Standard Bank

ECONOMY2025

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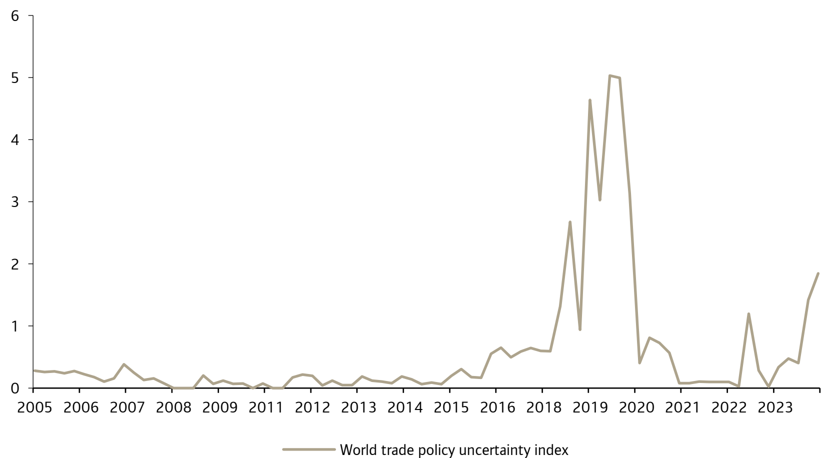
G10 outlook for 2025

Stability at risk

2025 looks set to be another year of steady, if unspectacular, growth amongst developed nations. Advanced countries are likely to grow by just short of 2% in aggregate, much like the likely 2024 outcome. While growth might be modest, we still should remember that most economies have enjoyed a relatively soft landing after the surge in policy rates in 2022 threatened to tip the advanced economies over a cliff. But risks abound, most of which are associated with the new US administration under Donald Trump. For the spectre of damaging tariffs has come back to haunt global policymakers and financial markets alike. Optimists will point to the fact that the last surge in US protectionism, which started in 2018 during the first Trump administration, did not prevent robust global growth. However, the tariffs were far less draconian than those being talked about by the second Trump administration. At the same time, it is difficult to disentangle the impact tariffs had on the global economy after 2020 because Covid decimated the world economy. Most projections relating to the effects on the US of new tariffs now point to weaker growth, higher inflation, less Fed policy easing (and possibly rate hikes), and a stronger dollar. In short, it does not look good, and it could be even worse for other countries, especially those that trade heavily with the US – such as Canada, Mexico, and China. Many policymakers and investors will hope that the Trump administration holds tariffs back as a threat rather than a policy of choice. But the Trump administration sees tariffs as a source of revenue, and this cannot be realised if tariffs remain a threat and no more. And with tax cuts in the pipeline, the Trump administration looks as if it could use all the revenue it can muster given that the budget deficit is set to remain a very high 6% of GDP or so for as far as the eye can see, and debt has soared to around 100% of GDP. With this in mind, and given how Trump threatened, and then delivered, tariffs during his first term, we suspect that new tariffs will be delivered during this period in office, even if only sporadically. Will these be sufficient to blow advanced countries off course? We doubt it, but we also suspect that advanced countries will fail to achieve potential growth as fast as they could if tariff threats were absent.

Figure 1: Trade uncertainty surges again



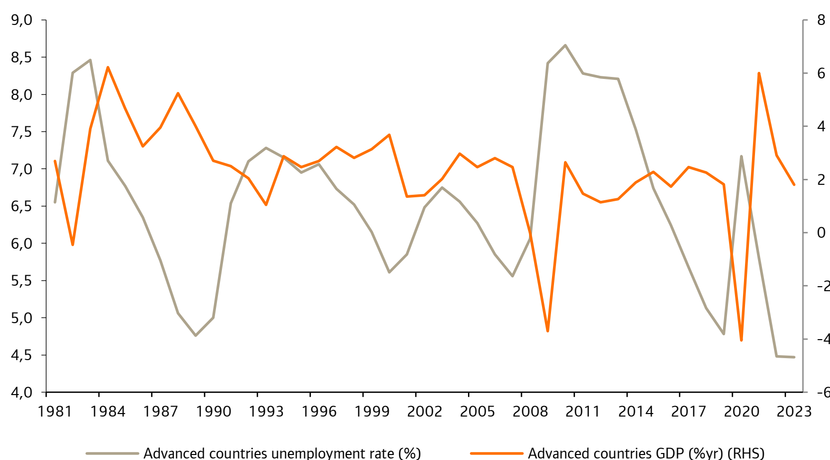
Source: Bloomberg

A difficult last mile

Advanced countries made further progress in reducing inflation last year. For after the recent peak of around 7.5% back in 2022, inflation is likely to have been around 2.75% last year and is seen slightly lower still, at around 2.5% in 2025. The slowing in the rate of decent illustrates what policymakers have said for some time; that achieving the 'last mile' of inflation reduction to the 2% target level desired by most major central

banks would be the hardest. The difficulty relates largely to the fact that labour markets have remained quite tight, even in countries where economic growth has been meagre, such as the UK. This tightness has, in turn, limited the reduction in wage growth. While this is welcome, as the fall in inflation below wage growth prompts the sort of rise in real income that should aid economic growth, central banks could be left facing the fact that sustainable on-target inflation remains just out of reach. In addition, new inflation risks are arising, not least in the US, from the triple threat of tariffs, deportation of illegal migrants and tax cuts. But it is not just in the US. Should governments hit by US tariffs retaliate with tariffs of their own on US imports, which seems very likely, we could see global price pressures rise. And, as far as migration policy is concerned, we are also seeing far tougher policies from many European governments as they face political pressure from far-right parties that campaign on anti-migration platforms. On balance, we do not expect these factors to spur notable reversals in the progress towards target-level inflation, but achieving this last mile of inflation reduction down to 2% may prove elusive.

Figure 2: Labour market tight despite modest economic growth



Source: Bloomberg

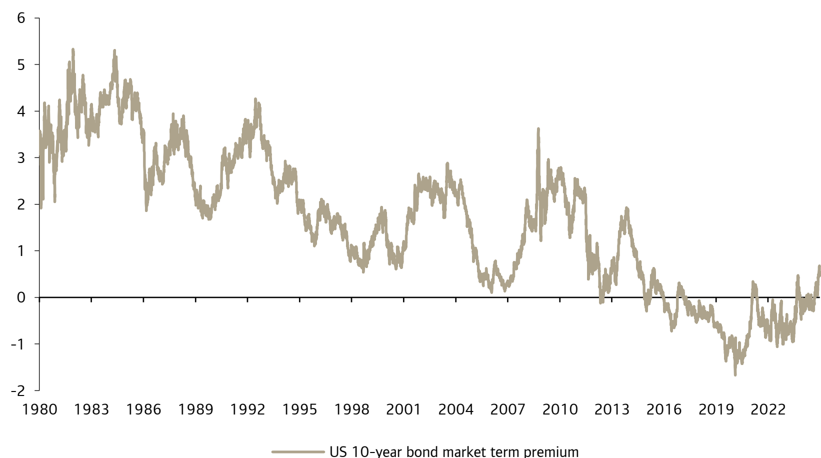
Even though central banks have admitted that achieving the last mile of inflation reduction is proving the hardest, they have still cut policy rates. This is something we would expect. Only Norway and Australia have held out, but this should end soon, while the Bank of Japan continues to drive in the other direction by lifting policy rates as it seeks to exit the unconventional easing that has been in place for many years. Only in the US have questions arisen about further easing as the Federal Reserve has entered a 'pause period'. The desire to pause is partly related to the policy uncertainty associated with the new Trump administration. As already mentioned, policies that include tariffs, deportations and tax cuts can serve to lift inflation and so complicate the Fed's path to bring the Fed funds target rate down to what the bank considers as neutral, which is 3%, according to the median projection of Fed members. Many, including us, believe that the neutral rate is higher than the Fed's estimate. We put the rate at around 3.5% and expect the Fed to get to this level in the first half of 2026. Many other central banks would seem to have a clearer path to bring policy rates down to more neutral levels, and some may even have to go below neutral. In the euro zone, for instance, many members seem to point to the 2% region as neutral and a level that can be achieved this year. We believe that the paucity of growth, falling wage growth and sub-target inflation can combine to bring policy rates down to 1.75% before the end of 2025.

Bond market problems

Given that most developed country central banks are easing policy, we might have expected longer-term bond yields to fall. This is what usually happens in an easing cycle. But it has not happened this time around, at least not yet. For instance, US 10-year

treasury yields have risen by just over a percentage point since the Fed started to cut rates last September. A part of this is down to the adjustment of future expectations about Fed easing as the Fed started to cut rates. For instance, when the Fed first cut the policy rate by 50bps, to 5%, in September 2024, the Fed funds futures market was priced for the bank to trim rates down to just below 3% by the end of 2025. But now, after another 50bps of rate cuts from the Fed, the market is priced for the Fed funds rate to be just under 4% at the end of the year. In other words, the more the Fed cut rates, the less optimistic the market became about future reductions. This has helped lift treasury yields and other bond yields have moved in sympathy even though none of those that have eased policy appear to have paused yet. However, the rise in yields does not just seem to reflect less dovish expectations for Fed policy; it also reflects a rise in the US term premium.

Figure 3: Term premium is positive again



Source: Bloomberg

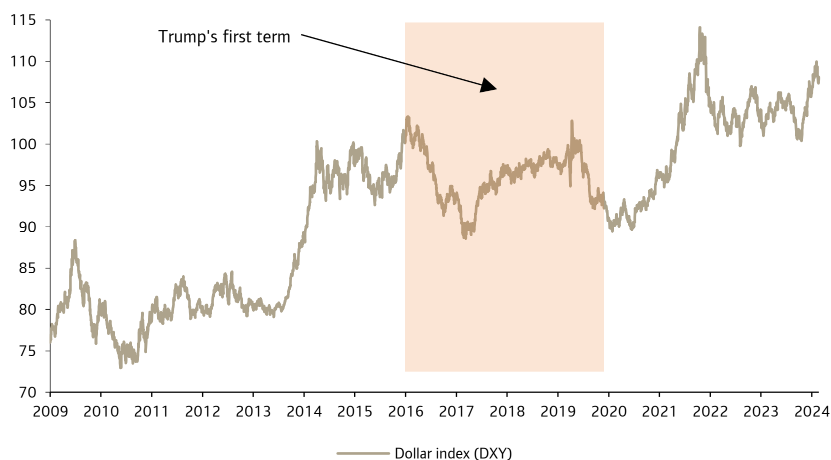
The 10-year US term premium has turned positive again as investors demand to be paid more for holding 10-year treasuries than from rolling over shorter maturities. A positive term premium has been largely absent over the past decade, having been dragged down by factors such as Fed bond purchases. But now quantitative easing has turned to tightening and, although the Fed may stop this process later this year, there are new concerns to contend with, primarily associated with rising government debt which is now around 100% of GDP. It is projected to rise by a further 20% of GDP over the next decade by the bipartisan Congressional Budget Office, even before allowance is made for the deficit-boosting policies of the Trump administration. In all, it could create an environment in which the Fed eases, but longer-term bond yields continue to rise, while higher yields are also seen outside of America, even though debt concerns lie mostly in the US. Given that budgetary concerns in the UK back in September 2022 provoked a dramatic surge in UK gilt yields, there have been concerns that the so-called 'bond vigilantes' could come for the US next. We do not take this view. So, while there are undoubted risks that yields rise further in the short term, to 5% for 10-year treasuries, we do not see such levels as likely over the longer term, provided the Federal Reserve brings the policy rate back to our estimate of the neutral rate of around 3.5%. In this event, we'd expect 10-year treasury yields to ease down to the 4.0% region, and possibly just below, over the next year or so. Such declines should help encourage lower bond yields in other developed countries. Indeed, yield declines could be more rapid elsewhere given the absence of any pause in policy easing, the better inflation outlook, and fewer government debt strains.

The tariff question

The pausing of Fed easing has contributed to a rise in the dollar in recent months, although it seems clear that the biggest contributor to the greenback's rise has been the election victory for Trump last November. Just like his first victory in November 2016,

the dollar has risen based on the likely consequences of a very similar policy combination of tariffs, tax cuts, and tougher migration laws. However, what was notable about Trump's first term in office between 2017 and 2021, was that the post-election surge in the dollar quickly evaporated and, if we take the four years as a whole, Trump left the dollar's value against other major currencies 10% lower than the level he inherited. In other words, this policy combination of tariffs, tax cuts and tough migration laws seemed to contribute to a fall in the dollar, not a rise. In fact, the greenback never managed to reach the heights seen immediately after his 2016 victory through his first term. What's more, we should remember that 2017 and 2018 saw the Fed tightening policy while all other major central banks left policy unchanged. And then there was the Covid pandemic in early 2020 which did not produce new highs for the dollar in spite of the greenback's supposed safe-asset allure during times of such severe global economic stress and asset-price meltdown. One final point to note was that the dollar rose during the pre-Trump years, under Obama and again in the post-Trump years under Biden. In short, Trump's arrival appeared to reverse the dollar's appreciation temporarily.

Figure 4: The dollar stalled in the Trump years

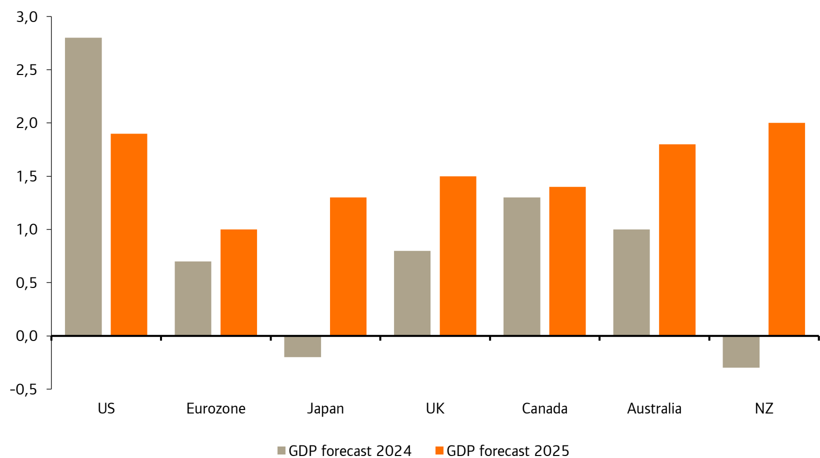


Source: Bloomberg

Can we expect history to repeat itself, or is history only a good guide to the past? We suspect it will be the former and that Trump will leave office with a lower dollar than where he found it. We take this view for several reasons. On tariffs, we should remember that tariffs are bad for the US economy, as well as those targeted by tariffs. Both theory and evidence suggest that the imposition of tariffs leads to a stagflationary combination of weaker growth and higher inflation. It is true that US importers may need to buy fewer Canadian dollars, Mexican pesos and Chinese renminbi if tariffs are levied – but trade flows account for such a small proportion of FX turnover that they really do not matter. Another argument, that tariffs and other policies such as tax cuts and mass deportations could keep the Fed on hold while others ease, is not a surefire way to create dollar strength. For a start, these policies threaten to lift inflation, and if that reduces US real (inflation adjusted) rates relative to others, the dollar is more likely to fall than rise. For it is real interest rates that count for currencies, not nominal rates. If nominal rates were most important, FX investors would buy the currencies of the highest interest rate countries – but that does not happen because these countries usually have the highest inflation as well. In fact, the countries with the highest nominal interest rates tend to find that they have the weakest currencies on average. Another issue to consider is that tariffs, along with many other policies of the Trump administration, such as pulling out of multilateral institutions and embracing crypto currencies, undermine US hegemony and the dollar's safe-asset status. In our view, these things seem likely to provoke more diversification away from the dollar. The US should remember that it is beholden to the rest of the world to provide the dollars that allow the country to maintain such low levels of saving (the large budget deficit, for instance) relative to investment. America's so-called 'exorbitant privilege', of owning the world's dominant currency, means that it can accumulate huge external debt, which

stands at close to USD24tn, without incurring the sort of currency weakness and bond-market vulnerability that other countries would be expected to endure. In fact, evidence rather suggests that the US has attracted 'too much' overseas savings because it has led to a potentially dangerous concentration of risk. The US stock market, for instance, has seen its weight rise from just over 30% of the global aggregate (MSCI World index) back in 1990 to around 70% today – and that's despite the US share of global GDP having declined over the period. This increased weighting, as reflected in US stock market outperformance, has sucked foreign capital into the US and probably lifted the dollar in the process. This could certainly continue in the future, but we regard the situation as increasingly fragile. This does not mean that we expect some sort of huge reversal in capital flows to the US and dollar collapse, but we do think that those sending capital the US's way may require some cheapening of assets, via a weaker dollar, to continue supplying the ever-increasing amount of capital that the US requires. Another key component here is whether other developed countries can make their own economies and financial assets more attractive. In the past, the growth deficit and the asset price deficit to the US has been large and seemingly responsible for the dollar's rise. This year should bring some reduction in the US's growth advantage. We see the US economy growing by closer to 2% than the near 3% from 2024. At the same time, the euro zone and UK are more likely to see growth this year of 1%, or above, compared to the sub-1% figures from last year.

Figure 5: US growth advantage expected to narrow



Source: Standard Bank Research

That might not be a big closure of the growth gap but, when it comes to the dollar, it does appear that market participants are heavily invested in the theme of US economic 'exceptionalism' – such that only a modest unwinding of this advantage is required to weigh the dollar down. In the near term, we think that the Trump-led dollar euphoria can continue for a bit longer, pushing euro/dollar, for instance, down into a 0.95-1.0 range. But as this euphoria fades, we'd expect the euro to be back up to the 1.10 level in a year's time, with similar improvement for other currencies, such as 1.35 for the pound and 140 for the yen.

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EM outlook for 2025

Introduction

Geopolitical tensions, the US dollar's strength, and inflation trends, pose challenges for emerging markets

As we kick off 2025, the outlook for emerging markets might seem rosy at first glance. Sure, there are some solid fundamentals in play: decent economic growth, stable inflation, and low debt levels. But let's not get too carried away. This optimism could very well be misplaced. The real story lies in the intricate dance of monetary policy, trade dynamics, and broader economic conditions. Much is riding on a few key factors: Will the Federal Reserve cut rates? Will the US dollar weaken? And can we trust that China's growth won't falter under the weight of its own complexities? And obviously, the looming threat of an ever-escalating trade war and elevated geopolitical tension. On each of these scores the jury is still out. The markets may be putting on a brave face, whilst forecasts seem to be erring on the side of optimism and ignoring some a significant pivot from Beijing towards a less circumspect response. At this juncture, it seems that the balance of risks certainly leans more toward the downside. Buckle up!

