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Accounting for South Africa's remarkable growth deterioration

And how can growth be restored?

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Executive summary

South Africa experienced a remarkable economic growth deterioration between 2005 and 2025. This report uses a growth accounting framework to show that productivity shrank and investment stagnated. Post-pandemic, productivity has recovered but not investment. Cutting red tape, reducing political uncertainty and faster progress on other structural reforms will reignite growth.

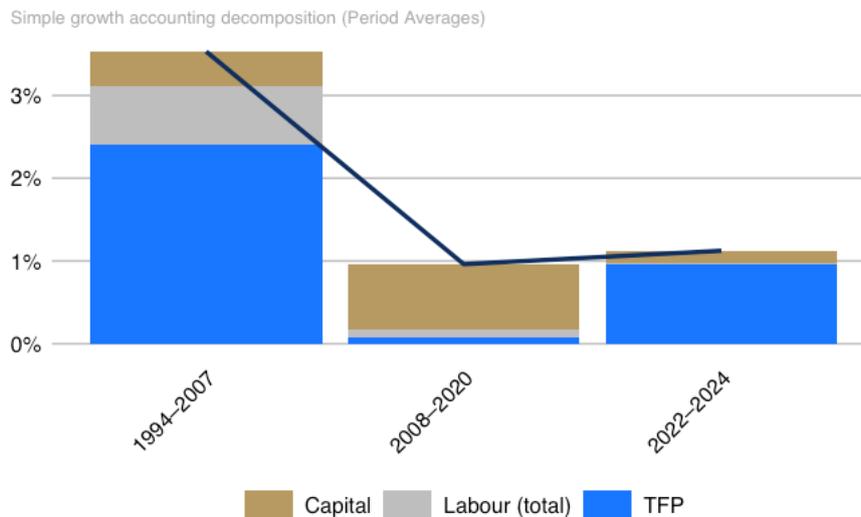
How is it that a country can experience a growth reversal, with annual growth falling from 4%-plus to almost zero in just a few years? In short: a collapse in productivity growth led by inefficient state-owned enterprises which consumed a large share of savings without any benefit to the economy. This largely reflects the impact of South Africa's state-capture decade, in the years after 2010. This crowded out private sector investment, which has remained stagnant in real terms at around R500 billion a year - far too little to support a meaningful and much-needed expansion of the capital stock. In addition, fiscal policy directed resources to unproductive uses and tax rates rose further, dampening growth. Faced with an inflationary environment, the real interest rate increased which meant there could be little growth support from monetary policy.

In the post-COVID period, productivity has returned but investment is exceptionally weak (see Figure 1). Indeed investment growth has been negative during 2024 to 2025. The total capital stock grew by an average of 0.4% between 2022 and 2024.

A policy reset would restore growth. The 1994 policy choices hold lessons for 2025. Indeed, from 1994 to 2004, growth accelerated from near zero to 5%. Those policy choices included, the significant restructuring of state-owned enterprises (including the privatisation of Telkom), opening up of the economy to support the improved competitiveness of manufacturing, and fiscal and monetary policies that focussed on (and delivered) fiscal sustainability and lower inflation.

Restructuring state-owned enterprises should be the priority, e.g. the unbundling of Eskom. This will support private sector investment growth and improve bring a range of interlinked benefits and buoy growth. Delays in long-needed reforms to state-owned enterprises (particularly Eskom and Transnet) have delayed growth.

Figure 1: Accounting for South Africa's growth decline, 1994 to 2024



A simple growth accounting exercise shows that between 1994 and 2007, growth was strong on the back of mainly productivity growth, with investment and labour force growth also contributing. During the post-crisis/state capture years (2008 – 2020), productivity and labour force growth collapsed. In the post-pandemic period, productivity growth has been the only growth contributor, with investment and labour force growth very weak. Restoring investment growth would buoy overall growth.

Clear monetary and fiscal policy would also support growth. The inflation targeting framework has brought certainty to monetary policy. Fiscal policy recently turned a corner, achieving a small primary surplus in each of the last two fiscal years. This should be locked in and a shift to a debt-stabilising primary surplus together with clear point target for monetary policy will support lower long rates.

In summary, growth can return with the right policies. The post-1994 period highlights that South Africa has previously grown at an accelerated pace. In 2024, the BER undertook an extensive “what-if” scenario of accelerated reforms and increased investment. While our view has been tempered by a difficult start to 2025 (both internationally and domestically), we remain of the view that accelerated investment, on the back of a strong reform push, could see potential growth creep over 2% and towards 3% within three to five years.

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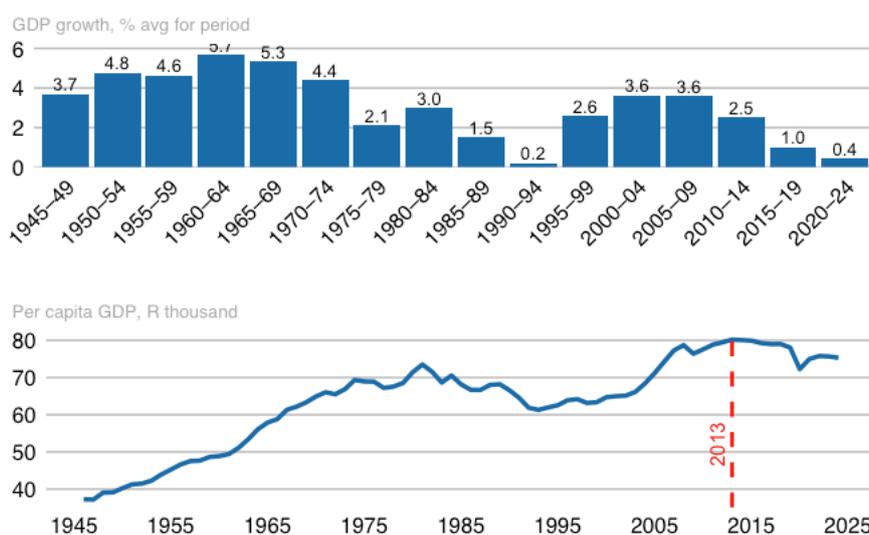
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Introduction

WHERE DID GROWTH GO?

South Africa's economic growth slowed significantly from 2010. Figure 2 highlights that 2015-2019 was one of the slowest five-year periods in South Africa's history, with real GDP growth averaging just 1.0%. Per capita GDP contracted by 2.7% from R80 191 in 2013 to R78 061 in 2019. The BER estimates that potential GDP growth declined over the same period from around 2% a year to zero. Since formal data collection began in the post-Second World War period, only the pre-democracy slowdown (1990-94) and the COVID collapse (2020-24) were slower.

Figure 2: Growth has been weak in historical terms and GDP per capita has contracted

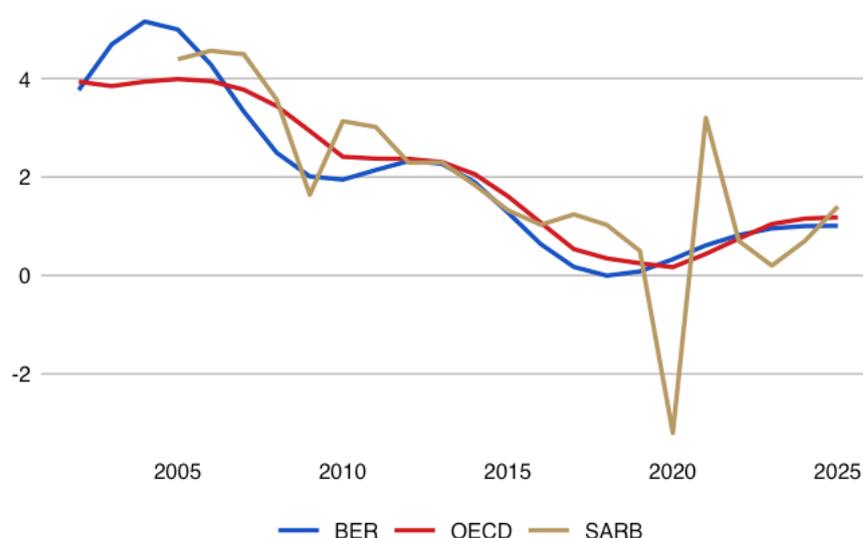


The average growth rate between 2015 and 2019 was only 1.0%, one of the slowest five-year periods in the history of recorded growth. In the post-Second World War era, only the 1990-94 and post-COVID period have been slower. There is a clear peak in per capita GDP in 2013, after which there is stagnation and then decline.

Source: SARB QB via BER Data Playground

The concern now is that 2025-2029 will be a repeat of 2015-2019, with yet another very slow growth period. Understanding why the economy slowed so quickly pre-COVID, and essentially decoupled from global growth, is key to understanding how it will behave in the years ahead.

