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Reform is moving. Why are we not (yet) seeing it in GDP growth?

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South Africa's economic recovery remains weak despite progress on structural reforms. Electricity availability has improved, and estimates of GDP *potential growth*[1] have risen from near zero to above 1%. Yet actual GDP growth remains weak and private fixed investment is still contracting. Why is it that reforms seem to have improved the economy's capacity to grow without immediately translating into faster growth? This note examines why the growth dividend has been modest, arguing that key reforms remain incomplete, private investment has yet to respond, and the oil price (and related inflation) shocks of 2026 have further weakened demand and confidence.

THE LONG, SLOW ECONOMIC RECOVERY

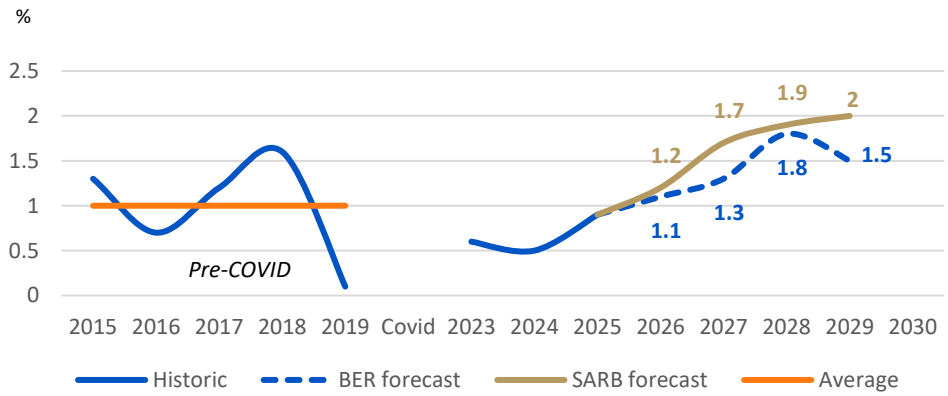
GDP growth remains modest, and the near-term risks are to the downside. GDP growth rose from 0.5% in 2024 to 0.9% in 2025. The Bureau for Economic Research (BER) expects it to increase to 1.1% in 2026 and reach around 1.8% by 2028 before dropping back slightly by 2029 (Figure 1). That would be only marginally above the 1% average for 2015-2019, suggesting a gradual recovery rather than a break from the stagnation of the previous decade.

The 2026 outlook has, however, weakened materially. In January of this year, the BER expected growth to approach 1.8% in 2026, supported by a more benign inflation outlook, significant interest-rate relief and an improving fiscal position. Instead, the war in Iran and subsequent rise in oil and refined-fuel prices produced a renewed inflation shock. Rather than cutting rates further, the South African Reserve Bank (SARB) ultimately resumed tightening. The policy rate was raised by 25 basis points in May and September, bringing it to 7.25% in September. At the same time, GDP contracted in the second quarter, while both business and consumer confidence weakened further in the third

[1] Potential growth is the rate at which an economy can sustainably expand over the medium term without causing excess inflation. It is a critical driver of development progress.

quarter. The combination of higher inflation, a tighter monetary policy environment and weaker domestic momentum has led the BER to revise its 2026 growth forecast down to 1.1%.

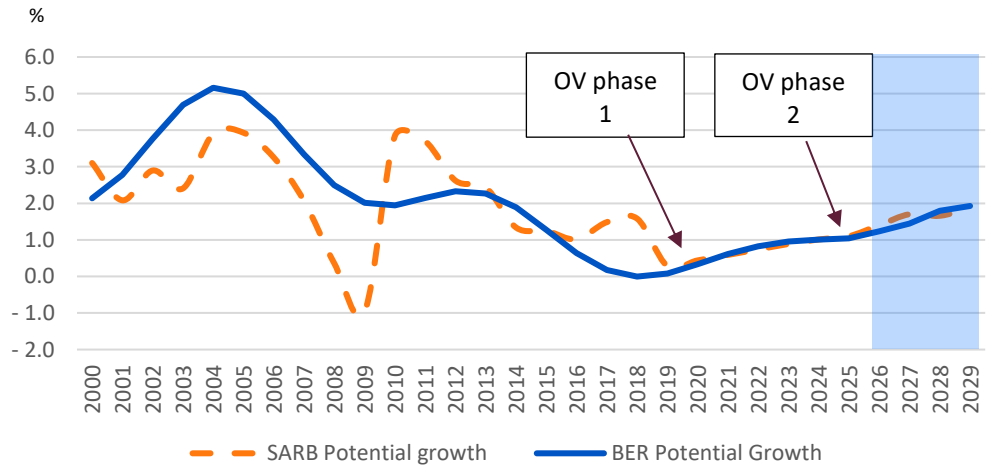
Figure 1: Real GDP growth set to recover only gradually over the next five years



