

SOUTH AFRICA

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RESILIENCE IN THE FACE OF US TARIFFS

The South African economy has shown resilience in the face of the shocks that marked 2025. Despite severe protectionist measures taken by the United States, the deterioration in external accounts has been moderate thus far, thanks to a strong performance in raw-material exports. From a low point in 2024, economic growth rebounded in 2025 and is expected to accelerate gradually over the next two years. Therefore, the outlook is encouraging, even if potential growth remains too weak to improve GDP per capita. Moreover, with high public debt and many reforms still to be implemented, in order to harness the potential of AI in particular, vulnerabilities persist and caution is warranted.

GROWTH: HEADING FOR A SOFT TAKE-OFF

Economic growth is expected to reach 1.3% in 2025 (vs. 0.5% in 2024), after climbing to 1.2% year-on-year (YoY) in the first three quarters. It was strongly driven by household consumption (+3.1% YoY), while government consumption contracted (-0.7%) due to fiscal consolidation efforts. Tensions with the United States and uncertainty over global trade weighed heavily on investment (-2.7%), a long-standing weakness in the economy.

GDP growth is expected to continue to accelerate in 2026. It will be supported in particular by continued monetary easing. In 2025, the South African Reserve Bank (SARB) cut rates four times (-100 bp), bringing the key rate down to its current level of 6.75%. This easing stimulated private sector credit, which gradually rebounded from a low of 3.9% YoY in February 2025 to reach 7.8% last December, its highest level since April 2023. This recovery was driven by growth in corporate credit (+11.7% in December).

Inflation, standing at 3.6% YoY in Q4 2025, is also expected to continue to fall in the coming months. Despite the SARB's lowering of its inflation target last summer (from a corridor of 3-6% to 3% +/-1%), the central bank still has room to lower its key rate in 2026.

In addition, reforms aimed at raising potential growth to around 2% per year are expected to continue through 2026-2027. They will focus primarily on the logistics sector, where bottlenecks persist: despite the rebound in rail-freight volume in 2025 (+4.2%), it remains 24% below its 2015 level. Reforms in the electricity sector will also be crucial: although power cuts have ceased since March 2024, the cost of electricity, which is expected to rise by a further 9% per year over the next two years, remains a major obstacle to growth. However, the economic outlook could be adversely affected by a deterioration in the local political environment: the November 2026 municipal elections, which are likely to increase friction between the parties in the coalition government, could cause delays in the roll-out of future reforms.

UNDERLYING RECONFIGURATION OF TRADE FLOWS

Since 1 August 2025, the United States has applied a 30% tariff on imports of goods from South Africa. In addition, with the expiry of AGOA from October 2025 to January this year¹, a large number of South African goods have lost their preferential access to the US market. Nevertheless, exports to the United States (the second largest export destination after China) are doing well overall. Between August and December, they rose by 10% in value terms YoY. The United States' share of total South African exports declined only marginally to 7.5% (vs. 7.7% in 2024).

¹ On 4 February 2026, the AGOA Law was extended until the end of 2026. However, uncertainty surrounding its extension beyond that date and the possible exclusion of South Africa from the list of beneficiary countries could weigh on AGOA-specific export volumes in 2026.

FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth, %	0.7	0.5	1.3	1.7	1.9
Inflation, CPI, year average, %	5.9	4.4	3.2	3.1	3.4
Fiscal balance / GDP, % (1)	-4.6	-4.5	-4.5	-3.7	-3.3
Public debt / GDP, % (1)	73.2	77.1	78.9	77.3	77.0
Current account balance / GDP, %	-1.1	-0.7	-1.2	-1.0	-1.4
External debt / GDP, %	40.9	42.2	42.5	41.9	42.1
Forex reserves, USD bn	62.5	65.4	75.9	74.6	75.2
Forex reserves, in months of imports	4.6	5.1	5.8	5.7	5.5

TABLE 1

(1): Fiscal year from April 1st of year N to March 31st of year N+1

ESTIMATES & FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

EXPORTS TO THE US AND CHINA ARE DRIVEN BY METALS & MINERALS

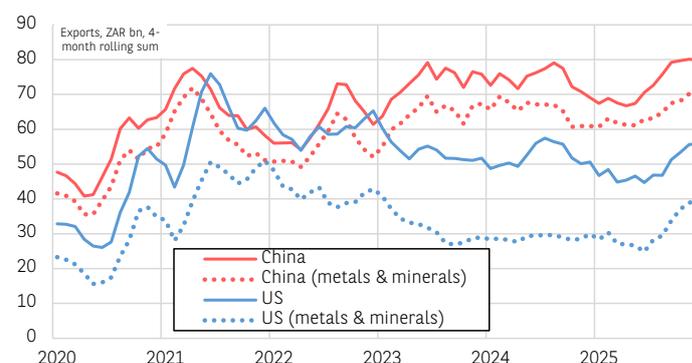


CHART 1

SOURCE: DEPARTMENT OF TRADE, INDUSTRY & COMPETITION, BNPP

Behind this strong performance lies a significant sectoral reconfiguration. Growth in exports to the United States (in value terms) is strongly driven by exports of metals and minerals (+35% in August-December in YoY terms; see Chart 1), some of which benefit from customs-tariff exemptions. As a result, the United States captured a larger share of South Africa's total exports of metals and minerals (10%, vs. 7.9% in 2024). However, it remains far behind China, whose share of metal and mineral exports rose to 18.5% of the total (vs. 17.5% in 2024).



