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Reigniting Investment in South Africa

Confidence, credibility and reform

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Roy Havemann

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Fouché Venter

Executive Director

Reigniting Investment in South Africa: Confidence, credibility and reform

Roy Havemann[1]

Abstract

Over the past decade, South Africa has experienced a pronounced and persistent decline in fixed investment, with real gross fixed capital formation contracting and capital stock growth slowing to near zero. Investment to GDP fell to 13.9% in 2025, excluding COVID the worst ratio since 1950. This paper documents the stylised facts of the investment slowdown and examines its underlying drivers. It argues that weak business confidence, elevated political and economic uncertainty, rising long-term real interest rates associated with fiscal deterioration, and unproductive public-sector investment have jointly constrained private capital formation. Using survey-based measures of sentiment and uncertainty, together with simple econometric tests, the paper finds evidence of a meaningful relationship between business confidence and private-sector investment, including indications of Granger causality and cointegration. At the same time, higher borrowing costs and limited evidence of fiscal crowding-in have further dampened capital deepening. The consequence has been stagnant capital accumulation, declining capital productivity, and subdued economic growth. The paper proposes a focused reform agenda aimed at restoring a virtuous cycle between confidence, investment and growth. Scenario analysis suggests that under a credible reform and fiscal consolidation pathway, growth could rise toward and potentially exceed 3 percent, materially improving employment and poverty outcomes.

Keywords: Investment; Business Confidence; Growth

JEL classification: E22, E62, O16, O40

1 Bureau for Economic Research, Stellenbosch University.

Executive Summary

Over the past decade, South African investment[2] has contracted by an average of 1.9% a year, and the ratio of investment to GDP has fallen to 13.9%. I trace the causes to a collapse in business confidence, rising real borrowing costs as the fiscal position worsened and inappropriately directed public investment, particularly into Eskom, South Africa's energy utility.

At the end of 2025, there were signs of an uptick in investment. An improving fiscal position, increased government investment spending and an improvement in confidence should support a rise in investment. The fiscal consolidation is on track, and the reduction in inflation target will strengthen macroeconomic policy. Already, there are signs that this has reduced the risk premium on government bonds and reduced borrowing costs.

Beyond the fiscal consolidation and the existing structural reform agenda, what more can be done? The Bureau for Economic Research (BER) undertook a structured process of engagements with over 60 senior business leaders, government officials and academics and triangulated this with textual analysis of over 600 comments from BER business sentiment surveys. From that list, a set of ten confidence improving measures were identified, summarised in Table 1.

Table 1: Confidence boosting reforms identified by business

1. CRIMINAL JUSTICE REFORM	2. PUBLIC SECTOR REFORM	3. PROCUREMENT REFORM	4. BUDGET REFORM	5. SOE REFORM
1. Roadmap to overhaul the entire criminal justice system, starting with NPA	**4. Enact the Public Sector Amendment Bill to professionalise the public service**	**7. Embed greater transparency in public procurement and make cost effectiveness the priority of procurement law**	**8. Redirect state resources from unproductive to productive activities**	**10. Appoint strong, independent and accountable boards to SOEs.**
2. Make the NPA financially and operationally independent of the Department of Justice & Constitutional Development	**5. Modernise administrative systems; introduce a silence - is-consent rule**		**9. Target savings of R100 billion a year through scrapping the SETAs, shifting the RAF to a private insurance model and curbing mandate-drift at the UIF**	
3. Address the illicit economy, using SARS as the lever	**6. Pursue big budget cross-departmental projects, leveraging public-private partnerships to bolster skills and funding**			

Source: BER analysis following a structured review of 50 decision makers and 600 text comments in BER surveys. The full scenarios report is at www.ber.ac.za/growth

The impact of these reforms is set out in Table 2. For the purpose of the exercise, three scenarios were undertaken: a "Muddling Through", "Low Road" and "High Road". "Muddling through" is the Hadeda (a loud

[2] Throughout this note, "investment" is used as shorthand for the technically correct term "gross fixed capital formation" See Box 1 for a more detailed discussion on terminology.

squawking bird that achieves very litte), the "Low Road" is a Marabou Stork (a big ugly creature known as the "Undertaker bird" because it feeds off carrion), while the High Road is the African Fish Eagle (a bird that soars).

The Fish Eagle Scenario suggests that growth of over 3% can be achieved. The compares with similar results by the South African Reserve Bank, National Treasury and the International Monetary Fund.

Table 2: Impact of reforms on growth

SCENARIO	The Hadeda (Muddling Through)	The Marabou (Low Road)	The African Fish Eagle (High Road)
Core driver	Partial reform	Reform failure + shocks	Fast reform + confidence
Annual GDP growth	Around 1 to 1.7%	Below 0.5%	Above 3%
New jobs added	0 – 100k	None	350k p.a.
Political equilibrium	Fragile coalition politics	Populism, fiscal stress	Stable, reformist centre
Poverty outcome	Poverty stagnates	Poverty rises	Poverty falls materially

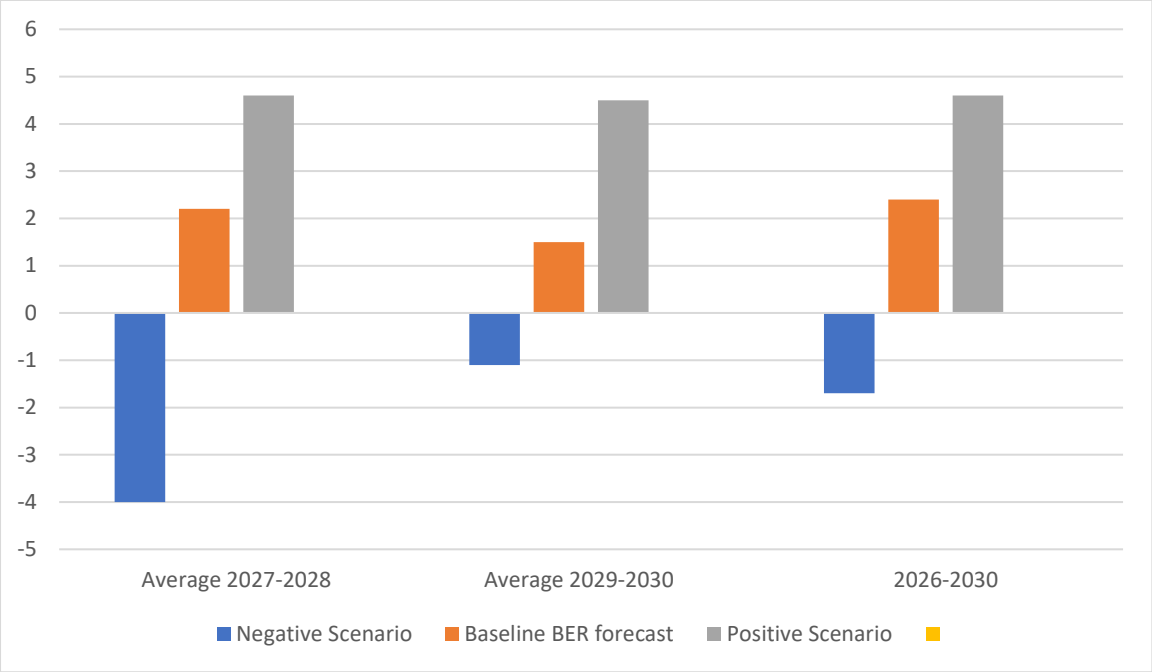
Source: BER Modelling, the full scenarios report is available at www.ber.ac.za/growth

The reform agenda is moving ahead, albeit slowly. The BER's economic baseline forecast is for growth to rise over the next three years to 1.7%, on the back of a slow reform process.

Achieving an investment recovery is not primarily a technical question, but an institutional and credibility question. Restoring the conditions for sustained investment requires a coordinated reform effort that improves the quality of governance, reduces policy uncertainty, strengthens fiscal credibility, and lowers the risk premium embedded in long-term interest rates. While cyclical improvements in global conditions or temporary monetary easing may provide short-term support, durable investment growth will depend on credible structural reform.

Importantly, the scenarios outlined in this paper are not forecasts but conditional pathways. The "Muddling Through" outcome reflects partial reform implementation and continued fragility in confidence. The "Low Road" scenario illustrates how reform fatigue, fiscal slippage, or adverse shocks could entrench stagnation. By contrast, the "High Road" scenario demonstrates that faster reform execution, improved institutional quality, and restored policy credibility could unlock materially higher growth, employment gains, and poverty reduction.

Figure 1: Investment growth rates under different scenarios



Source: BER (2025), available online at www.ber.ac.za/growth

With sustained reform momentum, investment can recover, and with it, economic success.This will not only increase GDP in the short run (through the mechanical increase in GDP) but also in the long run (through a structural rise in the productive capacity of the economy. This will support an overall rise in GDP to 3%, which is the bare minimum for a country facing the challenges South Africa faces.

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1 Introduction

South Africa faces a structural growth problem, and at the heart of that problem is a prolonged collapse in investment. Over the past decade, investment has contracted, capital stock growth has slowed to near zero, and productivity of capital has declined. The consequence has been persistently weak economic growth, rising fiscal pressure, and limited job creation. Reigniting investment is therefore not a peripheral objective — it is central to restoring sustainable growth and improving living standards.

Investment does not occur in isolation. It sits within a feedback loop linking expectations, confidence, fiscal credibility, financial conditions and realised growth outcomes. Firms invest when they expect future demand to justify irreversible capital commitments and when the cost of capital is consistent with expected returns. Conversely, weak sentiment, elevated uncertainty and rising long-term interest rates dampen investment and suppress the expansion of productive capacity. Over the past decade, South Africa has experienced all three of these headwinds simultaneously.

This paper documents the stylised facts of South Africa's investment slowdown and analyses its proximate drivers. It argues that the contraction reflects an interlocking combination of weak business confidence, rising real borrowing costs associated with fiscal deterioration, and public-sector investment that has failed to crowd in private capital. The result has been stagnating capital deepening and declining capital productivity.

