



Economic overview:

Recent developments in the global and South African economies

July 2026

Department of Research and Information

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Highlights

The global economy is expected to hold up relatively well against the impact of the Middle East conflict, with 2026 Gross Domestic Product (GDP) growth projected to slow from 3.5% in 2025 to 3.0% in 2026, before recovering to 3.4% in 2027. Energy importers are expected to be hit harder by higher energy and food prices, especially where weaker currencies amplify imported inflation and increase debt service costs, while energy exporters are likely to fare better.

Commodity markets are increasingly divergent, with energy commodities, fertilisers, copper and aluminium strengthening, while PGMs, gold, iron ore and manganese face weaker or more subdued conditions.

Growth in Sub-Saharan Africa is projected to remain steady, at just above 4% in 2026 and 2027. However, the key development issue is whether growth is being converted into productive transformation, industrial capabilities and higher value-added activity.

Africa's investment profile is shifting towards manufacturing, with manufacturing accounting for 46% of announced greenfield investment in 2025, creating opportunities for industrialisation and regional value chains.

South Africa's Q1 2026 growth reflects pre-conflict momentum, but recent indicators point to slowing growth as weaker confidence, higher inflation, tighter monetary conditions and infrastructure constraints weigh on activity.

Fixed investment remains the binding structural constraint, with weak private-sector investment and declining machinery and equipment spending limiting productive capacity expansion, industrial upgrading and competitiveness. Fixed investment decreased during Q1 2026 as gross fixed capital formation declined by 1.2% q-o-q, with private-sector investment remaining particularly weak.

Manufacturing weakness remains a central industrial development concern, reinforcing risks of de-industrialisation, import dependence, weaker employment multipliers, and slower productivity growth.

Fuel and fertiliser import dependence has become a vulnerability, with the draft Strategic Petroleum Stocks Policy, fuel import diversification and potential refining capacity investments creating important resilience and investment implications.

Higher domestic inflation has re-emerged as a key risk to the outlook, driven largely by the pass-through from higher petrol prices and the broader impact of geopolitical tensions on energy markets, particularly crude oil, gas and refined petroleum products. With headline CPI rising in April and May 2026, the SARB has adopted a more restrictive stance, placing additional pressure on households and businesses through higher borrowing costs.

South Africa's economy expanded during the first quarter of 2026, but recent indicators point toward a slowdown. Real GDP increased by 0.5% q-o-q in Q1 2026, supported by household consumption expenditure and broad-based sectoral gains. However, weakening consumer and business confidence, softer retail trade sales and renewed external price pressures suggest that growth momentum is likely to moderate over the near term. Real economic activity is forecasted to grow by 1.3% during 2026.

Overall, the analysis reinforces the urgency of the 2026 Industrial Development Strategy's (IDS) focus on rebuilding productive capacity, improving competitiveness and reversing de-industrialisation.

World economic growth:

3.0% in 2026
3.4% in 2027

(IMF projections)

FDI inflows (2025)

World: USD1.6 trillion
Africa: USD70 billion
Sub-Saharan Africa: USD47.1 billion

UNCTAD

Fixed investment remains insufficient to support stronger economic growth outcomes

Inflation outcomes fall outside of the SARB's new target range, easing inflation expected going forward

Domestic real economic activity expands during Q1 2026

Real GDP forecast 2026:
1.3% (IDC)
1.1% (IMF)

Introduction

The South African economy entered 2026 with improving cyclical momentum, supported by lower inflation, earlier monetary easing and positive growth in the first quarter of the year. However, the renewed conflict in the Middle East has once again highlighted the economy's vulnerability to external shocks through higher energy and fertiliser costs, inflationary pressures and exchange-rate volatility.

However, the key question is not whether the economy can achieve a modest cyclical recovery, but whether growth is being driven by an expansion of productive capacity and productive capabilities that can support sustained growth. South Africa's recent growth performance remains largely consumption-led, while investment in machinery, equipment and industrial capacity remains insufficient to support productivity growth, technological upgrading, employment creation and export diversification. The decline in gross fixed capital formation during the first quarter of 2026, particularly in private-sector machinery and equipment investment, suggests continued weakness in the productive economy and limited expansion of future productive capacity.

Manufacturing remains central to this challenge. The sector's persistent contraction, weak confidence levels and declining output across several sub-sectors reinforce concerns about de-industrialisation. This is significant because manufacturing plays a critical role in generating learning, economies of scale, technological capability and employment multipliers. Its weakness is reflected in South Africa's trade structure, where surpluses in mining and agriculture continue to offset a substantial manufacturing trade deficit. Manufacturing accounts for more than half of the country's merchandise export basket, so the trend of declining output and competitiveness will have implications for the country's overall trade and current account balance in the long run.

The global and regional environment presents both risks and opportunities. Slower global growth, elevated inflation and geopolitical uncertainty are expected to weigh on trade and investment in the near term. At the same time, shifting global supply chains, growing demand for critical minerals, energy-security concerns and the increasing share of manufacturing-oriented investment flowing into Africa are creating opportunities for industrial expansion and regional value-chain development. These developments present opportunities for South Africa to strengthen participation in higher value-added activities and emerging continental production networks.

The implications for industrial development are clear. Over the medium-term, stronger growth will depend on accelerating productive investment, rebuilding manufacturing competitiveness, improving infrastructure reliability, and deepening domestic and regional value chains. Short-term investment opportunities are likely to arise in fuel infrastructure, logistics, renewable energy, fertiliser value chains and selected import-replacement industries, while medium-term opportunities are expected in critical minerals beneficiation, transport and logistics infrastructure, chemicals, agro-processing, automotive value chains and regional industrialisation initiatives.

The outlook remains one of gradual but modest recovery. Global growth is expected to slow in 2026 (to 3.0%) before strengthening in 2027 (to 3.4%), while domestic GDP growth is forecast at 1.3% in 2026 and is projected to improve gradually over the medium term as inflation moderates and financial conditions ease. Nevertheless, the projected recovery remains insufficient to materially raise investment, reduce and reverse de-industrialisation, and generate significant employment opportunities. The central challenge is therefore to convert cyclical recovery into investment-led industrial development that strengthens productive capabilities, expands productive capacity and places the economy on a more resilient and inclusive growth path.

The global economy is expected to hold up relatively well against the impact of the Middle East Conflict

The global economy entered 2026 in a relatively solid state with a broadly positive economic environment shaped by a moderation in economic and trade uncertainty following the trade truce between China and the United States (US). The truce rolled back escalated triple-digit tariffs between the two countries. In addition, bilateral tariffs were reduced to a 10% flat rate after the US Supreme Court struck down import tariffs that were imposed under the International Emergency Economic Powers Act. Despite lower bilateral trade between China and the US, global trade has been on an upward momentum buoyed by Artificial Intelligence (AI)-related exports and capital investment.

Inflation was coming down, edging closer to central bank targets in some countries and this was accompanied by declining interest rates. Global trade momentum has also been solid, helped by a steady decline in policy uncertainty and strong AI-related trade and capital investments.

The war in the Middle East was bound to affect the upward momentum as the region is an important source of inputs that play key roles in energy, food and manufacturing supply chains. The region accounts for 31% of global Liquid Natural Gas (LNG) and 27% of oil supply. In addition, the region is a key supplier of fertilisers, accounting for 34% of urea, 29% of ammonia, and 26% of diammonium phosphate (DAP) (Figure 1). The war resulted in a substantial decline of shipping and trade volumes that pass through the Strait of Hormuz. The number of ships declined from an average of 86/day to 10/day, with trade volumes falling from 3 million tonnes (mt)/day to 31 thousand tonnes/day. This disrupted global supply chains, creating supply shortages and upward pressure on energy and agricultural commodity prices, with broader inflationary spillovers and potential negative effects on economic output.

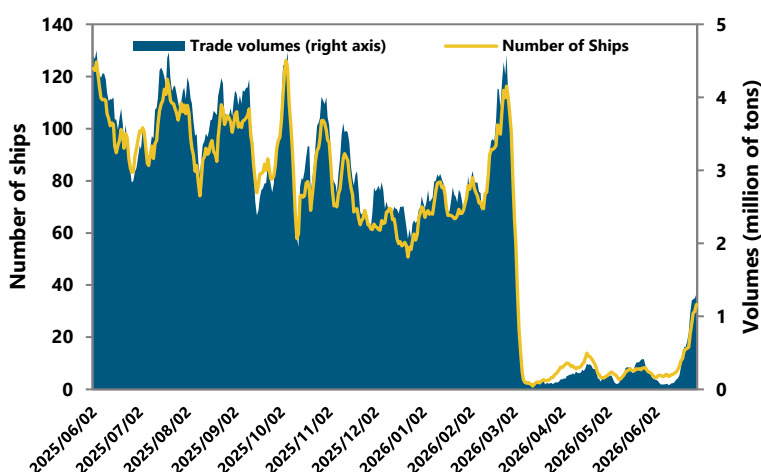
Shipping and trade volumes have improved following the interim agreement between the US and Iran; however, they remain far below normal levels. The interim agreement, which allowed for the re-opening of the Strait of Hormuz while negotiations on the terms of a final deal are taking place, has been revoked following a resumption of strikes between the US and Iran.

The global economy entered 2026 with GDP growth benefiting from AI-related trade and capital investment, lower inflation and interest rates.

The cessation of shipping through the Strait of Hormuz affected global supply chains as the region is a key source of energy and agricultural commodities

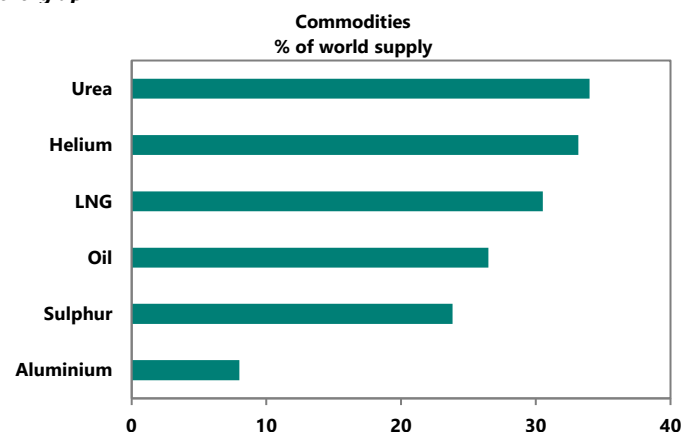
Shipping and trade volumes from the Middle East improved following the interim agreement between the US and Iran

Figure 1: Shipping and trade volumes through the Strait of Hormuz picking up



Source: IDC, compiled using OECD and IMF data

Last data point: 28 June



Source: IDC, compiled using OECD and IMF data

Global inflation ticking up following higher energy prices

The most direct impact of the Middle East conflict is on inflation through higher commodity prices, which may feed into broader prices and wages. Before the onset of

the conflict, global inflation had been on a downward trend, following lower energy and food prices. Commodity prices spiked since the beginning of the conflict, and started to moderate after the conclusion of the US-Iran ceasefire agreement on the 14th of June 2026. Oil prices increased by an average of 51% between March and June 2026 compared to the preceding four months, while natural gas prices (in Europe) also increased by 51% and urea prices by 66%. Commodity prices affected by the war have started to rise again, with oil prices increasing by 14% between the 7th of July (end of the ceasefire) and the 14th of July 2026.

While global inflation increased, there was divergence across countries, shaped by services inflation, which tends to have a larger domestic component. The increase in inflation was more pronounced in the US, followed by the Euro Area, with May 2026 headline inflation of 4.2% (February: +2.4%) and 3.2% (February: +1.9%), respectively (Figure 2). Higher energy prices were the main driver in both cases, accounting for over 60% of the increase in the US. In contrast, May's headline inflation in the United Kingdom (UK) was lower than pre-conflict levels because the government lowered the energy price cap to soften the economic impact of higher energy prices.

