

REFORM BAROMETER | MARCH 2026

Structural reform continues, slow and steady

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The **Impumelelo Economic Growth Lab** at the Bureau for Economic Research (BER) is introducing a new reform barometer. We assess whether structural reforms are translating into measurable improvements in economic performance. The barometer will be updated regularly.

ABOUT THE BAROMETER

Operation Vulindlela (OV) is the South African government's flagship reform programme. It aims to accelerate structural reforms that unlock growth and investment by coordinating implementation across key areas.

Has OV delivered growth? Partially, but progress remains slow and uneven. Between 2024 and 2025, the real GDP growth rate doubled from 0.5% to 1.1%. However, the recovery was largely due to strong household consumption (up for seven consecutive quarters by 2025Q4). Investment spending, which OV reforms aim to unleash, is only slowly turning the corner. Fixed investment improved for a second consecutive quarter following a bleak streak since mid-2023, expanding 1.3% quarter-on-quarter (q-o-q) following a 1.4% rise in Q3. Indeed, private business investment growth reaccelerated in Q4 (to 2.4% q-o-q) following a slowdown in Q2. However, on the production side, the latest figures show that manufacturing, mining, and electricity production are still dragging on growth, underscoring the need for reform.

This barometer does a detailed assessment of actual progress in key areas. We look at electricity availability and supply, actual throughput at ports, municipal finances and others.

In summary, there has been some progress, particularly in reforming regulatory and legal frameworks. However, the report reveals emerging issues, such as the slow pace of water-sector implementation and ongoing municipal financial distress, which expose the gap between policy design and operational outcomes.

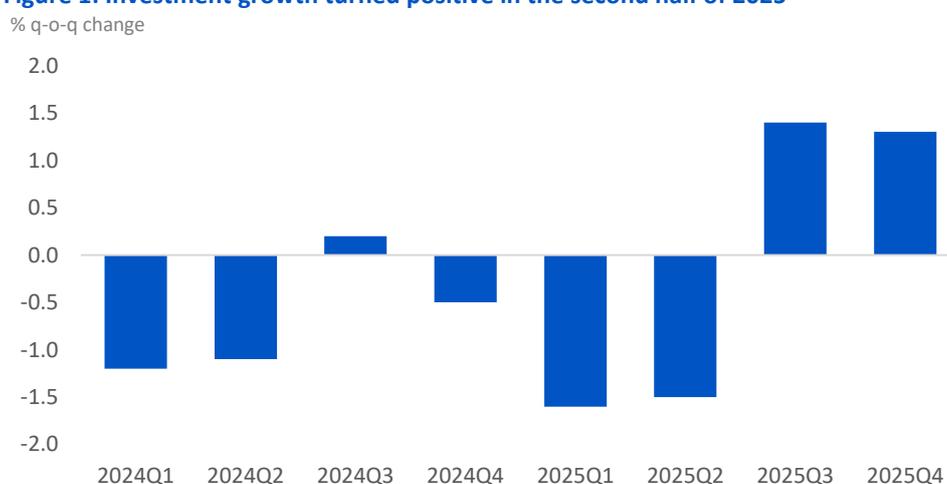
	Assessment	Indicator
Overall	Moderately positive	<ul style="list-style-type: none"> - Real GDP grew by 1.1% in 2025 - Business confidence improving, with the RMB/BER BCI rising above its long-term average
Electricity	Positive, but risks are emerging	<ul style="list-style-type: none"> - Rapid expansion in private generation (~18 GW capacity) - Presidential reaffirmation of Eskom unbundling restores reform credibility - World Bank Credit Guarantee Vehicle will support the transmission development plan
Logistics	Positive, but uneven	<ul style="list-style-type: none"> - Rail and port throughput improved in 2025 - Durban Container Terminal Pier 2 recovery precedes International Container Terminal Services, Inc. concession, but there are emerging transparency concerns - Cape Town Container Terminal weather delays are driving major losses in the fruit industry
Water	Slow progress	<ul style="list-style-type: none"> - Faster Water Use Licence Application approvals supporting investment - Blue and Green Drop results show widespread municipal water deterioration
Visas	Neutral	<ul style="list-style-type: none"> - Record tourist arrivals driven mainly by regional and African travel - Limited gains from visa reforms and the Trusted Tour Operator Scheme - No data on Visa and Critical skills applications
Local government	Slow progress	<ul style="list-style-type: none"> - Metro trading services reforms supported through the Urban Development Financing Grant - Municipal fiscal strain persists, with weak revenue collection and negative cash positions
Spatial integration	Neutral	<ul style="list-style-type: none"> - Large title-deed backlog (~1.2 million) continues to delay property formalisation - Passenger rail journeys are recovering steadily from a historic low
Digital Public Infrastructure	Strongly Positive	<ul style="list-style-type: none"> - Gov.za fully zero-rated nationwide - SARB acquired a 50% stake in PayInc.