The paper then sets out a reform agenda aimed at restoring a virtuous cycle between investment, confidence and growth. Drawing on structured engagements with business leaders, survey evidence from the Bureau for Economic Research (BER), and scenario modelling, it identifies a focused set of catalytic reforms capable of lifting growth toward and potentially above 3 percent. The analysis suggests that investment recovery is achievable — but only under a credible and sustained reform programme.

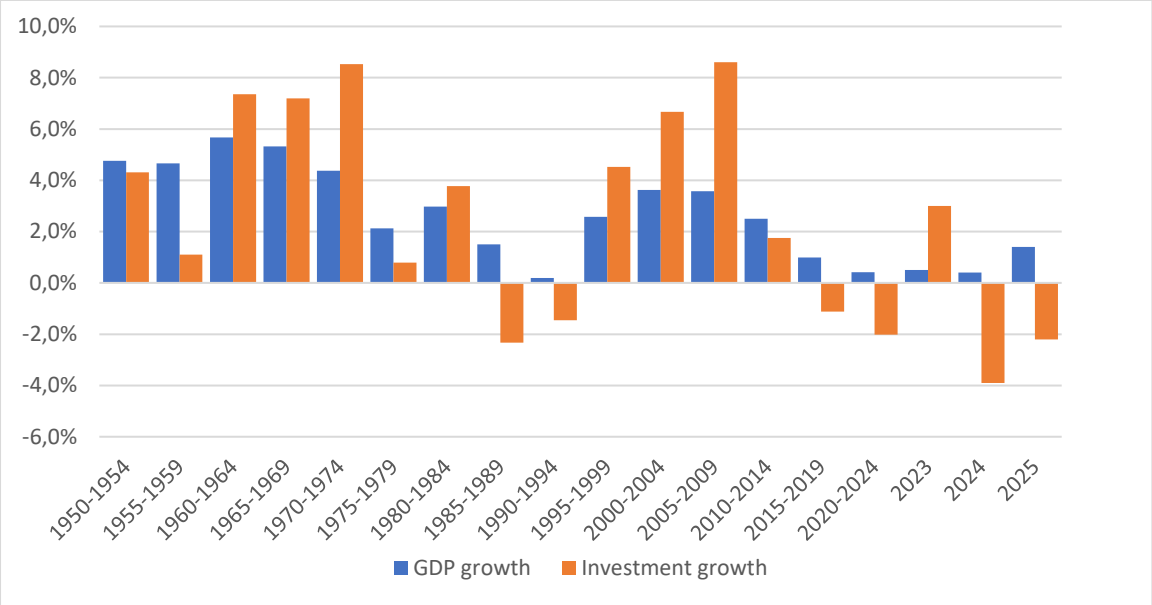
2 Stylised facts about investment

In this section, I present some "stylised facts" about the performance of investment, highlighting that investment growth has slowed significantly, shifted increasingly away from buildings towards machinery and computer technology, and the role of state-owned enterprises has declined. The overall impact is that capital stock growth has stagnated, and even the weak capital stock increases that have been achieved have been unproductive.

2.1 Investment growth has slowed signficantly

Since 2010, both GDP growth and investment growth have slowed significantly. Investment growth was particularly strong in the 2005 – 2009 period, averaging 8.6%, mainly on the back of a strong economy in the late 2000s and significant World Cup 2010 related infrastructure upgrades. However, since then, growth first slowed then contracted.

Figure 2: GDP and investment growth, 1950 – 2025



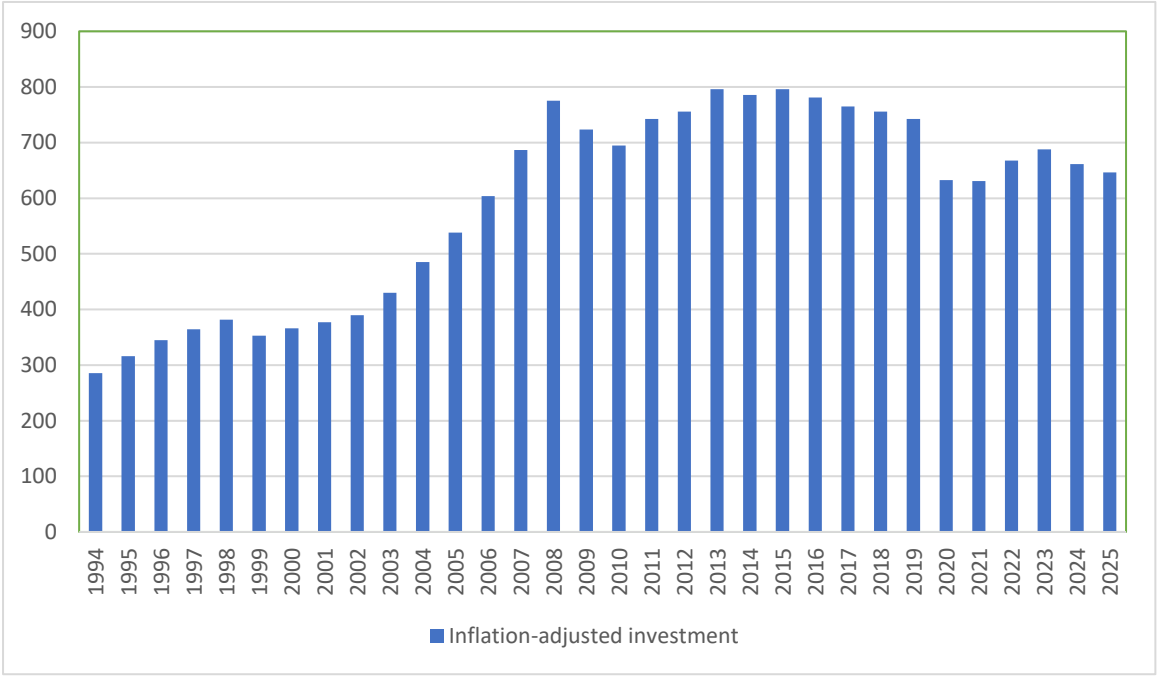
Source: StatsSA and SARB, via BER DataPlayground

We can see the negative investment growth by looking at the total amount of annual investment per year between 1994 and 2024 (Figure 3). After a strong increase in investment between 1994 and 2008 from just less than R300 billion to R775 billion (in inflation adjusted terms), investment fell directly after the global financial crisis, before recovering to an all-time inflation adjusted peak in 2013. Since 2013, it has slowly shrunk. There was a small rebound following the COVID-19 shock in 2020. In real terms, total annual investment in 2024 was 17% lower than a decade earlier.

Between 2023 and 2025, there was only one year of investment growth (2023), likely still a post-COVID recovery. In 2024, investment contracted by 3.9% and in 2025, it contracted by 2.2%. This contraction reduced overall GDP growth by 0.3%pts.[3]

[3] Figures as per the March 2026 StatsSA GDP release available here.

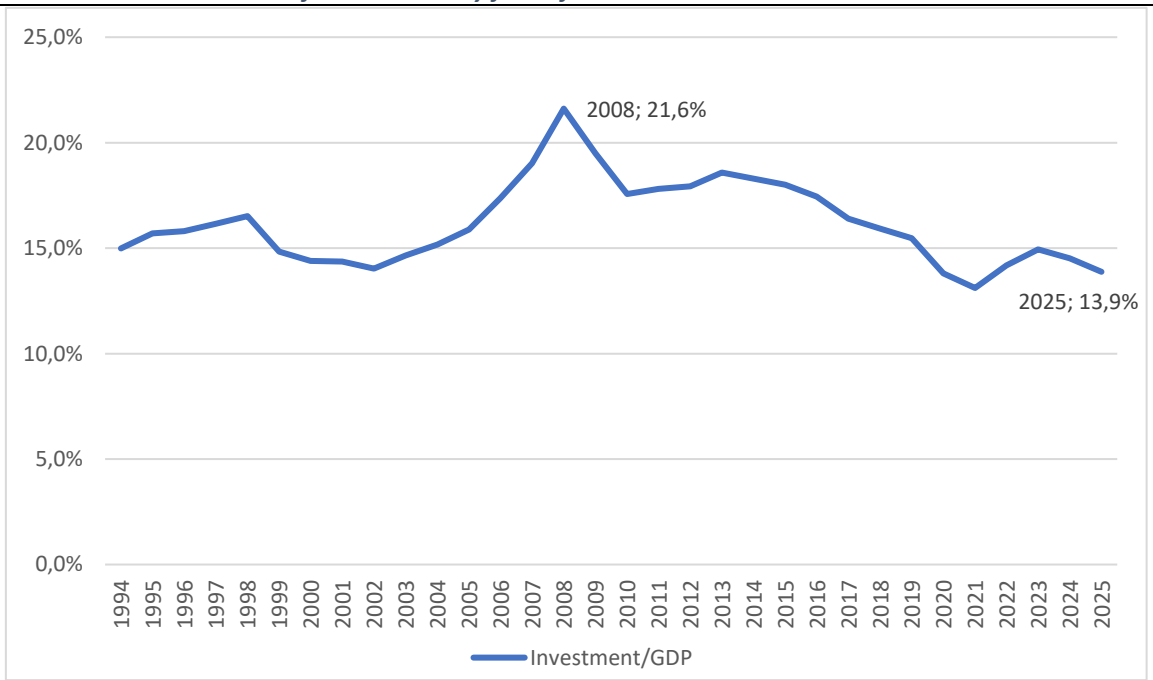
Figure 3: The level of investment, adjusted for inflation, remains below its 2015 high



Source: SARB, via BER DataPlayground

This shows up in the investment as a share of GDP data. After peaking at a high of 22% in 2008, investment to GDP now languishes at 13.9%. In short, investment is not driving the economy.

