SME Survival in a Harsh Economic Climate

The State of South African SMEs in 2025

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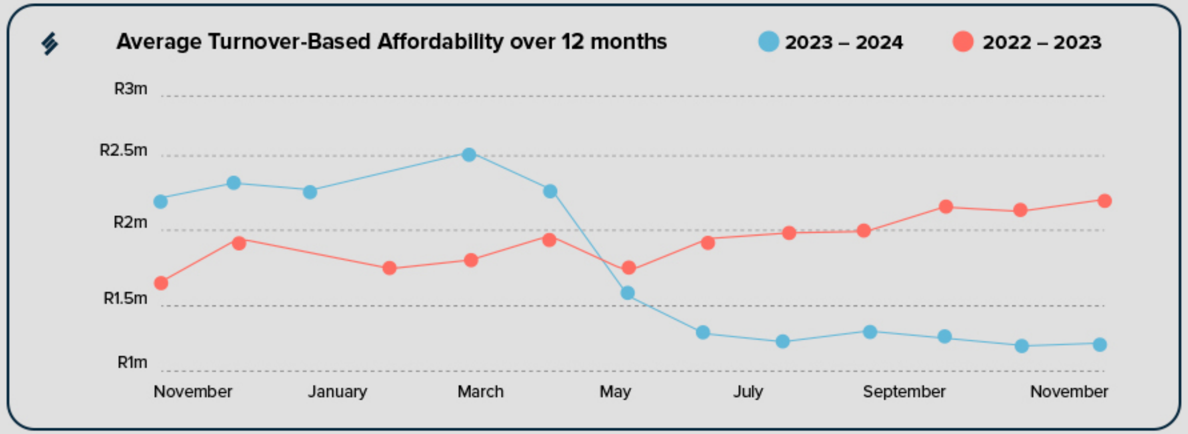
Introduction

South Africa's economic environment continues to pose significant challenges for small and medium-sized enterprises (SMEs).

Despite some early signs of recovery, the past year has been marked by stagnant growth, high interest rates, and mounting financial pressure. At Lula, our data reveals that business turnover has fallen by more than 50% in the past 12 months – clear evidence that the struggles are not isolated to any one industry, but are reflective of a broader, systemic downturn.



This paper delves into the key economic trends affecting the SME landscape and offers actionable insights for navigating these turbulent times.

The Harsh Reality of 2024

Stagnant Growth and Rising Defaults

South Africa's GDP remained stagnant for much of the past 2 years, but contracted by 0.3% in Q3 2024, with the agricultural sector enduring some of the harshest impacts.

Q3 2024 Key findings

Real gross domestic product (GDP) measured by production, decreased by 0.3% in Q3 2024, following an increase of 0.3% Q2 2024.

Figure 1
Growth in GDP (%)

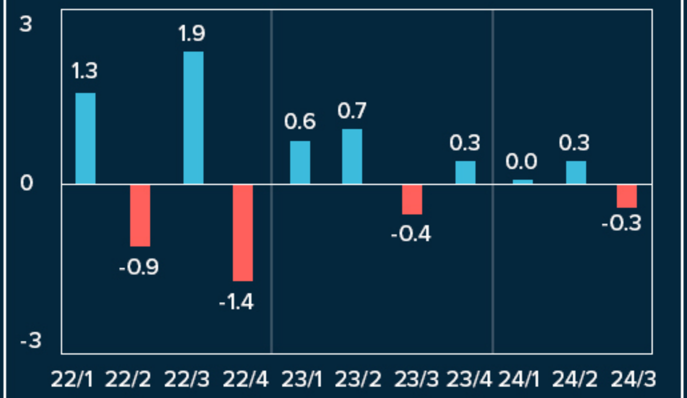
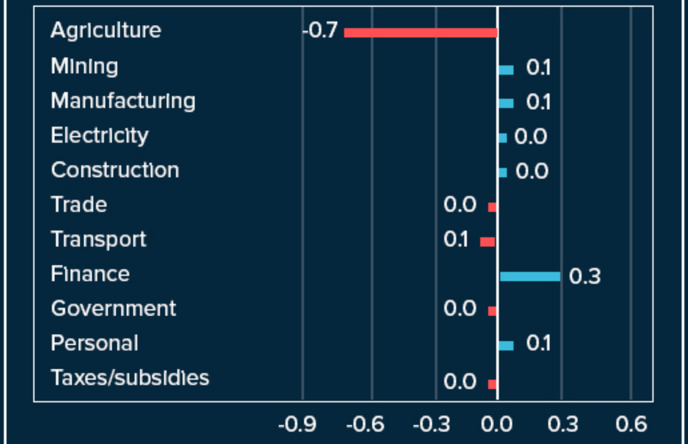


