

NWU Business School

Policy Uncertainty Index (PUI)

1Q 2025



EMBARGOED UNTIL:

MONDAY, 31 MARCH 2025

EXECUTIVE SUMMARY

- In response to various global and domestic developments over the past few months, the NWU Business School 's 1Q 2025 PUI, as largely expected, rose much further into negative territory - to 78.6 from 65.7 in 4Q 2024 (baseline 50). This is a record high for the PUI. Persistent negative factors again outweighed positive ones. This was the net outcome of the PUI's calibration of both positive and negative factors influencing the level of policy uncertainty in SA in the first quarter of 2025. Elevated levels of policy uncertainty nonetheless in time are reversible if the right actions are taken.
- Externally, the global economic outlook in 1Q 2025 has been largely shaped by emerging tariff 'wars' and heightened geopolitical tensions, leading to various global growth forecasts now being trimmed. The OECD, for example, recently reduced its growth forecasts for most major economies, including the US economy. On March 19 the US Fed also sharply cut its US growth projections for 2025.
- The more muted outlook on future global economic prospects therefore arises from a convergence of geopolitical risks, elevated economic uncertainty and unpredictability consequent on 'Trumpanomics' and tariffs, and a resultant tangible repricing of risks in financial markets.
- The World Bank projects GDP growth rate in Sub-Saharan Africa (SSA) being an average of 4.2% in 2025. However, for economic and political reasons the Bank sees the risks to SSA as 'tilted in the downside', especially on the trade front.
- On the positive side, SA's high frequency domestic data, such as consumer spending, retail sales, and new vehicle sales, indicate that an economic upturn has indeed been taking place - but the recovery so far has been slow and uneven. GDP growth in 2025 is projected at about 1.6%, compared to 0.6% in 2024.
- Although total fixed capital formation is now rising faster since 2021, according to the recent 2024 Nedbank Capital Expenditure Project Listing Survey public sector investment plans have replaced the private sector ones as the main driver. Capital investment is the kingpin of the growth rate
- On-going SA-US political and diplomatic tensions have created anxiety about ensuing economic relations, such as around the future of AGOA. There was also disappointment that the revised Budget did not convey a much more urgent 'growth-friendly' message. Extended political and policy uncertainty now still also surrounds the amended Budget proposals presented to Parliament on March 12
- At its meeting on March 20 the SARB's Monetary Policy Committee (MPC) opted to leave rates on hold. The MPC statement emphasized the mounting global and domestic economic uncertainty for its decision to pause. Inflation was nonetheless seen as 'contained' for now. The MPC trimmed its 2025 growth forecast to 1.7% and saw downside risks to the growth outlook
- For SA accelerated structural reforms remain the best pathway to the GNU's desired overall 3% growth target. A strategic pivot in growth strategy will also help to create the economic buffers and resilience needed to deal with any external shocks. SA's economic steersmanship must therefore see that it stays on the right track in ways that ensure that tailwinds will outweigh headwinds in 2025

**THE NWU BUSINESS SCHOOL POLICY UNCERTAINTY INDEX (PUI) 1Q 2025 MOVED MUCH FURTHER INTO
NEGATIVE TERRITORY BY RISING FROM 65.7 TO 78.6 (BASELINE 50)**

“Among the FUNDAMENTAL structural reform items is POLICY CERTAINTY. Simple but fundamental to the investor community. Remember that you cannot force people to invest, but you can create an environment which makes it easier to invest, create jobs and, hey presto, develop the country”
(former Finance Minister Tito Mboweni, 16/12/2021)

1. INTRODUCTION

As outlined when the PUI was launched in early 2016, the role of policy uncertainty has loomed large in much of the recent economic debate in SA. It is seen to have important implications for business confidence and the investment climate in the country. Hardly any recent economic assessment or media release from international or local financial institutions, business lobbies, economic analysts, financial journalists, or credit rating agencies appears without the inclusion of the words 'policy uncertainty' occurring in them.

The design of a policy uncertainty index for SA has nonetheless been spurred not only by economic circumstances in the country but also by the increasing academic and policy interest globally around the cause, effect, measurement, and definition of policy uncertainty. There is now a 'World Uncertainty Index' (WUI) created recently by the IMF and Stanford University to calibrate rising levels of policy uncertainty in the global economy.

