

South African Economic Performance and Outlook: Lessons for SMEs



Performance



Analysis



Challenges

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Economic Performance Overview

South Africa's economic performance over the past decade has been characterized by sluggish growth, with GDP increasing by an average of only **0.7%** annually (World Bank). This trend reflects deep-seated structural constraints that have impeded economic expansion.

Annual GDP Growth Rate (2020-2024)



🔴 Pandemic Impact

Significant contraction of **-6.2%** in 2020 due to COVID-19 pandemic



Rebound

Economic rebound of **5.0%** in 2021 following pandemic



Recent Growth

Growth has slowed to **0.6%** in 2024, down from **1.9%** in 2022



Government Forecast: The 2024 Medium Term Budget Policy Statement forecasts an average annual growth of **1.8%** over the next three years

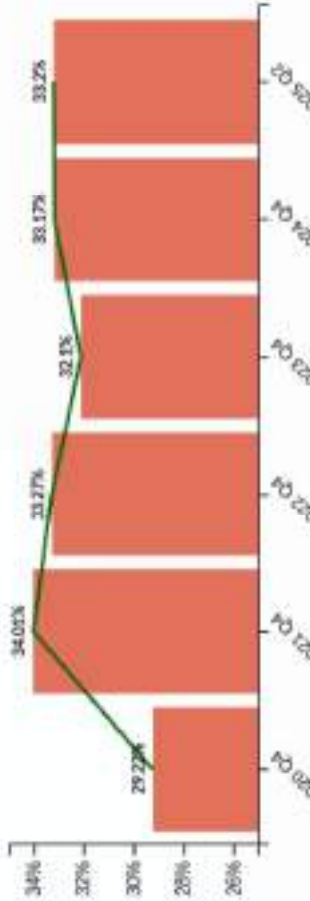
Key Economic Indicators

South Africa's economic performance is characterized by critical challenges in key indicators, particularly high unemployment rates and fluctuating inflation.



Unemployment

South Africa faces one of the highest unemployment rates in the world, with particularly dire conditions among youth.



Overall Unemployment

33.2%

as of Q2 2025

Youth Unemployment

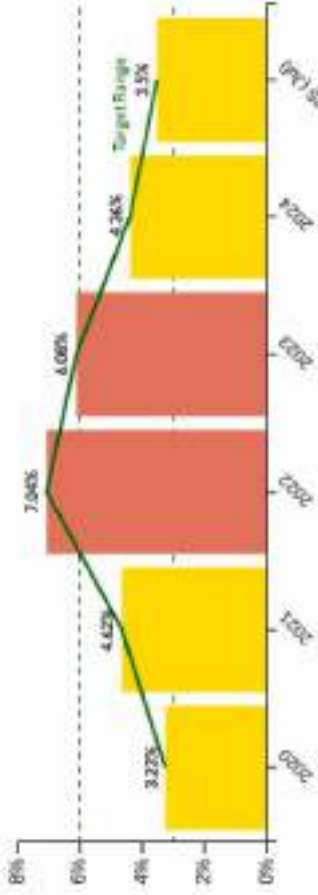
46.1%

ages 15-24 (Q1 2025)



Inflation

Inflation rates have shown volatility recently, with the South African Reserve Bank targeting a range of 3% to 6% for consumer price inflation.



Current Inflation

3.5%

as of July 2025

Target Range

3% - 6%

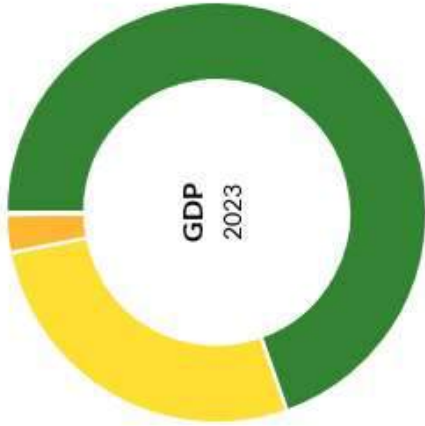
SARB target



Note: The recent rise in headline consumer inflation to 3.5% in July 2025, up from 3.0% in June, represents a temporary increase within the central bank's target range.

Sectoral Contribution to Economy

GDP Contribution by Sector (2023)



■ Services ■ Industry ■ Agriculture



Services Sector (62.61%)

Primary driver of economic activity since the early 1990s, led by finance, retail, and communications.



Financial Services: Largest sector, contributing ~22% to GDP



Industry Sector (24.62%)

Foundation of South Africa's economic strength, with mining as a cornerstone.



Mining: World leader in platinum, gold, and chromium



Automotive: Contributes >5% to GDP



Agriculture Sector (2.62%)

Critical for food security and rural development, though minimal contributor to overall GDP.

Other Key Sectors



Tourism



Transport



Energy

The Energy Crisis

South Africa's persistent energy crisis, characterized by rolling blackouts (load shedding), has severely constrained economic activity for over a decade.



