

## ERSA-SARB CONFERENCE

*Finding a Path to Growth and Employment in South Africa*

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### SESSION REPORT

## Session 5: Reigniting South African Investment

**Anchor Presentation:** Roy Havemann (BER)

**Panellists:** Mamokete Lijane (Standard Bank), Saul Musker (Presidency)

**Date:** Thursday, 5 March 2026

*Note: This report synthesises the key arguments, ideas, and exchanges from the session. It reflects the substance of what was presented and discussed, not necessarily the settled views of all participants. Panellists participated in their personal capacity. Time constraints meant that not all points could be fully debated or responded to. By convention, individuals are identified only on the title page; arguments and ideas in the body of the report are not attributed to named speakers. Video recordings of the session are available on YouTube, where viewers may find nuance in the views expressed that a written synthesis cannot fully capture.*

## Key Takeaways

- Investment has contracted since 2015. The investment-to-GDP ratio sits at roughly 15% - near the worst level since 1950. Not only has capital accumulation slowed, but the productivity of the capital stock has declined, dragged down especially by significantly negative returns on investment in the electricity sector during the state capture period.
- The 2010s were an economic disaster across three compounding dimensions: a collapse in business confidence, a surge in the cost of capital driven by fiscal deterioration and rising sovereign risk, and an enormous expansion of public spending that was skewed toward consumption rather than productive investment - all in the context of binding supply-side constraints from failing electricity and logistics systems.
- There are genuine signs of recovery. Load-shedding has ended, the GNU has improved political stability, bond yields and CDS spreads have narrowed, the fiscal position is improving, and Bureau for Economic Research (BER) surveys show business confidence returning to neutral territory. But this has not yet translated into a sustained investment upturn.
- Structured engagement with economists, business leaders, and senior officials identified criminal justice reform, public service leadership reform, and procurement reform as the highest-priority confidence-boosting measures - areas outside the conventional economist's toolkit but central to rebuilding the trust that underpins investment decisions.
- A "3 by 3 in 3" framework was proposed: a 3% growth target, a 3% inflation target, and a 3% fiscal deficit target, achievable within three to five years through a combination of continued structural reform, confidence-boosting measures, and fiscal-monetary coordination. Energy reform - and the prospect of very cheap renewable electricity — was identified as the single most powerful flywheel for investment and growth.

## The Anchor Presentation: Confidence, Credibility, and Reform

The anchor presentation traced the investment crisis through a series of stylised facts. Real investment has contracted since 2015. The investment-to-GDP ratio stands at approximately 15%, marginally better than the post-COVID trough but near the worst level recorded since 1950. Capital stock growth has plateaued, and the productivity of the capital stock - gross value added per unit of capital - has declined. A sectoral decomposition revealed that the

electricity sector has been an extraordinary drag: most of the capital stock accumulated during the state capture period went into electricity, yet very little electricity came out. This represented a massive diversion of investment away from more productive parts of the economy, with fiscal consequences that are still being felt. Agriculture, by contrast, emerged as the strongest performer on capital productivity, followed by finance, real estate, manufacturing, and transport.

The combination of slow investment growth and declining capital productivity has been devastating for economic growth. A simplified Solow decomposition showed that while some capital accumulation occurred during the state capture period, it was entirely unproductive. In the post-COVID period, capital has made virtually no contribution to growth. Firms came out of COVID more productive than they went in - not because they invested, but because they did not add back labour or capital, choosing instead to operate leaner. This is reflected in unemployment figures that have not returned to pre-COVID levels even as GDP has recovered in level terms.

The drivers of investment weakness were diagnosed through the standard framework: expected future returns, certainty about the future, and the cost of capital. BER survey data showed that business conditions expectations have been deeply negative for most of the past decade, that the political climate was seen as a major constraint on investment - peaking during the height of state capture and improving with the formation of the GNU - and that real interest rates have risen significantly, driven by fiscal deterioration, widening CDS spreads, and higher sovereign risk premia. Regulatory burden, already covered extensively in the OECD keynote, was acknowledged as a further constraint.