Figure 2
Contributions to growth in GDP, Q3 2024 (% points)



Source:
StatsSA – Gross domestic product – Q3 2024
https://www.statssa.gov.za/publications/P0441/P04413rdQuarter2024.pdf

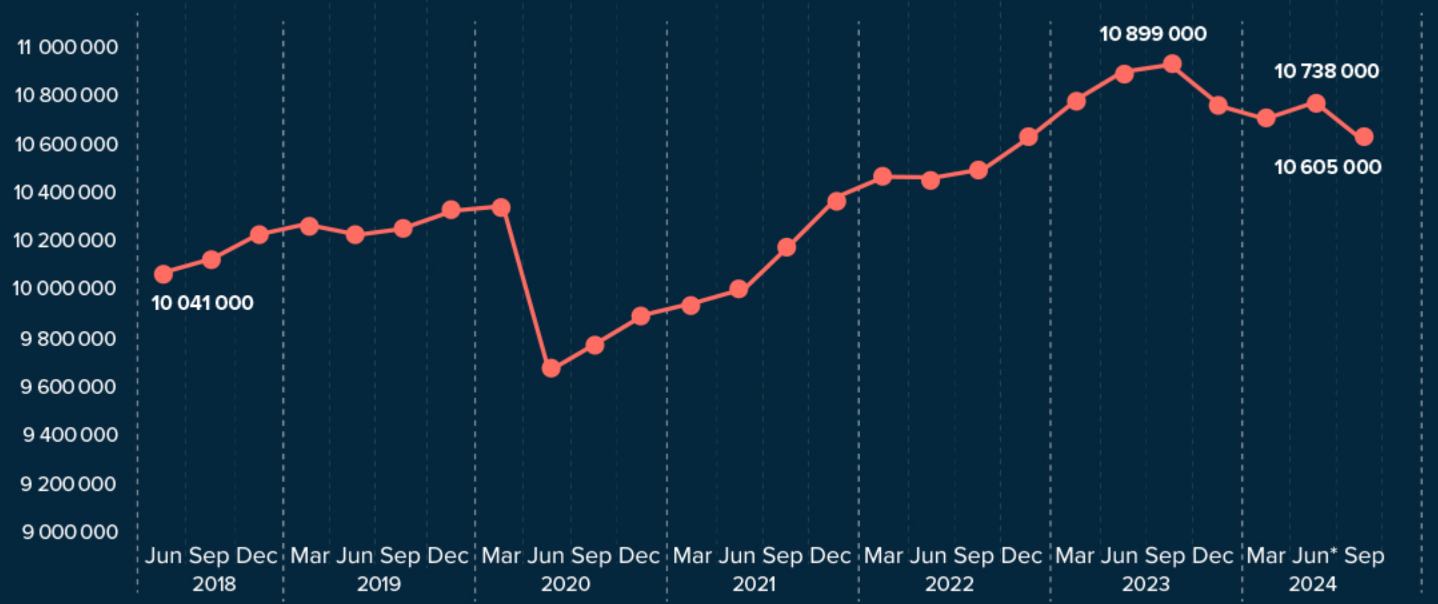
> “ Business turnover has fallen by more than 50% in the past 12 months.

The resulting slowdown has directly affected SMEs; formal employment has dropped by 2.7% since Q3 2023, reducing consumer spending and squeezing business revenues.