Short-term inflation expectations have risen, and core inflation is beginning to tick up in some economies, meaning price increases have broadened beyond food and energy. The International Monetary Fund (IMF) is projecting global headline inflation to increase from 4.1% in 2025 to 4.7% in 2026 and fall to 3.9% in 2027. Inflation risks are tilted to the upside, with the revocation of the ceasefire agreement raising the likelihood that energy and agricultural commodity prices will remain elevated for longer.

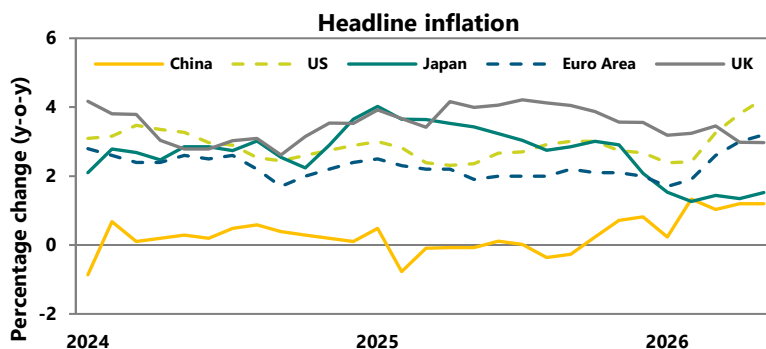
While the US Federal Reserve kept its policy rate steady in the June 2026 meeting, its policy rate projection indicates a high likelihood of at least one hike by the end of 2026. Meanwhile, the US labour market showed signs of cooling in June 2026, with unemployment falling to 4.2% (May 2026: 4.3%) and non-farm payroll growth slowing after a decent uptick from March to May 2026 when payrolls increased by 164 000, on average. With the Federal Reserve holding interest rates steady at the latest meeting, the South African Rand appreciated slightly, however, these gains were quickly reversed amid fresh tension between the US and the Middle East, which could lead to higher long-term yields for South Africa and also add inflationary pressure to the South African economy.

At its June 2026 meeting, the European Central Bank (ECB) raised interest rates for the first time since 2023, warning of upside risks to inflation and the potential for further tightening if higher energy prices were to spill over into other prices and wages. Unemployment in the Euro Area remained steady at a historic low of 6.2% in May 2026. Higher global interest rates tend to induce capital flows out of emerging markets, resulting in domestic currency depreciations and higher import prices in domestic currency. To alleviate the impact of higher interest rates on their economies, emerging markets are expected to follow suit and increase interest rates.

Global inflation has ticked up, with price increases broadening beyond food and energy

Central Banks have started to increase interest rates and are warning of more hikes if higher energy prices spill into wages and other prices

Figure 2: Headline inflation on the increase in some countries



Source: IDC, compiled using IMF data

Latest data point: May 2026

The global economy is expected to hold up relatively well against the impact of the Middle East conflict, with 2026 GDP growth revised down from the anticipated 3.3% pre-conflict to 3.0% in the latest IMF July 2026 World Economic Outlook update (Figure 3). This implies that the oil price, which rose by an average of 40% between March and June 2026, is expected to result in a maximum of 0.3% drop in global GDP. This is not a severe impact as oil price shocks of this magnitude tend to lower global GDP by around 1%¹. This suggests a more resilient global economy when compared to other episodes of oil price shocks.

Resilience in GDP growth will be supported by a continuation of technology-led investment, accommodative fiscal policies in major economies (US, China, Germany, Japan and India) and monetary policies which remain broadly accommodative. The modest revision masks significant variation across countries, with commodity-importing economies hit harder by higher energy and food prices as well as domestic currency depreciations. In contrast, energy exporting countries have, on average, zero or positive revisions to their 2026 GDP forecasts.

The fiscal boost from tax incentives, including those under the One Big Beautiful Bill Act (OBBBA), will support private consumption and corporate investment in the **United States**. In addition, technology-driven momentum and the lagged impact of monetary policy will continue to support the US economy. As a result, the US economy is projected to expand slightly in 2026 with GDP growing at 2.3% before receding to 2.2% in 2027.

The **Eurozone** (EU) economy decreased by 0.2% quarter-on-quarter (q-o-q) in Q1 2026 (Q4 2025: +0.2%) with net exports dragged by higher energy imports. The Irish economy registered the largest decline of 16.8%, driven by large distortions from the activities of large multinational corporations. Germany, the bloc's largest economy, grew by 0.3% after two years of chronic underperformance. Italy also expanded by 0.3%, while Spain continued to lead the major economies with 0.6% growth. Investment spending will be boosted by EU-funded projects under the post-pandemic recovery fund, with spillovers anticipated from higher infrastructure and defence spending.

At 5% y-o-y in Q1 2026, **China's** GDP growth stood at the upper end of the country's 4.5% - 5% annual growth target. Activity in the first three months was supported by resilient manufacturing and a strong export performance, which helped offset continued weakness in the property sector and moderate momentum in household consumption. At the annual level, China's GDP growth is projected to slow to 4.6% in 2026 and 4.1% in 2027, reflecting ongoing structural factors including the slowdown in the property sector, declining labour force, decreasing returns on investment and slower productivity growth.

The global economy is projected to slow attributable to the lagged impact of trade tariffs and the Middle East conflict

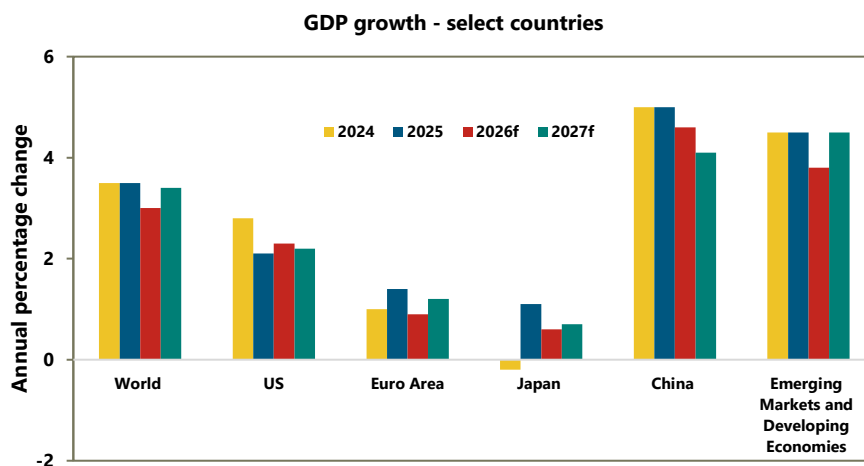
The US economy is projected to expand slightly supported by tax incentives, technology investments and the lagged impact of accommodative monetary policy

The Eurozone economy decreased in Q1 2026 with net exports dragged by high energy imports and a large decline in Irish economy

Despite growing at 5% in Q1 2026, China's economy is projected to slow to 4.6% for the full year and 4% in 2027 due to structural factors including decreasing returns on investment and lower productivity growth

¹ J Hamilton (2000). "Oil Shocks and Aggregate Macroeconomic Behaviour: The Role of Monetary Policy". Journal of Money Credit and Banking, vol.36 (2), pages 278-291.

Figure 3: Global growth to hold up relatively well against the impact of US-Iran conflict



Source: IDC, compiled using IMF Economic Outlook data

The US average effective tariff rate declined from 14.0% in January 2026 to 10.0% in April 2026 following the US Supreme Court's declaration that the (International Emergency Economic Powers Act) IEEPA tariffs were unconstitutional. Despite disruptions to trade caused by the ongoing conflict in the Middle East, G20 merchandise trade expanded strongly in Q1 2026. Both exports and imports increased by 5.3% q-o-q driven by trade of semiconductors and other high-tech products in East Asia. The reallocation of global supply chains and trading relations continued with a drop in US imports from China offset by increases in imports from Taiwan Province of China, Vietnam and Mexico. On the other side, Chinese exports were reoriented from the US to Europe and other Asian economies. The World Trade Organisation projects a 1.9% slowdown in global trade for 2026 from 4.6% in 2025 as trade is expected to normalise following a surge in AI-related products and the front-loading of imports to avoid new tariffs.

Precious metal prices have softened

The supply of oil from the Middle East declined by 12.3 million barrels per day (mb/d) (12% of global supply and the largest oil disruption on record) due to the closure of the Strait of Hormuz. However, this did not result in a physical shortage of product as there were ample inventories at the start of the conflict, higher exports from non-Middle East producers (led by the US) and lower oil imports from China and other importing countries.

The rise in shipping and trade volumes following the ceasefire agreement between the US and Iran is likely to reverse as the agreement has been revoked. Therefore, the oil market will remain in deficit through 2026 on the back of ongoing hostilities in the Middle East. Oil prices have started to rise again and are expected to be under pressure for longer due to the resurgence of the Middle East conflict.

Fertiliser prices also went up with a sharp increase in urea prices and a modest increase in DAP prices (Figure 4). Urea prices fell back to pre-conflict levels in June 2026, while DAP prices remain sticky. The surge in the current prices is less than that observed during the Russia/Ukraine conflict. In addition, prices during the Russia/Ukraine conflict took much longer to come down. Part of the reason is that supply chain disruptions were more severe as the conflict happened after the pandemic. In addition, disruptions occurred in the entire global supply chain, while the current disruption was largely concentrated in the Middle East.

Despite being the largest on record, the Middle East oil supply disruption did not result in supply shortages as the market had ample buffers at the start of the conflict

Urea prices fell back to pre-conflict levels while DAP prices remain elevated

The Iran war has been a drag on precious metals as higher inflation is forcing upward revisions to interest rates, with a negative impact on non-yielding precious metals. Investment in exchange traded funds (ETFs) has declined for both gold and platinum. At the same time, higher yields have supported US dollar appreciation, which is negative for commodity prices.

Against this backdrop, the gold price declined by 7% (q-o-q) in Q2 2026, a first quarterly decline since 2023. Despite this moderation, the gold price remains elevated with a positive outlook supported by ongoing geopolitical uncertainty and strong appetite from emerging markets' central banks. Platinum Group Metal (PGM) prices were hit harder, with platinum and palladium prices falling by 13% and 17%, respectively.

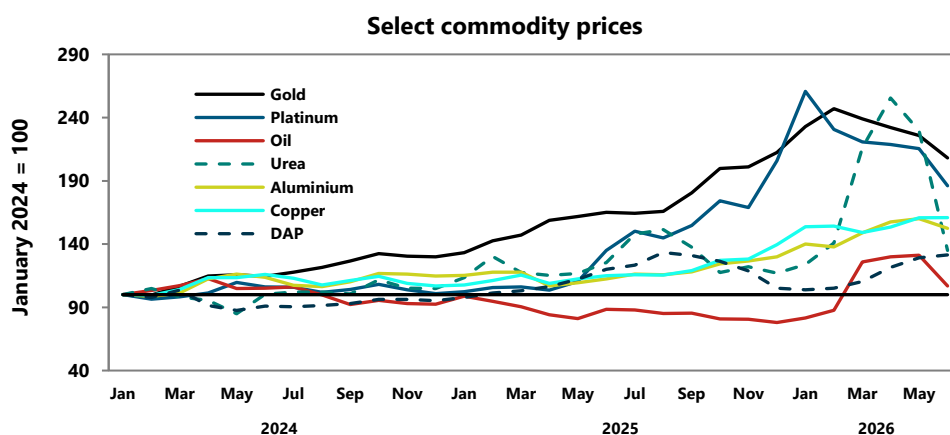
Copper and aluminium prices maintained their strength, benefiting from market tightness that was exacerbated by supply disruptions in the Middle East. The war resulted in the closure of 3 million tonnes of aluminium smelting capacity (4% of global production), worsening the supply shortage as the market was already affected by the closure of South 32's Mozal smelter. Copper price pressures were induced by the shortage of sulfuric acid from the Middle East, which affected copper production in Chile, and by higher US copper imports as users were stockpiling ahead of the import tariff decision.

Coal prices have been strengthening in recent months, increasing by 14% in Q2 2026 (16% in Q1 2026), supported by supply cuts in Indonesia and some substitution that was induced by higher gas prices. The resurgence of strikes in Iran will increase gas prices and lift coal prices again.

