

NWU Business School

Policy Uncertainty Index (PUI)

3Q 2026



EMBARGOED UNTIL:

WEDNESDAY, 30 SEPTEMBER 2026

EXECUTIVE SUMMARY

- Although still in negative territory, the 3Q 2026 PUI eased to 61.3 from 81.9 in 2Q 2026 (baseline 50). The overall impression is that, while policy uncertainty is still elevated, the 3Q PUI is less adverse than it was in the second quarter. It suggests that the economic uncertainty generated by the initial global energy shock to the domestic economy may have begun to dissipate for now, and that business and consumer behaviour may be adapting to a 'new normal'
- The geoeconomic outlook in the Middle East remains highly unsettled, and Brent crude has recently hovered above \$100 a barrel. In particular, concerns about the availability of refined fuel products have currently dominated supply chain agenda anxieties. A highly volatile and unstable Middle East situation also means that even small events have a disproportionate impact on oil price levels and price expectations in one way or another, hence elevating uncertainty
- There is now clear evidence of a synchronized shift by several key central banks to recently raise interest rates, reflecting their global inflation anxiety and renewed inflation fears. These included the US Fed, the European Central Bank, and the Bank of Japan. Other central banks, like the Bank of England and the Bank of Canada, have taken a 'wait-and-see' stance for now, given the still-uncertain outlook. The International Monetary Fund (IMF) will release its update of the world economic outlook at its Annual Meeting on October 12
- Unsurprisingly, the negative GDP growth of -0.2% in 2Q 2026 confirmed the serious setback in the South African economy experienced as a result of the global energy crisis. After opening the year on a positive economic note, the 2Q 2026 setback was subsequently felt on both the inflation and growth fronts. The latest PUI appears to confirm that South Africa's economic momentum earlier this year has been interrupted by global developments, but not definitively derailed
- At its meeting on September 23, the SARB's Monetary Policy Committee (MPC) again raised interest rates by 25 bps, seeing higher inflation trends, especially in the services sector, as a result of negative geopolitical factors and higher fuel costs, as the bigger risk. The MPC again revised down its 2026 GDP growth forecast, from 1.4% to 1.2%. The 'higher-for-longer' interest rate outlook is likely to be extended in the months ahead. Consumer spending is likely to remain under pressure
- Weak fixed investment remains a key concern, as this investment is the kingpin of sustainable job-rich economic growth. The February Budget expected gross fixed capital formation to recover in 2026 after contracting in 2025. Instead, fixed investment levels have declined again in recent months. Without much higher fixed investment, the economy will struggle to break out of its current narrow 1%-2% growth corridor. Structural reforms are nonetheless moving in the right direction, and the Medium-Term Budget on October 21 must help to reinforce them
- Moving the PUI closer to positive territory therefore still requires expedited and irreversible domestic growth-oriented structural reforms that will help to offset negative global headwinds. Businesses need more certainty in the operating environment, especially at the local level. The outcome of forthcoming municipal elections could play a significant role in shaping business and investor sentiment in the final quarter of 2026

Professor Raymond Parsons
NWU Business School
083 225 6642

**THE NWU BUSINESS SCHOOL POLICY UNCERTAINTY INDEX EASED TO 61.3 IN 3Q 2026
FROM 81.9 IN 2Q 2026 (BASELINE 50), BUT REMAINED 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 launched in early 2016, policy uncertainty has loomed large in much of the recent economic debate in SA. It is seen as having important implications for business confidence and the country's investment climate. 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 growing global academic and policy interest in the cause, effect, measurement, and definition of policy uncertainty. The IMF and Stanford University recently created a 'World Uncertainty Index' (WUI) to calibrate rising levels of policy uncertainty in the global economy.

Policy uncertainty has taken many forms 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 time to develop a more accurate measure of this recurring 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 available quarterly to help fill a gap in our monitoring of the economic environment.