OVERALL GROWTH AND CONFIDENCE

Moderately positive

South Africa's economic recovery continues to be slow and uneven. Real GDP grew by 1.1% in 2025, the strongest annual increase since 2022, aided by a modest pick-up in activity during the second half of the year. Growth hit 0.4% quarter-on-quarter in 2025Q4, marking the fifth consecutive quarter of expansion. On the production side, the services sector drove the recovery, with finance, trade, and personal services making the largest contributions to growth, while agriculture rebounded strongly after earlier weakness. In contrast, manufacturing, mining, and electricity production constrained growth, highlighting ongoing constraints within the productive sectors of the economy.

Figure 1: Investment growth turned positive in the second half of 2025



Source: Stats SA

On the demand side, the expansion has been driven primarily by domestic spending.

Household consumption increased for a seventh consecutive quarter in 2025Q4, supported by easing inflation and improving real incomes. Investment also showed tentative signs of recovery, with gross fixed capital formation expanding for a second consecutive quarter, driven by spending on software, machinery and construction works. Government consumption also contributed positively. External demand remained weak, with exports declining mainly due to US tariff impacts and logistics constraints.

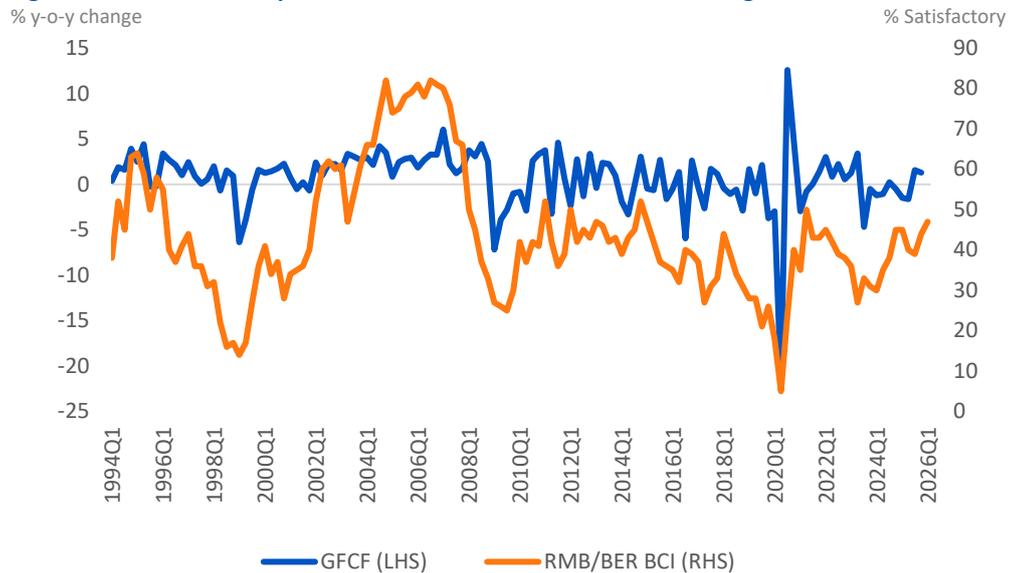
Confidence indicators suggest that the cyclical recovery may continue, though

momentum remains uneven across sectors. The RMB/BER Business Confidence Index (BCI) rose to 47 in 2026Q1, its highest level since 2015 outside the post-pandemic rebound and six points above its long-term average. Sentiment improved particularly among vehicle dealers, wholesalers and building contractors, while confidence among manufacturers and retailers weakened. The divergence suggests that consumer-facing sectors are benefiting from improved domestic demand, whereas manufacturing continues to face weak demand and competitive pressures.