Figure 3: Potential growth has fallen significantly over the past two decades



Potential growth slowed from around 4% per year to nearly zero pre-COVID, and has subsequently marginally recovered to sub-1%

In Figure 3, the slowdown in potential growth is immediately apparent. We compare our potential growth estimates to those of the South African Reserve Bank (SARB) and the Organisation for Economic Co-operation and Development (OECD). The key difference between the SARB estimates and the other two is that the OECD and BER smooth out the COVID shock. For the rest, the estimates broadly track one another. By all three measures, potential growth collapsed from around 4% in the mid 2000s to zero by 2019. There was a particularly sharp deterioration from 2015 onwards.

This is an extraordinary reversal: essentially growth in the productive capacity of the economy came to a complete stop. The consequences are equally significant. At such low levels of potential growth, any demand-side pressure is inflationary. Monetary policy is left with little choice but to remain tight. Fiscal policy, similarly, is unable to play any countercyclical role.

At such weak potential growth rates, fiscal policy got caught in a trap. The problem was that any efforts to achieve fiscal consolidation driven by reducing investment would harm potential growth further, while any fiscal expansion would have to be clearly designed to support potential growth lest it increased the debt-to-GDP ratio.

How did this happen?

The usual suspects don't fully explain the slowdown. The global financial crisis is an oft-cited villain, but South Africa had a "good" global financial crisis,¹ and most other emerging markets recovered in the post-crisis era. Energy shortages, another potential explanation, peaked in 2023, and in retrospect, the years of 2015 to 2019 were relatively mild years for energy shortages. That said, the confidence impact of load-shedding should not be underestimated.

¹ See, for example, [Hollander & Havemann \(2021\)](#) who highlight that South Africa's strong macroeconomic fundamentals in the pre-global financial crisis period ensured that it weathered the crisis relatively well.

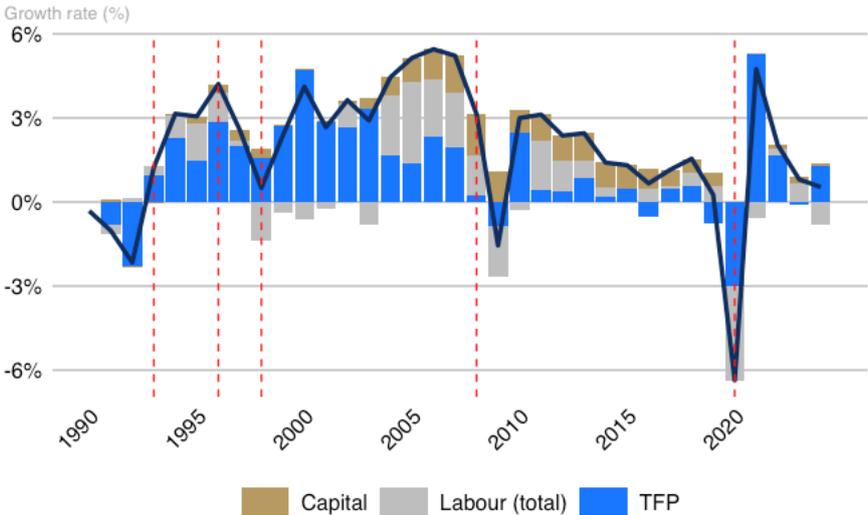
The following sections outline some stylised facts and observations about 2010 to 2019, with a view to understanding whether potential GDP will remain caught between zero and 1% over the next few years or what could cause it to rise back to 2% or even 3%.

Productivity growth

Strong total factor productivity growth drove the post-1994 boom, and its reversal dragged growth down in the state-capture period. Post-Covid it has recovered.

A standard growth accounting framework can assist in understanding productivity growth. I start with a standard Solow growth decomposition, showing the different growth drivers at different periods. Figure 4 shows the contributions of capital, labour and total factor productivity (TFP) to growth.

Figure 4: Contributions to growth from capital, labour and TFP



The approach decomposes overall economic growth into capital, labour and the Solow residual, which is a measure of TFP. Immediately it is clear that post-1994 growth was supported by strong TFP performance, which reduced significantly in the post-2008 period.

Source: BER analysis

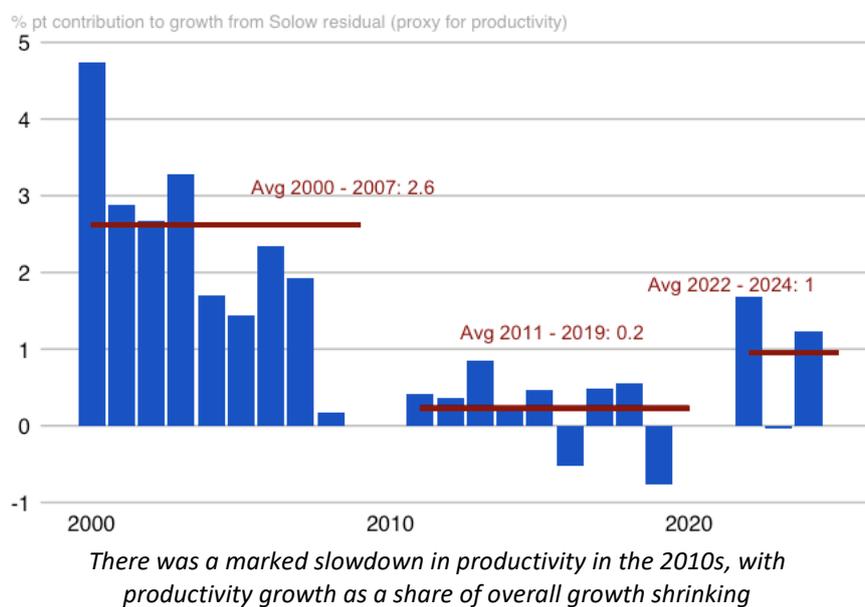
The different periods demonstrate different growth drivers. The 1994 – 2008 period is marked by relatively high TFP growth and a rising capital stock. From 2008 onwards, TFP growth falls off,

and though the contribution of the capital stock remains relatively high, it declined from 2015. (The COVID shock is excluded²).

The post-2010 productivity slowdown is immediately apparent.³ Between 2000 and 2007, productivity⁴ contributed an estimated 2.6 percentage points to growth (Figure 5). Overall economic growth for 2000 - 2007 averaged 4.2%, and exceeded 5% in 2006/2007, suggesting that productivity accounted for about half of the country’s growth miracle over this period.

Two key factors: increasing openness and a restructuring of the economy as it integrated back into the world economy appear to have supported South Africa’s productivity “boom” during the 2000s. Fedderke & Liu (2016) find some evidence of ‘Schumpeterian’ productivity growth – that innovation is the central driver of long-run economic growth. The key mechanism is creative destruction, where new innovations replace outdated technologies and business models, raising productivity.

Figure 5: Contribution of productivity growth to overall economic growth



In addition, a significant reduction in political uncertainty supported business confidence, which created a virtuous cycle of investment and productivity expansion. Du Plessis & Smit (2009) note how positive capital flows, the political transition, lower real interest rates and stable macroeconomic policies contributed to the economy’s relatively strong performance over this period.

Over, the next decade, however, productivity’s contribution to growth fell from an estimated 2.6 percentage points to a mere 0.5 percentage points. Excluding the global financial crisis and the

² When including the COVID shock, one notable observation is that the negative COVID shock of 2020 comes out as a labour *and* productivity shock, but that the recovery in 2021 is a productivity recovery. This is consistent with the firm-level literature on the COVID impact – see, for example, (Bloom et al. 2025). In short, the economy did not add back as many jobs as it lost and appears to have remained permanently more productive.

³ See also Pain et al (2020), who find that South Africa’s productivity growth has been declining since 2010.

⁴ We measure productivity here through a simple Solow residual exercise. Different measures for labour were used to test for potential labour data issues.

COVID period, and using only private sector labour in the calculation, leads to an even slower estimate of 0.2 percentage points.

The first place to look in explaining this dramatic fall-off in productivity growth might be to ask whether there was a reversal of the things that supported the initial strong performance. Indeed, the most significant change was not the global financial crisis (which South Africa weathered remarkably well), but a change in the country's president.

STATE CAPTURE PLAYED A CENTRAL ROLE IN THE PRODUCTIVITY SLOWDOWN

A hallmark of this period was state capture – later defined by the Zondo Commission of Inquiry as “when private actors influence a state’s decision-making processes to their own advantage by providing illicit private gains to public officials”. A set of prominent economists even went so far as to publish a research piece entitled “Betrayal of the promise: how South Africa is being stolen” (Bhorat et al. 2017). The South African economy may indeed have been stolen.

How did state capture feed through into a weaker economy? Figure 6 shows the productivity of key sectors of the economy from 2010 onward. Most notable is the collapse in productivity of the electricity sector and government sectors.