Source: BER, SARB

Potential growth (defined in footnote 1), by contrast, has risen from around zero before the COVID-19 pandemic to above 1% this year. The SARB, OECD and BER estimate that it could reach 2% by 2029. This follows a prolonged decline from an average of 3% in 2000–07. Potential growth fell to -1.0% in 2009 following the global financial crisis. Although it rebounded to 3.8% in 2010, the recovery was short-lived, with potential growth slowing to 0.3% by 2019 due to worsening electricity shortages and weaker performance in freight rail and ports (Figure 2). The current recovery suggests that productive capacity is improving as some of these constraints ease. Even so, it remains well below the 3% or more needed to meaningfully create jobs and raise incomes[2].

Figure 2: Potential growth, 2000 to 2029



Source: BER, SARB[3]

[2] **https://www.presidency.gov.za/joint-government-business-partnership-statement**

[3] The SARB series is constructed from successive publications, usually the *Monetary Policy Review*. This means that it is a "real-time estimate". The BER series is constructed on a backwards-looking basis and thus can be interpreted as incorporating more information. The BER methodology is a hybrid of a statistical methodology and growth decomposition.

WHERE HAVE REFORMS MADE A DIFFERENCE?

Electricity is where reform has made the clearest difference. The end of persistent and nationwide load-shedding has removed a major constraint on economic activity. Two developments have contributed. First, Eskom's plant performance has improved (Figure 3a), and second, private generation has expanded following Operation Vulindlela (OV)-led reforms that opened electricity generation to private participation. These improvements have made the operating environment more predictable for businesses and catalysed investment, especially in renewable energy. OV's own contribution cannot, however, be fully separated from Eskom's operational recovery and private investment in generation.

Figure 3a: The EAF[4] has been improving since 2024

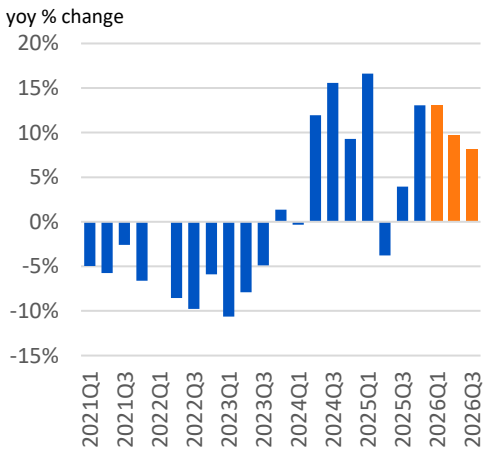
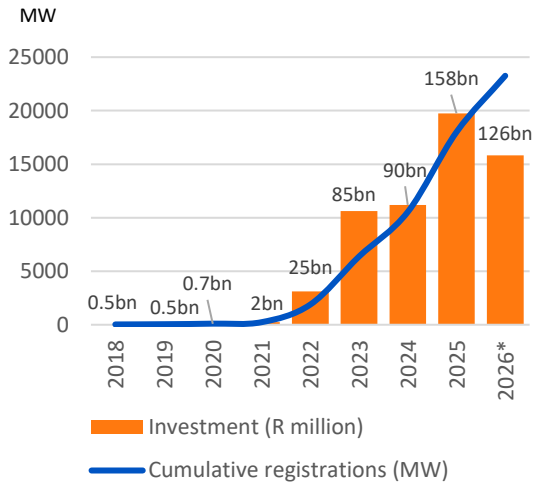


Figure 3b: Rapid increase in NERSA registrations and investment in private electricity generation

