COFACE ECONOMIC PUBLICATIONS

OCTOBER 2025

FOCUS

By Aroni Chauduri, Economist for Africa based in Paris
Noémie David, Junior Economist

Cracks in the BRIC(K)S: why South Africa fails to thrive

EXECUTIVE SUMMARY

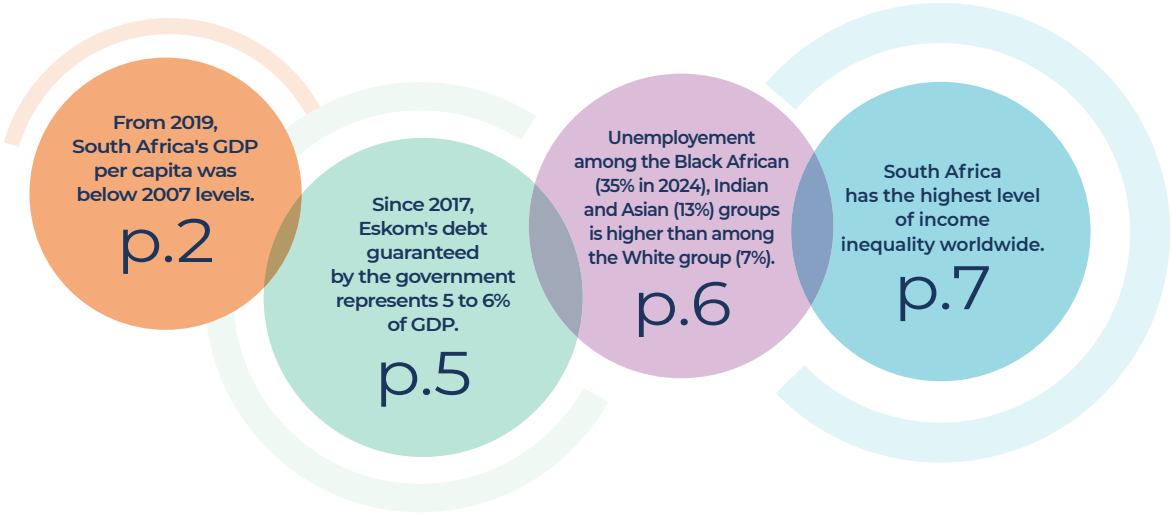
In the early 2000s, South Africa's future looked bright. The Rainbow Nation had successfully ended apartheid in 1994 and fully embraced globalization. The country banked on its immense natural resources and diversified industrial base to integrate into global trade networks. The liberalization of its financial system, combined with a sound regulatory framework and institutional stability, made it attractive for foreign capital. As a result, growth was strong, and hopes were that South Africa would continue to develop at this pace and become one of the beacons of Africa and the emerging world, like when it joined the BRICS in 2010 alongside Brazil, Russia, India and China.

Two decades later, the observation is bitter. GDP per capita in 2024 was below 2007 levels, as growth failed to pick up in the decades following the Great Financial Crisis (GFC). Social indicators have strongly deteriorated, with extremely high levels of unemployment, poverty, inequality and crime. Governance also worsened, and critical infrastructure was dilapidated, making living conditions increasingly challenging for the population.

When comparing South Africa to peer emerging economies in Asia and Latin America, it is evident that it has underperformed in terms of GDP per capita, employment, and investment, while being similarly exposed to global economic cycles (GFC, commodity price shock of 2014-15, COVID, etc.). This suggests large structural constraints limiting South Africa's growth potential and its ability to recover from external shocks. This paper focuses on the two main constraints on South Africa's potential growth over the past two decades: the energy system and the labour market.

While other factors have also influenced the country's trajectory, these overarch the rest. As foundations of the economic structure, their continuous deterioration has also severely limited the effectiveness of all other types of policymaking. For energy, we find that the failure of electricity supply was caused by flaws in price regulation and insufficient capital expenditure by the state-owned utility Eskom, which ultimately made it financially unsustainable. For the labour market, the structurally high unemployment rate is the result of the country's low growth, deindustrialisation and skill mismatches. Furthermore, labour force participation is low due the high level of exclusion caused by spatial disparities inherited from the apartheid.

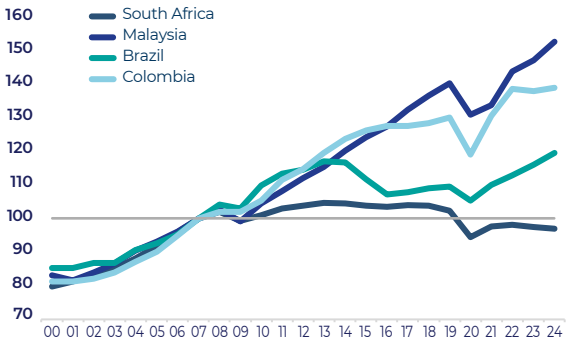
SOME OF THE THINGS YOU'LL LEARN...



When South Africa entered the BRICS in 2010, there were hopes that it would continue to develop at the pace of the previous decade. Its strengths were many: a plethora of natural resources, a developed and diverse industrial base, a large and well capitalized financial sector, stable institutions and infrastructure far more advanced than most of its peers. However, it did not happen. The country has been stuck in a low-growth regime for nearly 20 years, with a deterioration in most socio-economic indicators and a massive downgrade of critical infrastructure.