Iron ore and manganese prices are back at pre-conflict levels, after ticking up between March and May 2026 on the back of higher freight costs and strong imports from China. The upside potential for both iron ore and manganese is limited due to timid growth in steel production.

Growth of the IDC's commodity price index slowed to 2.8% in Q2 2026 (Q1 2026: +10.9%) as the negative contribution of PGMs was outweighed by price increases in other commodities, with large contributions from oil and coal.

Figure 4: Precious metal prices are moderating on expectations of higher interest rates, while petrochemicals are sensitive to developments in the Middle East



Source: IDC, compiled using Bloomberg data

Last data point: June 2026

The global shock is unlikely to derail world growth, but it changes the composition and cost structure of growth. For South Africa, the main risks are not only weaker external demand, but also higher imported input costs, tighter financial conditions and greater exposure to commodity-price volatility. The main opportunities lie in energy-security investments, critical minerals, select metals, chemicals, and firms capable of participating in reconfigured supply chains.

The Middle East conflict lowered investment demand for precious metals resulting in price declined with PGMs hit harder

Copper and aluminium prices remain strong supported by sound fundamentals and market tightness which was exacerbated by the Middle East conflict

The resurgence of strikes in Iran will put pressure on gas prices with a spillover to coal prices. Iron ore and manganese prices are back at pre-conflict levels following a temporary increase

Sub-Saharan Africa: Converting Growth, Investment and Resource Wealth into Industrial Transformation

Economic performance: Despite global uncertainty, Sub-Saharan growth remains relatively resilient

Despite a highly uncertain global environment, Sub-Saharan Africa is expected to remain one of the fastest-growing regions globally, with growth projected at just above 4% over the medium term. Overall, the rate of economic growth is projected to remain steady at 4.3% in 2026 and 4.5% in 2027. However, the region's long-term development prospects will depend less on the pace of aggregate growth and more on the extent to which growth is associated with structural transformation.

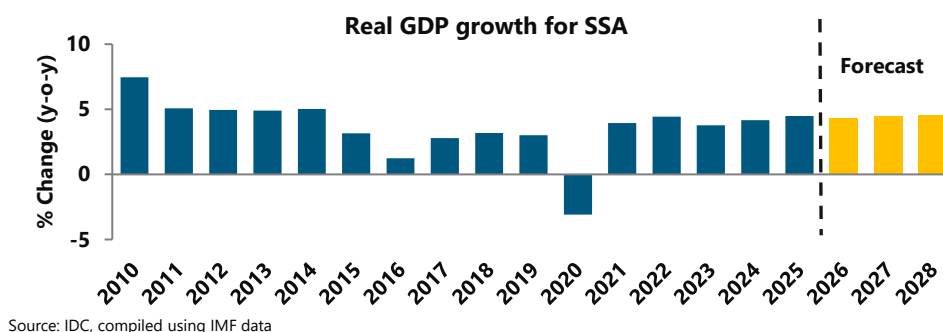
One of the most significant developments in the regional economy is the changing composition of investment. While overall FDI inflows moderated in 2025, the share of manufacturing in announced greenfield projects increased sharply. This shift suggests that investors are increasingly identifying opportunities not only in resource extraction but also in value addition, industrial processing and manufacturing activities. This trend is potentially more important for Africa's long-term development than short-term fluctuations in aggregate FDI, as manufacturing investment typically generates stronger productivity gains, greater technological spillovers and deeper linkages with the domestic economy.

Broadly, the key factors underpinning this steady economic outlook include increasing demand in the region. Relatively firmer commodity prices (on balance) are expected to continue to boost investment and growth in resource-rich economies, while continued progress in structural reforms and macroeconomic stabilisation efforts is expected to support performance in some nations. Additionally, positive trade developments, such as the African Growth and Opportunity Act (AGOA) extension through to the end of 2026, for now, and China's implementation of a zero-tariff treatment preference scheme² on African exports, which commenced in May 2026, are expected to help mitigate some of the global challenges and support export growth. However, despite easing of immediate concerns following the recent fragile ceasefire in the US-Israel war with Iran, rising import costs due to higher global energy commodity prices are likely to dampen private consumption, and the war's impact is likely to affect the region's markets differently.

Regional economic growth to remain steady and relatively strong at projected rates of just above 4% over the next few years

Relatively strong domestic demand to underpin the positive economic outlook, although the impact of the Middle East war may dampen economic prospects

Figure 5: GDP growth expected to hold steady, despite some near-term global uncertainties



Resource-abundant countries, especially oil exporters such as Nigeria and Angola, are expected to benefit from higher oil prices, even though such gains will be tempered by their reliance on imported refined petroleum products. On the other hand, the region's

² For now, this zero-tariff treatment scheme is for a period of 2 years (1 May 2026 to 30 April 2028) for non-least developed African countries, including South Africa.

energy-importing economies face a combination of higher-than-expected inflation, slower economic growth, and some pressure on their fiscal and external balances.

Furthermore, with inflation projected to be moderately higher in 2026 on the back of renewed energy, food and fertiliser shocks, central banks in the region have adopted a hawkish stance, with some already raising policy rates to contain price pressures and others putting the easing cycle on hold. These factors, alongside elevated geopolitical risks, including spillovers from the recent Middle East conflict, are adding further pressure on the region's economy, already weighed down by long-standing structural constraints, high debt-service burdens and borrowing costs, and severe climate-related shocks.

On balance, although some economies have shown some resilience, the implications for economic growth and broader macroeconomic stability for the region are on the downside, albeit unevenly.

More critical, though, is the continued vulnerability of the SSA region to rapidly evolving adverse dynamics in the global environment, as reflected in the impacts of recent crises. Elevated levels of uncertainty, tensions, and risks globally continue to underscore the imperative for the region to increase its economic resilience by leveraging and transforming its resource wealth and regional market potential into productive investments, sustainable industrial capabilities, employment opportunities, and long-lasting resilience.

Africa's critical minerals base enhances its strategic importance to global energy and green transition supply chains. As the global energy transition and green industrialisation accelerate and global powers seek to diversify sources of supply for these minerals, the scramble for Africa's mineral resources will intensify. The global demand for these minerals is expected to result in significant investment in the region's mining sector, with potential for additional investment in related transport, logistics and energy infrastructure. Efforts aimed at reducing the African continent's dependence on imported goods and building its resilience, including regional integration through the African Continental Free Trade Area (AfCFTA), have resulted in a gradual, albeit marginal rise in intra-African trade from 14.7% in 2019 to 15.1% in 2024, but eased back to 14.7% in 2025.³ Anecdotal evidence points to a potential rise in the share of intra-African foreign direct investment, as reflected in several projects (including mega-projects) undertaken by African firms and investors on the continent.

The gradual expansion of regional integration initiatives, particularly under the AfCFTA framework, creates opportunities to overcome one of Africa's traditional constraints to industrialisation, namely the limited scale of domestic markets. Regional integration allows firms to operate across larger markets, encourages specialisation, supports the development of cross-border value chains and improves the commercial viability of manufacturing investments. In this context, industrialisation and regional integration should be viewed as mutually reinforcing rather than separate policy objectives.

In Africa, the rising number of greenfield project announcements is encouraging, pointing to continued investor interest on the continent and a potentially growing project pipeline, as discussed below. Africa's investment needs are huge, and FDI remains a crucial source of capital for developing countries, especially those in SSA. More importantly, FDI has the potential to bring new technologies and technology transfers, new skills, jobs, and access to markets.

Long-term competitiveness will increasingly depend on the development of productive capabilities, including technological expertise, industrial skills, engineering capacity and innovation systems. The quality of investment, therefore, matters as much as its quantity.

Inflation expected to edge higher on elevated energy prices, resulting in hawkish stances by central banks

³ IDC calculations based on UNCTAD data.

Investments that support learning, technology transfer, supplier development and industrial upgrading are likely to generate larger developmental returns than investments concentrated in enclave activities with limited domestic linkages.

The FDI trends discussed below are therefore important not simply because they indicate investor interest, but because their sectoral composition provides evidence of where productive capabilities and regional value chains may be emerging.

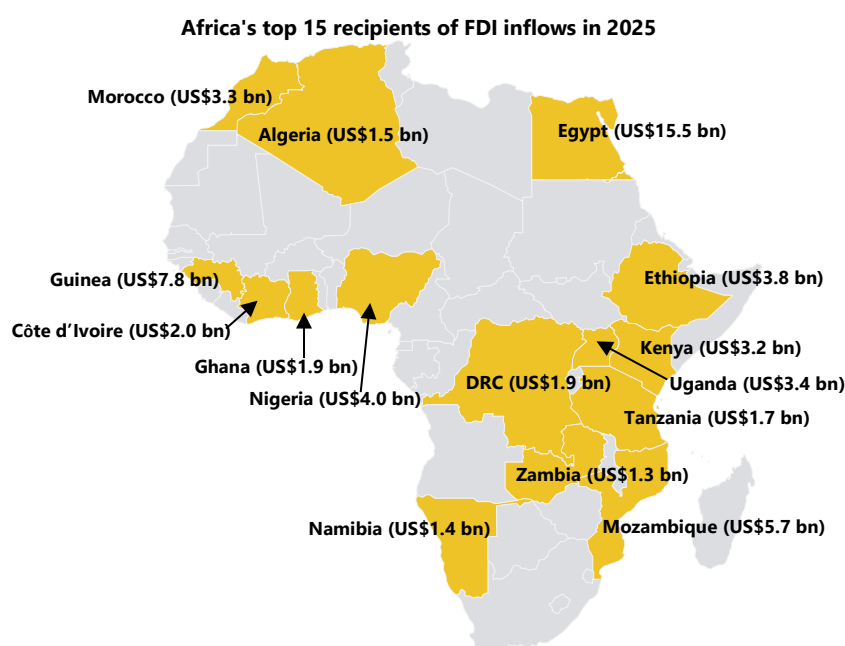
Foreign direct investment activity in Africa increasingly directed to manufacturing

Africa still attracted significant foreign direct investment in 2025, albeit lower than in 2024, when figures were inflated by a single large mega project in Egypt. Headline FDI flows to the African continent declined by 26% year-on-year to USD69.5 billion in 2025 (USD94.3 billion in 2024), according to data recently released by United Nations Conference on Trade and Development (UNCTAD). As a result, Africa's share of global FDI inflows fell to 4.3% in 2025 (6.2% in 2024).

At the country level, Egypt, Guinea, Mozambique, Nigeria, Ethiopia, Uganda, Morocco, Kenya, Côte d'Ivoire, and Ghana were among the largest recipients of FDI flows on the continent in 2025, as shown in Figure 6 below.

FDI inflows to Africa declined by 26% to USD70 billion in 2025, off a relatively high base reached in 2024

Figure 6: Some of Africa's larger economies attracted higher FDI flows in 2025



Source: IDC, compiled using data from UNCTAD's FDI databases, July 2026

At the sub-regional levels, FDI inflows rose in West Africa and East Africa, while North Africa, Southern Africa and Central Africa reported sharp declines. Guinea (USD7.8 billion) and Nigeria (USD4.0 billion) led the pack in West Africa, attracting significantly higher FDI inflows, with the UNCTAD attributing this to bauxite and iron ore mining projects in Guinea and oil- and gas-related projects in Nigeria. Investments in minerals, hydrocarbons, energy infrastructure, and selected manufacturing activities underpinned inflows in East African countries such as Uganda, Ethiopia, Kenya, and Tanzania. Within the Southern African sub-region, FDI inflows were concentrated in Mozambique (USD5.7

billion), and were largely linked to gas-related projects. In 2025, negative inflows were recorded in South Africa due to intracompany financial flows and profit repatriation.

Africa's announced greenfield FDI projects rose by 8% to 857 (in number), while the total value fell by 31% to USD79 billion in 2025 from USD115 billion in 2024, according to UNCTAD's *2026 World Investment Report*. Although there was a pronounced decline in the value of announced greenfield FDI projects (following the once-off high transaction in 2024), the increase in project numbers still suggests continued foreign investor interest in future projects and long-term opportunities on the continent, albeit through relatively modest projects.