Historically, improvements in business confidence have led to a recovery in investment, suggesting the potential for a rebound in gross fixed capital formation (GFCF) in 2026.

However, translating improved sentiment into sustained growth will depend on stronger fixed investment and progress in addressing structural constraints, including infrastructure bottlenecks and limited municipal service delivery capacity.

Figure 2: The relationship between business confidence and GFCF growth



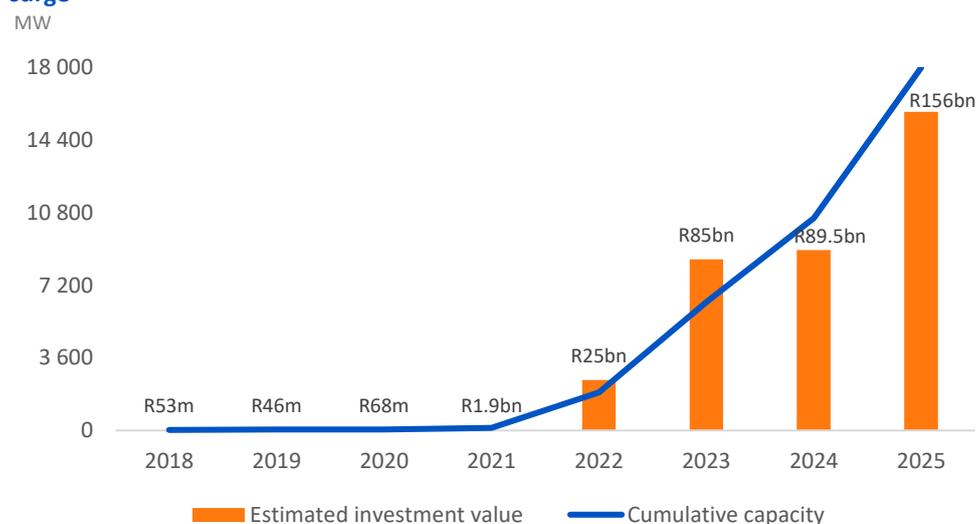
Source: Stats SA, BER

#1 ELECTRICITY REFORM DELIVERS SUPPLY EXPANSION, BUT NEW RISKS ARE EMERGING

Positive, but risks are emerging

Private renewable generation has surged, unlocking a major wave of investment and new capacity. Since 2022, approvals by the National Energy Regulator of South Africa (NERSA) have triggered a surge in private generation registrations, particularly in renewables. This has unlocked a step-change in investment and, by 2025, had lifted cumulative installed capacity to around 18 GW, with an estimated R361 billion (bn) invested in just seven years.

Figure 3: Energy market reform delivers: private generation investment and capacity surge



Source: NERSA

What began as a marginal addition to the energy mix is now becoming a structural shift in electricity supply. Project pipeline data shows that a significant share of capacity is already operational, with further projects at financial close or under construction and relatively few stalled. With a strong pipeline and improving execution, 2026 is expected to be a record year for grid-connected solar, wind and battery storage, with momentum likely to continue through 2027–2028 alongside ongoing growth in rooftop solar installations

Table 1: Pipeline Overview: Eskom-Contracted Generation Projects (>5MW)

Project Status	Capacity (MW)	Total Investment (US\$ million)
Operational	8 057.2	22 232.8
Financial Close	2 315.0	2 868.0
Construction	741.0	7 786.6
On hold	16.5	95.6

Source: University Of Cape Town Power Futures Lab.