Employment and earnings for Q3 2024

Figure A

Employment in the non-agricultural formal sector, June 2018 – September 2024

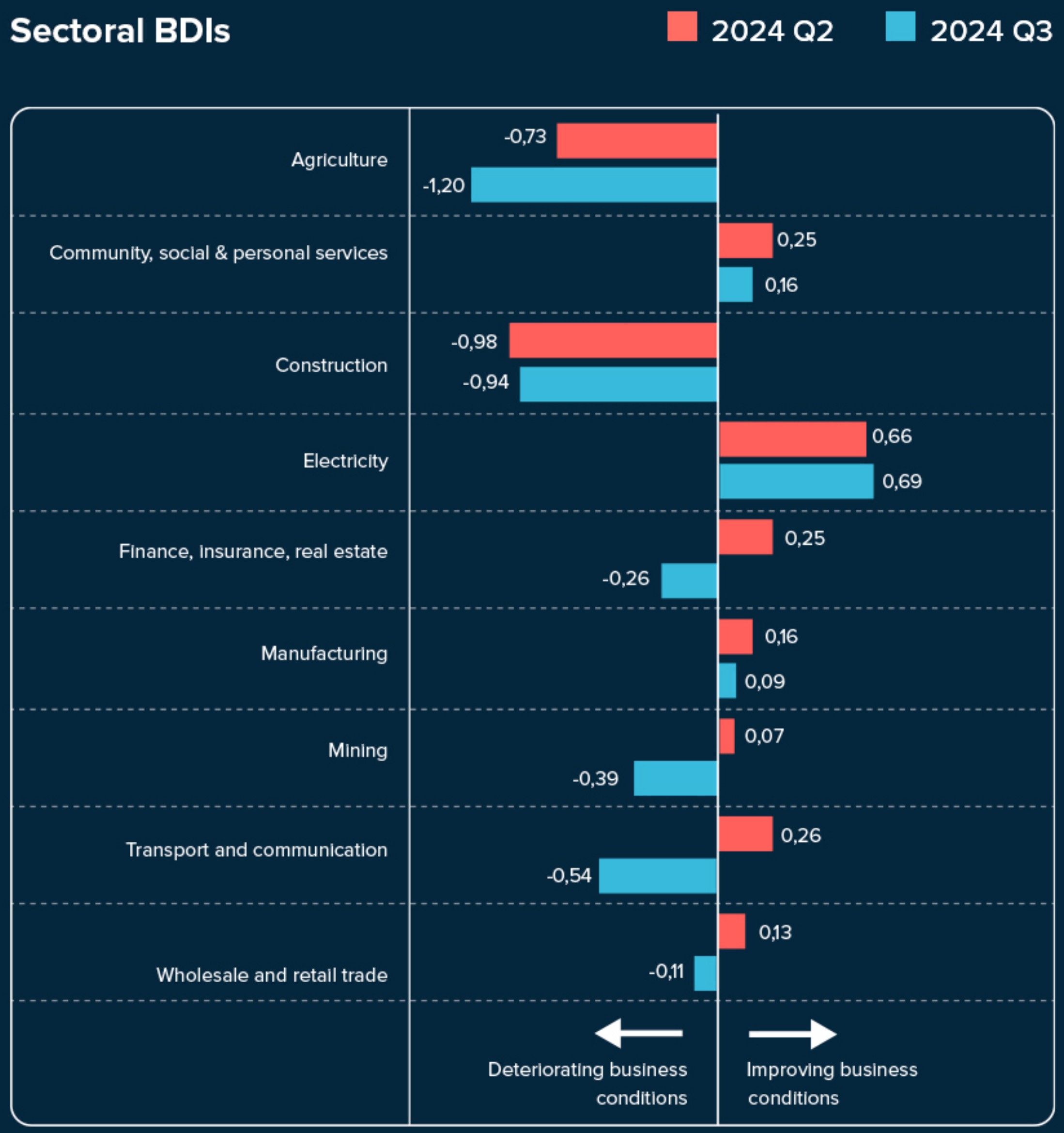


Source:

Source: StatsSA – Quarterly employment statistics (QES) – Sep 2024

https://www.statssa.gov.za/publications/P0441/P04413rdQuarter2024.pdf

Sectoral BDIs



Data from Experian's Business Debt Index (BDI) underscores this trend: business conditions that were slightly positive in Q3 2023 turned markedly negative by Q3 2024, with the BDI worsening by 75% since July 2022 and peaking in March 2024.

