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NWU Business School
Policy Uncertainty Index (PUI)
4Q 2025

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EXECUTIVE SUMMARY

- The NWU Business School 4Q 2025 PUI showed a welcome easing to 64.9 from its record high of 81.0 in 3Q 2025 (baseline 50). Although still in negative territory, positive factors over the past three months have outweighed the negative ones. The 4Q 2025 PUI calibration suggests the economy may have reached a turning point. The economy enters 2026 on a note of cautious optimism.

- Growth prospects for most parts of the world are positive yet modest overall. The International Monetary Fund (IMF) projects global growth of 3.2% in 2026, but elevated global uncertainty is now seen as the 'new normal'. The universal global challenge is how countries can turn uncertainty into opportunity by strengthening resilience, restoring stability, and laying the groundwork for durable growth

- The US economy appears to be facing 2026 with a mix of strength and vulnerabilities. Although some slowdown is expected, next year's growth rate is positive, with growth projected to be close to its potential of 2%. Nonetheless, the US economic picture is not free from risks, including the AI stock market 'bubble'

- Both the IMF and the World Bank have described the Sub-Saharan Africa economy as 'resilient' - with steady real GDP growth of over 4% next year - but emphasised the downside risks arising from global trade uncertainty, high external debt and a major jobs deficit

- In the third quarter 2025 the South African economy showed its fourth consecutive rise in economic activity, albeit of a low base. GDP forecasts for 2026 are generally modestly higher, ranging from 1.1% to 1.6% and averaging out at about 1.4%. Overall unemployment, although still unacceptably high, was slightly lower in 3Q 2025 than in 2Q 2025, according to the latest StatsSA's labour survey

- Recent positive financial developments, such as a well-received Medium Term Budget Policy Statement (MTBPS), South Africa being taken off the 'grey list', a move to a lower 3% inflation target, and Standard and Poor's decision to raise the country's investment status for the first time in nearly two decades. The Monetary Policy Committee (MPC) cut interest rates by another 25bps. The successful G20 summit recently hosted by South Africa was also a positive dynamic.

- Negative factors elevating economic uncertainty, on the other hand, include persistently high crime levels, as well as the impact of American tariffs on SA's export prospects in the absence of a new trade agreement with the US. In the coming year, a sufficient number of firms must feel that growth prospects justify their making fresh plans for expansion

- The challenge remains for South Africa to ensure the robust implementation of half-forged growth-friendly policies and projects that will further reduce policy uncertainty. Elevated policy uncertainty is reversible. South Africa's economic steersmanship must continue to keep policy firmly on track, so that next year the tailwinds will overcome any headwinds.

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THE NWU BUSINESS SCHOOL POLICY UNCERTAINTY INDEX EASED TO 64.9 IN 4Q 2025 FROM ITS RECORD HIGH OF 81.0 in 3Q 2025 (BASELINE 50) BUT REMAINS 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 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 4Q 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. The results show that the 4Q 2025 PUI at 64.9 eased considerably from the 3Q 2025 PUI at 81.0, but remains in negative territory for now

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

i. The *media data* reflected substantially lower reference to policy uncertainty
ii. The *survey of economists* assessed the policy uncertainty level as having declined
iii. The University of Stellenbosch's Bureau for Economic Research *survey of manufacturers* experiencing policy/political uncertainty eased from 85 to 82.

