South Africa Country Brief

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AFREXIMBANK

Transforming Africa's Trade

African Export-Import Bank
Banque Africaine d'Import-Export

South Africa

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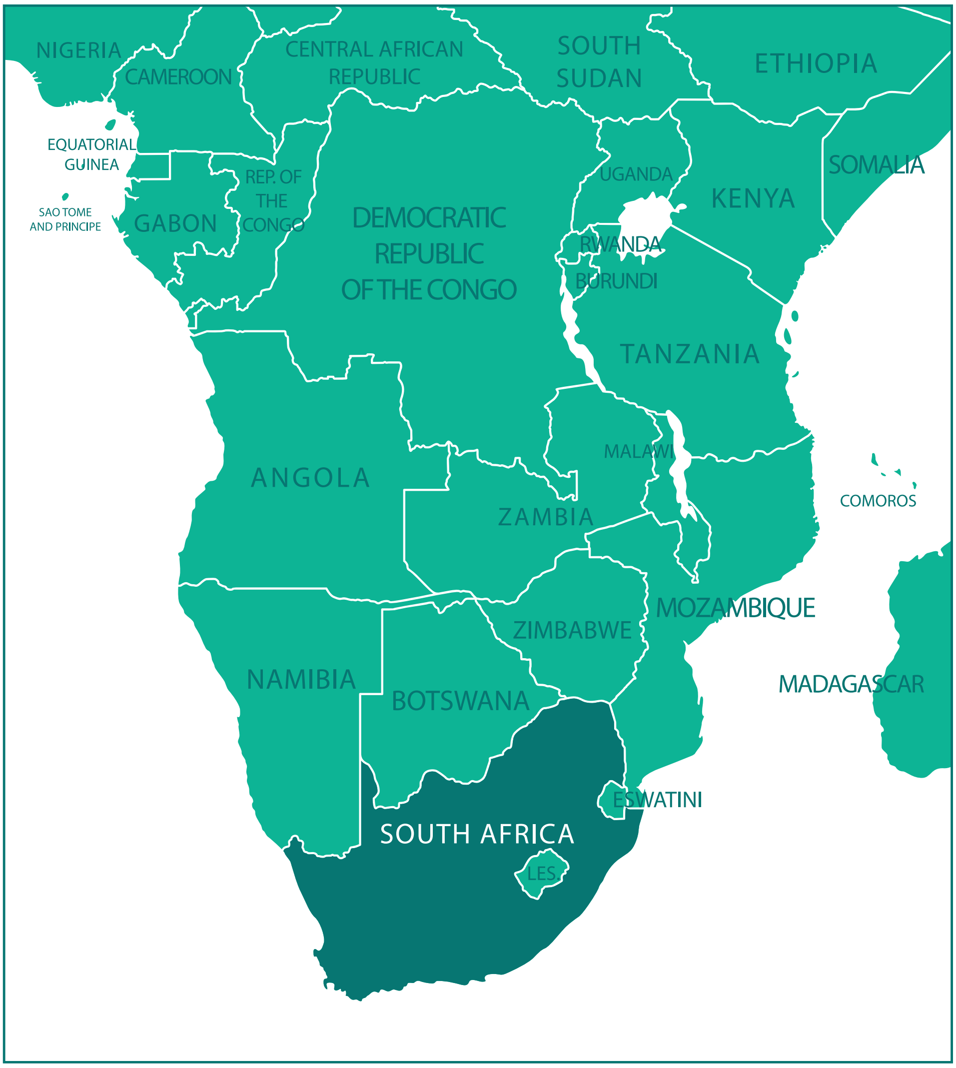


INTRODUCTION

South Africa is located at the southern tip of Africa, sharing borders with Namibia and Botswana to the Northwest, Zimbabwe to the North, Mozambique, and Eswatini to the Northeast, and it surrounds the Kingdom of Lesotho. Its territory covers 1,219,090 sq km, and overlooking the Atlantic and Indian Oceans to the west and southeast respectively. The country's coastline along these oceans is approximately 2,798 km. According to the World Bank, South Africa's population has grown significantly, from 16.5 million in 1960 to about 60 million in 2023. The country has elven official languages including English, Afrikaans and nine ethnic languages - with Zulu and Xhosa being the most widely spoken, even though most South Africans can communicate in more than one language, English is the most commonly spoken and the language of official business and commerce.