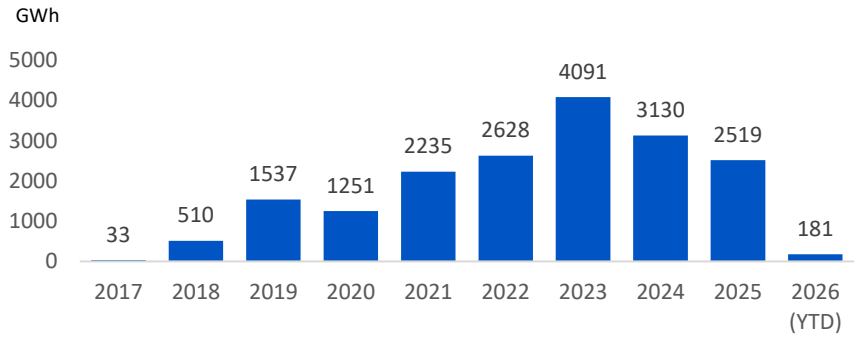


**January – September*
Source: Eskom, NERSA

Reliable electricity supply has also reduced the economy's exposure to the recent oil price shock. Before the improvements in the Eskom fleet, Eskom relied heavily on diesel-fired open-cycle gas turbines (OCGTs) to limit load-shedding. This made electricity a volatile source of diesel demand.[5] The power sector accounts for an estimated 3–10% of diesel demand in stable periods, but 20–30% during load-shedding, meaning that a diesel price spike would have fed directly into higher electricity costs or deeper power cuts. With load-shedding ended, this swing demand has fallen, so the impact of the current shock is likely to have been smaller than it would otherwise have been.

[4] The **Energy Availability Factor (EAF)** is the percentage of time that a power station or generation fleet is available to produce electricity at its rated capacity over a given period. It accounts for both planned maintenance and unplanned outages.
[5] **https://crescogroup.africa/diesel-south-africas-last-line-of-defence-for-energy-security-now-at-risk/**

Figure 4: Annual OCGT utilisation has decreased rapidly in 2026



Source: Medium Term System Adequacy Outlook 2027 to 2036

Reform progress in freight logistics is still in its early stages, but progressing. Specifically, the first concrete steps have been taken to open up rail and ports to private participation.

Durban's Pier 2 container terminal (South Africa's busiest container terminal, handling over 40% of the country's container traffic) has been operated by International Container Terminal Services (ICTSI) as Durban Gateway Terminal (DGT) since January 2026. It has, however, experienced a sharp deterioration in performance. Delays have worsened following the introduction of a new terminal operating system (Navis N4) in August[6], with vessels waiting up to 20 days to offload and truck turnaround times reaching 22 hours. The disruption is reflected in continued negative business sentiment in the October Absa Purchasing Managers' Index (PMI), particularly regarding port efficiency and governance in Durban (Figure 5). Transnet has recently introduced emergency measures, including additional berth capacity at Pier 1, vessel diversions to Ngqura and increased rail capacity. The Ports Authority has also reportedly given ICTSI three months to improve performance or risk losing its licence.

Figure 5: Selected Absa PMI comments show negative sentiment around Durban ports



Source: Respondent comments from October Absa PMI. Word size reflects how often a word appears; common filler words are removed, and variants are merged (e.g. ship, ships and shipment appear as "shipping").

[6] Cargo Movement Update 293 from Southern African Association of Freight Forwarders (SAAFF)

On rail, slots were allocated to 11 train operating companies (TOCs), opening the network to private operators for the first time. After years of deterioration in Transnet's operations, this is an important step towards increasing competition and capacity. Freight volumes declined from 226.3 million tonnes in 2017/18 to 149.5 million tonnes in 2022/23. Although volumes recovered to 167.9 million tonnes in 2025/26, infrastructure and operational constraints continue to shift freight onto road, increasing logistics costs. The GAIN Group[7] estimates that rail underperformance cost the economy R180.8 billion (2.5% of GDP) in 2025 and that 51% of the cost has been due to transport inefficiencies, highlighting the need for sustained investment in infrastructure, rolling stock and operational reliability.

Table 1: Economic cost of rail underperformance: lost bulk mineral exports and transport inefficiencies.

