



NWU Business School

Policy Uncertainty Index (PUI)

2Q 2025



EMBARGOED UNTIL:

MONDAY, 30 JUNE 2025

EXECUTIVE SUMMARY

- The 2Q 2025 PUI eased to 75.9 compared to its record high of 78.6 (baseline 50) in 1Q 2025, but for now remains well in negative territory. Externally, while the global outlook is highly uncertain, in the trade front there has been partial respite as the US administration has suspended most, but not all, tariff hikes until July 9, pending further negotiations. Internally, although there have been some positive developments, they were outweighed by negative factors
- The global economic growth outlook has been further trimmed by international organisations such as IMF and the OECD. Growth forecasts have been reduced for most major economies, including the US economy, except for the EU economy, where modest growth is still anticipated
- The downward revision of various global economic growth outlooks therefore stems from a convergence of geopolitical risks, elevated economic uncertainty consequent on 'Trumpanomics' and erratic tariff decisions, and a tangible repricing of risks in financial markets generally. These overall economic assessments have been reinforced by the Israeli-Iran conflict further raising global economic uncertainty. (The 2Q 2025 PUI was finalised before the US attack on Iran, June 22).
- The US Fed decided (June 18) to leave interest rates unchanged for the fourth time.
- The World Bank assesses that the Sub-Saharan economy will grow by 3.5% in 2025, rising to 4.3% in 2026-2027, but with the usual associated risks and uncertainties.
- Domestically, as SA moves into the second half of 2025, positive factors in the past quarter included lower inflation and easier interest rates and, if the inflation outlook continues to stabilise, there is the possibility of another modest cut in borrowing costs later in the year. There is also now the prospect that SA may be off the FAFT's grey list by the end of 2025, in which case borrowing costs will be further lowered for SA.
- At the policy level the most important development in 2Q 2025 which is necessary to promote certainty was probably the eventual finalisation and acceptance by Parliament of a 'pragmatic' third 2025/26 Budget, but without the controversial VAT increase. However, if the various key parameters in the Budget are not met, future risks to fiscal sustainability remain.
- Negative factors offsetting the positive ones in 2Q 2025 included the muted high frequency data in recent months; the disappointing 0.1% GDP growth in 1Q 2025; the scaling down of growth forecasts for 2025 by both the National Treasury and the SARB; and higher unemployment. The weak fixed capital investment trends revealed by the 1Q GDP figures also raised a red flag, to which heightened planned infrastructural spending must urgently respond. If present trends persist, the present GDP growth outlook for 2025 is about 1%, rising to about 1.5% next year.
- The incipient economic recovery in SA is struggling to gain momentum. A strategic pivot in growth policy is needed to create the extra economic buffers required to deal with external shocks. The GNU's policy agenda for a 3% GDP growth target in the medium term therefore now urgently needs an impulse, a jolt, an acceleration, so that the tailwinds in the economy outweigh the headwinds in 2025 and beyond.

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THE NWU BUSINESS SCHOOL POLICY UNCERTAINTY INDEX (PUI) IN 2Q 2025 EASED TO 75.9 FROM ITS RECORD HIGH OF 78.6 IN 1Q 2025, BUT REMAINED WELL IN NEGATIVE TERRITORY (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 appear 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 influences 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 2Q 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 modest decline in references to policy uncertainty
- ii. The *survey of economists* almost universally assessed policy uncertainty to be more or less unchanged.
- iii. The University of Stellenbosch's Bureau for Economic Research *survey of manufacturers* experiencing policy/political uncertainty was slightly up from 77 to 80

3. NARRATIVE ON FACTORS INFLUENCING ECONOMIC/POLICY UNCERTAINTY

3.1 Global Economic Outlook

In recent months the global economy has continued to move into a new era, in which the decades-old 'rules of the game' for the world economic system have been translated into a very different but highly uncertain phase. Successive but erratic tariff announcements by the US since late January have pushed effective tariff levels to historic highs, with mixed responses from other trading nations adding to a complex situation as to the net effects on growth and inflation. Geopolitical tensions have been fracturing trade alliances. To this must now be added the additional uncertainties arising from the persistent Middle East conflict. (The 2Q 2025 PUI was finalised before the US attack on Iran on June 22)

