

LATEST FORECAST | FIRST QUARTER 2024

# Economic Prospects: 2024-2025

Executive summary

## EDITORS:

**Shannon Bold**

✉ sbold@sun.ac.za  
☎ +27 (21) 808 9776

**Lisette IJssel de Schepper**

✉ lisette@sun.ac.za  
☎ +27 (21) 808 9777

## TECHNICAL ASSISTANCE:

**Nicolaas van der Wath**

Please refer to the glossary on the BER's [website](#) for explanations of technical terms.

### Copyright & Disclaimer

*This publication is confidential and only for the use of the intended recipient.  
Copyright for this publication is held by Stellenbosch University.*

*Although reasonable professional skill, care and diligence are exercised to record and interpret all information correctly, Stellenbosch University, its division BER and the author(s)/editor do not accept any liability for any direct or indirect loss whatsoever that might result from unintentional inaccurate data and interpretations provided by the BER as well as any interpretations by third parties. Stellenbosch University further accepts no liability for the consequences of any decisions or actions taken by any third party on the basis of information provided in this publication. The views, conclusions or opinions contained in this publication are those of the BER and do not necessarily reflect those of Stellenbosch University.*

# Forecast in a nutshell

Real annual % change*	2023	2024	2025
<b>Final household consumption expenditure</b>	<b>0.6</b>	<b>1.2</b>	<b>2.1</b>
Durable goods	0.5	1.2	3.1
Semi-durable goods	3.3	1.4	2.6
Non-durable goods	-1.3	0.9	2.0
Services	1.3	1.3	1.9
<b>Gross fixed capital formation</b>	<b>4.4</b>	<b>3.4</b>	<b>6.2</b>
Private	4.5	5.3	7.8
Government	4.8	-3.1	1.1
Public Corporations	3.6	1.4	3.2
<b>Gross domestic expenditure</b>	<b>0.6</b>	<b>1.8</b>	<b>2.6</b>
Exports of goods and services	3.6	2.4	2.8
Imports of goods and services	3.4	3.1	4.1
<b>Gross domestic product</b>	<b>0.6</b>	<b>1.5</b>	<b>2.2</b>
<b>Current account as % of GDP</b>	<b>-0.9</b>	<b>-2.0</b>	<b>-3.2</b>
<b>Interest rates (% , last quarter average)</b>			
3-month NCD rate	8.37	7.84	7.37
10-year government bond yield	10.35	9.95	9.86
Prime overdraft rate	11.75	11.04	10.50
<b>Inflation rates (%)</b>			
Producer prices	6.8	4.5	4.0
Consumer prices	5.9	5.0	4.6
<b>Labour and employment (private and public)</b>			
Nominal wage rate	-0.8	4.1	5.2
Employment growth	6.1	2.5	1.7
<b>Exchange rates (Q4 average)</b>			
R/US dollar	18.74	18.45	17.75
R/Euro	20.17	20.85	20.95
R/Pound sterling	23.27	23.80	23.26
R/100 Japanese Yen	12.67	13.69	13.98
<b>Fiscal indicators as % of GDP</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Main budget balance	-6.0	-5.7	-5.0
Gross government debt	75.9	79.6	82.4

\* unless specified otherwise

# Executive summary

Although we were anticipating a number of shocks<sup>1</sup> to weigh on SA growth in 2023Q3, the outcome was even lower than what we had projected. Real GDP declined by 0.2% q-o-q after an upwardly revised increase of 0.5% (from 0.6%) in 2023Q2. The decline was on the back of a large drawdown in inventories and significant weakness in underlying domestic demand as both household consumption and fixed investment contracted, while government consumption growth slowed. As such, in our December interim forecast update, we lowered our full-year growth forecast for 2023 to 0.6% from 0.8% in October. The latest high-frequency data suggests that, although we are likely to escape a technical recession (i.e. two consecutive quarters of negative q-o-q growth), growth momentum remains weak. We have left our GDP growth forecast for 2023 unchanged at 0.6%, but have revised our 2024 forecast slightly lower (to 1.5% from 1.6% previously) as persistent bottlenecks in the logistics sector, unreliable electricity supply and diminished sentiment will likely continue to weigh on growth prospects.