USD113 billion worth of greenfield FDI projects announced in 2024

At the sectoral/industry level, although the value of announced capital projects declined in the primary and services sectors, manufacturing rose sharply, driven by strong increases in the chemicals, coke and refined petroleum, automotive, and rubber and plastics industries (Table 1). Energy and gas supply projects continued to dominate, with about USD13 billion in greenfield projects announced in 2025, significantly lower than in the previous two years (USD41 billion in 2024 and USD93 billion in 2023). The sectoral/industry distribution of these projects, which is dominated by manufacturing sub-sectors, is shown in Table 1 below.

Table 1: Manufacturing-oriented investments dominated greenfield projects in 2025

Sectoral distribution of announced FDI greenfield projects by value (USD million)				
Sector/industry	Value (USD million)		Annual growth (%)	
	2025	2024	2025 vs 2024	
Total	79 127	115 067	-31.2	
Primary	9 949	15 023	-33.8	
Manufacturing	36 407	17 815	104.4	
Services ⁴	32 771	82 229	-60.1	
Top 10 industries by value in 2025			Top destinations by industry capex ⁵	
Energy and gas supply	12 886	40 652	-68.3	Mauritania (Green Hydrogen); Egypt (Wind power); South Africa (Solar power)
Chemicals	10 130	1 157	775.5	Ghana (fertilizer); Ethiopia (fertilizer); Egypt (Chlor-alkali & basic chemicals)
Extractive industries	9 944	15 018	-33.8	Angola (oil & gas); DRC (Copper); South Africa (Platinum)
Coke and refined petroleum	7 974	2 546	213.2	Uganda; Ethiopia; Zambia – petroleum refineries
Information and communication	6 903	6 610	4.4	Nigeria; South Africa; Morocco (Computing infrastructure/Data processing)
Automotive	4 114	1 804	128.0	Morocco; Egypt; Algeria (Car manufacturing & assembly)
Transportation and storage	3 682	4 073	-9.6	Kenya; Morocco; Cote d'Ivoire (logistics hubs, warehousing & storage)
Other non-metallic mineral products	3 545	2 732	29.8	Zimbabwe; Nigeria; Kenya (Cement& concrete); Egypt (Solar PV glass & Silica sand manufacturing)
Rubber and plastic products	3 391	154	2 101.9	Egypt; Kenya; Morocco (Tyre manufacturing)
Administrative and support services	2 502	900	178.0	Ghana, Kenya, Egypt (Business support services)

Source: UNCTAD World Investment Report 2026

Following a substantial increase in the value of greenfield projects in the manufacturing sector in 2025, from USD17.8 billion to USD36.4 billion, the share of manufacturing greenfield projects rose to 46% in 2025, up from 15.7% in 2024. Substantial investments

⁴ These include electricity and gas supply, transport and storage services, construction and information technology.

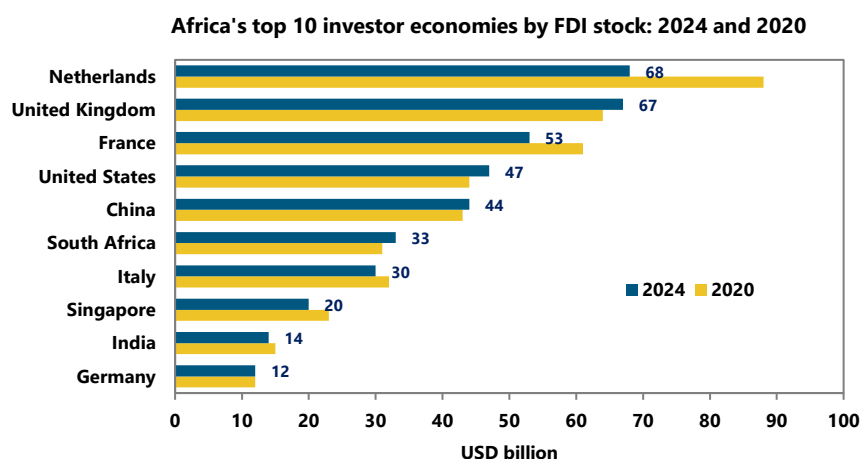
⁵ Source: IDC compiled, using Ft fDi Markets data.

in various industries within the manufacturing sector are a positive development toward achieving higher value-added goals on the continent. The shift towards manufacturing is in line with the African Union's Agenda 2063, which places emphasis on Africa's industrialisation. The development creates opportunities for increased intra-regional trade of intermediate goods, which will require deliberate interventions to realise, as the intermediate goods could potentially be imported from the FDI source countries. With deliberate approaches from African countries the increased FDI in manufacturing can support the development and deepening of regional value chains.

European investors still dominate FDI stock in Africa; however, it is becoming more diversified, and recent greenfield project announcements point to a growing role for investors from the Gulf and Asian economies – as well as from other African investors. Large investments by African firms (including Nigeria-based firms) in other African countries are a case in point, even though South Africa remains a dominant player in intra-African FDI.

European investors still dominate FDI stock holdings in Africa

Figure 7: South Africa among the key direct investors in the rest of Africa



Source: IDC, compiled using UNCTAD World Investment Report, 2026

The outlook for global FDI is marked by downside risks, with investment activity expected to remain subdued in 2026 due to heightened geopolitical tensions, trade policy uncertainty, and ongoing economic fragmentation.

Global FDI activity to remain under pressure in the face of elevated uncertainty and geopolitical risks

Taken together, recent investment trends suggest that a gradual shift may be occurring in Africa's development trajectory. While extractive industries remain important, increasing investment in chemicals, automotive production, refining, agro-processing and other manufacturing activities points to early signs of productive diversification. Although these developments remain uneven across countries, they indicate growing opportunities for industrial deepening and value addition. The key development challenge is to convert these investments into broader industrial capabilities, domestic supplier linkages and regional value chains. For South Africa, this creates opportunities to support firms that can participate in the next phase of African industrialisation, particularly in sectors where South Africa has existing capabilities and where regional demand is expanding.

The shift toward manufacturing-oriented greenfield announcements is encouraging, but it should not be read as automatic evidence of industrial transformation. The developmental impact will depend on whether these projects create domestic supplier linkages, build local technical capabilities, generate intermediate-goods trade within Africa, and support regional value chains rather than operating as import-dependent enclaves.

South African economy – Shifting global uncertainty highlights the vulnerability of the South African economy to external shocks, growth momentum at risk

During 2025 and the first quarter of 2026, the South African economy gained momentum, supported by lower interest rates, a relatively strong Rand, robust household consumption and improving business and consumer confidence. The growth recorded in the first quarter of 2026 largely reflected these favourable conditions and therefore captures economic momentum that had been established before the onset of the Middle East conflict and its associated economic disruptions.

South African economy vulnerable to global supply and demand shocks

Since then, the economic environment has become more challenging. Declining business and consumer confidence are likely to weigh on investment decisions, capital expenditure and broader economic activity. While external developments, particularly higher Brent crude oil prices and increased global uncertainty, have exposed South Africa's vulnerability to external shocks, domestic constraints remain equally important. Persistent infrastructure shortcomings, service delivery challenges and operational inefficiencies continue to undermine productivity, competitiveness and investment. As the effects of these headwinds filter through the economy, growth momentum is expected to weaken in the coming quarters, pointing to a more uncertain economic outlook for the year ahead.

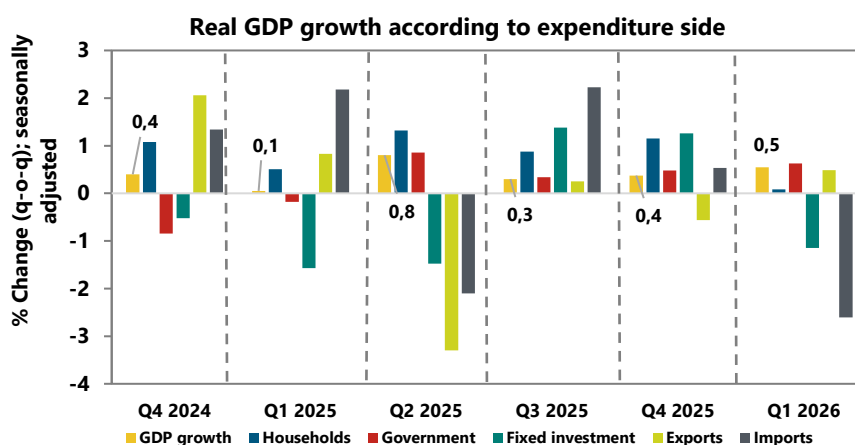
Recent economic developments

During the first quarter of 2026, real GDP expanded by 0.5% following a 1.1% increase in 2025, more than double the growth rate of 2024 (0.4%), marking the sixth consecutive q-o-q of positive change in economic real activity. Growth was boosted by household consumption expenditure, and nine of the ten economic sectors – predominantly the finance and agriculture sectors. Manufacturing was the only sector to record negative growth for the first quarter of 2026.

Real economic activity expands for the sixth consecutive quarter, supported by majority of economic sectors

The low inflation environment and lower interest rates were all supportive of the growth outcomes realised. However, exogenous shocks such as the War in the Middle East at the start of 2026, was a reminder of South Africa's vulnerability as a small open economy.

Figure 8: Real economic activity expands during early 2026, with the impact of the Middle East conflict not yet reflecting in growth numbers



Source: IDC, compiled using Stats SA data

Since the onset of the US-Middle East crisis, several domestic economic indicators have deteriorated. This, together with poor competitiveness and challenging conditions in key sectors such as mining and manufacturing, has renewed pressure on the South African economy. An analysis of the components of GDP shows mixed performance.

Growth momentum at risk as global and domestic economic indicators worsens

Household consumption expenditure during the first quarter of the year expanded by 0.1% (Q4 2025: 1.2%) after a 3.6% full year growth recorded in 2025 as spending on non-durable, semi-durable and durable goods increased. Expenditure was supported by the low inflationary environment during 2025 and early 2026, positive consumer sentiment, willingness to take on more debt amid lower interest rates, amongst others. In nominal terms, household disposable income increased by 1.0% q-o-q in Q1 2026, while net wealth declined by 1.3% and household debt increased by 0.6%. Consequently, household debt as a share of total assets rose from 12.2% in Q4 2025 to 12.4% in Q1 2026. Although household consumption expenditure remained supportive of economic growth, part of this support appears to have been financed through increased indebtedness rather than through improvements in household balance sheets. This raises concerns about the durability of consumption-led growth, particularly in an environment of rising interest rates and declining household wealth. As debt-servicing costs increase and households become more cautious about taking on additional credit, consumption expenditure may slow, exposing the fragility of current growth dynamics and limiting a key source of support for the economy in the near term.

Positive consumer environment during the early period of 2026 results in consumer expenditure growth for Q1 2026

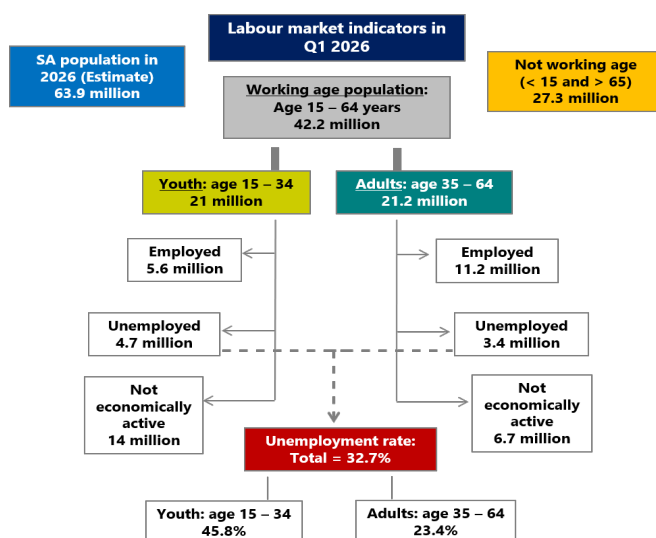
Household indicators are starting to show a slowdown in the appetite of consumers to spend

The most recent supply shock emanating from higher petrol inflation and the repo rate increase will negatively impact on the willingness and ability of households to raise consumption expenditure. Consequently, the composite consumer sentiment during the second quarter of 2026 declined by 12 index points from the first quarter of 2026 (-19 from -7) and retail trade sales increased by 1.3% year-on-year during April 2026), growing at a slower rate compared to that of March 2026 (2.5% y-o-y).