Figure 4: Investment as a share of GDP has slowly fallen from 2008 onward



Source: SARB, via BER DataPlayground

Box 1: Terminology

In the system of national accounts, there is a distinction between "investment" as it appears in the aggregate expenditure identity and the more precise concept of **gross fixed capital formation** (GFCF). Gross fixed capital formation is the formal statistical measure of expenditure on produced fixed assets that are used repeatedly in production for more than one year. These assets include buildings, machinery and equipment, infrastructure, and intellectual property products such as research and development and

software. The measure is described as “gross” because it does not deduct consumption of fixed capital (depreciation). When depreciation is subtracted, the resulting concept is net fixed capital formation, which more closely captures the net addition to the productive capital stock.

The term gross domestic fixed investment (GDFI) is largely synonymous with GFCF in practical application. In many national statistical publications, including those of Statistics South Africa and the South African Reserve Bank, GDFI is used to refer to the domestic component of fixed capital formation. Conceptually and in accounting treatment, it corresponds to GFCF as defined in the System of National Accounts. The difference is primarily terminological rather than substantive, with “domestic” emphasising that the expenditure occurs within the national economy.

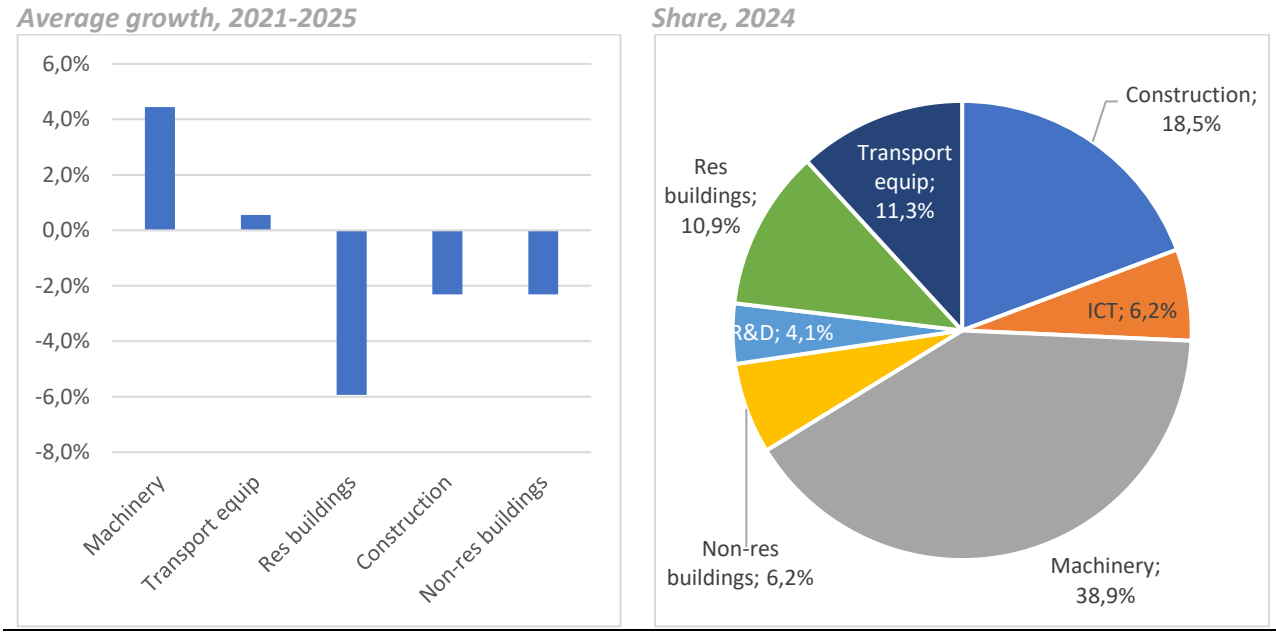
By contrast, “investment” in the national income identity is a broader aggregate. In the expenditure approach to GDP, investment (I) comprises gross fixed capital formation, changes in inventories, and acquisitions less disposals of valuables. Thus, total investment exceeds fixed investment whenever firms accumulate inventories. Outside national accounts, the term “investment” is used even more loosely, often referring to financial asset purchases, which do not constitute production and therefore are not included in GDP.

For the purposes of this paper, we use the term “investment” as synonymous with “gross fixed capital formation”. We exclude purchases of financial assets.

When referring to net gross fixed capital formation, i.e. “investment excluding depreciation” we use the term “change in capital stock”. This captures the idea that capital stock can depreciate.

2.2 There has been a marked shift away from physical investment

Figure 5: Growth and share by type of investment



Source: SARB, via BER DataPlayground

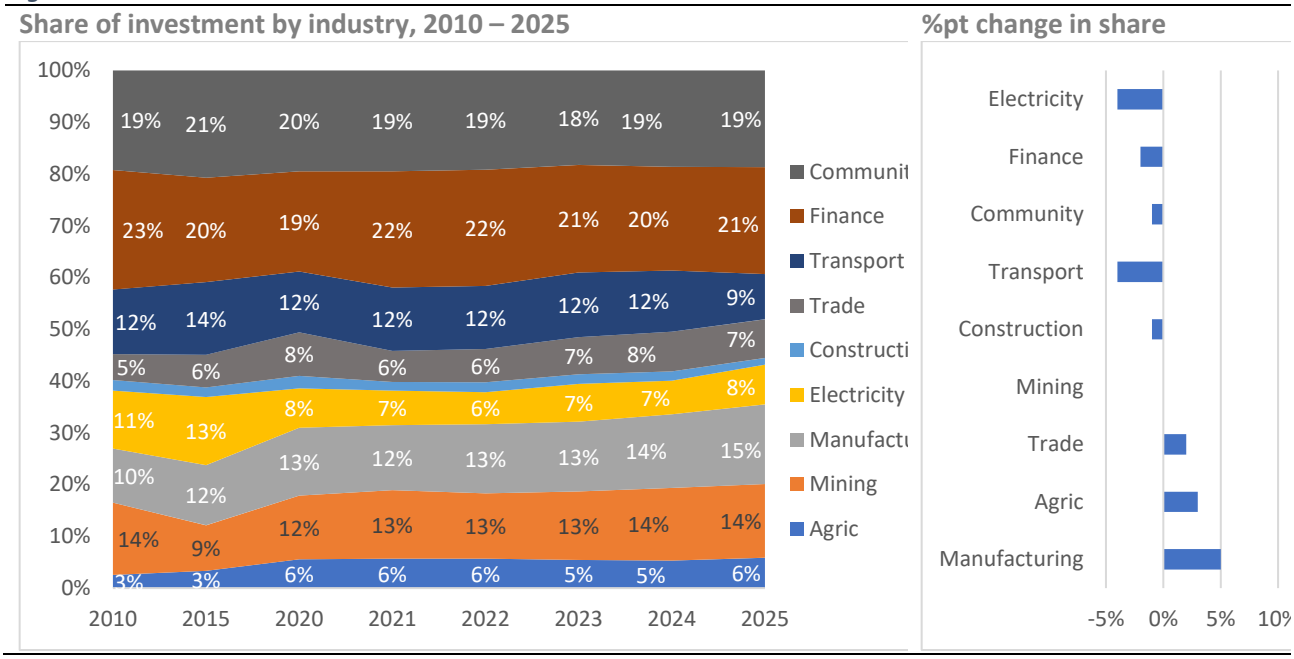
As shown in Figure 5, investment growth by type of asset has skewed markedly towards information, computer and telecommunications (ICT) equipment, machinery, research and development (R&D) and transport equipment. These types of asset have all seen growth. In contrast, residential building, construction and non-residential buildings have seen a marked decline in investment.

This distribution of growth explains much of the overall slowdown. The three contracting asset types (residential buildings, construction and non-residential buildings) account for over a third of all investment.

2.3 The financial sector and government are the biggest investors

The finance sector accounts for the largest share of investment. This sector accounted for 20% of investment in 2024, down from the 23% in 2010. A slightly smaller share is in “community, social and personal services”, which includes government. It has also accounted for about 19% of investment. These two sectors are arguably not those that can underpin rapid labour-absorbing growth.That said, interestingly there has been a rebound in the share of both manufacturing and mining, which now account for 14% of growth respectively.

Figure 6: Investment shares

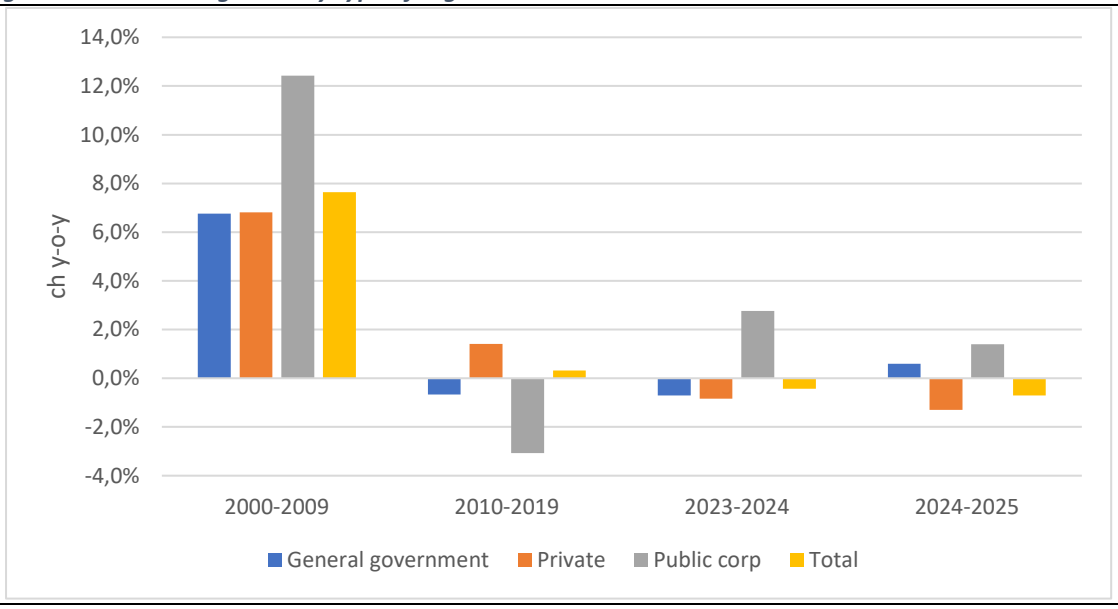


Source: SARB, via BER DataPlayground

There has been a shift in investment shares. Three notable shifts in share of investment are in mining. In 2010, it accounted for 14% of investment; but only 9% in 2015; whereas in 2024 it accounted for 14% of investment. Electricity has seen the opposite, with a notable decline in its share from 13% of all investment to only 7% in 2024. The large share in 2015 is associated with enormous unproductive investment in Medupi and Kusile. But curiously, despite large-scale investment in renewables, electricity investment is still only about 7% of the total.

