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Turning the 3% growth fairy tale into reality

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The BER's baseline forecast is for economic growth to average just below 2% from 2026 to 2029. While this would be faster than the decade prior to the pandemic, this is not enough. In this Comment, the Impumelelo Economic Growth Lab evaluates four areas of focus for policy reform that could lift growth over 3%.

WE THINK GROWTH IS STILL "STUCK"

GDP figures released on Tuesday highlight that growth remains weak. GDP contracted in the third quarter by 0.3% q-o-q. Even excluding the volatile agricultural sector, 2024Q3 growth was 0.4% q-o-q. While there are some positive signs in 2024Q4 (particularly business confidence), growth of even 1% remains a challenge.

Our baseline forecast is that real GDP growth will average just below 2% between 2026 and 2029. This is in line with other forecasts for the SA economy, which note that the "speed limit", or potential growth rate, of the South African economy is weak.

While we are positive about growth in 2025, we see a "camel hump" with growth slowing once again through the remainder of our forecast period to just below 2% instead of maintaining an upward trajectory. This is because the cyclical support is expected to fade beyond 2025, and, unfortunately, the government's track record of slow implementation and delays means that we expect to see some loss of momentum on the reform front. In this note, the Impumelelo Economic Growth Lab highlights what can be done to ensure that growth accelerates above 2% on a more sustained basis.

BREAKING FREE FROM 1 – 2%

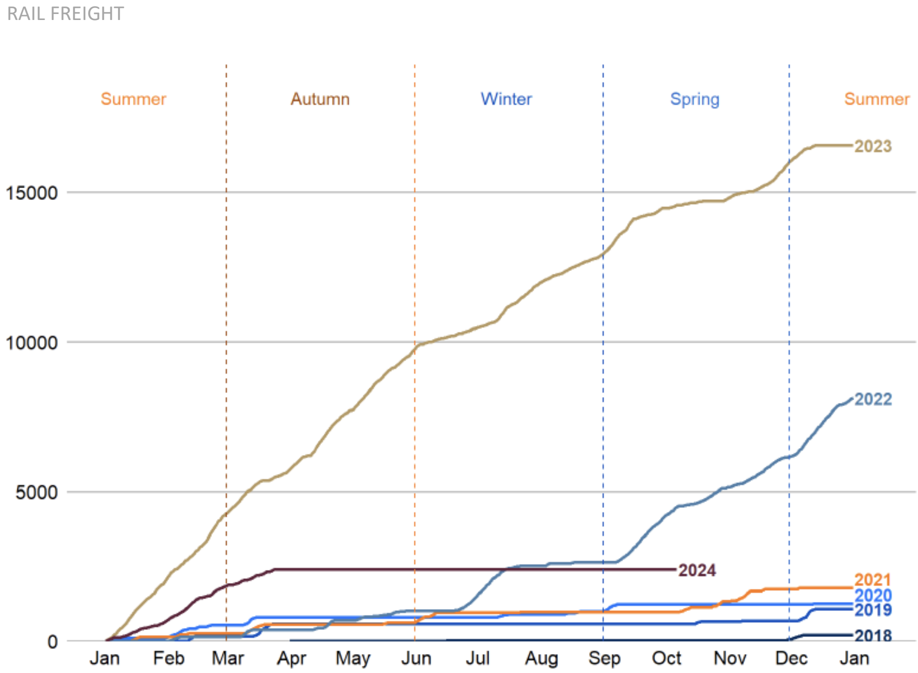
How can we break free from 1-2%? First, we have to look at what is holding us back:

- *Load-shedding has caused deep damage*. Without a stable supply of electricity, we have been unable to expand the local mining and manufacturing sectors, with knock-on effects throughout, including construction. While a cheap and secure supply of electricity was previously a comparative advantage for South

African production, since load-shedding began in 2008, the opposite has been true.

