



NWU Business School

Policy Uncertainty Index (PUI)

3Q 2025



EMBARGOED UNTIL:

MONDAY, 29 SEPTEMBER 2025

EXECUTIVE SUMMARY

- The 3Q 2025 PUI rose to a record high of 81.0 (baseline 50) compared to 75.9 in 2Q 2025. It therefore moved further into negative territory. A combination of negative global and internal factors outweighed the positive ones in the PUI over this period.
- The IMF will soon update its overall economic forecasts for its annual meeting in October. Earlier IMF growth projections for the world economy were revised upward from 2.8% to 3.0% for this year and from 3.0% to 3.1% in 2026
- The IMF sees a modest decline in trade tensions, 'however fragile', as having contributed to the resilience of the global economy so far. Global trade policy nevertheless remains highly uncertain. The IMF has broadly assessed the risks to the global economy as for now still being on the downside side
- The OECD has projected slower global economic growth, from 3.3% in 2024 to 2.9% in both 2025 and 2026. The slowdown is forecast to be more obvious in the US, Canada, Mexico and China, but with modest growth in the Euro area. The US Fed on September 17 cut interest rates by 25 bps for the first time this year, as weakness in the jobs markets overshadowed fears that US tariffs would worsen inflation.
- On the domestic front the most positive recent news from StatsSA was the better-than-expected 2Q 2025 GDP growth figures of 0.8% quarter-on-quarter, after only 0.1% in 1Q 2025. The incipient economic recovery had not only accelerated but also broadened across several more sectors of the economy. GDP growth in 2025 is now expected to be in the region of 1%-1.2%
- Several factors have contributed to strengthening SA's GDP performance, including Eskom's outlook for the next six months projecting no loading shedding. Contained inflation and lower interest rates have also been supportive of SA's gradual economic recovery
- Negative factors strongly dominated the 3Q PUI including an uncertain export outlook and the continued weakness in total fixed capital formation needed to promote higher sustained job-rich growth. It is important that in the coming year a sufficient number of firms feel that economic and political prospects justify their making fresh plans for expansion.
- Another serious vulnerability is that high frequency data in 3Q 2025 has remained mixed and recent business sentiment indices have reflected persistent weakness, including a possible slowing consumer demand. Uncertainty has been created by factors such as SA's failure so far to secure a new trade agreement with the US, AGOA due to expire end-September 2025, continued crime and corruption challenges, and the negative impact of further increases in Eskom tariffs on business and the economy.
- The economic recovery still needs strong support. Although some progress has been made with growth-friendly structural reforms, to reduce policy uncertainty the implementation process requires more urgency, pace and direction. Irreversibility of growth-oriented reforms means ensuring that the leadership, structures, capacity and culture are in place that will guarantee the right trajectory of results for the foreseeable future

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THE NWU BUSINESS SCHOOL POLICY UNCERTAINTY INDEX (PUI) IN 3Q 2025 ROSE TO A RECORD LEVEL OF 81,0, COMPARED TO 75.9 IN 2Q 2025 (BASELINE 50) AND IS THEREFORE FURTHER IN NEGATIVE TERRITORY