Relatively benign forecasts

As we look ahead to 2025, IMF (2025) projections indicate a global economic growth rate of 3.3%, mirroring the pace of the past three years. While both developed economies and emerging markets are expected to expand at similar rates as last year, advanced economies will likely grow at less than half the speed of their emerging counterparts. This baseline forecast suggests a "smooth landing," as described by the Bank for International Settlements (BIS, 2024), fostering conditions favourable for rising stock markets, tighter credit spreads, and more relaxed financial environments.

However, these seemingly optimistic projections mask significant challenges for emerging markets. The trajectory of the US dollar, fluctuations in commodity prices, shifting global risk appetites, and increasing macroeconomic uncertainty—particularly due to slowing growth in China, their most critical trading partner—pose serious threats. Compounding these issues are escalating geopolitical tensions among major economies, raising alarms about potential global economic fragmentation (IMF, 2023). Such fragmentation could undermine financial market stability (Boungou & Urom, 2025) and drive up borrowing costs (Nguyen & Thuy, 2023).

The growth rate of emerging markets is not nearly as lofty as it once was

Fewer and fewer large emerging markets are expanding at rapid rates

The growth trajectory of emerging markets is markedly less robust than it once was. Current projections indicate that around two-thirds of the world's emerging economies are expected to expand faster than their five-year pre-pandemic trends—a slight improvement over 2024. However, only three of the ten largest emerging markets—Indonesia, the Philippines and Poland—are anticipated to accelerate in 2025. This small group of larger economies, primarily driven by China and to a lesser extent India, represents a staggering 80% of the overall economic growth in this category.

When expanding the analysis to include the 20 largest emerging market economies, only India, Indonesia and the Philippines are forecast to achieve growth rates near or above 5% in 2023 – fewer than in previous years. Overall, these economies are projected to grow by an average of 3.5% in 2025, significantly below the pre-pandemic average of 4.5% per year. Regionally, Sub-Saharan Africa is expected to see a boost, with growth accelerating from 3.5% to over 4.2% in 2025. This growth places it between the lagging performances of Latin America and Emerging Europe, driven largely by Asia's dynamic economies.

While these forecasts underscore the resilience of emerging markets, they also highlight the headwinds facing several larger economies that could derail their growth trajectories. Much like the uneven impacts felt during the pandemic and subsequent

recovery, 2025 is likely to reveal a mixed bag of performances across the board. Growth rates will vary due to factors such as differing initial conditions, reliance on commodities, sensitivity to US interest rates and dollar fluctuations, levels of institutional maturity and resilience, and the overarching influence of geopolitical dynamics. In essence, while some emerging markets may show signs of strength, the overall landscape is fraught with challenges that could hinder progress and create a patchwork of growth across the globe.

Inflation trend and rates still up in the air too

Emerging markets face complexities from US dollar fluctuations, commodity market changes, and geopolitical tensions that could affect growth

The trajectory of inflation remains uncertain, with forecasts suggesting a decline to 4.2% in 2025, followed by a further drop to 3.5% in 2026. This reduction will be a welcome respite after the inflationary surge that marked the post-pandemic recovery. However, it's crucial to note that advanced economies are expected to reach target inflation rates more swiftly than their emerging market counterparts.

Major central banks, including the US Federal Reserve, are likely to shift toward easing restrictive monetary policies in 2025. Yet, the spectre of increased tariffs from the Trump administration loom ominously over these inflation forecasts. Such tariffs could stifle growth and exacerbate inflationary pressures (McKibbin et al., 2025). Coupled with the risks posed by potential inflationary effects stemming from US tax cuts and deregulation, these factors are likely to keep the Fed cautious for much of the year.

In contrast, other central banks are expected to continue easing their policies, with some that have yet to do so likely to follow suit. This general trend toward easing will provide much-needed support for economic growth. However, the influence of treasuries may act as a headwind, preventing yields from declining as much as they otherwise might. Therefore, while the forecasted decline in inflation is encouraging, the interplay of tariffs, fiscal policies, and central bank strategies will be critical in shaping the economic landscape. The outlook remains complex, and stakeholders must navigate these uncertainties carefully.

US's path biased towards strengthening – albeit uncertain

The trajectory of the US dollar appears biased toward strengthening, albeit with significant uncertainties. Wider yield spreads between the US and other countries, combined with punitive US tariffs, are likely to sustain a robust dollar. Analysts generally predict a strong US dollar relative to other currencies, particularly given the dimmer prospects for many advanced economies. These dynamic influences investor psychology and capital flows, often resulting in adverse effects on emerging market asset prices, especially equities (Mouffok et al., 2023). Research by Druck et al. (2018) and others highlights the negative correlation between dollar strength and the real economy, underscoring the challenges ahead. The primary mechanisms driving this relationship include: (i) an income effect stemming from the dollar's impact on global commodity prices, (ii) increased costs for importing capital and inputs necessary for domestic production, and (iii) heightened inflationary pressures—particularly for emerging markets already burdened by substantial levels of USD-denominated debt, which has doubled to USD 4 trillion as of Q3 2024 over the past decade (BIS, 2024).

While we anticipate that this dollar strength may diminish later in the year as the growth gap narrows and the Federal Reserve resumes easing, the current robust dollar complicates the outlook for emerging markets. A pressing concern is whether the dollar's ascent may fuel further protectionist sentiments within the US administration. Although a deliberate devaluation of the dollar seems unlikely, its consequences would undoubtedly send shockwaves through the global economy.

Commodity prices

Commodity and oil markets are poised to be pivotal battlegrounds that will shape our economic landscape in the coming years. While oil prices may stabilize or even decline due to increased global production, a stronger dollar could exacerbate inflationary pressures in oil-importing nations. This challenge will be particularly pronounced in countries experiencing dwindling demand from China, which is anticipated to have a lasting impact on global commodity exports.

It is crucial to recognize that commodity markets have yet to fully adjust to the reality of China's ongoing structural slowdown. For instance, China recently added an impressive 277.2 GW of new solar capacity, reflecting a staggering 28% year-over-year growth—an amount that is almost double the entire installed capacity of the United States. Renewable energy has evolved beyond a mere driver of decarbonization efforts; it is now an integral component of China's economic framework.

As we look ahead, many emerging markets remain heavily dependent on Chinese demand for their commodities. This reliance underscores the critical role of advanced economy long-run bond yields and commodity prices as key determinants of capital flows to emerging markets (Byrne & Fiess, 2016). The stakes are high: should trade tensions escalate into a full-blown conflict, the repercussions could be catastrophic, not just for the regions involved but for the global economy. In essence, the interplay between commodity prices, currency strength, and geopolitical dynamics will be crucial in navigating the uncertain economic waters ahead.

Reasons for some optimism in emerging markets

Emerging markets are projected to grow faster than developed markets, presenting attractive investment opportunities. The diversity of contributing countries enhances this potential

Before delving into the significant challenges facing emerging markets in 2025, it's essential to recognize the reasons for cautious optimism. However, for investors to shift more decisively toward emerging market assets, a compelling narrative highlighting potential recovery and growth is necessary. This narrative should be supported by factors such as plausible US rate cuts (though not guaranteed), a weaker US dollar (dependent on the Fed's actions), favourable economic indicators – especially from China (which seems less likely) – and signs of easing geopolitical tensions (which appear very unlikely).

Despite these concerns, emerging market growth is expected to surpass that of developed markets, suggesting greater opportunities for returns. In China, growth expectations have notably increased, largely due to existing stimulus measures. It's important to note that cross-country correlation studies do not robustly support the assumption that higher equity returns are exclusive to faster-growing economies. Gajdka and Pietraszewski (2016) argue that stock price returns are primarily driven by company earnings, which do not necessarily correlate with GDP growth.

Encouragingly, earnings in emerging markets are projected to be relatively supportive, with a forward price-to-earnings (P/E) ratio of 14.5x, lower than that of advanced economies. Mayur (2015) finds that while the P/E ratio can serve as an effective performance proxy, it is most relevant for firms with substantial market capitalizations. Additionally, emerging market assets remain relatively under-owned, still below pre-COVID levels where they had been oversold – especially in markets with smaller capitalizations (Harjoto & Rossi, 2023).

Moreover, similar to most advanced economies, many emerging market central banks are adopting an easing bias, creating a favourable environment for equity markets. Should the US Federal Reserve lower rates later this year, it could further bolster equities and temper US dollar strength (Lakdawala & Schaffer, 2019). It is notable, however, that the impact of Fed policies on emerging markets can vary significantly (MacDonald, 2017), influenced by the depth of domestic financial markets and

stronger macroeconomic fundamentals (Mishra et al., 2018). This variability can create tensions between macroeconomic and financial stability (Kolasa & Wesołowski, 2023).

China economic prospects

We expect growth of 4.5% in China, but much will depend on geopolitical tensions and the corresponding fiscal response

For the full year, China's GDP growth settled at 5%, slightly down from 5.2% in 2023, yet still aligning with Beijing's targets. However, doubts linger regarding the reliability of economic data amidst sluggish stimulus efforts and persistent growth challenges (Rosen et al, 2025). Looking ahead to 2025, Beijing's primary mission is to elevate domestic consumption to address these entrenched economic disparities and sustain growth momentum, even amid deteriorating trade relations with the US. The December Central Economic Work Conference emphasized the urgent need to "vigorously spur consumption" to combat weak domestic demand and reduce reliance on exports.

Beijing has indicated a substantial uptick in government spending as authorities ramp up efforts to rejuvenate the economy. The Politburo's December economic work meeting underscored the necessity for "unconventional counter-cyclical adjustments" to stabilize growth. We project that Beijing will target GDP growth of "around 5%" for 2025, mirroring the 2024 target. However, with the property sector facing headwinds and exports unlikely to provide substantial support, government spending will be pivotal. We anticipate a fiscal deficit target of 4%, up from 3% target in 2024. Beyond the expanded budget deficit, we expect further measures to enhance fiscal support, including increased issuance of special-purpose bonds by local governments and special treasury bonds by the central government.

We project GDP growth of 4.5% for 2025, heavily influenced by the impact of potential tariffs from the incoming Trump administration and the extent of fiscal and monetary support required to sustain growth. To foster enduring improvements in consumer confidence, policymakers must prioritize increasing household incomes and revitalizing the property sector. With external uncertainties looming, it is imperative to mitigate systemic risks and avert shocks to domestic demand that could result from declines in real estate or stock markets. The People's Bank of China (PBoC) is adopting a proactive approach to stabilize the yuan. While speculation suggests that Beijing may permit yuan depreciation in response to Trump's tariffs, the PBoC remains vigilant against potential capital flight, aiming to reassure the public that any depreciation will be modest, thus alleviating concerns about the necessity of moving funds offshore. Importantly, with the gradual liberalization of China's exchange rate system, shocks from the renminbi markets contribute more to fluctuations more currency markets than before (Chow, 2021).

Risks to the emerging market outlook

The outlook for emerging markets in 2025 is significantly affected by a range of risks, particularly geopolitical tensions and the potential for trade wars

Beyond the idiosyncratic challenges facing individual nations, we must confront the formidable geopolitical risks that overshadow the emerging market landscape. The Trump administration's trade policies will be crucial, likely injecting volatility into the market. During his first term, Donald Trump threatened significant tariffs, including a staggering 60% on Chinese goods, and has already implemented a 10% tariff on imports from China. The imposition of such tariffs is poised to inflate prices across a wide array of goods, potentially reigniting inflation in the US economy (McKibbin et al., 2025). A resurgence of inflation diminishes the likelihood of interest rate cuts this year, further complicating the economic environment.

The spectre of destructive trade wars looms not only with China but also with key US allies, including Mexico, Canada, the United Kingdom, and Taiwan. Such conflicts could fracture the foundational economic and security arrangements that have long underpinned the global multilateral system, leading to heightened uncertainty in global markets. The repercussions of these trade wars would ripple through emerging markets, undermining their growth prospects and stability.

The prevailing trend of mutually antagonistic policies has fostered a worldview where competition is viewed in zero-sum terms. During his previous tenure, Trump's withdrawal from international institutions weakened global multilateralism (Sullivan de Estrada, 2023), prompting debates about the efficacy of a "multilateralism minus one" approach to pressing global challenges like climate change and trade (Fehl & Thimm, 2019). Trump's "America First" doctrine could precipitate significant market fluctuations in the year ahead. While a shift towards a multipolar world is likely unavoidable (Krishnan & Kassab, 2024), the journey ahead is fraught with uncertainty. Emerging markets may find themselves caught in the crossfire as the contours of this new geopolitical landscape begin to take shape.

China's swift retaliation to US tariffs and restrictions, including export controls on critical materials and investigations into foreign companies, indicates a readiness to engage in tit-for-tat economic strategies

China's response

In response to escalating US restrictions, Chinese authorities are intensifying their use of export controls and other retaliatory measures. Following the expansion of US export controls targeting China's chip industry in December 2024, Beijing acted swiftly, banning exports of critical dual-use minerals and launching an anti-monopoly investigation into Nvidia's acquisition of Mellanox. Similarly, after the US enacted an additional 10% tariff on all Chinese goods, China responded with a multifaceted strategy, imposing tariffs of 15% on coal and liquefied natural gas (LNG), and 10% on crude oil, agricultural machinery, large-displacement vehicles, and pickup trucks.

Moreover, China's response extends beyond tariffs. The Ministry of Commerce has enacted export controls on essential materials and added companies like PVH Group and Illumina, Inc. to its Unreliable Entity List. Furthermore, the State Administration for Market Regulation (SAMR) has initiated an investigation into Google for suspected antitrust violations. This suggests that Chinese officials are fully prepared to leverage their lawfare toolkit, indicating a shrinking number of potential offramps for de-escalation. As tensions rise, the potential for miscalculations and misunderstandings increases, creating a more volatile and unpredictable environment for emerging markets.

Confirms a less circumspect Beijing in 2025

In the coming weeks and months, Beijing will be grappling with critical questions about its future trade relationship with the US. Trump's broader commitment to impose tariffs on all imports to the US might inadvertently encourage other major economies to strengthen their trade relations with China, creating a complex environment that Beijing must navigate carefully (Polk, 2024). Technology and export controls presents another layer of uncertainty as it remains unclear whether Trump will revert to the less systematic approach he employed during his first term. Back then Xi Jinping successfully engaged in personal diplomacy to persuade Trump to lift restrictions on companies. Additionally, Trump's potential alienation of other key chip-producing nations, such as Taiwan, might open the door for China. Related, a shift in US diplomacy could alienate traditional allies undermine global multilateralism – a spot China has been eager to full. At the World Economic Forum in 2017, President Xi stated, "Pursuing protectionism is like locking oneself in a dark room… Wind and rain may be kept outside, but so is light and air."

Consistent with China's evolving foreign policy

China is committed to promoting a partnership model that emphasizes development while rejecting a one-size-fits-all approach to human rights, advocating instead for respect for sovereignty and national contexts. A significant change in the past decade has been the introduction of "Major Power Diplomacy with Chinese Characteristics." Previously, China's foreign policy language was carefully crafted to reassure the global community, emphasizing that China had no intention of challenging US primacy and would not export its political ideologies or development model. During Hu Jintao's era, the narrative of China's "peaceful rise" emerged, with leaders preferring to refer to China as the "largest developing country" rather than a "power." With Xi's leadership,

China has begun to identify itself as a "new major country," aiming for "new major country relations."

What is new in this approach? First, China has sought a leading role in shaping the new world order and international security. Although the narrative of "peaceful rise" persists, Xi conditions his vision of Asian harmony on the acceptance of China's regional supremacy (Thornton & Thornton, 2018). In Africa, China has actively engaged in peace and security initiatives (Alden & Jiang, 2019). Etyang and Oswan Panyako (2020) note that the principle of non-interference is undergoing a deliberate transformation, reflecting China's changing role in global geopolitics. Also, the ambition to "tell China's stories well," introduced by President Xi in August 2013, aims to counter negative perceptions of China (Mattingly et al., 2024).

China's foreign policy is undergoing a significant transformation, which adds another layer of uncertainty to the emerging market outlook

Goals and strategies in China's global positioning

The higher-level objective involves restoring China's standing in the world and calibrating its influence in global affairs to align with its economic status as an emerging superpower. The latest Government Work Report (GWR) reflects this aim, explicitly calling for a multipolar world and a "new type of international relations," while affirming China's opposition to "bullying tactics." In the broader context, President Xi has re-established confidence in China's Party-led political system after decades of ideological drift. This reassertion is aimed at revitalizing the Chinese Communist Party as a Leninist entity capable of delivering comprehensive leadership, fostering party-centric nationalism, and enhancing legitimacy (Tsang & Cheung, 2022).

A new model of governance

China's previous stance of "no export" has evolved into the export of the "China model" of development and governance, particularly to the developing world. China aims to present a distinct approach to modernization and governance which emphasizes growth, stability, and effective leadership, offers compelling lessons for other nations (Alterman, 2024). Simultaneously, China is advocating for reforms to increase its influence and representation in international institutions, framing this as "the democratization of international relations."

Importance of the Global South and Africa

China is strategically positioning itself to champion the discourse power of developing economies within international organizations, aspiring to lead the Global South (Xu, 2020). This involves a transformation described by Wang et al. (2022) as a matriculation from participant to practitioner to leader in multilateral settings. Herein, China's diplomatic and commercial engagement in Africa plays a crucial role providing a platform for China to act as a responsible power on the global stage (Mthembu & Mabera, 2021).

Overall, unlike in many other regions, perceptions of China's influence on African development are relatively positive, often more so than those of the United States. In many respects, China has cultivated a constructive narrative on the continent. This positive reception is bolstered by deep and robust diplomatic and commercial ties, supported by substantial multilateral frameworks like the Forum on China-Africa Cooperation (FOCAC), high-level visits, proactive diplomacy, and increasingly strong bi-directional commercial relationships.