Year	Unachieved bulk mineral exports		Transport inefficiencies	
	Economy Cost (Rand billion)	% of total effect	Economy Cost (Rand billion)	% of total effect
2022	315.5	77%	95.2	23%
2023	219.9	70%	95.3	30%
2024	175.8	64%	98.9	36%
2025E	88.4	49%	92.4	51%

Source: ***State of Logistics 2026 for South Africa report***

WHY HASN'T INVESTMENT RESPONDED?

Delays matter because the growth payoff depends on completing the reforms, not just starting them. National Treasury acknowledges in the recent 2026 Medium Term Budget Policy Statement (MTBPS) that the more complex reforms are taking longer than planned. In the electricity sector, market reform is ushering in competition and private investment in generation, but delays in distribution reform limit the extent to which the benefits reach businesses and households. In freight, the restructuring of the rail infrastructure manager has been delayed and must be completed alongside the introduction of private participation. Until then, the network that private operators are forced to use remains inefficient, and exporters continue to bear the costs of unreliable services.

Beyond electricity and freight logistics, progress remains mixed. Visa and immigration reform and digital public infrastructure show positive momentum, while progress in water and sanitation, local government and spatial integration and housing continue to lag when it comes to implementation.

The broader lesson is that easing a constraint can raise the economy's capacity to grow, but it does not, by itself, necessarily generate new investment or output. For that, better sentiment (more confidence) about the economy's future is needed.

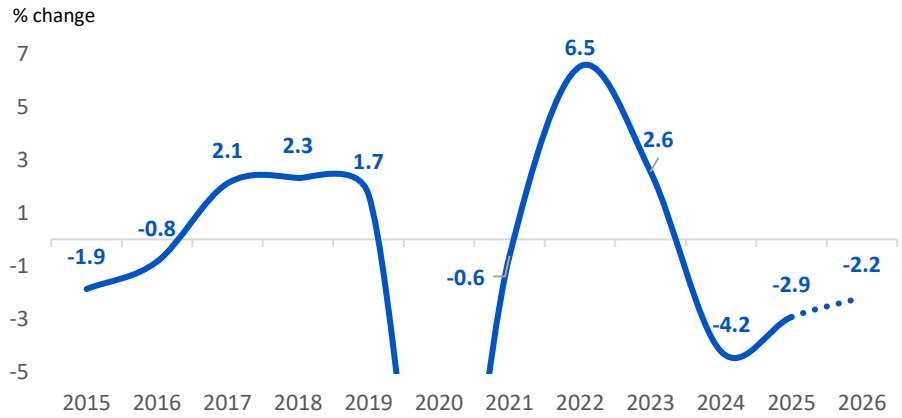
The uneven pace of reform is evident in the low level of private fixed investment. Private fixed investment contracted by 4.2% in 2024 and by 2.9% in 2025. The BER

[7] https://transportlogistics.absa.co.za/wp-content/uploads/2026/10/The-State-of-Logistics-2026-for-South-Africa_National-Report.pdf

expects it to decline by a further 2.2% in 2026 (Figure 6). The weakness in investment predates the recent oil price shock, suggesting that cyclical pressures alone cannot explain the subdued response.

The problem also extends beyond the constraints that OV directly addresses. South Africa's investment slowdown began before the recent reform push and reflected a prolonged decline in both public and private investment. BER business surveys continue to point to weak demand, policy uncertainty, infrastructure constraints and poor municipal service delivery as important reasons why firms postpone investment. Firms will not simply invest when infrastructure improves, but when they expect sufficient demand, predictable rules and returns that justify expanding capacity.

Figure 6: Private fixed investment



Source: SARB Quarterly Bulletin

There are, however, early signs that investment has responded in areas where reforms have made the most progress. Registered private electricity generation projects brought in a pipeline investment of R126 billion in 2026 (Figure 3b). Traxtion's Project Vector invested R3.4 billion to expand private freight capacity on the rail network[8]. Durban Container Terminal Pier 2's 25-year concession with International Container Terminal Services Inc. (mentioned earlier) is a billion-rand initiative designed to attract private capital and address operational bottlenecks[9].

