# NWU Business School Policy Uncertainty Index (PUI) 1Q 2023


**EMBARGOED UNTIL WEDNESDAY 29 MARCH 2023**

## EXECUTIVE SUMMARY

- The NWU Business School 1Q 2023 PUI rose to a record level of 71.7 from 53.2 in 4Q 2022 (baseline 50). This is higher than seen even during Covid-19. The strong elevation of the PUI in 1Q 2023 was the result of a convergence of contrary global and domestic factors which greatly outweighed the positive ones to push the PUI much further into negative territory in the first quarter of 2023.

- Globally, geopolitical factors such as the continued Russia-Ukraine war and rising tension between the US and China – if combined with inflation and low growth – underscored the obdurate levels of uncertainty still permeating the world economic outlook. The recent banking turmoil adds a new dimension. Growth and interest rates are the two main economic variables to watch globally in the rest of 2023.

- The risks of a widespread world recession, however, appear to have receded for now and the International Monetary Fund (IMF) global growth forecasts are currently 3.4% (2022), 2.9% (2023) and 3.1% (2024) respectively. The recent reopening of the Chinese economy after a protracted Covid-19 lockdown now offers the prospect of a faster-than-expected world economic recovery. On global inflation surveys suggest it may have peaked in recent months.

- According to the IMF, about 84% of countries are now expected to have lower headline inflation in 2O23 than in 2022, although inflation remains high. A number of central banks recently again raised interest rates, including by the US Federal Reserve. The banking turmoil and financial instability recently created by the shocks from the Silicon Valley Bank and Credit Suisse developments may nonetheless have complicated the response to inflation in some countries.

- Positive developments in SA included a well-received national budget on February 22 that concretized several of the state-of-the-nation commitments made earlier that month. The paramountcy of urgently tackling the energy crisis in general and the economic impact of blackouts in particular was generally acknowledged. The wide-ranging responses ranged from substantial debt relief to Eskom to the appointment of a Minister of Electricity, combined with other steps in terms of the state-of-disaster regulations.

- On the contrary side several red lights were flashing much more strongly. The negative factors that greatly eclipsed positive ones in the past quarter included persistent power outages, the state-of-disaster, low growth, acute industrial action, confidence-sapping national protests, infrastructural bottlenecks, violent crime, corruption, grey-listing and delayed reforms – the combination of which pushed the PUI into a record level of negative territory in 1Q 2023. The biggest single negative factor has been the electricity crisis.

- Negative trends can, however, be reversed and 'rising tides' can be turned, if intended policy commitments and projects are effectively implemented. The biggest challenge now is to rebuild confidence and reduce policy uncertainty. Restoring confidence and credibility is half the battle for policymakers, as they seek to implement agreed solutions. The Presidential Investment Conference next week will be one good platform from which to do so and help to create a favourable environment for job-rich growth.

**Professor Raymond Parsons**
**NWU Business School**
**083 225 6642**

**NWU BUSINESS SCHOOL POLICY UNCERTAINTY INDEX (PUI) ROSE STRONGLY TO 71.7 IN 1Q 2023 FROM 53.2 IN 4Q 2022 (BASELINE 50), THUS MOVING MUCH FURTHER INTO 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