However, Eskom is currently facing challenges due to a decline in grid demand and the implementation of high tariff increases aimed at recovering lost revenue. Recent judicial rulings have criticised the utility for obstructing customer self-generation, heightening scrutiny of its role in the rapidly changing electricity market. The critical question is whether the current pricing structures and reform measures will lead to lower electricity costs, more efficient grid utilisation, and sustained investor confidence in the sector.

THE UNBUNDLING ISSUE - WHY IS IT SO IMPORTANT?

The unbundling of Eskom is more than just a structural reform; it is a test of policy credibility and implementation. Under OV, the government agreed to establish three independent entities, including a fully independent Transmission System Operator (TSO) that would own and control transmission assets. The aim was to attract private investment, promote competition, and create a more resilient electricity market.

Uncertainty emerged late last year when Electricity and Energy Minister Kgosientsho Ramokgopa began to backtrack from the original Eskom unbundling roadmap by proposing that Eskom retain transmission assets within a subsidiary. This raised serious concerns among investors. President Ramaphosa recently reaffirmed the initial plan, confirming that a new, fully independent state-owned transmission company would take over the grid, under the oversight of the National Energy Crisis Committee. This reset restored clarity, but restoring credibility now depends on the practical and urgent implementation of the original plan.

The stakes are high. South Africa must invest about R400 bn over the next decade to expand the grid and prevent renewed load-shedding from around 2029 as coal plants retire. The government lacks sufficient public funds to accomplish this, making private capital essential. An independent transmission company could enhance the sector's capacity to mobilise funding for large-scale grid expansion.

Recent developments support this aim. In March 2026, the World Bank approved a \$350 million (R5.8 billion) loan to establish a credit guarantee facility aimed at unlocking private financing for infrastructure, especially transmission grid expansion. The facility is designed to lower investment risks, attract institutional and commercial investors, and potentially mobilise up to \$10 billion (about R160 billion) in private capital over the coming decade.

However, while this initiative could strengthen financing capacity, its success will depend on clear financial planning, stable revenue mechanisms, and disciplined execution. Without these elements, there remains a risk that the reform process may fall short in delivering faster grid expansion, timely renewable connections, and the long-term energy security necessary to support the energy transition.

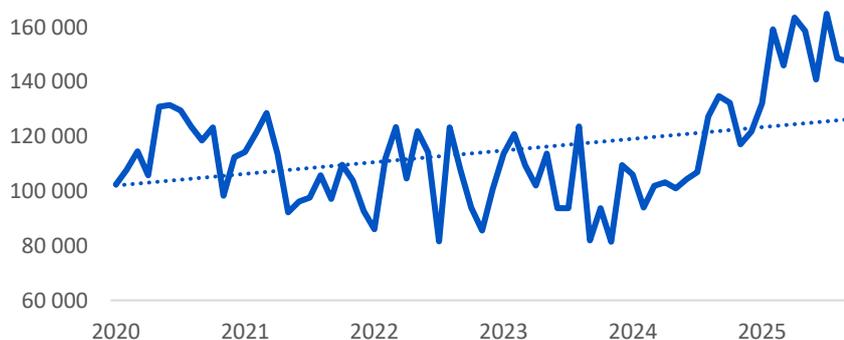
#2 LOGISTICS RECOVERY GAINS MOMENTUM BUT STRUCTURAL RISKS PERSIST

Positive, but uneven

Transnet's recovery gained momentum in 2025, with stronger rail and port performance lifting trade volumes. Container throughput rose by 3.2% year-on-year (y-o-y), bulk cargo by 4.4%, and vehicle volumes by 15%. This was supported by fleet renewal and operational improvements.

Additionally, throughput at Durban Container Terminal (DCT) Pier 2 has recovered modestly since late 2023, providing a firmer operational base ahead of the International Container Terminal Services (ICTSI) concession that became effective in early 2026. As a result, current gains largely reflect a pre-concession recovery. This reinforces the need to track post-2025 performance to assess the reform's impact, particularly given reduced data transparency under the new operating structure.