The most recent data also highlights real investment has changed by type of organisation. The boom period saw investment growth across public and private sectors, with the fastest growth in public corporations investment (which rose over 12%).

Figure 7: Investment growth by type of organisation

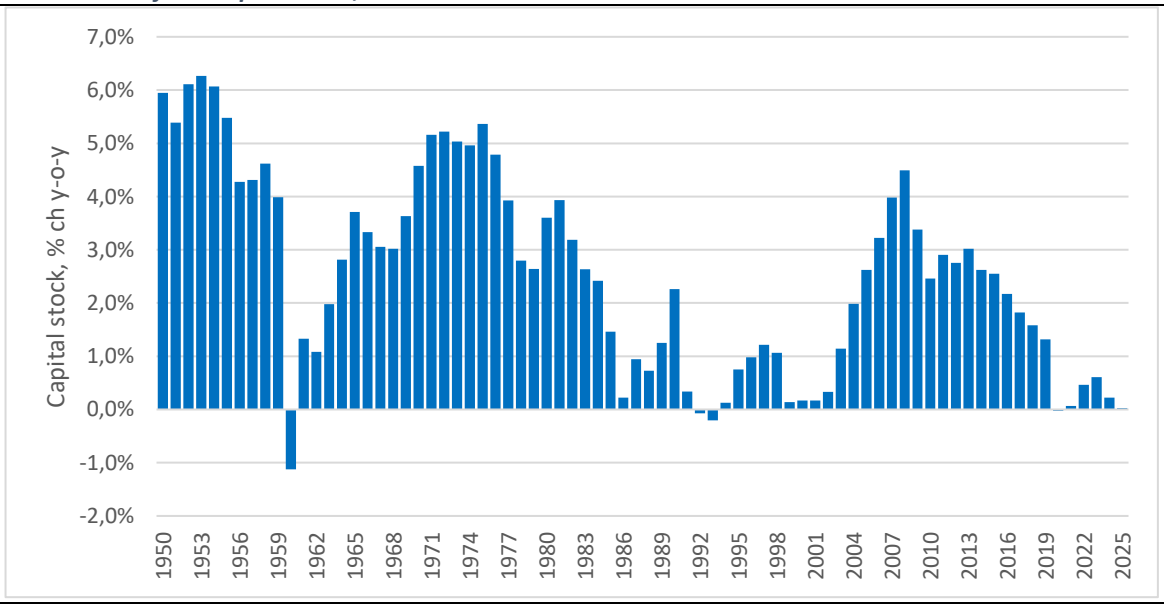


Source: SARB, via BER DataPlayground

2.4 The capital stock has stagnated

As noted in Box 1, capital stock is the cumulative consequence of past investment. Moreover, as highlighted in Havemann (2025), it is capital stock that generates long-term sustainable growth. It is the stock of physical and intangible capital (machinery, infrastructure, equipment, buildings, and increasingly intellectual property) that expands the productive capacity of the economy over time. Capital deepening, defined as an increase in capital per worker, raises labour productivity and thereby supports sustained increases in real incomes. In 2025, fixed capital stock rose by 0.02%, essentially zero.

Figure 8 Growth in fixed capital stock, 1950 - 2025



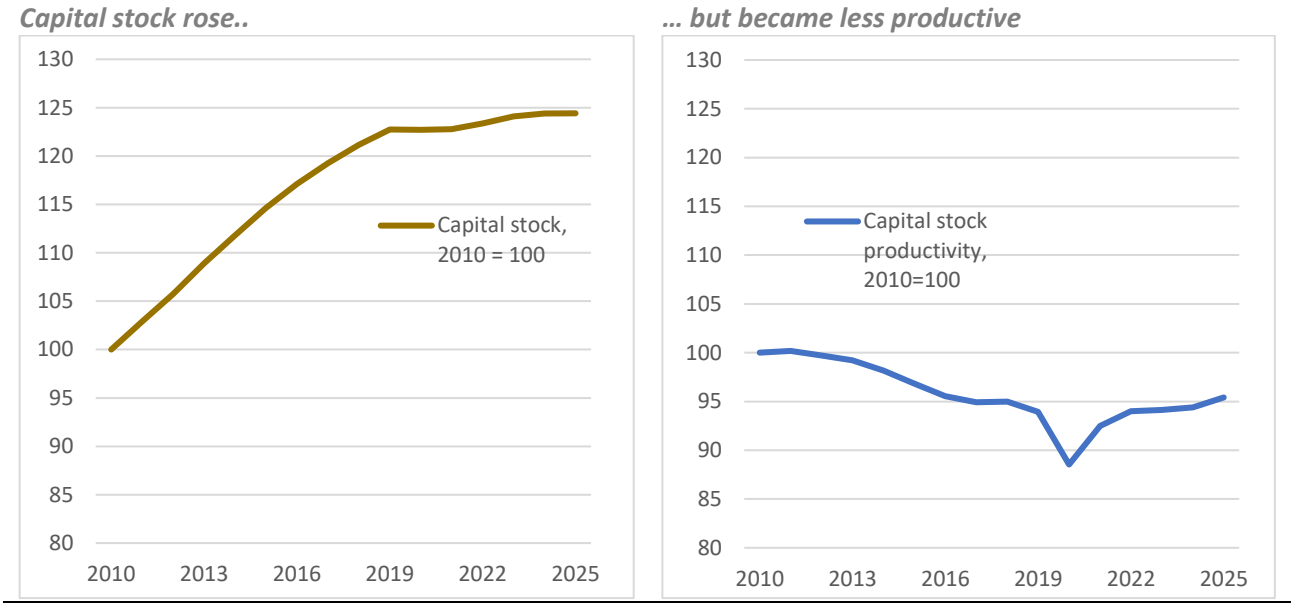
Source: SARB via BER DataPlayground

From a peak in 2008 and 2009, corresponding with the 2010 Soccer World Cup, growth in fixed capital stock has declined to near zero in 2024.

2.5 The capital stock has become less productive

Moreover, the capital stock growth of 2010 to 2019 period was unproductive. As highlighted by Havemann (2025), the increase in capital stock by sector did not lead to proportionally higher growth. On aggregate, as highlighted in Figure 9, capital stock productivity has declined. I measure capital stock productivity as gross value added per unit of capital, and the figure indicates that less value added is produced per unit of capital.

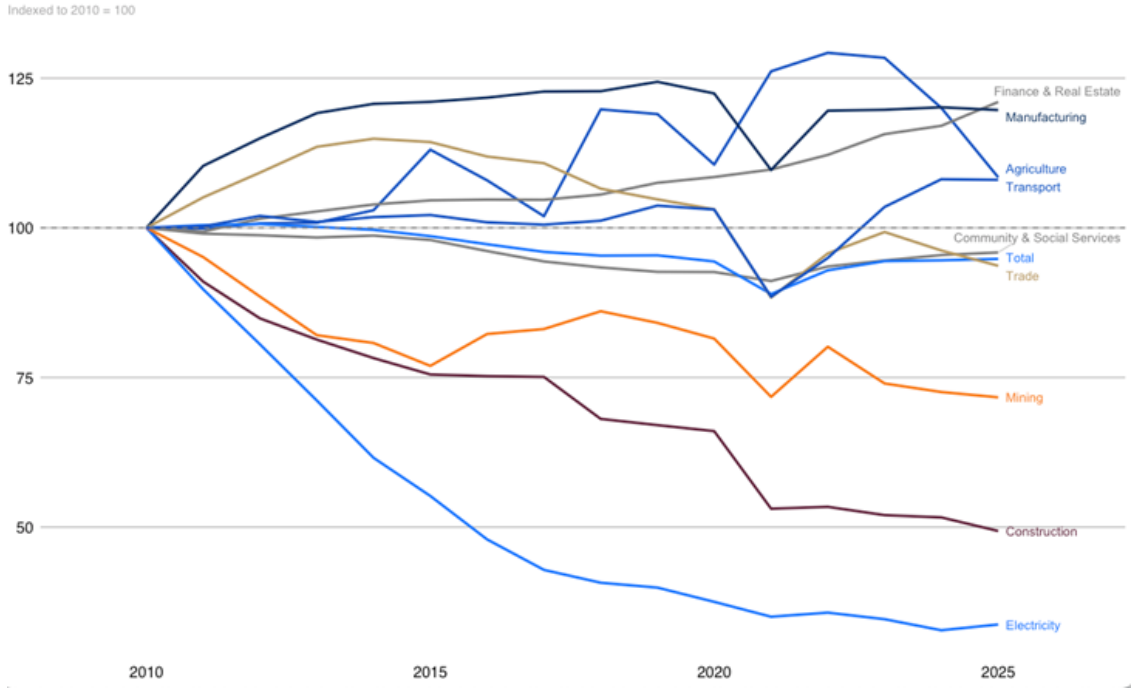
Figure 9: Capital stock productivity has declined



Capital stock productivity is measured as Gross Value Added divided by Capital Stock, for sectoral comparisons see Havemann (2025)
Source: SARB via BER DataPlayground

This is largely due to a significant expansion of public entity capital stock during the "state capture" years, with very little to show for it. Indeed, large scale projects such as Medupi and Kusile are monuments to unproductive investment that was diverted away from other investment (e.g. into schools or houses).

