BUREAU for ECONOMIC RESEARCH

Impumelelo GROWTH LAB

Reigniting investment in South Africa

Confidence, credibility and reform

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Outline

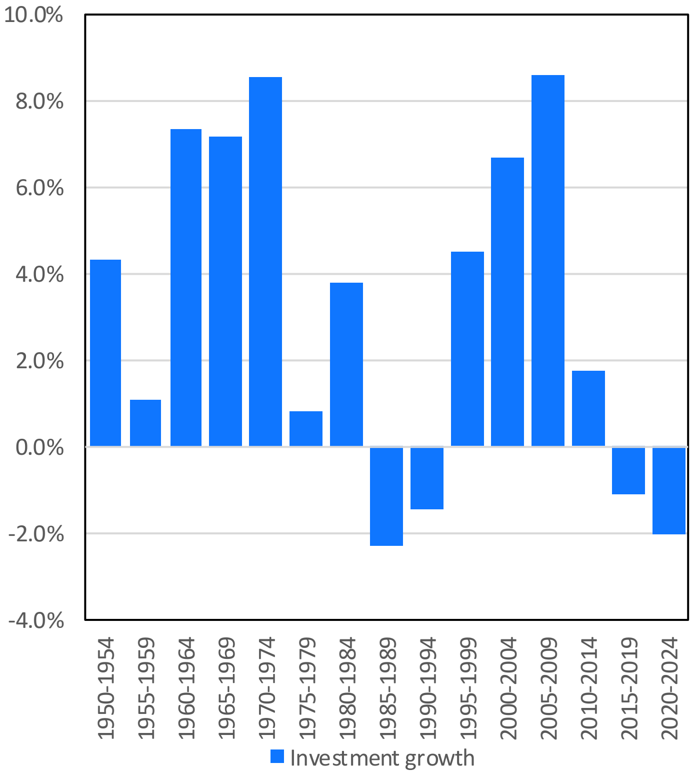
- What do we know about investment? Some stylised facts
- Why has investment been so weak?
- What can be done?

Stylised facts

Investment has contracted…

Investment has contracted since 2015

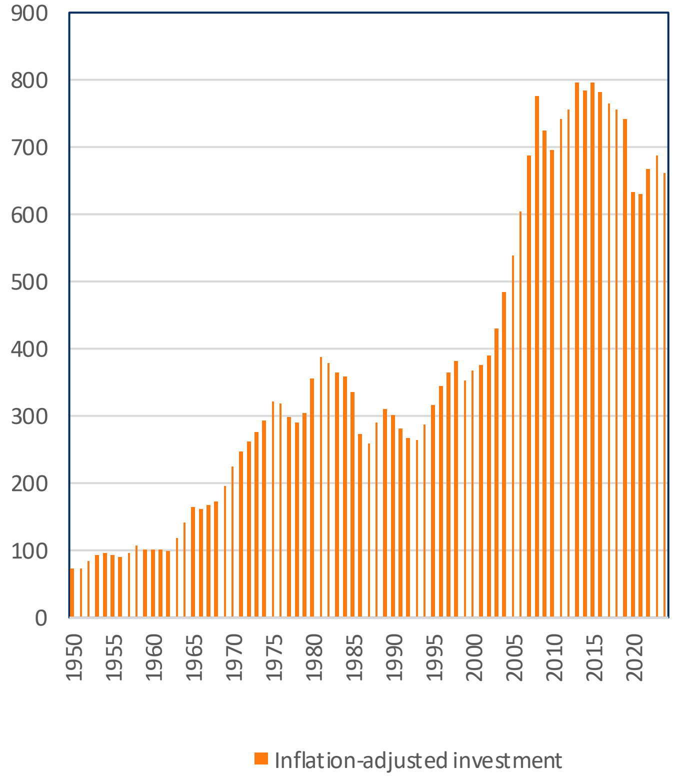
Average investment growth by five-year period, 1950-2024