There have been many manifestations of policy uncertainty in SA over the years. The institutional setting and policy-making environment clearly influence the extent to which negative shocks and developments lead to bad outcomes and tough policy challenges. It seemed that the time had arrived to craft a more accurate measurement of this recurrent factor in SA's economic outlook. A deeper understanding of how uncertainty 'shocks' affect the SA economy helps policymakers to assess how future shocks will impact markets and business. The outcome of this research will now be made regularly available on a quarterly basis to hopefully fill a gap in our monitoring of the economic environment.

Interesting correlations have been found between the policy uncertainty index and economic outcomes. Empirically, it shows that when economic policy uncertainty is strongly present in the environment, it indeed lowers investment, employment, and output. High levels of such policy uncertainty inhibit meaningful investment and consumption. Elevated policy uncertainty in many countries contributes to sluggish growth. Economic policy uncertainty then has actual consequences for the economy.

The PUI is published each year in January, April, July, and October. An increase beyond 50 reflects heightened policy uncertainty; a decline in the PUI means reduced uncertainty. The value of the PUI as a proxy for policy uncertainty will lie in tracking changes in policy uncertainty over time.

2. PUI RESULTS FOR 1Q 2025 – WHAT DO THEY SAY?

The PUI is expressed as a *net* balance - the index is the *net* outcome of *positive* and *negative* factors influencing the calibration of policy uncertainty over the relevant period.

Unpacking the three elements constituting the latest PUI shows the following convergence:

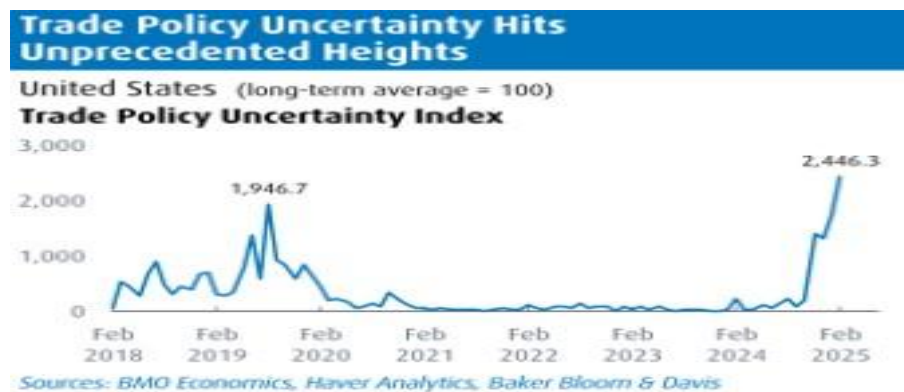
- i. The *media data* reflected a substantial rise in references to policy uncertainty.
- ii. The *survey of economists* almost universally assessed policy uncertainty to be at a higher level.
- iii. The University of Stellenbosch's Bureau for Economic Research *survey of manufacturers* experiencing policy/political uncertainty increased from 60 to 77.

3. NARRATIVE ON FACTORS INFLUENCING ECONOMIC/POLICY UNCERTAINTY

3.2.1. Global Economic Outlook

The Organization for Economic Cooperation and Development (OECD) has now revised its global growth forecasts downward, not just for 2025 (from 3.3% to 3.2%) but also for 2026 (from 3.3% to 3.1%). The OECD has trimmed its growth forecasts across all major economies, and particularly its US 2025 economic growth projection - from 2.1% to 1.6%. Generally, global headline inflation is now mainly back to central bank targets. But US tariff hikes and retaliatory steps may still have a negative impact on inflation and inflationary expectations, both in and beyond the US. This could eventually have implications for US monetary policy, as well as for other economies.

Other increasing risks are thus casting a big shadow over what are otherwise still relatively benign central forecasts about the world economic outlook. The key risks arise from a combination of the intensification of geopolitical risks, the uncertainties flowing from 'Trumpanomics', and tangible repricing of risks in financial markets. 'Trumpanomics' has meant the upending of many policy issues affecting both the US economy and the world economy in recent weeks. Unpredictability has, therefore, inevitably risen globally.