Three actions were proposed to reignite investment. First, fiscal-monetary coordination anchored by a credible fiscal framework - the presentation argued for a clear fiscal anchor, noting that the recent improvement in the fiscal position and the reduction in the inflation target have already begun to bring borrowing costs down. Second, acceleration of the Operation Vulindlela reform programme, covering energy, logistics, water, and municipal services. Third, confidence-boosting measures identified through a structured engagement process with roughly 60 economists, business leaders, and senior government officials. The measures that emerged were not what economists would typically put on the list: criminal justice reform - particularly concerns about appointments at the NPA and in the police - ranked highest, followed by public service leadership reform, sector-specific regulatory reform, procurement reform, and state-owned enterprise reform.

The presentation concluded with three scenarios, communicated through the metaphor of South African birds. The baseline “muddling along” scenario (the Hadedu) represents the current trajectory of modest improvement without decisive action. The low road (the Marabou Stork) represents a regression into corruption and institutional decay. The positive scenario (the African Fish Eagle) — dubbed “3 by 3 in 3” — envisions 3% GDP growth, 3% inflation, and a 3% overall fiscal deficit, achievable within three to five years through sustained reform and confidence restoration.

## **Panel Discussion**

### ***The Catastrophe of the 2010s and Signs of Recovery***

The panel endorsed the presentation's diagnosis of the 2010s as catastrophic, emphasising three compounding forces: a collapse in confidence and trust driven by state capture and political instability; a surge in public debt and borrowing costs that crowded out private investment; and an enormous expansion of public spending that was skewed toward consumption, managed corruptly, and directed into unproductive mega-projects - notably Kusile, Medupi, and Transnet's locomotive procurement - all while the electricity and logistics systems were breaking down. The damage was so severe and so sustained that it has been exceptionally difficult to dislodge.

Against this, the panel argued that on every front, real positive momentum is now visible. Confidence is rising, driven by the end of load-shedding and the political stability of the GNU. The cost of capital is falling as bond yields and CDS spreads narrow. The fiscal position is improving, with a shift in public spending toward productive investment in health, education, and infrastructure and away from consumption. The quality of public investment is improving. The assessment was that South Africa is at or past a turning point, though the recovery has not yet fully translated into a sustained investment upturn.

### ***Energy Reform as the Single Biggest Lever***

Energy reform was singled out as the most powerful catalyst for investment. The reforms implemented since 2021 are reshaping the energy system at a scale that would have been unimaginable a few years earlier: liberalising the electricity market, opening generation to private investment, introducing a competitive wholesale market, and unbundling Eskom. The results are becoming visible: a pipeline of 224 gigawatts of new renewable energy projects in development, with close to 25 gigawatts in the grid connection process. South Africa's most recent solar procurement rounds achieved the world's cheapest prices for solar electricity. The vision articulated was of an economy within five years producing half its electricity from very cheap solar, wind, and batteries — restoring the cheap energy advantage on which South Africa's economy was historically built.

### ***Beyond the Reforms: What Else Is Needed***

The panel argued that the Operation Vulindlela reforms are necessary but not sufficient. To move from 2% growth to 3% and beyond requires attention to the quality of public institutions and spending. Public service reform - depoliticising senior appointments, restoring performance incentives, and reforming procurement - was identified as critical. The performance management system for civil servants was described as largely non-functional, with KPIs that measure inputs such as meetings held rather than outcomes achieved. SOE reform needs to be pursued more aggressively, with rationalisation, restored developmental mandates, and an end to unproductive subsidies. Budget reform - ending underperforming programmes and reallocating resources to productive uses - was highlighted, with the SETAs cited as a system spending R25 billion annually with minimal results.

A broader challenge was raised about demand and competition. Investment ultimately follows demand, and if the economy has been growing at 0–0.5% for a decade, there is simply no investment case for most firms. Rising cash balances on corporate balance sheets were noted - evidence of profitable firms choosing not to invest in productive assets, instead accumulating cash or externalising capital. The question was whether this reflects uncertainty and weak demand, or also the comfort of oligopolistic market structures where

incumbents face insufficient competitive pressure to invest. Evidence from specific sectors suggested that serious new investment tends to follow the entry of a maverick competitor or the breaking of a cartel - not simply an improvement in macro conditions.