Figure 10: The capital stock productivity decline was driven by electricity, construction and mining

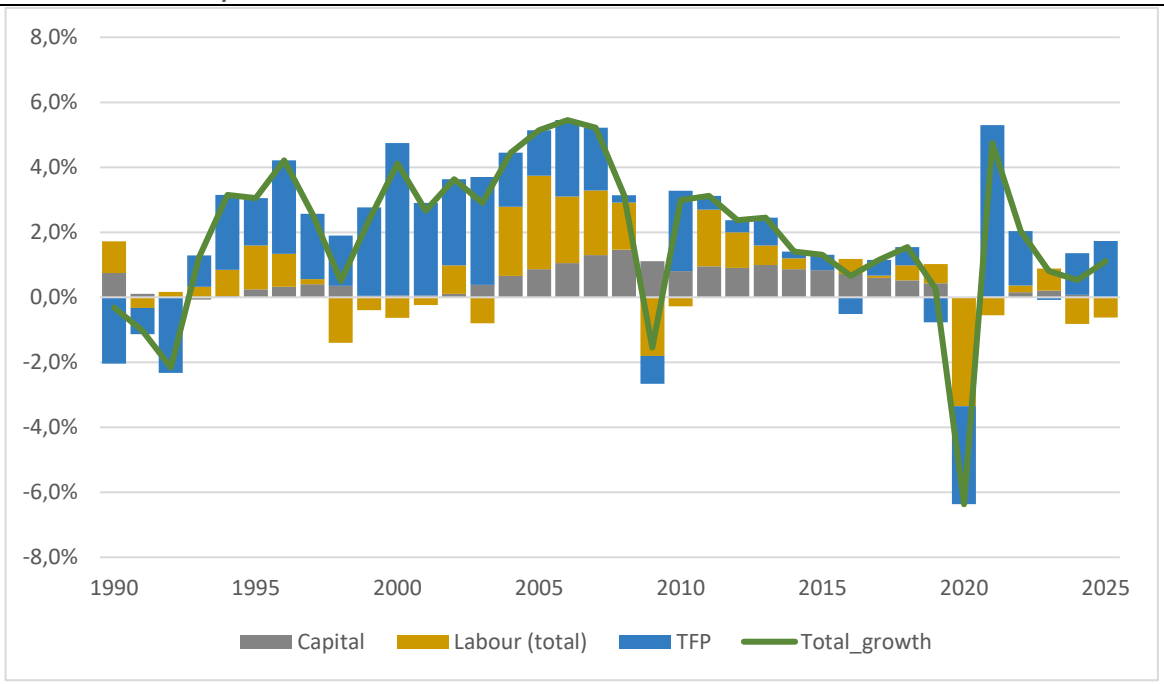


Capital stock productivity is measured as Gross Value Added divided by Capital Stock, for sectoral comparisons see Havemann (2025)
Source: SARB via BER DataPlayground. See Hasvemann (2025) for more detials.

2.6 The slowdown in capital stock accumulation has been a drag on overall growth

The inter-relationship between growth and investment can be captured through a growth decomposition. Recent growth decompositions (e.g. Havemann 2025 and Steenkamp 2026) show that there is a direct link between the slowdown in investment, the stagnation of the capital stock and overall economic growth. This is largely borne out by the capital stock productivity shown in the right-hand panel of Figure 9. The growth decomposition in Havemann (2025) highlights that the share of growth attributable to capital stock changes declined, and in 2024 was negative. This only underscores the intuitive explanation that weak and unproductive capital stock growth has been an overall drag on economic growth.

Figure 11: Growth decomposition



Source: Havemann (2025)

3 Why has investment been so weak?

I review a set of reasons for the investment contraction from theory and the data. Two interlinked reasons emerge: (1) An increase in uncertainty (both political and economic); and (2) rising long-term interest rates, which are in turn a function of the fiscal deterioration, and, arguably, the collapse in business confidence

What explains the investment contraction? The standard investment literature suggests that the following factors influence investment:

- *Expected demand, often proxied through sentiment about the future*. Firms invest when they expect higher future returns.[4] If investors expect stronger future profits (i.e. stronger economic conditions), equity prices rise, "Tobin's q" increases,[5] and investment follows.

- *Certainty*.[6] Investment decisions are often irreversible (once capital is installed, it cannot be fully recovered).When uncertainty about future demand, prices, or policy increases, firms prefer to delay investment until more information becomes available.[7]

- *The real interest rate / cost of capital*. A firm will continue to expand its capital stock as long as the marginal product of capital exceeds the real user cost of capital. The marginal product can be proxied by profit and the cost of capital by the real interest rate. Intuitively, a higher real interest rate should dampen investment.

In the next few sections we analyse each of these factors, drawing from BER surveys and forecasts to better understand the interplay between these factors and investment

3.1 Sentiment has been weak

There is a well-established theoretical relationship between "sentiment" and investment. John Maynard Keynes[8] famously wrote about "animal spirits", which he called a "spontaneous urge to action rather than inaction, not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities." This neatly differentiates between investment decisions based on cold, hard facts, and those that are taken due to softer factors, what GenZ may call the "vibes".[9]

If firms expect the economy to strengthen then they will invest. Investment, in turn, drives economic growth. There is an element of "chicken-and-egg": Investment and growth are jointly determined through

[4] Jorgenson (1963).

[5] Tobin's q is the ratio of a physical asset's market value to its replacement value. Intuitively, it the value of assets rise above replacement value then there is an incentive for firms to investment more. Tobin's q is often used for companies (i.e. the ratio of the market value of company's assets to their replacement value). For listed firms, when share prices rise, Tobin's q rises, encouraging investment.

[6] The terms "sentiment" and "certainty" are often used interchangeably to refer to confidence. But these are two separate measures. *Sentiment* usually refers to survey-based measures like business confidence or consumer confidence. It indicates whether agents expect conditions to improve, stay the same or deteriorate. Sentiment "is the disposition of an entity towards an entity" *Certainty*, in contrast, relates to how tightly beliefs are clustered. In finance, this shows up as volatility or dispersion of forecasts. High volatility implies low certainty. In macro theory, this relates to uncertainty shocks where firms delay investment not because they are pessimistic, but because the distribution of possible outcomes widens. For a detailed discussion, see Algaba (2020).

[7] This is known as the real options effect, see Bloom (2009).

[8] Keynes (1936).

[9] Matulich, N. (2025).

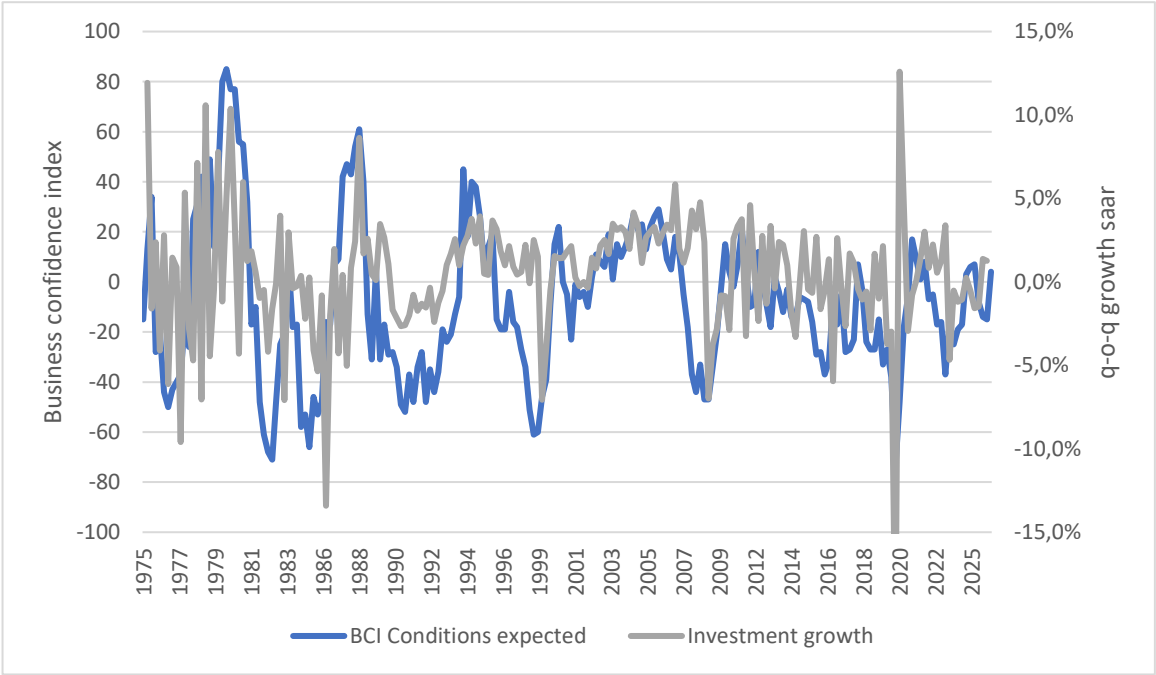
expectations-driven feedback loops, in which beliefs about future demand shape current capital accumulation, while realised investment outcomes subsequently validate or overturn those beliefs.

The outlook for the economy is in turn subject to both relatively quantifiable risk and relatively unquantifiable uncertainty.[10] I return later to measures of uncertainty, but it is possible to gauge how businesses experience demand in the present moment

Certainty can be driven by uncertainty about a wide range of factors,[11] including political change, taxes, regulations, interest rates, wages, exchange rates and technological change. Very large economic contractions (e.g. after September 11 2001, the 2008 Global Financial Crisis or the 2020 COVID pandemic) are often closely related not to changes in fundamentals, but sudden changes in confidence.