SARB Quarterly Bulletin, via BER Playground

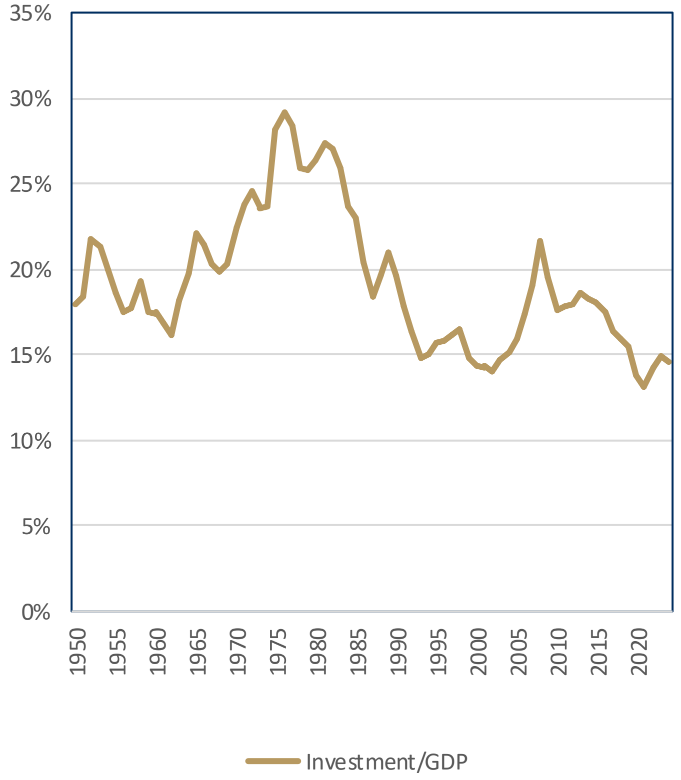
Real investment is lower than in 2015

Level of real investment, Rbn, 1950-2024

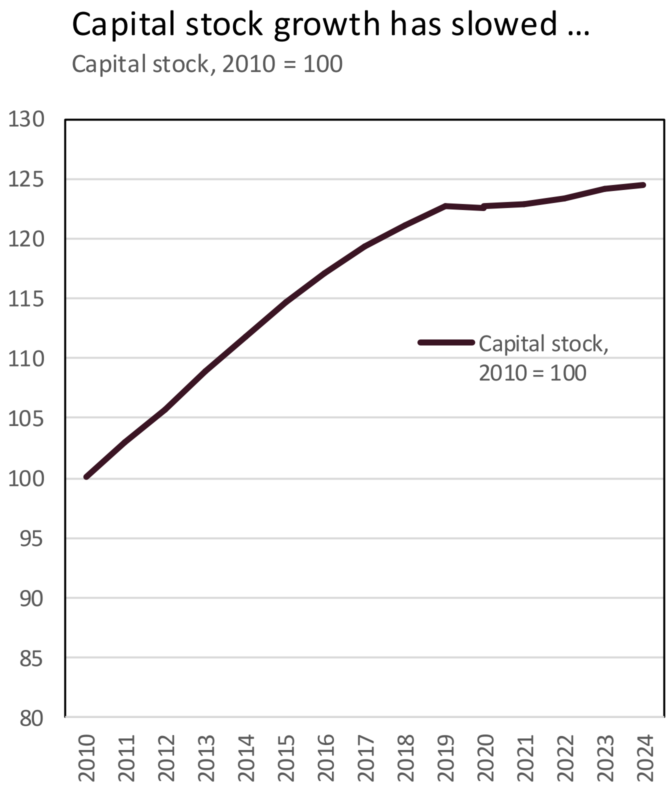


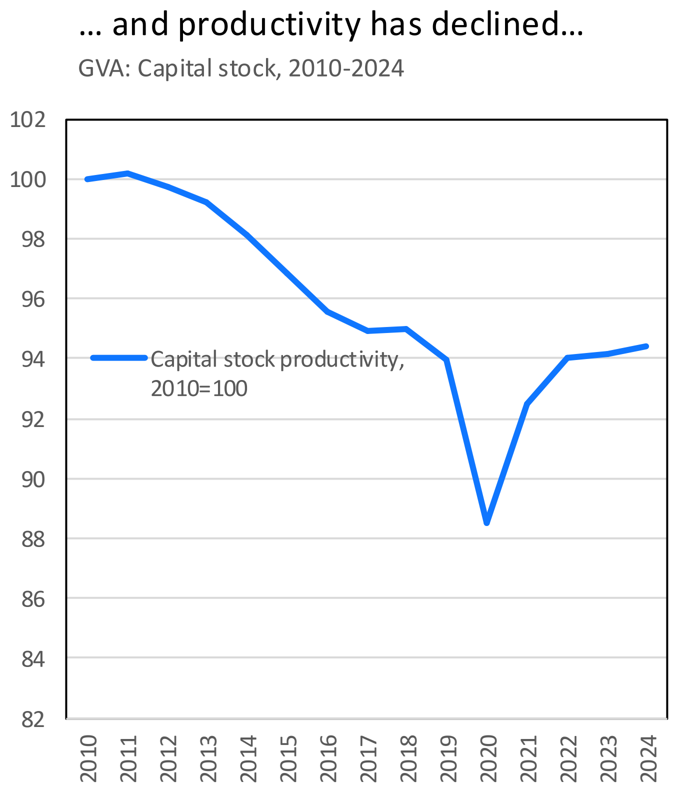
Investment-to-GDP near lowest in history

