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# Why fixed investment is the best thing since sliced bread

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South Africa is reeling from the twin shocks of President Donald Trump's tariff blitz as well as its home-grown budget bungle which has fractured the government of national unity.

As economists hasten to revise down their 2025 growth forecasts (from around 2% to around 1%), the general lament is that if only South Africa wasn't in such a weak position to start with, the country's growth prospects wouldn't look quite so bleak.

Unfortunately, South Africa's economic performance over the last 30 years has been deeply disappointing. None of the ambitious GDP growth goals set out in consecutive economic strategies has materialised.

The result is that GDP per capita has barely grown, job creation has lagged population growth, and fixed investment – so critical for long-term prosperity - has fallen short. While global economic tailwinds, particularly from China's explosive commodity-intensive growth path, provided relief at times, the structural weaknesses in South Africa's economy have remained unresolved.

A simple way to illustrate South Africa's economic stagnation is to express its GDP in terms of the cost of a loaf of bread, instead of in the country's currency, to get around the fact that the rand has lost enormous value over time due to inflation.

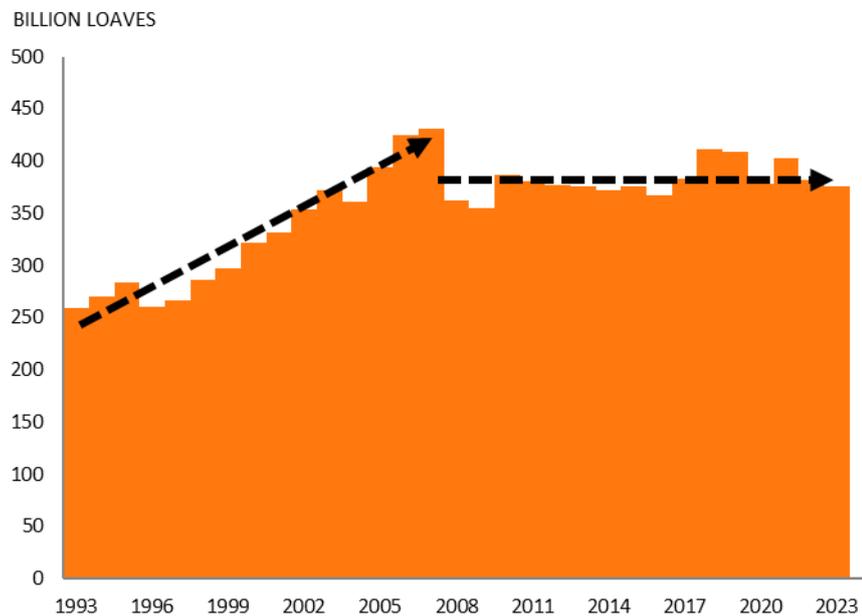
Though inflation-tracking indices are normally used to calculate a real (inflation-adjusted) GDP value, these deflators are subject to their own challenges. For one, the extraordinary drop in computer and data costs over the last decade drags our trackers down significantly, thereby overstating the growth in GDP.

This is why a simple, standardised item that retains its characteristics over time – like a loaf of bread – can serve as a novel but useful control measure.

In 1994, South Africa's GDP was equivalent to 270 billion loaves. Over the next 13 years to 2007, the economy surged to a peak of 431 billion loaves. But then came the global financial crisis, domestic economic mismanagement, and the Eskom crisis, leading to a

long period of economic stagnation. By 2023, GDP was equivalent to just 376 billion loaves - barely above 2010 levels.

**Figure 1: SA's real GDP expressed as the number of loaves of bread**



Source: BER

What does this mean for the average South African? In real terms, economic output per person, when measured in this simple yet powerful way, has actually declined by 6% since 1994. In other words, despite political freedom, South Africans are, on average, worse off economically today than they were 30 years ago.

### **Why did we fall behind?**

Over the past 30 years, successive growth plans have set ambitious annual GDP targets ranging from 4.5% - 6%. However, instead of growing at the targeted pace, South Africa's per capita GDP grew by only 29% over 30 years (just under 1% a year), far below the global average of 70% (1.8% a year).