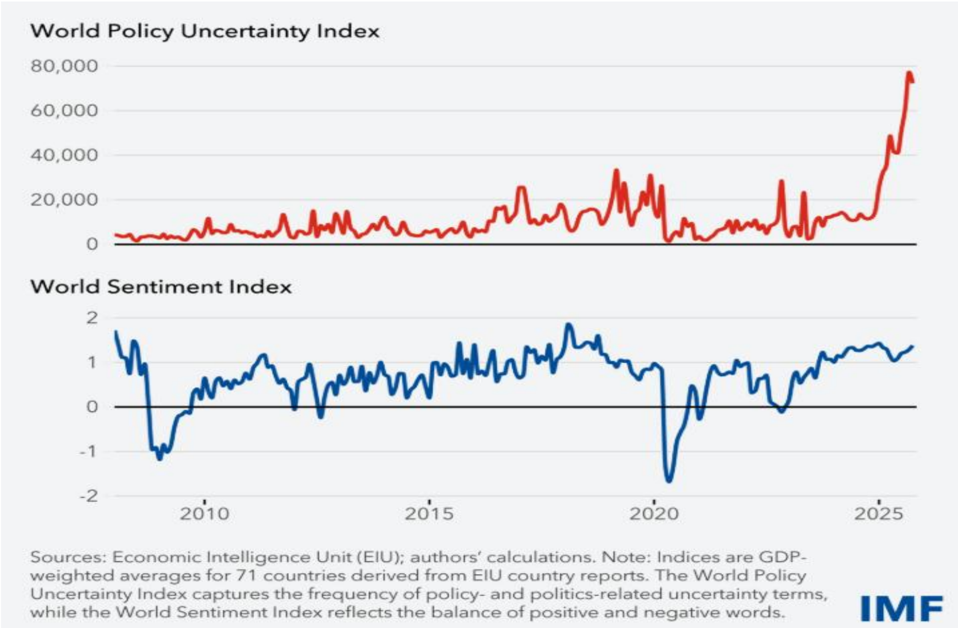
3. NARRATIVE ON FACTORS INFLUENCING ECONOMIC/POLICY UNCERTAINTY

3.2.1. Global Economic Outlook

As 2025 draws to a close, the overall world economy has proved surprisingly resilient in recent times - having coped with 'shocks' ranging from the Covid pandemic to high interest rates, geopolitical conflicts and aggressive US tariffs. Past reforms, especially in emerging markets, have helped countries to successfully manage a rapidly changing global landscape. But although countries have been seeking to diversify their economies and to manage trade disruptions, the outlook remains clouded and still bedevilled by elevated uncertainty.

'Global uncertainty is here to stay', recently said the IMF head Kristalina Georgieva. The IMF's World Uncertainty Index had doubled since January, as the IMF noted during its annual meetings in early November. This is inevitably the new reality being faced by policymakers, businesses and consumers, but nonetheless presents both risks and opportunities. Although global uncertainty has surged, the IMF says sentiment about economic prospects remains optimistic. Growth forecasts for most parts of the world remain positive for next year at 3.2% overall, concludes the IMF.

In the meantime, global business has been responding to aggressive US tariffs in three main ways. Firstly, to pass on cost increases to consumers where market conditions permit. Secondly, to prune costs elsewhere and defer investment plans in areas of too much uncertainty. Thirdly, to restructure and diversify supply chains to ensure business survival. 'As a result, businesses are holding on to more cash to give themselves room to manoeuvre', says the Economist (15/11/2025).



The Organisation for Economic Cooperation and Development (OECD) has projected a slight slowdown in global growth to 3.2% in 2025, down from 3.3% in 2024, and it currently expects 2.9% growth in 2026. This is largely attributed to tariffs and policy uncertainty. Inflation is anticipated to continue to ease. The OECD sees slower growth as focused mainly on economies such as the US, Canada, Mexico and China. The SARB's MPC recently raised its growth forecast for South Africa's major partners from 2.5% to 2.7%.

The US economy is now seen as facing 2026 with a mix of strength and vulnerabilities. The resilience of its economy in 2025 has been stronger than expected. Although some economic slowdown is expected, next year's growth rate is projected to be positive, close to its potential of 2%. The main drivers are investment in AI, the fiscal stimulus, and the Federal Reserve's recent interest rate cuts. Nevertheless, the economic picture is not free from risks, including the AI stock market 'bubble'.