Taking into account the immediate impact of elevated uncertainty on trade and markets, the global GDP growth outlook has therefore now become muted. Compared to the initial business optimism at the beginning of 2025 about the economic policies of the Trump Presidency, there is more negativity now. The recent emergence of discouraging US economic data, together with Trump's erratic tariff decisions, have shaken investors' confidence.

As expected, the US Fed on March 19 again held interest rates steady. In its economic assessment the Fed emphasised elevated economic uncertainty, revised its 2025 US growth outlook downward (2.1% to 1.7%) and raised its core inflation projection (2.5% to 2.8%). Two further interest rate cuts are nonetheless still pencilled in for later this year. Some leading American economists now say they are more worried that the US economy may instead be heading for a bout of 'stagflation', rather than the 'soft landing' previously widely forecast.

Elsewhere, Europe's economy is anticipated to show a gradual economic recovery in the second half of 2025. And the Chinese government is implementing supportive policies for an expected 5% growth this year. Nonetheless, all economic projections are now hostage to the latest announcements on tariff and related policies. Escalating 'tariffs wars' could put a dent in these asymmetrical economic prospects. IMF research says that retaliation usually occurs in 75% of cases. 'Beggars-my-neighbour' policies have never been good news for the world economy. The UK publication 'The Economist' (14/3/2025) believes 'the world economy is at a dangerous moment'.

Recent international developments have also raised questions about the role of the US dollar as the prime reserve currency ('Can dollar remain king of currencies?', Financial Times', 22/3/2025), as well as the increased levels of gold holdings being steadily accumulated by central banks in their reserves (World Gold Council, 22/3/25). Both these phenomena have been mainly attributed to market responses to a persistent environment of elevated global and geopolitical uncertainty. While the dollar will continue to remain by far the preeminent reserve currency, recent statistical tests by the IMF suggest a very gradual but discernible movement away from dollar dominance.

The World Bank projects GDP growth in Sub-Saharan Africa (SSA) at a positive average of about 4.2% in 2025-26. This outcome is expected to be mainly driven by improvements in the outlook for commodity-exporting countries, including the region's largest economies. Nonetheless, the Bank sees the risks to the SSA region as currently tilted to the downside. This is because of both amplified economic uncertainty as well as the potential for adverse changes in trade policies, such as the possible failure by the US Congress to renew AGOA later this year.

3.2. South African Economic Outlook

3.2.1. Balance between positive and negative factors influencing 1Q 2025 PUI

Unsurprisingly, the 1Q 2025 PUI again strongly rose to 78.6 from 65.7 in 4Q 2024 (baseline 50), which is a record high. This further elevation in the PUI in the first quarter of 2025 was the cumulative impact of a persistent combination of negative factors that, on balance, outweighed the positive ones over that period. A cross-cutting number of external and internal developments therefore merged to shift the economic perceptions that calibrate the level of policy uncertainty. Coping strategies may be needed to navigate what may well eventually become the 'new normal' economic uncertainty levels, but elevated levels of policy uncertainty remain reversible if the right actions are taken.

Nevertheless, although the PUI is now much further in negative territory, there were also positive factors present in the economic picture. A number of trends are supportive of SA's current economic and business outlook. Inflation is now generally expected to remain well anchored around the SARB's inflation mid-point of 4.5% and interest rates have recently been reduced. Although the SARB has now put interest rates on hold, the prospect remains of further modest reductions in borrowing costs later in the year, if the inflation outlook remains stabilized.

And although it is still unacceptably high, the overall unemployment level in SA has eased slightly. Other encouraging trends in high frequency data, such as consumer spending, retail sales and new vehicle sales, also point to a slow and uneven economic recovery. Against a background of 0.6% GDP growth in 2024 and based on present economic trends, the growth is expected to rise at a positive - but modest - rate of about 1.6% in 2025.

Furthermore, to support economic recovery, the agriculture and tourism sectors in particular are anticipating a good year. Household spending is steady, having been reinforced by factors such as access to the 'two-pot' pension fund financing. Fuel prices are easing, hence reducing fuel costs. The record gold price is also good news for the SA economy. In addition, there have been encouraging reports that more rapid progress is being made with SA exiting the FATF 'grey list' sooner rather than later. Hosting the G20 this year is also an opportunity to 'show case' the SA economy.