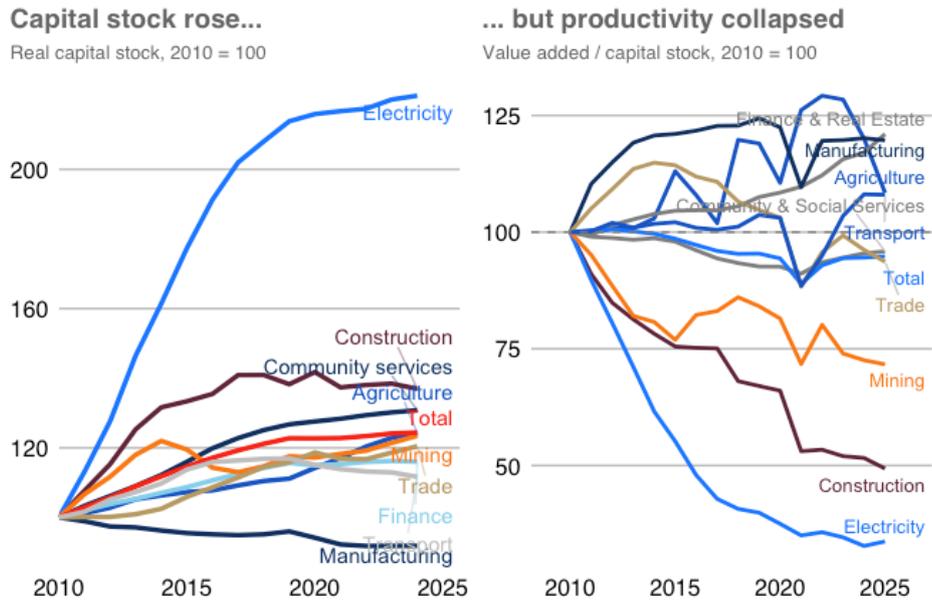
At the centre of state capture was Eskom, the state-owned electricity utility. In retrospect, the huge investment in unproductive capital at Eskom proved to be a drag on the entire economy. The capital stock of the electricity sector more than doubled in the decade from 2010 to 2019, but value added barely increased and indeed contracted as the actual output of the sector (measured by electricity produced) contracted.

This is a separate impact from that of load-shedding and the role of power shortages. It reflects the diversion of capital from productive uses in the private sector to unproductive uses in the corrupt state sector.

Other large sectors also suffered significant productivity setbacks, particularly mining and construction. This is despite mining capital rising. Here, policy appears to have been the cause.⁵

⁵ For a detailed discussion on the mining sector within the context of the South African economy see [Macmillan \(2017\)](#).

Figure 6: Capital stock and capital productivity



The capital stock grew in real terms largely in the electricity sector where the capital stock doubled due to the construction of two enormous power stations, Medupi and Kusile. But capital productivity in electricity collapsed, as these power stations did not function. Productivity in construction and mining also fell significantly.

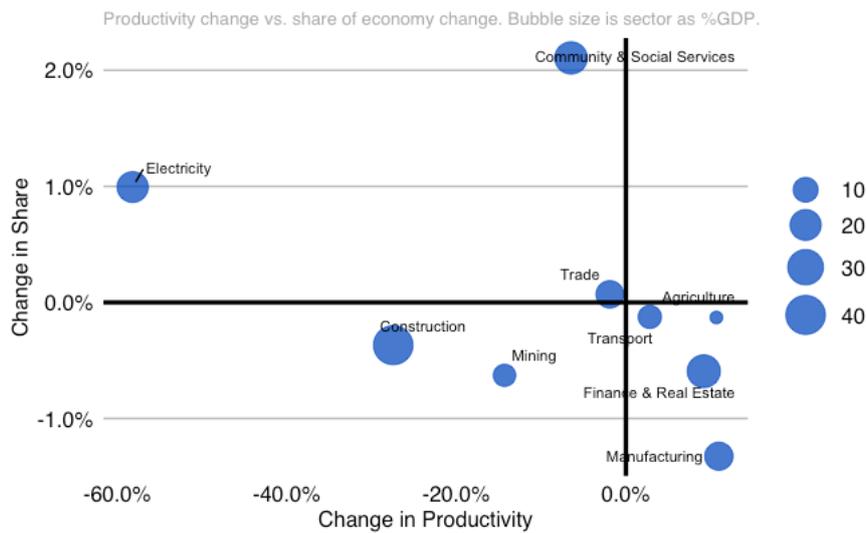
THE ECONOMY PIVOTED INTO UNPRODUCTIVE SECTORS

A related part of the productivity slowdown story is that not only did individual sectors become less productive but the economy simultaneously pivoted out of the relatively productive sectors (see Figure 7). Again, the electricity sector appears as a significant drag on productivity. Not only did its productivity decline significantly, it became a larger share of the economy as more and more resources were diverted towards it.

The second sector that drags down the overall performance is government, reflected in the statistics as part of the “community and social services” sector. Its share of the economy rose by 2 percentage points, but it became less productive.

Again the performance of the mining sector is apparent. Mining comfortably accounts for the lion’s share of South Africa’s export basket, but its performance remains weak. In the simple analysis present here, it became both smaller *and* less productive during the course of the 2010s as ongoing electricity shortages and logistical challenges hurt the industry. However, as highlighted above, the productivity slowdown was mainly from inefficient investment.

Figure 7: The productivity pivot (2010 – 2020)



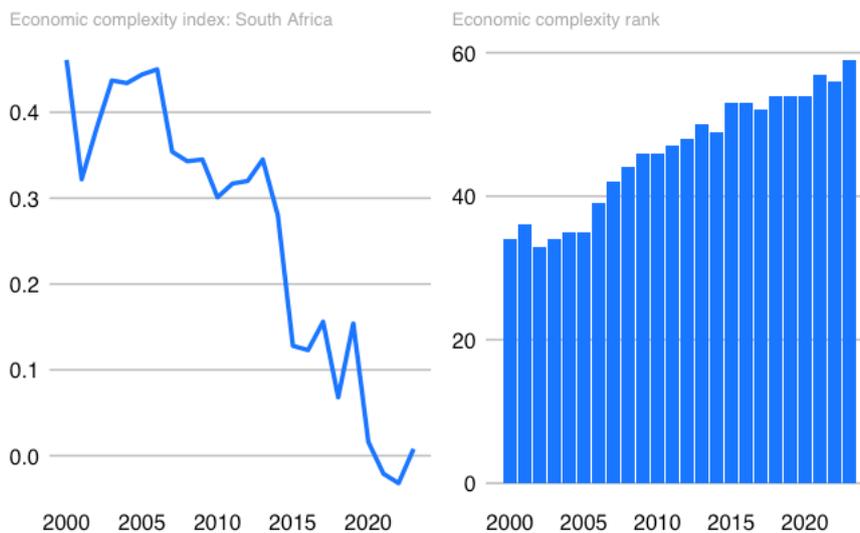
Between 2010 and 2020, the share of electricity and community/social services (mainly government) increased but these two sectors also became less productive, particularly electricity where productivity collapsed. Agriculture, transport, finance and manufacturing became more productive, but their share of the economy fell.

THE ECONOMY AND EXPORTS BECAME LESS DIVERSIFIED

Another way of looking at the productivity of the economy is to consider the complexity of exports. Export complexity measures how sophisticated, knowledge-intensive, and diversified a country's export basket is (Hidalgo & Hausmann 2009). A country that exports many products that few other countries make (i.e. the more diverse and exclusive its export basket) is considered more complex. Conversely, a country that exports mainly common, low-skill products (e.g. raw materials, basic commodities) is considered less complex.

South Africa's economy has become less diverse and its export complexity has declined (see Figure 8). As a result, South Africa's ranking has deteriorated markedly. According to the Observatory of Economic Complexity, South Africa was 34th in the world in terms of economic complexity in 2000. It is now 59th.

Figure 8: Economic complexity index, South Africa



South Africa's economic complexity score deteriorated from 2000 as the economy became less diversified and less complex. South Africa's ranking fell significantly

Source: Observatory of Economic Complexity

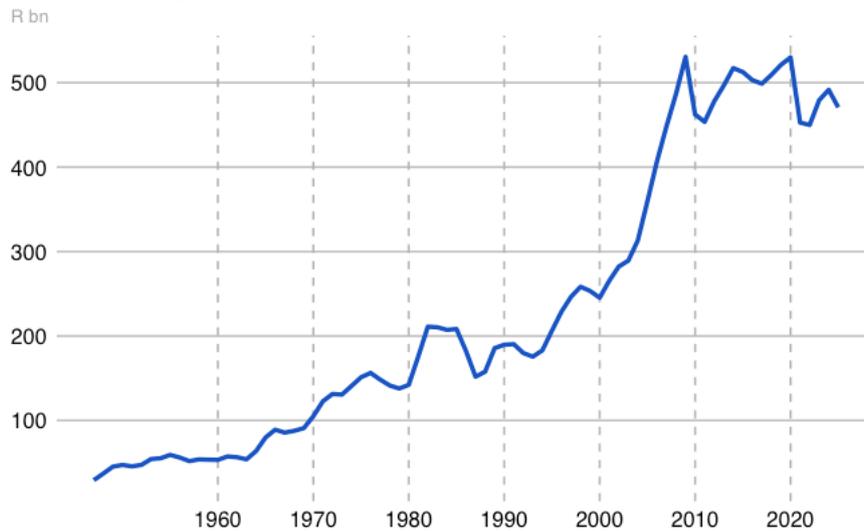
Investment has stalled

Private sector investment growth has stalled as load-shedding, political risk, red tape, and the high cost of doing business has weighed on business confidence, exacerbated by a rising tax burden and higher borrowing costs.