The Autumn 2025 Economic Forecast by the European Commission (EC) shows that EU growth exceeded expectations in the first nine months of the year. This better-than-expected performance is mainly due to a surge in exports ahead of anticipated tariff increases, but investment in equipment and intangible assets also performed more strongly than expected. Inflation has also eased. The EC suggests that conditions for economic expansion will remain in place and GDP is projected to grow by 1.4% in both 2025 and 2026.

The World Bank (WB) describes the Sub-Saharan Africa (SSA) economy as 'resilient'. It projects an improved GDP growth of 3.8% in 2025, accelerating to an average of 4.4% in 2026-27. This is driven primarily by an easing in inflation and a modest recovery in investment. However, the WB emphasises that the region still faces key challenges, including risks from global trade uncertainty, high external debt and a major jobs deficit. An IMF survey also assesses the SA economy as basically resilient but sees risks on the downside.

In summary, the global message concludes that policymakers everywhere face the same challenge: how to turn uncertainty into opportunity by strengthening resilience, restoring stability, and laying the groundwork for durable growth.

3.2. South African Economic Outlook

3.2.1. Balance between positive and negative factors influencing 4Q 2025 PUI

Although remaining in negative territory, the recent surge of better economic news for SA led to a welcome easing in the 4Q 2025 PUI to 64.9 from its historical high of 81.0 reached in the 3Q 2026 PUI (baseline 50). There were enough positive factors in the past quarter to outweigh the negatives and ease the PUI to its new level. The calibration of the 4Q 2025 PUI suggests that negative trends in the PUI are reversible.

In the third quarter of 2025, the economy showed its fourth consecutive rise in economic activity, albeit off a low base. Another positive factor was the 1.6% rise in fixed capital formation. On present evidence, it seems likely that economic growth in 2026 will be about 1.4%. Although still unacceptably high, overall unemployment was lower in 3Q 2025 at 31.9%, compared to 33.2% in 2Q 2025, according to a recent labour survey from StatsSA.

On the financial front, the MTBPS decisions on November 12 around fiscal stabilisation and a new inflation target of 3% have provided more policy certainty and elicited positive responses. The markets' reaction was also reinforced by the FATF's recent decision to remove South Africa from the 'grey list', which reduced regulatory and compliance uncertainty for cross-border transactions, and by Standard & Poor's subsequent upgrade of the country's investment rating. The recent successful G20 summit hosted by South Africa has also been a positive factor.

At its meeting on November 20, the MPC also cut interest rates by a further 25 bps, with the prospect of further easing in borrowing costs next year, depending on incoming data. Even with the latest 25 bps reduction, real interest rates in SA remain relatively high by global standards. The official decision to implement a 3% inflation rate now provides more policy certainty. The new low inflation target is to be accomplished within a flexible framework, with a tolerance of 1% on either side of 3% and phased in over two years.

Business confidence in South Africa also strengthened in the final quarter of 2025, according to a recent survey by RMB and compiled by the BER. This is aligned with the fourth quarter PUI in reflecting further momentum in the economy. “While this is not a step change, it is a meaningful turn in the right direction”, said RMB chief economist Isaah Mhlanga.

Policy uncertainty is therefore being gradually reduced by building resilience, creating fiscal buffers, and stabilising public indebtedness amid adverse global headwinds. Political stability may also have been enhanced for now by the GNU leadership's recent agreement to a formal dispute-resolution mechanism around ‘sufficient consensus’, to meet monthly, and to confirm its endorsement of the Medium Term Development Plan.

Negative factors that could nonetheless keep the PUI unduly elevated include:

Firstly, South Africa’s growth performance could fall short of expectations. Recent high frequency data shows manufacturing production to still be a lagging sector. Weaker growth will jeopardise the planned fiscal trajectory, given the small margin for error. The MTBPS projection of 1.8% growth over the 2026-28 period, while positive, is still too low in light of South Africa’s socioeconomic challenges. The GNU wants to see at least 3.5% GDP growth by 2030, driven by both consumer spending and investment.