Figure 4: Monthly container moves at DCT Pier 2



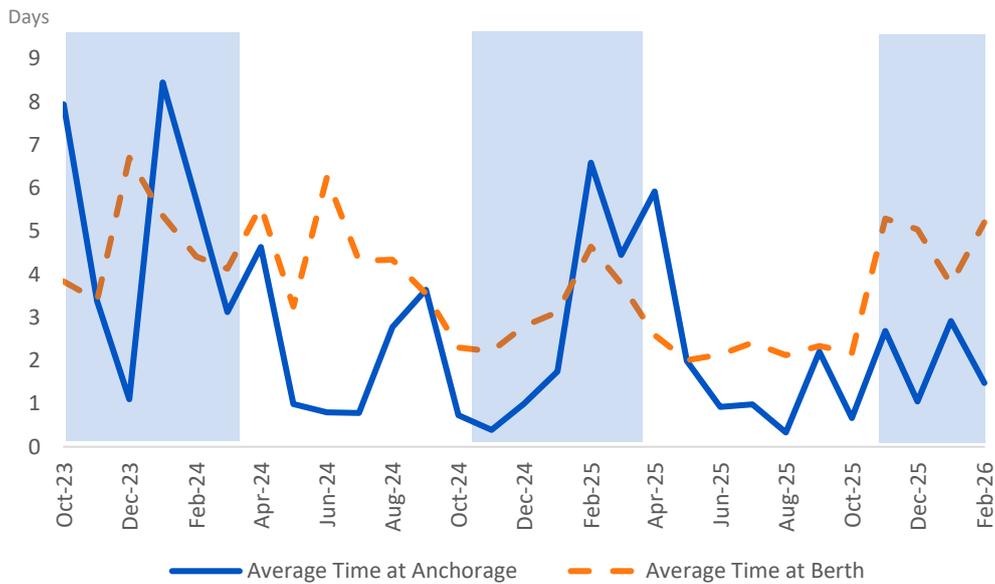
Source: Southern African Association of Freight Forwarders

However, sustained underperformance at the Cape Town Container Terminal (CTCT) has escalated into a material export risk during the 2025/26 deciduous fruit season.

Representing pome and stone fruit producers, Hortgro reports direct losses exceeding R350 million(m) to date, with further exposure accumulating as vessel delays, quality claims and diversion costs mount. While extreme wind disruptions have compounded delays, industry analysis points to deeper structural weaknesses, including labour management, equipment reliability, operational controls and accountability failures, reflected in crane productivity falling persistently below global benchmarks.

Export volumes have declined year-on-year, despite strong production conditions, resulting in substantial rerouting through Eastern Cape ports and Walvis Bay at elevated costs. The scale and persistence of these failures is eroding exporters' margins, straining rural economies and undermining South Africa's reputation as a reliable, time-sensitive agricultural exporter.

Figure 5: CTCT consistently exceeds the 1-Day Standard: Anchorage times spike each summer



The shaded area represents the fruit export season
 Source: Southern African Association of Freight Forwarders