At its meeting on March 20, the SARB's MPC decided by a 4-2 vote to pause in its present interest rate-easing cycle. Although the MPC saw inflation as presently 'contained' and that it was also converging at its mid-point of 4.5%, the MPC cited mounting levels of global and domestic economic uncertainty for its decision to put rates on hold. With monetary policy nonetheless still in restrictive territory, there remains scope later in the year to resume cutting borrowing costs for business and consumers. There also now appears to be a minority view of the same opinion within the MPC.

On the negative side, however, six key sources of heightened policy uncertainty in the past quarter have been as follows:

(a) externally, the foreign and tariff policies of President Trump have injected a powerful and pervasive element of uncertainty and unpredictability into the world economy and also for SA. Tariff uncertainty can be as economically damaging as tariffs themselves. There is also the growing concern that the potential inflationary risks arising from the US overall economic agenda may ultimately slow the pace of interest rate easing globally, as well as in SA.

(b) the sudden expulsion of SA Ambassador Rasool from the US in mid-March was another shock to SA's efforts to recalibrate and stabilize its diplomatic relations with the US. Given the existing mutual stake in SA-US trade and investment relations, exacerbated political tensions therefore inevitably also mean increased uncertainty as to the potential economic and business fallout. The future of AGOA in general, and SA's participation in particular, are also now at greater risk. 'The pain of non-renewal or exclusion must be prepared for' (Business Day, 24/3/2025).

(c) there have now been four Eskom load-shedding events in the first quarter of 2025, plus one 'near miss' on March 23. Although minimal, they are reminders of the continued vulnerability of the energy supply in the economy. The private sector has therefore again questioned whether Eskom's otherwise recent prolonged phase of energy security is as assured as was previously thought, especially with SA now in an economic upturn phase and another winter coming.

(d) there was disappointment among many stakeholders that the revised Budget did not convey a more urgent 'growth-friendly' message, bearing in mind the GNU's strong commitment to an overall inclusive 3% GDP growth target. It also remains uncertain what any rise in the overall tax burden will mean for consumer spending, which is presently a key driver of SA's incipient economic recovery. In the meantime, the FNB/BER Consumer Confidence Index in the first quarter of 2025 has dropped to its lowest point since Q2 2023 (BER, 25/3/2025).

(e) there are also the current extended doubts surrounding the amended National Budget presented to Parliament by Finance Minister Godongwana on March 12. The growth assumptions underpinning the Budget – and upon which revenue forecasts greatly depend – may now be too optimistic. Future risks to fiscal policy remain. The Budget has for far failed to guarantee a majority vote to eventually be passed by Parliament. The Budget process has become highly politicized. The GNU and Parliament collectively must now soon find 'sufficient consensus' on credible fiscal outcomes that will promote fiscal sustainability and economic growth. It puts a heavy responsibility on the shoulders of all Parliamentarians 'to up their game' (Business Day, 20/3/2025)

(f) the hesitancy around trends in private fixed investment are reflected in the recent Nedbank Capital Expenditure Project Listing for 2024 (February 13, 2025). While the data showed the sharpest rise in total fixed investment plans since 2021, according to the Nedbank survey, the government has now replaced the private sector as the major driver. The private sector revealed investment plans amounting to a decline of 4.3% in 2024, compared with 2023. The risks to better overall investment plans, says Nedbank, 'are tilted to the downside', dependent on the public sector's ability to follow through on its plans and move more decisively towards lifting the long-standing well-known constraints on economic growth and job creation.

3.2.2 Summary and Conclusion

The 1Q 2025 PUI inevitably reflected a sharp rise in policy uncertainty for external and internal reasons, but which in time is reversible if the right actions are taken. Both government policy and business strategies will need to be adapted to a new range of risks, as well as exploiting new or alternative economic opportunities. It will also be a strong test of the further collaboration still needed between the GNU and the private sector to meet these policy challenges.

For SA, accelerated structural reforms remain the best pathway to the GNU's overall 3% growth target. A strategic pivot in growth policy is also needed to create the extra economic buffers and resilience needed to deal with external shocks. High investment and job-rich growth require confidence in the future. SA's economic steersmanship must therefore see that it stays on the right track in ways that ensure that tailwinds outweigh headwinds in 2025.

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