The recovery in gross fixed capital formation (GFCF) in third quarter 2025, although welcome, therefore still leaves fixed capital investment at inadequate levels. At present, South Africa’s GFCF ratio to GDP is only 14%, whereas to achieve much higher GDP growth, it needs to be closer to 20%. Boosting investor confidence is therefore the key to unlocking tangible commitments in practice, with real outcomes.

‘Good fiscal policy may reassure currency markets, but it can’t pour steel or run trains. And it’s still one thing to run your fiscal and monetary policy well and another to carry that over into factories and jobs’. (Peter Bruce, Sunday Times, 16/11/2025). South Africa also needs to shake off its reputation for high crime levels. In the coming year, a sufficient number of firms must therefore feel that growth prospects justify their making fresh plans for expansion.

Secondly, another major source of policy uncertainty still lies on the export front. Tariff uncertainty can be as economically damaging as tariffs themselves. The new ‘reciprocal’ US tariffs imposed last August affect nearly two-thirds of South African exports and have become a threat to the country’s export performance. The SARB has described the impact presented by the tariffs and the loss of preferences under AGOA as a ‘live threat’. The future of AGOA still remains uncertain.

The SARB estimated that US tariffs could shave 0.4% off South Africa's GDP. But the SARB also indicated that, in a worst-case scenario, combined with other negative factors, it could result in a GDP sacrifice of up to 0.69%. In the absence of a satisfactory new trade deal with the US, affected exporters will remain in an extended phase of uncertainty. And as the economy seeks alternative markets in response to a changing global landscape, the overall challenge remains to be globally competitive in ways that protect or secure market shares.

This overall caution was also confirmed by Moody's latest decision to leave South Africa's credit rating unchanged. They emphasized instead the downside risks to the country's growth prospects posed by global headwinds, tariff conflicts and heightened domestic political tensions. They assess that an upgrade is possible if South Africa's growth performance surprises further on the upside.

3.2.2 Summary and Conclusion

The reduction in the 4Q 2025 PUI and other economic indices suggest that the economy may have reached a turning point. The economy enters 2026 on a note of cautious optimism. It also demonstrates that elevated policy uncertainty is reversible, if the right decisions are taken and implemented. The basic message of the recent 2025 MTBPS was that accelerated structural reforms remain the most effective pathway to much higher, job-rich growth.

The challenge therefore remains the robust implementation of half-forged, growth-friendly policies to further reduce policy uncertainty. Implementation is still the key - ensuring that reform commitments translate into tangible improvements in confidence, stability, investment, jobs, and service delivery. South Africa's economic steersmanship must therefore continue to keep the economy on track, so that over the next year the tailwinds will overcome any headwinds.

