REFORM BAROMETER | 2026Q2

Reforms slowly bearing fruit – implementation is the challenge

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South Africa's real GDP expanded for the sixth consecutive quarter in 2026Q1. This is the longest expansion since 2017/18, partly because structural reforms are finally bearing fruit. But growth is still slow. After expanding last year, investment spending contracted again. The global environment is also very complicated. These factors make maintaining reform momentum urgent.

South Africa's growth recovery continues to make gradual but uneven progress. **Growth of 0.5% q-o-q was recorded in 2026Q1**, the sixth straight quarter of expansion. While important gains have been recorded in electricity reform, digital public infrastructure and elements of logistics modernisation, several reform areas remain constrained by weak institutional capacity, poor coordination, infrastructure deterioration and slow implementation at municipal and administrative levels.

Private sector participation helps with reforms. A recurring pattern is that reform momentum tends to pick up when implementation frameworks are commercially structured, operationally measurable and supported by institutional partnerships. Conversely, reforms that depend heavily on municipal capacity, intergovernmental coordination or large-scale public-sector execution continue to progress more slowly.

A number of areas are showing promise. Electricity reforms continue to support improved generation performance and rising private investment in renewable energy, while digital public infrastructure reforms have accelerated through the expansion of Smart ID partnerships and digital service platforms. Logistics reforms have also advanced through several port concession processes and the gradual rollout of open-access freight rail reforms. Importantly, the overall trajectory of reform remains positive relative to recent years. **Business confidence**, although weaker in the second quarter of 2026 amid rising global uncertainty, remains above recent lows.

About this barometer

The best barometer of South Africa's economic reform is the GDP growth rate. Every quarter, following the GDP release, the BER publishes a "Reform Barometer" that assesses the GDP data in the context of the Operation Vulindlela reform agenda. Our independent assessment of each area of reform is backed up with hard data (e.g. electricity availability, freight volumes, tourist arrivals etc.)