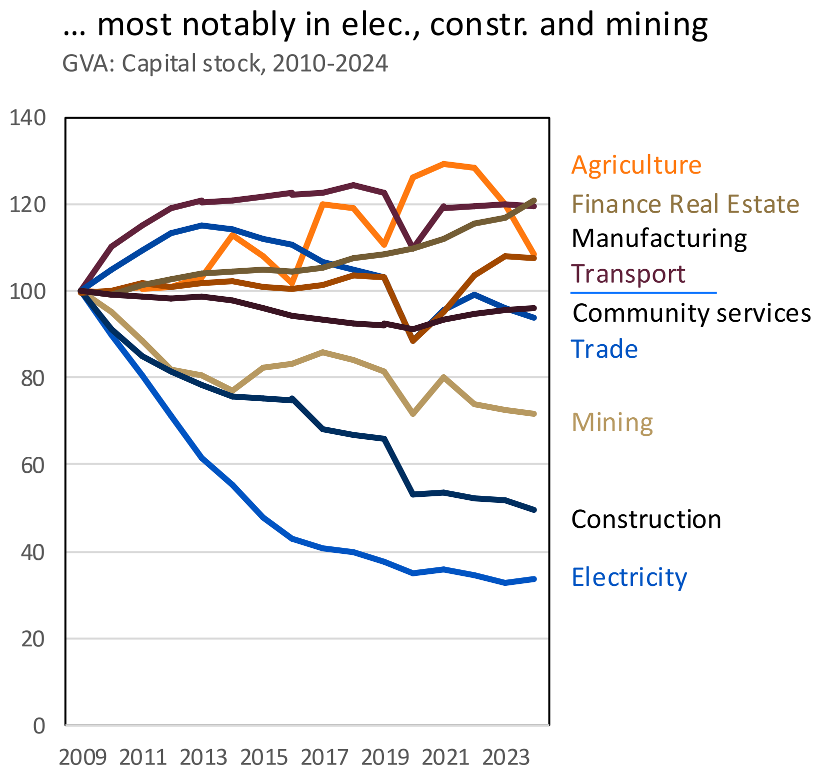
Investment-to-GDP. 1950-2024



… and become less productive



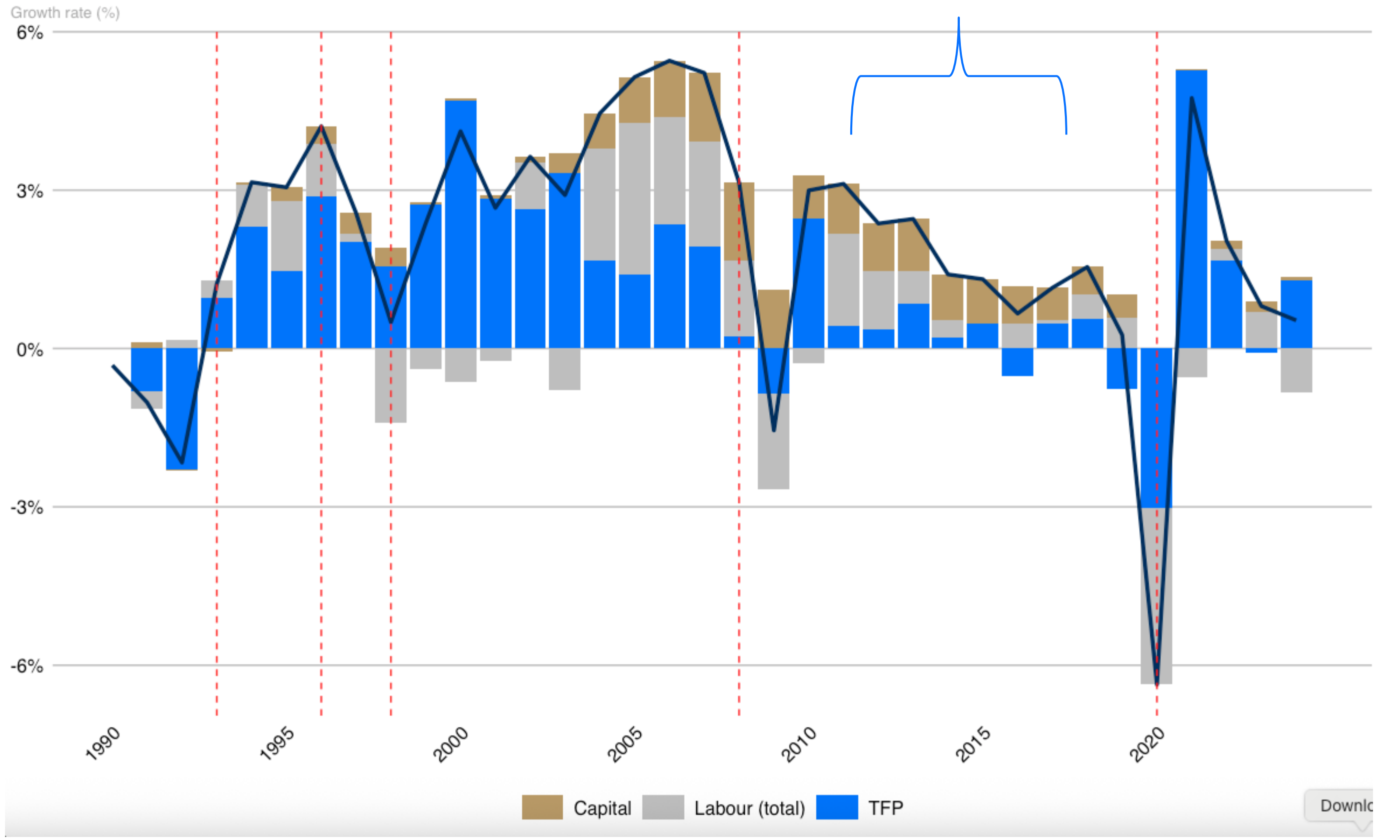




Source: SARB QB via BER Data Playground

Which has unsurprisingly led to slowdown in the economy

Capital stock accumulation has not supported growth

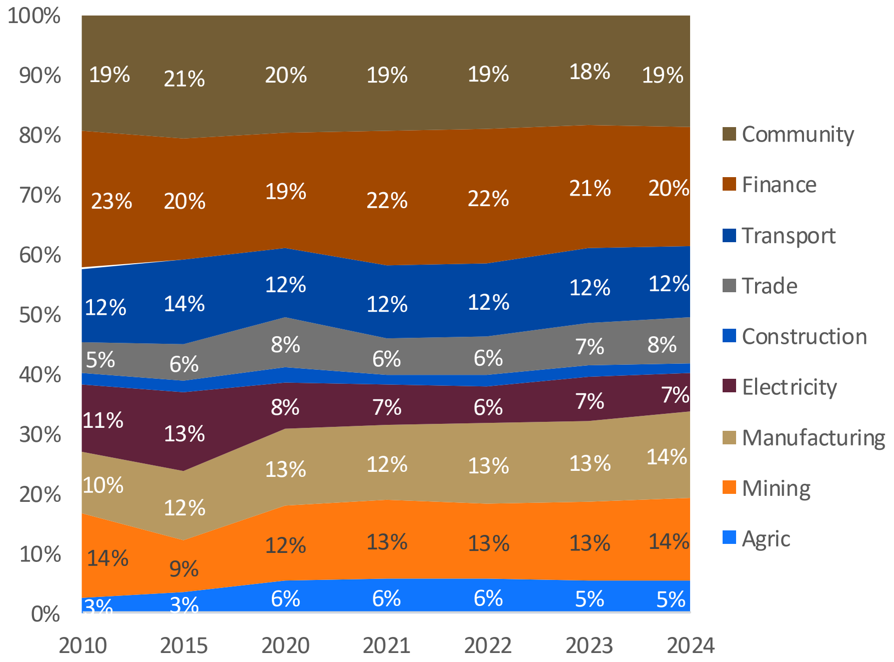


Source: Havemann (2025) "Accounting for South Africa's significant growth deterioration

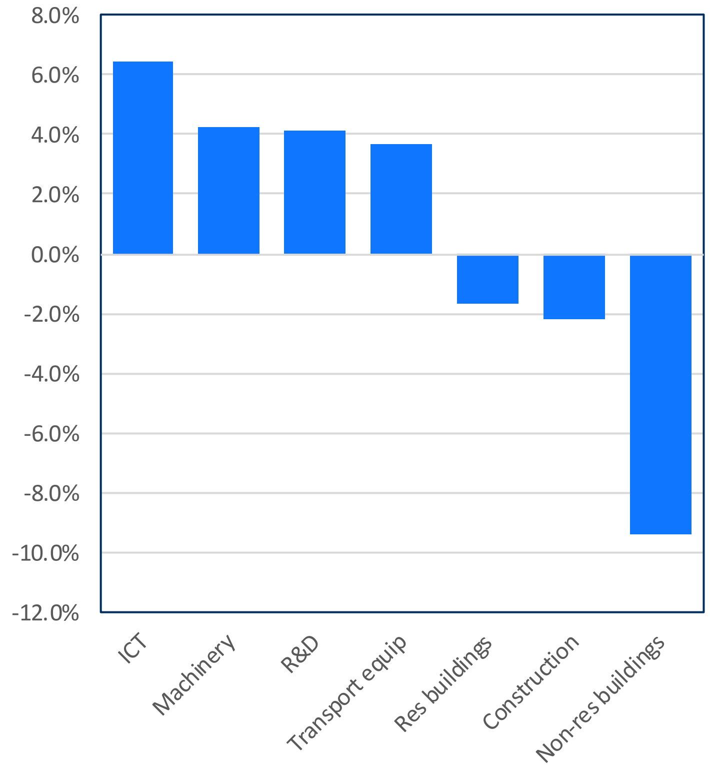
- The 2010 – 2019 slowdown is associated with:
  - Some positive capital growth but that capital growth is unproductive
    - Into electricity and state-owned institutions
- Very weak overall productivity growth
- Post COVID has interestingly been a TFP story – the hypothesis is that after lockdown was lifted, firms restarted but didn't rehire or invest

Some other interesting stylised facts

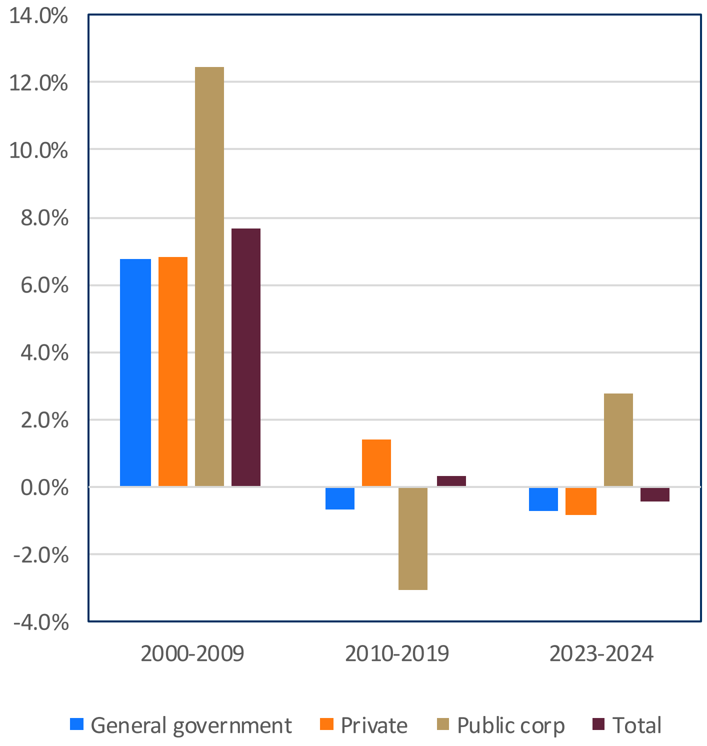
Investment share dominated by services....
Share by sector



.. and into ICT, machinery, R&D and transport
Average growth, 2021-2024



.. and currently held up by public corps
Growth by period



Source: SARB via BER Data Playground

Why has investment been so weak?

Why has investment been so weak?

Expected demand

- Firms invest when they **expect higher future returns**. If investors expect stronger future profits (i.e. stronger economic conditions), equity prices rise, “Tobin’s q” increases, and investment follows.

Certainty

- 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.