#3 WATER REFORM ADVANCES, BUT MUNICIPAL WATER SERVICES CONTINUE TO DECLINE

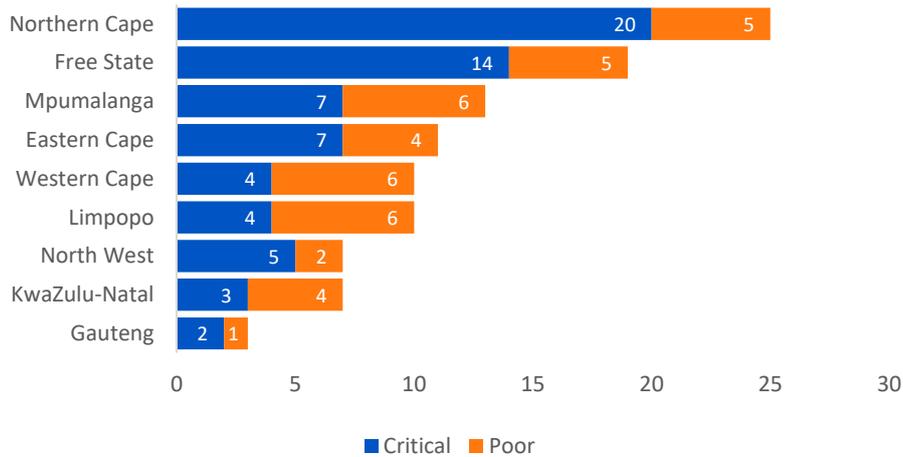
Slow progress

Water sector reforms continued to progress at the policy and regulatory levels in 2025, but service-delivery outcomes at the municipal level remain weak. Reforms to institutional, regulatory and licensing frameworks have progressed, with further improvements in Water Use Licence Application processes (WULA) supporting investment and job creation through faster approvals. However, despite the reintroduction of Blue, Green and No Drop oversight in 2021, and a new water pricing strategy scheduled for implementation in 2026, service performance continues to deteriorate. Widespread non-compliance, high non-revenue water, and a growing maintenance backlog highlight the persistent gap between reform progress and the reality on the ground.

The 2023 Blue Drop and 2022 Green Drop results reveal a systemic deterioration in municipal water performance, cutting across every province rather than being confined to isolated pockets of failure. Large clusters of underperforming municipalities in the Free State, Northern Cape, Mpumalanga, and Eastern Cape point to deep-rooted institutional weaknesses, while the inclusion of several major economic centres shows that infrastructure decline is no longer a peripheral or rural issue. The core of critical and poor scores signals structural governance, funding and accountability failures within the local water sector, raising serious concerns about service reliability, economic resilience and public health if corrective action is not accelerated.

Figure 6: Number of water authorities that scored critical or poor.

An average across drinking water and wastewater systems



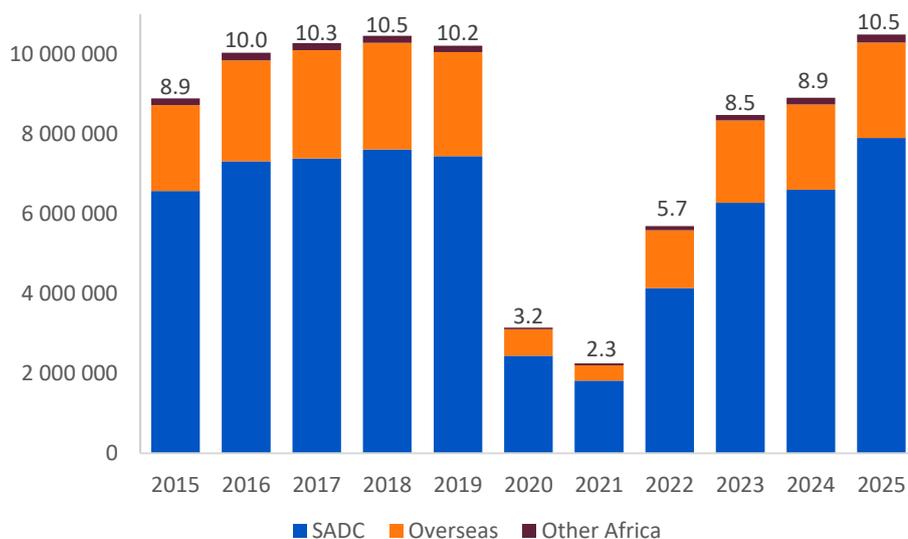
Source: Department of Water and Sanitation