Summary of the BER reform barometer, ordered by growth impact

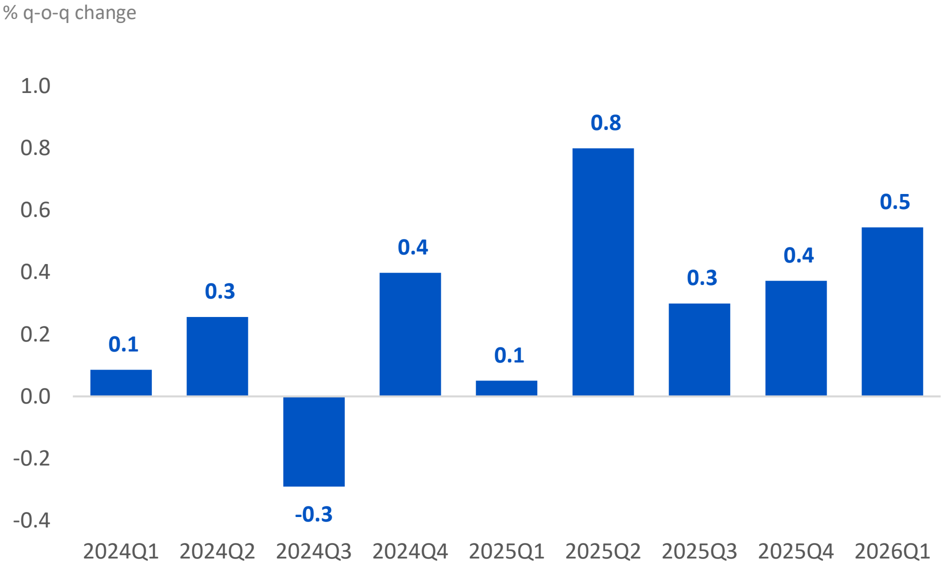
Source: BER Analysis

OVERALL GROWTH AND CONFIDENCE

Neutral to negative

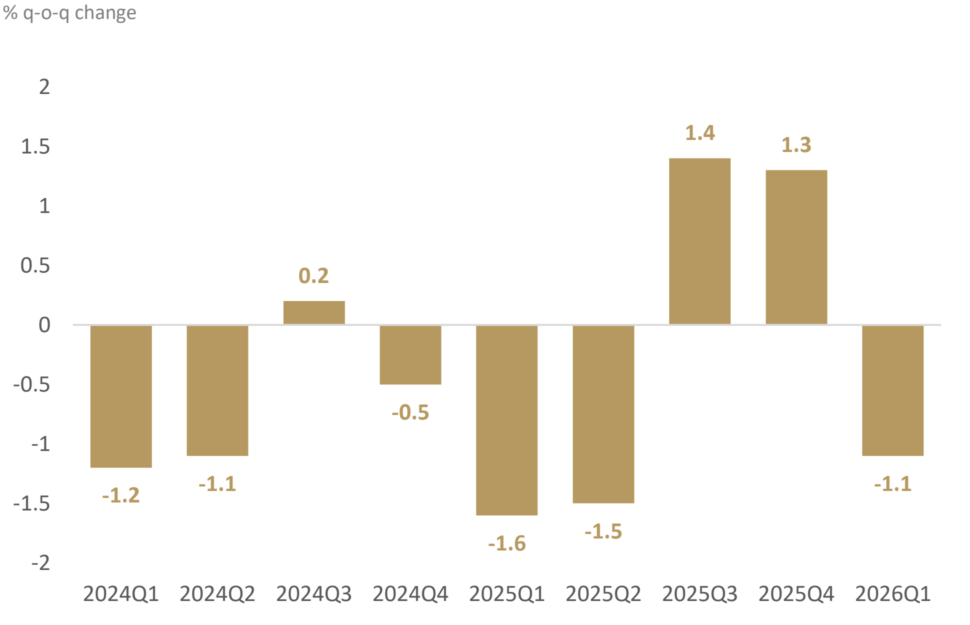
South Africa's economic recovery continues to be slow. Real GDP grew by 0.5% in 2026Q1. It was the sixth straight quarter of expansion, the longest expansion since 2017/18. While the headline is encouraging, the composition of growth is less so. Domestic demand contracted for the first time since 2024Q1, with negative investment growth. Gross domestic expenditure contracted by 0.3% q-o-q, indicating that the stronger GDP outcome was largely due to net exports.

Figure 1: Economic growth has expanded for six quarters albeit at a slow pace…



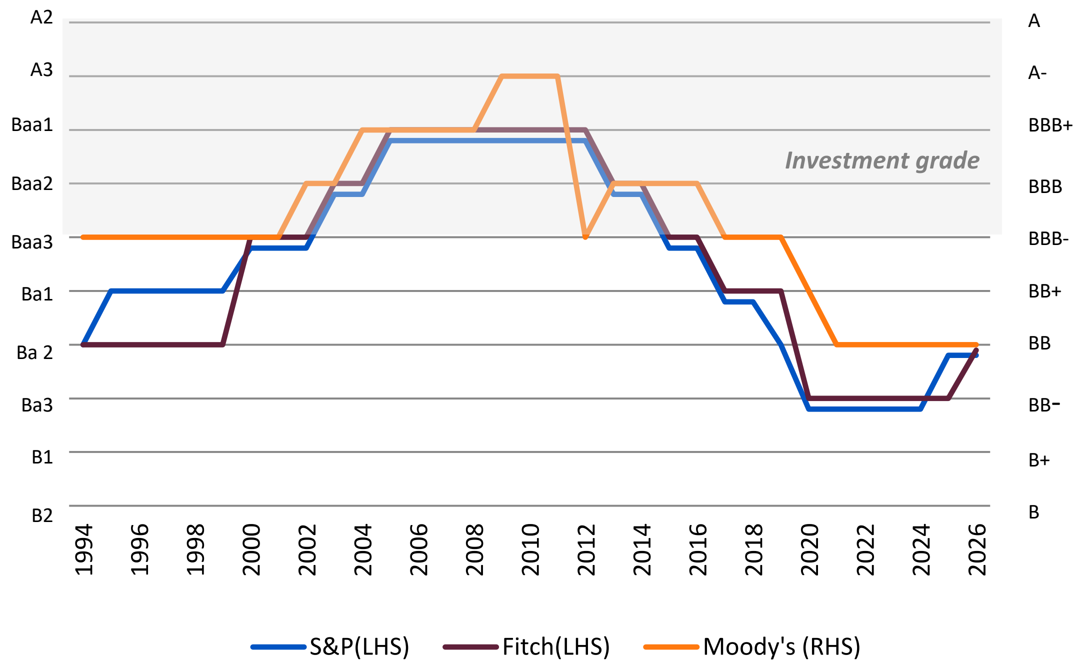
Source: Stats SA

Figure 2: … but investment growth turned negative again in 2026Q1



Source: Stats SA

Figure 3: S&P, Fitch and Moody's have made positive moves on South Africa's ratings



Source: Fitch Ratings, S&P Global Ratings, Moody's

Ratings have converged at two notches below investment grade with two agencies having a positive outlook. In June 2026, Fitch Ratings raised South Africa's Long-Term Issuer Default Ratings to 'BB' from 'BB-' and affirmed a Stable Outlook. The upgrade reflected a more prudent leaning fiscal policy, ongoing efforts to consolidate public finances, and a debt-to-GDP ratio that is lower than previously forecasted. This follows S&P Global Ratings, which raised South Africa's long-term sovereign rating one notch to 'BB' from 'BB-' in November 2025 with a positive outlook, the first major upgrade in more than 16 years. Moody's has held South Africa at Ba2 (equivalent to 'BB') but last month revised its outlook to positive from stable.