Persistently high unemployment continues to undermine household income and, in turn, limits the scope for stronger consumption expenditure growth. Labour market conditions weakened during the first quarter of 2026, reflecting the subdued pace of economic growth and the economy's limited capacity to absorb labour. The official unemployment rate increased to 32.7%, while youth unemployment remained exceptionally high at 45.8%. Total employment across the formal and informal sectors declined by approximately 345 000 jobs compared to the previous quarter, with the largest losses recorded in community services, construction and private households. Job gains were recorded in manufacturing and mining, although these were insufficient to offset broader employment losses. Following a strong post-pandemic rebound in employment during 2022 and 2023, the pace of job creation slowed markedly in 2025, with only 81 601 net jobs added, compared to 353 663 in 2024.

Unemployment rate increases in Q1 2026 while youth unemployment remains unsustainably high

Figure 9: Employment conditions take a set-back during the first quarter of 2026



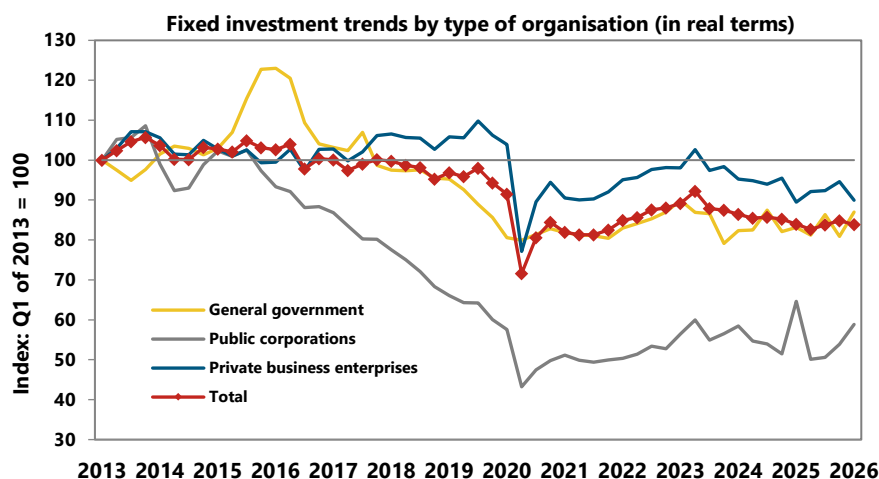
Source: IDC, compiled using Stats SA data

Fixed investment activity declined by 1.2% (q-o-q) during Q1 2026 after growth was recorded in Q4 2025 (+1.3%). On an annual basis, fixed investment has contracted for two consecutive years, declining by 3.9% in 2024 and 2.2% in 2025. Investment spending on machinery and equipment, the largest component of gross fixed capital formation (GFCF), weighed negatively on overall investment, declining by 3.4% q-o-q in the first quarter. This is particularly concerning given the competitiveness challenges facing many domestic industries, as investment in machinery and equipment is a key mechanism through which firms modernise production processes, adopt new technologies, improve productivity and strengthen their competitive position. By contrast, construction investment, the second-largest component of fixed investment, increased by 2.3%, extending its expansion to a fourth consecutive quarter. Potentially an indication that the government infrastructure programme is starting to translate into project execution.

GFCF growth in the public sector during Q1 2026 could not offset the decline in fixed capital investment of private sector

Private-sector investment continues to weigh on overall investment performance, declining by 4.9% in Q1 2026. Although investment by public corporations (+9.3%) and general government (+7.5%) increased, this was insufficient to offset the contraction in private-sector capital expenditure, which accounts for approximately 69% of total GFCF.

Figure 10: Fixed capital formation dragging broader economic growth



Source: IDC, compiled using Stats SA data

Last data point: Q1 2026

The weakness in private investment is significant because investment is not merely a source of demand, but the primary mechanism through which economies expand productive capacity, build technological capabilities and shift resources into higher-productivity activities. Sustained underinvestment in productive assets limits the economy's ability to upgrade industrial capabilities, deepen domestic value chains and increase value addition. It also constrains the development of internationally competitive industries, reinforcing reliance on imported machinery, intermediate goods and final manufactured products. Consequently, the continued weakness in fixed investment raises concerns that economic growth will remain driven primarily by consumption rather than by the expansion of productive capacity. Without a recovery in private-sector investment, particularly in machinery, equipment and industrial upgrading, South Africa risks further de-industrialisation, rising import dependence and slower productivity growth. In this context, the decline in investment is not simply a cyclical concern, but a structural constraint on industrial development, limiting the economy's ability to generate sustainable employment, strengthen export competitiveness and achieve the structural transformation necessary for long-term, investment-led growth.

Government expenditure increased by 0.6% in the first quarter of 2026, driven mainly by higher spending on goods and services as well as compensation of employees. This marked a fourth consecutive quarter of growth since the second quarter of 2025, following three quarters of contraction. Despite this improvement, government spending remains below the levels recorded in 2023. While the commitment to maintaining a primary surplus is a positive signal for fiscal sustainability, continued expenditure restraint may weigh on economic development and social welfare.

Fiscal austerity negatively impacts on social and economic deliverables that can boost economic growth outcomes

During 2025, **real exports** declined by 2.5% while **real imports** increased by 1.1%. However, during the first quarter of 2026, **net exports (a R51.2 billion trade surplus)** improved following an increase in exports of 0.5% and a decline in imports of 2.6%, positively contributing to overall economic growth for the quarter. The increase in exports was largely driven by increased global demand for mineral and vegetable products, prepared foodstuffs and beverages and tobacco combined with prices, while the decline in imports was dragged down due to lower domestic demand for pearls, precious and semi-precious metals, machinery and electrical equipment, textiles and textile articles and animal and vegetable fats and oils. To the extent that these falling imports were of intermediate goods, further illustrates the decline in domestic production and output.

Global demand for South African mineral and vegetable products and beverages and tobacco increases

Sectoral performances

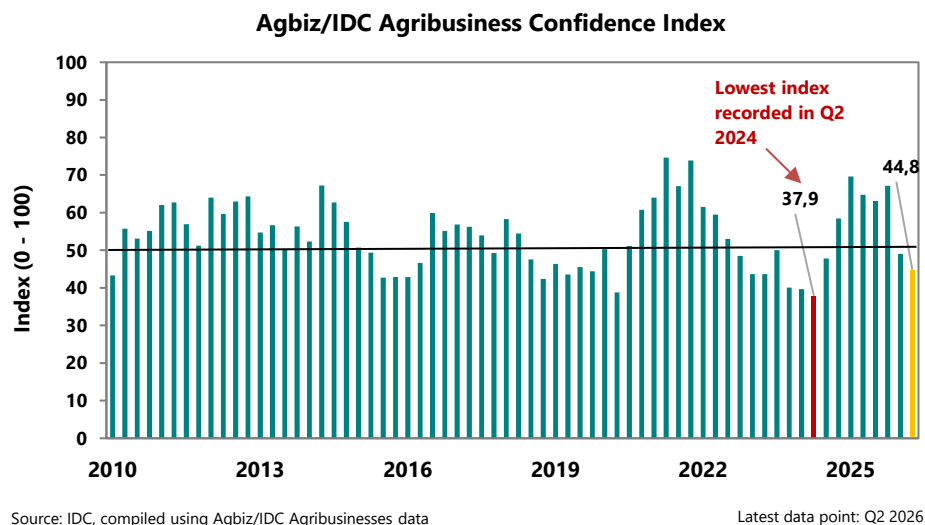
The agriculture sector expanded by 3.9% during the first quarter of 2026 after a muted growth rate of 0.4% was recorded in the previous quarter. The sector is volatile in nature as output growth depends on planting seasons. Since the onset of the US-Middle East crisis there has been concern about the impact on agriculture production given the high reliance of fertiliser imports from the Middle East and the associated cost impact on food prices and these additional costs being pushed onto consumers. To-date the impact is to be seen in economic outcomes. For instance, May 2026 food inflation has decreased to 1.6% (y-o-y), down from 2.8% in April 2026. However, uncertainty in the sector is high and the Agbiz/IDC Agribusiness Confidence Index has fallen to 44.8 index points, one of the lowest recordings since the second quarter of 2024 and well below the 50-point neutral mark which points toward pessimism regarding business conditions in the sectors.

Agriculture sector holds firm amid US-Middle East conflict, but risk tilted toward the downside for 2026/27 harvest

The lingering effects of foot-and-mouth disease continue to put financial pressure on the industry with energy and fertiliser concerns exacerbating the impact. The anticipated El Niño cycle poses a downside risk to South Africa's agricultural outlook during the 2026/27 production season. However, the sector is entering the summer planting period with favourable initial conditions, including elevated soil moisture levels, improved grazing conditions, and healthy dam storage following prolonged above-average rainfall associated with preceding La Niña seasons. These conditions are expected to mitigate the impact of below-normal rainfall and support crop establishment and irrigation-dependent horticultural production. Nevertheless, a severe or prolonged El Niño event could place increasing pressure on agricultural output and food prices into the 2027/28 season. Current forecasts suggest that El Niño conditions may persist into 2027, with peak intensity expected during the summer rainfall season before weakening in the second quarter of 2027.

Agriculture sector concerned about upcoming El Niño weather conditions

Figure 11: Sentiment in the agriculture operating environment takes a set-back



Manufacturing activity contracted by 0.8% in Q1 2026, marking a second consecutive quarterly decline since Q4 2025. The sector's persistent weakness remains a concern, particularly as output in 2025 contracted by 1.2%, worse than the pre-pandemic decline of 0.7% recorded in 2019. Over the first five months of 2026, broader manufacturing output fell by 1.7% y-o-y, although this was less severe than the 2.6% decline recorded over the corresponding period in 2025.

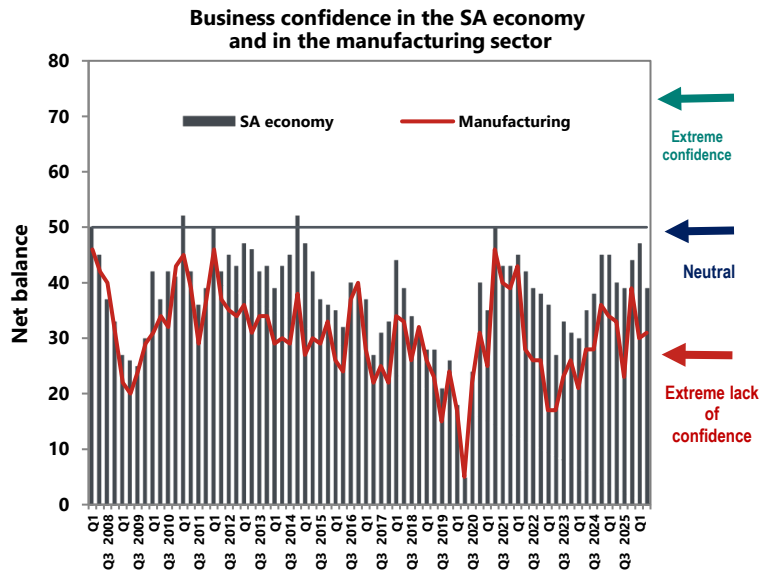
The year-to-date contraction in production volumes was driven mainly by weaker output in the wood, paper and printing (-10.9%)⁶, metals and machinery (-4.1%), furniture and other manufacturing industries (-3.4%), transport equipment (-3.3%) and non-metallic mineral products (-2.9%) sub-sectors. Expectations of higher input costs and supply disruptions linked to the Middle East conflict prompted some firms to build inventories and bring forward orders earlier in the year, which resulted in frontloading. This likely contributed to the sharp decline in manufacturing output recorded in May, when production fell by 4.3% y-o-y compared to March output in certain sub-sectors which saw an increase in output volumes (Figure 12).