The real interest rate / cost of capital

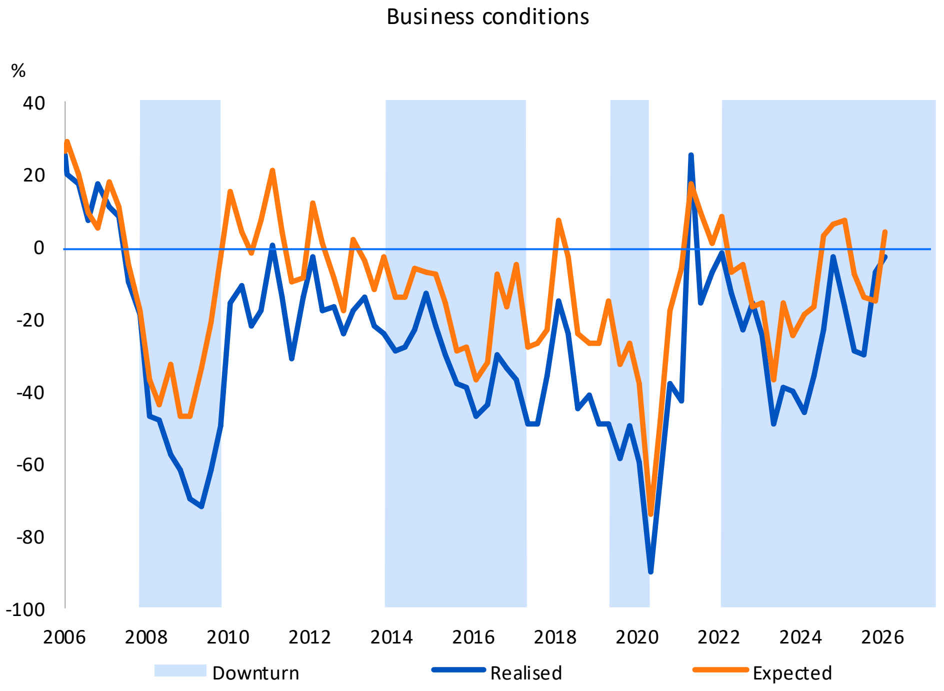
- A firm will continue to expand its capital stock as long as the **marginal product of capital exceeds the real user cost of capital**. The marginal product can be proxied by profit and the cost of capital by the real interest rate. Intuitively, a higher real interest rate should dampen investment.

Why has investment been so weak?

#1 Weak economic demand

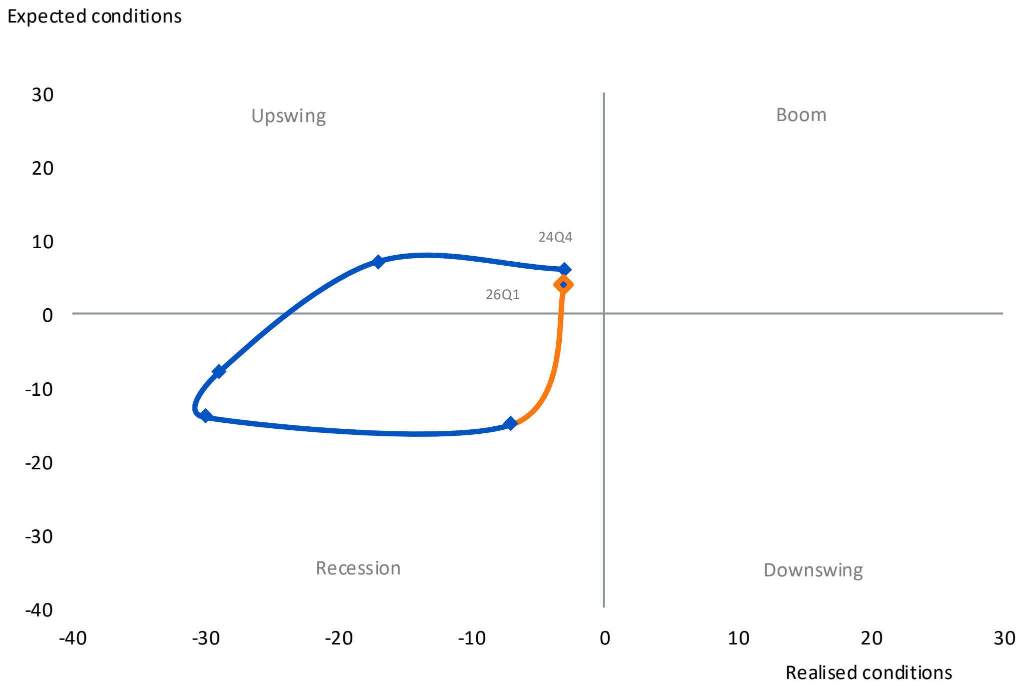
Both realised and expected business conditions have been weak…

Business conditions



… but are showing signs of improvement

"Business cycle clock"



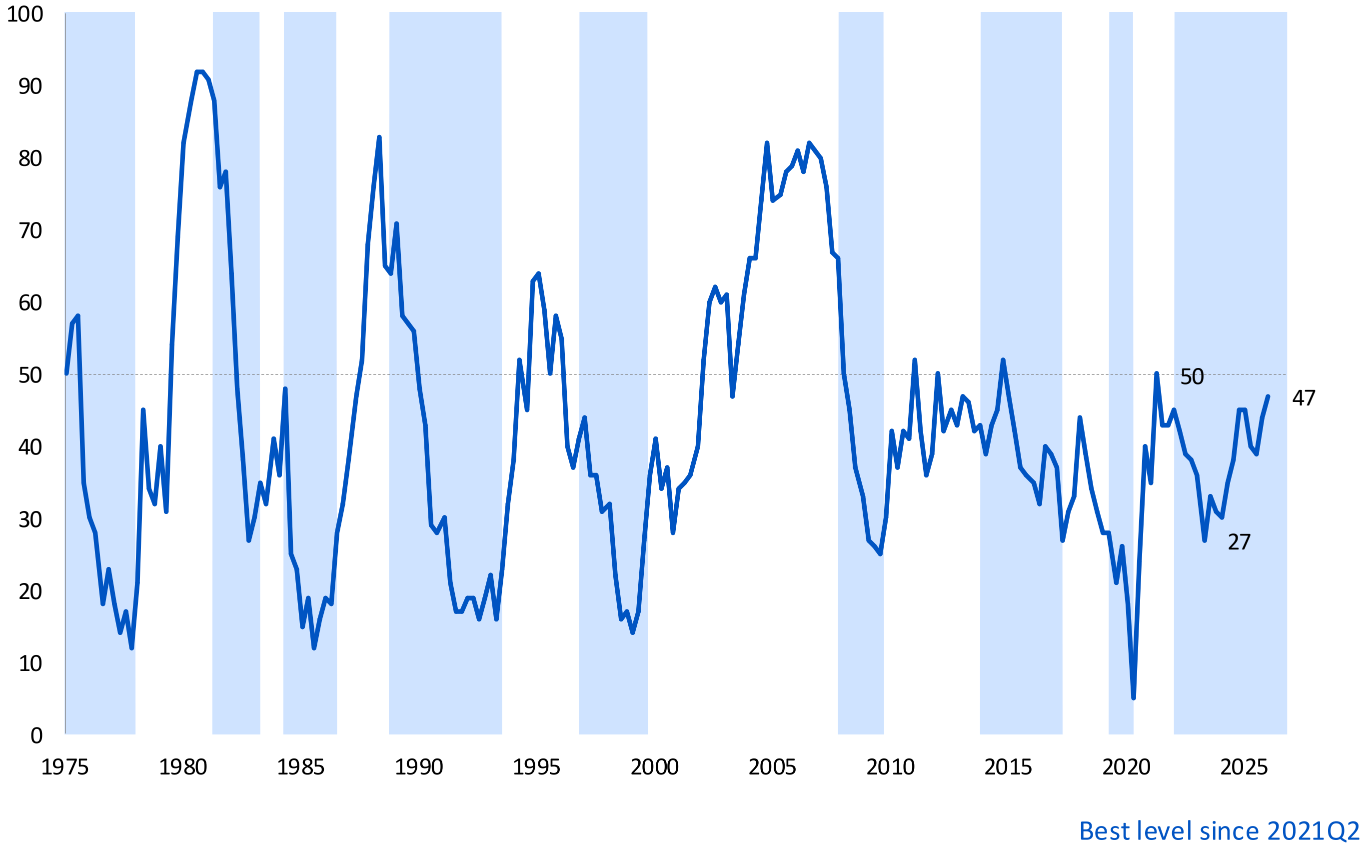
Source: RMB/BER Business Confidence Index

Why has investment been so weak?