Business confidence weakened in the second quarter of 2026, reflecting growing caution among firms during rising global uncertainty and a deteriorating interest-rate outlook. The RMB/BER Business Confidence Index (BCI) fell by 8 points to 39 in 2026Q2, reversing gains recorded over the previous two quarters and slipping just below its long-term average of 40. However, it remains well above the recent low of 27 reached in 2023Q2. The decline in sentiment reflected a weaker global environment following escalating tensions in the Middle East, which have pushed oil and fuel prices higher and shifted expectations from further interest-rate cuts towards possible rate hikes.

#1 ELECTRICITY: RECORD RENEWABLE PIPELINE IN 2026, BUT TRANSMISSION BOTTLENECKS REMAIN THE BINDING CONSTRAINT

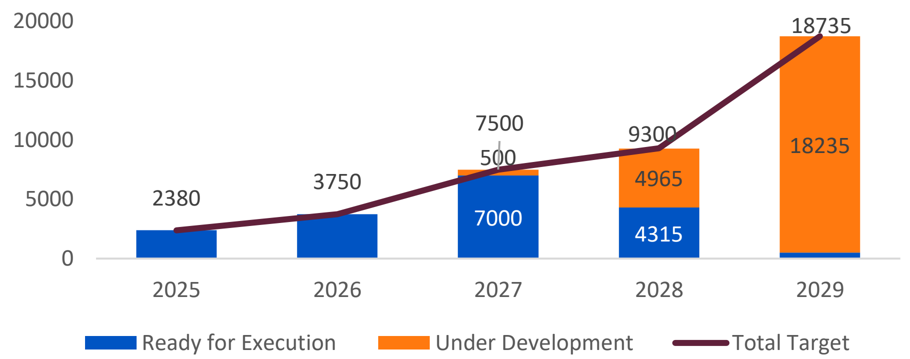
Positive

Eskom's improving fleet performance and the stabilisation of its credit ratings point to a gradual strengthening in operational and financial conditions within the electricity sector. Generation performance has improved materially, with the Energy Availability Factor (EAF) rising to around 65% in FY2026 from 55% in FY2025. This has contributed to over a year without national load-shedding and significantly lower diesel usage.

Reflecting these improvements, Moody's affirmed Eskom's B2/Ba2 credit ratings with a stable outlook, citing stronger liquidity, improved cash flow generation and ongoing government support. While the ratings remain below investment grade and continue to reflect concerns around municipal debt, ageing infrastructure and unbundling risks, the stable outlook suggests reduced near-term financial stress and growing confidence in Eskom's operational recovery trajectory.

Private renewable generation continues to grow, but insufficient transmission infrastructure remains one of the most binding medium-term constraints on reform. As several ageing coal-fired power stations will approach retirement from 2030 onwards, expanding renewable energy capacity and strengthening transmission infrastructure will be critical to maintaining energy security and enabling market competition.

Figure 4: Scaling up transformer capacity: Targets vs Readiness
('000 MVA)



Source: National Transmission Company of South Africa, Presentation on the Transmission Development Plan

Therefore, the Eskom Restructuring Task Team (ERTT) plays a pivotal role in the transmission success story. Its work focuses on establishing a fully independent Transmission System Operator (TSO), developing a clear phasing implementation plan to ensure grid stability, and overseeing market integration.

On the other hand, the South African Wholesale Electricity Market (SAWEM) is intended to enable competitive electricity trading among multiple market participants through the grid. The framework aims to reduce reliance on Eskom's vertically integrated monopoly model, expand wheeling arrangements and support the integration of renewable energy through more competitive market mechanisms.

In terms of renewable energy expansion, there has been continuous progress. In the fourth quarter of 2025/26 (January to March 2026), NERSA registered 112 new generation facilities, lifting cumulative installed capacity from 18 000 MW (2018–2025) to 19 327 MW as of March 2026.

Of the 112 registered facilities, 43 are connected to municipal distribution networks, with a combined capacity of 20 MW and an estimated investment cost of R396 million, while the remaining 69 are connected to Eskom, representing 1 307 MW and an estimated investment cost of R27.8 billion. The investment remains geographically concentrated, with the Northern Cape and Free State together accounting for most of the total capacity and investment, while the Western Cape and Gauteng lead in project numbers.

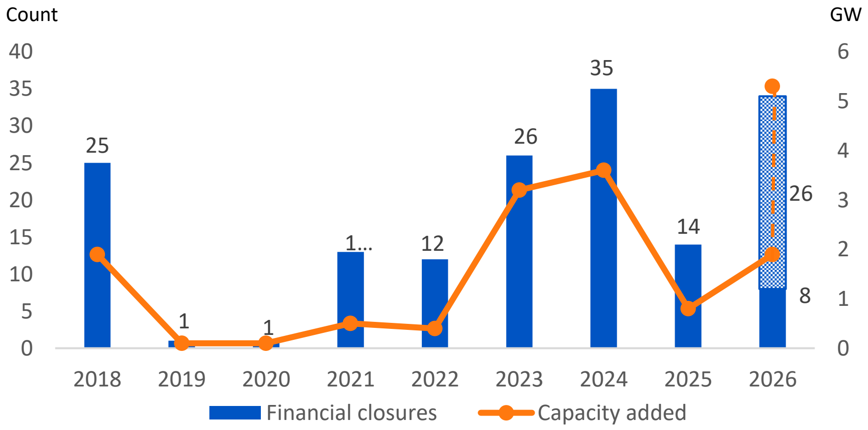
Table 1: Registered renewable energy projects by province