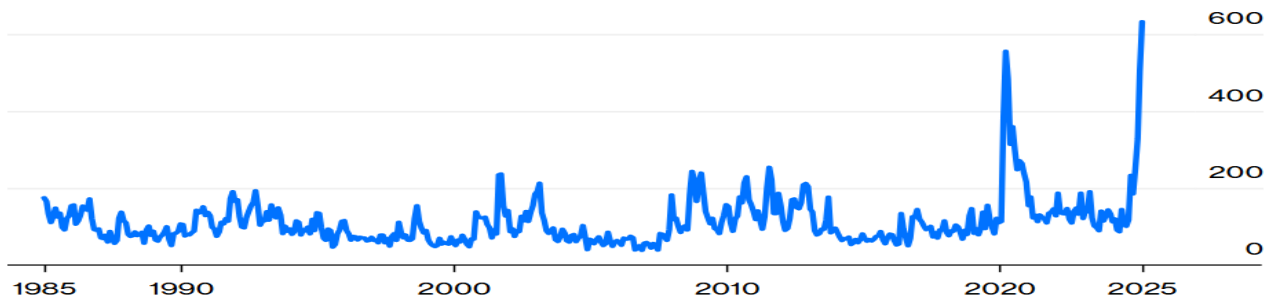
A high level of unpredictability therefore arises from a combination of geopolitical risks, the uncertainties flowing from 'Trumpanomics' in general, and tangible repricing of risks in financial markets, including the strength of the US dollar. According to UBS analysts 'trade wars' and further evidence of a weak economy could remain a risk for the dollar. Investors see the status of US trade negotiations and the degree of progress or otherwise ahead of the July 9 deadline as among the key determinants of the dollar trend.

Against this background, in its latest Economic Outlook on June 3, the Organisation for Economic Cooperation and Development (OECD) expected global economic prospects to weaken further, with substantial barriers to trade, tightening financial conditions and heightened policy uncertainty having a negative impact on growth. Of course, all economic projections this year are now hostage to the highly elevated level of global policy uncertainty and economic cross-currents that permeate these various assessments, and also as Middle East tensions persist.

The OECD recently saw global growth slowing further from its previous forecast of 3.2% in 2025 to 2.9% both this year and in 2026. At its latest MPC meeting on May 29, the SARB has also lowered its overall global growth projections along similar lines. The World Bank puts world growth at just 2.3% in 2025. The OECD expects slower growth to be more concentrated in the US, China and Mexico, but with smaller adjustments in other economies. IMF Deputy Managing Director believes that Trump's 'trade wars' posed a greater challenge to central bankers in emerging economies than the pandemic.

Uncertain Times

US daily news-based Economic Policy Uncertainty Index, monthly averages



Source: "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com
 Note: April 2025 figure is average of daily numbers through April 15

As the major 'locomotive' of the world economy, US economic growth is projected by the OECD to decline from 2.5% in 2024 to 1.6% in 2025 and 1.5% next year. However, several other analysts have suggested that the recent 'hard data' emerging from the US economy may reflect a stronger structural resilience or American 'exceptionalism' than has been previously thought. The US Fed has so far nonetheless kept its options open on interest rate decisions in the face of conflicting economic prognostications about the US economy, including the possibility of 'stagflation' emerging.

China's growth is projected by the OECD to decline from 5.0% in 2024 to 4.7% in 2025 and 4.3% in 2026. However, growth expectations about the Chinese economy this year have fluctuated among institutional forecasters, the most pessimistic being the UBS which, citing new US tariff policies, has forecast Chinese economic growth as low as 3.4% this year. In response to gloomy predictions, however, the Chinese Finance Minister has reiterated the government's commitment to meeting the 5% target, promising more proactive macroeconomic measures.

And in the Euro area the OECD anticipates that growth will strengthen slightly from 0.8% to 1.0% in 2025 and 1.2% in 2026. On the inflation front, both the IMF and OECD see global headline inflation as easing this year and broadly falling within central banks' targets, thus making interest rate reductions possible. Annual inflation in the G20 economies is anticipated to decline from 6.2% to 3.6% in 2025 and 3.2 in 2026. The SARB also expects global interest rates to be slightly lower this year as global trends now move towards the second half of 2025.

Although the US Fed (as mentioned above) has recently again been keeping its interest rates unchanged, other major central banks such as the Bank of England and the European Central Bank have been cutting rates. However, the OECD warns of inflationary pressure having resurfaced in some economies as a result of higher trade costs where tariffs have been raised. However, it believes may be offset by a slower global growth and lower commodity prices, including oil prices.

Regarding the Sub-Saharan economy, the World Bank assesses it will grow by 3.5% in 2025 and 4.3% in 2026-2027. These align with comparable forecasts by the IMF. The World Bank says growth will be driven by increased private consumption and investment as inflation cools and currencies stabilise. Despite the positive outlook, the Bank warns of

the challenges still faced by the region at socioeconomic and governance levels. It adds that the global economy's heightened uncertainty and fiscal constraints will continue to affect the region's growth.

3.2. South African Economic Outlook

3.2.1. Balance between positive and negative factors influencing 2Q 2025 PUI

The 2Q 2025 PUI declined to 75.9 compared with its record high of 78.6 in 1Q 2025, but for now remains well in negative territory. A cross-cutting number of external and internal factors therefore again merged to calibrate the level of policy uncertainty in the second quarter of 2025. On the global front the economic outlook remains highly unsettled. But the 'worst case scenario' on US tariff policy for most countries, including SA, will not be known until the July 9 deadline pending further negotiations. Internally, although there have been some positive developments, the combination of negative factors still kept the PUI in negative territory.