#2 Weak business confidence and "political climate"

Business confidence has been weak since 2008….

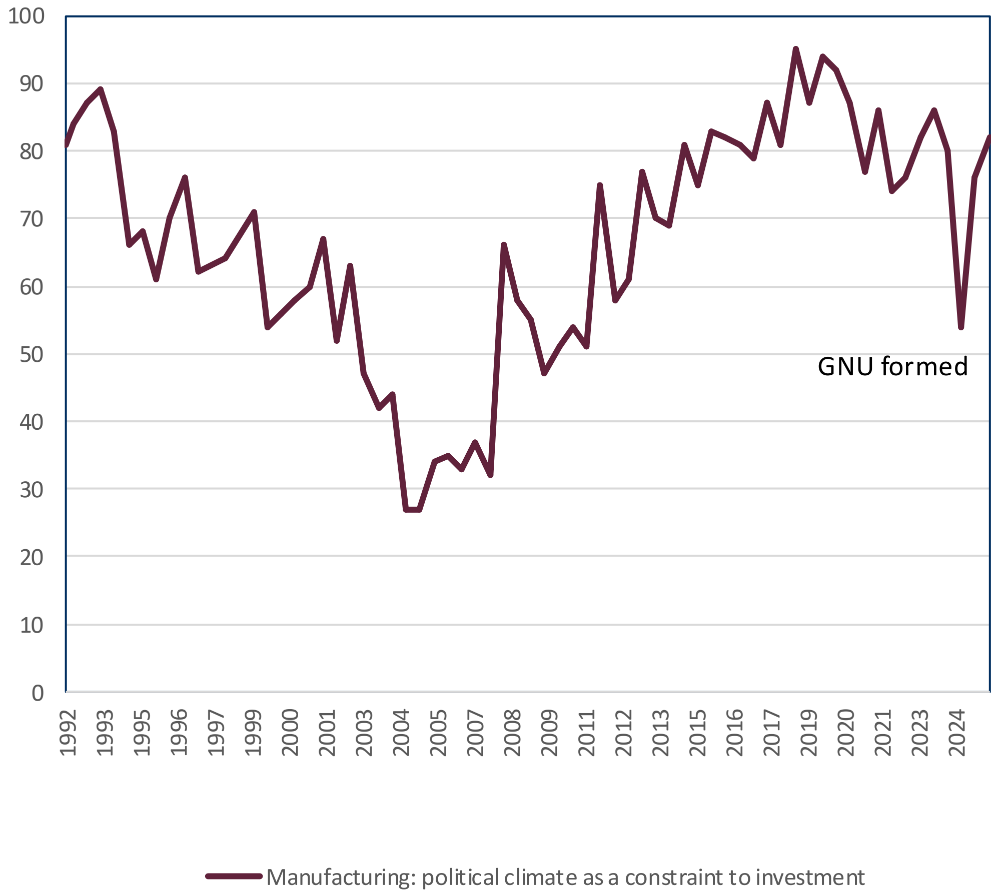
RMB/BER Business Confidence Index



Source: BER, SARB (Shaded areas represent economic downswings)

… and the political climate is seen as a constraint to investment

ABSA Manufacturing Survey

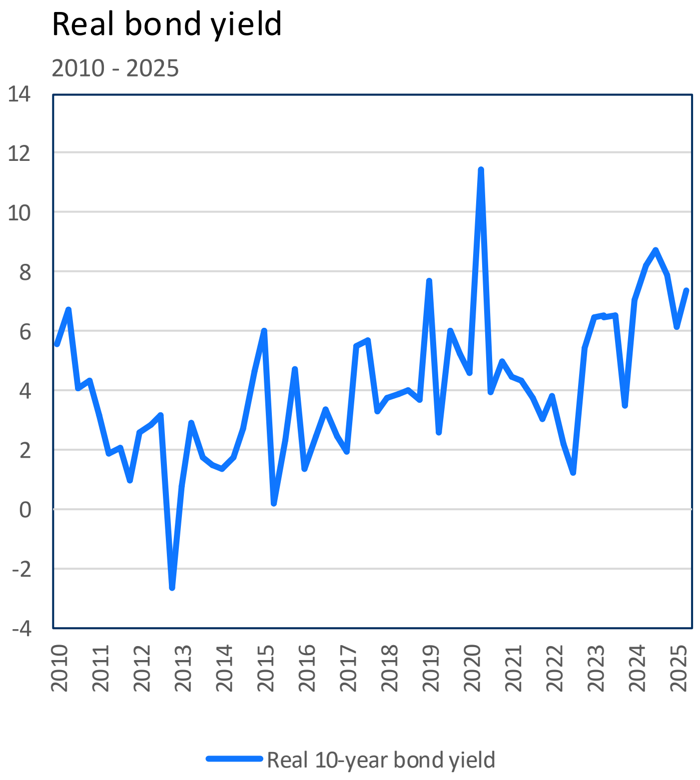


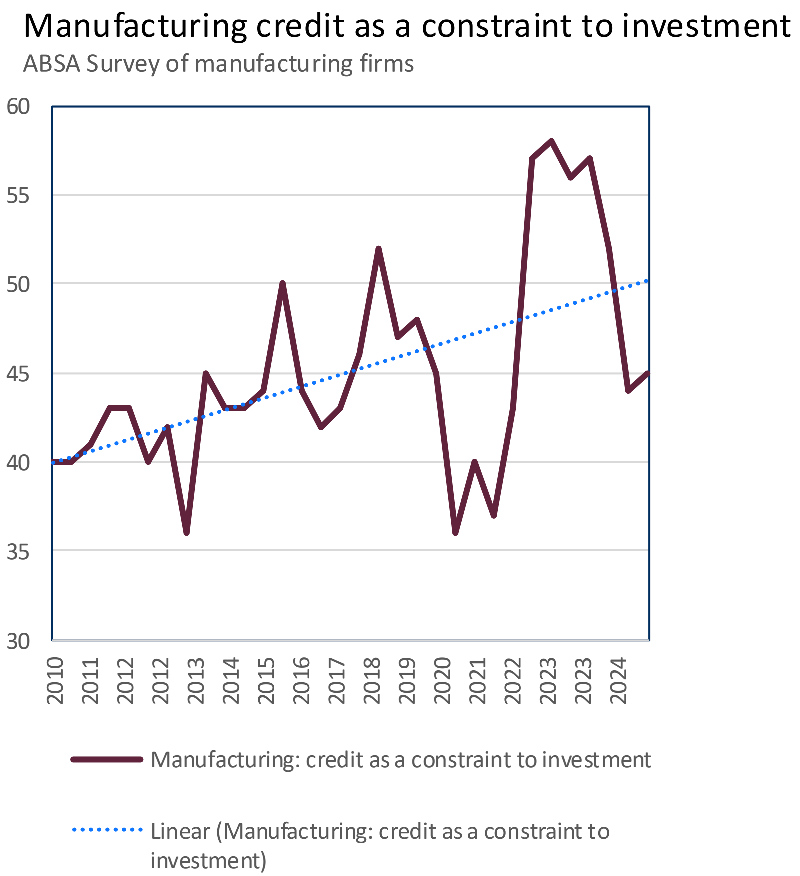
Why has investment been so weak?