Province	Number of generation facilities	Capacity (MW)	Investment cost (R'm)	Cost per MW (R'm)
Western Cape	41	15	250	16.67
Gauteng	27	15.4	315	20.45
Limpopo	13	40	667	16.68
North West	9	122	2 652	21.74
KwaZulu-Natal	7	2	27	13.50
Free State	6	640	10 811	16.89
Eastern Cape	3	2	33	16.50
Northern Cape	4	490	13 456	27.46
Mpumalanga	2	0.6	9	15.00
Total	**112**	**1 327**	**28 220**	**21.2**

Source: NERSA

Additionally, recent data on financial closures and the renewable energy pipeline shows that 2026 is on track to set a record for renewable energy capacity closed. The renewable energy sector delivered eight confirmed financial closures in the year to 30 April 2026, representing 1 932 MW of new generation and storage capacity. With a further 26 projects totalling 3 320 MW in advanced development, the combined pipeline of roughly 5 252 MW is set to surpass 2024's tally of 3 562 MW even though the count of closures is expected to be marginally lower than in that year.

Figure 5: Record renewable capacity in 2026 despite fewer financial closures



Source: Power Futures Lab, IPP Knowledge Hub (April 2026)

#2 LOGISTICS: PORT CONCESSIONS ACCELERATE, BUT OPEN-ACCESS RAIL REFORM AND TRANSPARENCY GAPS REMAIN CONCERNS

Positive but slow

South Africa's logistics reform agenda continues to show gradual progress, supported by rising private-sector participation across key port and freight rail infrastructure. Concessions involving the Durban Gateway Terminal, the Cape Town Liquid Bulk Terminal, and the Durban Fresh Produce Terminal, as well as open-access freight rail reforms, signal a broader shift towards crowding private capital and operational expertise.

Operationally, Durban Gateway Terminal (DGT) / Pier 2 throughput increased by 6.6% year-on-year in the first quarter of 2026, reinforcing signs of stabilisation within container operations. However, since the transition from Durban Container Terminal to DGT operations, publicly available operational information has become increasingly limited, constraining transparent performance monitoring and evidence-based reform assessment.

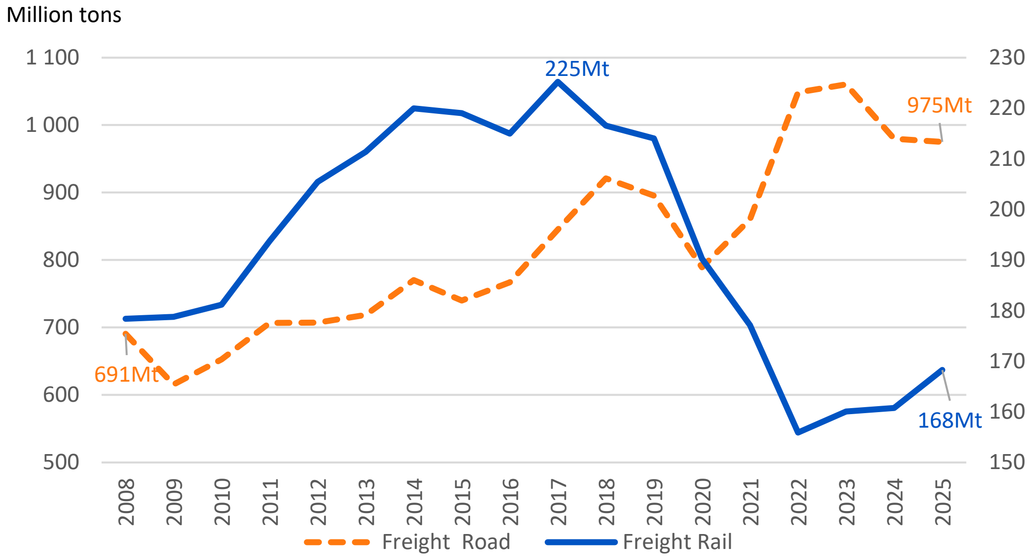
TNPA's 25-year LNG concession with Ukwanda at Ngqura has been positioned as a strategic energy-logistics investment, not merely a port operational development. The agreement positions Ngqura as the Eastern Cape's primary LNG import and regasification node, supporting longer-term supply optionality at a time when South Africa's liquid fuel system carries meaningful concentration risk (Durban alone handles 67% of liquid-bulk imports while 83% of total liquid bulk handled at SA ports since January 2025 has been imported). While the concession does not hedge near-term Middle East-linked exposure, it advances private capital mobilisation, port-linked industrialisation, and the broader repositioning of South African ports as integrated infrastructure platforms.