In 2023, South Africa emerged as Africa's second-largest economy behind Egypt, contributing 13.2 percent of the continent's Gross Domestic Product (GDP) and slightly surpassing Nigeria's economy. The economy is primarily driven by the services sector, which accounted for about 75 percent of the country's GDP in 2023, followed by industry at 22 percent and agriculture at 3 percent (Statistics South Africa, 2024). Despite the modest contribution of agriculture to GDP, its importance to the overall economy is far-reaching, employing a significant portion of the workforce (21.3 percent) and supporting rural livelihoods. The Industrial sector, particularly mining and manufacturing, has historically been the backbone of the economy, driven by the country's rich mineral resources and industrial investments, and employs about 17.3 percent of the workforce. The services sector, including finance, real estate, tourism, and telecommunications, has become the predominant driver of economic output and employment, accounting for 61.4 percent of the workforce.

South Africa is a key driver in intra-African trade, contributing 20.4 percent in 2023, which is reflected in the consolidated performance of Southern Africa as the highest regional contributor to intra-African trade, accounting for 41.1 percent of total intra-African trade (African-Trade Report2024). However, this only represents about 18 percent of the country's total trade. South Africa imports about 63.8 percent of its crude oil from the continent, with 47.9 percent coming from Nigeria, the leading global supplier of crude oil to South Africa, ahead of Saudi Arabia. Energy products constitute a significant portion, about 55 percent of South Africa's imports from the continent. In 2023, imports from, and exports to, Africa accounted for 9.6 percent and 29.6 percent respectively of South Africa's trade with Africa. The profile of South Africa's trade with the rest of Africa reflects the diversified nature of its economy.

POLITICAL ENVIRONMENT

South Africa is a republic with a democratic framework ensuring the separation of powers among the three arms of government, namely the executive, the legislative, and the judiciary. It has one of Africa's most stable and inclusive political systems across the continent. The Parliament is bicameral, consisting of the National Assembly and the National Council of Provinces. The country operates a multi-party system of democracy with different parties, representing various ideologies, often forming coalitions. Major political parties include the African National Congress (ANC), Democratic Alliance (DA), Economic Freedom Fighters (EFF), Inkatha Freedom Party (IFP), and Freedom Front Plus (FF+).

The President of South Africa, elected by the National Assembly, is both the head of state and head of government, playing a significant role in the country's governance and stability. However, the parliament and political parties also provide avenues for civic engagement. Cyril Ramaphosa from the ANC, was elected President for a second term following the June 2024 national elections. For the first time since independence in 1994, the ANC lost its absolute parliamentary majority, which led to the formation of a coalition government with other smaller opposition parties, such as the Democratic Alliance (DA) and the Inkatha Freedom Party (IFP).

ECONOMIC OVERVIEW

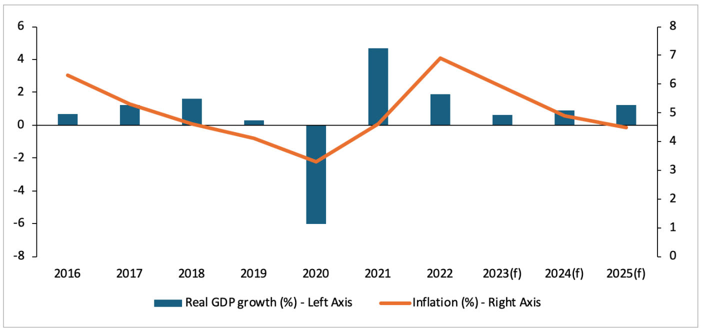
Economic Growth

South Africa's economy has experienced modest growth, with an average annual growth rate of 0.6 percent between 2016 and 2023. The country has faced several challenges in the last few years, including a global economic slowdown, high inflation, tight monetary policy conditions, geopolitical tensions, and rising commodity and energy prices on account of the Russia-Ukraine war. Internally, weak structural growth, decreased mining production, the continued impact of COVID-19, logistics bottlenecks, and electricity supply shortages have disrupted economic activity and increased business operating costs. As a result, real GDP growth declined from 4.7 percent in 2021 to 1.9 percent in 2022 and declined further to 0.6 percent in 2023. The growth rate is expected to increase marginally at an estimated 0.9 percent in 2024 and 1.2 percent in 2025. This forecast is based on expectations of a partial recovery in industrial production, a rebound in the services sector, and improved trade performance.