Conclusion

The outlook for emerging markets is relatively benign. As 2025 kicks-off, emerging markets exhibit a relatively robust fundamental backdrop characterized by decent economic growth, stable inflation, and relatively low debt levels and default rates. However, the interplay of monetary policy, trade dynamics, and broader economic

conditions will be crucial in determining the trajectory of growth in 2025 and in the coming years. Much seems to orbit around expectations for Fed cuts, USD weakness, a decent level of growth in China and Trump proving to be more bark than bite. At the very least, the jury is out regarding each of the above, and the balance of risk on each of these scores seems to tilt to the downside.

Jeremy Stevens[#]

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Resilient ambitions: Africa’s economy in a volatile global climate

The global outlook for 2025 remains modestly optimistic, with growth projected at 3%. Central banks in advanced economies are expected to maintain an easing bias, supporting consumer spending and global risk appetite. However, geopolitical tensions and domestic political risks, such as potential US tariff policies and Europe's fiscal struggles, could disrupt this stability. Against this uncertain global backdrop, Sub-Saharan Africa (SSA) faces a mix of external headwinds and internal opportunities that shape its growth prospects.

Growth in SSA is forecast to recover to 4% in 2025, from 3.6% in 2024, with domestic consumption remaining a stabilizing force for many economies. However, reliance on exports to China makes countries such as Angola, DRC and Zambia vulnerable to any economic slowdown in China. US tariffs could exacerbate these risks by dampening global trade flows, further pressuring commodity-dependent economies. Despite these challenges, several SSA countries are demonstrating resilience, driven by robust private consumption.

Climate-related shocks continue to weigh heavily on the region. Severe droughts in 2024 reduced agricultural yields and hydropower generation in Zambia and Malawi, exacerbating economic challenges. La Niña conditions in 2025, though less intense than initially feared, may not provide the rainfall relief necessary to fully replenish resources and support recovery in these economies. As climate risks intensify, the need for investment in resilient infrastructure and diversified economic activity becomes more pressing.

The global transition to clean energy presents a significant structural opportunity for SSA’s critical minerals sector. Rising demand for minerals such as copper, cobalt and nickel, driven by electric vehicles, solar energy and battery technology, positions Zambia and the DRC as key suppliers. The DRC, with 70% of the world’s cobalt reserves, and Zambia, with vast copper deposits, stand to benefit immensely. Infrastructure projects, such as the Lobito Corridor and the TAZARA rail line, aim to address logistical inefficiencies, reduce transportation costs, and enhance mining profitability. However, policy consistency and regulatory clarity are crucial to attract the long-term investment needed to unlock this potential fully.

Fiscal consolidation remains a central theme for many SSA economies as they navigate high debt burdens. While governments increasingly rely on raising revenue rather than cutting expenditure, this approach has its limitations. For instance, Kenya’s tax hikes since 2023 have triggered public protests even as revenue collection growth eases, highlighting the challenges of implementing fiscal reforms in economies with large informal sectors. Broader tax bases and improved governance are essential for sustainable fiscal health. Mozambique exemplifies the fiscal pressures facing the region, with rising domestic debt and liquidity constraints increasing the risk of defaults. External ratings agencies have downgraded this country, reflecting growing investor concerns.

Monetary policy in SSA is expected to remain largely accommodative in 2025, with central banks in countries such as Angola and Malawi likely maintaining cautious stances. Egypt’s declining inflation provides room for further easing, while Kenya plans new infrastructure bonds to address significant maturities. Zambia and Nigeria face challenges related to exchange rate pressures. Uganda’s rising government bond yields, driven by increased domestic borrowing due to large local debt maturities, offer potential opportunities for duration trades despite fiscal risks into the January 2026 elections.

The political landscape in 2025 is less crowded than in 2024 but includes significant elections in Côte d'Ivoire, Malawi and Tanzania. Côte d'Ivoire's elections could see unrest if President Ouattara seeks a fourth term, while Malawi's political landscape has been reshaped by the dissolution of key alliances and the passing of Vice President Chilima. Tanzania's ruling CCM party is expected to retain power, leveraging infrastructure achievements and economic reforms. These elections will influence governance, stability and economic trajectories across the region.

Despite external challenges, SSA economies will likely continue to show resilience, with several countries approaching, or surpassing, pre-pandemic growth levels. This region's ability to capitalize on opportunities, such as the rising demand for critical minerals, while managing risks from climate shocks and fiscal pressures, will be crucial for sustaining its recovery and long-term growth.

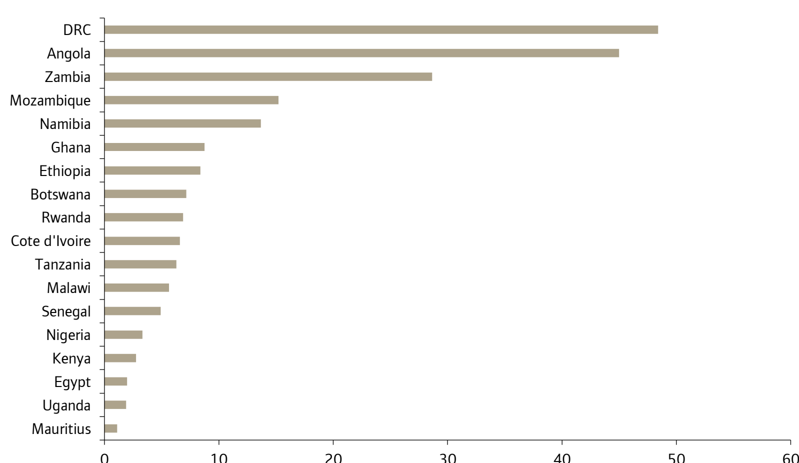
Climate-related shocks frequency increasing

GDP growth in SSA is likely to recover to around 4.0% y/y in 2025, from an expected 3.6% y/y in 2024. Our assessment, that SSA growth will likely prove resilient from the January 2024 AMR (African Markets Revealed) publication, amid sluggish global growth and fading external demand, seems to have transpired. We had emphasized back then that, since private consumption expenditure comprises a notably larger share of overall GDP, subdued external demand from weaker global growth wasn't likely to majorly disrupt economic activity in many of the SSA markets in our coverage.

But still, SSA economies that are reliant on robust external demand from China for their key exports may still face downside risks to growth over the coming year, should US tariffs become detrimental for economic activity in China. Of the markets in our coverage, DRC, Zambia and Angola have a sizeable concentration of their exports that are routed to China. In Angola, around 45% of their total exports of goods go to China, while in DRC this is higher, at around 48%. In Zambia this ratio is also elevated, at around 28.7%. However, this is lower in other economies such as Botswana at c.7.2%, Ethiopia c.8.4%, Ghana c.8.7%, Kenya c.2.8%, and Nigeria at c.3.3%.

Nonetheless, oil-exporting economies such as Nigeria may still be susceptible to a slowdown in the Chinese economy, as this may coincide with a decline in international oil prices and worsen the external position. In the past, this has exacerbated FX liquidity conditions and weighed on growth in the non-oil sector too. However, recent pledges by Chinese authorities, to ramp up their stimulus support, may underpin economic activity in China and thereby support prices for both oil and copper.

Figure 1: Exports to China % total exports



Source: UNCTAD

But as we've stressed in previous AMR editions, more than shocks to external demand, domestic shocks that drain personal consumption expenditure such as prolonged weather shocks, aggressive monetary policy tightening from an overheating of the economy and entrenched political disruptions, are likely to have a larger and durable negative impact on economic growth in our markets.

In fact, over the better part of the past decade or so, economic growth in SSA has increasingly been influenced by climate-related shocks. For instance, droughts and floods are not only becoming acute, but the frequency has also increased.

Extreme La Niña drought conditions in 2024 weighed heavily on GDP growth in both Zambia and Malawi. The drought, described as a humanitarian catastrophe by the United Nations, destroyed key crop harvests, reduced hydropower production and drained livelihoods in Zambia, Malawi and other southern African economies.

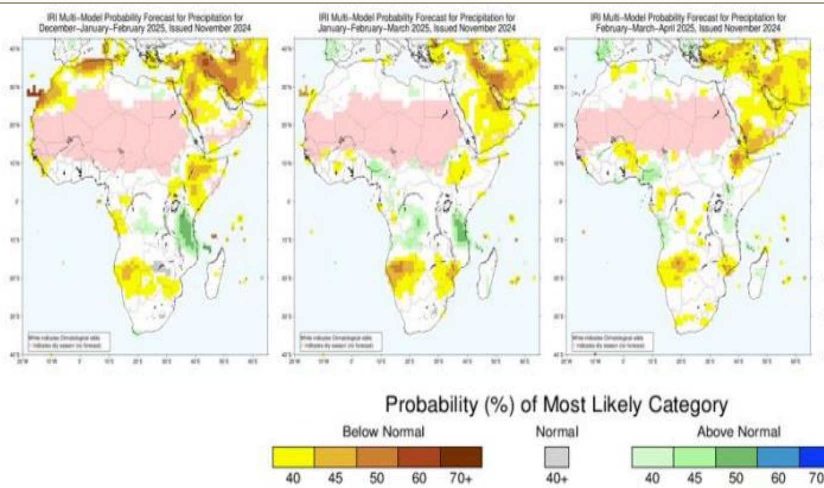
As we have highlighted in our previous edition of the AMR, hot on the heels of the El Niño weather conditions experienced in 2024, which resulted in severe droughts in Zambia and Malawi and heavy rainfall in Kenya and Uganda, a transition towards La Niña conditions is now being widely expected by weather experts. This would likely reverse the weather trend experienced in 2024, with the East Africa region expected to face drier conditions, while southern Africa, including Zambia and Malawi, could now face increased rainfall.

La Niña conditions were expected to begin in H2:24, although, per the International Research Institute for Climate and Society (IRI), this will likely only transpire around Q1-Q2:25. But, more importantly, the intensity of La Niña conditions is likely to be milder, compared to earlier expectations from climate experts.

While the weaker than expected La Niña may be a point of celebration for economies in East Africa, economies such as Zambia and Malawi may now potentially experience lower rainfall than was previously envisaged. This would in turn not aid the expected replenishing of the hydropower dams and would also not underpin any rapid improvement in agricultural productivity.

However, with base effects expected to unwind, GDP growth in Zambia is likely to receive a statistical boost in 2025. Notwithstanding the risks of below-average rainfall from the weaker-than-previously expected La Niña, we see GDP growth recovering to 5.8% y/y in 2025, from an expected outturn of 2.2% y/y in 2024. In fact, the mining sub-sector could add an additional 75k MT in copper production in 2025, based on guidance from listed mining firms. This would equate to about 10.3% y/y growth in copper output for 2025. But of course, there are notable downside risks to this forecast, should agricultural productivity and hydropower generation remain subdued.

Figure 2: IRI probabilistic seasonal rainfall forecast for Africa



Source: IRI

In Malawi, too, GDP growth will likely recover to 2.5% y/y in 2025, from an expected 1.8% y/y in 2024. Despite a weaker intensity La Niña being expected, the government's meteorological department expects above-normal rainfall in Q1:25. Should this transpire, food harvests will likely improve, which may reduce cereal imports and thereby likely underpin net exports and GDP growth. Furthermore, government expenditure could also increase ahead of the September 2025 elections, which could support growth. However, in addition to the downside risk of below-average rainfall for growth, too much rainfall can also create flooding and destroy crops in key food-growing regions of the country. The agriculture sub-sector accounts for around 22.0% of GDP.

Climate-related shocks have also increased in frequency in Mozambique. Following the detrimental effects of Cyclone Freddy back in 2023, Cyclone Chido has already hit parts of northern Mozambique, resulting in notable damage to infrastructure. But the cyclone is also likely to weigh down agricultural output, considering that the agrarian sector accounts for nearly 25.0% of GDP in Mozambique.

We have slashed our GDP growth forecast for Mozambique to 2.5% y/y in 2024, from our initial expectation of 4.6% y/y. For 2025, we now expect growth of 3.0% y/y (3.8% y/y previously). Growth may have contracted in Q4:24 due to post-election protests and, with the risk of entrenched domestic political disruptions, growth may even potentially contract in Q1:25. Moreover, aside from the risks of protests becoming durable, economic activity may be dragged lower by FX liquidity pressures that may persist, intensifying fiscal pressures, and recurring episodes of insecurity in Cabo Delgado which will further delay FDI in the LNG sector.

GDP growth in Kenya will likely be lower at 4.6% y/y in 2024, from our earlier forecast of 4.9% y/y. This downward revision was largely due to economic disruptions during the Gen-Z led protests in mid-2024. Growth in Q3:24 eased to 4.0% y/y, from 4.6% y/y in Q2:24, and 5.0% y/y in Q1:24. Due to this slower impetus from 2024, we now see GDP growth rising to 5.0% y/y in 2025, lower than our earlier expectation of 5.3% y/y.

Interestingly, despite the torrential El Niño rainfall in Q2:24, growth in the agricultural sub-sector remained resilient, at 4.8% y/y, from 6.1% y/y in Q1:24. In fact, positively, it appears that the Kenya Kwanza government's increased emphasis on agriculture sector reforms could be bearing fruit. Growth in the agricultural sub-sector averaged 5.0% y/y in the 9-m to September 2024 and 6.4% y/y in 2023. This exceeds the average growth of 2.2% y/y in the sector between 2018-2022. The government has been providing fertiliser subsidies to farmers, while also providing seeds to spur cotton cultivation.

Of course, favourable base effects should help overall GDP growth recover in Kenya in 2025. However, the risk of drier weather conditions from the La Niña drought may still weigh down agrarian output. Additionally, personal consumption expenditure may also remain sluggish over the coming year due to still elevated taxes and higher statutory deductions from salaried employers. However, declining KES interest rates may help spur private sector credit (PSC) lending and underpin consumer spending in 2025. However, with government arrears owed to suppliers and contractors still in excess of KES700bn (c.4.4% of GDP), PSC growth could remain subdued as banking sector non-performing loans (NPLs) typically don't decline when arrears are also increasing. The government still has plans to issue local bonds to roads contractors to clear part of these arrears. However, should arrears remain elevated, public investment in infrastructure may also decline further, likely weighing down growth.

Growth in Uganda has been impressive, in line with our expectations. This has largely been on the back of higher investment spending around the oil sub-sector. We see GDP growth rising further, to 6.5% y/y in FY2024/25 and 7.5% y/y in FY2025/26, from 6.2% y/y in FY2023/24. We expect the government to secure and finalise all the

funding requirements for the East Africa Crude Oil Pipeline (EACOP) in 2025. However, on first oil, we see this being delayed into H2:26, while the government still sees first oil by the end of 2025.

But again, as we have highlighted before in previous editions of the AMR, even should first oil be delayed beyond our 2026 baseline assumption, FDI in the oil sector will probably remain robust and thereby support GDP growth. Furthermore, government spending outside the oil sector will also likely increase in 2025 ahead of the January 2026 elections. This could also support growth.

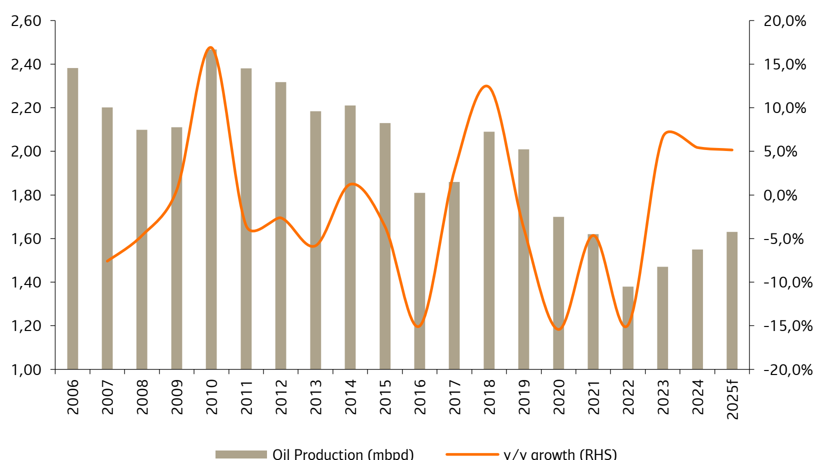
However, with Uganda's external position looking weak, should the UGX come under pressure from either a stronger USD globally or looser fiscal policy, the Bank of Uganda's MPC is likely to tighten monetary policy conditions again, which could drag down consumption expenditure. Also, should a stronger-than-expected La Niña occur in H1:25, growth in the agrarian sector will likely decline and drag down overall growth too.

In West Africa, growth in Nigeria will likely recover to 3.5% y/y in 2025, from an expected 3.2% y/y in 2024. With most of the reforms, such as removing fuel subsidies and adjusting the NGN drastically to address overvaluation and USD liquidity concerns now behind us, consumer growth could gradually recover.

We see 7.6% y/y growth in crude oil production in 2025, which equates to an average of 1.63m bpd. Notwithstanding sluggish new investment in the oil sub-sector, the authorities continue to focus on curbing oil theft and pipeline vandalism. Moreover, commencement of operations at the Dangote refinery should also boost growth in the oil refining sub-sector and support overall growth through linkages with other sectors such as construction and transport. Further, the improvement in FX liquidity will also likely continue to bode well for growth in the non-oil economy.

However, should oil production falter or should exchange rate pressures re-emerge, growth will likely be dented, particularly as inflationary pressures remain elevated.

Figure 3: Nigeria oil production



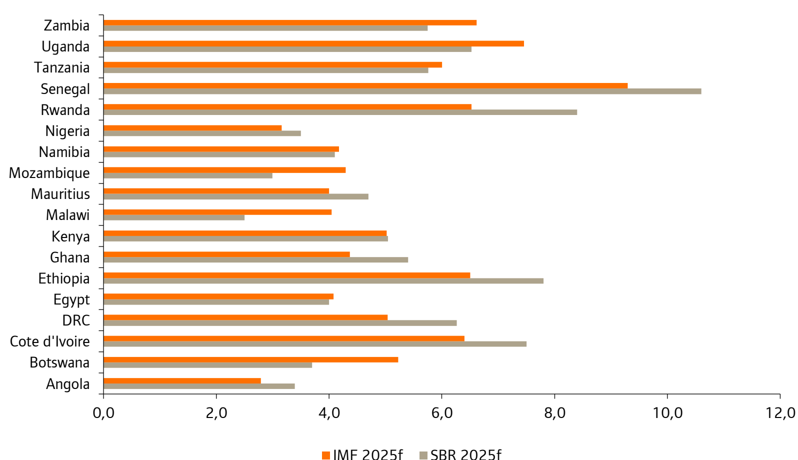
Source: CBN; NUPRC

Growth in Ghana has surprised to the upside in 2024. We now expect GDP growth to rise to 6.2% y/y in 2024, from our initial view of 3.8% y/y. Despite a poor performance from the cocoa sub-sector, the mining sector outperformed in 2024. We expect this trend to continue in 2025 following the commissioning of the Cardinal Namdini mine in Q4:24, and a new mine Ahafo North is also expected to commence production in mid-2025. The authorities expect these two mines to cumulatively contribute around 600k ounces to gold production. Hence, this development may also result in higher GDP growth in 2025 than our current core scenario.