Manufacturing business confidence has remained persistently below confidence levels in the broader South African economy since Q2 2019. The latest reading improved marginally to 31 index points, only one point higher than the 30 recorded in Q4 2025, underscoring continued pessimism about operating conditions in the sector. By comparison, the composite business confidence index for South Africa declined by 8 index points to 39 in Q2 2026 from 47 in Q1 2026. This remains below the long-term average of 40 and well below the neutral 50-point mark, pointing to subdued confidence across the broader economy.

Manufacturing production volumes decline between January and May during both 2025 and 2026

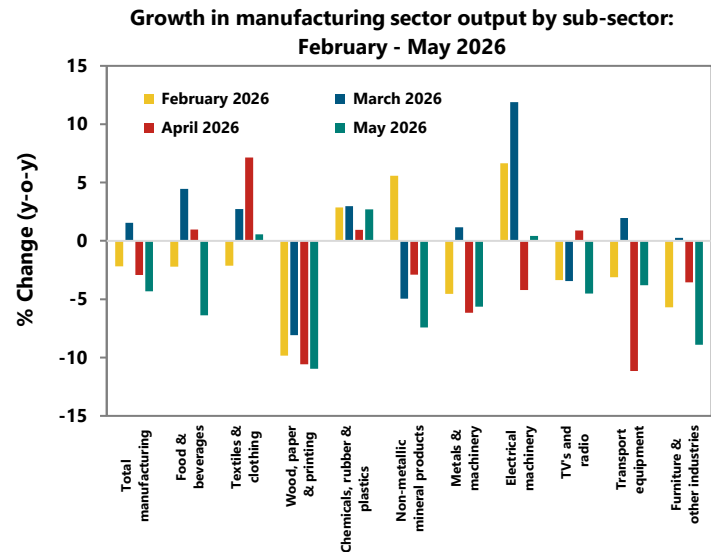
⁶ The weak output in the wood, paper, and printing sector reflects enduring structural declines in demand for printing and publishing as consumers shift to digital media, reduced paper consumption, strong import competition due to global overcapacity, and persistent cost pressures. The sub-sector continues to grapple with challenges related to increased production costs, surging cheap imports, and a structural decline in traditional print media volumes.

Figure 12: Manufacturing sector output weakens



Source: IDC, compiled using BER data

Latest data point: Q2 2026

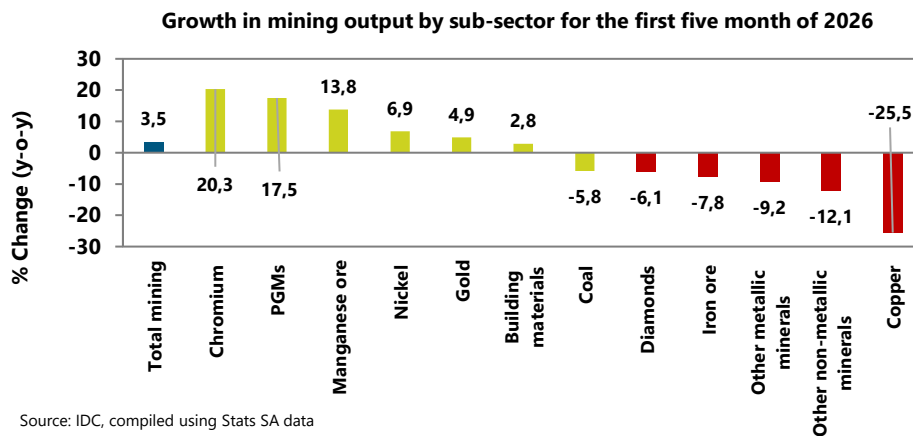


Source: IDC, compiled using Stats SA data

Value added in the mining sector increased marginally by 0.7% q-o-q in Q1 2026, supported mainly by higher output in PGMs and gold. Over the January to May 2026 period, overall mining production volumes rose by 3.5%, underpinned by strong production output in chromium (+20.3%), PGMs (+17.5%), manganese (+13.8%), nickel (+6.9%) and gold (+4.9%). By contrast, other non-metallic minerals and copper recorded the steepest contractions, with output declining by 12.1% and 25.5% respectively (y-o-y).

PGM and gold value add during Q1 2026 drives overall mining growth during the first quarter

Figure 13: First five months of 2026 mining output supported by commodity prices



Source: IDC, compiled using Stats SA data

Inflation, interest and exchange rates

During 2025, headline inflation (3.2%) was at its lowest in 21-years which allowed the SARB to reduce interest rates by a cumulative 125 basis points. During the first quarter of 2026, headline inflation averaged 3.2%, a slight increase of 0.2% from 3% recorded during the first quarter of 2025 during which core inflation, which excludes volatile price items such as food and electricity, also increased by 1% from an average of 3.3% (Q1 2025) to 4.3% in Q1 2026. As the effect of the Middle East crisis filtered into the economy via higher petrol price inflation, the headline Consumer Price Index (CPI) increased to 4% in April 2026 (from 3.2%

Headline and core inflation increase as the effect of an energy supply shock reflect in inflation outcomes

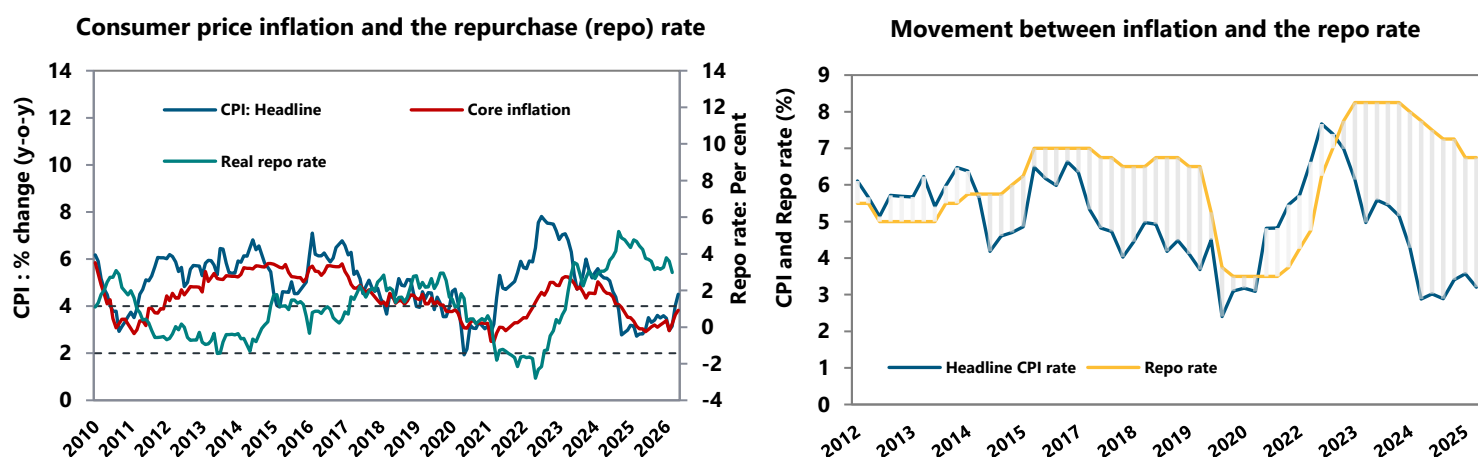
in March 2026) and the associated core inflation increase to 5.4% (previous month 5.1%) as petrol inflation reversed from its previous negative of -8.7% to 11.4% during April 2026. As such, the South African Reserve Bank (SARB) increased the repo rate by 25 basis points from 6.75% to 7% resulting in a prime lending rate of 10.5%. Due to the higher inflation rate and the increase in the repo rate, real interest rates declined.

As the SARB expected second round effects of the heightened inflationary environment, headline CPI reached 4.5% in May 2026 (petrol inflation: 28.7%), which could result in a further repo rate increase at the next Monetary Policy Committee (MPC) during July 2026. However, despite the lower real interest rate, the differential between headline consumer prices and the repo rate has increased since the last quarter of 2022, indicative of the restrictive nature of monetary policy given that inflation has been low, but interest rates remained quite high.

On average, real interest rates have more than doubled from 1.3% during Q1 2021 to Q3 2022 up to 3%, on average, between Q4 2022 to Q1 2026. Should Brent crude oil prices remain well below the \$100 a barrel mark, an easing of inflationary pressures could be seen going forward and as such a potential lowering in interest rates. However, the performance of the Rand-dollar should also be considered given that a weaker Rand could limit the reduction in inflationary pressures despite lower global Brent crude oil prices.

Monetary policy remains restrictive despite previous rounds of reduction in repo rate

Figure 14: Headline inflation ticks up in May 2026 while monetary policy stance by the SARB remains clear



Source: IDC, compiled using Stats SA and SARB data

Last data point: May 2026

Source: IDC, compiled using Stats SA and SARB data

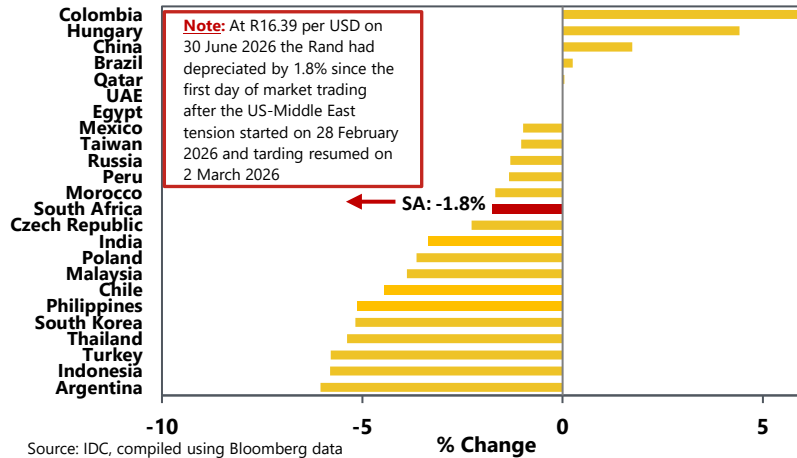
Lastest data point: Q1 2026

The South African Rand has been highly volatile against the US dollar since the onset of the latest geopolitical tensions. After strengthening from an average of R16.83/USD in December 2025 to R16.00/USD in February 2026, the currency came under renewed pressure heading into March, depreciating to an average of R16.74/USD. The Rand's weakness intensified during the March to end-June 2026 period, reaching a peak of R17.18/USD. By the end of June 2026, however, the Rand had recovered to R16.39/USD, reflecting a 1.8% depreciation relative to the first trading day after the start of the US-Middle East conflict. Among emerging market currencies, the Rand ranked as the eighth-largest depreciating currency since the onset of the Middle East crisis, underscoring the continued volatility of South Africa's exchange rate. However, the more contained depreciation since March 2026 has provided some buffer against imported inflation, partly offsetting the inflationary effects of higher petrol prices and related second-round pressures, including on food inflation.