Inflation

After peaking at 6.9 percent in 2022 from 4.6 percent in 2021, the trajectory of inflation reversed, with the rate of inflation trending downward steadily and coming in at 5.9 percent in 2023. The downward trend was driven largely by a tight monetary policy and a slower price increase of transportation, food, and non-alcoholic beverages. The annual rate of inflation is expected to sustain its downward trajectory, decelerating further to 4.9 percent in 2024 and 4.5 percent in 2025, on the back of moderation of fuel and food prices.

Figure 1: GDP Growth and Inflation (percent)

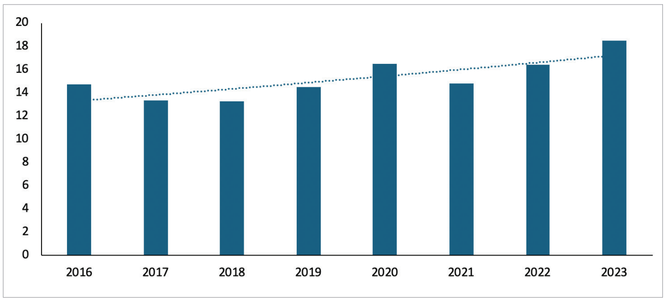


Sources: Afreximbank Research, IMF World Economic Outlook, 2024.

Exchange Rate

South Africa operates a managed floating exchange rate regime, where exchange rate is largely driven by market forces, with occasional intervention by the SARB to an extent that it has an impact on the inflation process. This ensures that the Rand stays within a specific range against the US dollar. From 2016 to 2023, the Rand has generally moved in the 13-20 ZAR range per US dollar. South Africa's strong reserve position and diversified economy were factors that limited foreign exchange fluctuations during the period, despite persistent global and domestic shocks. The South African Reserve Bank (SARB) intervenes minimally, allowing the Rand to reflect market conditions and external economic developments. However, in 2022 and 2023, the currency faced downward pressure, depreciating by 10.7 percent and 12.4 percent against the US dollar, respectively. This depreciation was mainly driven by the relatively lower commodity prices in 2023, the tight monetary policy in advanced economies, and declining terms of trade.

Figure 2. Official exchange rate (per $, period average)



Sources: Afreximbank Research, IMF World Economic Outlook, 2024.

Fiscal Balance

The South African government has maintained high spending levels since 2020, largely due to policies aimed at supporting individuals and businesses affected by the COVID-19 pandemic. As the main driver of the country's expenditure, welfare programs are instituted to counteract the impact of high inflation, through extensive social welfare grants. Additionally, the government has allocated funds for major infrastructure projects like the Durban Port expansion and national infrastructure development. Consequently, the fiscal deficit widened to 9.6 percent of GDP in 2020, up from 4.6 percent in 2019. However, the fiscal deficit improved, narrowing to 4.3 percent of GDP in 2022, from 5.5 percent of GDP in 2021, on account of higher energy and food prices occasioned by supply chain disruptions associated with the Ukraine crisis. Even though, the country's Medium Term Expenditure Framework (MTEF) proposes fiscal consolidation measures such as spending cut, efficiency measures across government, and revenue increases, achieving these could be challenging given continued funding provided by government in support of social welfare, wage subsidy schemes, and non-performing state-owned enterprises (SOEs). In 2024, expenditures are projected to outpace revenues, resulting in a higher fiscal deficit of about 6.1 percent of GDP, from 6 percent of GDP in 2023. Increased infrastructure expenditure will also weigh on the country's fiscal deficit, widening further to 6.3 percent of GDP by 2025.