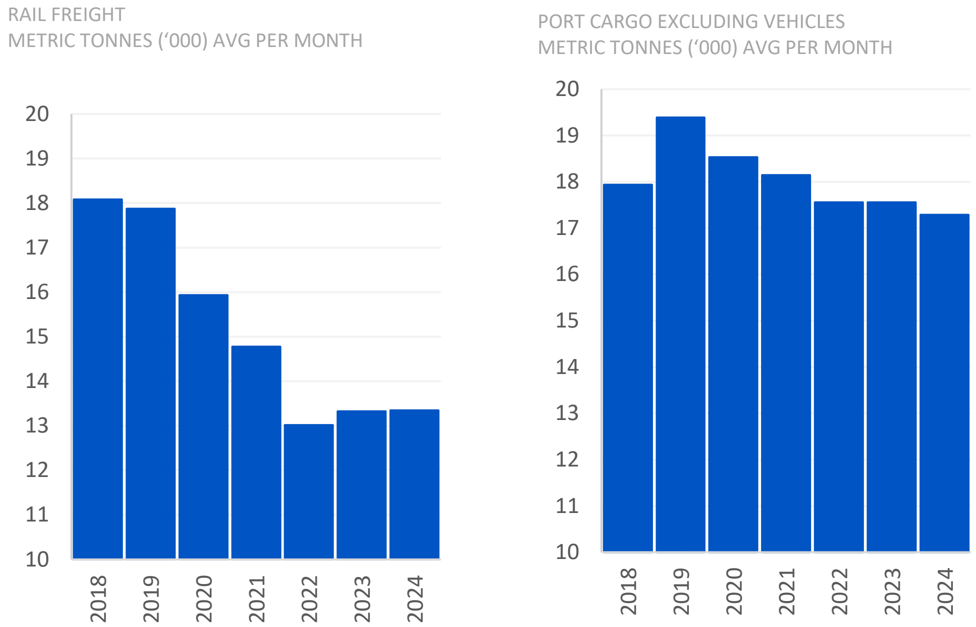
The lifting of load-shedding in 2024 has been positive for demand and provided a boost to sentiment. However, business needs to be sure that there is a stable supply of electricity before committing to long-term investment.

Figure 1 After a bleak 2023, loadshedding has largely lifted…



- *Our ports and rail system have been weak*. Port cargo has fallen and freight rail capacity has been on a long downward trend since 2018. Over the past three years, port capacity has been stagnant.

Figure 2 but rail and port capacity have fallen



Source: TNPA via ***BER Data Playground***

- *Municipal water supply problems have underscored local government weaknesses.* Not only is water a critical input for many activities, the lack of stable water supply in major metro areas has been a drag on consumer and business confidence. Furthermore, it has exposed serious weaknesses in local government capacity.

- *Ongoing service delivery issues and broader governance problems are also constraints. Inadequate* public service delivery hurts the poor the most, as wealthier households can source many of their needs from the private sector. Governance issues – such as the FATF greylisting – have also harmed the country's ability to do things, for example fast and unburdened cross-border transactions.

LIFTING THESE CONSTRAINTS COULD RAISE GROWTH TO 3%

The government's delivery unit Operation Vulindlela has identified specific constraints on economic growth. We have taken these areas as levers in the BER's macro econometric model to see what the impact on growth could be. Ongoing electricity reform, ports and rail reform, water and governance reform, and some other reforms could meaningfully lift economic growth to above 3%.

Table 1 Levers to raise economic growth

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

Eliminating load-shedding will support growth in several ways. The model uses the energy availability factor (EAF) to reflect better performance at Eskom. However, this is not enough. 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.