Conversely, other exports to the United States contracted by 24.8% in value terms over the same period. Automotive exports (22% of exports to the United States in 2024) and agricultural exports (7%), which are most vulnerable to US protectionist measures², contracted by 21% and 36% YoY in August–December, respectively. However, the decline in automotive and agricultural exports to the United States was more than offset by the strong performance of exports from these sectors to the rest of the world. Automotive exports to six European countries³ rose by 23%. They also more than doubled to China (less than 1% of automotive exports) and could continue to grow in 2026 with the full opening of the Chinese market to all imports from Africa starting from May.

Therefore, on the whole, disruptions to global trade in 2025 had a moderately negative effect on external accounts. The trade deficit with China barely increased compared to 2024. The trade surplus with the United States halved⁴. Over the first three quarters, the current account deficit reached 1.3% of GDP (vs. 0.7% of GDP in 2024), due to the decline in the trade surplus to 2.4% of GDP (-0.5 pp). The South African rand appreciated by 15.1% against the US dollar between January 2025 and January 2026. The current account deficit is expected to remain around 1% of GDP over the coming quarters. However, it could widen if there is a downturn in the prices of the commodities that South Africa exports⁵. In addition, the current account deficit continues to be financed by debt. In the first three quarters of 2025, net FDI inflows fell to just 0.2% of GDP, weighed down by uncertainties about the outlook for the South African economy and the tense geopolitical environment, which is likely to persist in 2026.

FISCAL CONSOLIDATION CONFIRMED

The 2026 budget, presented on 25 February, confirms the government's fiscal consolidation path, even though fiscal deficit targets for the 2026 to 2028 fiscal years (FY) have been revised slightly upward (Chart 2). For the current fiscal year (April 2025–March 2026), the government is expected to achieve a primary fiscal surplus for the third consecutive year (0.9% of GDP). Over the 2026–2028 fiscal years, fiscal consolidation is expected to be achieved through primary-expenditure control (nominal growth of just 3.5% per year on average). The prospects for fiscal consolidation and the cut in the key rate have enabled the yield on ten-year sovereign bonds in local currency to fall steadily since April 2025, reaching 8.2% mid-February.

Despite fiscal consolidation efforts, the central government's debt trajectory remains a concern, as it reached a record high of 78.9% of GDP in September 2025. The Ministry of Finance expects it to decline only very slowly to 76.5% of GDP in FY28/29, supported by a gradual acceleration in real growth. Interest payments on public debt, which are expected to absorb more than 20% of government revenue over the next three years, will leave little fiscal room for manoeuvre in the event of a shock. The adoption of a fiscal anchor rule from 2026, as promised by the Minister of Finance, would limit the risk of slippage, but has not been announced yet.

AI: CHALLENGES PRECEDE OPPORTUNITIES

South Africa is not particularly integrated into artificial intelligence (AI) value chains. In 2025, the country exported USD 4 billion worth of AI-related goods⁶, i.e. 0.1% of the global total. Nationally, this accounted for less than 4% of its exports and less than 1% of its GDP.

² See: South Africa | [On a bumpy road](#)

³ Germany, Spain, France, Italy, Portugal and United Kingdom.

⁴ And it could rebound in 2026, with customs tariffs on South African imports falling back to 10% following the recent Supreme Court ruling.

⁵ Prices for gold and platinum (18% of exports in 2025) are currently at historically high levels.

⁶ According to the [WTO](#) nomenclature.

THE GOVERNMENT MAINTAINS ITS FISCAL CONSOLIDATION FORECASTS

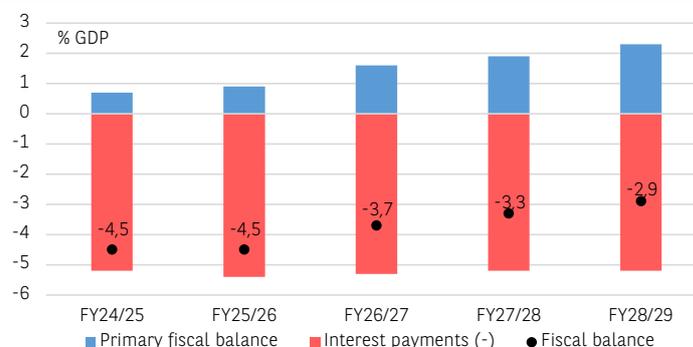


CHART 2

SOURCE: MINISTRY OF FINANCE, BNP PARIBAS

More than 60% of its AI-related exports are made of palladium. However, palladium is used mainly (80–90%) by the automotive sector, where demand is expected to decline gradually with the rise of 100% electric vehicles. Therefore, South Africa is not particularly exposed to the risk of an AI bubble bursting which would lead to a fall in the prices of raw materials used by the sector.

According to the IMF's AI preparedness index, South Africa is ranked 68th (out of 174 countries) for its capacity to adopt AI, slightly above the average for emerging countries and at the top of the African continent.

However, there are many challenges associated with adopting AI, particularly in terms of infrastructure. Its growth, which would involve a significant increase in electricity and water consumption, would require massive investment in both sectors. However, these are the sectors that have suffered most from chronic underinvestment by the government over the past decade, which has come atop adverse weather conditions. A significant and rapid rebound in the investment rate, which has stagnated at 14% of GDP for the past five years (vs. 32% of GDP on average in emerging and developing countries), is unlikely against the backdrop of fiscal consolidation. Finally, the adoption of AI would also require an overhaul of the education system. In 2024, 43% of 25–34-year-olds did not have an upper secondary education qualification (vs. 13% on average in the OECD). Rapid adoption of AI without the dissemination of knowledge to the entire population could lead to an increase in the unemployment rate, which is already structurally high (32% on average over the last two years).

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Lucas Plé

lucas.ple@bnpparibas.com



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