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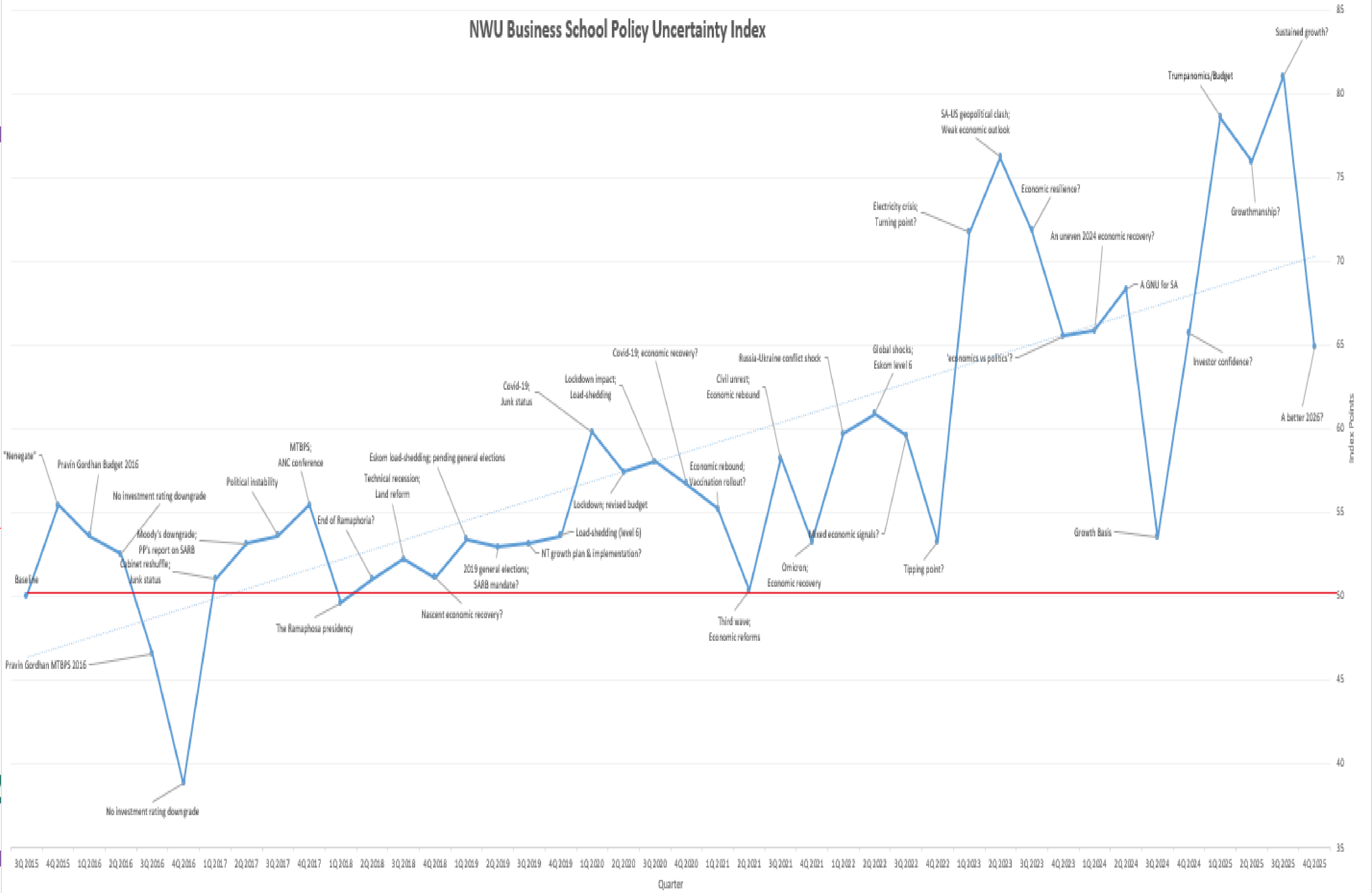

NWU Business School Policy Uncertainty Index
Baseline
"Nenegate"
Pravin Gordhan Budget 2016
No investment rating downgrade
Moody's downgrade;
PP's report on SARB
Cabinet reshuffle;
Junk status
Pravin Gordhan MTBPS 2016
No investment rating downgrade
Political instability
MTBPS;
ANC conference
End of Ramaphoria?
The Ramaphosa presidency
Technical recession;
Land reform
Eskom load-shedding; pending general elections
Nascent economic recovery?
2019 general elections;
SARB mandate?
NT growth plan & implementation?
Load-shedding (level 6)
Covid-19;
Junk status
Lockdown impact;
Load-shedding
Lockdown; revised budget
Covid-19; economic recovery?
Economic rebound;
Vaccination rollout?
Third wave;
Economic reforms
Civil unrest;
Economic rebound
Omicron;
Economic recovery
Russia-Ukraine conflict shock
Mixed economic signals?
Global shocks;
Eskom level 6
Tipping point?
Electricity crisis;
Turning point?
SA-US geopolitical clash;
Weak economic outlook
Economic resilience?
'economics vs politics'?
An uneven 2024 economic recovery?
A GNU for SA
Growth Basis
Investor confidence?
Trumpanomics/Budget
Growthmanship?
Sustained growth?
A better 2026?
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75
70
65
60
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40
35
Index Points
3Q 2015
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Quarter