While the country's capital stock became less productive, real investment also stalled from 2010 onwards as shown in Figure 9.

Why did investment slow so quickly? We can consider economic factors (primarily the structural constraints imposed by electricity shortages and infrastructure problems), cyclical factors (a rise of economy-wide borrowing costs) and political factors (mainly a significant increase in political uncertainty). Each can be considered in turn.

Figure 9: Real investment stalled from 2010 onward



The level of real investment peaked in 2009 at R530 bn per year (14.7% of GDP) and remained at around that level, before falling to below R500 bn in 2023 and 2024 (10.8% and 10.4% of GDP respectively)

Source: SARB QB via BER Data Playground

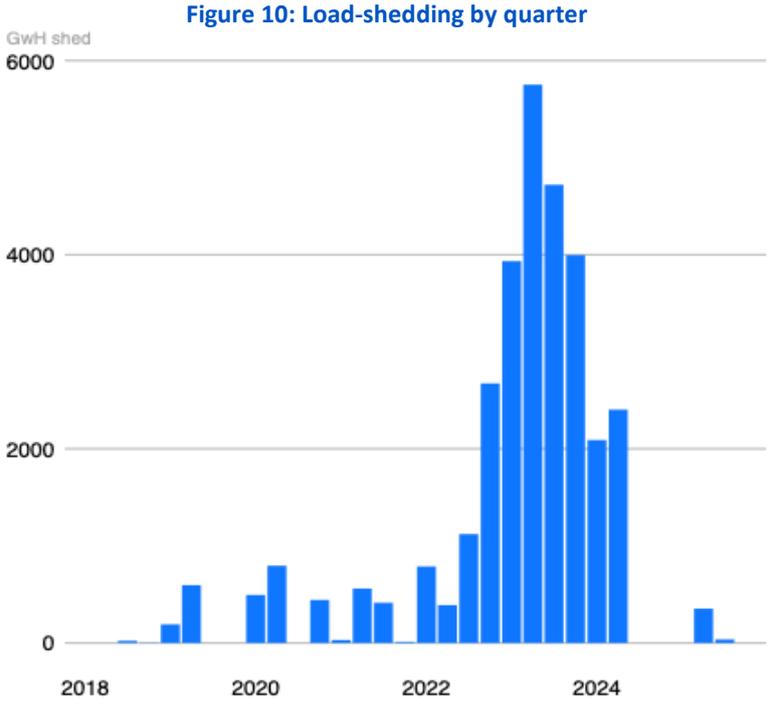
LOAD-SHEDDING

Power shortages (load-shedding) have significantly constrained South Africa's economic performance (Walsh et al. 2021), and have likely structurally reduced South Africa's potential growth rate.⁶

The SARB estimated in its April 2023 Monetary Policy Review that sustained Stage 6 load-shedding, at the time, reduced quarterly GDP growth by up to 0.6 percentage points (South African Reserve Bank 2023). The National Treasury's 2023 Budget Review similarly concluded that load-shedding shaved 1.5 to 2.0 percentage points off real GDP growth in 2022 (National Treasury, Republic of South Africa 2023). According to the OECD's Economic Survey of South Africa, persistent electricity shortages represent one of the most binding constraints to long-term economic growth (OECD 2022). Meanwhile, the CSIR Energy Centre estimated that the economic cost of load-shedding in 2022 alone was R560 billion—equivalent to 8–10% of GDP (Brent & Wright 2023).

⁶ See, for example, Janse van Rensburg & Morema (2023).

While load-shedding was relatively mild until 2020, peaking in 2023, it has impacted economy-wide productivity since it started. Furthermore, the lack of energy security and ongoing corruption allegations at Eskom have weighed on business confidence, dampening investment. At the same time, the cost of electricity rose significantly. South Africa’s comparative advantage of cheap power was eroded over this period. Capital-intensive projects, such as iron-ore mills and smelters, essential for moving to higher-value goods, became impossible because there was no capacity to meet the additional electricity demand. This unseen impact of the electricity shortage arguably constrained investment even though there was relatively little load-shedding.



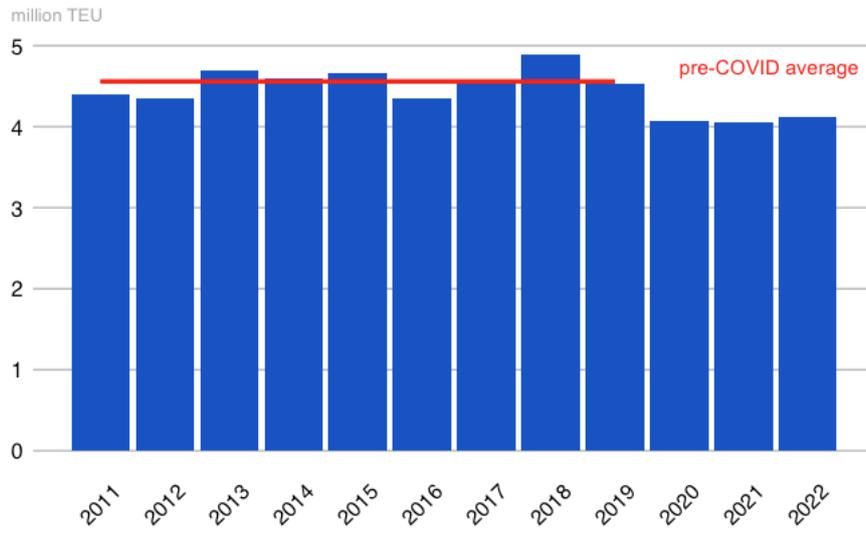
Load-shedding began in 2018 but was most significant in 2023 when it peaked.

Source: Eskom via BER Data Playground

LOGISTICS

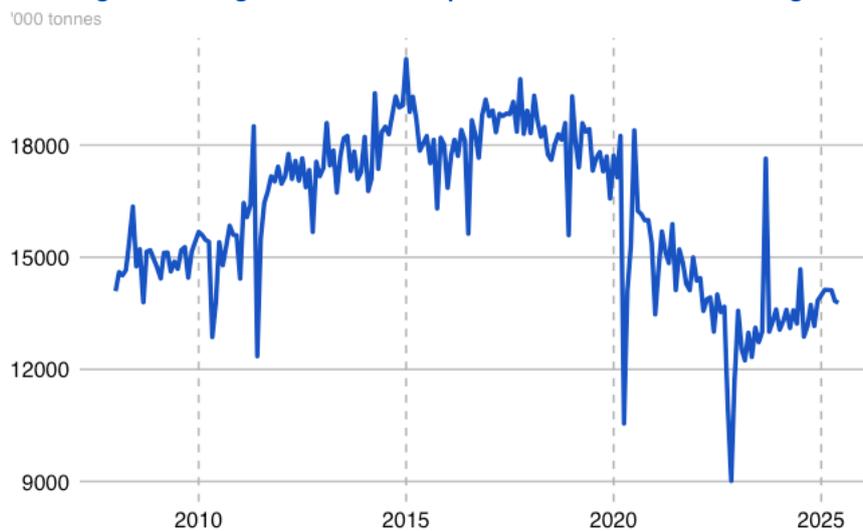
There has been a notable and significant stagnation in two key areas of logistics: ports and rail performance. Figure 11 highlights that port throughput was reasonably stagnant pre-COVID. Naturally, during COVID, there was a demand shock (less demand for South African exports leading to a decline in throughput), but post-COVID, there was at first a reset of port capacity at low levels. In more recent times (mid-2025), on the back of the government’s reform programme, there has been a welcome improvement in port capacity. I look at this again in the later section in estimating how much demand could be generated.

Figure 11: Ports throughput was stagnant pre-COVID and then declined



Despite rapid increases in commodity prices, port throughput has been stagnant

Figure 12: Freight volume via rail peaked in 2015 before declining

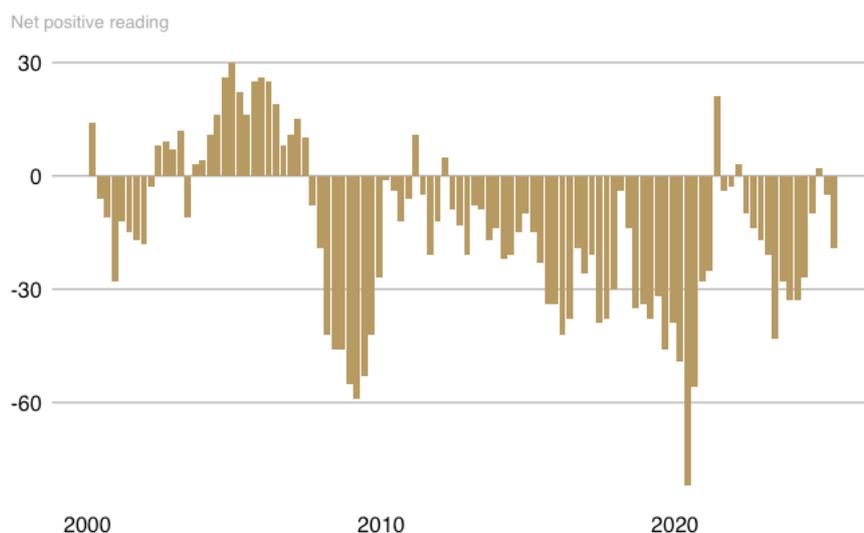


BUSINESS CONFIDENCE AND POLITICAL UNCERTAINTY

An analysis of the BER's Business Confidence Survey results of that time highlight that business was not only deeply concerned about load-shedding, but also the perception that there was nothing practical being done to improve it.