We have found interesting correlations between the policy uncertainty index and economic outcomes. Empirically, it shows that when economic policy uncertainty is high, it 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 quarterly. An increase beyond 50 reflects heightened policy uncertainty; a decline in the PUI means reduced uncertainty. The PUI's value as a proxy for policy uncertainty lies in tracking changes over time.

2. PUI RESULTS FOR 3Q 2026 – 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. The results show that the 3Q 2026 eased to 61.3 from 81.9 in 2Q 2026 but remained in negative territory (baseline 50).

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

- i. The *media data* reflected a lesser number of references to policy uncertainty in the period under review
- ii. The *survey of economists* saw policy uncertainty as remaining elevated for investors and consumers, with half of them regarding uncertainty as having increased for the latter
- iii. The University of Stellenbosch's Bureau for Economic Research *survey of manufacturers* experiencing policy/political uncertainty increased from 74 to 77

3. NARRATIVE ON FACTORS INFLUENCING ECONOMIC/POLICY UNCERTAINTY

3.2.1. Global Economic Outlook

Although a small open economy like South Africa's can do little to shape key geopolitical developments, it remains important for policymakers and businesses here to stay abreast of global trends insofar as they affect domestic economic prospects and inform national policy priorities. As the third quarter of 2026 draws to a close, the balance of global factors remained tilted towards heightened economic uncertainty at the end of September, as the geoeconomic outlook continues to unfold.

Global economic and policy uncertainty therefore remained elevated during the third quarter of 2026, resulting from an interaction of several key variables. The recent global risk is no longer the US-Iran conflict in isolation but its wider implications. It has passed a threshold at which factors such as renewed disruption in the Strait of Hormuz, tougher US sanctions, higher energy prices, persistent inflation, and rising bond yields alone threaten to tighten financial conditions and weaken global growth.

The US 'Operation Economic Outcast' also broadened sanctions against Iran, as well as threatened secondary sanctions against other countries doing business with Iran. Intensifying US primary and secondary sanctions might constrain Iran's revenue but could also trigger retaliation and further disrupt supply chains. This outlook remains uncertain. The situation has therefore been broadly described as one of persistent or 'sticky' uncertainty, rather than as yet an inevitable further substantial global economic deterioration.

The IMF projects global growth at 3.0 percent for 2026 and 3.4 percent for 2027, broadly unchanged cumulatively from the April 2026 *World Economic Outlook*. The outlook is uneven: The war shock is weighing on energy importers and vulnerable economies, while AI-driven demand is lifting countries integrated into the global technology value chain. Economists warn that if the AI-led demand engine cools abruptly, global markets closely tied to this tech-driven cycle may face a sharp correction.

As widely anticipated by financial markets, the US Fed, in a unanimous decision on September 16, raised interest rates by 25 bps, with the possibility of one or two further increases by the end of 2026. The US economy nonetheless remains resilient, with projected GDP growth of 1.5% to 2.3% still expected this year, driven by strong consumer spending and AI investments, despite the emergence of an interest-raising cycle. The US is projected to invest about 3.6% of its GDP in AI infrastructure per annum between 2025 and 2032.

However, with the US Fed, European Central Bank, and the Bank of Japan leading the way to deal with new severe upside inflation risks, the chances of a fully synchronized global 'dearer money' outcome by end-2026 are high. The recent divergence between the Bank of England and the Bank of Canada is likely a temporary lag rather than a structural decoupling. The IMF will release its next comprehensive update on the world economic outlook at its 2026 Annual Meeting on October 12.

What about Sub-Saharan Africa? The ongoing US-Iran confrontation and related energy-market disruption and cost implications continue to pose significant risks to the sub-Saharan African economic outlook. Most sub-Saharan economies are net importers of refined petroleum products. Although the impact will differ across the region, with some gains for gold and oil exporters, the overall effect is likely to be negative. Higher fuel, food, freight and insurance costs would be inflationary, weaken household spending and reduce business profitability. The World Bank expects regional growth to ease to 4% in 2026, with food-price pressures and limited fiscal space constraining the anticipated economic recovery.