#4 VISA REFORM IS NOT REALLY TRANSLATING INTO TOURISM GAINS

Neutral

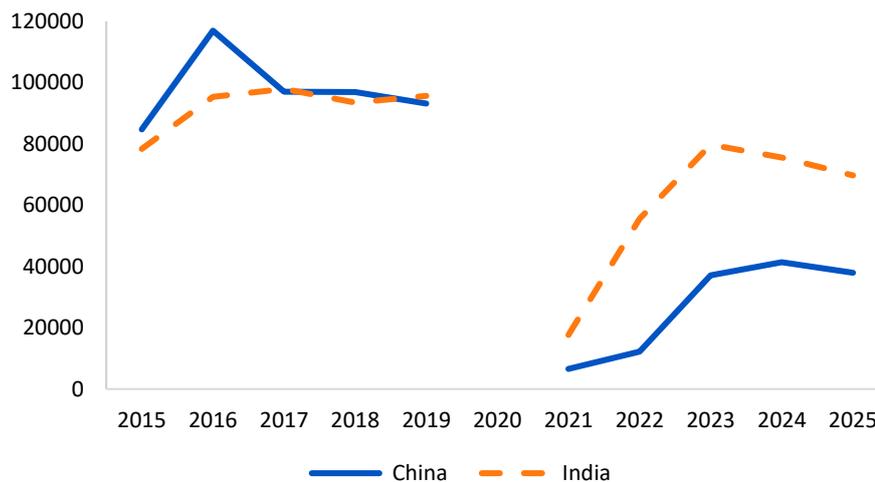
International tourism reached record arrival levels in 2025, driven primarily by regional and cross-border travel rather than by the impact of recent visa reforms. While visa and digital reforms signal meaningful policy progress, their practical effect has been constrained by stalled application categories and inconsistent adjudication. Similarly, the Trusted Tour Operator Scheme (TTOS), introduced in early 2025 to streamline group visas from China and India, has yet to generate measurable gains, with visitor numbers from both markets declining over the year.

Figure 7: Number of international travellers



Source: Stats SA

Figure 8: Visitor numbers from China and India declined by ~8% in 2025



Source: Stats SA

#5 LOCAL GOVERNMENT REFORM MOMENTUM CONTINUES DESPITE ONGOING FINANCIAL AND OPERATIONAL STRAIN

Slow progress

Local government reforms recorded modest but tangible progress, particularly in strengthening metro finances and advancing system-wide frameworks. Twelve metro trading services entities across seven metros accessed the National Treasury’s new Urban Development Financing Grant incentive, supporting improved financial accountability and the ring-fencing of trading services. At a broader level, reform momentum also continued through the review of the White Paper on Local Government, progress on the Municipal Finance Management Act (MFMA) Amendment Bill, and ongoing efforts to modernise the local government fiscal framework.

Despite these reform initiatives aimed at strengthening governance and service delivery, municipalities continue to face significant financial and operational constraints. National Treasury’s fourth-quarter 2024/25 local government revenue and expenditure report shows that the municipal system remains under severe fiscal strain. While spending reached 89.8% of adjusted budgets, revenue collection lagged significantly at 72.9% (well below the National Treasury benchmark of 95%). Moreover, municipalities spent only 66.1% of their conditional grants and 65.2% of their capital budgets on average, which bodes poorly for infrastructure investment. High historic debt and negative cash positions in 49 municipalities further highlight the financial pressures that may limit the impact of reforms on basic service delivery.

Against this backdrop, the revised White Paper on Local Government proposes a range of reforms aimed at addressing structural weaknesses in South Africa’s municipal system, particularly in institutional design, political governance and administrative capacity. The paper argues that the current two-tier district–local model can create duplication and blurred accountability and therefore proposes a more differentiated allocation of powers aligned with local capacity. It also links many municipal failures to

political instability, administrative interference and weak consequence management, highlighting the need for stronger political accountability and a clearer separation between political leadership and administration. Central to the reform agenda is the professionalisation of municipal administrations, emphasising capable, merit-based management as a foundation for improved service delivery, financial sustainability and governance outcomes