#3 Rise in real interest rates in part due to a fiscal deterioration

- Real borrowing costs have risen in part due to the fiscal deterioration

- Survey responses both quantitively and qualitatively highlight the cost of credit

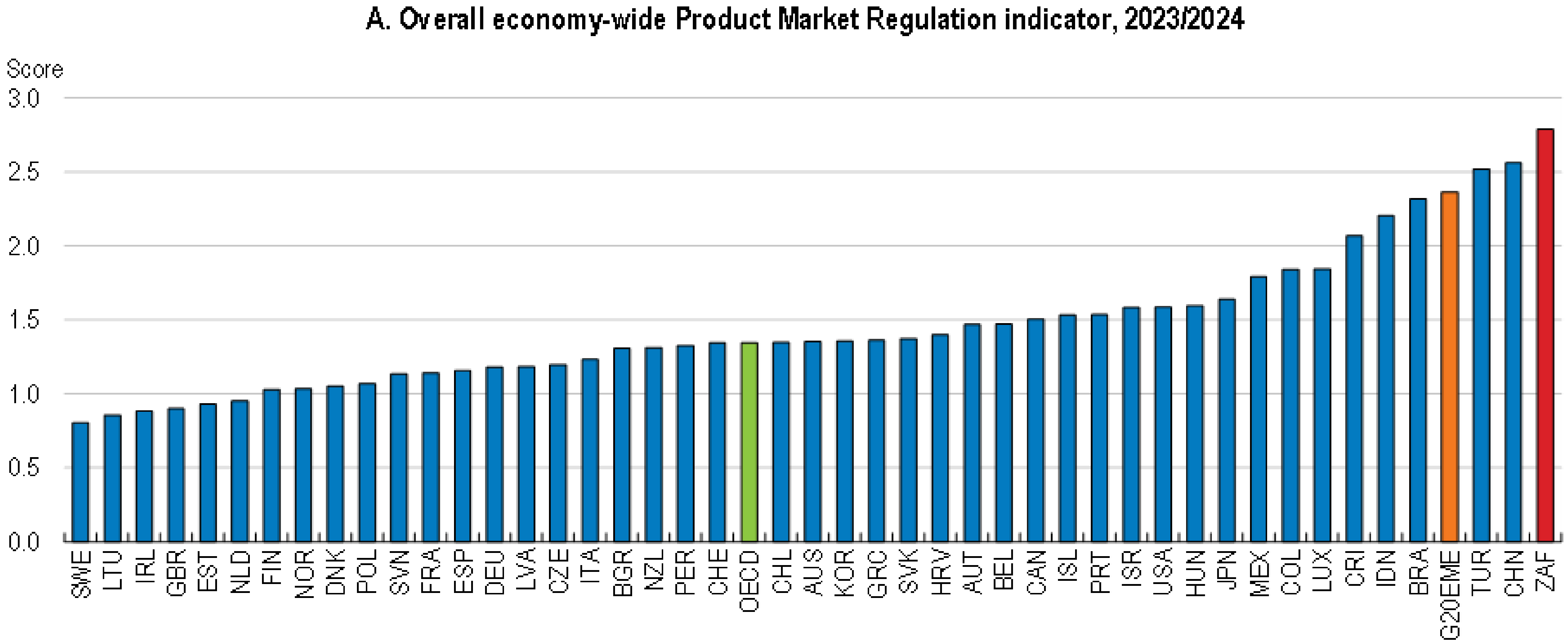




SARB via BER Data Playground and BER via Data Playground

Why has investment been so weak?

#4 Significant regulatory burden



OECD, Economic Survey of South Africa (2025)

What are the possible solutions?

So how can we reignite investment?

High real interest rates? Fiscal discipline and regulatory costs

Demand? Structural reforms

Business confidence? Confidence improving measures

#1 Fiscal-monetary coordination, achieved through a formal fiscal target

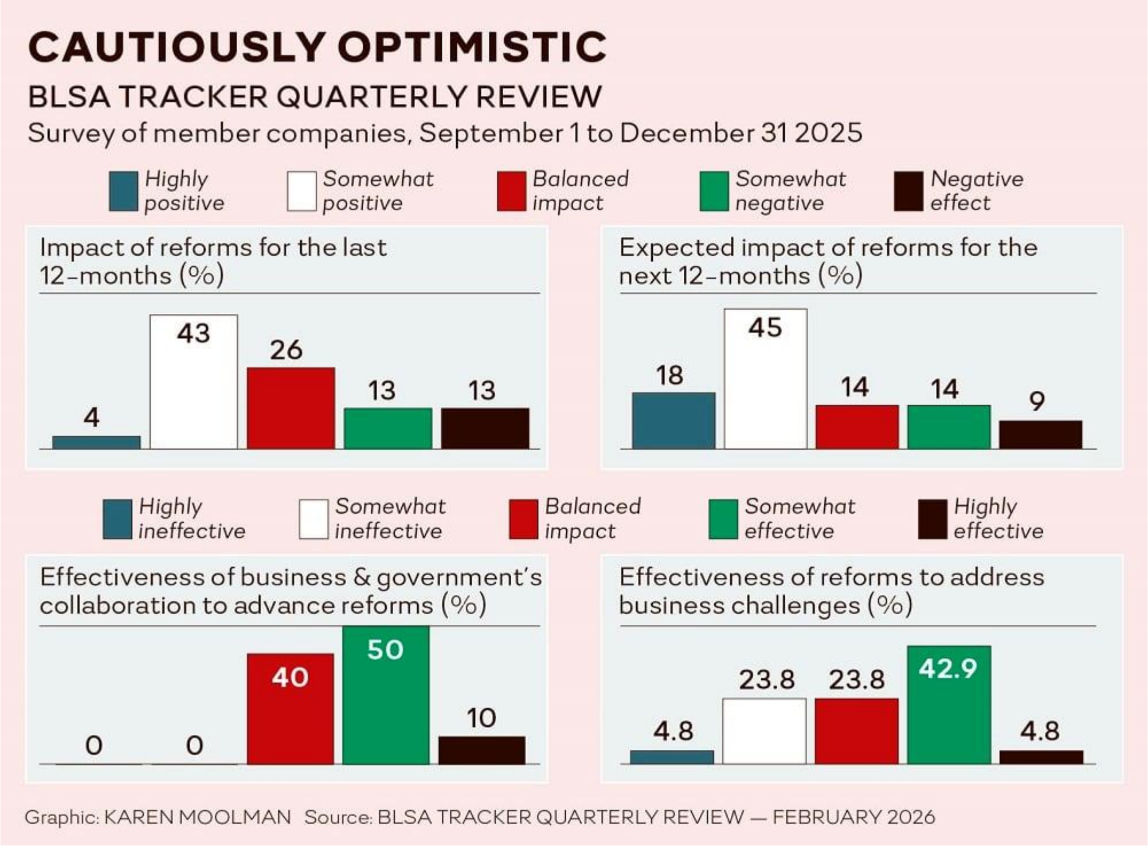
- Fiscal-monetary coordination can be seen as a strategic game
- Two neutral rates:
  - Monetary r-star → neutral, inflation stabilising
  - Fiscal r-star → neutral, debt stablises
- Lowering nominal monetary r-star reduces fiscal r-star, making adjustment easier
- To complement new 3% inflation target, propose a 3% overall fiscal deficit target achieved through a consumption spending target