Source: Experian
https://www.experian.com/content/dam/noindex/emea/soafrica/business-debt-index/Experian-Business-Debt-Index-Q3-2024.pdf

These figures illustrate that poor performance is a reflection of a widespread economic challenge.

The Credit Crunch:

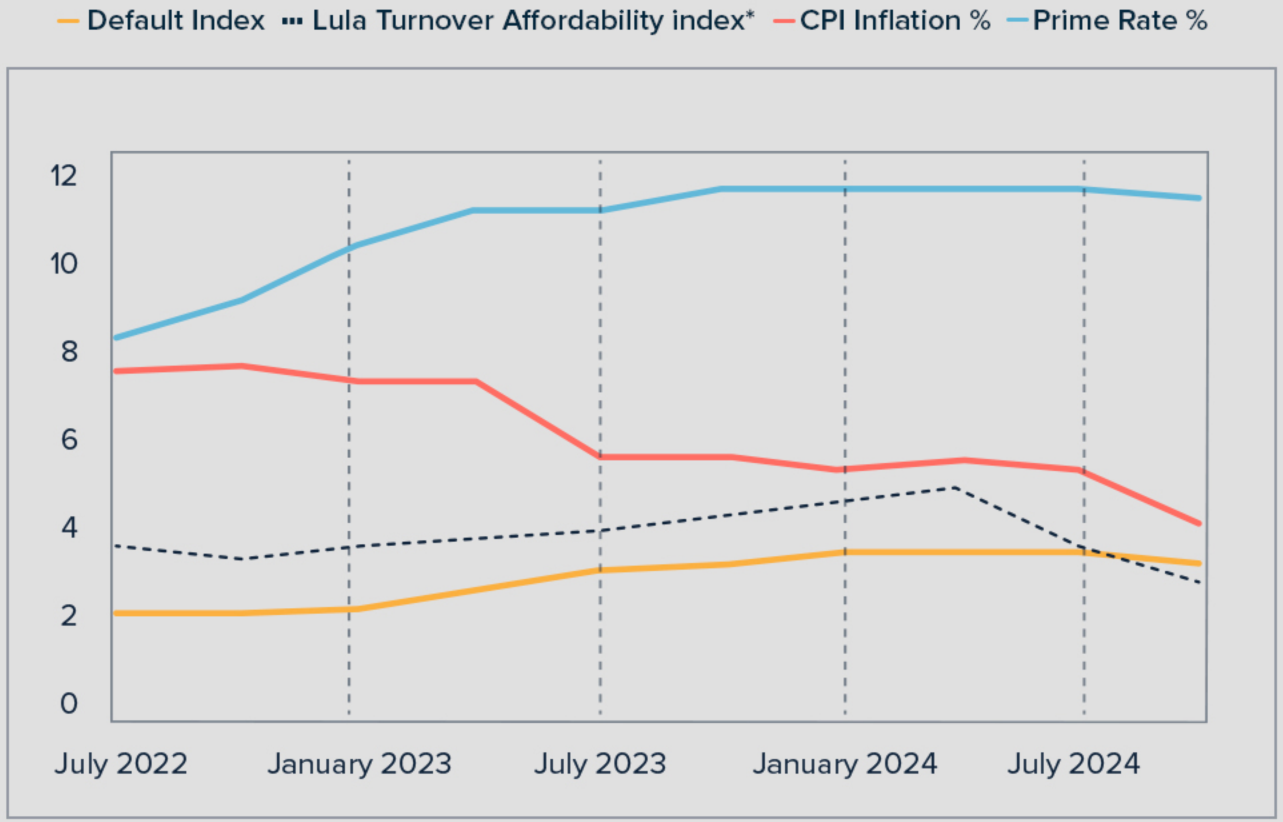
SMEs Facing Prolonged Financial Strain

High levels of gearing mean that SMEs are particularly exposed to fluctuations in interest rates.