In Botswana, we forecast 3.7% y/y GDP growth in 2025, from an expected contraction of 3.5% y/y in 2024, driven largely by a slower decline in net exports and an increase in domestic spending, courtesy of increased monetary and fiscal stimulus.

The likely contraction in growth in 2024 was worsened by domestic supply-side constraints, particularly in the utilities sector where the Morupule B power plant's maintenance works created significant energy supply shortages, while the agricultural sector's performance remained subdued due to drought conditions in the broader southern Africa region. Our baseline scenario for 2025 includes a slower decline in natural diamond prices as the market stabilizes, with production cuts potentially easing price pressure from lab-grown alternatives and 20-y high inventories.

Figure 4: SBR vs IMF GDP forecasts 2025



Source: Standard Bank Research; IMF

Laying the tracks for a structural shift

The long-term demand for critical minerals – such as copper, cobalt and nickel – may surge over the coming decades, driven by electric vehicle growth, solar power expansion, artificial-intelligence (AI) data centers, and robotics. This battery-technology super-cycle represents a major structural tailwind for 'electrification metals', with estimates by the SBR mining and resources team indicating global annual copper demand as likely to double, from currently 25m MT, to 50m by 2050.

Zambia and the Democratic Republic of Congo (DRC) are ideally positioned given their hefty high-grade deposits. According to the United States Geological Survey (USGS), DRC has approximately 70% of the world's cobalt reserves, and copper reserves of approximately 80m MT (USD750bn at current prices). Zambia's copper reserves are estimated at 21m MT (USD189bn). Critical minerals demand growth creates a structural growth opportunity, not only for these two countries but also for Angola by way of the Lobito Corridor, and for Tanzania by way of the TAZARA rail line, which, respectively, connect the Zambia-DRC Copperbelt to the US export market via the Atlantic facing Lobito port, and to China via the Dar es Salaam port on the Indian Ocean.

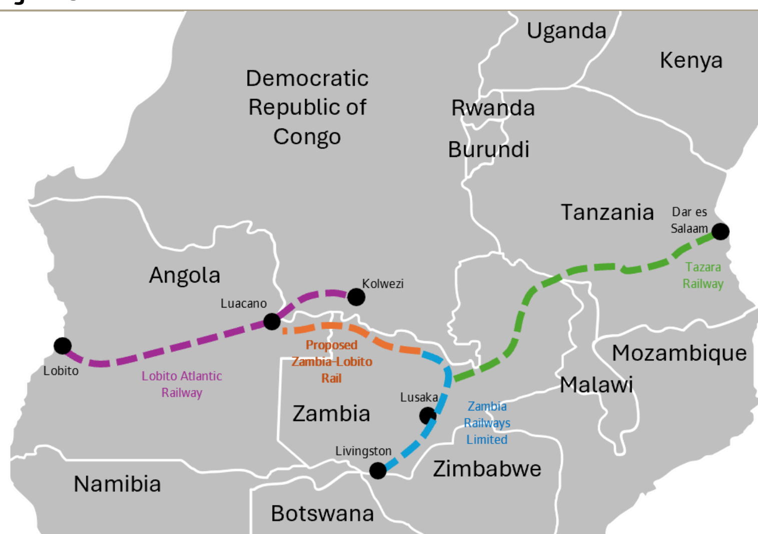
The Lobito corridor investment project, funded by the Partnership for Global Infrastructure and Investment (PGII), is a USD10bn rehabilitation and development of rail, road, bridges, and energy infrastructure. Angola is the primary beneficiary given that 90% of the rail line falls within its borders, as does the Lobito port.

In Zambia, the refurbishment of the Lobito corridor may boost efficiency and throughput of existing mines, while simultaneously laying the foundation for broader economic growth. Local contractors can see immediate benefits in track rehabilitation and station upgrades, while secondary towns near the rail corridor may develop bonded warehouses and other services for metals and general cargo.

From a mining perspective, long-term investment decisions tend to be based on long-term copper demand and sustained high prices. As such, for mining, the benefits of the Lobito corridor are likely to stem from wider margins by way of logistical efficiency gains. Currently, much of Zambia's and DRC's copper travels up to 2,000 kilometers by truck from mines to Durban or Richards Bay ports in South Africa, along the way facing border delays, security risks, and high insurance costs. Turnaround can be up to 60 days from mine to port. Therefore, streamlined logistics from trucking should improve margins for mining operators.

Beyond mining, an optimized Lobito and TAZARA corridor can reduce truck congestion on existing road networks throughout Zambia, expedite delivery of capital goods imports, and enable Zambia's non-traditional exports (including agricultural products) to reach regional markets faster and cheaper.

Figure 5: Lobito and TAZARA corridor



Source: Standard Bank Research

To maximize the opportunity presented by critical minerals demand, a consistent and transparent regulatory framework is as important as infrastructure investment. Frequent changes to mining taxes or royalty rates, and uncertainty over production-sharing agreements, may erode investor confidence and deter the long-term capital needed to develop large-scale mining projects. By upholding regulatory clarity, Zambia and DRC should attract reliable investment and fully capitalize on the structural opportunities provided by copper, critical minerals, and the infrastructure supporting their extraction.

Is revenue-driven fiscal consolidation failing?

Fiscal consolidation, the term increasingly commonly referred to when discussing SSA debt sustainability and/or public finance management dynamics. Often, when there is a concern about public debt vulnerabilities, reducing the fiscal deficit invariably becomes an urgent requirement. However, it is becoming habitual for economies in Africa to increasingly focus on mobilising higher revenue, rather than cutting back on expenditure notably, in order to advance fiscal consolidation and restore public debt on a more sustainable trajectory.

Arguably, many would assert that African governments prefer revenue-based consolidation as they have a limited propensity to scale back on exorbitant and bloated government costs. But, in many instances, even the IMF frowns on expenditure-based fiscal consolidation, arguing that it can increase inequality. The IMF has been proponents of not cutting back on capital expenditure or critical social spending programmes, believing that this could dent long-term growth. In essence, the IMF prefers a balanced approach that combines spending cuts and revenue increases which can help ensure both fairness and economic development.

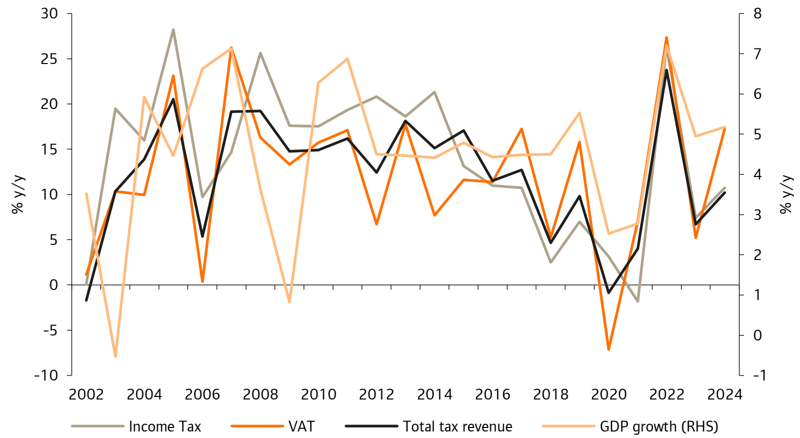
However, there is substantial support for expenditure-based consolidation in OECD research papers, which emphasizes that reducing government spending, particularly on current expenditure, has a greater likelihood of achieving long-term debt stabilization. The World Bank also agrees that reducing spending typically has a smaller negative impact on economic growth than would raising taxes. Tax hikes, according to the World Bank, can lower private sector activity by reducing disposable income and discouraging investment, while well-targeted spending cuts can maintain investor and consumer confidence, keeping an economy stable.

Indeed, many countries probably rely on raising revenue to address fiscal problems because their ability to cut essential spending is limited. However, focusing too much on increasing tax rates can push these economies beyond the point where higher taxes generate more revenue. Of course, this has been well documented by the Laffer Curve theory.

However, based on empirical research, the Laffer Curve doesn’t always necessarily hold in developing countries, with results being mixed. While there isn’t much recent research conducted on this, studies from the 1980s found some evidence of increased tax revenue in Jamaica after tax rates were reduced, although this wasn’t the case in India. Interestingly, in Jamaica, when tax rates were cut, the number of taxpayers grew significantly. But still, other factors, such as improved tax administration, may have influenced this outcome.

For instance, Kenya's recent tax policy adjustments which eventually resulted in youth protests in mid-2024, such as the VAT revision on fuel to 16% from 8% effective July 2023, and the introduction of new individual personal income tax rates and bands, provide valuable insights into revenue dynamics. Interestingly, VAT collections rose by 17.3% y/y in FY2023/24, compared to the 10-y average of 12.6% y/y (2010–2019). Similarly, income tax collections grew by 10.74% y/y in FY2023/24, falling below the 10-y average growth rate of 14.2% y/y (pre-2019). Admittedly, one must acknowledge that other factors may have either dampened or underpinned economic growth during these periods. However, we suspect that the Laffer Curve probably doesn’t hold in this instance due to the large informal sector in Kenya, which accounts for around 86% of total employment statistics. In fact, despite recent improvements, Kenya's tax as a % GDP remains below the levels seen between 2015 and 2018, perhaps signalling a decline in the efficiency of tax mobilization relative to economic growth.

Figure 6: Kenya tax revenue VS GDP growth



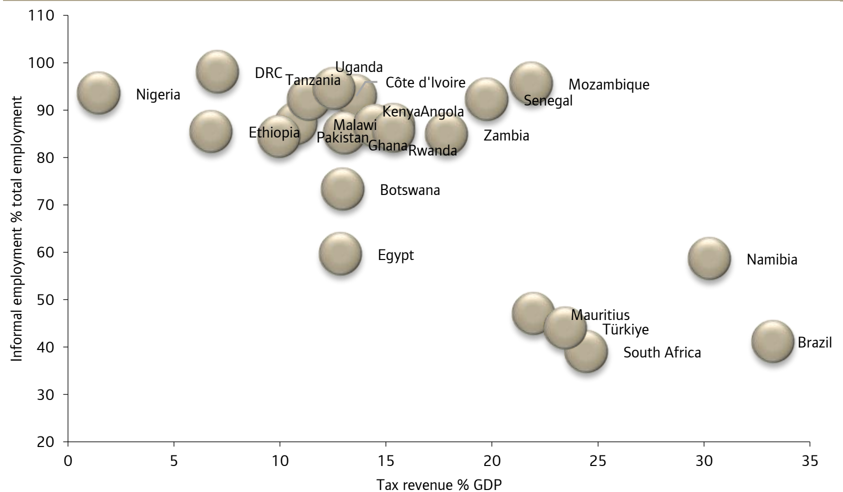
Source: Central Bank of Kenya

But then again, notwithstanding a misalignment of the Laffer Curve theory in this case, we find it unsurprising that the return on the VAT increase is higher than the hike in personal income tax. This is likely due to the large magnitude of the informal sector workforce where VAT increases, as an indirect consumption tax, would probably capture the vast informal sector. On the other hand, the increase in personal income tax rates wouldn't necessarily tap into the large informal sector.

In fact, there clearly appears to be a relationship between the size of the informal sector and the revenue collections as a % of GDP for VAT and income tax. For example, per data from the International Labour Organisation (ILO), economies in SSA such as South Africa, Mauritius and Namibia, have a relatively smaller share of the informal sector as function of total employment statistics, at 39.8%, 46.9% and 58.6% respectively. Ergo, unsurprisingly, VAT collections as a percentage of GDP are higher in South Africa at around 6.2%, 7.3% in Mauritius, and 6.7% in Namibia. This would be in comparison to Kenya at 4.1%, Ghana at 4.2% and Uganda at 3.8% – all economies with informal sector workforces reported at between 85% and 95%.

In some economies, such as Nigeria where the VAT rate is the lowest amongst the economies in our coverage at 7.5%, while the informal sector size is reported at over 90% by the ILO, an increase in the VAT rate (which is widely expected by the market this year) may boost collections – not just because of the large informal sector but also as the VAT rate is perhaps just way too low.

Figure 7: Relationship between informal employment and tax revenue



Source: Various ministries of finance, IOL

Moreover, Mozambique, has the highest corporate tax rate amongst the countries in our coverage, at 32%. They collect around 6.6% of corporate tax as a percentage of GDP, while in Mauritius and Egypt, where the corporate tax rate is 15% and 22.5% (some of the lowest in our coverage) respectively, they collect around 3.6% and 3.9% of GDP respectively. However, the corporate tax rate in Uganda and Kenya is at 30%, yet these economies collect corporate tax of around 1.9% and 1.0% of GDP respectively, perhaps reflecting deficiencies in the investment climate.

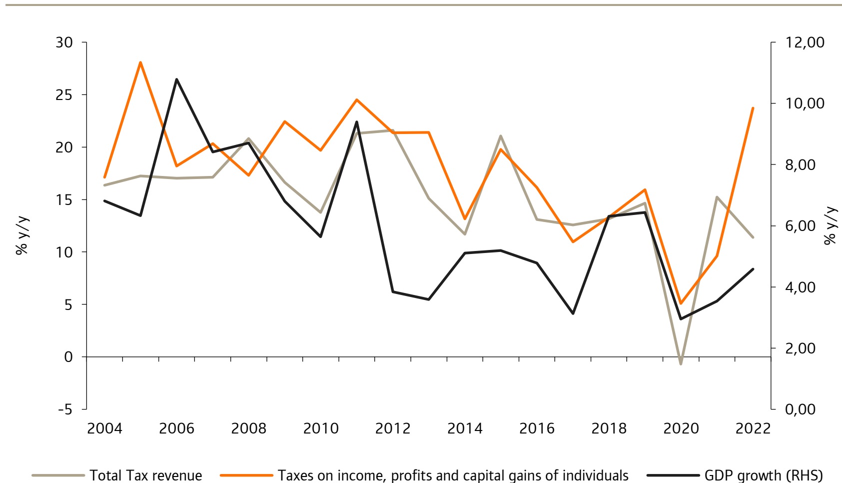
Table 1: Tax rates vs tax revenue % GDP

	CIT	VAT	Personal income tax rates	Tax revenue % GDP
Angola	25	14	25	15.4
Botswana	22	14	25	13
Côte d'Ivoire	25	18	32	13.6
DRC	30	16	40	7.1
Egypt	22.5	14	27.5	12.9
Ethiopia	30	15	35	6.8
Ghana	25	15	35	13.1
Kenya	30	16	35	14.5
Malawi	30	16.5	35	10.8
Mauritius	15	15	20	22
Mozambique	32	16	32	21.9
Namibia	30	15	37	30.3
Nigeria	30	7.5	24	1.5*
Rwanda	28	18	30	15.4
Senegal	30	18	43	19.8
South Africa	27	15	45	24.5
Tanzania	30	18	30	11.4
Uganda	30	18	40	12.6
Zambia	30	16	37	17.9

Source: Various tax authorities; Various ministries of finance; Standard Bank Research
*Tax revenue' refers exclusively to revenue streams allocated to the federal government

Uganda's 2012–2013 personal income tax reform, which raised the top marginal rate from 30% to 40%, while adjusting lower-income thresholds, also highlights interesting dynamics. Personal income tax revenue rose by 21.4% during 2012–2013, only marginally above the 8-y average of 21% before the reform. But again, Uganda's informal sector is large, estimated at nearly 95% of total employment statistics, per the ILO.

Figure 8: Uganda tax revenue vs GDP growth



Source: OECD; Uganda Bureau of Statistic

In Ghana, when VAT was cut to 12.5%, from 15.0% back in 2018, y/y growth of VAT collections averaged just 4.5% during 2018 and 2019, from 22.6% in the 3-y to 2017. This isn't surprising given that Ghana's informal sector is c.85%.

But, crucially, while there is probably enough evidence to suggest that VAT increases will likely grow tax revenue faster in most economies in SSA given their large informal sectors, some economies may have their tax rates way lower than is optimal. Hence, in this scenario, any increase in tax rates off a low base will likely spur tax revenue

collections – in the near term at least. But, more importantly, as it is becoming increasingly difficult to formalise informal sectors in SSA, authorities perhaps need to relentlessly focus on broadening the tax base, instead of relying solely on increasing tax rates. Of course, hiking VAT rates, regardless of the size of the informal sector, is politically challenging. Thus, perhaps utilisation and leveraging off technology will likely be a quicker way to broaden the tax base and thereby improve tax compliance. Although, various studies suggest that growing non-tax compliance in SSA is perhaps less to do with inefficient tax administration, but rather strongly linked to the perception amongst citizens that the government isn't providing adequate and quality public services such as health, transport and education. This change in perception, along with efforts to continue broadening the tax base, will be central in reviving tax revenue durably for economies in SSA.

Mozambique: higher risk of domestic debt default, and poor prospects of any improvement in sovereign ratings

We examine Mozambique's domestic debt performance as this economy faces recurrent episodes of government bond arrears and a large increase in bond maturities in 2025 and 2026.

Before, arrears were partly attributed to poor debt management office (DMO) capacity, which saw the Ministry of Economy and Finance (MEF) completing in 2024 the migration of external debt data to the Meridian IT system, from CS-DRMS, with a similar process being followed for domestic debt, to help improve debt management.

However, we foresee administrative issues as well as entrenched liquidity pressures culminating in a higher risk of a domestic debt default in 2025. Indeed, external rating agencies too have been flagging Mozambique's sovereign debt pressures. In October 2024, S&P downgraded Mozambique's local currency (LCY) long-term sovereign rating to CCC, from CCC+, while affirming the short-term LCY rating at C, with a stable outlook or both LCY and FCY.