Despite this momentum, implementation remains uneven, and several strategic reform projects continue to face delays. While the Ngqura Manganese Export Terminal has been positioned as a flagship export infrastructure project, progress towards a fully operational concession has remained slow, with uncertainty about procurement and implementation.

Similarly, the broader rollout of open-access freight rail reform has progressed more slowly than initially anticipated. While third-party rail access has begun to move into implementation, important elements of the framework, including refinements to the Network Statement and concession structures, remain under development. Concerns also persist around procurement delays, concession design and the allocation of substantial operational risk to private participants while strategic network control remains concentrated within Transnet.

Logistics inefficiencies, particularly at the Port of Cape Town, are increasingly emerging as a major constraint on the competitiveness and expansion of South Africa's export-oriented agricultural sector. Discussions with the South African Table Grape Industry (SATI) highlighted how port delays during the 2025/26 export season forced exporters to redirect volumes through Eastern Cape ports at higher transport costs. The share of table grape exports shipped through Cape Town declined from 91% in the previous season to 76%, while volumes routed through Eastern Cape ports increased from 6% to 21%.

Figure 6: Road recovery vs rail decline



Sources: Stats SA

Box: Draft National Rail Master Plan 2050: The Biggest Reform Levers

Stacey-Lee Marais

The Draft National Rail Master Plan 2026, which aims to reshape South Africa's rail sector, is open for public comment until 22 July 2026. The Department of Transport (DoT) is holding stakeholder consultations nationwide. The plan, targeting 2050, proposes major infrastructure and service reforms, shifting from a Transnet and PRASA-focused system towards viewing rail as a vital national asset that boosts economic growth and social inclusion. DoT estimates investment of R1.9 trillion over 30 years. It seeks to address the decline in passenger journeys from 750 million in 1982 to 39 million in 2024, and freight transported from 226 million tonnes in 2017/18 to 150 million in 2022/23. Funding will rely heavily on private sector investment as government alone cannot finance it.

Transnet owns, safeguards, and operates South Africa's 23 540 km rail network, used by PRASA for passenger services. Currently, commuter trains and their schedules often disrupt freight lines, causing frequent issues. The department proposes fully separating passenger and freight networks to prevent overlaps. This move aims to boost freight competitiveness, handling 262 million tonnes, and reduce reliance on road transport. About 40% of the network has little socio-economic value. Rationalisation would focus investment on the 20% of lines that carry 80% of traffic, opening high-value mineral corridors to private sectors via concessions and models like build-operate-transfer, backed by mining clients. Key corridors include: coal from Ermelo to Richards Bay, handling 41% of freight, needing R10bn–R15bn for rehab; and iron ore from Sishen to Saldanha, handling 35% of freight, requiring R10bn for rehab.

The current schedule relies on commuter volumes during peak hours, with limited off-peak service. Off-peak times have more frequent trains and shorter waits. The DoT proposes a shift to an international standard, making service frequency fixed rather than volume-based, with consistent intervals between trains on metro corridors. Stations will be redeveloped as transit-oriented development (TOD) hubs, drawing businesses to high-foot traffic areas along travel corridors.

The DoT aims to optimise the network by 2050. While the proposals are promising, two major issues hinder progress: safety concerns for passengers, staff, and infrastructure; and institutional chaos caused by poor coordination between Transnet and the Department of Transport. The draft master plan hints at these problems, but should be addressing them openly.

Table 2: Ports and freight rail PPP / PSP Project Tracker

PORTS

Durban Gateway Terminal (Pier 2) concession — Operational

ICTSI took over operations in 2026. Targeted 40% capacity increase.

Investment: ~R11 billion

Cape Town Liquid Bulk Terminal concession — Implementation phase

FFS Tank Terminals is modernising its infrastructure and expanding its capacity.

Investment: ~R102 million

Durban Fresh Produce Terminal concession — Awarded

FPT Group secured a 20-year concession agreement, aimed at modernising terminal infrastructure and increasing throughput capacity to approximately 1.69 million tonnes per annum by 2028.

Investment: TBD

Maydon Wharf agricultural concessions — Awarded

Two Durban port concessions. KHOLD committed R250m; BAL SA and Africa Global Logistics committed ~R810m.

Investment: >R1 billion

Richards Bay Dry Bulk Terminal (RBDBT) PSP — RFQ / procurement

Launched in 2026. Capacity expansion from 16.7 Mtpa to ~26.9 Mtpa is targeted.

Investment: ~R5.2 billion (minimum)

Ngqura Manganese Export Corridor / Terminal — Planned

New bulk export terminal linked to upgraded Northern Cape rail. Expected 12-16 Mtpa export capacity. RFQ/RFP pending.

Investment: TBD

Ngqura LNG concession with Ukwanda — Awarded

An initial floating unit will supply gas before 2030, with the full terminal targeted to be fully operational by 2035

Investment: ~R22 billion

RAIL

Container Corridor PSP (Durban-Johannesburg) — Planned

Proposed 25-year concession to improve performance on South Africa's primary container corridor.