Although the South African Reserve Bank initiated rate cuts later in 2024, many SMEs had already incurred high borrowing costs. In a high-interest environment, businesses that took on credit to purchase stock, materials, or cover day-to-day expenses found themselves paying a premium – only to face a double bind when lower inflation forced them to cut prices, run promotions or write off debt.

This highlights the unique economic cycle SMEs face, and why SME recovery often lags behind consumer recovery.

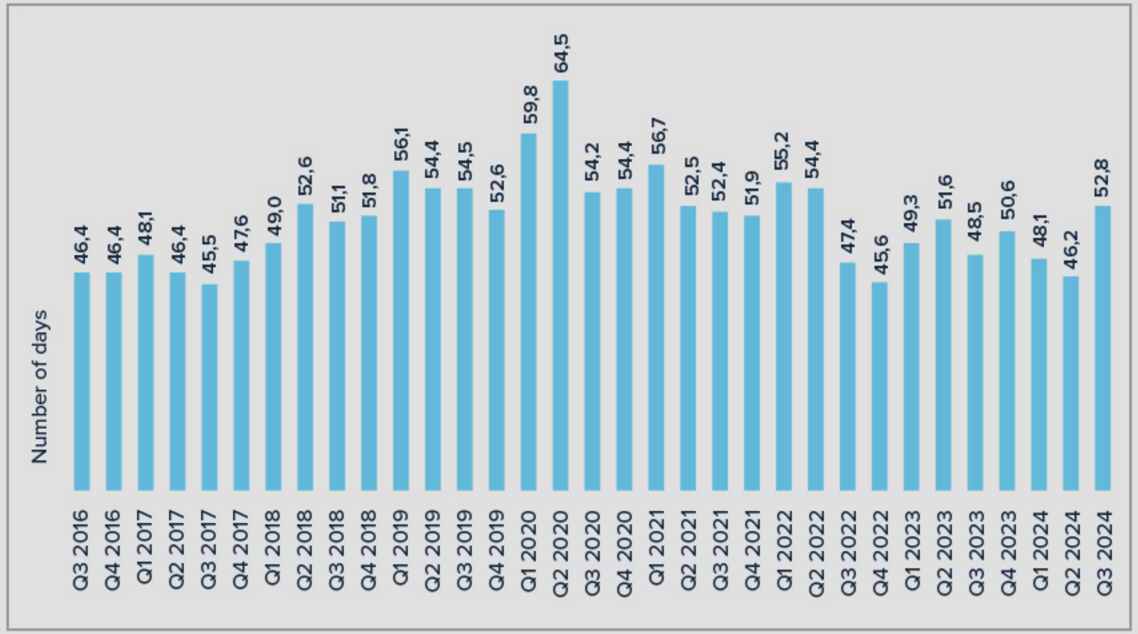
Business Default Index



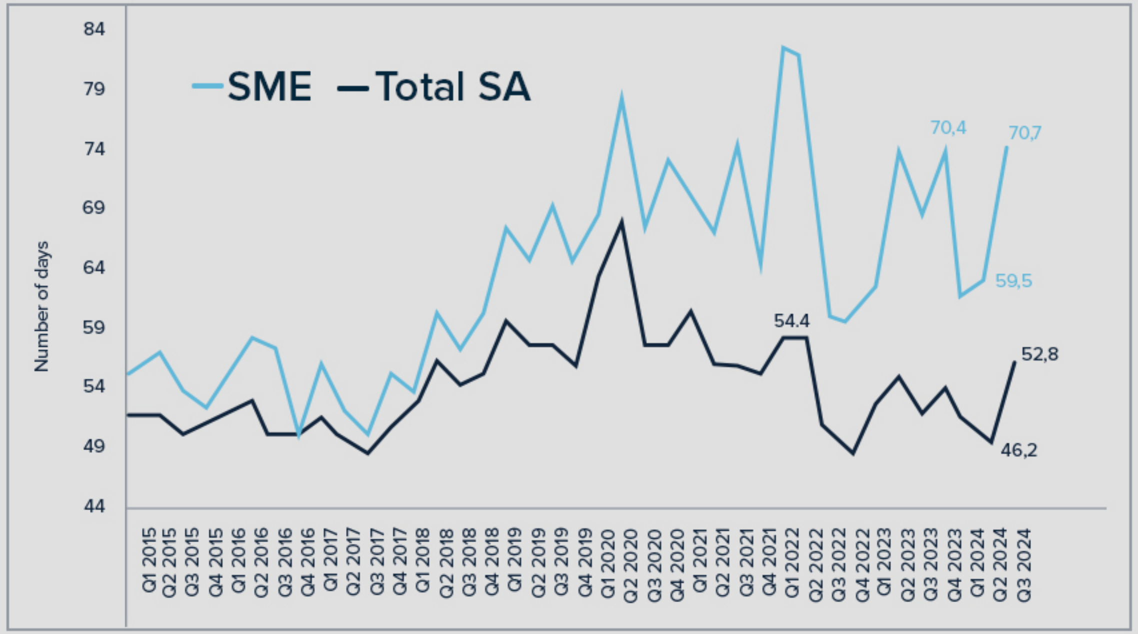
Compounding the issue, debtor days have reached their highest level since Q2 2022, leading to delayed cash flows and limiting the ability to reinvest in growth and innovation.