In August 2024, Fitch has affirmed Mozambique's foreign currency (FCY) rating at CCC+. This rating agency has not assigned LCY ratings on Mozambique's sovereign since August 2023. The agency decided to withdraw due to a dearth of reliable information on the resolution of late coupon payments on domestic bonds.

Moody's however has kept Mozambique's LCY and FCY sovereign debt at Caa2, but with the outlook downgraded from positive to stable in September 2023.

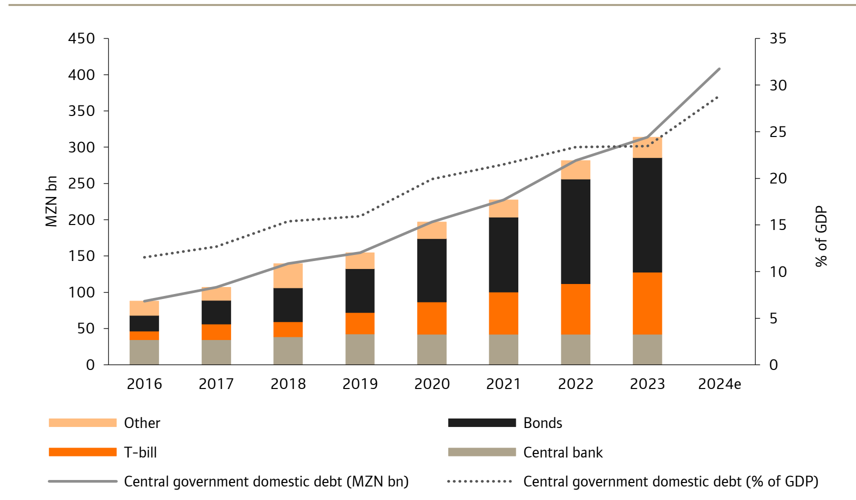
We see little chance of this economy garnering any material improvement in sovereign ratings soon – unless a speedy resumption of LNG investment can manage to lift economic growth.

An alarming rapid rise in domestic debt in 2024

We estimate central government domestic debt to have grown by an alarming 30% y/y in 2024, to just over MZN400bn (c.USD6.4bn), or 29% of GDP, from 23% of GDP in 2023. This may be due to poor revenue performance during 2024 and general election overspending.

Mozambique's rapid rise in domestic debt began in 2016 when over USD2bn in previously undisclosed publicly guaranteed loans came to light, resulting in the suspension of an IMF programme at that time. This has also limited access to external borrowing in the meantime. Therefore, central bank financing to the government rose to more than double of the legal limit of 10% of revenue of the previous fiscal year.

Figure 9: Central government domestic debt balances



Source: Banco de Moçambique; Ministério da Economia e Finanças; Standard Bank Research

More recently, the implementation of the government's unique salary (TSU) in the latter part of 2022 saw the wage bill rising by a staggering 40% y/y in that year, partly financed by a 24% y/y increase in central government domestic debt, with part of that in the form of domestic bonds issued which are now maturing in 2025 and 2026.

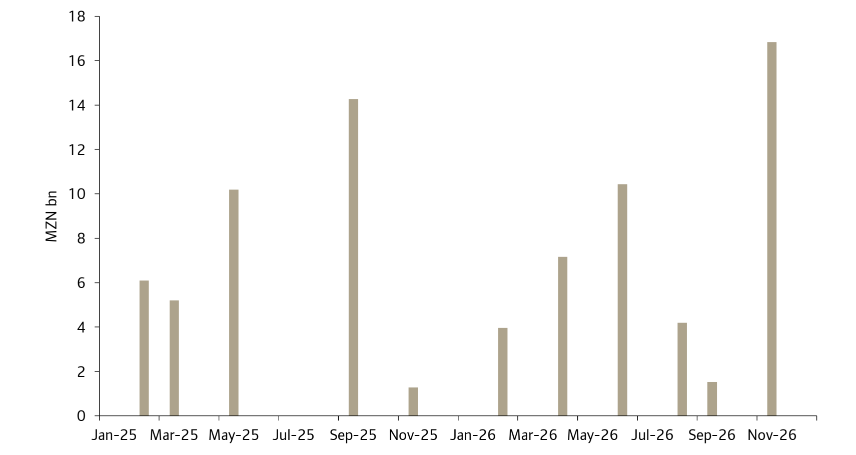
The wage bill in 2024, targeted at MZN199.4bn (c.USD3.1bn), or 14.1% of GDP, consumes over 70% of government revenue, forcing the government to continue borrowing aggressively in the domestic market.

Data reported to Q3:24 shows central bank financing corresponding to 18% of central government debt balances, with T-bills carrying a 31% weight, bonds representing 44% of the exposure, and other term-facilities accounting for 7%.

A material rise in bond repayments in 2025 and 2026

We have been flagging an 88.7% y/y increase in government bond repayments in 2025, to MZN37bn (c.USD580m), from MZN19.6bn in 2024, then rising further, by 19.1% y/y in 2026, to MZN44.1bn (c.USD690m). Poor government bond subscriptions meant that the government has had to increase its reliance on T-bill issuances to fund the Treasury.

Figure 10: Government domestic bond principal repayment



Source: Bolsa de Valores de Moçambique; Standard Bank Research

Rolling over these bonds, most likely via switch auctions, was the strategy of the previous cabinet to help in dealing with large domestic bond repayments and avoid defaulting. The new cabinet's approach is not known.

Mozambique's capital markets remain underdeveloped, implying a heavy concentration of government T-bill and bonds exposures in commercial banks' balance sheets, pension funds and insurance companies, as well as limited participation from other companies and the public. Notably, investment by foreigners in these instruments is also minimal.

Per the latest published commercial bank financials reported to December 2023 and June 2024, the top five commercial banks hold over 50% of government debt exposures in the form of T-bill and bonds, with pension funds, including the National Social Security Institute (INSS), also holding a large portion of these instruments, which could range at 20-30%.

Such heavy concentration may assist the government because it implies managing a limited number or stakeholders in performing switch auctions.

Debt service metrics now alarming, in the context limited fiscal space

At face value, per the 2025-2027 medium-term fiscal framework, Mozambique's domestic debt service (interest plus principal) ratio, seen at 17.4% of revenue in 2025 and 14.9% in 2026, with external debt service (interest plus principal) to revenue ratios at respectively 11.6% and 10.8% in 2025 and 2026, does not look particularly alarming, especially when compared with the debt service ratios of economies that have defaulted. However, Mozambique's wage bill, consuming over 70% of revenue, translates into severe liquidity constraints for this sovereign, which does raise deep concern about domestic debt service levels.

Still, Mozambique compares favourably from an inflation perspective. Monetary policy being kept tight, by means of high real interest rates, and high cash required reserves (CRR) at 39% for LCY deposits and 39.5% for FCY deposits, has helped to sterilize the impact of fiscal slippage on inflation.

This, alongside the USD/MZN pair being kept stable since mid-2021, has seen inflation outcomes low, last reported at 4.2% y/y in December 2024, and remaining in single digits since April 2023. We forecast inflation closing 2025 at 6.1% y/y because of constrained aggregate demand and a stable metical limiting imported inflation.

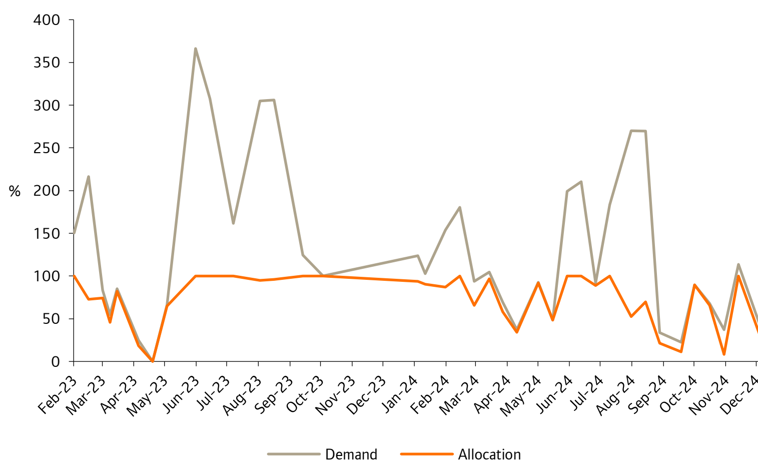
Easing inflation has allowed the Banco de Moçambique to cut the MIMO policy rate by a cumulative 450 bps in 2024, to 12.75%, from 17.25%, which helps in lowering the cost of financing, especially for the government. This goes a long way in helping to reduce the government's domestic debt interest bill. Further, the central bank could use the LCY CRR to help in releasing some LCY liquidity and thereby entice commercial banks' participation in the likely government debt reprofiling exercise this year and next.

We view domestic debt defaults risks as having increased, especially due to the Treasury's severe liquidity constraints.

The measures announced by President Daniel Chapo during his inaugural speech on 15 January may not relieve the government's liquidity pressure. The president announced expenditure cuts of MZN17bn (c.USD266m) by reducing the size of the government, dealing with ghost workers, improving the government's procurement process, and dealing with corruption.

However, low government bond subscriptions in some 2024 issuances, and the already high concentration of bond repayments in H1:25, implies an imminent domestic debt crunch – unless the new cabinet can successfully implement some switch auctions.

Figure 11: Mozambique government domestic bond subscription rates



Source: Bolsa de Valores de Moçambique; Standard Bank Research

Fixed income and currency strategy

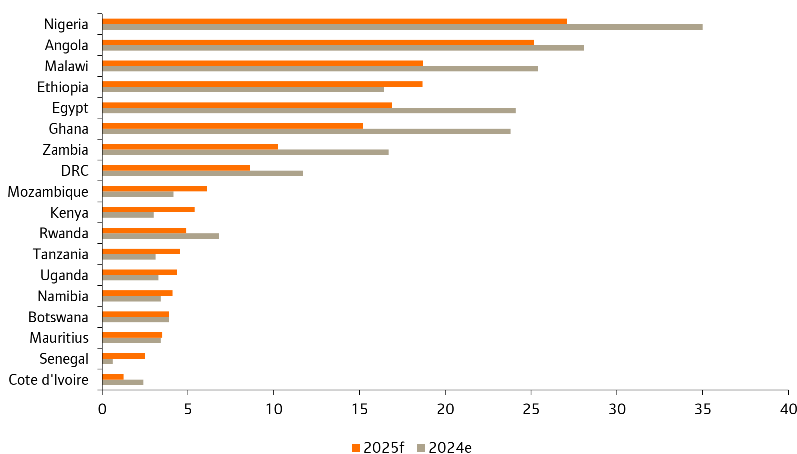
Except for Zambia and Ethiopia, we expect most central bank Monetary Policy Committees in our coverage to maintain an easing bias in 2025. However, the Committees in Angola and Malawi will likely keep rates on hold over the coming year.

Of course, should guidance from the US Federal Reserve on future expected rate cuts change, some MPCs will likely turn cautious and perhaps not ease as much as we currently expect. Admittedly, high beta markets, where the concentration of foreign portfolio investment in local debt has risen over the past year, will likely be more cautious if the global inflation outlook changes. However, in a market such as Egypt, where headline inflation is likely to decline sharply from February 2025 onwards, the MPC should have room to ease its policy stance during 2025, even if the Federal Reserve were to further scale back its expectations of rate cuts.

The carry trade that we recommended back in March 2025 has returned 13.3% since inception. The EGP came under pressure into Q4:24 as T-bill maturities fell due in Dec, resulting in higher USD demand. In addition, previous restrictions on USD demand for certain sectors were lifted, which also placed upside pressure on USD/EGP in Q4:24.

But, with inflation likely to materially ease from February 2024, in large part due to unwinding base effects, T-bill yields have begun edging lower. However, roll-over risks remain large, particularly in March 2025 when a large chunk of the 1-y T-bill investments from last year will fall due. Hence, these roll-over risks towards March 2025 will likely keep nominal T-bill yields elevated. However, as real EGP yields likely improve notably from February 2025, we could still see more investors add exposure to the 3-y government bond.

Figure 12: Inflation forecasts (% y/y period end)



Source: Standard Bank Research

But, even as our trade in our shadow portfolio matures in March 2025, we would still extend this trade with another carry trade. We still view the EGP's valuation on a REER basis as favourable, undervalued by around 26%, per our estimates, while current account dynamics may also improve after the recent ceasefire deal which may revive Suez Canal receipts. In fact, even before the ceasefire deal, despite a large current account deficit (exacerbated by increased gas imports), and elevated external debt service (between USD15.0-20.0bn per annum) in both 2025 and 2026, the Egyptian government's external funding sources remained ample to cover this.

Kenya will issue another infrastructure bond (KENIB) in February 2025. In fact, the government may even prefer to issue new KENIBs in the months where there is a coupon reinvestment risk, being February and August 2025. But also, in April 2025, cumulative maturities of T-bills and government bonds rises to KES254.7, from KES174.9bn in March 2025 and KES128.2bn in February 2025. Thus, with this large roll-over risk, the government may also look to potentially issue another KENIB closer to April.

Recall that the government had initially communicated the intention to conduct a switch auction to deal with this large redemption in April 2025 but then decided to delay these liability management plans on the expectation that KES yields may fall further.

With KENIB yields having fallen to around 13.5% in the secondary market at the time of writing, there is probably limited scope for further large duration gains right now, considering that KENIB yields haven't historically been lower than c.12.0%. In addition, we don't expect the KES to rally sharply from current levels. However, we also don't expect the KES to sharply depreciate in 2025, which would imply that the KENIB trade may still provide an attractive avenue for the carry.

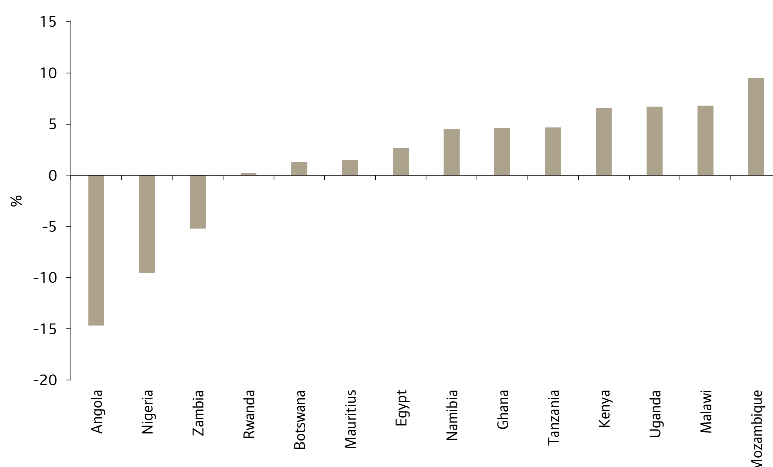
The KENIB 2032 position, that we had opened in our shadow portfolio last year, has returned 36.1% in USD terms. We took profit on this trade in early September 2024. But, looking ahead, we will only re-enter the KENIB trade if new primary issuances provide entry level yields of 15-16%. Of course, there is always the risk that offshore investors take profit, and move to other markets such as Nigeria and Egypt.

Further, if Kenya doesn't secure a new IMF programme in 2025, portfolio investors may become nervous, particularly if this coincides with a volatile global risk environment. Indeed, while FX reserves have risen to above USD9.0bn, Kenya's external debt service remains elevated over the medium term, which perhaps makes it appropriate for the government to secure a funded, rather than a precautionary, programme.

The government is keen to secure another funded programme, although may potentially have to tap into exceptional access again to receive a sizeable IMF arrangement because the government is already close to the SDR quota ceiling. But also, should the government increase uptake of new non-concessional financing, such as the recently discussed UAE financing beyond the USD675m agreed limit with the IMF under the current fiscal framework, the pending ninth, and final, review under the current IMF programme may not transpire. This may then complicate the remaining disbursements under the RSF tranche of the arrangement.

Nevertheless, real KES yields remain relatively attractive, with inflation also unlikely to become troublesome for the MPC. KES liquidity at primary debt auctions may also be anchored by further increases in the National Social Security Fund (NSSF) contributions. However, a La Niña drought may still increase food inflation – but the MPC will still probably look to cut the CBR further in H1:25.

Figure 13: Real 3-m rate



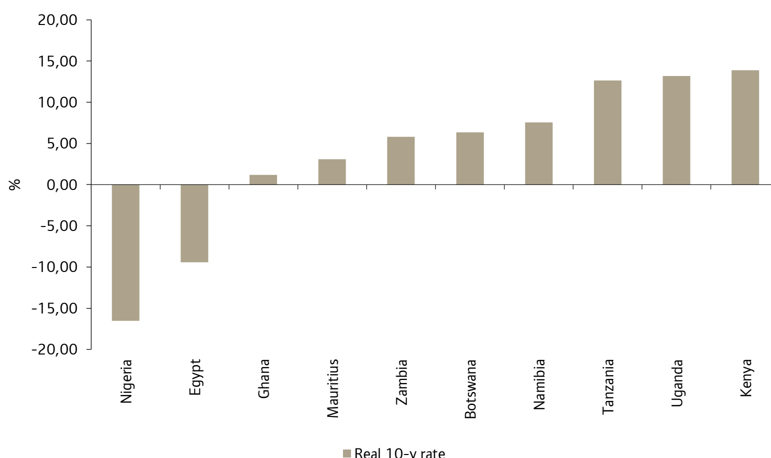
Source: Bloomberg; Various central banks

In Uganda, the 5-y bond yield is now approaching 17.0%. The government has ramped up domestic borrowing over the last few months due to large redemptions in January 2025 as well the requirement to clear the remaining overdraft at the BoU. Recall that the government had to clear UGX7.8tn of the BoU overdraft through issuance of marketable securities to the apex bank, with a further UGX1.3tn expected to be cleared in cash. Positively, as of Q4:24, the government had already issued UGX7.8tn in securities to the BoU and cleared that portion of the overdraft. This will likely improve the government's chances to secure a new IMF programme, which they aim to finalise by June 2025.

We still expect further upside for UGX bond yields over the next 3-m due to upcoming large maturities in May 2025, which rise to UGX2.45tn, from UGX722bn in February 2025 and UGX547bn for March 2025. The yield on the 5-y government bond could reach 17.0-17.5%, a range that may well see us recommending the duration trade in Uganda again, more so if the USD/UGX pair reaches 3800-3850 levels in Q1:25, typically a period where USD demand spikes due to dividend repatriation.