Investment: TBD

Open-access freight rail reform — Implementation phase

11 private train operating companies approved across coal, manganese, fuel, container and general freight corridors.

Investment: TBD

Transnet five-year infrastructure programme — Operational

Planned rail and port upgrades, including corridor upgrades, terminal modernisation and equipment renewal.

Investment: ~R127 billion

Sources: Transnet, TNPA, PRASA, Department of Transport, public announcements. Investment figures are indicative. TBD = not publicly disclosed.

#3 WATER: OVERSIGHT SYSTEMS STRENGTHEN, BUT WASTEWATER DETERIORATION AND HIGH NON-REVENUE WATER PERSIST

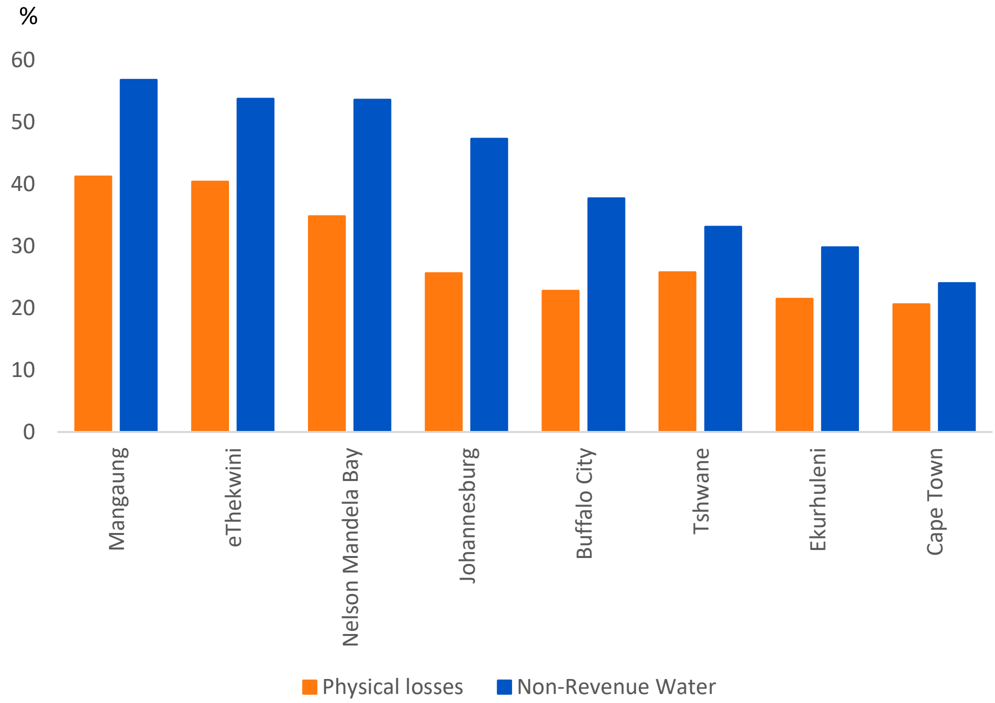
Slow Progress

The latest Blue, Green and No Drop Progress Assessment Reports (PAT) suggest that while oversight and reporting systems have improved, municipal water and wastewater performance remains under significant pressure. Blue Drop results indicate that the deterioration in drinking water quality observed between 2013 and 2023 has broadly stabilised, although overall risk levels remain elevated. Provincial performance has remained uneven, with the Northern Cape recording the highest average risk levels while the Western Cape has continued to perform relatively well.

The Green Drop findings point to further deterioration in wastewater management, with the share of systems classified as critical increasing from 39% in 2022 to 47% in 2025. At the same time, the No Drop assessments continue to highlight severe weaknesses in municipal water conservation and supply efficiency, particularly around high levels of non-revenue water (NRW), leaks and weak revenue collection.

While metros such as Cape Town and Ekurhuleni continue to perform comparatively better, municipalities including Johannesburg, eThekwini, Mangaung and Nelson Mandela Bay remain in a critical state across several indicators, reinforcing concerns around ageing infrastructure, weak maintenance capacity and growing financial strain within municipal water systems.

Figure 7: Metropolitan water balance performance



Source: 2026 Full Green Drop and Blue Drop and No Drop Progress Reports

Box: Johannesburg’s Water Crisis Shows Early Signs of Stabilisation, but Structural Risks Remain

Johannesburg’s water system showed some early signs of stabilisation in 2026 following greater coordination between national, provincial and local government. In February, Gauteng established an Intergovernmental Relations Water Operations Centre to improve coordination between municipalities, Rand Water and national departments during recurring outages linked to ageing infrastructure, leaks and maintenance backlogs. Interventions included accelerated leak repairs, pressure management, reservoir refurbishment and technical support measures, while additional water abstraction from the Integrated Vaal River System was authorised to support short-term supply stability.