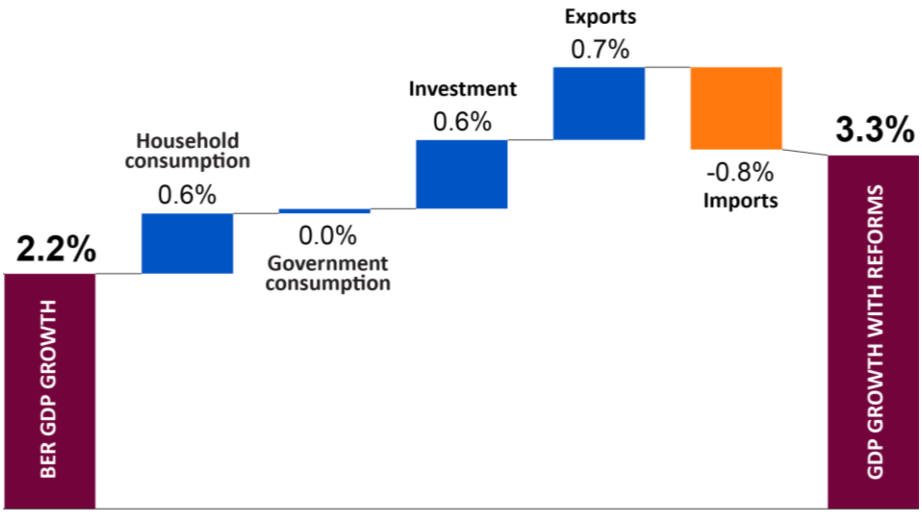
On ports, we used data from the South African Association of Freight Forwarders (SAAFF) to calculate what expanding our port operations could do. In FY2024, Transnet carried 151.7 million tonnes of capacity. Using the data from SAAFF on how our port system could be transformed by concessions, we estimate 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, the delivery at a municipal level. Here, strengthening local government capacity and capabilities are vital.

Governance is key. The decision by the Financial Action Task Force (FATF) to "grey list" South Africa because of weaknesses in our money laundering regime highlighted that the governance concerns from the 'state capture' era have real-world consequences. These have also hurt business confidence.

WHAT IS THE IMPACT OF THE REFORMS?

Figure 3 The impact of reforms could raise growth to 3.3% in 2025



Our modelling shows that the implementation of these reforms *could* accelerate growth to 3.3% by 2025 already. The model shows how the four levers feed through into the economy:

- *Exports could add up to 0.7%pt to growth*. The biggest impact of a reform agenda focussed on electricity, ports, and rail is, unsurprisingly, the potential to raise exports. In previous years, South Africa has not been able to capitalise on surges in commodity prices because it has simply not been able to get mining goods out of the country fast enough. It is important to note that imports, however, deduct 0.8%pt from growth, in part because of the import intensiveness of investment. As the industrial base develops, this drag could reduce over time.

- *Investment could add a further 0.6%pt*. Already, we have seen a surge in private sector investment in electricity as the renewal energy programme and lifting of licensing constraints have supported the building of new solar and wind plants. Our analysis shows a strong correlation between sentiment – which includes business confidence, consumer confidence and political risk – and investment, with the assumption that sentiment should improve further as the government's commitment to structural reform is recognised and appreciated over time.

- *Jobs growth and positive real wage growth support higher levels of household consumption*. The model shows that household consumption can add an additional of 0.6%pt to growth.

Overall, this would add around 1%pt to economic growth. Importantly, the package of reforms needs to happen together. Lifting the constraint to ports, for example, will not be enough to increase economic growth. A stable supply of electricity and water will also be needed. The reform agenda needs to work in lockstep.

IS THIS ACHIEVABLE?

This is not our baseline forecast as we still need to see a clear programme of action (and, more importantly, implementation) from Operation Vulindlela (OV) / the government to tackle these constraints. OV will need to be reinvigorated to ensure that the accelerated programme can be achieved.

Operation Vulindlela Phase 1 (OV 1.0) showed that a dedicated reform programme can deliver results. Significant progress was made, particularly in electricity, and limited but still important progress was made in logistics and other areas. Looking ahead, there are several risks. These include overloading the team with poorly scoped and vague reform objectives. There are several things that need reform, but few of them are well-suited to the OV approach of a clear set of specific, measurable, achievable, ambitious, realistic time-bound ("SMAART") reform agenda. For example, in municipal reform, there is a strong need to clearly define what OV can and should do. The BER has recently released a note on what we think can be done, and it is a targeted set of reforms that will achieve maximum impact rather than a laundry list of unclear actions.

To repeat something we have said several times this year, the *implementation* of existing structural reform plans *can* lift economic growth beyond 2% - and, in fact, we can get there in a short space of time. But the crux is in the implementation, and any further delays will mean that 3% becomes more and more difficult to reach.

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