Nonetheless, as SA moves into the second half of 2025 there have been positive elements in the economic picture. Inflation is now generally expected to remain well-anchored within the SARB's inflation target range of 3%-6%. At its meeting last month, the MPC therefore resumed its interest rate-easing cycle by reducing borrowing costs by another 25 bps. If the inflation outlook remains stabilised, another cut in rates could be expected in the next few months, as in any case SA monetary policy is still in restrictive territory. Headline and core inflation remained steady in May. Fuel prices are still easing for now.

The strong gold price is also a favourable development for SA in the current phase of heightened global uncertainty and other related factors. A survey by the World Gold Council (WGC, June 17) indicated that central banks expect that their gold holdings as a proportion of their reserves to increase over the five years, while expecting their dollar reserves to be lower. Seventy-three central banks responded to the WGC survey - 76% anticipated that their gold holdings to be higher in five years' time compared to 62% last year. According to the WGC a large percentage of responses apparently came from emerging markets and developing economies.

Another positive factor has been the recent announcement by the Financial Action Task Force (FATF) that SA is 'substantially' completing all 22 items on the action list which opens the way for the country to eventually be taken off the 'grey list' by the end 2025. This is subject to an on-site visit by the FAFT, probably in October. Grey listing has important implications for the cost of doing business, especially cross-border business, caused by the higher compliance costs that banks and other financial institutions impose on SA as a result.

The second quarter of 2025 was also free of Eskom load-shedding. If electricity supply is seen to remain secure, this is a positive development for business confidence and the economy. Another metric with better news has been SA's rental market. It has been showing signs of sustained recovery, with rental growth at a seven-year high, according to the latest PayProp survey (June 17). 'The start to 2025 has been very strong', says PayProp.

At the policy level the single most positive development was the finalisation and Parliamentary endorsement of the final third Budget. The two things that emerged from the approved 'pragmatic' Budget are firstly, there are still future risks to fiscal policy, as highlighted by the higher debt-to-GDP ratio and the warning that the 2026 Budget may yet have to consider higher taxes. Secondly, that the positive growth reforms outlined the Budget (and elsewhere) are speedily implemented and are seen to be irreversible.

Good news for business in this regard, for example, is that the Department of Trade, Industry and Competition now plans to finalise a comprehensive omnibus bill soon aimed at reducing regulatory hurdles and facilitating the ease of doing business. Yet one year into the GNU there still seems currently to be a *divergence* between the improved business sentiment, on the one hand, in the SA's financial markets such as the stock market and benchmark bond, despite persistent headwinds and, on the other hand, unfavourable trends in the real economy. It is in the latter sphere where the tough policy choices remain.

On the negative side, therefore, the following three groups of factors appear to have kept the PUI in negative territory as follows:

(a) diverse high frequency data - ranging from manufacturing performance (down) to retail sales (up) - continue to send out mixed signals. Economic recovery has been slow and uneven. The economy as a whole is struggling to show strong momentum. For example, although agriculture experienced a bumper performance in the first quarter of 2025, confidence across the agriculture sector eased slightly in second quarter, with the Agbiz/IDC agribusiness confidence slipping to 65 after touching a 14-quarter peak of 70 earlier in the year. While the underlying forces in the agricultural sector remain strong, it nonetheless demonstrates an immediate vulnerability to an uncertain trade environment

(b) the disappointing GDP growth figure of 0.1% in the first quarter of 2025 came as no surprise, given several months of muted high frequency data and fluctuating business sentiment levels that pointed to this likely outcome. This reality had already been presaged by several reduced growth forecasts for 2025, including by the National Treasury (1.9% to 1.4%) and the SARB (1.7% to 1.2%). If present trends persist, the growth outlook is likely to be only about 1% for 2025, possibly rising to about 1.5% in 2026. Unemployment continues to be too high because economic growth is too low.

(c) although household spending remains strong enough to support economic activity, the 1Q 2025 GDP figures tell us that total fixed capital investment is presently negative. The poor performance of gross fixed capital raises a notable red flag, as capital investment is the kingpin of the growth rate. It highlights the importance of accelerating the large-scale infrastructural spending to which official policy is already committed, especially through public-private sector partnerships.

3.2.2 Summary and Conclusion

Although the 2Q PUI remains well in negative territory for now, these trends have shown themselves in the past to be reversible, if the right actions are taken through policies and actions that *are* under SA's control. In any event, the incipient economic recovery at present is battling to gain traction and therefore needs maximum support to underpin the business cycle upturn.

A strategic pivot in investment and growth policies is also needed to create the extra economic buffers required to deal with emerging external shocks. Politically, the GNU has now entered its second year of existence. The government's policy agenda of a 3% GDP growth target in the medium term now urgently needs an impulse, a jolt, an acceleration, so that the tailwinds in the economy outweigh the headwinds in 2025 and beyond.

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30 June 2025

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