Investment was also dragged down by a series of related political events during the Zuma administration that deeply shook investor confidence. The most profound shock was when former Finance Minister Nhlanhla Nene was fired and the little-known backbencher Des van Rooyen was appointed for the weekend of 10 - 13 December 2015.

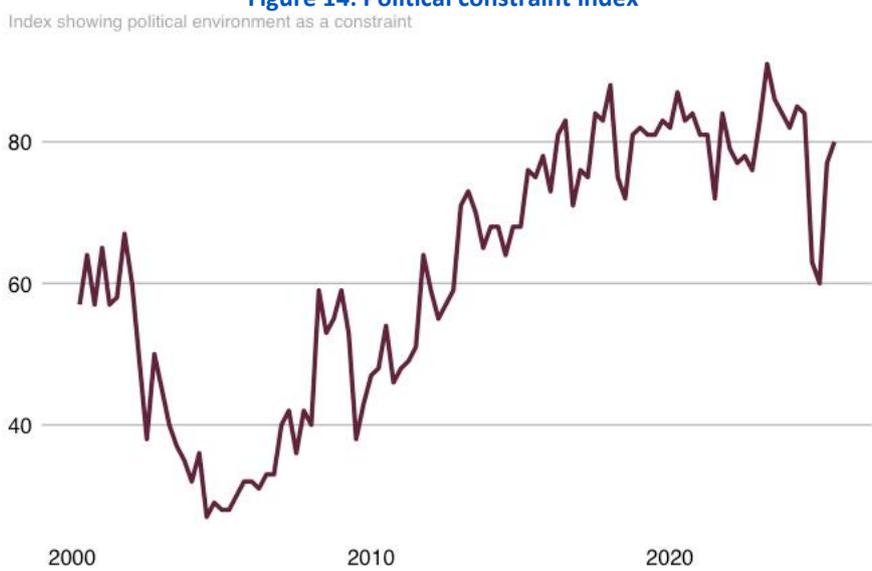
Figure 13: Business confidence (net positive)



Business confidence was negative for much of the 2010s and deteriorated further from 2015

The BER surveys manufacturing firms as part of the Absa Manufacturing Survey. One of the questions respondents are asked is to what extent the political climate is a serious constraint on their business activities.⁷ As we show in Figure 14 below, this indicator rose significantly between 2010 and 2019.

Figure 14: Political constraint index



The political environment was seen as a rising constraint on business from 2005. In the early 2020s, the index rose to record highs.

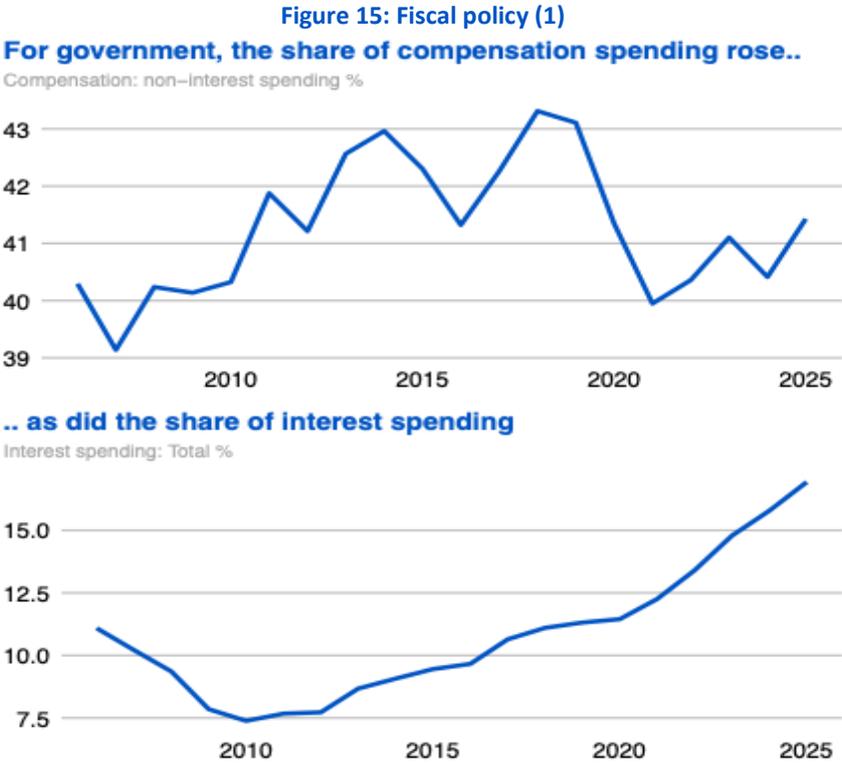
⁷ Respondents have to rate whether a particular issue – for instance, the general political climate – “seriously”, “slightly” or “not at all” hampers their activity. Composite constraint indices are calculated by weighting the responses as follows: the answers of respondents rating a particular constraint as “serious” are weighted by 0.67%; “slightly” by 0.33% and “not a constraint at all” are discarded. The results are then multiplied by $100/67 = 1.49$ to convert it to an index that can vary between zero and 100.

FISCAL AND MONETARY POLICY

An unproductive fiscal expansion

Fiscal policy from 2010 to 2013 is dominated by the fallout of decisions taken in the immediate post-global financial crisis period (Hausmann et al. 2022). During the 2008 global financial crisis, South Africa experienced limited banking and financial market disturbances. This was, in large part, because the country entered the period in a strong position. Low inflation, a fiscal surplus and well-capitalised banks allowed for strongly countercyclical measures to be taken.⁸

That said, the fiscal policy response in the post-crisis period was, arguably, inappropriate. Instead of catalysing investment in infrastructure or productivity-enhancing reforms, government spending was increasingly absorbed by a rapidly expanding public-sector wage bill. This trajectory was shaped in part by the aftermath of the 2007/2008 public-service strike, which resulted in generous wage settlements and persistent upward pressure on public compensation.



Compensation as a share of non-interest spending rose all the way through to the end of 2019, before contracting following a wage freeze. In turn, interest spending as a share of overall spending rose from 2010 onwards

The result was a permanent and unproductive fiscal expansion. Compensation of employees rose from 10% of GDP in 2008 to over 12% by 2018, becoming (proportionately) one of the

⁸ See, for example, the discussion in Hollander & Havemann (2021).

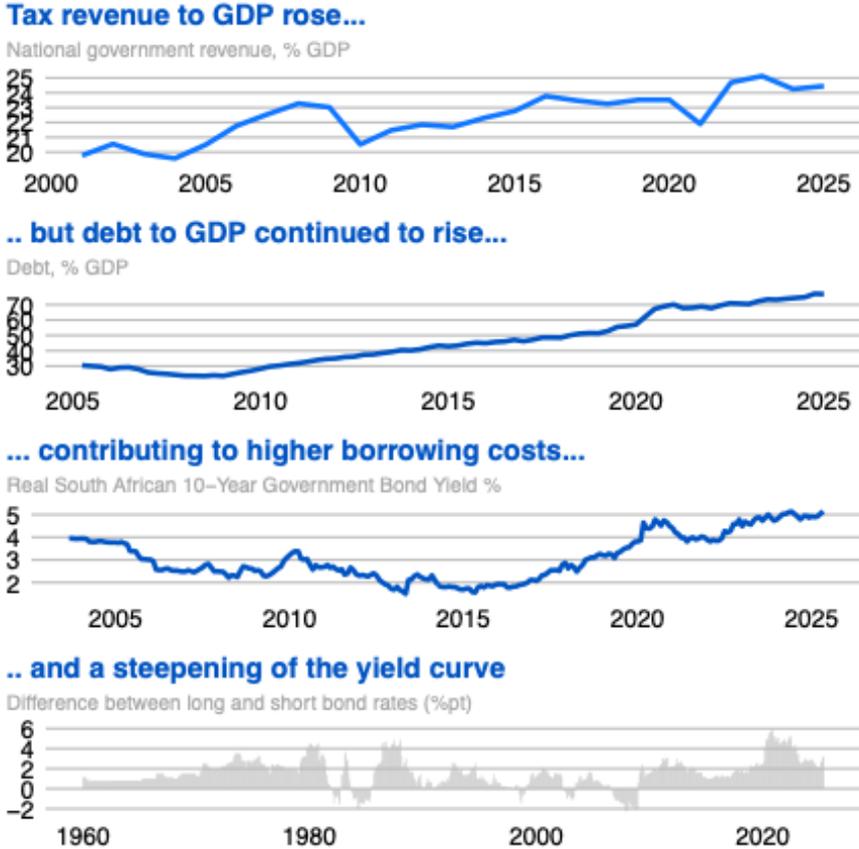
highest public wage bills in emerging markets. In 2021, the World Bank warned that “South Africa’s fiscal space has been eroded by elevated compensation costs,” with public sector wages rising faster than productivity or private sector wages. The outcome was a crowding out of capital spending, a deterioration in public debt dynamics, and limited returns in terms of service delivery or growth-enhancing outcomes.