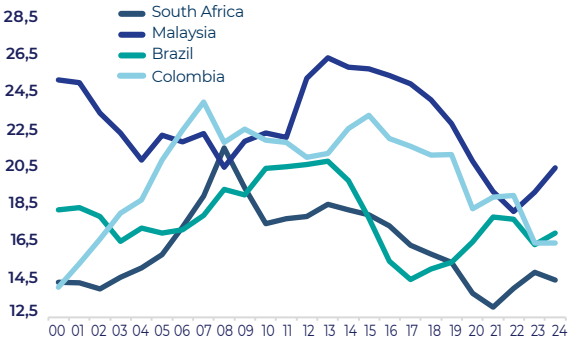
When compared to similar emerging economies[1] - such as Brazil, Colombia, Chile, and Malaysia - only South Africa experienced a decline in GDP per capita relative to 2007 levels **(Chart 1)**. Brazil, which also underperformed until 2019, began to rebound after the global pandemic[2]. Furthermore, South Africa's Gross Fixed Capital Formation (GFCF) as a share of GDP (14.5%) is very low, even compared to its peers **(Chart 2)**.

Chart 1 - GDP per capita *(PPP in international $, constant prices, 100 = 2007)*



Source: World Bank, Macrobond, Coface

Chart 2 - Gross fixed capital formation *(% of GDP)*

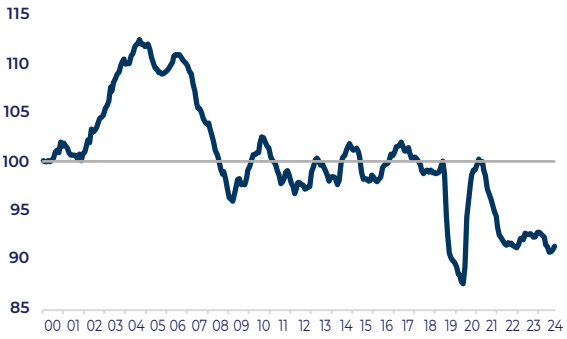


Source: World Bank, Macrobond, Coface

Three major external shocks have challenged the South African economy over the past two decades

South Africa's limited economic take-off can be partly attributed to a succession of adverse external shocks, which it is particularly sensitive to due to its integration in global trade and financial systems. In the early 2000s, the country experienced a period of strong economic expansion (CAGR of 4.3% between 2000 and 2007), on the back of the commodity super-cycle[3]. This momentum boosted South Africa's mining sector **(Chart 3)** but also mining related industries such as manufacturing through supply chain linkages **(see Box 1 next page)**, and financial services due to increased capital expenditure and financing needs. Investment across all sectors was supported by favourable financing conditions, increasing capital inflows and a surge in business confidence. Household consumption also strengthened, stimulated

Chart 3 - South Africa: Mining production *(SA, gold included, 100 = 2000, 1-year moving average)*



Source: South African Statistics (Stat SA), Macrobond, Coface

1 - The selection of peer countries is based on similarities in both economic and demographic structures. From an economic standpoint, all five countries are primarily driven by activity in the secondary (industry) and tertiary (services) sectors in terms of share in GDP. Regarding trade integration, they are all well embedded in global trade networks, as reflected by high trade openness indices. Moreover, these economies tend to import and export similar categories of goods, and they also share common trade dependencies, such as China and the US.
2 - See Why doesn't Brazil take off on a long-haul flight?, Coface Focus, March 2025.
3 - The commodity super-cycle or price boom (early 2000s – 2014) was the rise of many physical commodity prices, driven by increasing demand from emerging markets, particularly China.

BOX 1: An economic structure built around mineral resources

While the South African mining industry's weight in real terms has declined from around 20% of GDP in the 1960s to below 4.5% currently, it remains a core component of the economy. This is linked to the economic structure that resulted from the country's industrialization process. Indeed, it had been largely driven by the development of an industrial system centred around the extraction of natural resources (coal, gold, diamonds, PGMs, etc.) by a large and highly capitalized mining industry. As energy and transport networks were a necessity for this model, two state monopolies emerged: SAR&H[5] in 1910 and Eskom 1923.

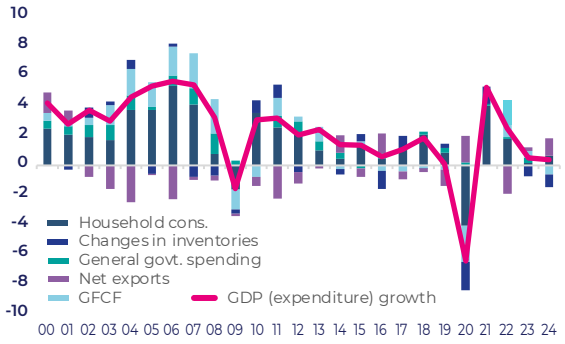
This was accompanied by the development of processing industries such as metals (basic iron & steel, non-ferrous basic metals, etc.), chemicals (fertilizers, basic chemicals, etc.), petroleum & coke (liquid fuels from coal). This industrial structure, characterized by the concentration of the economy in specific sectors highly linked to each other and the concentration of the ownership of capital, meant that the South African economy was dominated by large conglomerates and state monopolies, which benefited from both cheap energy and cheap labour due to the repressive system towards the Black population.