However, the risk of supplementary budgets being issued would normally increase UGX bond yields. Also, with elections expected in January 2026, government domestic borrowing and issuance of supplementary budgets could increase in 2025. However, we will closely track whether any tactical duration opportunities arise between March and May 2025.

Figure 14: Real 10-y rate



Source: Bloomberg; Various central banks

The carry trade via the 364-d T-bill that we recommended in Zambia will mature in August 2025. The trade is down 0.9% due to ZMW weakness in Q4:24. This weakness was largely on the back of increased seasonal agricultural input demand, in addition to looser ZMW liquidity.

We expect moderate upward pressure on USD/ZMW to persist in H1:25, with ZMW liquidity conditions expected to remain loose, in large part due to concerns that domestic funding pressures would deteriorate if ZMW liquidity were tightened, amid the still elevated increase in social spending from the severe drought in 2024.

ZMW pressure in 2024 was also exacerbated by the El Niño drought which increased both food and electricity imports, thereby widening the trade balance. Admittedly, the resumption of favourable rains will be crucial in easing these trade account pressures by replenishing the Kariba Dam and boosting agricultural productivity. However, even if La Niña rains were weak, as is widely expected, which would imply weaker rains in Zambia, we would expect an improvement in the trade account largely due to a significantly lower base from 2024.

Looking ahead, a large portion of the local debt maturities in 2026 is skewed towards foreign portfolio investors estimated at around USD800m. This is more likely to be a balance of payments challenge, rather than a debt sustainability issue, according to us, as non-resident holders are likely to increase USD demand. We believe that the authorities would benefit from signalling to the market how this potential large capital outflow in the financial account would be funded, particularly given that 2026 is in an election year and the current IMF funded programme expires in October 2025. Such signalling would perhaps help alleviate challenges for the government to roll over ZMW debt, which would also anchor investor confidence.

Given our entry point at a 19% yield, we maintain our shadow portfolio position in the carry trade. Our base case is that Zambia will muddle through the high maturity wall both in 2025 and 2026 as the banking system maintains high levels of liquidity. That said, likely looser ZMW liquidity may place further upside pressure on USD/ZMW than we currently envisage in our baseline assumption. But crucially, we also believe that it is likely that Zambia extend, or enter, a new IMF programme once the current one expires in October 2025. However, the authorities are keen to extend the current programme before the October expiry, which would then also make them eligible for the Resilience and Sustainability Facility (RSF).

In Nigeria, our carry trade recommendation is down around 12.6% since inception in April 2024. The NGN came under pressure in Q3:24 largely on the back of both seasonal (college fees) and speculative USD demand. The NGN appreciated in Q4:24

due to an increase in FX reserves from the USD2.2bn Eurobond issuance. This was further complemented by the introduction of the B-Match system, which has aided price discovery in the FX market.

However, as USD/NGN declined from late last year, we have seen right-hand-side USD demand also pick up. In fact, the NGN started 2025 on the back foot, with structural USD demand still persisting. The NGN has been under pressure despite the CBN selling USD536m in December 2024 and USD360m so far in January 2025.

Hence, we will now cut our losses and exit the 364-d T-bill in our shadow portfolio. However, we will wait for better entry levels for USD/NGN between 1600-1700, as OMO yields will likely continue to range around 30.0% for the better part of 2025.

Our expectation for an IMF-sponsored, stepped-up depreciation of the Ethiopian birr (ETB) against the USD has materialized. Our recommendation to buy a 24-month USD/ETB NDF in January 2023 proved highly effective, delivering a strong return of 53.73% upon maturity on 21 January 2025.

Table 2: Open trades

Positions	Entry Date	Entry Yield, %	Entry FX	Latest yield, %	Latest FX	Total return, %
						Since inception
Egypt: buy Egypt 364-d	28-Mar-24	25.9	47.40	25.43	50.31	13.4
Zambia: buy Zambia 364-d	22-Aug-24	19.00	26.11	15.50	27.8	-0.9

Source: Bloomberg, Standard Bank Research

Glossary

For brevity, we frequently use acronyms that refer to specific institutions or economic concepts. For reference, below we spell out these and provide definitions of some economic concepts that they represent.

14-d	14-day, as in 14-d deposit, which denotes 14 day deposit
10-y	10-year
16 Jan 13	16 January 2013
3-m	3 months
3m	3 million, as in USD3m, which denotes 3 million US dollars
3bn	3 billion, as in UGX3bn, which denotes 3 billion Ugandan shillings
3tr	3 trillion, as in TZS3.0tr, which denotes 3 trillion Tanzanian shillings
AOA	Angola Kwanza
BAM	Bank Al Maghrib
BCC	Banque Central du Congo (Central Bank of Congo)
BCEAO	Banque Central des États de L'Afrique de l'Ouest (Central Bank of West African States)
BCT	Banque Central de Tunisie
BM	Banco de Moçambique
BNA	Banco Nacional de Angola
BOB	Bank of Botswana
BOG	Bank of Ghana
BOM	Bank of Mauritius
BON	Bank of Namibia
BOP	Balance of payments – a summary position of a country's financial transactions with the rest of the world. It encompasses all international transactions in goods, services, income, transfers, financial claims and liabilities.
BOT	Bank of Tanzania
BOU	Bank of Uganda
BOZ	Bank of Zambia
BR	Bank Rate (Reserve Bank of Malawi)

BRVM	Bourse Régionale des Valeurs Mobilières (Regional Securities Exchange)
BWP	Botswana Pula
C/A	Current account balance. This is the sum of the visible trade balance and the net invisible balance of a country. The latter includes net service, income and transfer payments.
Capital account	Captures the net change in investment and asset ownership for a nation by netting out a country's inflow and outflow of public and private international investment.
CBE	Central Bank of Egypt
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CDF	Congolese Franc
CPI	Consumer Price Index – An index that captures the average price of a basket of goods and services representative of the consumption expenditure of households within an economy.
Discount rate	Policy rate for Bank of Uganda
Disinflation	A decline in the rate of inflation. Here prices are still rising but with a slower momentum.
Disposable income	After tax income
DM	Developed markets
ECB	European Central Bank
EGP	Egyptian pound
EM	Emerging markets
ETB	Ethiopian Birr
Eurobond	A bond denominated in a currency other than the home currency of the issuer.
Exports	The monetary value of all goods and services produced in a country but consumed broad.
FMDQ	FMDQ OTC Securities Exchange, Nigeria
FX	Foreign Exchange
FY2016/17	2016/17 fiscal year
GCE	Government Consumption Expenditure - Government outlays on goods and services that are used for the direct satisfaction of the needs of

	individuals or groups within the community. This would normally include all non-capital government spending.
GDE	Gross domestic expenditure, the market value of all goods and services consumed in a country – both private and public – including imports but excluding exports. This is measured over a period of time – usually a quarter/year.
GFCF	Gross Fixed Capital Formation – this is investment spending, the addition to capital stock such as equipment, transportation assets, electricity infrastructure, etc to replace the existing stock of productive capital that is used in the production of goods and services in a given period of time, usually a year/quarter. Normally, the higher the rate of capital, the faster an economy can grow.
GDP	Gross Domestic Product – the monetary value of all finished goods and services produced in a country in a specific period, usually a year/quarter.
GHS	Ghanaian Cedi
H1:16	First half of 2016
Imports	The monetary value of goods and services produced abroad and consumed locally.
Inflation	The rate at which the general level of prices of goods and services are rising. It is usually measured as the percentage change in the consumer price index over a specific period, usually a month/year.
Invisible trade balance	The value of exports of services, income and transfers, less imports of same.
Jan 16	January 2016
KBRR	Kenya Bankers' Reference Rate
KES	Kenya Shilling
KR	Key Rate (Bank Al Maghrib)
KRR	Key Repo Rate
m/m	Month on month, in reference to a rate of change
MAD	Moroccan Dirham
MLF	Marginal Lending Facility
MOF	Ministry of Finance
MPC	Monetary Policy Committee, the committee that makes the decision on policy rates
MPR	Monetary Policy Rate
MUR	Mauritian Rupee

MWK	Malawian Kwacha
MZN	Mozambican Metical
NAD	Namibian Dollar
NBE	National Bank of Ethiopia
NBR	National Bank of Rwanda
NEER	Nominal Effective Exchange Rate. This is the weighted average rate at which a country's currency exchanges for a basket of currencies, usually trading partner currencies. It is measured in index format.
NGN	Nigerian Naira
Nominal GDP	The monetary value of all finished goods and services produced in a country in a specific period, usually a year/quarter, measured in current prices.
NPL	Non-Performing Loans
Parity	Refers to the par or nominal value of a debt instrument. This is usually the price at which the said instrument is redeemed on maturity.
PCE or HCE	Personal or Household Consumption Expenditure: The monetary value of household purchases of durable goods, non-durable goods, semi durables and services within a given period of time, usually a year/quarter.
PR	Policy Rate
Prime rate	key lending rate
q/q	quarter on quarter, in reference to a rate of change
Q1:16	First quarter of 2016
RBM	Reserve Bank of Malawi
Real GDP	The monetary value of all finished goods and services produced in a country in a specific period, usually a year/quarter, measured in constant prices.
REER	Real Effective Exchange Rate. This is the weighted average rate at which a country's currency exchanges for a basket of currencies - usually trading partner currencies – while taking into account any changes in relative prices between the host country and its trading partners. It is often measured in index format.
RWF	Rwandan Frank
SARB	South African Reserve Bank
SDF	Standing Deposit Facility (Mozambique)
SLF	Standing Lending Facility (Mozambique)

T-bill	Treasury bill – A short-dated, government backed security that yields no interest but is issued at a discount over a period of less than one year.
TND	Tunisian Dinar
Treasury bond	A marketable government debt security with a maturity of a year or longer
TZS	Tanzanian Shilling
UGX	Uganda Shilling
USD	US Dollar
VAT	Value Added Tax
Visible trade balance	The value of exports of visible goods less imports.
WAEMU	West African Economic and Monetary Union, also known as Union Economique et Monetaire Ouest Africaine (UEMOA)
XAF	Central African Franc
XOF	West African Franc
y/y	Year on year, in reference to a rate of change
Yield	The return on an investment, usually expressed as a percentage over a period of time, usually a year.
YTD	Year to date
ZAR	South African Rand
ZMW	Zambian Kwacha

Jibran Qureishi[#]

[#] This material is "non-independent research". Non-independent research is a "marketing communication" as defined in the UK FCA Handbook. It has not been prepared in accordance with the full legal requirements designed to promote independence of research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

SA politics in 2025: risks, and opportunities, abound

In our view, the central political theme for SA this year will be the interplay between prominent risks – both domestic and global – and the clear opportunities that exist if these risks are pragmatically and successfully contained

In our view, the central political theme for SA this year will be the interplay between prominent risks – both domestic and global – and the clear opportunities that exist if these risks are pragmatically and successfully contained.

- **On the domestic front, the most pronounced political risk still relates to the GNU.** Should the GNU retain its post-election durability, this would provide profound support to the economic and institutional reform path, thus contributing towards an ongoing and cathartic lift in business and investor confidence in SA. Conversely, the GNU's possible collapse would compromise many of the gains that have been made since its formation, thrusting SA back into the intense uncertainties that were presented in the days following the ANC's seismic election losses last year.
- **Globally, there are considerable perils and uncertainties emanating from Donald Trump's second term as US president.** These relate to the global economy, and the space that exists for international cooperation in combating shared concerns, such as climate change, as well as to the US-SA relationship specifically. Indeed, SA's presidency of the G20 could draw greater attention from the Trump administration to the various foreign policy flashpoints that exist between the two countries, elevating the threat of diplomatic fallout. However, these same geopolitical dynamics present select opportunities for SA too, both in the possibility that exists in drawing greater commercial interest in the country's gradual economic recovery, as well as the potential to take the lead in advocating for the global solidarity in responding to shared threats that Mr Trump is so vehemently rejecting.

With this broad thematic overlay, below we discuss nine key matters related to this year's political outlook.

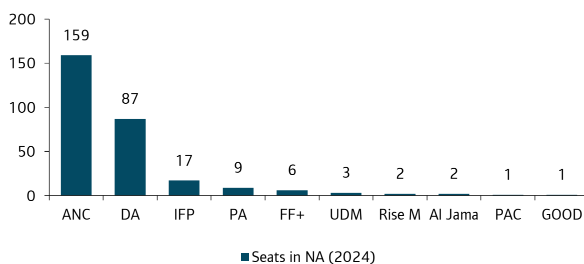
(1) Will the GNU hold together?

Our base case view is that the GNU will hold together this year

Our base case view is that the GNU will hold together this year. Our view in this regard is based on a variety of factors, including:

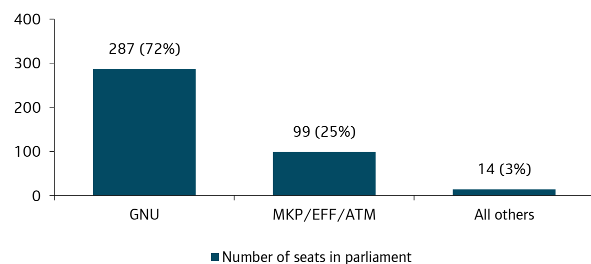
- **The relatively broad composition of the GNU**. This somewhat shields it from the accusation that it is simply an ANC-DA alliance (Figures 1 and 2).

Figure 1: The GNU's 10 parties



Sources: IEC; Standard Bank Research

Figure 2: Almost three-quarters of Parliament

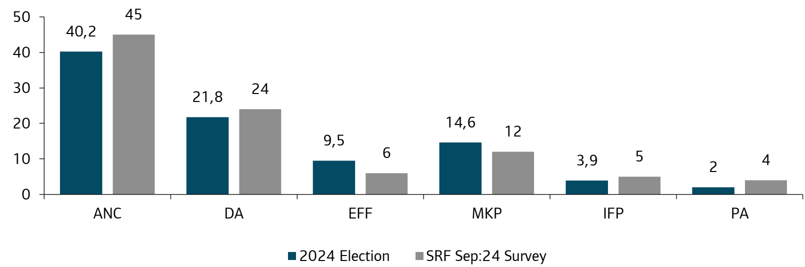


Sources: IEC; Standard Bank Research

- **The strong incentives that exist for key GNU stakeholder to sustain the agreement that is in place.** These incentives exist for key individuals, none more so than President Ramaphosa (whose second term reform drive hinges, to a great extent, on GNU durability) as well as for the larger parties within the GNU. To this latter point, survey data released last year points to

considerable electoral upside for GNU parties, and clear downside for those marginalised from the current arrangement (Figure 3).

Figure 3: Electoral upside for GNU partners



Sources: IEC; SRF; Standard Bank Research

- **President Ramaphosa's firm authority in the ANC.** The extent to which the president has consolidated his base within the party, coupled with the reality that the ANC's GNU participation was endorsed by the NEC after last year's elections, fortifies the party's commitment to the coalition that has been formed.

The GNU has been broadly celebrated by local and international investors and multilateral stakeholders, with President Ramaphosa intentionally lauding its formation during his addresses to the UN General Assembly last year, and last month at the WEF in Davos

- **Positive pressure from the local and international investor community.** The GNU has been broadly celebrated by local and international investors and multilateral stakeholders, with President Ramaphosa intentionally lauding its formation during his addresses to the UN General Assembly last year, and last month at the WEF in Davos. These endorsements raise the stakes for any GNU partner that may threaten to collapse the coalition. Further, SA's G20 presidency this year will intensify focus on government, and the reform possibilities that are emerging as a result of the GNU's formation.
- **The fracturing of the ANC/EFF 'progressive caucus'.** Divisions between the MKP and the EFF weaken their collective capacity to resist the GNU this year, both in parliament and through other legal and political channels.

Further to the above, we regard much of the public posturing by prominent ANC and DA party leaders on key issues as being designed primarily to placate their core electoral constituencies, and is, therefore, not always reflective of genuine antipathy between the partners concerned.

(2) Key risks and challenges that the GNU will face

Though we believe that it is more likely than not that the GNU will prevail this year, it will of course have to navigate a variety of challenges along the way – some of which certainly have the potential, if poorly managed – to imperil our base case view

Though we believe that it is more likely than not that the GNU will prevail this year, it will of course have to navigate a variety of challenges along the way – some of which certainly have the potential, if poorly managed – to imperil our base case view.

- On the legislative/policy front, focus will continue to fall on National Health Insurance (NHI), which remains the DA's only real 'red line' in its engagements with the ANC, and the Expropriation Act, which the president assented to recently.
- Recent developments suggest, as we have long expected, that a compromise could be reached on the aspects of the NHI Act that the DA and much of the private sector are opposed to. Such an agreement would considerably reduce internal GNU pressure on this matter and ease the path of ANC/DA relations over the course of the year ahead.
- Further to this, going forward all new pieces of legislation that are sent to the president for his assent will be subject to more collaborative negotiation in Parliament. This is in contrast to the abovementioned Acts, both of which were passed by the ANC's Parliamentary caucus before last year's elections.

Apart from legislative concerns, internal ANC and Alliance resistance to the GNU, and specifically the participation in it of the DA and the FF+, will remain prominent this year, particularly in light of the ANC's mid-year National General Council (NGC) gathering. To this point, the ANC's NEC will need to carefully navigate the decision to 'reconfigure' the leadership of its KZN and Gauteng structures so as not to provide greater momentum to the anti-GNU grouping within the party.

(3) Reform: the end to load shedding allows greater focus on other pressing crises

Our Credit and Macro teams expect that the welcome cessation of load shedding that has prevailed since late March 2024 will continue, largely unabated, throughout 2025. This is creating greater space for more urgent attention to be placed on a variety of other pressing national challenges and deepening crises.

In our view, four areas of reform will capture much of the attention this year and will be subject to varying (and often intensifying) levels of government-private sector collaboration, too

In our view, four areas of reform will capture much of the attention this year and will be subject to varying (and often intensifying) levels of government-private sector collaboration, too.