On the global front, the **US economy** continued to show remarkable resilience through the final months of 2023. However, it is expected that GDP growth will slow in 2024. The labour market is starting to cool, while consumers are eating away at their excess savings and starting to tap into credit markets to fund spending. The **Eurozone (EZ)** economy slogged through 2023 and narrowly avoided a recession by recording no growth in Q4 following a slight contraction in Q3. In contrast, government stimulus and a base-effect boost from zero-COVID in 2022 meant that the **Chinese economy** reached its “around 5%” growth target. However, deflationary pressure and continued problems in the property sector indicate that – unless stimulus is ramped up even more – growth is set to slow in 2024. More stimulus could have positive spillovers for SA export commodity prices. For now, we see lower prices for coal and iron ore in 2024 from 2023. Gold and platinum should be somewhat higher. In all, the International Monetary Fund (IMF), expects global growth to remain unchanged from 2023 at 3.1% in 2024 – slightly above their October forecast for 2024.

Consumer inflation in advanced economies has moderated to such an extent that the major **global central banks** are starting to talk in earnest about cutting interest rates later this year. However, we remain of the view that financial markets are too optimistic about the timing of the first cut as economic strength in the US and wage pressure in the EZ and UK will likely see central banks hold off on policy easing until mid-year. Additionally, central bankers have expressed a preference for a cautious approach, opting to move slowly and risk potential lateness rather than acting prematurely and having to backtrack. Although the US Federal Reserve (Fed) is anticipated to initiate a rate cut before its European counterparts, the difference in timing is expected to be marginal. As developed economy central banks keep

---

<sup>1</sup> This includes more intense load-shedding, disruptions on the N3 transport corridor, strikes in the Western Cape taxi industry and Tshwane municipal workers, Western Cape floods and the Avian flu.

interest rates higher for longer, we expect the dollar to strengthen in the near term compared to December 2023 levels. However, our baseline international currency view is that the US dollar could lose some ground towards the middle of the year as central banks look to ease monetary policy.

The **rand exchange rate** traded in a wide range in the last quarter of 2023, oscillating between R18.20/\$ and R19.55/\$, and averaging R18.78/\$ for the quarter as a whole (Q3: R18.64/\$). The rand tends to experience larger and more volatile movements in relation to other emerging market currencies and has been particularly sensitive to any news regarding global monetary policy. The currency will likely continue to trade in a volatile range on the back of global monetary policy expectations, risk appetite, and domestic idiosyncratic risks, including the upcoming Budget on 21 February and the national elections. We expect the rand to strengthen somewhat compared to last year and average R18.38 in 2024 (2023: R18.44/\$), before appreciating to R17.92/\$ in 2025 on a widely expected weaker dollar.

**Headline consumer inflation** ticked up to an average of 5.5% y-o-y in 2023Q4 (Q3: 5%), with annual inflation averaging 6% in 2023 (from 6.9% in 2022), largely in line with expectations. Although food and non-alcoholic beverages (FNAB) inflation moderated through the year-end, it remains high and is faced with a number of risks in 2024. Beyond the next few months, soft commodity prices, like grains, will largely depend on El Niño, which is currently expected to fade by winter. Inflation in other components is also expected to ease as base effects from the previous year normalise. We anticipate headline inflation to remain sticky at around 5.3% in the first half of this year, mainly due to fuel price base effects, before moderating to reach the midpoint of the 3-6% target band by year-end. CPI is forecast to average 5.0% in 2024 and 4.6% in 2025 (compared to our previous forecast of 5.2% and 4.5%, respectively). An upside risk to the local and (global) inflation outlook could be a sustained surge in the **Brent crude oil price**. For now, we expect the increase in non-OPEC+ production to leave the oil market well supplied and our baseline does not see oil rise beyond \$100/barrel.

Regarding the local **monetary policy outlook**, the Monetary Policy Committee (MPC) continues to be data-dependent and sensitive to a matrix of risks. This suggests that even as forecasted inflation moves towards the midpoint of the target band through the year, the SA Reserve Bank (SARB) will weigh this up against risks to the inflation outlook. The (currently) heightened risks and sticky inflation expectations could give the SARB more reason to wait before embarking on a shallow cutting cycle. For now, we continue to expect a modest cutting cycle to commence in 2024Q3 at the July MPC meeting and after (most) global central banks have started cutting their policy rates. The Quarterly Projection Model (QPM) suggests a cumulative 100 basis points (bps) worth of cuts in the next two years - 75bps in 2024, and 25bps in 2025 – with a terminal rate of 7.25%. In line with the Taylor rule, we expect an additional 25bps cut (i.e., a cumulative 125bps) to bring the terminal rate back to the steady-state level of 7% by the end of 2025. It is important to note that this brings the policy stance closer to neutral from the current restrictive level. In other words, this is a normalisation in the policy stance, not necessarily a stimulus as we saw in the COVID-19 pandemic, for example.