Moreover, as large amounts of financing were required by the mining industry, this promoted the expansion of the domestic financial sector. In essence, the backbone of the South African economy was established during this phase. In the post-apartheid period, capital was liberalized and deregulated, allowing corporates to relist overseas, leading to the restructuring of these large conglomerates and the emergence of financial corporate groups. However, despite the shift of capital overseas, and changes in the economy in the 21st century, the modern South African economy remains highly concentrated around its key industries.

In economic literature, some advocate that this configuration, known as the "minerals-energy complex"[6], went beyond the economic sphere and has shaped South Africa's trajectory since the beginning of the 20th century. This framework assumes that large private sector conglomerates, supported by state monopolies (thus the public authorities), were able to direct capital flows towards their own industries at the expense of others, hindering true diversification and maintaining influence over the political sphere. While the existence of this "minerals-energy complex" is still being debated, some of the distortions created by this type of commodity-induced economic structure are observable.

by rising disposable incomes, lower inflation, relatively low interest rates, and wealth effects from increasing housing and equity prices **(Chart 4).**

Chart 4 - South Africa: Contributions to annual GDP growth - expenditure approach *(pp, constant Prices, YoY)*



Source: South African Statistics (Stat SA), Macrobond, Coface

However, the momentum began to fade in mid-2008. The global financial crisis triggered a severe negative demand shock. Reduced external demand and falling commodity prices hit South African industries, reducing investment. Large capital outflows, triggered by investors' retreat from emerging market assets, lowered stock prices and depreciated the rand, increasing inflationary pressures. Combined with high household debt levels and rising interest rates, disposable income was eroded, reducing consumption. Domestic power shortages and political uncertainty also weighed on economic activity. Moreover, the Eurozone sovereign debt crisis delayed South Africa's recovery, as EU countries are among South Africa's main trade partners.

The end of the commodity super cycle in 2014, driven by China's slowdown, significantly constrained mining output, further limiting economic momentum. Regional integration amplified the impact, as the downturn also affected other commodity-exporting partners in Southern Africa. Domestically, private consumption was constrained by tighter credit and rising unemployment, while investment declined amid weakening business confidence, fuelled by concerns over governance and policy uncertainty linked to the electoral calendar. The Cape Town water crisis[4], which peaked in 2017–2018, further strained the economy by reducing agricultural output.

In early 2020, the COVID-19 pandemic and lockdowns severely disrupted economic activity and public finances. Then, from 2023 onwards, GDP growth was constrained by massive load-shedding and severe disruptions to rail and port operations, stemming from operational and financial issues in key state-owned enterprises. Climate shocks, strikes and global uncertainty added to the strain, dragging down manufacturing, mining and agricultural output.

Constraints on potential growth

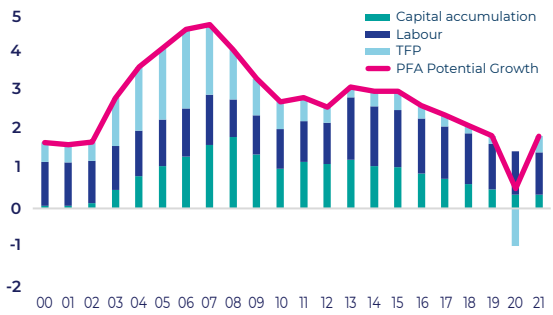
Part of South Africa's underperformance can be explained by external shocks, but the stagnation of per capita GDP and erosion of investment for over a decade signal structural constraints on the fundamental drivers of the economy, or, in other words, an erosion of potential growth[7].

As it is not observable, potential growth can be estimated by various methods. Considering our study looks at the South African economy for nearly two decades, we chose the World Bank's estimates based on the production function approach (PFA)[8], which are more consistent with long-term growth trends.

Looking at the trajectory of potential growth in South Africa **(Chart 5 next page)**, we notice a downward trend from 2007. This is consistent with the decline in global potential growth in the post-GFC decade[9]. As a commodity exporter exposed to price cycles and Chinese demand, we can assume that lower levels of investment in commodity-related industries negatively affected the contribution of capital and TFP[10] to potential output after the end of the supercycle. However, the degradation of both these factors has been continuous since the GFC, without any significant recovery. This could be partly explained by large constraints on energy supply. Indeed, over the long-term, unreliable energy supply discouraged investment in the energy-intensive industrial base. Capital formation was insufficient to compensate the depreciation of the capital stock. Low investment and insufficient demand contributed to the decline of TFP.