### ***Confidence, Trust, and Narrative***

The discussion distinguished carefully between sentiment, which is fickle and shifts with news cycles, and trust, which is deep-seated and hard to rebuild once destroyed. South Africa was described as a very low-trust society, with a deep-seated negativity and cynicism entrenched during the 2010s. The lingering effects of the state capture era - not only the institutional damage but the polarising narratives around white monopoly capital and radical economic transformation - were identified as continuing to shape how South Africans think about the economy and each other. The point was made that even bold reforms will not automatically translate into a sustained shift in confidence; a deliberate narrative strategy is also needed. Certain signals - a credit rating upgrade, the end of load-shedding - cut through the noise in ways that incremental reform progress does not, and more such signals are needed.

### **Audience Discussion**

The audience discussion pushed the conversation in several directions. A challenge was put that 3% growth over a decade, while a significant improvement, would still leave South Africa with 7–8 million more unemployed people and rising poverty - and that the ambition needs to be higher. The response acknowledged this but argued that a country growing at 3% is fundamentally different from one growing at 0.5%, and that the reforms under way could plausibly take growth beyond 3% if accompanied by strategic investment choices.

The case was made for targeted investment strategies in addition to horizontal reforms. Small open economies, it was argued, need three to four strategic bets — analogous to the Free State goldfields in the 1960s or the energy-intensive smelter investments of the 1980s. Agriculture, mining and critical minerals, the automotive sector, and housing were identified as candidates. It was acknowledged that the crisis-response phase of the past several years has consumed most of government's bandwidth, but that there is now more space for forward-looking strategies, with cheap renewable electricity as the single most powerful platform.

The pattern of corporate investment was questioned: firms appear to be investing in growth by acquisition rather than in expansionary capital - new machines, new production lines - and this may reflect both weak demand and the comfort of concentrated market structures. The relationship between competition, dynamism, and investment was pressed as underexplored in the presentation, with evidence that serious new investment in specific sectors has tended to follow the disruption of incumbent market positions.

Public procurement reform was raised as a critical and underappreciated drag on growth. The procurement system was described as both vulnerable to corruption and so onerous that it prevents efficient spending even when intentions are good. The exemption of Eskom from certain procurement regulations was cited as one of the practical steps that enabled its operational turnaround. The tension between tightening procurement to prevent corruption

and loosening it to enable efficiency was acknowledged as one of the hardest balances in public administration.

Human capital and the social fabric surfaced as deeper concerns underlying the investment picture. The question was raised: when a significant proportion of children cannot read for meaning by grade three, how can business have confidence in the long-term future of the workforce? The erosion of social structures - linked to apartheid's legacy but persisting and worsening - was argued to be an unspoken factor in the reluctance of firms to commit long-term capital to South Africa.

## **Implications for Growth and Employment**

This session provided the conference's most direct engagement with the investment crisis and the conditions under which it might be reversed. The diagnosis is clear: a decade of fiscal deterioration, institutional decay, supply-side collapse, and destroyed trust has left South Africa with an investment-to-GDP ratio near historic lows and a capital stock that is both insufficient and unproductive. The recovery under way is real but fragile, and it has not yet produced the sustained investment upturn the economy needs.

The session reinforced a theme that ran through the entire conference: that the barriers to growth are compounding. Weak investment depresses demand, which further discourages investment. Poor infrastructure raises costs, which erodes competitiveness, which deters investment. Low trust suppresses confidence, which holds back investment, which prevents the growth that would rebuild trust. Breaking out of these interlocking traps requires action on multiple fronts simultaneously - fiscal discipline, structural reform, institutional renewal, and deliberate confidence-building - rather than the hope that fixing one thing will unlock everything else.

For the growth and employment agenda, the most immediately actionable ideas to emerge included: accelerating energy reform to deliver cheap renewable electricity at scale as the single most powerful driver of investment and competitiveness; establishing a credible fiscal anchor to bring down the cost of capital; pursuing criminal justice reform and depoliticisation of senior public service appointments as the highest-priority confidence-boosting measures; reforming public procurement to reduce both corruption vulnerability and operational burdens; addressing competition and market concentration as structural barriers to investment, not only in network industries but across the economy; developing targeted investment strategies for sectors with clear competitive advantages, including mining, agriculture, automotive, and housing; and building a deliberate narrative strategy that communicates reform progress through signals strong enough to shift deep-seated trust rather than merely daily sentiment.