These developments suggest that easing specific constraints can unlock investment. But the response has not yet extended across the wider economy because incomplete electricity distribution and freight rail reforms, weaknesses in water infrastructure and municipal governance, and uncertainty about the broader policy environment continues to hold back investment.

[8] https://traxtion.africa/traxtion-confirms-r3-4bn-rolling-stock-investment-to-unlock-rail-capacity-and-jobs/

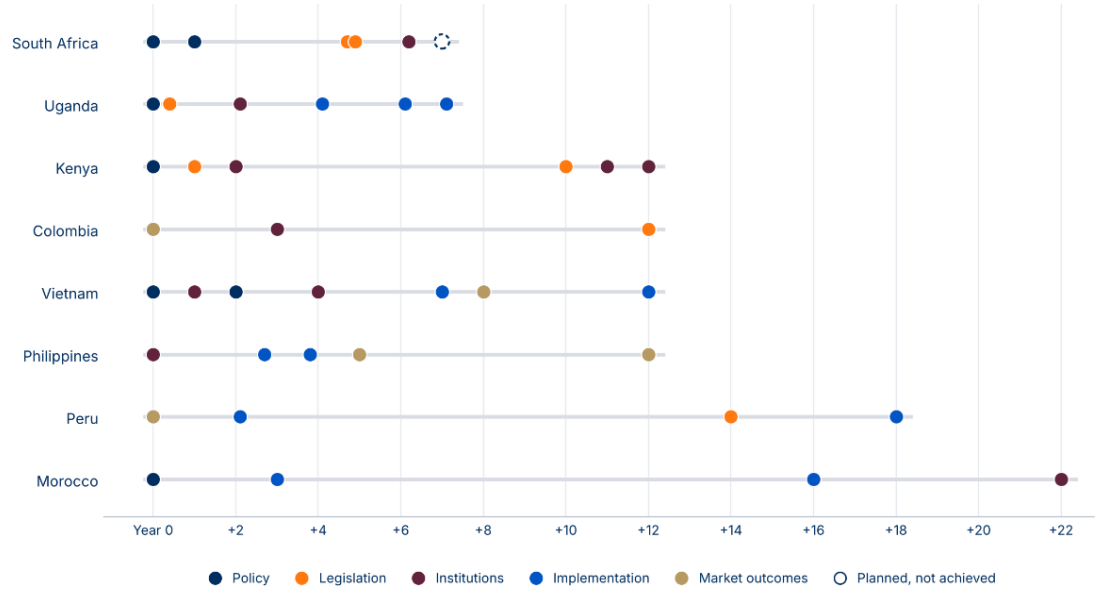
[9] https://www.transnet.net/getFile.ashx?id=6347

IS THE SLOW PACE NORMAL?

International evidence suggests that a slow payoff from reform is normal, but that its speed depends on design. IMF research finds that benefits can take at least three years to become significant, while comprehensive reform packages could raise output by 4% after two years and 8% after four years in developing economies with large structural gaps (IMF, 2023)[10]. However, success also depends on prioritising binding constraints, and combining and effectively sequencing complementary reforms.

South Africa has broadly kept pace with international comparators in establishing the legal foundations for reform (particularly for the energy reform)[11]. In electricity, establishing the legislative framework took 4.8 years from the start of reform, broadly in line with the median across comparator countries (Figure 7). However, legislative and institutional milestones should not be confused with economic outcomes[12]. Their value ultimately depends on whether they translate into functioning market structures, increased investment and improved productivity. International experience shows that implementation and tangible market outcomes often take considerably longer than passing the initial legislation. South Africa's relatively short track record should therefore be considered in this context.

Figure 7: How long does reform actually take?



