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SA must seize the positive momentum before it fizzles out

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SA doesn't need new plans or new committees. The research is done, the constraints are known, and the reforms are on the table. What is required is urgency, leadership and discipline to implement a handful of catalytic actions and cement those already taken.

As the Bureau for Economic Research (BER) we talk to a lot of investors, policymakers and executives about South Africa. After years in which the national mood has oscillated between exhaustion and exasperation, there has recently been a meaningful shift in tone.

“Constructive” comes up more often. So does “positive scenario”. We’ve even heard “bullish” said out loud. The country hasn’t solved its problems, but the balance of risks has tilted, and mood is less relentlessly negative. (This is borne out by the ten-year government bond yield falling to below 9%.)

It helps that the economy grew again in the third quarter, extending the run of positive quarterly outcomes to a full calendar year. On a quarterly basis, real GDP growth eased to 0.5% (from 0.9% previously), but it was broad-based on the production side, with nine out of ten sectors expanding. On the expenditure side, household consumption continued to do the heavy lifting but, importantly, fixed investment finally turned positive after three weak quarters.

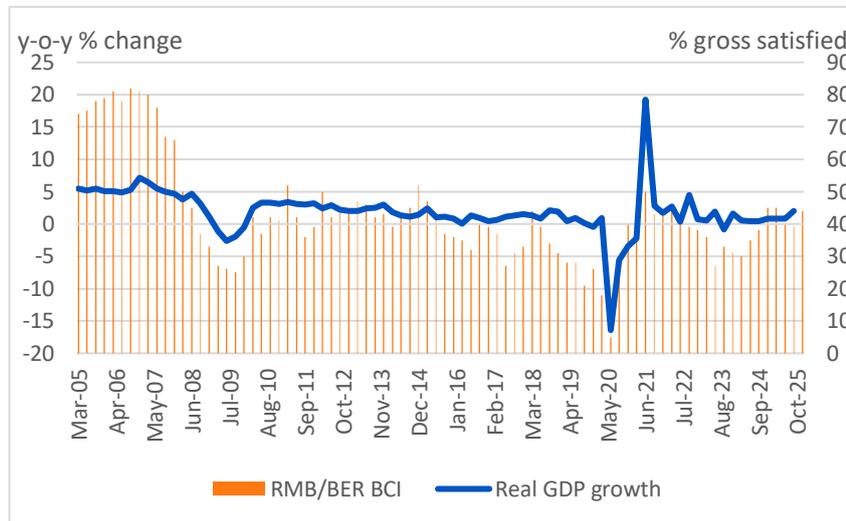
For the year as a whole, SA is on track to achieve around 1.3% growth, hardly a number to frame on the wall, but better than what we feared a few months ago. And there is upside potential.

What sits behind the improvement? Partly, some long-awaited policy signals have become actual decisions. For instance, the National Treasury and Reserve Bank uniting to formally lower the inflation target to 3% is material. It will lower the cost of capital over time, improve competitiveness, and anchor expectations. The Bank’s 25bp rate cut in November was a cautious nod to that new regime.

SA’s exit from the Financial Action Task Force’s grey list and the S&P ratings upgrade are also votes of confidence in the reform process. None of this fixes SA overnight, but collectively it nudges the country onto a more credible macro footing.

Local sentiment is also improving. The RMB/BER Business Confidence Index ticked up meaningfully to 44 in the fourth quarter. After a choppy year, this turn in direction counts. But there was still plenty of grit in the survey comments: crime, corruption and red tape remain stubborn drags, and many firms are not yet convinced the good times will stick.

Fig 1: Business confidence rise suggests growth could continue



Source: BER, Stats SA

Indeed, this week's Absa PMI was bleak: after briefly poking above 50 in September, it has slipped back into contractionary territory - a stark reminder that positive whispers don't automatically translate into stronger demand or faster activity.

To prevent this tentative upswing from fizzling out requires us to turn improved sentiment into actual investment; and reform announcements into visible, daily improvements in how the country operates.

Maintaining the momentum

Recognising that the country has an opportunity to seize this positive momentum, the emerging consensus is that although Operation Vulindlela (OV's) reforms may be enough to shift the growth rate to 2%, simply fixing what is broken will not achieve more rapid, transformative long-term growth.

It will require a laser-like focus on a set of urgent priorities to turn the R1.8 trillion sitting on corporate balance sheets into the wave of investment needed to get growth really pumping.

The next steps should include:

- Appointing highly credible new heads to the National Prosecuting Authority, the South African Revenue Service and key leadership positions in the South African Police Service through a robust and transparent process.

- Establishing an anti-corruption agency as a Chapter 9 institution with the necessary skills, funding and training; free from political interference; and with investigative powers.
- Deploying security forces to protect ports, rail, water and energy infrastructure.
- Implementing the findings of the Zondo Commission, the National Anti-Corruption Advisory Council, and the Madlanga Commission, when concluded.
- Professionalising the public service by, among other things, signing the Public Service Amendment Bill into law to ensure senior appointments are independent and rigorous.

The Government of National Unity should also adopt a simple vision for the economy. A simple and logical proposal is 3 x 3 x 3 in 3: 3% growth, a 3% budget deficit, and 3% inflation within three years. This will require fixing the basics fast and must include:

- Doubling down on OV Phase 1 and 2 reforms. Full implementing Eskom's unbundling and Transnet's turnaround is SA's highest-impact growth lever and should be seized with gusto.
- Supporting the Treasury's trading services reforms to fix metros' electricity, water and sanitation systems.
- Unleashing township economies by slashing red tape, fighting crime, and improving SME's access to capital.
- Focusing on exports. Mining is the lowest-risk catalyst for an export-led industrial strategy. SA has the minerals and expertise, but not conducive policy. Fix that, and investment will follow.
- Replicating the success of the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) for the transmission build, ports and rail rehabilitation, provision of bulk water infrastructure, and logistics corridor security.

SA doesn't need new plans or new committees. The research is done, the constraints are known, and the reforms are on the table. What is required is urgency, leadership and discipline to implement a handful of catalytic actions and cement those already taken.

If we act decisively, 3x3x3 in 3 is achievable. And that would not be a technocratic victory; it would be a first step towards achieving sustained job creation and a visible decline in poverty over the next decade.

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