This is particularly bad for SMEs, which lack the power of larger corporates to demand earlier payment from clients.

South Africa: Average debtor's days



Debtor's days: SMEs vs Total SA



Source:
https://www.experian.com/content/dam/noindex/emea/soafrica/business-debt-index/Experian-Business-Debt-Index-Q3-2024.pdf

Sector-Specific Challenges

Several key industries have faced distinct pressures over the past year:

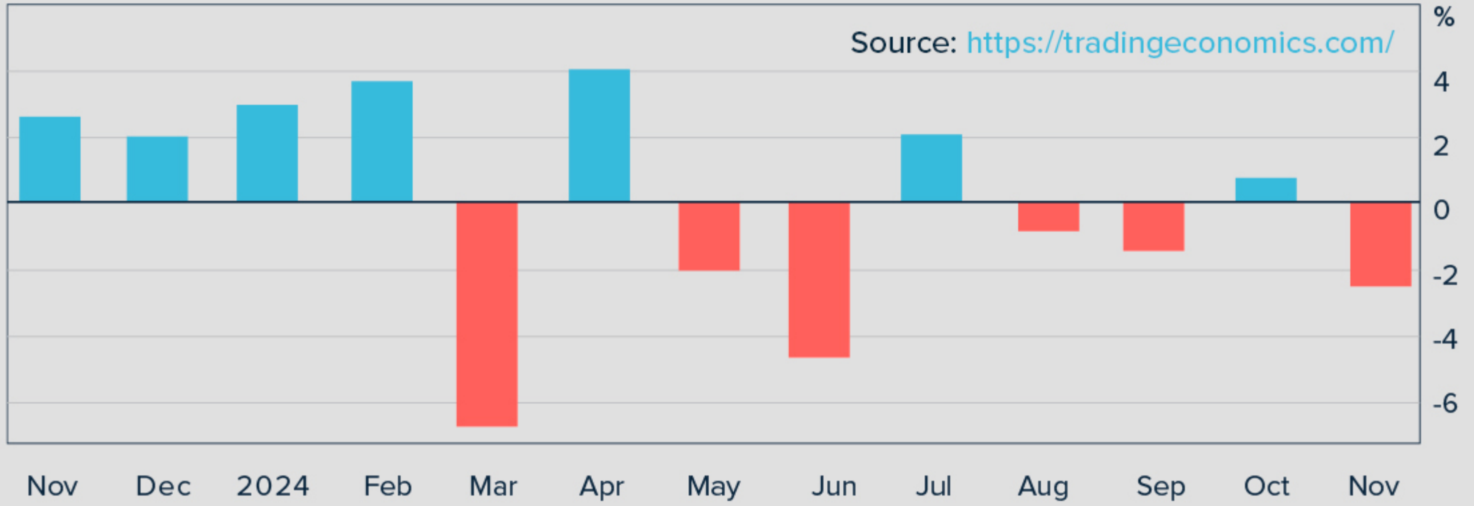
Energy/Renewables: Demand for solar solutions has declined since March 2024 due to the suspension of load-shedding, slowing growth in this once-booming sector.