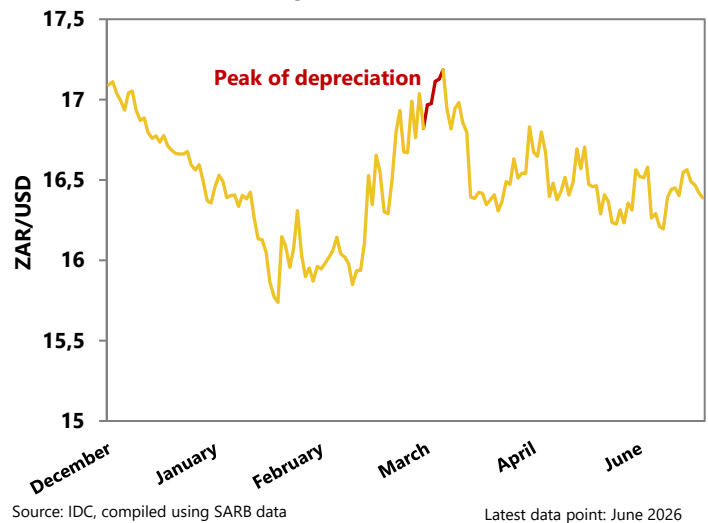
Rand-dollar exchange rate remains volatile with previous appreciation gains losing momentum

Figure 15: Rand depreciates against the dollar but corrects slightly as it remains below previous highs

Emerging Market's currency performance vs the US dollar (2 March 2026 to 30 June 2026)



ZAR/USD exchange (1 December 2025 - 30 June 2026)



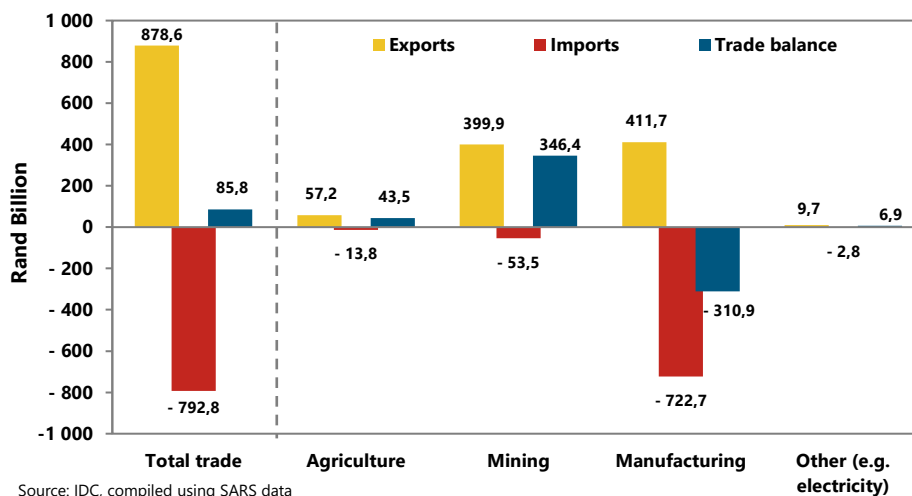
External trade analysis

Although South Africa recorded a trade deficit of R1.8 billion in May 2026 as exports declined by -5.7%, as gold and PGMs and passenger motor vehicle exports fell compared to April 2026, although the external trade position remained positive over the first five months of the year, with a cumulative surplus of R85.8 billion. The overall positive trade balance was supported by sizeable surpluses in agriculture and mining, at R43.5 billion and R346.4 billion, respectively, which more than offset the manufacturing sector's trade deficit of R310.9 billion. Total merchandise exports between January and May 2026 amounted to R878.6 billion, a 6.8% increase (y-o-y), while total merchandise imports increased at a lower rate of 3.9% (y-o-y).

Mining exports contribute favourably to year-to-date trade balance

Figure 16: Slowdown of merchandise imports leads to trade surplus during the April to May 2026

South Africa's trade balance according to broad sector for the first five months of 2026



Agricultural exports increased by 2.8% between January and May 2026, while mining exports rose strongly by 25.2%, supported by higher PGM exports. Although this performance may partly reflect increased PGM output and sustained global demand linked to the use of these commodities in new energy vehicles (NEVs), the gains were

driven by higher PGM prices. By contrast, gold and iron ore exports declined by 3.6% and 10.0%, respectively, due to weaker prices.

Precious metal prices, including gold and platinum, are linked to expectations around global interest rates. In an environment of elevated global inflation and more restrictive monetary policy, investors tend to shift towards higher-yielding assets, reducing demand for non-yielding metals such as gold. This was reflected in the decline in gold exports, as well as the month-on-month fall in PGM exports between April and May, which declined by 36.2% and 12.8%, respectively.

The decline in merchandise manufacturing exports was driven by lower y-o-y exports of motor vehicles and parts (R102.3 billion; -10.1%), iron and steel (R23.9 billion; -29.6%), which continued to be affected by US tariffs, and paper and paper products (R10.1 billion; -12.5%).

Precious metals and gold exports decline amid softer global demand

Table 2: Merchandise export performance by major product category

Key merchandise export categories and their performances in 2026
(% change for 2026 (Jan - May): year-on-year)

Nr	Economic sector	Exports (R Billion)	% change (year-on-year)
1	Agriculture, forestry & fishing	57,2	2,8%
2	Mining (total):	399,9	25,2%
3	Coal	43,7	0,1%
4	Gold	69,6	-3,6%
5	Iron ore	40,5	-10,9%
6	PGMs	128,8	102,8%
7	Other mining	117,2	24,0%
8	Manufacturing (total):	411,7	-5,1%
9	Motor vehicles & parts	102,3	-10,1%
10	Paper & paper products	10,1	-12,5%
11	Iron and steel	23,9	-29,6%
12	Non-ferrous metal products	33,5	7,1%
13	Basic chemicals	26,6	1,7%
14	Chemical products (e.g. pharmaceuticals)	26,3	-0,8%
15	Processed food	36,7	10,1%
16	Machinery and equipment	44,9	-6,9%
17	Petroleum products (refined)	23,7	2,6%

Source: IDC, compiled using SARS data

Key merchandise import categories and their performances in 2026
(% change for 2026 (Jan - May): year-on-year)

Nr	Economic sector	Imports (R Billion)	% change (year-on-year)
1	Agriculture, forestry & fishing	13,8	-19,1%
2	Mining (total):	53,5	8,8%
3	Crude oil	36,4	9,0%
4	Other mining	17,2	8,3%
5	Manufacturing (total):	722,7	4,2%
6	Motor vehicles & parts	126,0	3,3%
7	Petroleum and petroleum products	135,8	24,7%
8	Non-electrical machinery	102,1	4,7%
9	Chemical products (other)	55,0	4,5%
10	Electrical machinery	34,3	5,8%
11	TV, radio & communication app.	34,1	-2,1%
12	Basic chemicals	33,1	-6,6%
13	Processed food	35,0	-3,9%
14	Wearing apparel	16,6	-3,7%
15	Non-ferrous metal products	16,0	-12,0%

Source: IDC, compiled using SARS data

Merchandise imports increased over the first five months of 2026, reflecting South Africa's continued dependence on imported crude oil and refined petroleum products, which rose by 9.0% and 24.7%, respectively. However, the pace of increase moderated compared with that recorded over the first three and four months of the year. The publication of the draft Strategic Petroleum Stocks Policy for public comment is therefore timely, as it seeks to strengthen the country's storage of both crude oil and refined petroleum stocks. If implemented effectively, the policy could help reduce South Africa's exposure to fuel supply shocks, such as those recently triggered by the Middle East crisis.

Other key contributors included electrical machinery, valued at R34.3 billion; non-electrical machinery, which amounted to R102.1 billion and increased by 4.7%; other chemical products (+4.5%); and motor vehicles and parts (+3.3%).

South Africa dependent on crude oil and petroleum and related product imports

South Africa's response to the impact of the Middle East war on energy

For many years, South Africa's imports of **refined petroleum and related products** have been dominated by countries from the Middle East, such as the United Arab Emirates (UAE), Saudi Arabia, Oman and Bahrain. The past 15 years have seen the relative share claimed by the Middle East in this import basket rising sharply from 13.2% in 2011 to 70.4% by 2025, with imports of petroleum and petroleum products from this region valued at R168.9 billion, compared to just R5.8 billion in 2011 (Table 3). Looking beyond the Middle East, countries such as India, with a 16.2% share of South Africa's total imports of refined petroleum in 2025 and the US (4.2%), were also key sources in this regard. Combined, the Middle East, India and the US accounted for just over 90% of all imported refined petroleum products last year.

As the Middle East crisis unfolded since the beginning of 2026, there were concerns about potential supply shortages considering South Africa's high reliance on petroleum imports from countries within this region. In addition, the closure of the Strait of Hormuz, which accounts for 20% to 25% of the world's seaborne oil trade, also added to global concerns about the availability of refined petroleum products. This raised questions of fuel security of supply for the country, in addition to the risks related to higher prices. In response, President Ramaphosa established a Ministerial Task Team on Fuel and Food Security. Some of the country responses coordinated by the Task Team are discussed below.

South Africa managed to diversify petroleum imports

Diversification of geographic sources of supply: Government working with the industry immediately sought to diversify the sources of fuel. As a result, South Africa's import basket of refined petroleum from a regional perspective changed rapidly in 2026, with the first signs of such changes visible in the April 2026 import numbers. The share of petroleum imports sourced from the Middle East were at relatively low levels 12% in April and 22% in May 2026 with the increase in the latter month attributable to an increase of imports from Oman (which largely does not require passage of ships through the Strait of Hormuz – 13.3% share of all petroleum imports in May versus 6% in April 2026 and the allowance of more ships through the Strait of Hormuz (Table 3).

Table 3: The import basket of refined petroleum products showing a changing pattern

South Africa's changing import basket for refined petroleum and petroleum products

Composition of import basket (Middle East vs other key suppliers)

	Rand Million									% share								
Country/region	2020	2021	2022	2023	2024	2025	2026 (Jan - May)	2026 (April)	2026 (May)	2020	2021	2022	2023	2024	2025	2026 (Jan - May)	2026 (April)	2026 (May)
United States	2 442,61	5 261,82	8 618,76	9 544,05	10 413,36	10 094,11	1 631,64	10 380,52	6 530,17	4,0%	4,0%	2,7%	3,2%	4,4%	4,2%	2,9%	24,0%	18,7%
Belgium	1 828,01	2 499,47	5 807,82	2 966,38	4 621,67	1 427,51	98,52	6 636,15	2 011,99	3,0%	1,9%	1,9%	1,0%	2,0%	0,6%	0,2%	15,3%	5,8%
Nigeria	182,03	679,36	1 052,33	771,91	594,08	964,47	197,20	5 162,79	513,52	0,3%	0,5%	0,3%	0,3%	0,3%	0,4%	0,4%	11,9%	1,5%
Togo	654,80	485,96	4 387,60	1 044,22	1 404,23	65,05	336,94	4 055,77	2 595,83	1,1%	0,4%	1,4%	0,4%	0,6%	0,0%	0,6%	9,4%	7,4%
Netherlands	2 647,76	7 138,56	7 810,71	6 841,01	4 750,85	4 166,63	1 892,35	3 714,13	3 292,57	4,3%	5,4%	2,5%	2,3%	2,0%	1,7%	3,4%	8,6%	9,4%
India	9 709,47	19 007,88	52 554,46	48 975,19	42 475,63	38 784,18	8 524,37	2 969,01	6 948,30	15,7%	14,5%	16,8%	16,6%	17,9%	16,2%	15,2%	6,9%	19,9%
Italy	1 529,92	7 255,78	4 934,78	5 391,05	6 608,40	4 363,06	847,87	1 474,29	87,14	2,5%	5,5%	1,6%	1,8%	2,8%	1,8%	1,5%	3,4%	0,2%
Germany	397,64	482,88	746,93	825,50	798,27	835,33	147,31	103,61	107,45	0,6%	0,4%	0,2%	0,3%	0,3%	0,3%	0,3%	0,2%	0,3%
France	181,50	174,95	789,67	614,95	834,15	651,75	120,86	56,57	57,48	0,3%	0,1%	0,3%	0,2%	0,4%	0,3%	0,2%	0,1%	0,2%
Malaysia	1 903,06	3 956,14	13 180,57	11 198,11	3 259,67	1 462,84	930,97	6,78	37,70	3,1%	3,0%	4,2%	3,8%	1,4%	0,6%	1,7%	0,0%	0,1%
Middle East	32 556,49	71 382,11	178 011,91	174 975,31	150 258,89	168 908,42	37 174,63	5 182,70	7 701,05	52,8%	54,4%	56,8%	59,1%	63,4%	70,4%	66,4%	12,0%	22,0%
Other	7 683,66	12 886,84	35 771,82	32 704,03	10 962,87	8 276,26	4 100,64	3 539,35	5 064,52	12,4%	9,8%	11,4%	11,1%	4,6%	3,4%	7,3%	8,2%	14,5%
Total	61 716,95	131 211,75	313 667,36	295 851,69	236 982,08	239 999,61	56 003,30	43 281,67	34 947,71	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: IDC, compiled using SARS data

During April 2026, substantially higher imports were recorded from countries such as the US, valued at R10.2 billion or a 23.4% share in this import basket in April 2026, followed by Belgium (15.2%), Nigeria (13.4%), Togo⁷ (9.4%), the Netherlands (8.2%) and India (6.8%). Combined, these 6 countries accounted for roughly 76% of all petroleum imports in April 2026, compared to much lower shares over the period 2020 to 2025.