News shocks can also impact on investment. "News shocks" refer to information today about future fundamentals that leads to changes in expectations before any observable change in current productivity or income occurs. In that sense, investment can move on impact not because conditions have improved, but because firms anticipate that they will improve.[12]

Figure 12: Business confidence and investment are closely correlated



Source: SARB, via BER DataPlayground

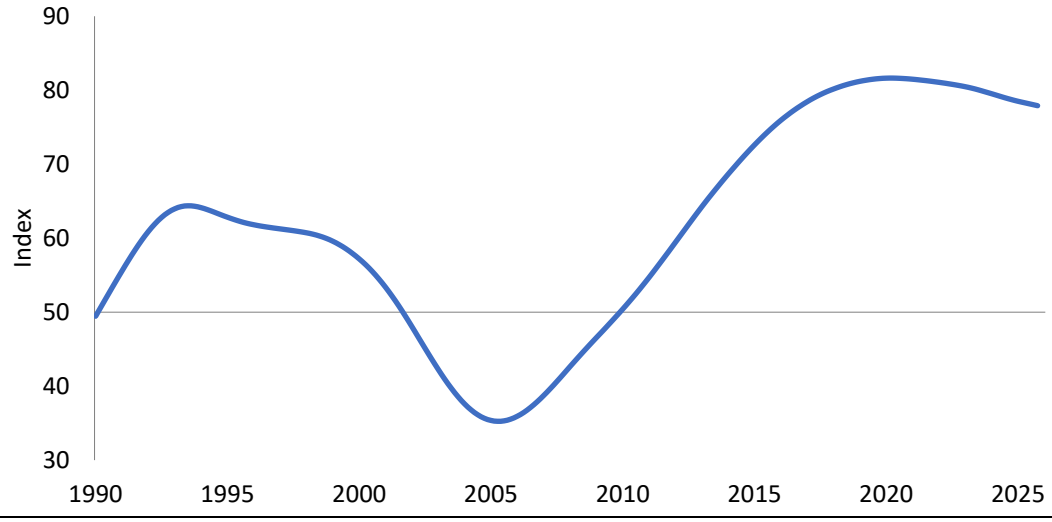
On simple examination (Figure 12) the data shows evidence of correlation, while there is evidence to a deterioration in the political climate since 2005 (Figure 13) and a deterioration in South Africa's ranking on the Corruption Perceptions Index (Figure 14).

[10] Under "Knightian" uncertainty, where probabilities are unknown rather than merely risky, firms face ambiguity about future states of the world, making investment decisions driven by robustness and caution rather than expected returns, and thereby weakening the link between optimistic expectations and actual capital formation, see Knight (1921)

[11] Bloom (2007).

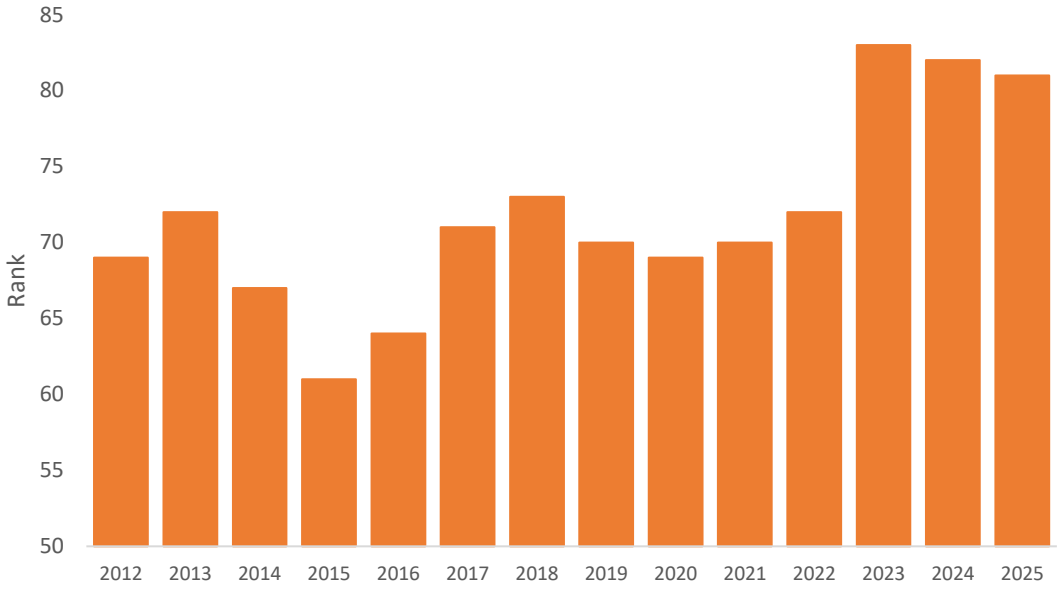
[12] For an analysis using a South African media sentiment index, see Odendaal et al (2020).

Figure 13: The political climate has increased as a constraint for businesses (smoothed)



Source: Absa Manufacturing Survey, BER

Figure 14: South Africa's rank on the Corruption Perceptions Index has worsened



Source: Transparency.org Corruption Perceptions Index

This is borne out by bivariate econometric tests. I look at a number of measures of sentiment and perform a number of econometric tests to understand if there is indeed relationship between these various measures and investment. Our results are summarised in Table 3. In short, there is evidence of a negative relationship between most measures of sentiment and investment. Important, I distinguish between three different types of sentiment

- Confidence indices, such as the RMB/BER Business Confidence Index. Here we expect a positive relationship, which is what is shown. There is also evidence of (Granger) causality and the index and investment are co-integrated, suggesting that there is a long-run stable relationship between the two variables. Similarly, the FNB/BER Consumer Confidence Index for High-Income Individuals comes out as correlated, with (Granger) causality and cointegration. This is consistent with a hypothesis that high income individuals drive investment decisions (e.g. in housing).

- Uncertainty measures. The "classic" uncertainty index is the volatity index (the "VIX"). I test the impact of the South African equivalent, the SA Volatility Index (SAVI). Interestingly it does not come through as correlated. Another uncertainty index, a survey question on whether political constraints are impacting investment does, however, come up as correlated, and there is evidence of (Granger) causality and cointegration.

- Media sentiment indices. Finally, I look at a simple correlation of investment and media sentiment indices. The BER's media sentiment is relatively in its infancy. Other research work (e.g. Odendaal et al (2020) and Matulich (2025)), suggests that, as expected, there is a relationship between overall GDP and these measures. Those studies do not specficially consider investment, however, the results are suggestive of similar transmission channels operating through investment.

Table 3: Impact of uncertainty, confidence and news on private-sector investment

Measure†	Correlation (2000-2024)	Granger causality? ††	Feedback causality (Investment to measure)	Cointegrated? †††
Confidence (expect positive)[b]				
RMB/ BER Business Confidence Index (BCI)	0.271	Yes***	No	Yes***
FNB/BER Consumer confidence index High income	0.073	No	No	Yes*
CCI High income Conditions Expected	0.067	Yes*	No	Yes*
Uncertainty (expect negative)				
Political climate on investment	-0.145	Yes*	Yes***	Yes**
SAVI	-0.07	No	No	Yes***
News (expect positive)				
BER Media Sentiment Index	0.064	Yes*	No	Yes
BER MSI Economy	0.071	No	No	Yes

The table presents a summary of simple econometric tests of the relationship between private sector investment (first difference in logs) and various measures of uncertainty, confidence and news shocks.

* At the 90% confidence level; ** at the 95% confidence level; *** at the 99% confidence level

† Private-sector investment is measured as gross fixed capital capital formation by private business enterprises (KBP6109C) excluding residential buildings (KBP6110C) at constant prices.

†† We test Granger causality of the variable on investment, e.g. in the case of the SAVI, the null hypothesis is that SAVI does not Granger cause private sector investment. ††† Johansen co-integration test

[b] We use first log differences of investment, i.e. a proxy of investment growth

As part of its support to the Operation Vulindlela (OV) initative, the BER reviewed comments across all its survey responses during 2025 to identify what the main issues were. A large language model (LLM) was used to summarise approximately 600 comments that accompanied the usual survey process with particular focus on comments referring to OV-related issues. This means that other major constraints (for example, empowerment regulations or globally-driven constraints) were frequently flagged but are not considered below.. These were mapped to OV areas of work, and the following came up with highest "comment intensity", that is the most number of comments:

- Local government reform (87)

- Logistics system (84)
- Cities, including spatial and public transport (54)

In a review of comments, institutional quality emerges as cross-cutting theme. Corruption, political interference, and weak administrative capacity appear in nearly every reform category.

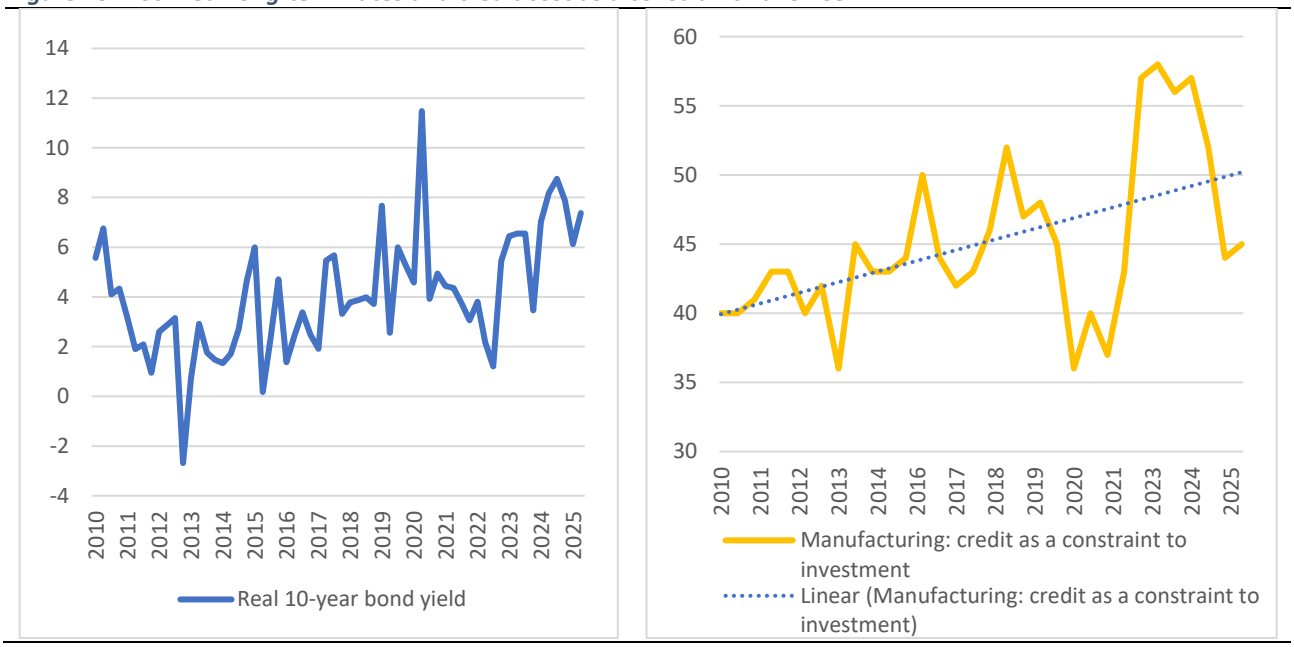
Private participation is seen as a recurring solution. Particularly in electricity and logistics, business explicitly calls for structured private-sector involvement.