4 - Between 2015 and 2018, the Western Cape (notably Cape Town) region experienced winter droughts, leading to severe water shortages for the population.
5 - South African Railways and Harbours Administration, which ultimately became Transnet in 1990.
6 - Fine, B. & Rustomjee, Z. (1996). The Political Economy of South Africa: From Minerals-Energy Complex to Industrialization.
7 - The level of output an economy can sustain at full capacity utilization and full employment.
8 - https://www.worldbank.org/en/research/brief/potential-growth-database
9 - Kilic Celik, S., M. A. Kose, F. Ohnsorge, and F. U. Ruch. 2023. "Potential Growth: A Global Database." Policy Research Working Paper 10354, World Bank, Washington, DC.
10 - Total factor productivity

Chart 5 - South Africa: Potential growth and contribution of factors of production *(pp)*

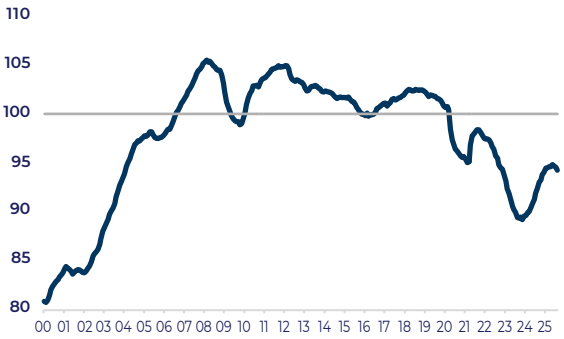


Sources: World Bank, Coface

The failure of energy supply

In neo-classical economic theory, the flow of energy in the economic system is assumed to be continuous, a hypothesis that is verified if energy is cheap and abundant. However, it has been empirically shown that strain on energy supply does have a negative impact on GDP growth. In the production function approach we used, total factor productivity is in fact a residual, which explains the part of growth that is not accounted for by measures of capital and labour. This is why some modern economic studies[11] argue that energy is - just like capital and labour - finite and a determining factor in the potential output of an economy. This concept is interesting in the context of South Africa specifically. Indeed, since 2007, power generation has been on a downward trend, largely resulting from issues in electricity pricing and decades of under-investment in production units and networks, as well as deteriorating public finances **(Chart 6)**.

Chart 6 - South Africa: Electricity generated & available for distribution*(Index, 2015=100, SA, 4-quarter moving average)*

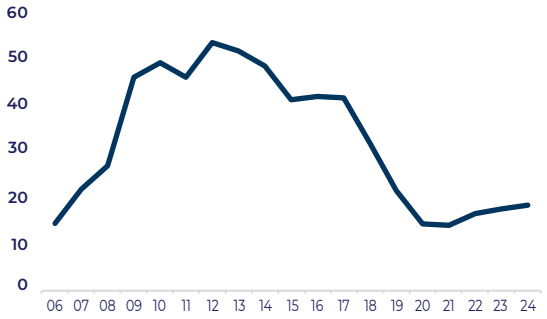


Sources: South African Statistics (Stat SA), Macrobond, Coface

Coal mining was central to South Africa's industrialization, both as a domestic source of cheap energy and exports. Therefore, South Africa's electricity generation was built around coal and remains overwhelmingly dependent on it (82% of the mix in 2023). The electricity sector is entirely dependent on the SOE Eskom, which, prior to 2024[12], accounted for around 90% of production, 100% of transmission (since Eskom owns and operates the grid) and 60% for distribution (the remaining 40% going to municipalities for low-voltage distribution). Due to this complete vertical integration, the capacity to sustain a high-quality electricity infrastructure relies on Eskom's operational efficiency and financial health.

Currently, over 98% of total coal-fired capacity relies on Eskom's 15 power plants, 13 of which were built between 1961 and 1996. On average, coal power stations are retired after 40 to 45 years, but they can sometimes continue to operate for 50 to 60 years. This means that to sustain electricity supply, Eskom should have replaced around half of its fleet by 2020, and investment for maintenance and replacement should have substantially increased in the past two decades with the ageing of infrastructure. However, Eskom's capital expenditure (capex) in real terms started to decline as early as 2012 and never recovered since **(Chart 7)**. As an illustration, the amount of capex planned in 2025 (ZAR 104 billion) and 2026 (ZAR 151 billion), following the major reforms adopted to deal with the energy crisis, is higher than the total capex between 2018 and 2024 (ZAR 230 billion)[13].

Chart 7 - Eskom's capital expenditure *(constant 2010 prices, ZAR billion)*



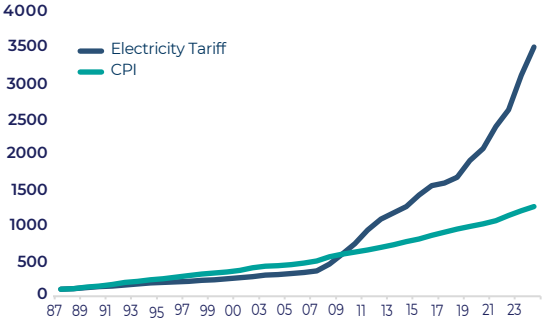
Sources: OECD, Stats SA, Coface

Flaws in the pricing of electricity

The lack of capital expenditure is due to the deterioration of Eskom's financial health, part of which is because of issues in pricing regulation. Around the world, electricity price regulation generally includes two core principles. First, the price of electricity must be fair for customer classes and support economic activity. Second, the revenue generated by electricity producers is cost-reflective and allows a reasonable rate of return. The latter is particularly important to ensure that electricity companies can sustain their capacity to invest and financial health when cost pressures increase.

Prior to 2008, electricity price adjustments were low relative to CPI inflation **(Chart 8)**. This strategy was part of industrial policy, as public authorities wanted to ensure cheap electricity to support investment in its energy-intensive industries and make them globally competitive.