The Load Shedding Crisis

- Electricity shortages began in 2007, intensified in 2022-2023
- State-owned utility Eskom's financial and operational failures
- Eskom's massive debt burden reached ZAR 440 billion by 2019



Recent Developments

- Some improvement in electricity supply since March 2024
- Stage 6 load shedding (8-12 hours daily) implemented in February 2025
- Unplanned outages have dropped below 8 000MW since 2020
- 4 850MW of generation capacity returned yesterday



Load Shedding Stages



Economic Impact



Productivity

Unreliable power supply undermines productivity in energy-intensive industries



Growth

Eskom's debt burden reached ZAR 440 billion by 2019, constraining economic growth



Note: During one period, Eskom was estimated to be losing ZAR 1 billion per month to corruption and theft.

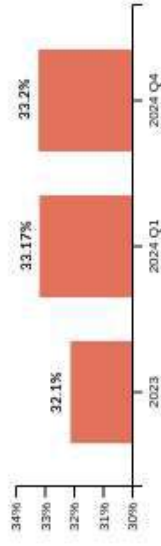
Structural Challenges

South Africa grapples with profound structural issues that limit its economic potential and exacerbate social disparities. These deep-rooted challenges have persisted despite decades of independence and continue to hinder sustainable growth.



High Unemployment & Inequality

- Unemployment rate at **33.2%** (Q2 2025)
- Youth unemployment at **46.1%** (Q1 2025)
- One of the highest inequality levels globally



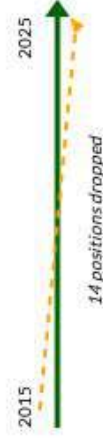
Weak Business Environment

- Infrastructure bottlenecks constrain growth
- Negative Total Factor Productivity contribution for 15 years
- Deep structural rigidities and governance weaknesses
- Business environment ranked below global peers



Declining Economic Complexity

- Economic complexity dropped **14 positions** over the last decade
- Potential loss of specialized productive knowledge ("KnowHow")
- Decline suggests reduced ability for diversified growth
- Harvard University, 2023 study shows concerning trend

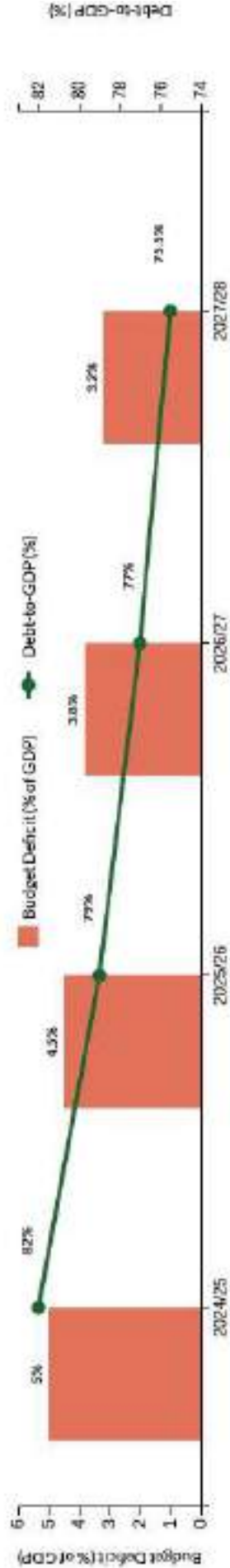


Key Insight: These structural challenges are interconnected and collectively hinder South Africa's ability to achieve sustainable and inclusive economic growth, despite its potential as a middle-income country.

Fiscal Constraints

South Africa faces significant fiscal challenges as a result of decades of economic mismanagement and graft, which have contributed to a public debt crisis and strained public finances.

Fiscal Consolidation Targets (2024/25 - 2027/28)



Key Fiscal Challenges

- High public debt resulting from economic mismanagement
- Budget deficits putting pressure on public finances
- Limiting fiscal space for growth-enhancing investments

Fiscal Consolidation Strategy

- ✓ Consolidated budget deficit projected to narrow from 5% of GDP to 3.2% by 2027/28
- ✓ Debt stabilization target of 75.5% of GDP by 2025/26
- ✓ Focus on fiscal discipline to restore macroeconomic stability

Note: The government's 2024 Medium Term Budget Policy Statement outlines these fiscal consolidation targets as part of a broader strategy to stabilize the country's finances and create conditions for sustainable growth.

Global Economic Factors

South Africa's open economy is susceptible to shifts in the global economic landscape, which can either amplify or mitigate domestic challenges. The country's integration into global markets creates both opportunities and vulnerabilities.



Global Market Volatility

South Africa's economy is exposed to global economic uncertainty, supply chain disruptions, and rising operational costs.

- Key export sectors like mining are affected by global market conditions
- Supply chain disruptions impact various economic sectors
- Rising operational costs increase business challenges



Trade Policy Impacts

Changes in international trade policies can have direct consequences on South Africa's economic prospects and export industries.

- Import tariffs increase costs for businesses and consumers
- Export restrictions affect South African industries
- Policy changes create new trade barriers



Recent Example : US Trade Policy

In August 2025, the United States imposed a **30% tariff** on certain South African exports.