		Monetary r-star	
		Lower-for-longer	*Higher-for-longer*
Fiscal r-star	*Low*	I. Weak fiscal adjustment; backloaded	II. Strong fiscal adjustment; front-loaded[1]
	High	III. No adjustment needed	IV. Potential fiscal adjustment needed

Source: Bolhuis (2025), Havemann and Hollander (2024, 2026)

#2 Accelerate the Operation Vulindlela reform programme

- Operation Vulindlela provides a list of absolutely minimum reforms required to restore growth
  - Electricity
  - Ports and rail
  - Functioning municipalities
  - Visas for skills and tourism
  - Public transport



#3 Restore confidence in key institutions to raise growth to 3%

- BER triangulated three things:
  - Quantitative analysis from our battery of surveys
  - Text inputs from our various sentiment and confidence surveys → fed this into a LLM to analyse what people bother to complain about
  - A structured engagement with ~40 CEOs, eminent economists, business people, and senior government officials at Mont Fleur, and a further engagement with ~20
- Gives us **nine priority actions**

CRIMINAL JUSTICE REFORM	PUBLIC SECTOR/LEADERSHIP REFORM	PROCUREMENT REFORM	STATE-OWNED ENTERPRISE REFORM
Overhaul the entire criminal justice system, starting with NPA	Enact the Public Sector Amendment Bill	Allow for more transparency in procurement	Appoint strong, independent and accountable boards to SOEs
Make the NPA financially and operationally independent	Amend sector-specific laws and regulations that stifle investment		
Address the illicit economy	Allow for big budget cross-departmental projects that attract private sector skills and funding		
	Improve the incentive system for public servants		

What could the future look like?

THE **HADEDA**

SCENARIO 1: MUDDLING ALONG

THIS IS THE STATUS QUO, MAINTAINED.
PARTIAL REFORM DELIVERS STABILITY,
BUT THE ECONOMY DOESN'T SOAR.

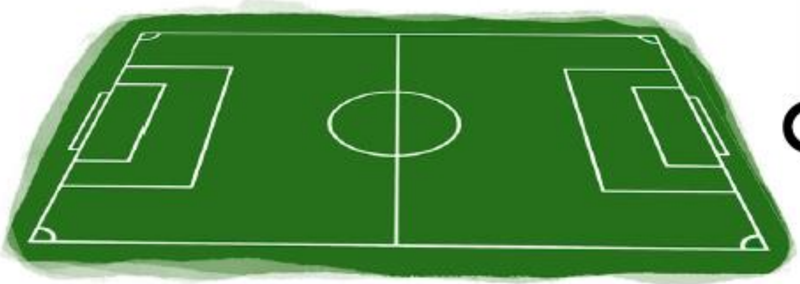
IN THE HADEDA SCENARIO,
THE ECONOMY FLIES LOW. ITS DIET IS
RESTRICTED BY SKITTISH CONFIDENCE AND
STRUCTURAL UNDERINVESTMENT.

FOR MOST SOUTH AFRICANS,
THERE IS NO REAL PATH OUT OF POVERTY.

POLICY UNCERTAINTY CREATES INVESTOR UNCERTAINTY

URGENT CALLS FOR REFORM & RULE OF LAW ... NOT ECHOED IN PACE OF REFORM ACTION

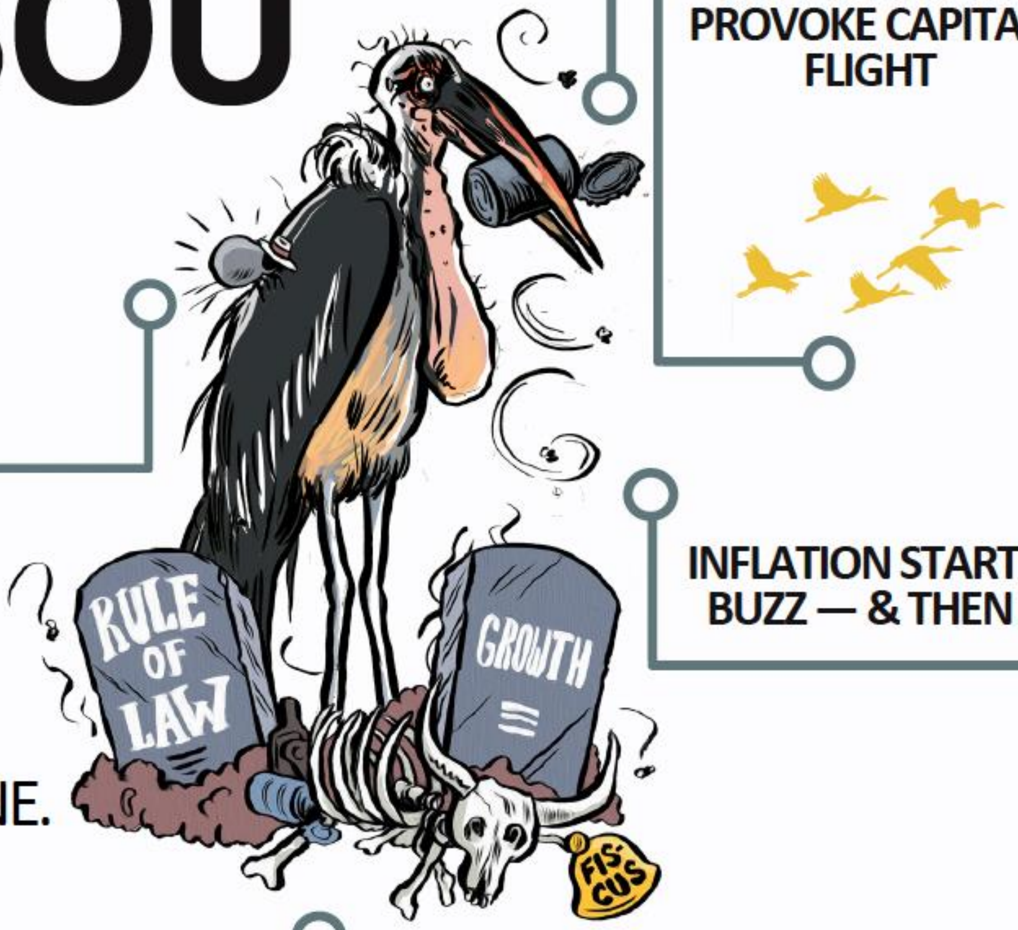
MODEST TAX TAKE LIMITS STATE CAPACITY



SLOW GROWTH SHRINKS THE FISCAL HORIZON.
(THE FIELD IS TIDY,
BUT IT'S NO SAVANNAH)

