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Op-ed

GOING FOR GROWTH: STRUCTURAL REFORMS NEEDED FOR ECONOMIC RECOVERY

By William Gumedu

The National Treasury's economic growth and revenue projections are overly optimistic and expenditure and debt estimates as outlined in the Budget are understated.

The Treasury predicts real GDP growth of 1.9% in 2025. The Budget estimates a revenue shortfall of R16.7 billion in the 2025/2026 year. It forecasts government gross debt is now projected to stabilise at 76.2% of GDP in 2025/26.

The Treasury's forecasts are based on unrealistically favourable macroeconomic outlooks, misplaced assumptions that there will be improved investor confidence, that public service and state-owned entities service delivery will improve, that broken infrastructure will be fixed, that there will be a stable supply of electricity. The optimistic Treasury revenue estimates are built on the misplaced growth forecasts. The Treasury revenue estimates are among others based on expected massive new infrastructure investment, while there is very little meaningful new infrastructure built that would justify such an optimistic infrastructure-led revenue.

The Treasury growth forecasts assume the easing of structural constraints on growth, higher investment, recovery in household consumption, rising employment, and declining inflation. Global uncertainties are threatening economic growth. US President Donald Trump has unleashed widespread global tariffs, including 30% against South Africa, for long-standing anti-American policies, undermining local minorities and threatening American assets through the expropriation without compensation law. The US' withdrawal of development aid left a big hole in South Africa's public finances.

Many of the structural reforms being implemented by government so far have focused on technical aspects, such as capacity-building, and increasing or reducing budget allocations. Many of the non-technical, but rather political, ideological, interest-based, and corruption factors that drive the level of growth, the budget deficit, expenditure, revenues, public debt, are not easy to tackle.

The Treasury does not appear to factor in the continued politically-induced structural constraints to growth: corruption, incompetence, lawlessness and the many anti-growth policies and laws and restrictive business regulations, which cause continued lack of state capacity because of public service, state-owned entity, infrastructure and municipal failures.

New laws, policies and regulations continuously pushed which are motivated more by ideology and populism, rather than pragmatism and cost-benefit analyses, will increase expenditure levels.

The governing ANC has lacked the political will to genuinely tackle the real constraints to growth: corruption, public sector and SOE incompetence because of cadre deployment, lawlessness, uncertain property rights, populist and ideological anti-growth, anti-business and anti-job-creation policies, by introducing merit-based appointments and state contracts, tackling corruption, strengthen the rule of law – which will bring corrupt cadres, criminals and organised “mafias” to book, protect property rights, and letting go of populist and ideological anti-growth, anti-business and anti-job-creation policies.

There is massive opposition within the ANC to genuinely tackle politically-induced structural constraints to growth because they will undermine the patronage, ideological and factional interests of powerful ANC figures – and cause internal divisions inside the ANC, which has made “unity” within the party the number one objective, even if this go against the country’s interests, undermine the economy and the country’s stability.

Corruption, cadre-led incompetence and capture of transformation policies such as preferential procurement may be key structural impediments to growth, however, many ANC leaders do not see these as the reasons for low growth – which means there is little political initiative to change these.

State failure, whether at SOE or municipal level help fuel inflation, as state monopoly entities, increase rates to customers to make up for decreasing revenues as a result of poor services, caused by corruption, incompetence and populist policies. US tariffs will push up inflation and interest rates in emerging markets, including South Africa.

The structural hurdles undermining infrastructure development include corruption, ineffective SOEs and development finance institutions (DFIs), ideological opposition by many ANC groups to involving the private sector in infrastructure delivery, the Expropriation Law, which undermines property rights, many anti-business laws, and potential domestic and global economic turmoil unleashed by the US President Donald Trump’s wide-ranging global tariffs. It could lead to a global economic downturn. Low global growth means lower demand for South Africa’s minerals and products.

A positive business outlook is one of the reasons for the Treasury and others’ positive economic forecasts, based on the assumption that the Government of National Unity following the May 2024 general elections would bring political stability, which would be the impetus for economic reform and, in turn, boost private investment and GDP growth. The ANC’s insistence on governing as if it is the sole majority-party, rather than it being part of a multiparty GNU – which entails involving partners in decision-making, appointments, and policymaking – is threatening to break up the current GNU. This will undermine growth.