Table 1: Government Finance (Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024 (f)	2025 (f)
General government revenue	26.2	25.8	26.4	26.7	25.0	27.1	27.7	27.0	27.1	27.1
General government expenditure	29.9	29.9	30.2	31.4	34.6	32.6	32.0	32.9	33.2	33.5
Fiscal balance	-3.7	-4.0	-3.7	-4.7	-9.6	-5.5	-4.3	-6.0	-6.1	-6.3

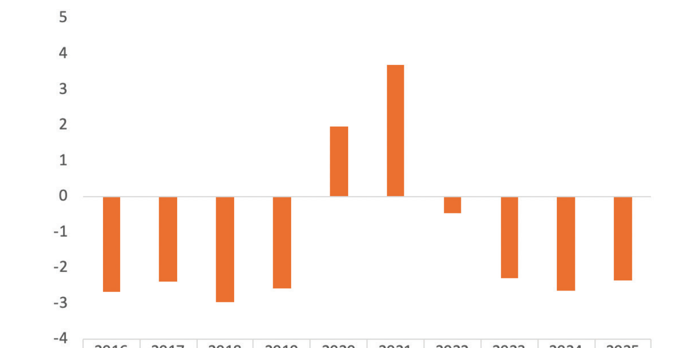
Source: Afreximbank Research, IMF (2024).

OVERVIEW OF TRADE, RESERVES, AND THE FINANCIAL SECTOR

Current Account Balance

After an exceptional performance reflected by increasing surpluses from 2.0 percent of GDP in 2020 to about 3.7 percent in 2021, South Africa's current account reversed, recording a deficit of 0.5 percent of GDP in 2022 and widening to 2.3 percent of GDP in 2023. The reversal of the current account was driven by a number of factors including mainly a growing import bill fueled in part by a depreciation of the Rand, power shortages, and export network constraints. The current account is projected to remain under pressure, with the deficit widening further to 2.6 percent of GDP in 2024, though will narrow modestly to 2.3 percent in 2025. The continued pressure on the current account is underpinned by low export growth driven by challenges in the transport sector, prolonged power shortages, and logistical constraints.

Figure 3. South Africa's Current Account Balance (percent of GDP)



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
CAB	-2.676	-2.368	-2.942	-2.568	1.972	3.677	-0.479	-2.293	-2.628	-2.347

Sources: IMF World Economic Outlook and Afreximbank research 2024.

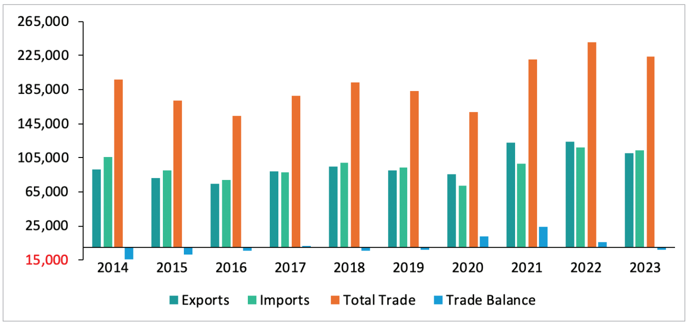
Total Trade

In 2023, South Africa's export basket was dominated by mining products, agricultural goods, and manufactured items. The country exported precious metals, vehicles, mineral fuels, and agricultural staples such as citrus fruits, wine, and maize. Major export destinations included China (11.2 percent), the United States (7.6 percent), Germany (7 percent), Mozambique (5.6 percent), Japan (5.2 percent), and the United Kingdom (4.9 percent), collectively accounting for around 41.5 percent of the country's total exports.

South Africa's imports in 2023 included capital goods such as machinery, equipment, and vehicles, as well as petroleum products, chemicals, plastics, pharmaceutical products, and electronics. Additionally, cereals, fertilizers, and oils constituted a significant portion of imports, reflecting the country's need for agricultural inputs and food security measures. Primary import sources included China (20.5 percent), the United States (8.6 percent), Germany (8.1 percent), India (7 percent), the United Arab Emirates (3.7 percent), and Thailand (3.3 percent), accounting for approximately 51.2 percent of total imports. This diversified import base provides South Africa with access to various goods and technologies necessary for domestic production and consumption.