Despite these interventions, major structural challenges remain. Non-revenue water remains critically high at nearly 47%, reflecting extensive leakage and billing inefficiencies, while the city faces an estimated R32.5 billion infrastructure maintenance backlog. Municipalities across Gauteng have also spent roughly R264 million on outsourced water tanker services over the past three years as supply disruptions have intensified. Although recent measures may have reduced immediate system risks, long-term water security remains far from resolved.

Encouragingly, the City has adopted the National Treasury’s metro trading services reforms, which ring-fence water and electricity revenues within their respective entities. Joburg Water is currently implementing dedicated bank account structures and cash flow protocols as part of this process.

#4 VISAS: TOURISM ARRIVALS UP 12.4%, BUT REPEATED VISA CONCESSION EXTENSIONS SIGNAL PERSISTENT ADMINISTRATIVE BACKLOG

Neutral

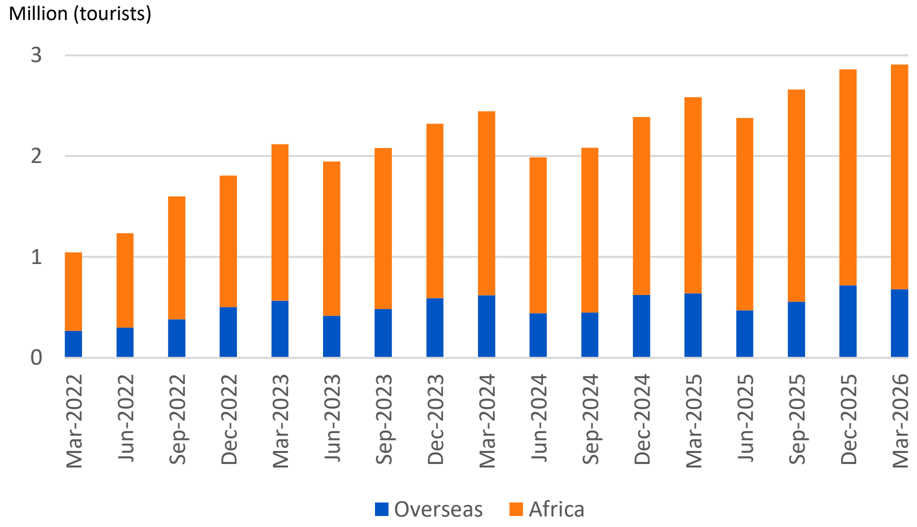
The Department of Home Affairs has shown progress and a clear direction in border modernisation and immigration reform. The Border Management Authority recently announced preferred bidders for a R12.5 billion public-private partnership aimed at rebuilding and modernising six of South Africa’s busiest land ports of entry (Beitbridge, Lebombo, Maseru Bridge, Kopfontein, Oshoek and Ficksburg) which collectively account for approximately 80% of border traffic.

The programme forms part of broader efforts to strengthen border security, improve trade facilitation and modernise immigration systems through biometric verification and digital processing platforms. Complementary reforms, including the Electronic Travel Authorisation (ETA) system and One-Stop Border Post framework, are also expected to improve tourism facilitation, reduce processing inefficiencies and support economic activity linked to trade and travel.

However, South Africa’s immigration concession regime remains firmly in place, with Directive 7 of 2026, issued on 27 March, marking the fourth consecutive extension of temporary visa concessions since mid-2024. The repeated extensions - from the July 2024 directive, followed by Directive 4 of 2025, Directive 22 of 2025 and now Directive 7 of 2026 which remains valid until June 2027 - highlight persistent administrative and processing constraints within the Department of Home Affairs. Rather than signalling policy certainty, the continued rollovers point to ongoing implementation gaps, unresolved appeal backlogs and the absence of a durable long-term administrative solution. Limited public reporting on the volume of outstanding applications and appeals also continues to constrain transparency and makes it difficult to accurately assess processing performance or track reform progress over time.

2026Q1 showed continued tourism momentum, with year-on-year growth of approximately 12.4% in total arrivals, largely driven by strong gains from African markets. African arrivals increased by about 14.5%, while overseas tourists also recorded moderate growth of about 6.3%. This sustained growth follows a strong performance at the end of 2025, where December recorded elevated tourist volumes, indicating a continued recovery and expansion in tourism demand into early 2026.