Agriculture: Droughts, floods, livestock diseases and port congestion have severely disrupted the sector, leading to declining profitability.

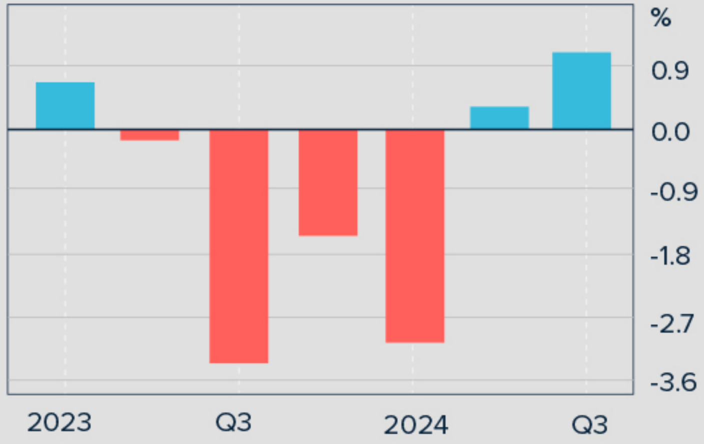
Restaurants & Consumer Services: High unemployment and stagnant earnings have reduced consumer discretionary spending, leading to declining foot traffic and lower revenues.

Manufacturing: Production declined by 2.6% in November 2024, the steepest contraction since June, due to weak demand, logistical bottlenecks, and rising input costs.

Manufacturing production % change year-on-year (November 23 – November 24)



Construction – GDP % change (January 2023 – November 2024)



Construction: Higher mortgage costs and unaffordable developments have hit this sector hard, leading to slow growth and reduced investment.

Source: https://tradingeconomics.com/

What Lies Ahead:
The Path to Recovery

While the macroeconomic outlook remains uncertain, there are some positive signals:

- Load-shedding has been suspended for over 10 months, providing a stable operational environment. It seems to have returned in recent weeks, indicating how fragile a situation we're in.
- The formation of a Government of National Unity post-elections has boosted investor sentiment.
- The South African Reserve Bank has begun cutting interest rates, a crucial step toward easing financial pressures on SMEs.

However, the pace and depth of these rate cuts will be critical.

Lower borrowing costs could provide much-needed relief for debt-laden SMEs, while government-led infrastructure investments may create new opportunities in sectors like construction and manufacturing.

A key factor is that uncertainty remains high, as evidenced by how widely different institutions are forecasting South Africa's GDP growth over the next year.

2025 GDP expectations

Source	2025 GDP Growth (Forecast)
IMF	1.5%
Investec	~2.0%
PwC	0.5% (downside) - 1.3% (upside)

*PwC range reflects the wide variety of domestic and international uncertainties for the year ahead.

In all cases, the consensus is for GDP growth – this bodes well for SMEs in 2025.

Conclusion

The past year has been one of survival for many South African SMEs. Economic stagnation, high interest rates and declining consumer spending have created an unforgiving business landscape.

Yet, with resilience, strategic financial management, and the right funding partners, SMEs can position themselves for recovery and future success. Lula stands ready to support South Africa's entrepreneurs in navigating these uncertain times.

Lula's Commitment to SMEs

At Lula, we recognise the immense challenges faced by business owners in South Africa.

Our mission is to provide flexible funding and banking solutions that help SMEs navigate economic uncertainty and unlock growth potential. As the operating environment evolves, we remain committed to delivering innovative financial solutions that empower entrepreneurs to succeed.