Debt levels rose from 26% of GDP in 2008 to over 60% by 2019. This was accompanied by a deterioration in the fiscal balance, which went from a surplus of 1.5% of GDP in 2008 to a deficit of over 6% by 2019.

Faced with a significant increase in spending, the government introduced a nominal expenditure ceiling in an attempt to get spending under control. This was largely unsuccessful (Havemann & Hollander 2024). The debt-to-GDP ratio rose inexorably from 2008. The significant fiscal shock of COVID accelerated the climb, with the ratio touching 70% by 2022.

The rapid increase in the debt ratio contributed to rising real interest rates on government debt. This contributed to a significant rise in economy-wide borrowing rates. Unsurprisingly, investment slowed and real investment stalled from 2010 onward.

Figure 16: Fiscal policy (2)



Fiscal policy included increasing tax rates, which did nothing to slow the accumulation of debt. Borrowing costs rose from 2010 onward and the yield curve steepened

Tax policy was (and continues to be) a drag on growth

Tax policy also harmed growth. As is demonstrated in Figure 16, national government revenue as a share of GDP rose from a post-crisis low of around 20.5% to nearly 24% by 2016. These tax increases were achieved by raising the tax burden. The value-added tax rate was increased from 14% to 15%, a new top rate for personal income was introduced for high-income earners, and in successive years, inflation adjustments were not implemented for personal income tax.

The increase in the tax burden harmed growth, with [Loewald et al. \(2020\)](#) noting that “it seems hard to avoid the conclusion that the emphasis on tax increases after 2016/17 had a significant contractionary impact on the economy”.

In short, fiscal policy became anti-growth. Spending was directed towards non-productive sectors and was financed by increasing the tax burden. The latter impact proved to further drag down a weak economy.

Monetary policy could not support the economy

The rapid fiscal deterioration arguably led to a tightening of monetary policy. To quote [Loewald et al. \(2020\)](#):

Considering fiscal and monetary policies together, it is hard to avoid the conclusion that between 2016 and 2019, policies were working at cross-purposes. Fiscal policy ran bigger deficits despite falling fiscal multipliers, directly driving up government debt levels and the country risk premium. This, in turn, increased estimates of the neutral real interest rate – calculated as a function of the sovereign risk premium and a global rate – and put upward pressure on policy rates.

We can look at two measures of monetary policy: monetary r-star and the real policy rate.

Monetary r-star is the real short-term interest rate that prevails when the economy is operating at its potential growth rate with inflation at target (i.e. when all is in equilibrium), and monetary policy neither expansionary nor contractionary.

[Kuhn et al. \(2019\)](#) provide an estimate of the monetary policy stance using the r-star framework. They conclude that “only for a brief period in 2009, policy tightened to the extent that it exceeded r-star. From 2010 onwards, the global financial crisis required accommodative monetary policy, and our estimate suggests that over much of 2011 to 2014, policy was at its most accommodative since inflation targeting was introduced. The tightening cycle that commenced in early 2014 moved the real rate towards a neutral position by early 2017”.

A more straightforward way of looking at this issue is through the lens of the real policy rate, i.e. the repo rate adjusted for inflation. Higher real rates were, as [Loewald et al. \(2020\)](#) highlight, counteracting the inflationary consequences of the country’s fiscal stance.

Figure 17: Real repo rate has risen while inflation expectations have fallen



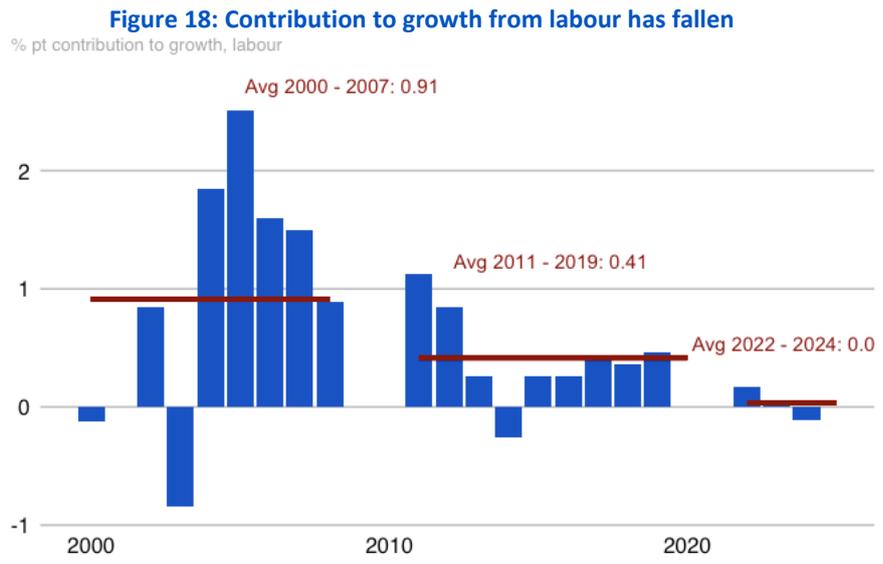
With the exception of the COVID emergency measures, the real repo rate has been on an upward trend from 2015 onward, possibly to counteract inflationary pressures from the fiscal expansion.

Labour force growth

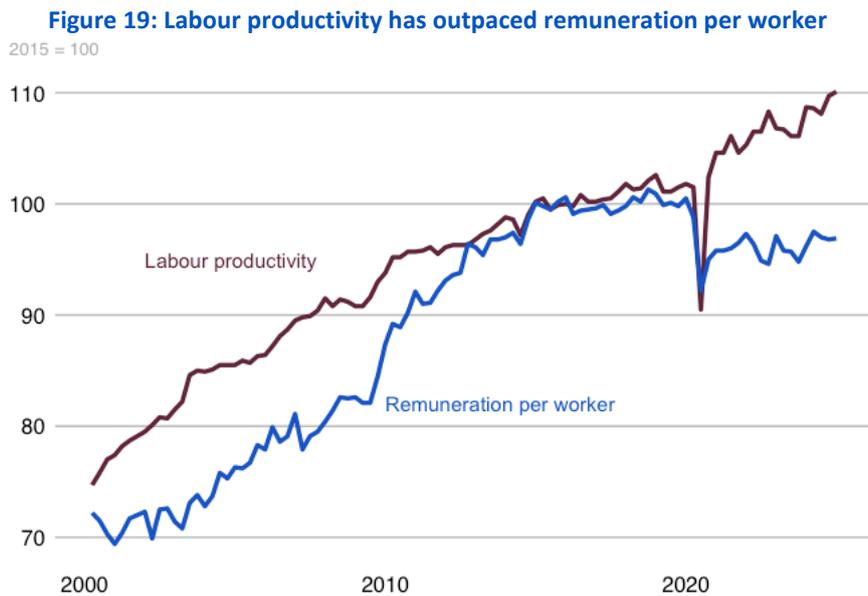
Concerningly for a country with high levels of unemployment, the contribution of labour to growth has shrunk. There is evidence of a skills mismatch, with businesses highlighting skills constraints as a drag on growth even as there is an overall labour surplus.

South Africa's persistently high unemployment rate remains one of the country's most pressing economic and social challenges.⁹ As of 2024, the official unemployment rate (narrow definition) hovered above 32%, with the expanded definition — which counts discouraged jobseekers as the unemployed — exceeding 41%. Youth unemployment is particularly severe, often surpassing 60% in some estimates. Structural factors underpin this crisis, including low labour demand in key sectors, skills mismatches, rigidities in wage-setting, and spatial barriers inherited from apartheid urban planning. The economy has struggled to generate sufficient jobs, particularly in the formal sector, despite periods of GDP growth. Employment growth has been uneven, and South Africa has a very low employment-to-population ratio relative to peer countries.

⁹ To ensure consistency with the remainder of the analysis here, this paper uses the *Quarterly Employment Statistics* data reported on S-143 of the Quarterly Bulletin. Structural breaks in the data (for example, due to sampling and methodological changes) are adjusted for in this data. That said, the data should be treated with care. For a fuller discussion see [Kerr & Wittenberg \(2019\)](#).



Labour market policy has made absorbing labour difficult. Moreover, education policy is arguably also not growth enhancing. Courtney (2025) discusses a number of concerns with current education outcomes and how they are proving to be a drag on economic growth.