Chart 8 - NERSA average tariff increase vs. CPI *(1987 = 100)*



Sources: Eskom, StatsSA, OECD, Coface

11 - Stern, David I., The Role of Energy in Economic Growth (November 27, 2010). USAEE-IAEE Working Paper No. 10-055, Available at SSRN: https://ssrn.com/abstract=1715855 or http://dx.doi.org/10.2139/ssrn.1715855
12 - In 2021, transmission activities were legally transferred to its subsidiary, the National Transmission Company South Africa, which began trading with Eskom and IPPs in July 2024
13 - OECD (2025), OECD Economic Surveys: South Africa 2025, OECD Publishing, Paris, https://doi.org/10.1787/7e6a132a-en.
14 - Department of Minerals and Energy, Electricity Pricing Policy of the South African Electricity Supply Industry, 19 December 2008
15 - National Energy Regulator of South Africa

In 2008, the South African government made a substantial change to the pricing policy. At that point, Eskom's infrastructure was already very depreciated, and it was necessary to acquire new assets, so the government recognized that electricity pricing regulation had to be cost-reflective, but also "allow the utility to obtain reasonable priced funding on a forward-looking basis"[14]. Thus, an additional core policy principle was implemented, under which Eskom could request tariff adjustments to NERSA[15], based on the anticipation of revenue decline due to increased costs or lower demand. While this mechanism was initially designed to improve Eskom's funding capacity, it contributed to the vicious cycle the utility entered in the 2010s.

Indeed, from 2008 onwards, electricity demand started to decline, while supply conditions also worsened **(see Box 2)**. Due to the adjustment of the pricing mechanism, Eskom's losses (actual and anticipated) resulted in a sharp increase in electricity prices, with the average NERSA tariff being multiplied by over 4 between 2008 and 2019. Prices surged without fixing the core issue on supply, while external factors continued to weigh on the industrial consumer base, triggering incremental losses of revenue, and ultimately leading to a vicious debt cycle. The company was forced to contract an increasing amount of debt to cover its costs, and its credit ratings were downgraded, further constraining its ability to invest in production capacity. As Eskom's leverage had become unsustainable, the government had to bail out the company several times **(Chart 9)**. This was still insufficient to prevent the peak of the energy crisis in 2022, triggered by multiple breakdowns in power stations, most of which had already reached their retirement age.

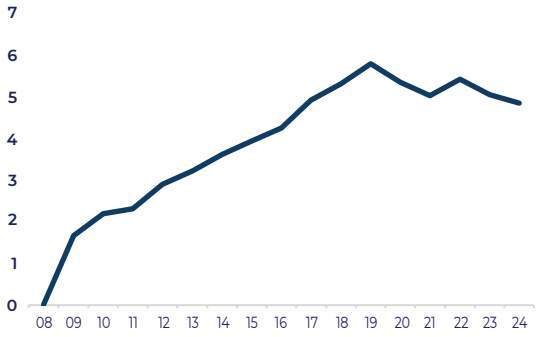
Deteriorating public finances aggravated the situation

Eskom's debt issues were aggravated by the poor financial health of municipalities (which account for 40% of distribution), which were also too leveraged. This can be tied to the overall deterioration of the country's public finances.

South Africa's fiscal policy was mainly countercyclical over the period. Immediately after the 2008 crisis, the government increased spending and financed it through debt. Initially, this expansionary stance did not lead to higher risk premiums or policy rates, as the government debt-to-GDP ratio was low and capital inflows remained strong. As a result, government spending had a robust positive impact on output. However, this fiscal stance was maintained for too long, with a growing share of expenditure allocated to wages rather than investment. From 2010, tax increases were also implemented. Financing a wage-focused fiscal policy through higher taxes, especially on income, reduced its effectiveness, led to the sharp fall in the fiscal multiplier – from 1.5 in 2010 to around zero in 2019[16]. As a result, the debt-to-GDP ratio surged from 28% in FY2007/08 to 76% in FY2024/25.

Deteriorating fiscal metrics and growing policy uncertainty led to a sharp increase in the risk premium - up by 200 basis points between 2013 and 2019. This affected borrowing costs for the economy, including at the local government levels. Due to these financial challenges, municipalities also did not have sufficient spending capacity to invest in infrastructure, and even to pay Eskom for the electricity provided, while also providing all other public services. This led to another vicious circle between Eskom's debt and municipal debt due to the increasing amount of payment arrears, which in turn put additional strain on consolidated public debt.
In fine, it appears that the deterioration in the electricity supply system was caused by flaws in regulation and poor governance (both at the company and state level), which were then aggravated by demand shocks linked

Chart 9 - Eskom's debt guaranteed by the government
(% of GDP)



Sources: South African National Treasury , Macrobond, Coface

BOX 2: Demand shocks and mismanagement accelerated Eskom's fall

As early as 1998, Eskom had already warned that electrical power reserves were under pressure, and that action had to be taken to achieve higher and reliable electricity supply. At that stage, Eskom requested an increase in its production capacity, which was not granted by the government. As South Africa entered a phase of fast expansion in the early 2000s on the back of the commodity supercycle, electricity demand increased substantially, but additional capacity was only authorized in 2004, creating additional pressure on Eskom's already ageing infrastructure. This led to the first power shortages in 2007-2008, due to a combination of insufficient capacity to meet increasing demand, skill shortages and issues in the supply of coal to the power stations.