“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

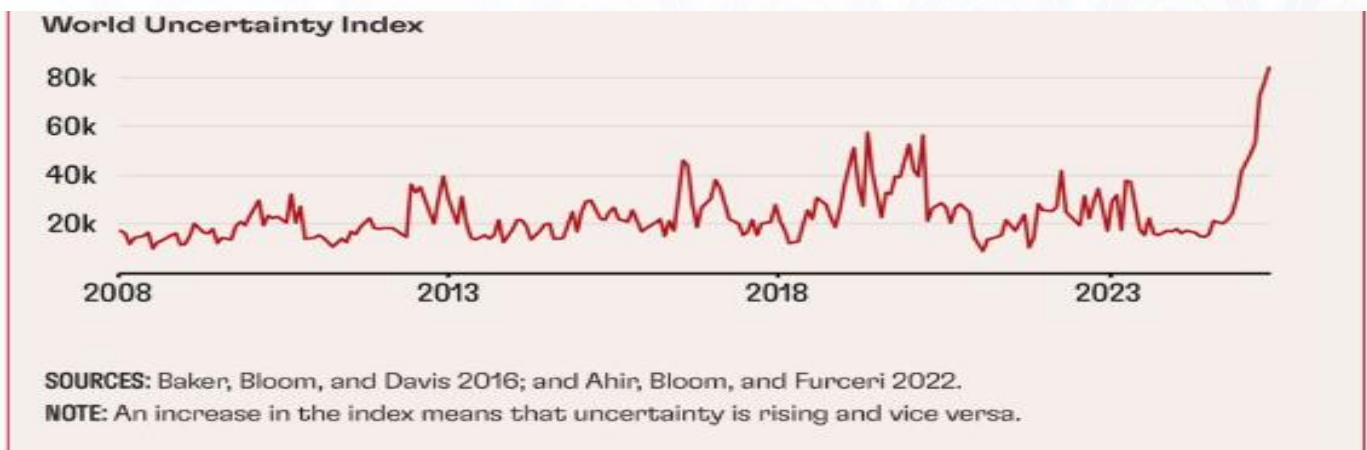
3. NARRATIVE ON FACTORS INFLUENCING ECONOMIC/POLICY UNCERTAINTY

3.1 Global Economic Outlook

The International Monetary Fund (IMF) will soon update its economic forecasts for its annual meeting in October. But earlier IMF global growth projections this quarter were revised upward from 2.8% to 3.0% for this year and from 3.0% to 3.1% in 2026. The IMF emphasized that negative global trade developments would continue to shape the international economic outlook. But it recognized that the initial unprecedented escalation in tariffs imposed on the world by the United States had recently been partly reversed, mitigated or renegotiated.

However, the IMF still sees the US tariffs as historically high at an effective tariff rate of about 17%. Global trade policy therefore remains highly uncertain, with only a few economies having reached finalized trade agreements with the US. This modest decline in trade tensions, however fragile, has nevertheless contributed to the resilience of the global economy so far. Most regions are experiencing moderate growth upgrades. The IMF has nonetheless assessed the risks to the global economy as remaining on the downside, with elevated economic uncertainty.

The latest survey from the Organization for Economic Cooperation and Development (OECD) has projected slowing global GDP growth - from 3.3% in 2024 to 2.9% in 2025 and 2026. The OECD attributes this mainly to higher tariffs, trade barriers, tighter financial conditions, and lower confidence. The slowdown is forecast to be more obvious in the US, Canada, Mexico and China, but with modest growth in the Euro area. While the OECD expects inflation to remain moderate, it may resurface in some economies as a result of higher trade costs where tariffs have risen.



The growth outlook for the Chinese economy, although slowing, remains positive for 2025, with consensus projections of about 4.8% in GDP growth. There is tangible evidence of robust Chinese exports to regions such as South East Asia, Africa and Europe, as well as the implementation of official stimulation measures. However, Chinese high frequency data for August fell short of consensus forecasts on both demand and supply sides. Downside risks to China's economy are factors such as weak domestic consumption, ongoing deflationary pressures, as well as a struggling real estate sector.

On September 11 the European Central Bank (ECB) held interest rates unchanged to keep inflation stable at its 2% target in the medium term. The ECB sees the outlook for inflation as more uncertain, as a result of the still volatile global trade environment. The ECB projects the EU economy to grow by 1.2% in 2025, the forecast being revised upward from the 0.9% previously expected. The EU growth expectation for 2026 is nonetheless slightly lower at 1%.

As expected, the US Fed on September 17 cut interest rates by 25 bps for the first time this year, as weakness in the jobs market overshadowed fears that US tariffs would worsen inflation. The Fed's projections put inflation ending this year at 3%, well above the central bank's 2% target, while its forecast for economic growth was slightly higher at 1.6% versus 1.4%. According to a Bloomberg survey, economists are divided on whether the Fed will again cut rates two or three times later this year.