At the same time, demographic trends are shifting. South Africa’s population growth rate, which historically supported a rising working-age population, is beginning to slow. According to Stats SA and UN projections, the annual population growth rate declined from around 2.4% in the early 2000s to under 1.3% by 2024, partly due to falling fertility rates and a plateauing youth bulge. Over the coming decades, South Africa will gradually move toward a more mature demographic profile, reducing the pace of growth of the labour force. That said, strong immigration from the rest of Africa may counteract this.

This demographic transition has direct implications for potential growth. In the traditional growth accounting framework used above, potential output is driven by growth in labour, capital, and total factor productivity (TFP). A slower-growing population, and especially a slower-growing

working-age population, translates into weaker potential labour input unless offset by rising labour-force participation or improved labour productivity. If unemployment remains high, and participation low, the economy will fail to harness even the limited demographic dividend that remains.

However, lower population growth may also ease certain pressures. For example, it may reduce the burden on education systems, infrastructure, and service delivery, potentially allowing for greater per capita investments in human capital. But such benefits are contingent on policy reforms that address labour-market inefficiencies and raise productivity growth. In the absence of structural transformation, a declining population growth rate risks compounding South Africa's low-growth trap by narrowing the scope for employment-led expansions and exacerbating the already weak linkage between growth and job creation. Moreover, the costs of an aging population will create additional fiscal pressure.

How to restore growth

Raising the investment rate is key to growth. Returning to the pro-growth policies of the immediate post-1994 period would restore growth and reverse the decline of the last decade. Cutting red tape would boost investment. Completing the restructuring of state-owned enterprises would lift productivity. Sound macroeconomic policy, with explicit, credible and coordinated fiscal and monetary targets, would provide overall policy space.

Pre-COVID, a rapid productivity slowdown emerges as the key driver of South Africa's growth collapse. Resources were diverted to two unproductive activities: a multi-billion rand expansion of the capital stock in electricity without adding any (immediate) electricity generation capacity; and a significant increase in government spending, which went mainly towards government wages. Together, these diverted resources away from productive infrastructure investment.

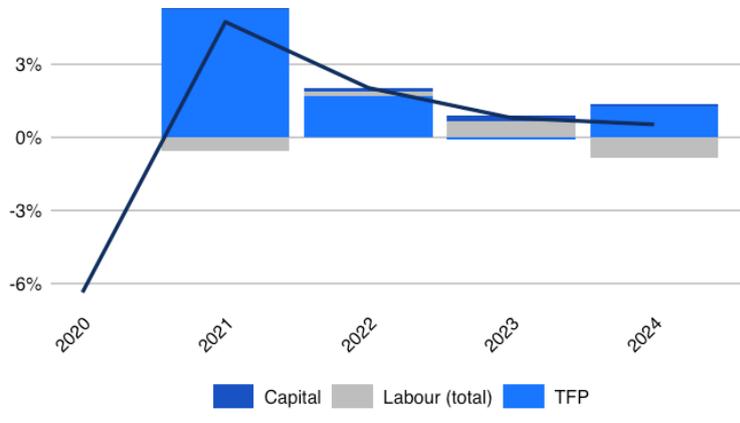
After COVID, investment failed to recover, which explains the weak overall recovery. Figure 20 shows a simple Solow decomposition for the post-COVID period. The most notable findings are that:

- The immediate rebound (in 2021) came from a jump in total factor productivity. This is unsurprising: as the COVID lockdowns were lifted, the economy experienced a once-off productivity boost.
- There were some further productivity gains in 2022 as the economy returned to normal.
- In 2023 and 2024, there was almost no capital stock growth, reflecting a complete absence of investment. The analysis above highlighted that the peak of load-shedding was in 2023, and this corresponded with a severe fall in business and consumer confidence. However, during 2024, investment growth turned negative.

Figure 20: Where has investment gone?

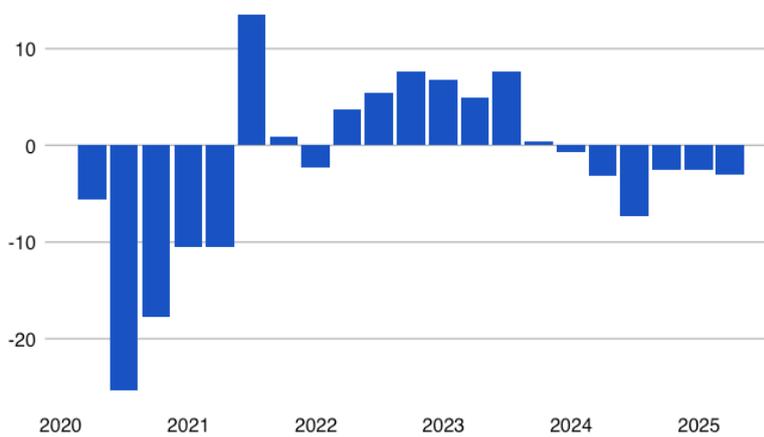
Post COVID there has been nearly no capital stock growth

Simple Solow Decomposition, 2020 - 2024



... reflecting negative investment growth since 2024

Investment growth, y-o-y, saar

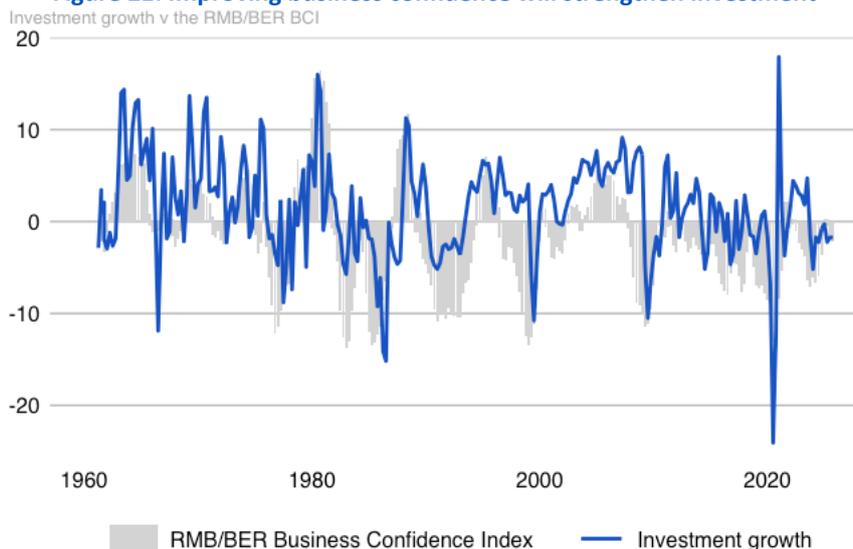


There has been nearly no capital stock growth since 2020. This has kept South Africa's potential growth rate exceptionally weak

IN SHORT, A MORE INVESTMENT-FRIENDLY BUSINESS ENVIRONMENT IS NEEDED

Weak business confidence is likely a large part of the weak investment growth story. The RMB/BER Business Confidence Index (BCI) slipped further by one point to 39 following a five-point decline in the second quarter of 2025. This is three points below the long-term average level of 42, and implies that just over 60% of respondents are dissatisfied with prevailing business conditions. The underlying results point to an economy that is muddling through, with many activity and demand indicators in line with 20-year average levels.

Figure 21: Improving business confidence will strengthen investment



Over the very long run there is a correlation between business confidence and investment

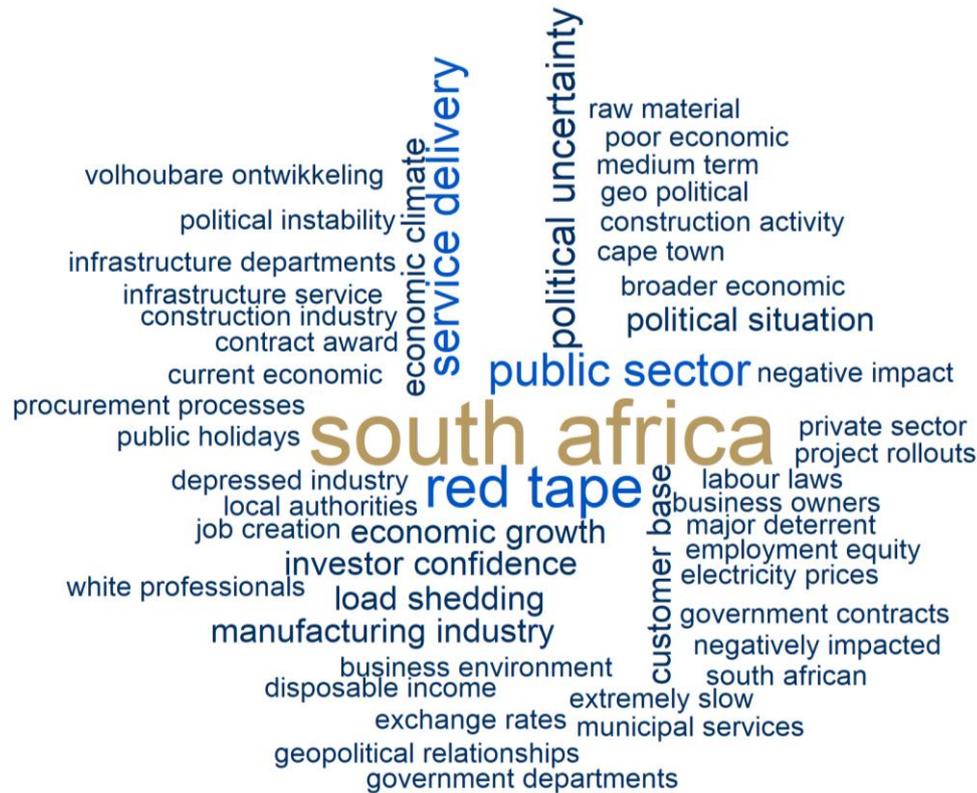
An analysis of the comments that underpin the most recent third-quarter BCI survey highlights businesses' concerns about "red-tape", "service delivery", the "public sector" and "political uncertainty".

