

South Africa's Economy Shows Early Signs of Recovery as Structural Reforms Take Hold

South Africa's economy is beginning to show welcomed signs of revival, with recent data indicating that long-discussed reforms in energy, logistics, and public infrastructure are finally translating into tangible economic momentum. After months of stagnation and uncertainty, the latest indicators suggest that the groundwork laid by government and business is starting to shift the growth outlook in a more positive direction.

Encouraging GDP Growth Surprises Analysts

Economic sentiment brightened last week following a stronger-than-expected GDP print. The economy expanded by **2.1% year-on-year**, surpassing earlier forecasts and convincing many economists to revise their full-year growth projections upward from the previous consensus of around 1.2%. While the new outlook still falls short of the sustained high-growth environment South Africa urgently needs to reduce unemployment, the result represents a meaningful improvement and signals that the economy may be gaining steady traction.

Even more promising was the uptick in **fixed investment**, a key component required to unlock long-term economic expansion. Investment levels have been under strain for years, particularly in the public sector, where infrastructure spending has repeatedly fallen short. The latest figures, however, show the first overall rise in investment since mid-2023, supported by a modest but notable increase in public-sector capital expenditure. Although investment still sits at a low **13.7% of GDP**, any upward movement is a positive indicator of renewed economic activity.

Improving Fiscal Signals and Business Sentiment Add Momentum

The GDP report adds to a growing collection of encouraging economic signals, following a stronger fiscal performance outlined in the medium-term budget policy statement and a recent credit rating upgrade from S&P. These developments have contributed to an improvement in business sentiment, reflected in the **RMB/BER Business Confidence Index**, which rose by five points in the fourth quarter after two consecutive declines. What stands out is the broad nature of the improvement, spanning multiple sectors and hinting at a coordinated upward shift in confidence.

The manufacturing sector, in particular, experienced a sharp increase in confidence after three quarters of deterioration. Levels now stand at the highest point since 2022. This is critical for employment: when manufacturers plan to ramp up production, they increase hiring and invest in new capacity. Retailers also reported a strong boost in confidence, supported by resilient consumer demand and solid sales volumes heading into 2026.

Agriculture mirrored this upward trend, with the **Agbiz/IDC Agribusiness Confidence Index** climbing by five points. Although sentiment does not immediately translate into output or job creation, it lays the psychological foundation necessary for businesses to commit to new investment and expansion. The central question for 2026 is whether these fragile gains will persist long enough to motivate businesses to invest in long-term growth rather than simply maintain current operations.

Moody's Remains Cautious Despite Improving Indicators

Even with these positive developments, **Moody's** chose to keep South Africa's credit rating unchanged, citing persistent structural weaknesses. While acknowledging the improved fiscal environment, the agency emphasized the ongoing challenges of financially constrained state-owned enterprises, slow growth prospects, aging infrastructure and a labour market still struggling with elevated unemployment.

Moody's outlined clear conditions for a potential upgrade: the country must demonstrate sustained economic acceleration driven by meaningful reforms in the electricity and logistics sectors, coupled with rising investment levels. Conversely, setbacks or delays in these critical reforms may result in a downgrade.

While Moody's stance is conservative, financial markets tell a more optimistic story.

Global Investors Signal Strong Confidence

In a significant vote of confidence from global markets, the **National Treasury successfully issued US\$3.5 billion in international bonds**, which were oversubscribed by 3.7 times. This oversubscription demonstrates robust investor appetite for South African debt and provides the government with enhanced fiscal space.

Notably, the 12-year bond was priced at **6.25%**, a considerable improvement from the **7.1%** yield secured a year earlier. Lower borrowing costs directly benefit South Africa's balance sheet and indicate that global investors view the country's fiscal discipline and reform progress favourably.

Electricity and Logistics Reform Remain the Cornerstone of Long-Term Growth

The reforms highlighted by Moody's as prerequisites for an upgrade are the same ones that organized business and government are jointly focused on delivering. One of the most important next steps is the **unbundling of the electricity sector**, including the establishment of an independent grid operator. Creating a competitive electricity market—where traders can buy from multiple generators and sell to multiple customers—will introduce real price competition and help drive down energy costs.

Parallel progress is required in the logistics sector. Concessioneering port and rail operations to private operators capable of bringing investment, efficiency and competition is critical to unlocking economic growth. Encouragingly, momentum seems to be building.

A recent announcement by **Traxtion**, which will invest **R3.4 billion** in 46 new locomotives and 920 wagons, illustrates how reforms can stimulate private-sector participation. The company plans to significantly expand its use of Transnet's rail network, improving freight capacity and offering new opportunities for businesses across South Africa.

The impact of improved logistics extends far beyond one company. For mining firms, enhanced rail capacity translates into more reliable export channels. Agricultural producers gain confidence to secure global contracts, knowing they can meet delivery timelines. Manufacturers can grow production without fearing transport bottlenecks.

This is the multiplier effect of infrastructure reform: one investment unlocks dozens more, catalysing broader economic expansion.

A Turning Point—If Momentum is Maintained

Despite the caution from Moody's, the collective evidence suggests that South Africa's economy may be entering a period of renewed momentum. The "green shoots" reflected in GDP growth, rising investment and strengthening business confidence can take root—provided that reform commitments translate into on-the-ground delivery.

Eskom must push ahead with unbundling and open the energy market to competition. Transnet must finalise concessioneering agreements and accelerate new ones. The market has demonstrated it is ready to support South Africa, as seen in the oversubscribed bond issuance. With confidence rising and investment responding, the country stands at a pivotal moment.

If South Africa stays the course and implements structural reforms decisively, the coming years could mark a shift toward a more vibrant, resilient and growing economy.