In the decade following the GFC, Eskom's sales were pressured by the weakening of demand in manufacturing and mining, aggravated by strikes. This continued with the end of the commodity supercycle in 2014 and the deterioration of the rail sector, one of the large end-users. Furthermore, electricity supply had become unreliable due to the ageing of infrastructure and lack of investment. As independent power production reforms had been implemented in 2011[17], some companies and households turned to alternative forms of self-generation, further weakening demand. The fragility of the infrastructure meant that unexpected shocks on production units considerably worsened the existing situation and aggravated the vicious circle of collapsing revenues. For instance, the second large period of load-shedding happened in 2014-2015 due to the collapse of a coal storage silo in the Majuba power plant, which accounted for around 10% of capacity.

In addition to economic factors, corruption, mismanagement and financial misconduct were major factors in the decline of the electricity sector. The first major probe concerning Eskom by the Special Investigating Unit (SIU)[18] was launched in 2012 (under Jacob Zuma), to investigate events that occurred from 2006 onwards. It concluded that there were several areas in which decisions made by the company had led to financial losses, such as opaque contracts and payments on coal procurement and transportation, conflicts of interest, misadministration, or failure to properly preserve existing assets. Despite an overhaul of Eskom's leadership and governance reforms following the report of the SIU, these issues worsened in the period leading up to the peak of the energy crisis. A second probe launched in 2020 (under Cyril Ramaphosa), for the same allegations, found systemic governance failures, including further procurement irregularities, misconduct of over 5,000 Eskom employees, as well as kickbacks and gratifications for officials and executives. Overall, preliminary estimates of publicly disclosed cases indicate that financial losses would amount to at least (more cases are pending in court) ZAR 15 billion (USD 870 million at current exchange rate), a considerable amount considered the company's poor financial health and limited investment capacity.

16 - Janse van Rensburg, T., De Jager, S. & Makrelov, K.H., 2022, 'Fiscal multipliers in South Africa after the global financial crisis', *South African Journal of Economic and Management Sciences* 25(1), a4191. https://doi.org/10.4102/sajems.v25i1.4191

17 - The Renewable Energy Independent Power Producer Programme (REIPPP) was launched in 2011. It is a public initiative aimed at increasing capacity through private sector investment in renewables, who can sell the electricity generated to both Eskom and end-users. This programme was halted between 2015 and 2019, aggravating the energy crisis.

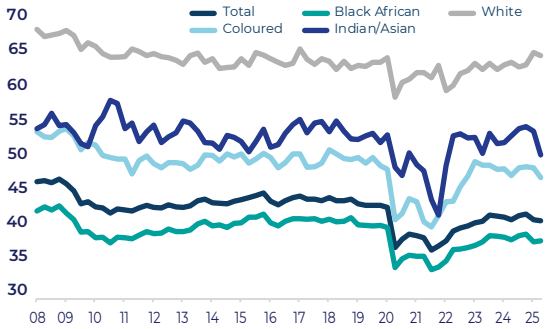
18 - The SIU is an independent agency of the South African government which investigates serious allegations of corruption, malpractice and maladministration in the administration of State institutions, State assets and public money.

to the economic cycle. While an industrial policy based around energy-intensive industries was pushed initially, the necessary adjustments to the electricity sector were too little too late, and the system (physical and financial) was already too fragile when faced by successive shocks. As the quantity of available energy is upstream of all economic activity, this is the main limit to South Africa's growth potential. Over two decades, the energy crisis has destroyed productive capacities, eroded competitiveness, limited potential technological advances, discouraged private investment and pressured public finances.

A highly distorted labour market

Due to the deterioration of capital and TFP, potential labour supply[19] became the main and most stable driver of potential growth for South Africa. Indeed, South Africa's demographics are favourable, as the working age population grew at a CAGR of 1.8% between 2001 and 2024, and despite the poor economic context, there have been noticeable improvements in some human capital factors such as educational attainment (for secondary and tertiary) and life expectancy. However, there are also large distortions in the labour market, which limits its contribution to real growth dynamics. The low level of employment **(Chart 10)** results from two main factors: high unemployment and low labour force participation.

Chart 10 - Employment to population ratio *(%)*



Sources: South African Statistics (Stat SA), Macrobond, Coface

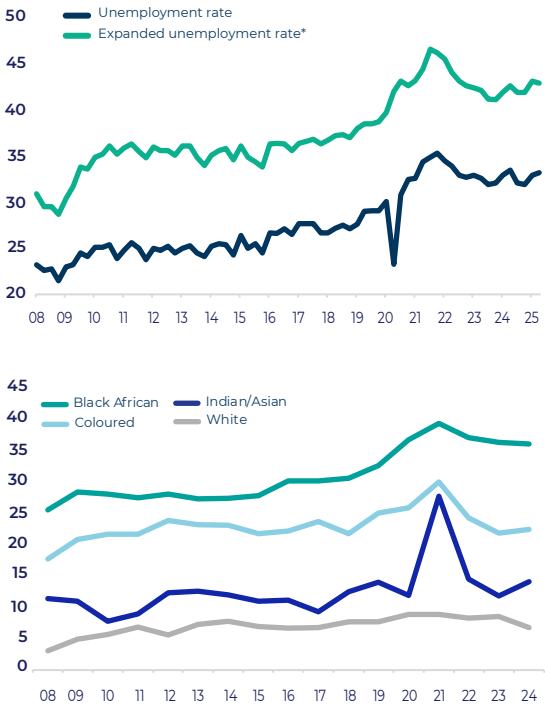
Low growth, de-industrialization and skill mismatches have driven unemployment

South Africa's unemployment rate **(Chart 11a)** has remained persistently high and has continued to rise, standing at 33.2% in Q2 2025. Unemployment among the Black African group is systematically higher than the national average, while the White population faces a much lower and more stable rate **(Chart 11b)**.