3.2. South African Economic Outlook

3.2.1. Balance between positive and negative factors influencing 3Q 2026 PUI (baseline 50)

Although still in negative territory, the 3Q 2026 PUI eased to 61.3 from 81.9 in 2Q 2026. The overall impression is that, while policy uncertainty is still elevated, the 3Q PUI is less adverse than it was in the second quarter. It suggests that the economic uncertainty generated by the initial global energy shock to the domestic economy may have begun to dissipate for now, and that business and consumer behaviour may be adapting to a 'new normal'

There are also some positive domestic economic developments which, if properly mobilised, could later move the PUI even closer to positive territory. And the latest RMB /BER business confidence index saw the local government elections on November 4 as the key to boosting confidence for the rest of the year, but flagged concerns around municipal service delivery, poor infrastructure and policy uncertainty as important determinants.

Electricity reliability has improved. Eskom reported more than 450 consecutive days without load-shedding and its first annual profit in several years. The Presidency announced definitive decisions to finalize the 'unbundling' of Eskom to encourage private investment. And some domestic demand indicators, such as new vehicle sales, have been positive. Business surveys suggest that, although overall consumer demand has been weak, respondents expect improvements later in the year. On the other hand, other data suggests that consumers are coming under increasing pressure as the year draws to a close.

On the external front, the good news was that the US has now approved a two-year AGOA extension, which has reduced immediate trade uncertainty for several key export sectors. However, other existing US tariffs and the need for trade diversification remain relevant to South Africa. Nevertheless, the 'rules-based' global order has been under increasing pressure. All economies, including South Africa, need to devise new strategies to cope with the increasing fragility in global trade options and foreign policy shifts.

As widely expected, the MPC at its meeting on September 23 decided, in light of recent negative geopolitical factors on the energy front and subsequent higher domestic fuel prices, to raise interest rates by another 25 bps. In a unanimous vote, the MPC also saw inflation risks as strongly on the upside. Given its commitment to the 3% inflation target, the MPC therefore prioritized heightened inflation risks, especially in the services sector, over downside risks to economic growth. The MPC again revised down its 2026 growth forecast, from 1.4% to 1.2%. The reality now is that the 'higher-for-longer' interest rate outlook is likely to be extended in the months ahead.

Not unexpectedly, the negative GDP growth figures of -0.2% for the second quarter of 2026 confirmed the bad knock the South African economy took - together with many other economies - as a result of the recent global energy shock. After opening the year on a positive note with 0.4% GDP growth in the first quarter, South Africa's subsequent slowdown reflected the strong pressure it faced in recent months from severe global headwinds on the twin growth and inflation fronts.

While high-frequency economic data in the third quarter have still been mixed, they point to an economy in which recovery has been interrupted and delayed, rather than definitively derailed. While the further rise in borrowing costs announced by the MPC on September 23 is likely to negatively affect economic activity, it came too late in the third quarter to affect

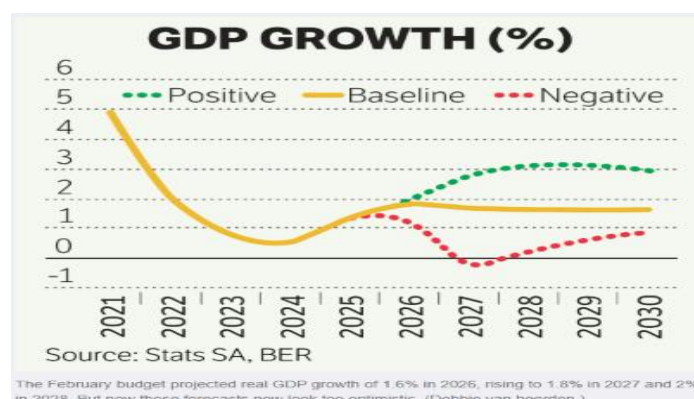
business and consumers. A plausible central forecast is now about 1.2% real GDP growth in 2026, but that is lower than the broad consensus of about 1.6% growth anticipated earlier in the year.