⁷ Note: Togo has no crude oil or petroleum refineries, while serving as a storage hub for distribution and transshipments.

Although still too early to make certain conclusions about a changing trade pattern, it would appear as if South Africa may indeed manage to access sufficient refined petroleum supplies in the short term, while a long-term strategy would be required to prevent a situation of over reliance on a specific region and/or countries.

Regarding **crude oil** imports, the reliance on the Middle East has been on a decline over time, with the share having fallen from 58.6% (or R47.9 billion) in 2010 to 17.7% (or R12.7 billion) by 2025. For the first three months of 2026, this share dropped to 11.8% (or R1.9 billion), with Saudi Arabia the only supplier to South Africa. Although South Africa had also imported crude oil from other regions and countries in the past, including the likes of Nigeria, Angola, the US and Ghana, oil imports from these countries also fell sharply since the start of 2026. During May, South Africa managed to diversify crude oil imports sourcing from Algeria (40.2% share of total), Nigeria (32.7%), Brazil (13.8%) and Cote d'Ivoire (13.3%) – cumulatively amounting to R14.4 billion

Longer-term response to security of supply as proposed in the draft Strategic Petroleum Stocks Policy:⁸ On July 09, 2026, the government released the draft Strategic Petroleum Stocks Policy for comment, which proposes a significant strengthening of South Africa's fuel supply security framework in response to increasing dependence on imported petroleum products, refinery closures, and heightened global geopolitical risks. The policy introduces a mandatory strategic stockholding regime, replacing the previous reliance on state-held reserves and voluntary industry arrangements.

Under the proposed framework, government, through the South African National Petroleum Company (SANPC), would maintain 60 days of strategic stocks, while licensed wholesalers and importers would be required to hold an additional 21 days of stocks. The policy also proposes shifting from a crude-oil-only reserve system to a mixed portfolio that includes refined products such as diesel, petrol and jet fuel, reflecting South Africa's growing reliance on fuel imports and reduced domestic refining capacity.

Implementation of the policy will require substantial investment in storage infrastructure, including refurbishment of the Saldanha Bay facilities and development of additional refined-product storage capacity in major inland demand centres. The proposed approach signals a more interventionist approach to fuel supply security, with greater public-private burden sharing, enhanced emergency preparedness and increased strategic infrastructure investment to support longer-term economic resilience.

Longer-term response to security of supply through expansion of refining capacity:⁹ In 2024, the Central Energy Fund acquired the SAPREF refinery assets from BP and Shell. The assets were acquired for a nominal value of R1, which reflects the distressed nature of the asset. By acquiring SAPREF, the state assumed responsibility for substantial future capital expenditure for environmental remediation, flood-related rehabilitation and compliance upgrades. The real economic cost, therefore, lies not in the acquisition price, but in the investment required to make the asset commercially and environmentally viable again.

Government positioned the transaction as a strategic intervention to restore domestic refining capacity, improve fuel security, reduce dependence on imported fuel products and support long-term industrial and economic resilience. Government's current approach is to use the SAPREF acquisition as a vehicle to restore South Africa's refining capability, reduce reliance on imported fuels and strengthen national petroleum security. Publicly reported plans involve rehabilitating the flood-damaged refinery, upgrading it

⁸ Department of Mineral and Petroleum Resources. (2026). Draft strategic petroleum stocks policy of South Africa, 2026. Government Gazette No. 54975, 9 July 2026. Republic of South Africa.

⁹ Department of Mineral and Petroleum Resources. (2024, September 20). Minister Gwede Mantashe welcomes approval for CEF to acquire SAPREF refinery. Republic of South Africa.

to meet the Clean Fuels II standards and potentially expanding capacity substantially or replacing it with a larger, more technologically advanced refinery and petrochemicals complex that achieves economies of scale so that it is competitive. However, no final public investment decision or restart timetable has yet been announced.

Fuel price relief to manage impact of the war on the economy including managing fuel price inflation: In response to the sharp increase in fuel prices following the Middle East conflict, South Africa implemented temporary fuel levy relief measures worth approximately R17.2 billion, reducing the General Fuel Levy by up to R3.00 per litre between April and June 2026 to cushion households and businesses from rising fuel costs.¹⁰ The intervention also reduced the impact of higher prices on inflation, which would have triggered an even more hawkish interest rate environment.

The Middle East is also a key region for South Africa's **fertiliser and nitrogen compounds**, as imports amounted to R6.7 billion in 2025, accounting for 31.6% in the overall imports. In 2025, fertiliser imports were sourced largely from Saudi Arabia, with a 44.1% share, followed by Oman (20.1%), Qatar (18.6%) and the UAE at 6.6% of this regional import basket. Having still accounted for 33.7% (or R796 million) of all South Africa's fertiliser imports over the period January to March 2026, this share dropped significantly to just 3.2%, or R39.2 million, in April and even further in May 2026 to 0.9%.

However, South Africa has managed to source fertilisers from other suppliers such as Trinidad and Tobago, valued at R285.5 million or a share of 23% in the overall import basket, which was valued at R1.24 billion in April 2026, followed by Chile (18.0%), Nigeria (10.9%), Brazil (10.2%), Germany (9.4%) and China with a 9.4% share. Combined, these countries accounted for about 81% of all South Africa's fertiliser imports in April, compared to a share of 26.4% during 2025 and 29.2% in 2020. During May 2026, South Africa largely imported from Russia (62%), China (22%) and Germany (11%). There were no announcements of interventions related to fertiliser. The price trends of fertilisers are discussed in the global section above.

Outlook of the South African Economy

Despite improved domestic conditions during 2025, more recent indicators point to a challenging operating and trading environment that is likely to constrain growth in the short term. Slower global growth and rising inflation internationally are likely to weigh on South Africa's export performance in the near term, as demand conditions in key external markets come under pressure.

South Africa's growth prospects are expected to remain subdued in the short term, affected by both local and global economic challenges, although a gradually faster momentum is projected towards the latter part of the outlook horizon. Real GDP growth of 1.3% is forecast for 2026, rising steadily thereafter to 2.2% by 2030, underpinned by stronger growth in household consumption expenditure and rising fixed investment spending (Table 4).

¹⁰ National Treasury. (2026, April 28). Extension of short-term relief measures to address fuel price increases. Republic of South Africa. <https://www.gov.za/news/media-statements/national-treasury-extension-short-term-relief-measures-address-fuel-price>

Table 4: Projections of key performance indicators of the South African economy

Variable (% change or % of GDP)	2023	2024	2025	2026f	2027f	2028f	2029f	2030f
Real GDP growth and its components:								
Household consumption expenditure	0,2	1,0	3,6	2,1	2,3	2,6	2,4	2,8
Government consumption expenditure	1,9	-0,1	-0,2	0,4	0,4	0,5	1,2	1,7
Gross fixed capital formation (GFCF)	3,0	-3,9	-2,2	1,1	2,7	2,7	3,3	4,2
Exports	5,1	-2,8	-2,5	1,3	2,2	2,7	3,4	2,8
Imports	3,9	-6,4	1,1	2,6	3,7	4,4	4,1	4,9
GDP	0,8	0,5	1,1	1,3	1,6	1,8	2,1	2,2
Consumer price inflation	5,9	4,4	3,2	4,4	4,0	3,5	3,4	3,4
Current account balance (% of GDP)	-1,1	-0,7	-0,5	-1,2	-2,3	-2,8	-2,8	-3,4
GFCF as % of GDP	14,9	14,5	13,9	14,5	14,8	14,8	15,0	15,6
Repo rate (%) end of period	8,25	7,75	6,75	7,25	6,75	6,50	6,00	6,00
Rand per USD (average per year)	18,45	18,33	17,89	16,58	16,87	17,01	17,09	17,21

Source: IDC, compiled using SARB data, IDC forecast

Although the **consumer** environment is likely to remain somewhat constrained in 2026, conditions are expected to improve gradually over the medium to longer term. Consumer sentiment has strengthened markedly in 2025 and early 2026, supported by lower inflation and interest rates, which provided welcomed relief to households. Looking beyond 2026, the anticipated easing in inflationary pressures, together with the SARB's expected commitment to its lower inflation target, should create scope for a gradual reduction in interest rates, thereby further supporting faster rates of growth in consumer spending.

Public finances appear to be improving, with the debt-to-GDP ratio expected to stabilise in the short term, followed by a declining trend, whereas the primary surplus is set to increase over the next three years. This should contribute to debt sustainability as committed in the country's fiscal policy positioning, thereby enhancing fiscal credibility. In the long run as government spends less on debt servicing costs, it will allow for higher expenditure on essential social and economic services. However, in the short term, the fiscal consolidation underway to achieve the fiscal surplus will likely lead to lower government expenditure and reduce its contribution to GDP growth.

Given the close relationship between confidence levels in the business sector and **investment** behaviour, the current decline in sentiment is likely to impact capital spending in the near term. Despite the expected relatively faster pace of expansion in investment spending as from 2027 onwards, it is only by 2030 that the quantum of capital outlays (in real terms) is likely to be at the same level as pre-covid (2019). Even though the investment-to-GDP ratio is forecast to increase steadily to 15.6% by 2030 (from 13.9% in 2025), it remains well below the desired 30% as set out in the National Development Plan to support much faster rates of economic growth on a sustained basis.

Exports are projected to return to modest growth in 2026, increasing by 1.3% after having contracted by 2.5% in 2025, thereby recovering from a weak base. Over the broader forecast horizon, a more stable global growth environment should provide a firmer foundation for export expansion. These projections already consider the impact of US import tariffs, which could materially affect countries with a strong reliance on external markets.

South Africa's economy has, over time, become increasingly reliant on **imports** to meet domestic needs, with manufactured goods having accounted for 90% of all merchandise

imports in recent years. Considering the subdued performance by the local manufacturing sector and increased de-industrialisation, along with rising energy requirements (e.g. refined petroleum and related products), import demand is expected to increase at a fast pace over the outlook period to 2030.

The anticipated gradual recovery in domestic economic activity is also expected to underpin robust growth in import demand. Stronger fixed investment should, over time, lead to higher imports of machinery and equipment, while the uptick in household consumption spending is likely to result in increased demand for a variety of consumer-related items, including for motor vehicles, electronics, clothing and food products.

The Rand came under immense pressure as the Middle East crisis unfolded early in 2026, although the currency has since recovered those losses. The Rand is likely to remain strong, with an appreciation bias on the back of improving public finances and improved sovereign credit ratings by the respective credit rating agencies.

Inflation is forecast to rise to 4.4% in 2026 (from 3.2% in 2025), temporarily moving above the central bank's new target range, before moderating towards the SARB's preferred 3% level thereafter. In response to the less favourable inflation outlook in the near term, the SARB is likely to adopt a tighter monetary policy stance, with a 50 basis points hike in the repo rate anticipated during 2026, which would place additional strain on both businesses and households.

Over the remainder of the forecast period, however, monetary conditions are expected to ease as inflationary pressures recede. Consequently, a cumulative 125 basis points reduction in the **repo rate** is being forecast as rates are expected to decline from 7.25% in Q2 2027 to 6.00% by Q2 of 2029 and remaining unchanged thereafter. However, should crude oil prices surprise on the downside on the back of the US-Iran peace deal, it could alleviate inflationary pressures and prevent more rate hikes in the months ahead.

Department of Research and Information

31 July 2026