South Africa also under performed relative to Sub Sahara Africa (at 45%) and even compared to advanced economies (at 57%). Countries like Vietnam, India, and China achieved much more explosive growth, lifting millions out of poverty, while South Africa stagnated.

A major reason for South Africa's economic underperformance is chronic underinvestment in infrastructure, manufacturing, and productive assets. This has been exacerbated by the gross mismanagement of the existing capital stock, partly due to the state's inability to maintain infrastructure.

As such, the annual depreciation rate on capital gradually increased from 5.2% in 1994 to above 7.2% after 2008.

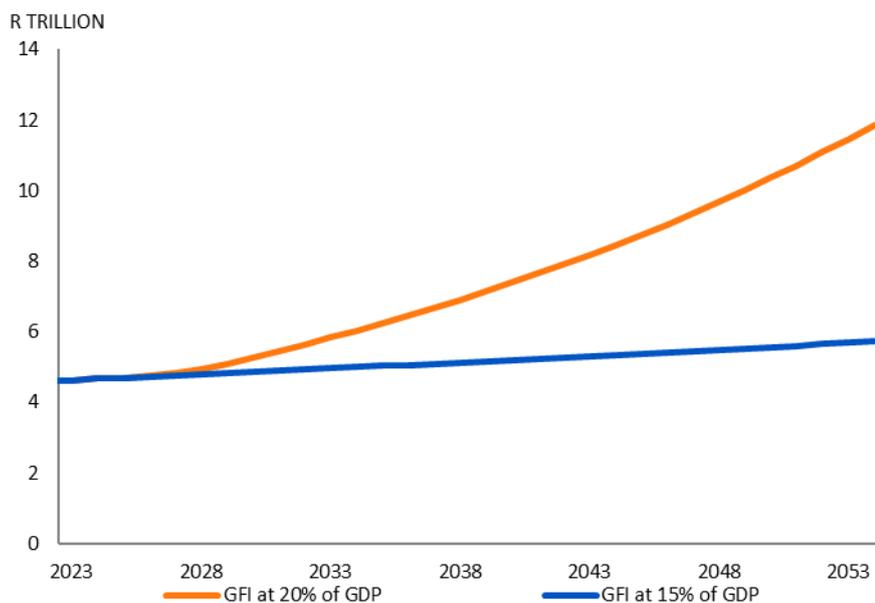
One of the most visible effects of South Africa’s mismanagement crisis was Eskom’s near collapse. While the electricity sector tripled its capital stock from 1993 to 2023, actual output increased by only 15%. This reflects massive inefficiencies, poor management, and a lack of strategic direction. Similar patterns exist across transport, water infrastructure, and industrial capacity, where capital has been deployed inefficiently or simply not invested at all.

Fixed investment as a share of GDP has been consistently low, averaging only 16% of GDP from 1994 to 2023 - far below the average of 21% achieved between 1950 and 1993. This matters because investment is one of the key engines that drives growth.

The NDP targets the fixed investment ratio reaching 30% by 2030, but what if South Africa could just raise the level of fixed investment back to the old long-term average of around 20% of GDP?

Economic modelling suggests that if fixed investment is raised to 20% from 2029 onwards, the country’s real GDP would be 107% higher by 2054 than if the fixed investment ratio had remained at 15%. This means the economy would be double its current projected size, enabling far more jobs, higher wages, and significantly lower poverty levels.

**Fig 2: SA’s real GDP if fixed investment was 20% of GDP (constant 2023 prices)**



Source: BER

**Where to from here?**

South Africa’s growth outlook depends partly on fixing the investment problem and improving the management of the current capital stock. This means:

- Reversing the decline in public investment: public investment in economic infrastructure needs to rise from the current 5% to at least 9% of GDP.

- Improving management: appoint managers and professionals on merit.
- Attracting private sector investment: enable market competition, reduce policy uncertainty and improve the business environment to unlock private capital.
- Cutting wasteful consumption spending: government spending on salaries, transfer payments and non-productive activities has ballooned, crowding out investment in the productive sectors.

The good news? The potential is still there. If South Africa shifts gears and prioritises investment-led growth, the next 30 years could be radically different from the last. But without decisive action, stagnation will continue, and the economic dreams of 1994 will remain unfulfilled.

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