Between 2008 and 2024, employment gains have mostly been concentrated in service industries (CAGR of 1.4%, or 2.4 million jobs added), particularly community and social services and finance. Conversely, manufacturing employment fell (CAGR of -1.5%, or 448k jobs lost), as manufacturing's share declined steeply, consistent with poor economic performance and low levels of investment over the period **(Chart 12)**. Overall, employment growth (0.9% per annum) was too low considering the expansion of the working-age population. These trends in employment are partly due to South Africa's de-industrialization **(Chart 13 next page)**. This process has been continuous after the GFC due to both structural and cyclical factors, such as large supply side constraints on energy and transport, lower industrial demand due to the end of the supercycle and China's emergence as the world's main manufacturer. De-industrialization can be aggravated by an economic downturn and even be premature (for emerging and developing economies) when the industrial decline starts at lower levels of investment and income[20].

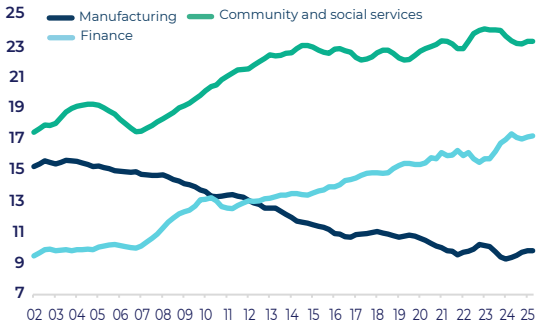
This is compounded by mismatches between labour supply and demand. Indeed, a large portion of South Africa's labour force is low-skilled (around 42% still lacks a secondary degree), while most employment gains have been for positions that are of medium or high skill (managers, sales, clerks, etc.). Thus, one of the long-term challenges to reduce unemployment is to upskill the workforce (through education and training) considering the main drivers of employment.

Chart 11 - South Africa: Unemployment rate totals *(a)* **and by population group** *(b) (%)*



Sources: South African Statistics (Stat SA), Macrobond, Coface
*The expanded unemployment rate includes those discouraged from seeking work.

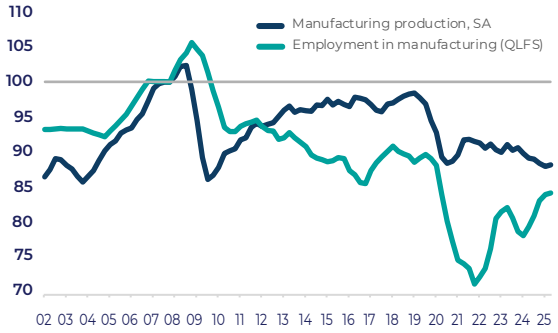
Chart 12 - South Africa: Share in labour force *(%, 4-quarter moving average, QLFS)*



Sources: South African Statistics (Stat SA), Macrobond, Coface

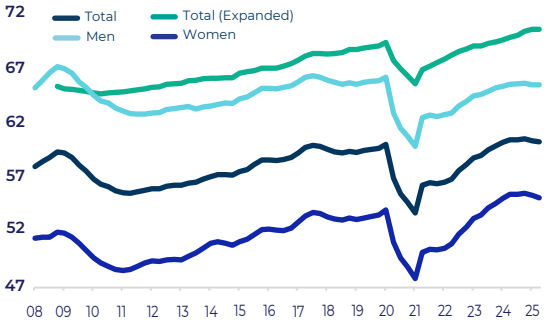
19 - Potential labour supply is a function of the working-age population and age, and gender-specific labour force participation rates.
20 - Dani Rodrik, 2016. "Premature deindustrialization," Journal of Economic Growth, Springer, vol. 21(1), pages 1-33, March.

Chart 13 - South Africa: Manufacturing production and employment *(100 = 2007, 4-quarter moving average)*



Sources: South African Statistics (Stat SA), Macrobond, Coface

Chart 14 - Labour force participation rate *(%)*



Sources: South African Statistics (Stat SA), Macrobond, Coface

Low labour force participation due to exclusion

Furthermore, these issues on labour demand are compounded by stagnant and low labour force participation. Evidently, labour force participation is considerably higher when including discouraged work seekers under the expanded definition **(Chart 14)**. While employment trends partly explain the increase in discouraged work seekers, there is also a structural and extremely high level of exclusion in the labour market, a legacy of the apartheid **(see Box 3)**. When apartheid ended, the racial segregation by law was ended, but the deep-rooted spatial segregation, i.e. the distance created between some population groups and economic centres, remained. Thus, many South Africans are too far from jobs, even when they are available.

