completed on 29 October 2025.

While our (pre-announcement) July forecast had already built in the assumption that inflation would drift towards 3% over the medium term, in line with the SARB's well-communicated intention to move toward a lower target, the official announcement has strengthened our conviction that this adjustment will occur sooner. A formal endorsement from National Treasury would further bolster credibility and facilitate faster convergence toward the new target.

In all, we now see headline consumer inflation averaging 3.3% in 2025 with an expected acceleration to 3.5% in 2026 on the back of base effects and structural factors that keep CPI elevated despite the target change. The target change announcement by the credible central bank does mean that we see inflation expectations drift lower over time, helping to push inflation just over 3% over the medium term.

Lower inflation (forecasts) means that the SARB can cut the policy interest rate in 2026, which is a change from our view before, when we had expected interest rates to remain steady for an extended period with inflation staying higher. We anticipate the first interest rate cut in March, but a firm commitment by National Treasury that it supports the change and/or actual inflation undershooting SARB forecasts could bring this forward. On the other hand, stickier inflation expectations and/or identified risks (e.g. rand, oil price) materialising would be reason for the SARB to wait until later next year before cutting the repo rate. Notwithstanding the starting point, we see scope for the repo rate to be cut by 150bps.

One of the more notable surprises of 2025 so far has been the strength of the rand, supported by a significantly weaker US dollar and improved investor sentiment towards South Africa. As before, we see scope for further rand appreciation through 2026, albeit from a stronger starting point than previously anticipated, with the currency expected to average below R17/USD over the year. While a gradual weakening trend against the dollar is projected to re-emerge over the medium term, the pace of depreciation is now expected to be considerably slower than before.

The shift in the inflation target (from 4.5% to 3%) enhances SA's competitiveness in purchasing power parity (PPP) terms over the longer horizon, reinforcing the case for a stronger real rand. Beyond near-term dynamics, a combination of global and structural factors underpins this improved outlook: the rand continues to benefit from a softer US dollar, firmer terms of trade, and better risk sentiment, while more stable domestic portfolio flows and a diversified external asset base have reduced volatility and strengthened the currency's resilience over time.

Another surprise has been that the global economy, particularly the US, has held up better than feared just after Liberation Day in early April. The concern was that the tariffs announced by US President Donald Trump could tip the US economy into recession and/or fuel inflation, which may necessitate a tightening by the US Federal Reserve. Neither has happened, so far. Part of the reason is that Trump has since backed down on some of his more serious threats and continues to do. While US policy shifts continue to be made on a whim, financial market reactions are less pronounced and equity markets are at/near record high levels. The US dollar has, however, remained weaker across the board since Liberation Day.

Uncertainty around trade policy remains a more permanent feature of the global economic landscape. Rather than disappearing, such uncertainty has become embedded, with firms and countries adjusting to this "new normal." Tensions surrounding critical technologies, most importantly rare earths and semiconductors, has escalated. This predates the current Trump

administration and underscores a broader, systemic competition for technological autonomy and economic security that extends well beyond the US-China bilateral relationship.

The US Federal Reserve is focusing on the employment component of its dual mandate and has restarted a rate-cutting cycle amid signs of a cooling labour market. (The expectation of) lower interest rates continues to put downward pressure on the dollar, but coupled with fiscal benefits kicking in next year, should keep US growth supported through 2026. The now month-long government shutdown is set to weigh on Q4 growth, however. The Eurozone is sputtering along, with plenty of potential upside from big fiscal spending plans on defence and infrastructure not (yet) filtering through to faster growth. The Chinese economy is slowing, although not as fast as feared when the US-China trade war started and should still hit its 'about 5% growth target' in 2025.

The gold price as well as the prices of platinum group metals (PGM) are up by about 60-80% since the beginning of the year. Factors that have spurred a flight to safety into precious metals for a large part of this year (US tariff policy, geopolitical uncertainty, central bank gold purchases and persistent dollar weakness) remain in place and are expected to spill over into 2026 – so while the continued surge is expected to abate, prices are expected to remain relatively high. For South Africa, elevated precious metal prices provide an important cushion for export revenues and the current account. They also support government revenue through higher mining-related tax receipts.

The near-term fiscal picture is more positive than we anticipated before, with revenue holding up well and expenditure seemingly in check. We do not expect major surprises in the Medium Term Budget Policy Statement, however, unlike what the Treasury's forecast will likely reflect, we do not see debt to GDP stabilise over the near term but rather trend slightly up.

Positive for SA inflation and net trade dynamics is that the oil price has trended lower from 2024. A continued supply surplus is expected to keep Brent crude prices closer to \$60/bbl than \$70/bbl. However, risks remain, including renewed hostilities between Israel and Hamas, disruptions in the Red Sea, or further reductions in Russian refining capacity and/or a decrease in Russian oil supply to the global market.

Overall, the near-term outlook for SA has improved modestly. Nonetheless, persistent structural constraints and slow reform progress, fiscal vulnerabilities, and uncertainty around global trade policy continue to limit the upside to medium-term growth.

*The full Economic Prospects will follow soon. Summaries of the latest forecast in Excel format can be found [here](#).*