This created new headwinds for local industries

30%

Tariff on South African exports



Key Insight: Global economic pressures compound South Africa's domestic economic challenges, creating both immediate impacts and long-term structural issues.

Government's Reform Agenda: Operation Vulindlela and Beyond

The South African government's reform agenda, spearheaded by initiatives like Operation Vulindlela, focuses on creating a more conducive business environment, strengthening governance, and enhancing labour market flexibility. These reforms are critical for unlocking the country's economic potential.

1

Electricity Sector Liberalisation

Key efforts are directed at resolving load shedding through increased private sector participation in electricity generation. This aims to stabilise power supply and reduce disruptions for businesses.

2

Logistics Sector Improvements

Reforms are underway to enhance the efficiency of freight rail and port operations, vital for improving supply chain reliability and reducing the cost of doing business.

3

Labour Market Flexibility

Initiatives aim to address youth unemployment and streamline regulations for SMEs, making it easier for them to hire and grow.

4

Economic Impact

The International Monetary Fund (IMF) estimates these reforms could boost South Africa's output by 9% and significantly reduce inequality.

Chapter 3

SMEs: The Backbone of South Africa's Economy

Small and Medium-sized Enterprises (SMEs) are the lifeblood of South Africa's economy, playing a pivotal role in job creation and fostering economic resilience. They account for a substantial 64% of all jobs, making them crucial in a context where the formal sector is shedding employment.



Despite their importance, SMEs face significant hurdles, including limited access to finance, restricted market access, and challenges in adopting new technology. Shortcomings in essential skills and management capacity further hinder their growth. To counter these challenges, policies like the Financial Sector Charter and Broad-Based Black Economic Empowerment (BBBEE) are designed to promote black SME financing and foster greater economic inclusion.

SME Financial Landscape and Support Mechanisms

The financial landscape for SMEs in South Africa is complex, with only 13 banks actively serving the sector. This limited access to traditional banking services is compounded by financial literacy gaps among entrepreneurs, hindering their ability to secure funding and manage businesses effectively. Targeted initiatives and professional business advisory services are crucial to address these deficiencies.



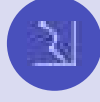
Leveraging Social Grants

Government social grants, amounting to R266 billion in 2024/25, could be better leveraged to indirectly support SME growth and reduce dependency on social welfare.



Visa Reforms and Tourism

Recent visa reforms and the booming tourism sector offer new opportunities for SMEs, particularly in hospitality and related industries.



Investing in Financial Literacy

Bridging the financial literacy gap is essential for SMEs to navigate the banking environment and make informed decisions for sustainable growth.

Persistent Challenges for SMEs

Despite the opportunities, South African SMEs continue to grapple with a range of persistent challenges that impede their growth and sustainability. The high cost of doing business, exacerbated by factors like water scarcity, unreliable logistics, and intense competition from neighbouring countries, remains a significant barrier.

- **Limited Policy Focus:** Concerns have been raised about the perceived lack of sustained policy focus on SMEs in recent budget statements, leading to uncertainty regarding future support.
- **Regulatory Burden:** Overly complex regulatory and administrative requirements continue to stifle SME growth and formalisation, making it difficult for smaller businesses to navigate the compliance landscape.
- **Inclusive Policies Needed:** There is a critical need for more inclusive policies and targeted funding mechanisms to fully unlock the potential of the SME sector.

SME Economic Forecast and Emerging Opportunities

The 2025 Budget will have direct impacts on SMEs, particularly through infrastructure investment allocations, potential VAT changes, and electricity tariff adjustments. However, several emerging opportunities are set to benefit SMEs.

Improved Electricity Supply

Since March 2024, the improved electricity supply has significantly reduced operational disruptions for SMEs, leading to more stable production and service delivery.

Tourism Sector Boom

The tourism sector is projected to reach 10.7 million arrivals in 2024, creating immense opportunities for SMEs in hospitality, retail, and related services.

Visa Reforms

Visa reforms designed to attract offshore skills and international tourists will further enhance market access and capacity for many SMEs.

Chapter 5

Lessons for SMEs: Navigating the Current Economic Climate

In the face of South Africa's dynamic economic climate, SMEs must adopt key strategies to ensure their resilience and foster sustainable growth.

Embrace Adaptability Cultivate resilience and agility to navigate economic uncertainty and structural constraints effectively.	Invest in Skills Prioritise financial literacy and business management skills to improve access to funding and expand market reach.
Leverage Growth Areas Capitalise on government reforms and sectoral growth, especially in energy, logistics, and tourism, to identify new opportunities.	Collaborate for Growth Seek partnerships with financial institutions and business development services for enhanced support and resources.

Empowering SMEs to Drive South Africa's Economic Recovery

- SMEs are not merely participants in South Africa's economy; they are pivotal engines for job creation, innovation, and inclusive growth.
- Their success is inextricably linked to the nation's overall prosperity and social stability. Continued reforms and targeted support are essential to unlock their full potential and accelerate economic recovery.

Call to action:

All stakeholders must prioritise SME development through robust policy frameworks, accessible finance, and capacity-building initiatives.

Investing in SMEs is investing in South Africa's future.