Much of the economic growth over the past decade came from consumer spending. A sizeable proportion of consumer spending is through state welfare grants – South Africa has 28.7 million people on welfare grants, and only 7.4 million personal income taxpayers.

South Africa's tax base is concentrated in a narrow band of high-income earners, who are highly globally mobile. Domestic anti-growth policies, continued state failure, corruption, and incompetence will force them to leave to other domiciles.

South Africa is facing the real possibility of a debt crisis. However, government does not include SOE debt in its debt projections, even though that debt is likely to increase, given the lack of political will to tackle the causes of SOE and government failure: political cadre appointments, captured preferential black economic empowerment procurement, and government reluctance to hold failing SOEs – which are managed by political cadre appointees – accountable, for fear of alienating ANC party factions.

Given the lack of political will to tackle the structural impediments to growth, such as poor governance, cadre-appointments and corruption in procurement in SOEs and DFIs, and ideological and populist policies, it is very likely that new bailouts for SOEs and DFIs will be required.

State capacity and infrastructure delivery failure - because of the same issues of corruption and incompetence by political cadre-appointees, is a key reason for low growth. Many parts of the public service, SOEs, municipalities, and management of state infrastructure are beset with governance challenges, largely because of politically appointed, but incompetent leaders, widespread corruption, the capture of procurement policies, mismanagement, and ideologically-based regulations, policies and priorities – the solutions to these are mostly political. And up until now, there has been very little apparent political will to tackle these sources of governance challenges.

There is fierce opposition in the ANC against critical infrastructure SOEs and DFIs partnering in public-private partnerships to co-deliver services where these institutions have been hollowed out, to hand over delivery to the private sector.

In many key growth critical municipalities and metros, state departments and SOEs there appear little prospect of them immediately being turned around because of strong ANC vested political, ideological, and trade union interests.

There is opposition in the ANC against essential structural reforms to turn around infrastructure SOEs and DFIs such as merit-based appointments, and merit-based procurement, performance contracts with employees, and linking salary increases and benefits with performance.

Poor energy infrastructure undermine growth. Energy infrastructure expansion have been crippled by lack of state capacity – because of cadre-appointments, ideological and patronage policies, the manipulation of empowerment policies, and preferential procurement to give contracts to politically connected businesses who do not have the capacity.

Inefficiencies in Transnet, the state-owned logistics giant responsible for South Africa's ports, rail, and pipelines is, like Eskom, the state energy utility, major contributors to the country's low-growth path. Transnet and Eskom, like other SOEs and DFIs, has been burdened with

governance issues, cadre appointees, corruption in procurement and ideological policies from government.

Many of the water infrastructure SOEs, municipal entities, and water boards have fallen into disarray. The lack of reliable water has also caused the flight of businesses, investment, and skills and increased inflation, unemployment, and has undermined growth.

Many policies and laws undermine growth, such as the NHI Bill - a middle-way must be cobbled together that introduces a dual public-private health system, not a fully nationalised state health system; and the Expropriation Act, must be cancelled.

Economic growth cannot take place if there is lack of property rights, lack of rule of law, and lack of rules-based social behaviours.

Key catalytic private sector growth sectors are also being undermined by politically-induced economic structural obstacles. High levels of crime, power outages, infrastructure decline, no sustainable industrial policies, but rather, restrictive regulations, state failures, and a poor economic environment caused by these, has led to manufacturing's decline.

Renewable energy, a key economic growth catalysts are ideologically opposed by many ANC groups or in danger of being captured by ANC patronage groups.

Agriculture's potential is in danger of populist, emotional and ideological land reform, and not focusing on securing food security; fostering an agricultural, manufacturing, processing, and technology industrial hub; and fostering related artisan, technical, and research skills.

Mining has consistently declined due to political-induced power collapse, regulatory failures, corruption, capture of empowerment programmes and policies, and administrative incompetence in the departments over seeing mining. Mining laws, policies, and rights allocations are in many cases captured by politically connected figures, mafias, such as the "zama zamas", and trade union interests.

Finally, many ANC politicians do not genuinely think growth should be at the centre of economic policy, arguing wrongly that to do so will be promoting 'neo-liberalism'. There has to be acceptance by ANC leaders and members that that growth the top priority.

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