Even as the Fed now cuts borrowing costs, the US economy's basic resilience nonetheless owes much to its strong fundamentals. Uncertainty metrics have recently gradually declined there, even if not all the way to the levels experienced in 2024. The more serious worry is political: whether President Trump will intensify his campaign against Fed independence in the months ahead. An eventually compromised US central bank would be a serious liability when the time comes for the American economy to navigate bigger economic dilemmas than it currently faces.

The African Growth and Opportunity Act (AGOA), which has been a centerpiece of US trade relations with Africa since it was enacted in 2000, is due to expire end-September 2025. The imminent expiry of this important economic legislation for Africa has created uncertainty and the US Chamber of Commerce has urged Congressional leaders to swiftly reauthorize AGOA

3.2. South African Economic Outlook

3.2.1. Balance between positive and negative factors influencing 3Q 2025 PUI

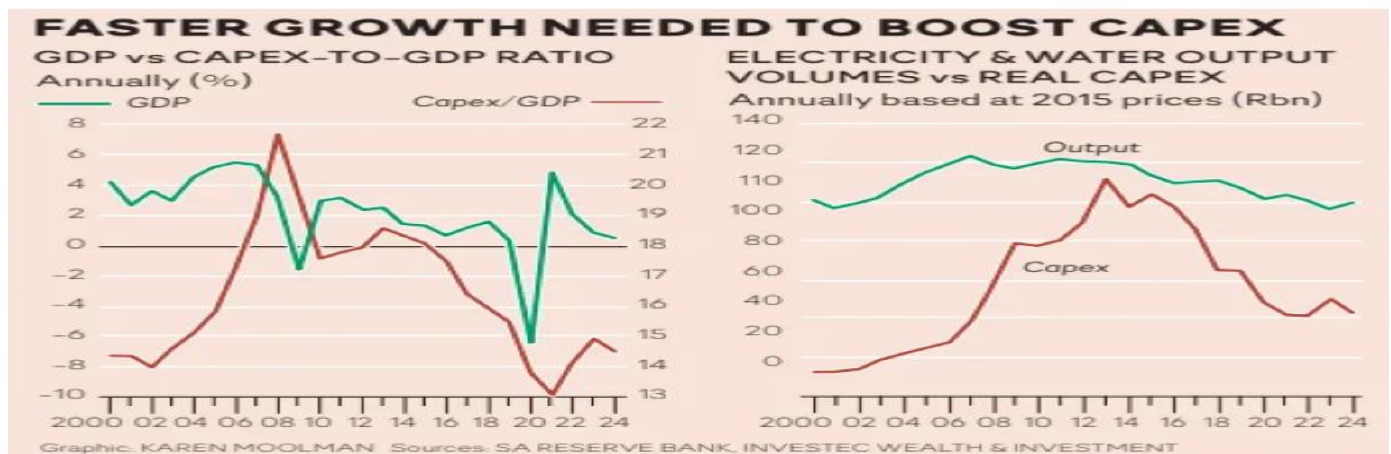
The 3Q 2025 PUI rose to a record high of 81.0 (baseline 50) compared to 75.9 in 2Q 2025. It therefore moved further into negative territory. A combination of negative global and internal factors outweighed the positive ones in the PUI over this period.

The most positive news in the period under review was the better-than-expected GDP figures for 2Q 2025 of 0.8% quarter-on-quarter, after only 0.1% in 1Q 2025. It confirmed that the incipient economic recovery had not only accelerated but also broadened across several more sectors of the economy. Importantly, both household and government consumption spending provided firm support for growth. The economic upturn, although still modest, is expected to continue in the months ahead, with a GDP growth of about 1%-1.2% now expected for 2025 as a whole.

Several factors have contributed to strengthening SA's GDP performance. On the supply side, the prospects for security of electricity supply have considerably brightened and have created more certainty. Eskom's Summer Outlook for the next six months projects no load-shedding, provided current generation's availability is maintained. Energy stability remains a critical factor in sustaining economic momentum. And, encouragingly, Transnet appears to be now making some progress in rebuilding its port and rail volumes, although it is still well short of its primary targets.