This is compounded by severe mobility constraints on the labour force due to high transport costs[21]. Due to the long distances to economic centres, as well as inefficient, expensive and unsafe transport, many workers lose time and money to get to their workplace. In fact, for some job seekers, these constraints might lead them to ultimately exit the labour market. This fragmentation in resource allocation and labour market access means that even if growth could stimulate labour demand, these major constraints on worker mobility would most likely sustain a high unemployment rate.

Still, South Africa has assets

South Africa's low growth regime is the sum of many factors, ranging from deep-rooted socio-economic characteristics linked to the history of the country, to global cycles to which its open economy is sensitive to. From a production function perspective, they relate to the shortcomings two factors – energy and labour – whose deterioration has been ongoing for decades and severely limits the effectiveness of all other policymaking. Realistically, even if major reforms are undertaken to tackle these constraints, it will take several years for the country to reach the potential of a dynamic emerging market.

That being said, there has been change in recent years. First, a change in the political sphere, with the emergence of a coalition government in 2024, for the first time since the end of apartheid. This government's economic agenda has a more business-friendly approach, which could boost private sector participation and investment in the economy. Changing from a single party dominated system to a coalition system might create some short-term instability, it is even possible that this government collapses before the end of its term. But in the longer-term, the existence of stronger pluralism should be a positive, as it creates opportunity for change, and makes political parties more accountable for the policies they conduct.

There has also been stronger response to the recent crises, with large reforms pushed through targeting the energy and transport networks, as well as efforts to ease regulatory burdens on private companies. Eskom has received significant financial support from the government since 2022, but this time it has

BOX 3: Spatial segregation – a legacy of the apartheid

During the apartheid, land allocation followed a principle of racial segregation. Both urban and rural areas were divided into zones for different population groups (White, Black, Coloured, and Indian/Asian). Whites were allocated the highest quality land, urban centres and the most developed suburbs. Other populations groups were displaced and relocated to distant underdeveloped locations (called townships). For Black South Africans more specifically, the government created "homelands" (Bantustans), often in remote, economically marginal areas. Urban and infrastructure planning compounded the general system, as cities were designed with physical buffers (industrial zones, railways, highways) to separate the different groups, while public services (education, health, transport) were both segregated and mostly distributed to the White population. Movement between the different areas was restricted and controlled.

Despite multiple planning reforms since 1995[22], the damage caused by this policy are still deeply rooted and visible in modern South Africa. This spatial planning had been designed for one group to control most economic assets and prevent the others from accessing them by creating physical, social and economic exclusion through a specific territorial configuration. Considering the structure of ownership in South Africa, Whites - the main owners of capital, were allocated maximum economic resources, while other groups - the bulk of the labour force, were excluded.

This also explains the large differences in employment and unemployment between different population groups and regions. As most of value-added and employment are concentrated around specific hubs in the largest cities (Johannesburg, Cape Town, Durban), infrastructure maintenance and development are higher around them, and public services are of better quality. On the other hand, areas far from these hubs are often under-resourced, with poor infrastructure (electricity, water, sanitation) and overcrowded public services. This sustains a vicious cycle of poverty and inequality, in which the most vulnerable populations are isolated from economic opportunities, have the lowest access to basic services such as health and education and the highest barriers to entry on the job market, both on the formal and the informal segment. Indeed, in EMDEs[23], the informal sector acts as a driver of employment when the formal sector cannot. However, South Africa has a low level of informality given to these barriers.

21 - Shah, K. & Sturzenegger, F. (2024) Search, transport costs and labour markets in South Africa. South African Journal of Economics, 92(4), 549–580. Available from: https://doi.org/10.1111/saje.12388
22 - For instance: Development Facilitation Act in 1995, Municipal Systems Act 32 in 2000, Spatial Panning and Land Use Management Act in 2013
23 - Emerging Markets and Developing Economies
24 -Energy Action Plan in 2022, Electricity Regulation Amendment Act 38 in 2024, Just Energy Transition Investment Plan (JET IP) 2023-2027

also been accompanied by additional reforms aimed at making it less concentrated and increasing private sector participation. Although these are the initial steps, which have only stabilized the situation, continuation in this direction could make this critical industry financially viable and capable of investing in infrastructure to modernize the energy system.

The shift in labour dynamics is more complex, as employment policies revolving around job creation are unlikely to solve the issue of structurally high unemployment and low labour force participation. One must keep in mind that while apartheid ended over 30 years ago, the South African society was trapped in one of the most unequal and repressive systems in modern history for over four decades and fully breaking the remaining barriers takes some time. There have been many policies aimed at correcting these imbalances, but their effectiveness has been limited until now.

Finally, despite large issues, South Africa is still a continental powerhouse. In addition to the most developed industrial base in Africa, it has highly liquid and capitalized banks and financial institutions, a flexible currency, sound institutions that can conduct economic policies (especially its central bank) and is completely integrated into global trade. As trade tensions with the US are likely to remain[25], South Africa will have to look for new markets, on other continents, but also in Africa. Should the domestic constraints be dealt with, the country most definitely has opportunities to benefit from regional growth and has enough entities that are sufficiently capitalized and diversified to expand into growing markets.

25 - Currently, South Africa faces a 30% US tariff, as well as tariffs on some of its main exports to the US such as automotive and metals.

COFACE SA
1, place Coste et Bellonte
92270 Bois-Colombes
France

www.coface.com

October 2025 - Layout: Cécile Bélonie - Photo © iStock