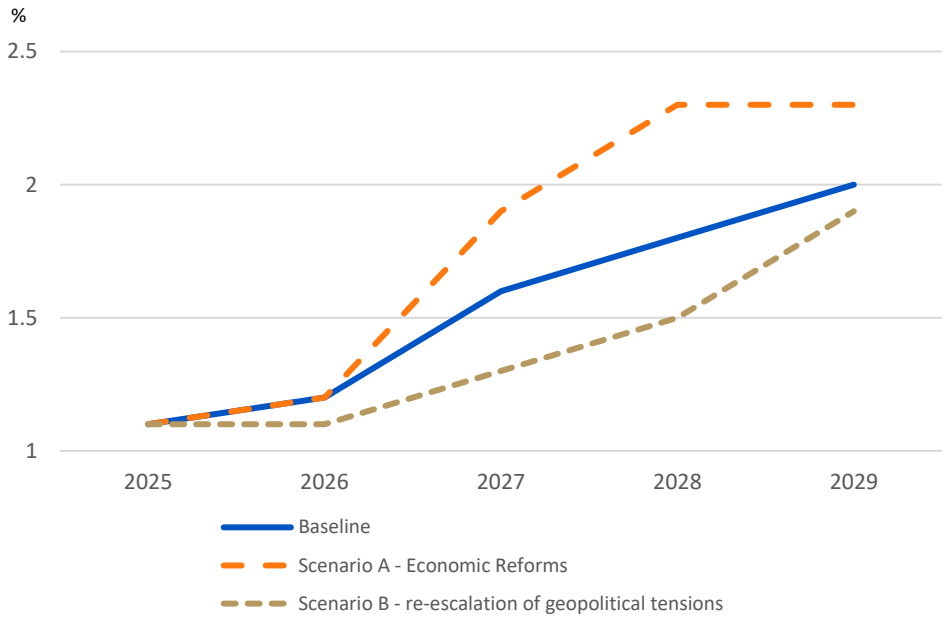
Note: Year 0 is the start of each country's reform programme, and the absence of a milestone does not imply that the reform did not occur.
*Source: **BER data story, "Operation Vulindlela: How fast does reform happen?"***

[10] **https://www.imf.org/-/media/files/publications/sdn/2023/english/sdnea2023007.pdf**
[11] **https://dataportal.ber.ac.za/datastories/operation-vulindlela-reform-progress/**
[12] https://www.businessday.co.za/opinion/2026-09-21-nomvuyo-guma-operation-vulindlelas-challenge-is-making-reform-irreversible/

HOW FAST COULD WE GROW?

The upside from reform has not yet been achieved. In the 2026 MTBPS, National Treasury models a domestic upside scenario in which the expanded Operation Vulindlela Phase II reforms are implemented successfully, supported by higher public and private investment. Real GDP growth reaches 2.3% by the end of the medium term, compared with 2.0% in the baseline, and real GDP is 3.1% higher than the baseline by 2034.

Figure 8: National Treasury reform scenarios, 2026-2029



Source: National Treasury

Faster growth will require reforms beyond OV's current scope. OV tackles binding constraints in network industries and in other non-infrastructural economic reforms. In the **BER's reform scenario modelling** published at the start of 2026, we found that faster, sustained growth also requires reforms beyond its current focus, as investors weigh the overall institutional environment.

1. **Criminal justice reform** should be prioritised, starting with granting greater independence to the National Prosecuting Authority and a plan to tackle the illicit economy.

2. **Public sector and procurement reform** should follow, to cut red tape, professionalise the state and improve transparency and value for money.

3. **Budget and state-owned enterprise (SOE) reforms** are also vital: budget reform will improve the quality and targeting of public spending and secure efficiency savings, while SOE reform is needed to strengthen their operational efficiency and governance.

CONCLUSION

Reform has begun to raise the economy's capacity to grow, most clearly through improvements in electricity supply. But greater capacity does not automatically translate into stronger output; investment remains the missing link.

Three factors help explain the gap between growth and investment even when reform is progressing. First, the reforms that matter most for investment (those in the areas of electricity distribution, freight rail, water supply and municipal delivery) are still in progress. Second, firms have not yet responded at scale to raise investment outside the electricity and logistics sectors. Private fixed investment is still contracting on aggregate, and business confidence remains low, with issues such as weak enforcement, chequered governance and uncertainty over the post-election 2029 outlook lying mostly outside OV's focus. Third, the oil-price shock, higher inflation and tighter monetary policy are weighing on demand, stalling growth at a little over 1% this year.

Even so, the rise in *potential growth* already visible should, over time, translate into stronger growth and employment. A slow payoff from reform is to be expected. But South Africa still faces a crisis of deepening poverty and joblessness, and if growth continues to disappoint, frustration may set in. Avoiding that outcome will depend on lifting business confidence (and specifically investment), too.

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