



ECONOMIC COMMENTARY

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SA'S ECONOMIC CROSSROADS: CRISIS OR RECOVERY?

South Africa's (SA's) economy is at a critical juncture. While many signs point to ongoing structural decline, recent policy shifts and economic activity indicate a possible slow recovery. The key question remains: Will SA continue its downward spiral, or can it stabilise and grow? A deeper look at key economic factors suggests that, while the country is highly unlikely to collapse entirely, obstacles remain that could prevent it from realising its full potential.

Demographics: Opportunity or liability?

SA has a young population, with a median age of 28. In theory, this should be an advantage but youth unemployment exceeds 50%, making it a ticking time bomb for social stability. At the same time, declining birth rates (1.9 births per woman) mean that within a few decades, the workforce could shrink, following trends seen in Japan and Europe. When structural reforms create jobs, a demographic dividend could drive growth. Otherwise, prolonged unemployment will fuel stagnation and social unrest.

Deindustrialisation and trade pressures

Manufacturing's contribution to the gross domestic product (GDP) has declined from 25% in the 1980s to 13% today. The economy remains overly reliant on raw material exports, making it vulnerable to global commodity cycles. Furthermore, automation and artificial intelligence threaten to eliminate low-skill jobs, making education and skills training more critical than ever. While BRICS trade ties offer opportunities, SA is primarily an exporter of raw materials rather than high-value goods, limiting its economic potential.

Energy crisis: Eskom's decline, private sector's rise

For years, Eskom's failures have been a major economic drag, with load shedding lowering productivity and investor confidence. However, in 2023 alone, more than 5 000 MW of private-sector renewable energy projects were approved (this is more than Medupi and Kusile combined). Eskom's decision to remove black economic empowerment (BEE) procurement requirements signals a shift towards efficiency rather than towards racial quotas. If private investment in energy continues, SA could finally resolve its electricity crisis within five to ten years. However, with 80% of electricity still coming from coal, decarbonisation will be necessary to remain competitive in global markets.

Debt, taxes, and fiscal instability

SA's government debt is approaching 75% of GDP, with interest payments consuming nearly 20% of state revenue. Nearly 50% of South Africans receive a social grant, creating unsustainable fiscal pressure. At the same time, high-income earners and businesses are emigrating or shifting capital offshore, shrinking the tax base. Without higher economic growth, the government will face tough choices: Higher taxes, spending cuts, or an International Monetary Fund bailout.

Political shifts: From state control to private innovation?

The decline of state-owned enterprises (like Transnet, Eskom, and South African Airways) has reduced government control over key industries, allowing private-sector solutions to emerge. The easing of BEE policies and procurement reforms suggest a shift from redistribution to economic efficiency. This trend could accelerate if a reform-minded coalition or party emerges with the next elections. However, if the African National Congress partners with populist forces like the Economic Freedom Fighters, economic uncertainty could grow, scaring off investors.

The final verdict: Will SA make it?

SA's future likely falls between:

- + **Worst-case scenario (20%-30% probability):** Economic mismanagement continues, fiscal collapse accelerates, and political radicalisation pushes the country towards a Zimbabwe-style decline.
- + **Best-case scenario (30%-40% probability):** Market-friendly reforms take hold, private investment increases, and the country stabilises with slow, but steady, growth.
- + **Most likely scenario (40%-50% probability):** SA experiences a slow, uneven recovery, avoiding collapse but failing to unlock its full potential owing to political and structural constraints.

While risks remain, there are signs of resilience. The private sector is stepping in where the government has failed, policies are shifting towards growth rather than towards redistribution, and key industries are seeing much-needed reform. SA is unlikely to collapse but, without deeper structural change, it will remain a fragile, high-potential economy: Always balancing between crisis and recovery.

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