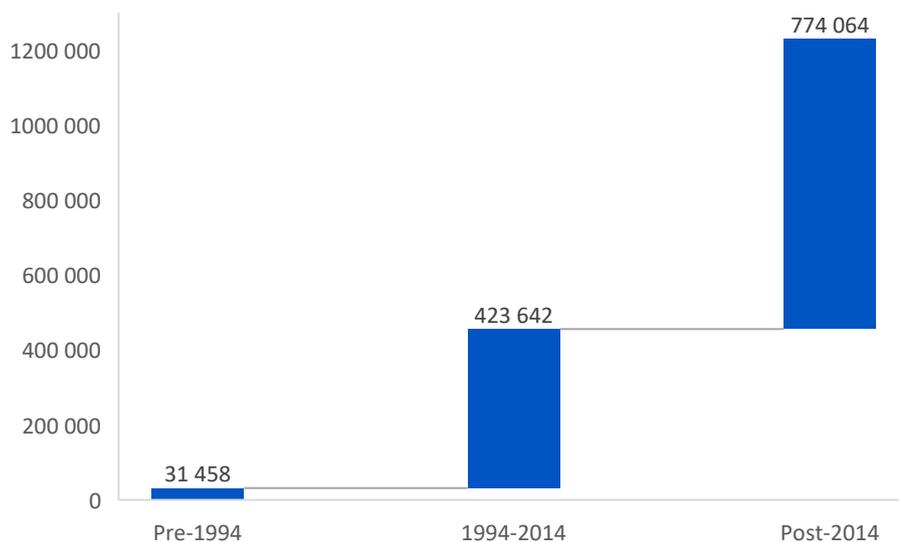
#6 UNEVEN HOUSING AND SPATIAL REFORM PROGRESS LIMITS MARKET RECOVERY

Neutral

Spatial integration and housing reforms delivered some early gains. An affordable rental housing model, based on research by the City of Johannesburg, is scheduled for finalisation by March 2026. This, along with the establishment of the Department of Public Works and Infrastructure’s Strategic and Special Delivery Unit (SSDU), which seeks to audit public land and expedite its release, signifies progress.

However, housing delivery remains limited by slow, fragmented, and largely unreformed municipal planning and approval systems. The ongoing backlog of over 1.2 million title deeds highlights the extent of administrative and infrastructure bottlenecks in formalising ownership. Key obstacles include townships that are not fully developed and homes that lack essential services such as water, electricity, and sewage, which slow down the registration process, impacting housing supply and hindering the formalisation and recovery of the property market. While the Western Cape has made slow progress in reducing the backlog, transparency about progress in other provinces remains limited.

Figure 9: How the 1.2 million title deed backlog is distributed across housing periods



Department of Human Settlements

On the other hand, passenger rail journeys recovered steadily through 2024–2025¹, reaching multi-year highs by late 2025. Although still below historic peaks, the trend points to a gradual return to rail as a viable transport option.

Figure 10: Passenger rail journeys ticked up: A steady recovery through 2024–2025 after years of decline



Source: Stats SA

#7 TANGIBLE PROGRESS IN SOUTH AFRICA’S DIGITAL GOVERNMENT INFRASTRUCTURE

Strongly positive

In the third quarter of 2025, tangible progress was made in advancing South Africa’s digital government infrastructure and services programme. The MzansiXchange pilot for cross-departmental data sharing began, a prototype of the MyMzansi citizen platform was demonstrated, and Gov.za achieved nationwide full zero-rating access. In addition, the South African Reserve Bank (SARB) acquired a 50% stake in PayInc under the Payments Ecosystem Modernisation programme, and work has started to link government payments to verified accounts and wallets. While these initiatives show meaningful steps are being taken towards creating more integrated and accessible digital public services, achieving a sustained impact will depend on effective implementation and coordination throughout the year.

¹ 2025 figures reflect data from January through November only.

OUTLOOK AND KEY RISKS

South Africa's economic recovery is steady but uneven. Growth has stabilised, aided by increased domestic demand, declining inflation, and improved business confidence. Additionally, reforms in electricity and logistics are beginning to alleviate some significant constraints. However, ongoing infrastructure issues, limited municipal capacity, and external risks still hinder the pace of expansion and investment.

Sustaining the recovery will depend on whether improved sentiment and reform momentum translate into stronger fixed investment and measurable improvements in economic performance. We will continue to track the implementation of key reforms to assess whether they are translating into tangible outcomes for growth, infrastructure performance and investor confidence.

Ultimately, the effectiveness of South Africa's reform agenda will be judged not by policy commitments but by whether reforms translate into sustained investment, improved infrastructure performance, and faster economic growth.

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