The comments also highlight that security of infrastructure (electricity, water, logistics) is perceived as foundational to growth and export competitiveness.

3.2 The cost of credit has risen with rising bond yields

A second reason for weak investment is that the real cost of credit has risen slowly over the past decade. The economy-wide cost of borrowing, as measured by the real bond yield has risen over time (Figure 15). At the same time, the share of manufacturing firms citing credit cost as a constraint has risen, peaking at 56% all firms in late 2023. This increase corresponds to the slowdown in investment. There has been a notable decline in late 2025, associated with recent lower interest rates. We discuss this positive uptick in a later section.

Figure 15: Both real long-term rates and credit cost as a constraint have risen

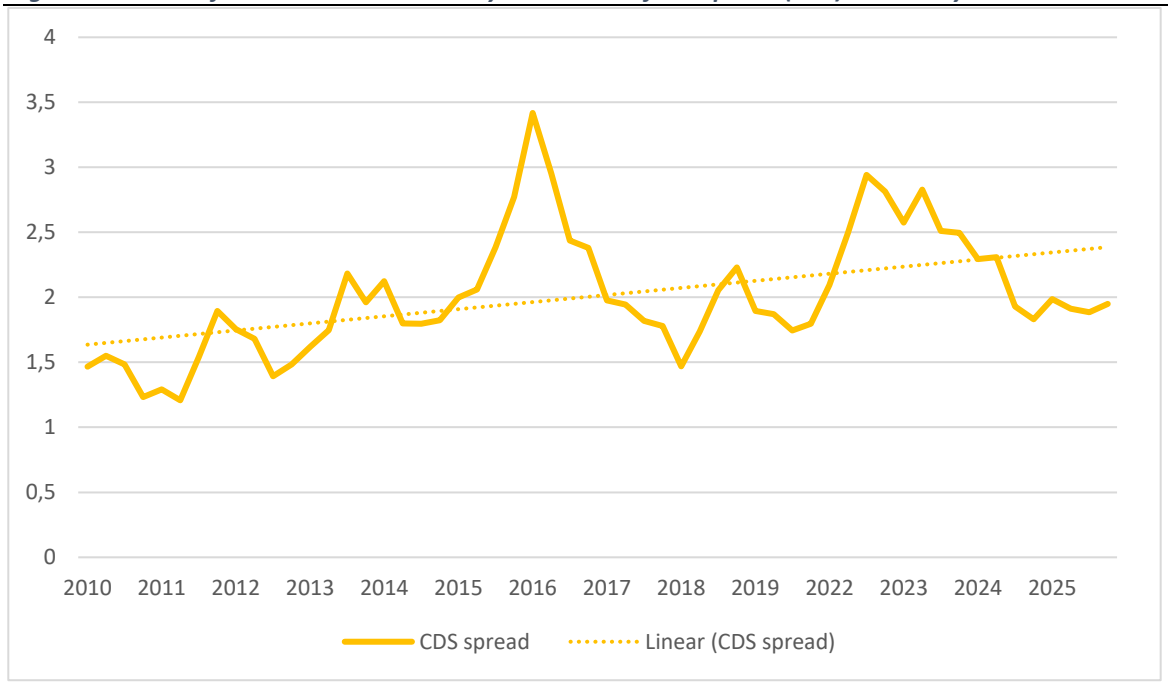


Source: SARB QB and BER Absa Manufacturing Index, via BER DataPlayground, COVID period excluded (2020 and 2021)

The proximate cause is a fiscal deterioration. The deterioration of the fiscal position has been associated with rising long-term interest rates as a result of a rising risk premium.[13] This is the "interest rate channel of crowding-out". Borrowing by the government to meet increased fiscal spending raises the demand for funds in the capital market. If the supply of savings is relatively fixed in the short run, the increased demand pushes up the equilibrium interest rate. As shown in Figure 16, the South African credit default swap from 2010 shows a slow grinding upward trend.

[13] Van Rensburg et al (2022).

Figure 16: South African risk as measured by the credit default spread (CDS) has slowly risen



3.3 Public-sector infrastructure spending has not crowded in private investment

There is also little evidence of "crowding-in". By crowding-in, we mean government spending that stimulates private sector investment. This typically occurs through the provision of public goods — for example, infrastructure that reduces transaction costs, education that improves labour quality, or research and development that fosters innovation spillovers.

It is difficult to show that public-sector investment multipliers have, however, been good for growth. Du Rand et al (2023), for example, show that fiscal investment multipliers are likely negative, or zero at best. Their estimate of the government investment multiplier is –0.118.This suggests that even the government investment that is happening is not contributing to positive economic growth. Other work using different techniques by Hollander (2024) comes to a slightly more positive result, suggesting that an investment-driven debt-financed fiscal stimulus might well reduce the government debt-to-GDP ratio.

4 How to re-ignite investment

From the the previous sections, the investment slowdown arises from an interlocking combination of weak business sentiment and high real interest rates. Reigniting investment would entail reversing those two things. This can arguably be achieved through three interrelated policy actions: a credible fiscal consolidation, accelerating the Operation Vulindlela reform programme and restoring business confidence.

4.1 A credible fiscal consolidation

As highlighted, the rise in long-term interest rates over the past decade is associated with a significant rise in debt. Stabilsing and reducing debt will reduce long borrowing costs. Fiscal consolidation is not contractionary in a forward-looking sense. Instead, by reducing uncertainty and lowering the cost of capital, it crowds in private investment and supports a recovery in business confidence,, helping to resolve the very growth constraint that made consolidation difficult in the first place. The recent reduction in the inflation target together with a strong message on fiscal consolidation in the February 2026 budget suggests that fiscal-monetary coordination is improving. Havemann and Hollander (2026) argue that this is best achieved by having both a monetary target and a fiscal target.

Fiscal-monetary coordination has been poor over the past number years. While monetary policy has progressively become more credible and rule-bound, fiscal policy has suffered from time inconsistency. Successive debt-to-GDP forecasts have been missed; and this has led to “fiscal dominance”.

A credible fiscal consolidation therefore serves as the anchor of improved fiscal-monetary coordination. By setting and adhering to a transparent fiscal rule—focused on stabilising and then reducing the debt-to-GDP ratio—the Treasury can lower sovereign risk premia and long-term real interest rates. This, in turn, creates space for a more accommodative monetary stance without jeopardising the inflation target. Crucially, credibility is key: consolidation must be underpinned by concrete expenditure reforms and institutional mechanisms that limit slippage, rather than relying solely on optimistic growth assumptions.

4.2 Accelerate the Operation Vulindlela reform programme

Operation Vulindela, the government’s flagship economic reform programme, aims to resolve key bottlenecks in the economy, particularly in the areas of electricity and energy, logistics and transport, water security, spatial planning and housing, skills and tourism, local government and digital tranfromation.

This has two related impacts on investment. First, by unblocking constraints it will drive increased overall demand which will support investment. Second, by opening up key areas for private sector investment (e.g. the electricity market) this will crowd-in private investment (e.g. in independent power producers).

How successful has Operation Vulindlela been? There are a number of reform trackers that assess ongoing reform. Business Leadership South Africa takes what can arguably be called an “input approach”, measuring how many of the promised reform actions have been completed. This provides a good measure of whether reforms are being achieved or not. The BER takes it a step further and identifies whether reforms are having a meaningful effect in their area. Our analysis of the OV areas is provided in Table 4. Our overall assessment is that reforms are moving, albeit slowly. The new areas of reform introduced in Phase 2 of the programme are still mixed. Digital infrastructure reform is moving ahead rapidly, while spatial transformation is proceeding at a slower pace.