Contained inflation and lower interest rates have also helped the economic recovery. The rand has recently strengthened and the international gold price has risen by nearly 40% so far this year. And BNP Paribas sees SA as now on track to attain the National Treasury's budget deficit for the current financial year or achieve an even more-favourable outcome for the fiscus. The Fitch rating agency, however, projects that state debt will continue to rise for the next two years. The fiscal outlook awaits confirmation in the 2025 Medium Term Budget Policy Statement (MTBPS) due on November 12.

As widely anticipated, the SARB's Monetary Policy Committee (MPC) meeting on September 18 decided (by a 4-2 vote) to pause in its interest rate easing cycle for now. The minority MPC view favoured another 25-bps cut in borrowing costs. The MPC saw the risks around the inflation outlook as balanced, and inflation as now 'contained'. In the light of the positive 0.8% GDP growth in 2Q 2025 the MPC raised its 2025 growth forecast from 0.9% to 1.2%. The MPC nonetheless cautioned that a much higher level of fixed capital formation was needed as a key driver of a future healthy growth rate.



On the negative side, however, there are several factors that nevertheless pushed the 3Q 2025 PUI further into negative territory. Despite the lift in GDP growth, a red flag (as the MPC above also emphasized) remains the persistent weakness in total fixed capital formation needed to promote sustained job-rich economic growth. The Nedbank Capital Expenditure Project Listing Survey for H1 2025 (1 August) reported that planned fixed investment projects declined sharply in the first half of 2025. Nedbank expects gross fixed capital formation (GFCF) to contract by 1.5% in 2025, but less than the 3.9% in 2024.

Although, as previously mentioned, both household and government consumption spending have recently strongly underpinned economic recovery, investment and consumption must have a balanced relation to each other to maximize longer term economic growth. Currently total fixed investment is only about 15% of GDP. But SA requires it to be closer to 20% of GDP, if the GNU's growth target of 3% in the medium term is to be achieved. It is important that in the coming year a sufficient number of firms feel that economic and political prospects justify their making fresh plans for expansion.

Another negative factor is that high frequency data in Q3 has also remained mixed. Business sentiment indices have reflected persistent weakness. Business confidence among SA retailers and wholesalers fell sharply in Q3, signalling a slow down in consumer demand after a period of steady growth. The RMB/BER Business Confidence Index also slipped further in the third quarter, falling back to its lowest level in a year. Manufacturers, retailers and wholesalers all continued to report weaker confidence amid global headwinds and local structural constraints (now including water shortages). Levels of crime and corruption remain negative factors in the situation. And further increases in SA electricity tariffs are pushing up energy costs for many businesses and consumers.

Uncertainty has also been created by SA's failure so far to secure a trade deal with the US, inevitably leaving several key exporters at a significant competitive disadvantage. AGOA expires end-September 2025. The imposition of higher US tariffs has dented outlooks in several of SA's export-oriented sectors, such as agriculture and the motor industry, with

uncertain prospects until remedies kick in. The search for alternative markets will inevitably take time and for which to exploit SA must remain globally competitive to protect or enlarge its market share.

Another negative factor is the apparent continued uncertainty around as to how exactly how and when the move to a future level of a fixed lower inflation target of 3% will be finally decided. The sooner any difference of view between the monetary and fiscal authorities about the future inflation target is resolved, the better it will be for policy certainty. Markets and business need to see renewed convergence of official views around the inflation target framework. This provides the predictable trajectories required for future interest rate decisions and hence trends in borrowing costs for business and consumers.

3.2.2 Summary and Conclusion

There are several positive economic trends for SA in 3Q 2025 on which to build renewed growth, but these have for now again been dominated by both global and domestic negative factors. The economic recovery still needs strong support. Although progress has been made with some structural reforms, the implementation process now requires much more momentum. A greater sense of urgency therefore needs to be injected into the pace and implementation of SA's growth-friendly economic reforms to demonstrate more tangible results.

There also needs to be a stronger perception of irreversibility to create policy certainty. Irreversibility of growth-oriented reforms means not only being satisfied with immediate better arrangements, but ensuring that the leadership, structures, capacity and culture are in place that will guarantee the right trajectory of results for the foreseeable future. These are the key drivers that will move the PUI closer to the positive territory required to boost investor confidence to the levels needed in SA for much higher investment and growth.

North-West University Business School

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