THE **MARABOU**

SCENARIO 2: THE LOW ROAD



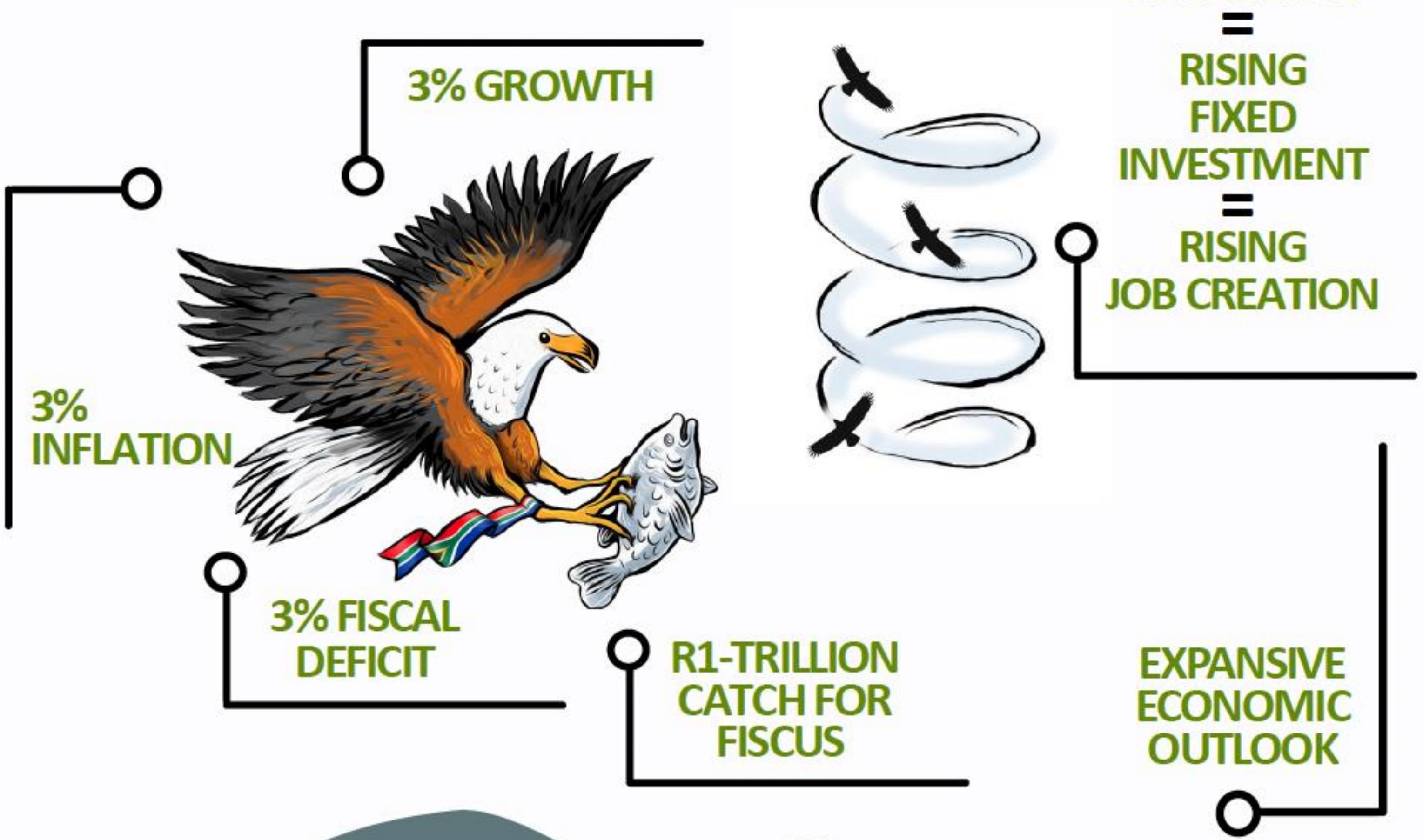
AKA THE UNDERTAKER BIRD.
THE MARABOU ECONOMY SCAVENGES ON HOPE & BURIES GROWTH.
BY FAILING TO REFORM, IT LOCKS IN DECLINE.
POVERTY & UNEMPLOYMENT RISE.
PER CAPITA INCOME FALLS.
POLITICS BECOMES EVEN MORE FRACTURED.

THE AFRICAN FISH EAGLE

SCENARIO 3: THE HIGH ROAD

AN ECONOMY THAT TAKES FLIGHT. DECISIVE STRUCTURAL REFORMS SUSTAIN A GROWTH RATE OF 3%. THEN THE FISH EAGLE BEGINS TO ALTER SA'S SOCIO-ECONOMIC TRAJECTORY. EMPLOYMENT GROWS, WAGES RISE, POVERTY SHRINKS.

LEGITIMACY & DELIVERY REINFORCE EACH OTHER.



We run three scenarios around reform

	Baseline Stabilisation, not acceleration	Negative scenario Reform window closes	Positive scenario 3 × 3 × 3 in 3
Assumptions	• Incremental reform progress • GNU broadly holds • No major credibility shocks • Gradual infrastructure improvement	• GNU cohesion weakens • Reform execution stalls • Illicit economy expands • Risk premia rise	• Partnership-driven execution • Rule-of-law dividend realised • Illicit economy disruption improves compliance • Risk premia compress
Growth	• ~1.5–1.8% over the medium term • **Investment recovery modest** • No structural breakout	• Drifts toward ~0.5% • **Investment stagnates** • Low-growth trap entrenched	• Rises toward 3% by 2028 • **Sustained investment uplift** • Higher potential growth
Inflation	• Trends toward 3% anchor • Expectations broadly contained	• Currency weakness lifts imported costs • Expectations drift higher	• Durably anchored near 3% • Expectations firmly contained
Repo rate	• Gradual easing • Normalises in line with inflation moderation	• Tighter-for-longer stance • No meaningful easing	• Settles ~50bps below baseline • Easier financing conditions
Other	• Rand broadly stable • Bond yields ease gradually • Deficit narrows slowly but remains elevated	• Rand weaker • Bond yields rise on higher risk premia • Fiscal consolidation stalls • Debt trajectory worsens	• Rand firmer • Bond yields decline meaningfully • Deficit narrows toward 3% of GDP • Debt stabilises earlier and lower

UPSIDE SCENARIO: 3x3x3 in 3

3% GDP growth ------ 3% inflation ------ 3% deficit ----- in three years

Municipal service delivery improvements, favourable LGE outcomes and a stable GNU → **business** confidence increases and **consumer** confidence follows	2026 **EAF** 5% higher than baseline, and 3% higher thereafter. Export bottlenecks are eased and **trade volumes** lift from 2027	**Credit easing** via partnership crowd-in → helps create a positive shift in financial media sentiment	Non-residential private **investment** ±10% level-shock by 2026/27; **investment** by government and public corporations +5%
Inflation anchored at 3% (stronger rand, anchored admin prices) → allows 50 bps more repo cuts than baseline	**CDS** narrows by max 50bps in 2027, easing to a 20bps plateau through 2030	**10-year yield** term premium: -50bps wedge from end-2026 onwards	Address the illicit economy, resulting in substantial **fiscal dividend** → helps deficit converge to 3% and increases govt. spending

Enabling foundation: OV reforms

Catalyst: Partnerships + rule-of-law dividend + illicit economy fiscal gain

Conclusion

Some concluding remarks

- The investment contraction has dragged down overall growth:
  - From an accounting perspective: Y = C + I + G + X – M
  - From a long-run growth perspective: Y = A K L

- Three actions can reignite investment
  1. Fiscal – monetary coordination --> bed down fiscal consolidation with a credible anchor that coordinates with the new inflation target
  2. Continue and accelerate OV reforms
  3. Confidence-boosting measures, mainly criminal justice reform, starting with the NPA

- A target of 3 x 3 x 3 in 3 would focus policymakers

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THANK YOU.

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