Table 4: Progress of Operation Vulindlela is slow and steady

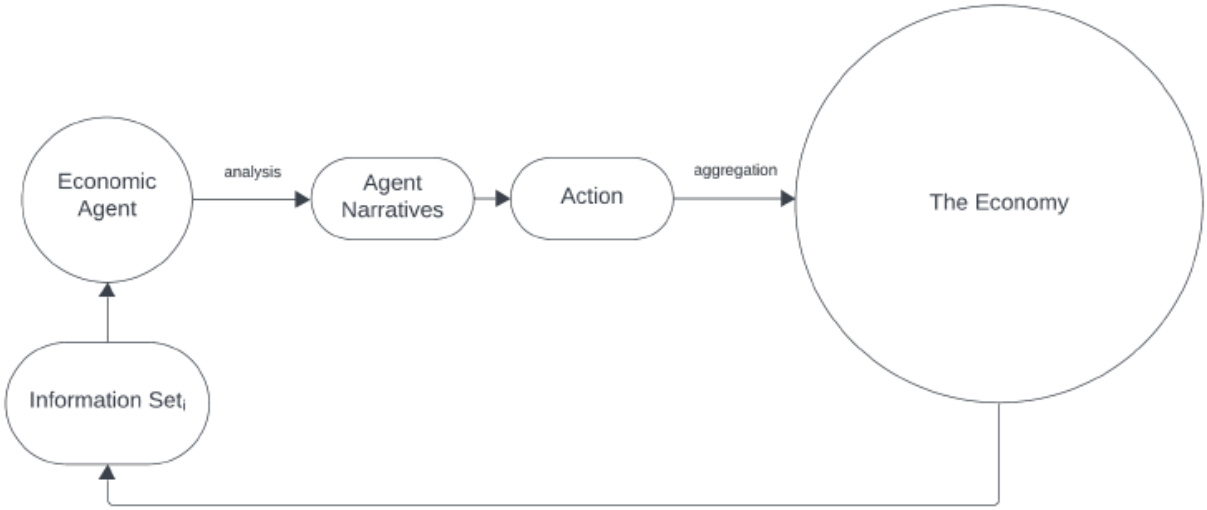
	Assessment	Indicator
Overall	Moderately positive	- Real GDP grew by 1.1% in 2025 - Business confidence improving, with the RMB/BER BCI rising above its long-term average
Electricity	Positive, but risks are emerging	- Rapid expansion in private generation (~18 GW capacity) - Presidential reaffirmation of Eskom unbundling restores reform credibility - World Bank Credit Guarantee Vehicle will support the transmission development plan
Logistics	Positive, but uneven	- 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	- Faster Water Use Licence Application approvals supporting investment - Blue and Green Drop results show widespread municipal water deterioration
Visas	Neutral	- 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	- 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	- 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	- Gov.za fully zero-rated nationwide - SARB acquired a 50% stake in PayInc.

Source: BER (2026)

4.3 Restore business confidence

As highlighted above there is an interrelationship between business confidence and growth. How to create the virtous circle is laid out in Figure 17. Here the information set is what the economic agent uses to make decisions, this informs the agent's narrative, their actions, and then at an aggregated level the consequences for the economy.

Figure 17: The loop between the economy and information



Source: Adapted from Matulich (forthcoming)

To complement the survey results, the BER conducted two structured processes to understand what is constraining business confidence – a large workshop at Mont Fleur Conference Centre in October 2025; and a smaller workshop at Ninety One in February 2026.

This process identified five catalytic areas for reform that flow from the analysis, summarised in Table 5. These are (1) Completing the Operation Vulindlela reform programme; (2) Instituting public sector / leadership reforms; (3) Overhauling the Criminal Justice system; (4) Procurement reforms; and (5) State-owned enterprise reform.

Table 5: FIve areas of catalytic reform

1. CRIMINAL JUSTICE REFORM	2. PUBLIC SECTOR REFORM	3. PROCUREMENT REFORM	4. BUDGET REFORM	5. SOE REFORM
1. Roadmap to overhaul the entire criminal justice system, starting with NPA	**4. Enact the Public Sector Amendment Bill to professionalise the public service**	**7. Embed greater transparency in public procurement and make cost effectiveness the priority of procurement law**	**8. Redirect state resources from unproductive to productive activities**	**10. Appoint strong, independent and accountable boards to SOEs.**
2. Make the NPA financially and operationally independent of the Department of Justice & Constitutional Development	**5. Modernise administrative systems; introduce a silence - is-consent rule**		**9. Target savings of R100 billion a year through scrapping the SETAs, shifting the RAF to a private insurance model and curbing mandate-drift at the UIF**	
3. Address the illicit economy, using SARS as the lever	**6. Pursue big budget cross-departmental projects, leveraging public-private partnerships to bolster skills and funding**			

4.3.1 Undertake criminal justice reform

It was striking how many participants raised the criminal justice system as a binding constraint to growth. This entails the entire value chain: police, prosecution, the courts and correctional services.

Currently, the most important institution in need of attention is the National Prosecuting Authority (NPA), but the entire criminal justice system should be overhauled from the police to the courts, including the intelligence system and correctional services.

A key imperative is to make the NPA financially and operationally independent, free of political interference, and with the requisite powers to deal with any corrupt officials within its ranks.

SA must implement a comprehensive plan to tackle the illicit economy, which the SA Revenue Service (Sars) estimates has grown from 5% to 12%-15% of the SA economy in the last 25 years. If brought into the tax net, these illicit activities could add R200bn-R300bn to the fiscus, Sars estimates.

This plan should include a president-led illicit economy disruption programme; upgrading the anti-corruption Fusion Centre into a national collaborative hub with private-sector participation; targeting the disruption of high-value illicit supply chains, such as illicit tobacco; a border management campaign; dedicated special prosecutors and courts to expedite illicit economy cases; and asset forfeiture.

4.3.2 Public sector / leadership reform

The participants in the process identified the following:

- The Public Service Amendment Bill needs to be enacted urgently to depoliticise the appointment of senior public officials, strengthen accountability, and draw private sector skills into the state.
- The slow digitisation of the deeds office, backlogs in mining licences, unresponsive bureaucracies and inconsistent enforcement contribute to a system that over-regulates and under-delivers - and is suffocating investment. To kick start the renewal, each sector should present a hit list to the government of the laws and regulations that need to be amended.
- The state needs to end the siloed way it executes policy and the fragmented way it allocates capital budgets, shifting, where appropriate, from making many small disbursements to multiple departments to allocating single, big budgets to big, catalytic projects – like fixing the Lebombo border crossing between SA and Mozambique. In this way, private-sector skills and funding can be brought in, pushing big projects over the line and augmenting state capacity where it is needed most.

4.3.3 Implement procurement reform

The gamechanger could be as simple as injecting **transparency** into the system. The National Treasury recently introduced significant tender reforms to increase transparency, combat corruption, and improve accountability in public procurement. As part of these reforms, it has enhanced the eTender Portal to display detailed, searchable, and quarterly information on tender awards, including vendor names, beneficial ownership details, and, crucially, directors' details.

4.3.4 Continue with state-owned enterprise reform

The government needs to assess about 740 state-owned enterprises (SOEs) and decide which to fix, merge, dissolve, sell or find strategic partners for. Most of the reform effort should be focused on fixing weaknesses in accountability, governance, and procurement as well as on improving financial and operational performance. It comes down to the appointment of strong, independent but accountable boards and

executives with extensive corporate experience. Instead, the government has become distracted by a desire to change the SOE ownership model as per the National State Enterprises Bill, which would centralise the management of struggling SOEs under a single state asset management holding company with strong influence from the presidency. It is not clear, however, how this would depoliticise the SOE environment or make private participation in SOEs any easier.

5 Conclusion

Over the past decade, investment has contracted. Even a shift to zero growth would have a positive impact on overall economic growth. This growth impact is both mechanical and structural: mechanical in the sense that the GDP calculation includes investment; and structural in that increased investment feeds into a growing capital stock, which lays the foundation for further growth. This includes investment in research and development, information technology and innovation – all of which are vital to deliver long-run sustainable economic growth.

The analysis shows that the contraction is due to three inter-related reasons: (1) business sentiment has been very weak; (2) the cost of credit has risen; and (3) public-sector investment has not been productive, nor has it crowded-in private sector investment.

This gives the clues to how to reignite investment: government should take actions that restore business and consumer confidence, reduce the cost of credit and ensure that public-sector investment is more productive.

The paper provides more detailed recommendations under each area. To restore business and consumer confidence, it is recommended that the Operation Vulindlela reforms are accelerated. Now that OV is bedded down, other areas of reform are urgently needed. Public sector / leadership reform is needed, including improving the capacity and capability of the state. Criminal justice reform, which links to concerns about crime and corruption, will go a long way to improving business confidence. Simple steps, such as giving the National Prosecuting Authority more independence and implementing the recommendations of Commissions of Inquiry, will go a long way. Introducing more transparency into the procurement will also support a reduction in corruption. Finally, state-owned entity reform is vital as these large behemoths constrain growth by raising costs and not delivering on their mandates.

Overall, our package of measures suggests investment growth can recover. The BER estimates growth could reach and even exceed 3%, a similar estimate to that of the SARB, National Treasury and the IMF. This will require a concerted reform programme that delivers.

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Appendix A: BER surveys and other sentiment measures

The BER has been surveying business sentiment since 1954. A variety of measures of confidence and sentiment can be drawn from the various BER surveys. Survey responses contain a mix of information: current developments and news that are not reflected in the data yet; forward-looking expecations about policy changes and, finally, pure animal spirits (optimism or pessimism that is not tied to fundamentals).

- **BER/RMB Business Confidence Index** (BCI) aggregates responses from the building, manufacturing, retail, wholesale, and motor trade sectors. It serves as a broad barometer of business sentiment and turning points in economic activity.

- The **Absa Manufacturing Survey**, also collected by the BER, complements this by providing a more detailed view of the industrial sector. Beyond the headline confidence measure, it includes sub-indices for production volumes, order books, export demand, capacity utilisation, inventories, and the factors limiting production, distinguishing between demand-side and supply-side constraints.

- The **Retail and Wholesale Trade Surveys** provide insight into conditions in the consumer-facing sectors, capturing sales trends, pricing power, and expected trading conditions. These surveys often reveal shifts in demand sentiment before they appear in hard data.

- The **Building Confidence Survey**, conducted among contractors and quantity surveyors, reflects expectations in construction activity and fixed investment. Its sub-components—such as residential versus non-residential building confidence—are particularly informative about investment cycles and infrastructure activity.

- The **FNB/BER Consumer Confidence Index** (CCI) gauges households' perceptions of their financial position and the general economic outlook. It distinguishes between perceptions of current conditions and future expectations, offering a useful counterpart to business sentiment indicators.

- While not collected by the BER, the **South African Volatility Index (SAVI)** is a market-based measure of expected short-term volatility on the Johannesburg Stock Exchange (JSE), analogous to the VIX in the United States. It reflects investors' expectations of future fluctuations in the FTSE/JSE Top 40 Index over the next three months, derived from the prices of options on that index. A higher SAVI value indicates greater uncertainty or perceived risk in equity markets, often linked to macroeconomic instability, political developments, or global financial turbulence.