- **Water**, which is becoming a socially and politically existential challenge in key areas.
- **Transnet**, where moves to open up to the private sector are gathering real momentum.
- **Local government**, with ANC anxiety around chronic service delivery and governance breakdowns fuelled by the looming 2026 LGEs. The most economically pressing challenges in this regard relate to persistent underperformance, and in some areas pronounced institutional declines, in key metros, most notably in Gauteng.
- **Crime**, where progress must be made in reducing levels of violent, and particularly organised, crime. Two indicators reflect the extent of the crisis in this regard. First, as we discussed most recently here, SAPS's 'murder detection rate' has plunged to just over 12% (in 2022/23), down from 31% in 2011/12. This means that almost 90% of murder cases in the country are closed without the perpetrator being brought to justice. And, second, SA's now ranks 7th out of 193 countries on the Global Initiative on Transnational and Organised Crime's (GI-TOC) Organised Crime Index. In this report last year, we focused on the extraordinary rise in extortion across SA, affecting economic recovery (particularly in the construction industry) as well as the lives of many of the country's most vulnerable people.

Though we believe that progress can, and likely will, be made in all of these areas, the extent of the challenges that are faced will draw back the pace of change in 2025, thus curtailing the economic and societal impact of the same.

(4) Fiscal pressures

From a fiscal perspective, the typical political pressure points will remain, weighing on the outlook in varying ways

From a fiscal perspective, the typical political pressure points will remain, weighing on the outlook in varying ways. These include:

- **SOEs**, where political pressure for a Transnet bailout will be a central theme.
- **Public sector wages**, though we expect unions to accept government's 5.5% offer, with CPI-linked increases included for years two and three of the agreement.
- **Social welfare**, where greater focus will be required to determine how the SRD Grant will be funded on a permanent basis. NT's challenges in this regard have been compounded by a recent high court ruling, in which Judge Leonard Twala found that "it is unconscionable for the government to accept that the number of people who are with insufficient means to support themselves and their dependants is more than 18.3 million but only budgets to provide for

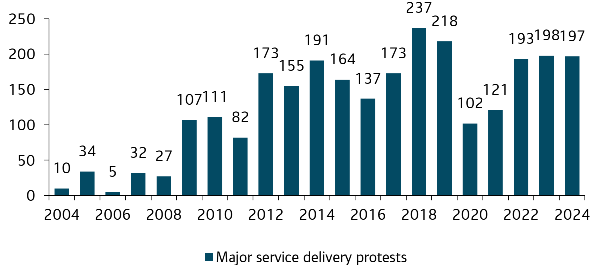
10.5 million". Judge Twala rejected NT's argument that it had to limit the number of SRD grant recipients as a result of fiscal constraints. If NT is forced to expand the SRD grant pool (and there is also rising pressure to increase the grant amount to closer to the food poverty line), this would of course have material implications for the consolidation path, thus further necessitating agreement on a permanent new funding source for the grant.

(5) Protests and strike action

We do not expect a pronounced uptick in either protest or strike action in 2025.

- **Regarding protests.** Last year there were 197 major service delivery protests recorded by Municipal IQ, meaning that protest action – while still high – is still some way off pre-Covid peaks (Figure 4). As we have previously outlined, water shortages are now the leading cause of service delivery protest action, supplanting electricity load shedding (concerns around which have naturally declined over the past 10 months). Key protest areas in this regard in 2025 will likely be densely populated areas in Gauteng and KZN. As we discuss later in this note, tensions in these areas could emerge more forcefully should the MKP seek to resist their political marginalisation in KZN through street-level mobilisation.
- **Strike action**. We maintain that the structural easing in labour unrest over the past decade (as we discussed most recently here) will likely continue this year. Between January and September last year there was a total of 840,000 workdays lost to strike action, down considerably from 2023 (though 2023's figure was largely attributed to a brief public sector strike) (Figure 5). Should, as we expect, the public sector wage negotiations be concluded without strike action, and a three-year deal signed, this would offer medium-term stability in this area.

Figure 4: Water shortages now drive SD protests



Sources: Municipal IQ; Standard Bank Research

Figure 5: Strike action will likely be low in 2025

Sources: Andrew Levy Publications; Standard Bank Research

(6) Geopolitical risks abound

Donald Trump's second term as US president will, of course, be at the centre of the year's geopolitical noise and uncertainty

Donald Trump's second term as US president will, of course, be at the centre of the year's geopolitical noise and uncertainty. But, in our view, it would be misleading to view Mr Trump as the *cause* of this anxiety and change. Instead, Mr Trump – and the brash populism that he represents – is a symptom of a broader set of challenges, and a manifestation of the core geopolitical shift that characterises the current era.

Navigating this environment will be potentially perilous for any nation this year. For SA, these challenges are arguably compounded by abundant foreign policy frictions with the US, and the fact that SA's prominence will be more pronounced as a function of its leadership of the G20.

Regarding the US—SA relationship, there are four areas of potential concern this year.

- **AGOA.** AGOA is due to expire in September this year, meaning that the Trump administration will not only need to decide whether to extend it (there is a proposal to do so until 2041), but also to determine which countries should remain eligible for its benefits. There is a definite risk that SA could be removed from AGOA, or, at least, have its benefits under the programme considerably trimmed.
- **US funding of PEPFAR.** In the previous fiscal year, the US government provided funding of almost $450m (around R8bn) to SA through the PEPFAR programme. There is now pronounced uncertainty as to whether this funding will continue, and what effect this will have on SA's HIV and Aids programmes (18% of the funding for which is provided by the US government).
- **A bill to 'review' US-SA relations**. In March last year, Republic Senator John James introduced this Bill which aimed to fundamentally review US-SA relations, due largely to concerns over SA's foreign policy positioning. As outlined by Herbert Smith Freehills partner Peter Leon here, this Bill lapsed with the last session of Congress, and former President Biden signed a version of an annual defence bill last year that did not contain the call for such a review (see here). However, as Mr Leon argues, the Trump administration could resuscitate this legislative effort, aided by the fact that the Republican Party controls both houses of Congress. Though the outcomes of such a review are uncertain, it certainly poses potential risks for US-SA economic and political ties.

Though the above risks are material, there are also the mitigating factors that could contain broader US-SA diplomatic and economic fallout this year. These include: (a) the presence of more openly pro-US (and even pro-Republican) parties in the GNU; (b) the reality that it would be against the US's long-term interests in Africa to further alienate SA, particularly in the context of rising US-China rivalries; and (c) the diplomatic sensibility of President Ramaphosa and DIRCO Minister Ronald Lamola (as expressed in their reactions to President Trump's recent claim that the SA government is 'confiscating' land in the country).

(7) Jacob Zuma and the MKP

From a domestic perspective, Mr Zuma and the MKP will be at the centre of many of the key political risks in the year ahead

From a domestic perspective, Mr Zuma and the MKP will be at the centre of many of the key political risks in the year ahead. Some of these concerns are more long-term, while others potentially more imminent.

These include:

- The MKP's resistance to the GNU, as well as its capacity to benefit most handsomely from the GNU's possible collapse, or underperformance.
- The MKP's dogged attempts to dismantle the somewhat fragile coalition in place in KZN and, in so doing, potentially secure a leading role in a new coalition formation in the province.
- The possibility that the MKP, or some of its fractious internal constituencies, could push for street-level mobilisation to resist the party's political marginalisation in KZN.
- The vested interest that many MKP leaders have, none more so than its leader, in resisting the country's gradual institutional and governance recalibration.

With that said, the MKP will need to manage and contain its own, seemingly deepening, internal strains in order to pose these, and other, threats to the political settlement that formed after last year's elections, and to elevate its electoral challenge as the 2026 LGEs and the 2029 national and provincial elections approach.

(8) Looking longer-term

Provided the GNU holds together, we believe that 2025 will provide some breathing room for SA to make progress on key reforms, as well as to rebuild confidence in government and the country's future more broadly.

However, we expect that key stakeholders will still need to spend much of their time this year on resolving crises that have deepened over the past 5-10 years, such as at Transnet, regarding the water crisis in key areas, resolving municipal and metro breakdowns, and the policing crisis more broadly. While these interventions are necessary, and encouraging, they will sap collective attention, drawing this away from a deeper conversation over SA's deep structural and social impediments, the resolution of which remains vital in delivering the tangible social progress upon which the GNU's broader longevity depends. These include:

- Crucial public education system reform.
- A more urgent approach towards land reform and historical redress (which is a key component in limiting political populism regarding this matter in the years ahead)
- The need to build a capable and ethical state, the absence of which has been starkly reflected by the Stilfontein tragedy.

Further, we expect it to be another deeply challenging year for the NPA, with little concrete prosecutorial progress made in the various high-level and/or state capture related matters that it has enrolled in recent years.

(9) ANC and DA succession

Leadership succession at the ANC and the DA will be another important longer-term theme that will occupy political attention this year

Leadership succession at the ANC and the DA will be another important longer-term theme that will occupy political attention this year.

- Regarding the ANC, the central succession question relates, in our view, to whether President Ramaphosa and his allies will be able to unite behind a succession candidate, in so doing providing a strong counterweight to Deputy President Paul Mashatile's campaign for the role. However, though ANC succession is already a key investor theme, clarity over the outcome of this process will not emerge this year. The ANC's next elective conference is only scheduled to take place in Dec:27.
- And regarding the DA, the most prominent point of interest rests on whether current party leader John Steenhuisen will seek re-election (we expect that he will), and whether one of the DA's prominent young leaders, such as Cape Town Mayor Geordin Hill-Lewis, will challenge him for the role. The DA's next elective conference will be held in Apr:26.

Concluding remarks

There is a clear and valuable opportunity for SA to make progress this year in stabilising the GNU, deepening the reform journey under way in key areas, and taking advantage of the attention that the country will garner through its leadership of the G20. However, capitalising on these gains will require steady pragmatism, as well as the participation of a wide array of key stakeholders (in particular the private sector). From a geopolitical perspective, focus will have to rest not only on countering the challenges posed by President Trump, but on realigning SA's foreign policy to accommodate the underlying shifts that his resounding electoral triumph last year reflected.

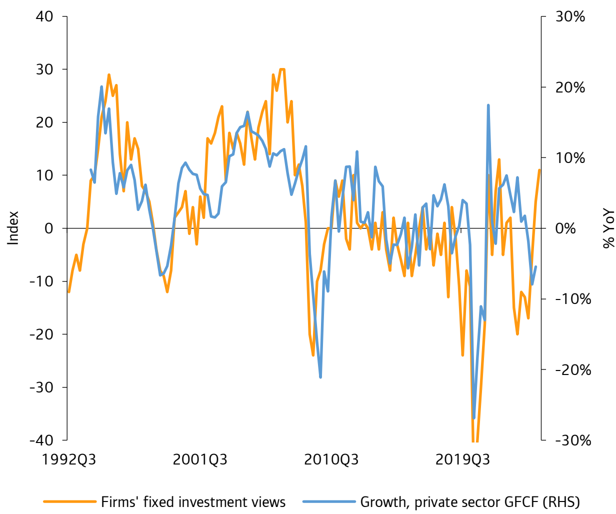
Simon Freemantle[*]

[*] Analyst certifications and important disclosures are in the disclosure appendix. For other important disclosures, please refer to the disclosure & disclaimer at the end of this document.

Slowly heading into the right direction

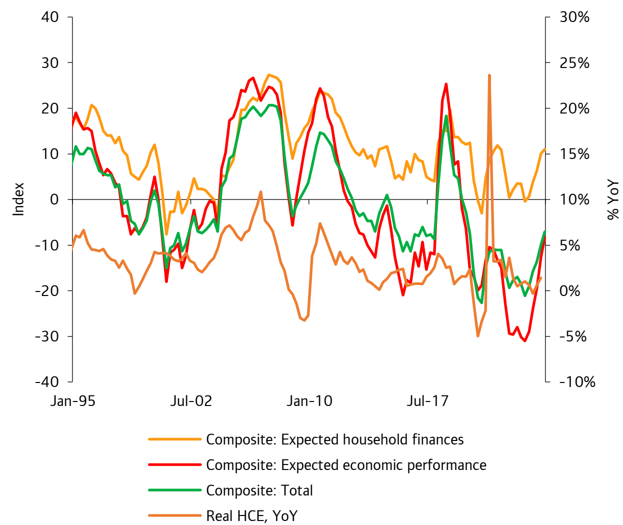
Since the formation of the government of national unity (GNU) at the end of 2Q24, consumer and business sentiment has improved. Further, there are growing expectations that the domestic political and policy setting will become more benign in support of higher trend growth. Such structural reforms that lift the sustainable level of growth, however, are by nature protracted. Institutional investors seem to be taking a wait-and-see approach, for now, while businesses are only now beginning to see incremental improvements other than the improvement in electricity availability.

Figure 1: Fixed investment prognosis has improved



Source: BER

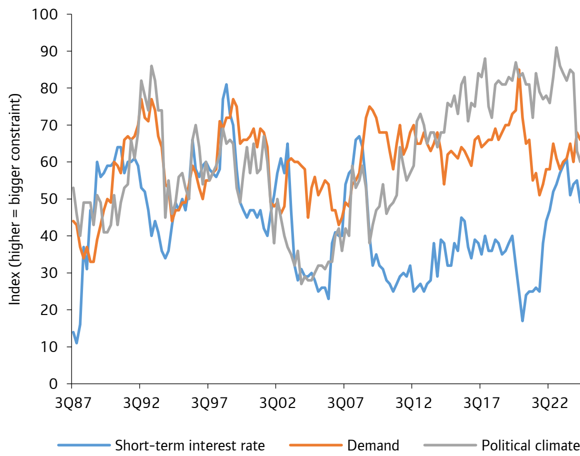
Figure 2: Consumers are more optimistic about their own finances and the macroeconomic outlook



Source: BER

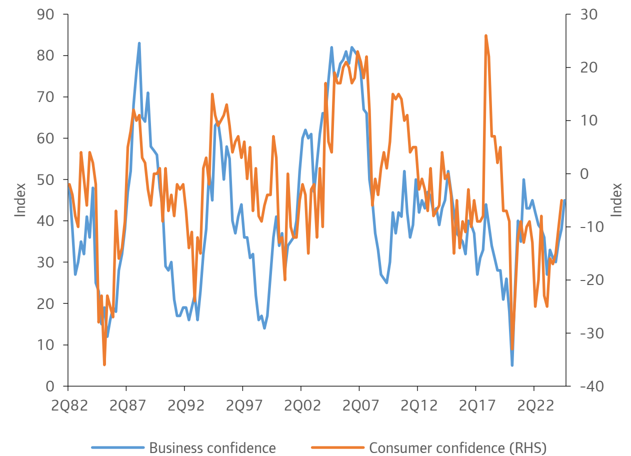
However, several headwinds and risks, notably protracted global wars and uncertainty about policy changes that will be implemented by the US administration, weigh on SA's economic growth prognosis and financial markets. Uncertainty will likely remain high throughout the year, as already demonstrated by various tariff announcements by the US and its major trading partners. These headwinds and the related uncertainty should partly counteract the tailwinds to domestic economic growth this year, while the abrupt, albeit brief, return of loadshedding at the end of January will likely reverse some of the improvement in sentiment since the easing of loadshedding from 2Q24. The economy is better prepared for loadshedding than before, but the renewed uncertainty about electricity security will likely still dampen growth. A recovery in trend growth, to above 2%, requires not only ongoing reforms but also a likely more benign global setting.

Figure 3: Firms now see the political climate as far less of a growth constraint



Source: BER

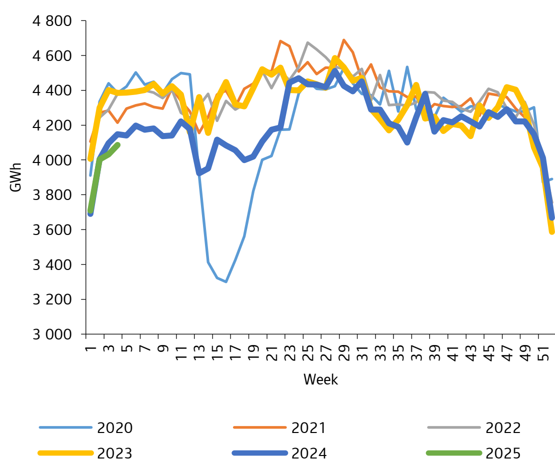
Figure 4: Improved confidence will support growth



Source: BER

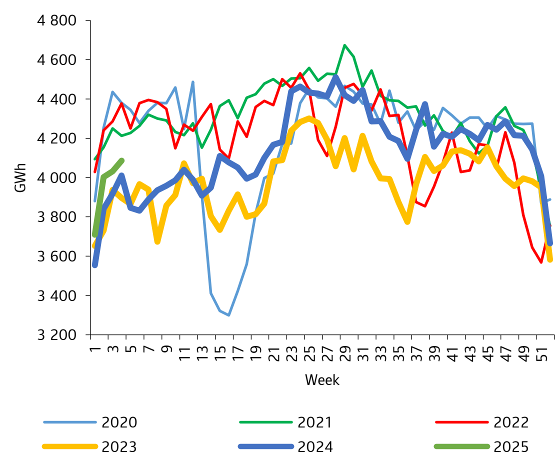
Operation Vulindlela (OV), the policy implementation unit comprising officials from the Presidency and National Treasury, was instrumental in driving growth-supportive policy reforms in the previous government administration, and it will remain at the heart of the reform drive. Importantly, though, OV focuses on specific reforms and won't address all the binding constraints to growth, which places a cap on the growth lift that can be achieved by OV (in isolation). These structural reforms are also by nature protracted, with the delay from policy change to operational intervention to ultimate results in the alleviation of the electricity constraint an apt example of the protracted process involved in structural reforms. OV will now likely deepen the reforms started in the previous administration, with the addition of improving municipalities and revising spatial policies.