South Africa experienced a trade deficit of US$3 billion in 2023, as imports amounting to US$113 billion, exceeded exports totaling US$110 billion. Efforts to enhance export competitiveness and promote import substitution will be crucial in addressing this trade deficit by strengthening South Africa's current account and balance of payments over the medium to long term.

Figure 4. South Africa's Trade Accounts, Exports, and Imports (Million US$)



Source: EIU database and Afreximbank research 2024.

Intra-African Trade

In 2023, South Africa's total trade with other African countries reached around US$39 billion, making up 18 percent of its overall trade. This surpassed the regional average of 14.1 percent. South Africa was the leading intra-African trading country, accounting for roughly 20.4 percent of the total trade in 2023. The country's intra-African exports amounted to US$30 billion in 2023, with the majority going to neighboring countries such as Mozambique, Botswana, Zimbabwe, Namibia, and Zambia, collectively receiving over 68 percent of the exports. Mozambique was the largest recipient, accounting for about 20 percent of South Africa's intra-African exports. South Africa's main intra-African exports included mineral products (12 percent), vehicles (8 percent), and machinery and equipment (5 percent).

On the import side, South Africa's intra-African imports totaled US$9.5 billion in 2023, with significant contributions from countries such as Nigeria, Eswatini, Mozambique, Namibia, and Botswana, with a combined share exceeding 71 percent of the total intra-African imports. Nigeria was the largest supplier, providing about 27 percent of South Africa's intra-African imports. Primary imports from within Africa included mineral fuels, oils, and petroleum products (45 percent), essential oils and resinoids (3.5 percent), and sugar and sugar confectionery (3.3 percent).

Foreign Reserves

Despite the challenges that shaped the global economic environment in the past few years, South Africa's foreign exchange reserves have been resilient, reflected by an improvement in the country's reserve position. The reserves increased to US$50.26 billion in 2021, from US$47.34 billion in 2020. In 2023, South Africa's reserves were estimated to have improved further to US$54.18 billion, up from US$53.25 billion posted in 2023, supported by international bond issuance and increased revenue from mineral exports. The IMF Fiscal Transparency Code Recommendations for technical support, fiscal consolidation efforts, and a major foreign investment deal in the renewable energy sector also bolstered this improvement. Increased confidence, foreign investment inflows, and higher tourism receipts are expected to continue to enhance South Africa's reserve position. This will enable the country to maintain an average import cover of 6 months in the medium term.

Financial Sector

South Africa's financial sector has experienced significant growth in recent years. As of June 2023, it included commercial banks, insurance companies, and microfinance institutions. According to recent data from the South African Reserve Bank (SARB), there are 16 commercial banks, 3 mutual banks, 4 cooperative banks, and 12 local branches of foreign banks. Finance, real estate, and business services play a substantial economic role, contributing over 24 percent of the GDP in 2023.

The South African banking industry is the largest on the African continent. In 2021, the combined tier 1 capital of the sector exceeded 34.4 billion U.S. dollars. Additionally, the top four financial institutions in the country—Standard Bank Group, Nedbank, FirstRand, and Absa Bank—were among the 10 largest African banks based on asset value in the same year. In 2020, the banking sector's total assets represented about 88 percent of South Africa's GDP.

Non-banking financial institutions in South Africa accounted for about 84 percent of the country's GDP in 2020. These include insurance firms, venture capitalists, currency exchanges, some microloan organizations, and pawn shops. These institutions offer services that may not be suitable for traditional banks, compete with banks, and specialize in specific sectors or customer groups.

Regarding the payments industry, the South African Reserve Bank (SARB), through the National Payment System Department (NPSD), oversees the safety, efficiency, and integrity of the National Payment System (NPS) while implementing measures to reduce systemic risk in the payment system. The mobile money market size in South Africa is estimated to be around US$6.8 billion, with millions of active users engaging in transactions ranging from peer-to-peer transfers and bill payments to merchant payments and microfinance services..