Figure 8: International tourism has been steadily increasing



Source: Stats SA

#5 LOCAL GOVERNMENT: METRO TRADING SERVICES REFORM LAUNCHED, BUT FINANCIAL MISMANAGEMENT AND MISCONDUCT REMAINS ELEVATED

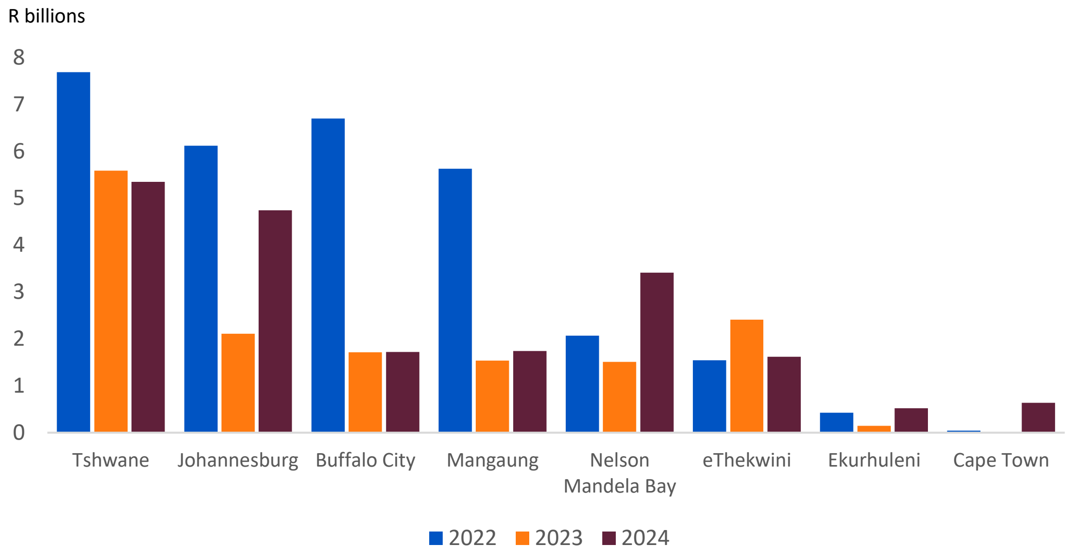
Neutral

The National Treasury has launched the Metro Trading Services Reform initiative to strengthen municipal service delivery and improve the financial sustainability of South Africa's eight metropolitan municipalities. A central feature of the reform is the ring-fencing of revenue collected from water, waste and electricity services, ensuring that these funds are reinvested directly into infrastructure maintenance and upgrades rather than absorbed into broader municipal budgets. The reform also introduces a single management accountability structure for each trading service to strengthen oversight, operational performance and financial management.

The reform is further supported by performance-linked incentives aimed at accelerating infrastructure investment and improving implementation capacity across metros. Government aims to unlock approximately R100 billion in infrastructure investment through a R54 billion performance-linked incentive framework, with R27.7 billion already allocated over the medium term on a voluntary participation basis. Importantly, where municipalities are unable to spend allocated funds effectively, institutions such as the Development Bank of Southern Africa (DBSA) or the Municipal Infrastructure Support Agent (MISA) will intervene to ensure infrastructure spending still takes place for the benefit of residents.

This comes against the backdrop of persistent weaknesses in municipal financial governance that will continue to pose significant risks to the success of local government reforms. The latest Municipal Finance Management Act (MFMA) compliance findings show that unauthorised, irregular, fruitless and wasteful expenditure (UIFWE) remains elevated across municipalities, with irregular expenditure continuing to account for the largest share of financial misconduct nationally. Although some metros, including Cape Town and Ekurhuleni, continue to report comparatively lower levels of UIFWE, National Treasury has warned that weak enforcement and limited accountability remain major constraints on municipal financial sustainability and on the implementation of municipal reform.

Figure 9: Unauthorised, irregular, fruitless and wasteful expenditure remains elevated in Tshwane and Johannesburg



Source: Municipal Finance Data

#6 SPATIAL INTEGRATION: JUNE 2026 DELIVERY MILESTONES APPROACH, BUT LAND RELEASE AND HOUSING PILOTS YET TO YIELD TANGIBLE OUTCOMES

Neutral

Much of the reform agenda remains in the development phase, with limited measurable outcomes to date. Key initiatives such as the launch of two housing policy pilots, the analysis of the title deeds backlog, and efforts to release public land and buildings for affordable housing are still underway and have yet to translate into tangible delivery on the ground.

Notably, the release of public land, identified as a critical intervention area, continues to lag despite its importance in addressing spatial inequality. However, many of these milestones are scheduled for completion by June 2026, indicating that the next phase will be crucial in determining whether planning efforts convert into real, scalable outcomes.

#7 DIGITAL PUBLIC INFRASTRUCTURE: SMART ID BANK PARTNERSHIPS AND MZANSIXCHANGE DRIVE CONTINUED MOMENTUM

Strongly positive

2025Q4 reflected continued momentum across South Africa's digital government infrastructure, particularly through the expansion of platforms such as Gov.za and the development of the MzansiXchange data ecosystem.

Notably, the Department of Home Affairs has taken a leading role in advancing the digital identity programme, with tangible progress in the rollout of Smart ID services. This includes the introduction of a new digital partnership model with banks, enabling fully digital, paperless Smart ID applications at participating branches and significantly improving access and efficiency.

These developments signal a broader shift towards decentralised, user-centric public services, reinforcing the state's push to modernise service delivery through interoperable systems and secure digital identity frameworks.

OUTLOOK AND KEY RISKS

The most recent positive GDP numbers reinforce that structural reform is slowly feeding through into economic growth, despite a significant weakening of the global environment. The pressure now moves from policy formulation to implementation. One of the key lessons from the reform programme is that strong private sector involvement can accelerate progress.

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