Figure 5: Demand from the grid is sluggish



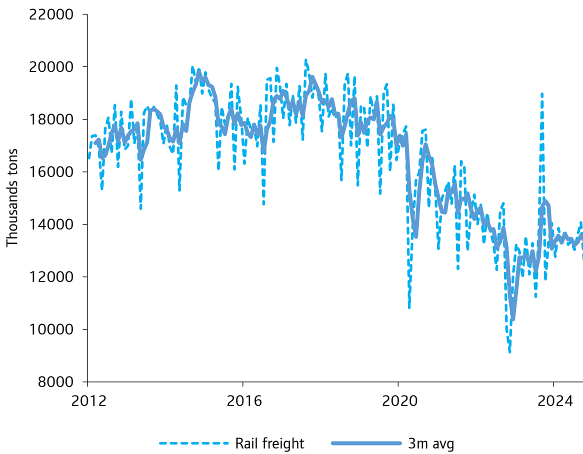
Source: Eskom, Standard Bank Research

Figure 6: Eskom supply increased till the latest relapse (not yet reflected in this data)



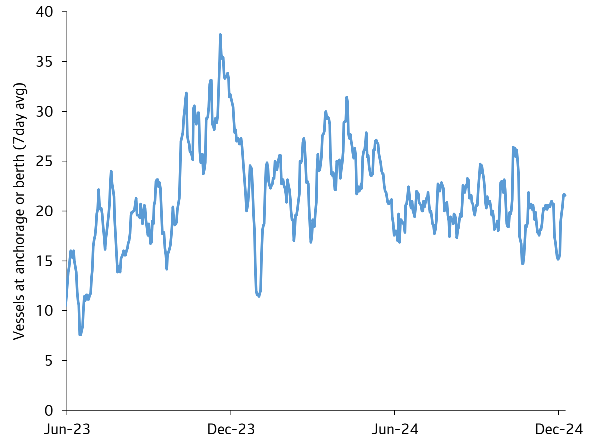
Source: Eskom, Standard Bank Research

Figure 7: Rail freight volumes should continue to improve gradually in the near term; gains from structural reforms may prove protracted



Source: Stats SA

Figure 8: Port delays have also improved, though performance fluctuates



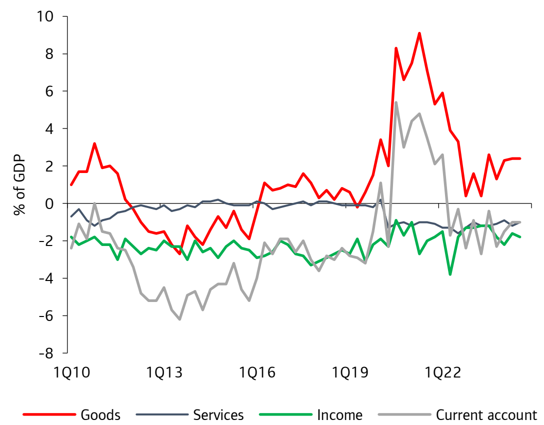
Source: SAAF, Standard Bank Research

The growth prognosis is also supported by improvements in recent years in infrastructure spending, which is no longer characterized by underspending, but rather by ongoing growth. Treasury has announced several interventions to accelerate infrastructure spending by enticing more private sector participation. These interventions, however, will for the most part take time to lift economic growth, as several are still being either rolled out or finalized. We expect an update in the upcoming February Budget on these interventions.

Figure 9: Weak imports have contained the trade and current account relapse

Source: SARS, Standard Bank Research

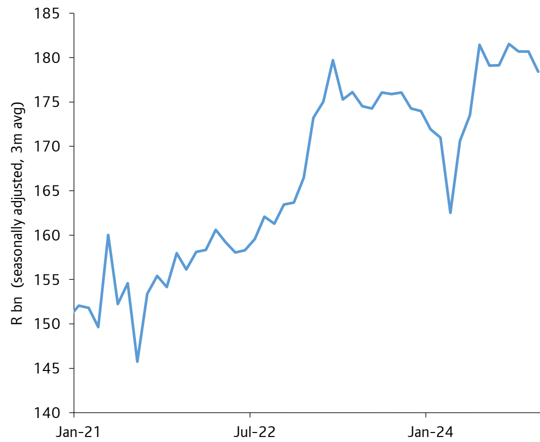
Figure 10: Current account worsening should be gradual



Source: SARB

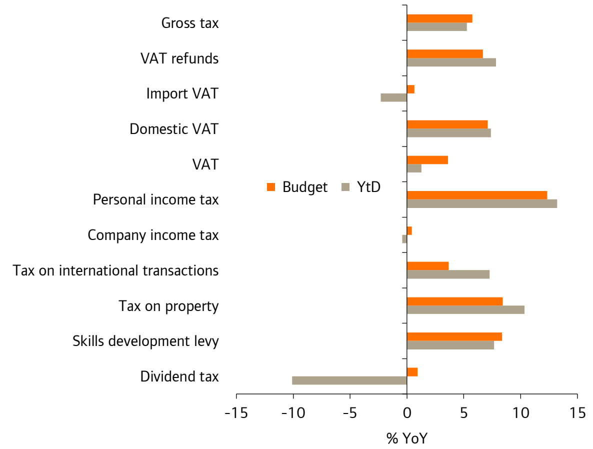
More importantly, though, investors will closely monitor the Budget for guidance on the government's true commitment to fiscal consolidation. We remain generally constructive in this regard, though the public sector wage settlement, which exceeds the government's latest budget allocation, is discouraging – in fact, the government's latest offer significantly exceeds current, and forecast, inflation. A modest revenue overshoot is possible in FY24/25, which (via a base-effect lift to future revenues) could counter the impact of the aforementioned wage bill overspending, though this overspending is nevertheless disconcerting, considering the good progress made since 2020 to rein in government's wage bill trajectory.

Figure 11: Spending well contained so far this year



Source: Treasury, Standard Bank Research

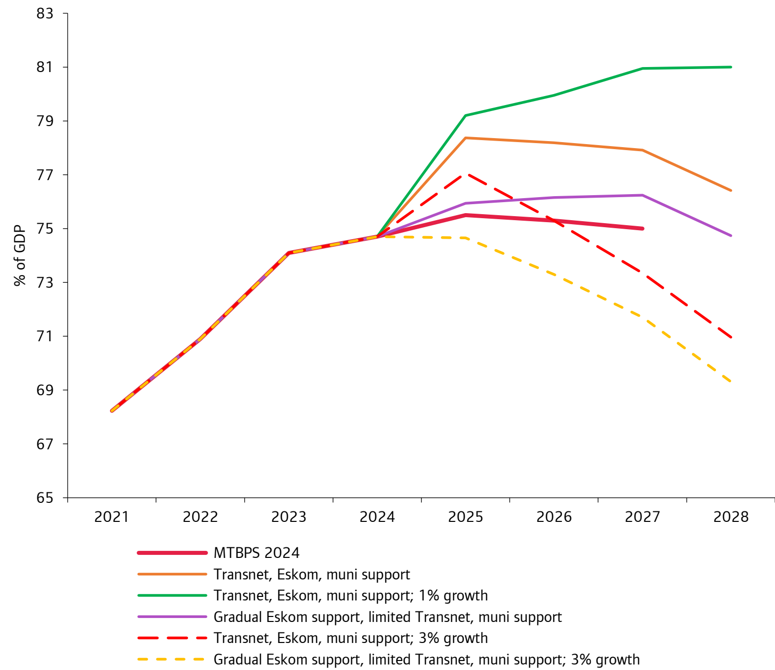
Figure 12: Tax revenues broadly in line with Treasury's latest forecasts



Source: Treasury

Further support for the SOEs poses a pertinent risk to the fiscal prognosis. We expect support for Transnet to largely comprise a combination of guarantees, to support its access to capital markets, as well as concessional financing from the budget facility for infrastructure, rather than unconditional government injections. There is considerable uncertainty about the debt swap pencilled in for Eskom in FY25/26, although significant overfunding (more funds raised than planned) in the bond market in the current fiscal year could help to absorb the fiscal pressure from converting this debt swap into a different form of support, such as loans (that could ultimately be converted to equity; the loans might be spread over several years). Amid the persistent growth and fiscal risks, rating agencies will likely delay positive rating action, notwithstanding the significant improvement in the fiscal prognosis since SA was awarded its current sovereign credit ratings.

Figure 13: Government debt scenarios –debt-GDP should stabilise, though this requires fiscal discipline and improved trend growth[1]



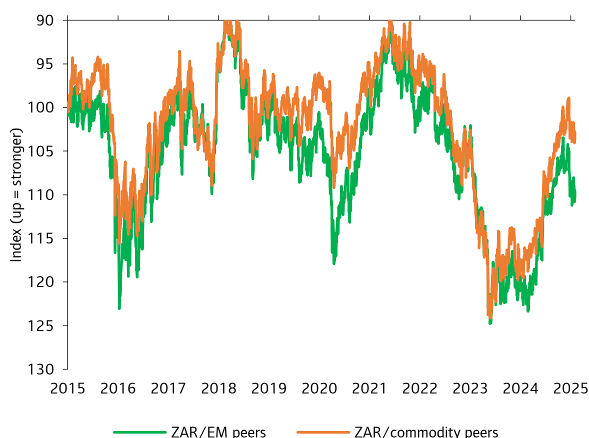
Source: Standard Bank Research, Treasury

Treasury is meanwhile more optimistic about possible removal from the Financial Action Task Force's (FATF) "grey list", possibly even before the end of this year. Treasury will likely in due course announce fiscal anchors, with a discussion paper due shortly after the budget. While the SARB is very keen to lower the inflation target, we don't expect this to be imminent. Firstly, Treasury is, aptly, prioritizing fiscal consolidation for now. Secondly, Treasury likely wants to delay any growth cost until the economy is on a firmer footing. If the improvement in trend growth that we foresee materializes, the economic growth cost (even if temporary and modest) should be more palatable, especially if the SARB can subdue inflation expectations in the meantime.

The aforementioned reforms and gradual improvement in trend economic growth, along with the expected fiscal consolidation, are pivotal assumptions in our fair-value estimates for the rand exchange rate and bonds. At this stage, we still foresee scope for the rand and bonds to gain further, though the forecast risk is exceptionally high. These expected gains are premised on enduring domestic economic and fiscal improvement and in due course also a more benign global economic backdrop. Critically, we assume that SA's terms of trade, which is one of the dominant factors in our fair-value model for the rand exchange rate, will remain relatively resilient – notwithstanding renewed concerns about downside risks to global growth.

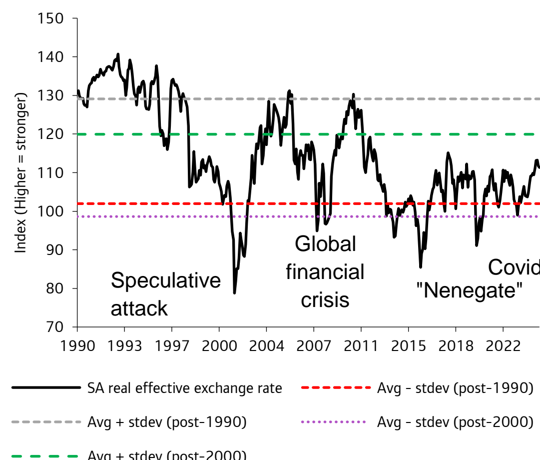
[1] *These scenarios intend guiding the sensitivity of the debt-GDP trajectory for two of the major sets of fiscal risks – namely, injections for Eskom, Transnet and the municipalities (directly or indirectly) and economic growth. The support for Eskom, Transnet and the municipalities is either assumed to be an immediate R70bn for Eskom (converting the planned debt swap into a loan that later gets converted into equity), R60bn for Transnet and R100bn for municipalities (directly or indirectly), or a more benign R100bn (cumulatively) over three years (the "less and gradual" labelled scenarios). Economic growth is assumed to match the MTBPS forecasts, except where it is indicated to be 1% or 3% respectively. All the scenarios are influenced by an assumption of no real spending growth in 2028. The debt-GDP ratio declines notably (to just below or above 70% respectively) if growth is assumed to be 3% for either set of SOE and municipal injection assumptions. On the MTBPS growth assumptions, debt could still stabilise but be higher than the MTBPS forecasts. At lower economic growth, the debt-GDP ratio not only rises higher within the forecast period, but debt stabilisation becomes more tenuous without significant further fiscal restraint.*

Figure 14: Rand underperformed peers recently but still reasonably valued on this basis



Source: Bloomberg, Standard Bank Research

Figure 15: Real trade-weighted rand weaker but still quite strong (in line with its long-term average)



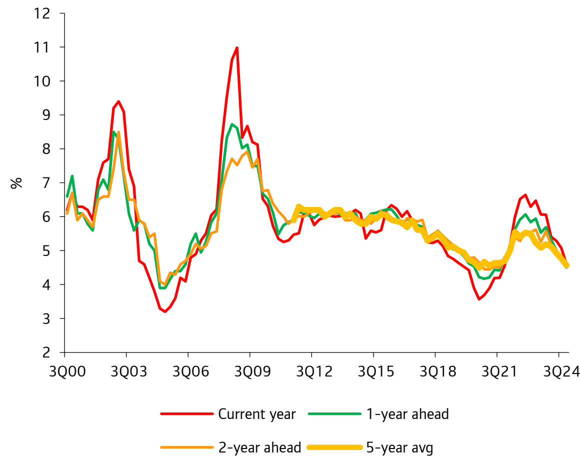
Source: Bloomberg, SARB, Standard Bank Research

Our relatively constructive expectations for the rand exchange rate are a key assumption underpinning our benign inflation forecast trajectory. The inflation forecasts also recently benefited from announcements by Nersa and Stats SA – Stats SA's revamping of the inflation basket will likely lower inflation by around 0.1-0.2ppt this year (it should be neutral for next year's forecasts), while Nersa's announcement for lower electricity tariff increases than we expected also lowered our inflation forecasts slightly (around 0.1ppt and up to 0.2ppt next year).

However, both the electricity tariff increase and impact of the CPI revamp face persistent forecast risk. We await further details from Stats SA (indicative reorganization of the historical data according to the new specifications). Further, there is arguably still some risk around the medium-term electricity tariff increases (via ongoing court cases related to prior tariff increases as well as possible "regulatory clearing account" adjustments when the tariff drivers ultimately deviate from those approved in the tariff increase).

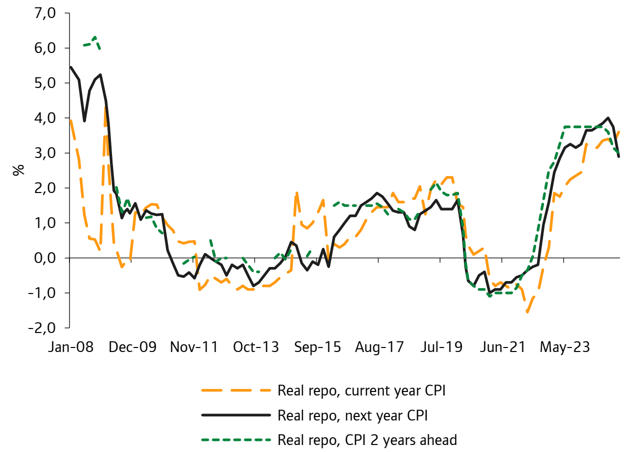
Understandably, the MPC has expressed considerable concern about the elevated risks to the outlook, which it sees as "more uncertain than usual, with material risks from the external environment". The bank modelled, for example, the impact of a 10% universal increase in US tariffs, with retaliatory measures by other countries – which is expected to weaken the rand to R21/$, temporarily, with SA inflation reaching 5% and the repo rate 0.5ppt higher than the current baseline. Governor Kganyago also flagged the possibility that global central banks may not only have to pause their easing cycles, depending on how the global risks unfold, but may even have to reverse course by hiking rates. The inflationary impact of tariff hikes will be counteracted by the aforementioned idiosyncratic disinflationary impulses, while the SARB will also be sensitive to their adverse impact on growth. While the forecast risk has increased significantly, and monetary policy decisions will be very sensitive to global developments and their impact on the local economy, currency and inflation in particular, we still see scope for another 25bps rate cut in March 2025.

Figure 16: Surveyed inflation expectations have declined towards the mid-point of the SARB's target



Source: BER

Figure 17: Further interest rate cuts would be required to compress high real interest rates



Source: SARB

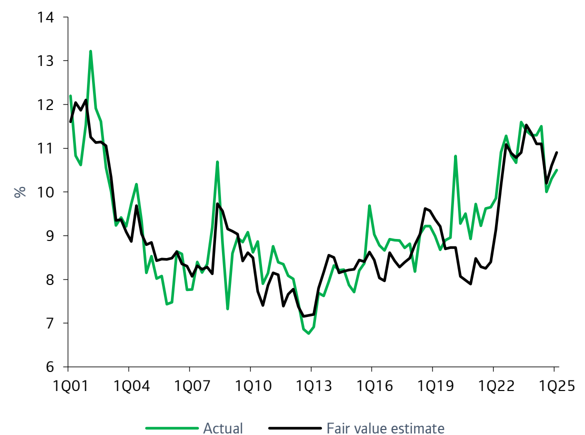
Besides significant global risks, the recent downside surprise in rental inflation underscores a key domestic risk. While many investors are concerned about upside risks to rental inflation, which has been weak since the outbreak of the pandemic, as consumer spending improves, the opposite is also possible – the rental market might be weak because financially stronger consumers are increasingly buying, rather than renting, properties. Consumers are supported by the tailwinds from lower inflation and interest rates as well as withdrawal of their "two-pot" retirement benefits (following reforms implemented in September 2024). Standard Bank's proprietary client data shows that the payouts from these withdrawals spiked in the second half of October, with October's payouts nearly double that of September or November. The abovesaid tailwinds have encouraged Standard Bank clients to increase spending on a broad range of items.

We remain constructive about the prognosis for SA government bonds; however, in line with our assessment of the rand exchange rate, further gains may require a more benign global setting.

Figure 18: Rand seems undervalued against the dollar

Source: Standard Bank Research

Figure 19: SA bonds are quite strong vs fundamentals



Source: Standard Bank Research

Macroeconomic forecast summary

Figure 20: Macroeconomic forecast summary [2]

	2024	2025	2026	2027	2028
Gross domestic product (GDP)	0.7	1.8	2.1	2.3	2.4
Household consumption expenditure (HCE)	1.0	2.0	2.2	2.6	2.7
Gross fixed capital formation (GFCF)	-3.5	3.4	4.9	5.5	5.3
Current account (% of GDP)	-1.3	-2.2	-2.5	-3.0	-3.1
CPI (avg)	4.4	4.0	4.5	4.4	4.5
R/$ (avg)	18.34	18.20	17.68	18.04	18.50
R/€ (avg)	19.84	18.90	19.04	19.81	20.90
R/£ (avg)	23.43	23.06	22.63	23.59	25.00
Repo rate (YE)	7.75	7.25	7.25	7.25	7.25
10-year yield (generic, YE)	10.29	10.1	10.0	9.9	9.9

Source: SARB, Bloomberg, Standard Bank Research

Elna Moolman[#]

[2] *Further details are available on our Research Portal.*

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