Debt Sustainability

In 2023, South Africa's total external debt was estimated at US$158 billion, accounting for 38 percent of the country's GDP. This is a decrease from the US$164 billion (40.5 percent of GDP) recorded in 2022. The reduction in total external debt is attributed to a relatively strong and deep capital markets which allows the country to access domestic funding relative to external borrowing. In terms of domestic debt, South Africa's debt-to-GDP ratio was approximately 71 percent in 2022, and this figure increased to 74 percent in 2023. The escalation in public debt is primarily due to increased public spending and reduced revenue in 2023, leading to the fiscal deficit reaching its highest level in the last three years.

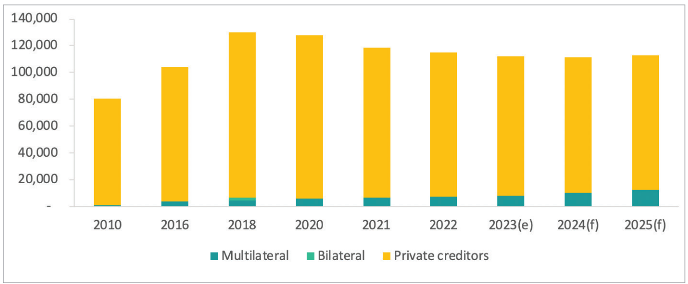
Regarding external debt to exports, South Africa's external debt-to-exports ratio has been on a downward trajectory since 2021. External debt-to-exports decreased significantly to 126 percent in 2022 from 130 percent in 2021 and further to 115 percent in 2023. This ratio remains within the prudent and sustainable threshold of 180 percent. The debt service-to-exports ratio in South Africa has sustained a positive downward trend in recent years, indicating an improvement in the country's ability to manage its debt in relation to its export earnings. In 2021, the ratio was 20.5 percent, reflecting a significant portion of export revenues allocated to servicing debt. This figure decreased to 20 percent in 2022, suggesting an improvement (though modest) in economic stability and debt management practices. By 2023, the ratio dropped to 19 percent, underscoring a continued positive trajectory. This consistent reduction in the debt service-to-exports ratio demonstrates South Africa's increasing export capacity and highlights effective debt management strategies. However, the debt service-to-revenue ratio has consistently increased, exceeding the critical threshold of 20 percent. The estimated debt service-to-revenue ratio reached 27.5 percent in 2023, up from 26.5 percent in 2022 and 25.7 percent in 2021.

Table 2: Debt Sustainability Indicators (Percent)

	2016	2017	2018	2019	2020	2021	2022	2023	2024 (f)	2025(f)
Debt to GDP	44.5	45.8	44.5	49.0	51.9	40.3	42.5	42.0	38.1	35.5
Debt to export	157.9	167.7	161.8	180.0	188.4	129.7	126.7	115.8	103.5	93.7
Debt service to export	15.8	14.2	26.1	20.2	29.9	20.4	20.0	19.0	16.1	13.9
Debt service to revenue	19.0	16.8	30.4	23.4	29.9	25.7	26.6	27.5	21.5	19.3

Sources: Afreximbank Research, IMF (2024).

Figure 5. Decomposition of South Africa's External Debt by Creditors (US $ Millions)



Sources: Afreximbank Research, EIU.

Annex: South Africa Selected Macroeconomic and Financial Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 (e)	2024 (f)	2025 (f)
Real GDP, %	1.4	1.3	0.7	0.8	1.6	0.3	-6	4.7	1.9	0.6	0.9	1.2
Inflation, annual average, %	6.1	4.6	6.3	16.5	4.6	4.1	3.3	4.6	6.9	5.9	4.9	4.5
Exports of goods and services, % y/y	3.6	3.1	0.4	8.0	2.7	-3.3	-12.0	9.1	7.4	3.5	3.5	3.6
Current account, % of GDP	-4.8	-4.3	-2.7	3.6	-2.9	-2.6	1.9	3.7	-0.5	-1.6	-1.8	-1.9
Total reserves, US$ millions	44.267	41.620	42.566	39.6	46.478	48.920	47.387	50.262	53.248	54.176	61.188	62.154
Gross reserves, months of imports	5.1	5.5	6.3	9.3	5.7	6.4	8.4	6.6	5.7	6.0	6.4	6.3

Source: Afreximbank Research, World Bank, IMF, EIU

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