Investment requires confidence about the future. In South Africa, business confidence and political certainty are two closely interlinked variables that can be harnessed to support growth.

The immediate focus should be on fundamentally restructuring state-owned enterprises. There are moves in this direction, but this has been slow. Eskom still remains unbundled. Unbundling and focus on a transmission build programme will improve investment. Transnet is making some progress at improvement but confidence still lacks.

Strengthening the macroeconomic policy framework would support improved business and political certainty. The strong growth of the early 2000s followed deep fiscal and monetary reforms that were largely successful. Under former finance minister Trevor Manuel, SA's debt ratio was more than halved in 13 years from 50.4% in 1995 to 23.9% in 2008. Initially this was achieved through expenditure restraint and later through strong revenue growth reflecting the buoyant economy. In tandem, the SARB's successful pursuit of its inflation target after 2000, anchored inflation expectations and helped to lower the entire structure of South Africa's interest rates. The upshot was the strongest private sector fixed investment upswing (relative to total fixed investment) in the country's history.

Figure 22: What do businesses say they worry about?



The BER surveys give respondents space to comment on what concerns them. Red tape, service delivery, political uncertainty and the public sector jump out

A long and painful fiscal consolidation has finally delivered a primary surplus but certainty about the fiscal path is still needed. While this surplus is still not large enough to stabilise the debt ratio, it is trending (slowly) in the right direction. A better articulated, clearer fiscal strategy that is predicated on reducing government consumption spending to more sustainable levels is critical. This will support a reduction in long-term interest rates through a reduction in credit risk. This will not only improve the fiscal situation but will also support investment due to lower interest rates.

Inflation-rate targeting has served South Africa well as a monetary anchor. Low levels of long-term inflation lead to lower nominal interest rates. Managing a shift to a structurally lower inflation rate would complement a more rules-based fiscal policy. This would strengthen fiscal-monetary coordination – one of the fundamental building blocks of economic policy and macroeconomic stability.

In a country with high unemployment, a strong, well-functioning labour market is key. Labour productivity is crucial, which means improving the education system and supporting the shift to labour-absorbing sectors.

HOW FAST COULD THE ECONOMY GROW?

Could potential growth rise again? Is it possible that South Africa’s potential growth rate could climb from close to zero now to the post-GFC level of around 2%? Or even the rate seen in the golden period of 1994 to 2007, when potential growth exceeded 4%?

Overall economic growth is sensitive to the assumptions made on investment. The BER undertakes scenario modelling (available to Premium Insights clients). Overall, the growth outturn is largely a consequence of the speed at which the investment rate can rise. Economic growth responds positively. Modelling of a “positive reform scenario” leads to an increase in investment growth by around 2% points a year which lifts GDP growth towards the 2% a mark.

Where could increased investment come from?

Capital stock growth in the two reform sectors – electricity and transport – has been weak. Capital stock in electricity has only expanded by 0.7%, and in transport has shrunk by 0.6%.

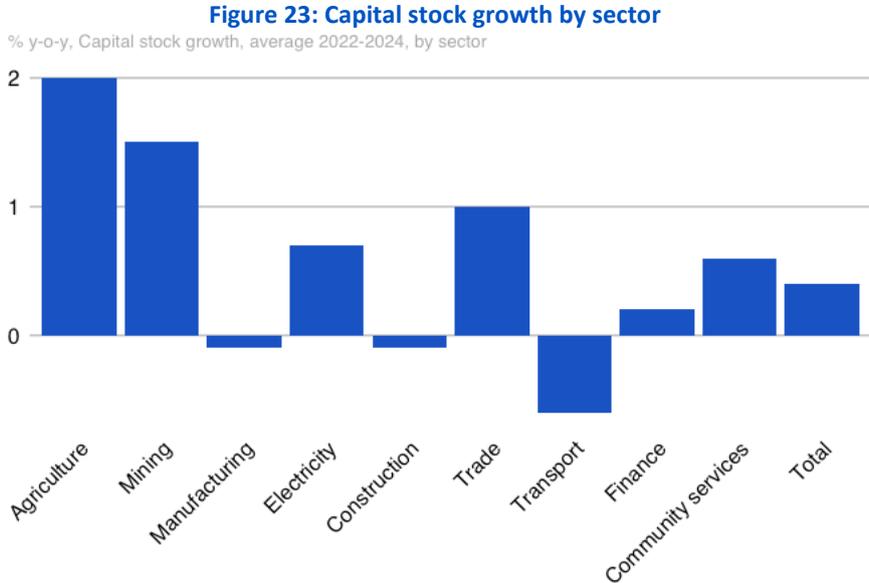


Table 1: Levers to raise investment

Area of reform	What we model	Assumptions: next five years
Electricity	Improvement in EAF Investment in grid and new power generation Lower electricity prices	EAF 2029: 80% Investment of R2tr (10 yrs) New electricity 25% cheaper than Eskom tariffs
Ports and Rail	Increased capacity on rail & ports Reduced costs Preservation of jobs and new jobs	Rail capacity rises by 60 mt, with linked Port capacity Rail investment of R200bn
Water	Investment in water infrastructure	Investment of R100 bn
Governance and other	Local government, greylist removal, visas etc.	Investment restored Business confidence

Source: BER "Turning the 3% growth fairy tale into reality", published 5 December 2024

A durable improvement in electricity performance needs the electricity reforms to continue. This includes a proper unbundling of Eskom and a viable business model and balance sheet for the National Transmission Company of South Africa to ensure that new transmission grid is constructed at scale.

Ports and rail investment could easily add R100 to R200 billion in new investment. In FY2024, Transnet carried 151.7 million tonnes of capacity. Using the data from SAAFF on how our port system could be transformed by concessions, we estimated that an additional 60 million tonnes could be added to capacity within only a few years. This will boost both export capacity and investment.

Water reforms will crowd in private sector investment. The South African National Water Resources Infrastructure Agency SOC Limited will be key in creating a bankable entity that can deliver bulk water. But bulk water is not the major constraint over time; rather, it is whether there is delivery at a municipal level. Here, strengthening local government capacity and capabilities is vital, including introducing private sector participation models.¹⁰

¹⁰ The BER undertook two case studies of municipal PPPs. A summary of the study is available at www.ber.ac.za/growth

Conclusion

The growth accounting exercise shows that weak investment growth is the reason for weak economic growth. Reform can restore investment growth but needs to be accelerated.

In 2024, the BER put forward an extensive “what-if” scenario of accelerated reforms and increased investment.¹¹ While our view has been tempered by a difficult start to 2025 (both internationally and domestically), we remain of the view that accelerated investment on the back of a strong reform push could see potential growth creep over 2%. Growth could possibly rise towards 3% within five years. That said reform progress remains very slow.

Critically, reforms will need to happen to unlock growth. The first Business Leadership South Africa Reform Tracker finds that 26 reform deliverables have been marked as “100% complete” out of about 240 that the research team tracked for the past 18 months.

Steps in the right direction have been taken in all the major areas. The most significant positive announcements include:

- Steps toward an independent power transmission programme, including a credit guarantee vehicle. While the delays with Eskom unbundling remain a hurdle for independent transmission, this is a step forward.
- Concessions of rail, with 11 successful private sector bidders announced.
- Positive steps on the water concessions model and important lessons learnt from existing water PPPs.

Despite the stark deterioration in the economy in the state-capture decade after 2010, its continued downward slide is not inevitable. The rapid growth South Africa achieved in the preceding years suggests that it *is* capable of growing faster, provided the right conditions are in place. Our base case is still to expect sub-2% growth for the next two to three years, but upside risks remain. Granted, the pace of change is too slow, business has become disconsolate, and the economy is just muddling through. But a stronger reform push, coupled with greater political and policy certainty, and improved fiscal and monetary policy co-ordination, could unlock a virtuous cycle of investment, business confidence and growth. We’ve done it before against much greater odds; there is no reason why we cannot do it again.

But downside risks remain. The pace of reform has been very slow, and while some milestones have reached, there has not yet been a durable increase in growth. The slow deterioration in per capita income plus rising unemployment pose long-term risks.

In short, the reform programme must accelerate.

¹¹ Available online at www.ber.ac.za/growth

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