According to the latest quarterly employment statistics for 2Q 2026, unemployment remains at a highly unacceptable level. Total unemployment continues to decline with manufacturing being the hardest hit. The outlook for job creation depends mainly on encouraging job-rich growth and investment through expediting and implementing growth orientated measures from both the private and public sectors that could make a difference to employment outcomes.

Fixed investment therefore remains a key concern. The February Budget expected gross fixed capital formation to recover by 2.4% in 2026 after contracting in 2025. Instead, investment has weakened again in recent months. Nedbank's recent survey of listed capital projects in the first half of 2026 showed a drop of 81% in fixed investment. Symptomatic of the weak investment outlook was the SARB's recent data that growth in cash balances held by corporates accelerated to 10.4% year on year in July, from 6.8% in January. There have been frequent previous references to the high cash balances retained by corporates in the absence of sufficient investment opportunities

It confirmed the extent to which negative factors still appear to outweigh positive ones in investment decision making. As the governor of the South African Reserve Bank, Lesetja Kganyago has previously said, 'For as long as you have that heightened policy uncertainty you will have companies sitting on cash and not investing'. And recent business surveys also highlight that greater clarity in local governance and infrastructural delivery after the municipal elections could support confidence, while heightened reform uncertainty could further delay investment decisions.

On the positive side, progress in public infrastructure spending and irreversible reforms in electricity, logistics and renewable energy are nonetheless expected to modestly improve the investment outlook in the medium term. But for now, 2026 is increasingly looking like another transition year, rather than a decisive investment recovery. The Achilles heel of weak investment is reflected in the fixed investment-to-GDP ratio, which remains only about 14%, whereas it should be closer to 20%. Without much stronger investment, the economy will struggle to break out of its current narrow 1%-2% growth corridor.



The changed economic circumstances since the beginning of 2026 will require a reset of the fiscal metrics in the Medium-Term Budget on October 21. Although tax revenue performance still appears resilient and state expenditure remains broadly contained, the Treasury still faces several challenges in preparing the 2026 MTBPS. It will be necessary to decide to what extent to now revise down the February growth assumption, probably to about 1.2% for 2026. A credible fiscal framework should reflect realistic economic conditions, rather than rely on over-optimistic economic forecasts.

The medium-term budget 'message' should underpin a resumed economic recovery that now moves from a weaker base because of recent heavy global headwinds. On the spending side, the MTBPS must again successfully navigate the heavy competing demands on the fiscus, but the emphasis must be on cutting fat, not muscle. The debt-stabilization strategy should remain protected within a growth-friendly fiscal environment that strengthens investor confidence. What South Africa needs now is GDP growth that outpaces interest spending and the fiscal deficit ratio.

3.2.2 Summary and Conclusion

The 3Q PUI has eased for now, but it is still too high to maximize the levels of higher investment and economic growth that South Africa still needs. Although structural reforms are now pointing in the right direction, the economy is growing far too slowly, and stable foundations are not enough. Policy uncertainty can nonetheless be further reduced if the right growth-friendly policies and projects are accelerated and implemented.

Moving the PUI closer to positive territory therefore still requires expedited, irreversible, domestic, growth-oriented structural reforms that will help offset negative global headwinds. Businesses need more certainty in the operating environment, especially now, including at the local level. Both the message of the Medium-Term Budget next month and the outcome of forthcoming municipal elections could play a significant role in shaping business and investor sentiment in the final quarter of 2026.

North-West University Business School
30 September 2026

NWU Business School Policy Uncertainty Index (2020-2026)