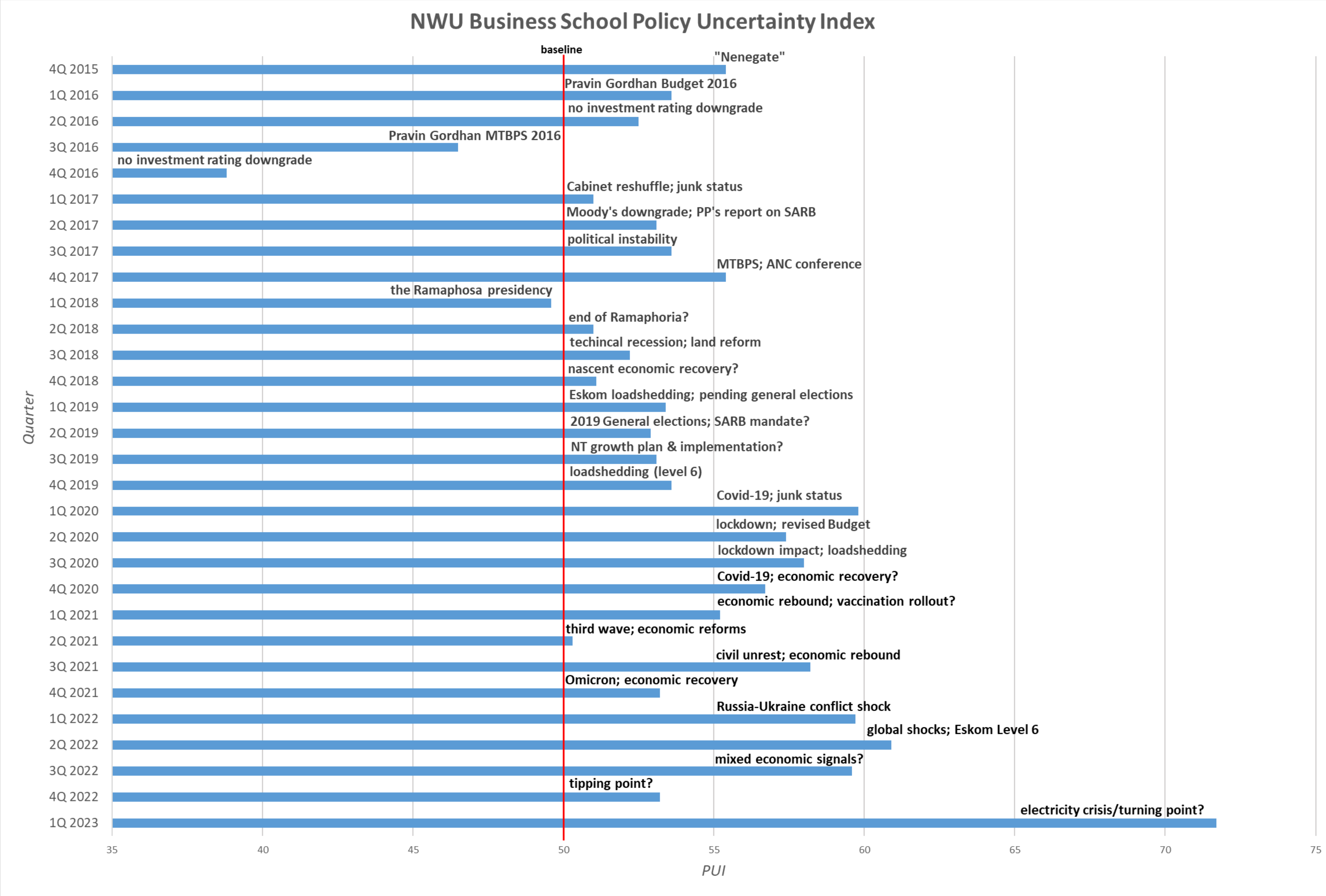
As outlined when the PUI was launched in early 2016, the role of policy uncertainty has loomed large in much of the recent economic debate in SA. It is seen to have important implications for business confidence and the investment climate in the country. Hardly any recent economic assessment or media 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 policy makers 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 of the policy uncertainty index with 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 in January, April, July, and October of each year. 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.



NWU Business School Policy Uncertainty Index
baseline
"Nenegate"
Pravin Gordhan Budget 2016
no investment rating downgrade
Pravin Gordhan MTBPS 2016
no investment rating downgrade
Cabinet reshuffle; junk status
Moody's downgrade; PP's report on SARB
political instability
MTBPS; ANC conference
the Ramaphosa presidency
end of Ramaphoria?
techincal recession; land reform
nascent economic recovery?
Eskom loadshedding; pending general elections
2019 General elections; SARB mandate?
NT growth plan & implementation?
loadshedding (level 6)
Covid-19; junk status
lockdown; revised Budget
lockdown impact; loadshedding
Covid-19; economic recovery?
economic rebound; vaccination rollout?
third wave; economic reforms
civil unrest; economic rebound
Omicron; economic recovery
Russia-Ukraine conflict shock
global shocks; Eskom Level 6
mixed economic signals?
tipping point?
electricity crisis/turning point?
4Q 2015
1Q 2016
2Q 2016
3Q 2016
4Q 2016
1Q 2017
2Q 2017
3Q 2017
4Q 2017
1Q 2018
2Q 2018
3Q 2018
4Q 2018
1Q 2019
2Q 2019
3Q 2019
4Q 2019
1Q 2020
2Q 2020
3Q 2020
4Q 2020
1Q 2021
2Q 2021
3Q 2021
4Q 2021
1Q 2022
2Q 2022
3Q 2022
4Q 2022
1Q 2023
Quarter
35
40
45
50
55
60
65
70
75
PUI

## 2. PUI RESULTS FOR 1Q 2023 – WHAT DO THEY SAY?

The PUI 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 converging trends as follows:

i. *media data* showed a substantial rise in references to policy uncertainty

ii. the *survey of economists* reflected that an overwhelming majority believe uncertainty has increased

iii. University of Stellenbosch's Bureau for Economic Research *survey of manufacturers* experiencing policy/political uncertainty advanced from 83 to 91

## 3. NARRATIVE ON FACTORS INFLUENCING ECONOMIC/POLICY UNCERTAINTY

### 3.1 Global Economic Outlook

Internationally, the consequences of the Russia-Ukraine war, rising US-China tensions, persistent inflation and continued recession fears in different economies still shaped global economic prospects as 2023 unfolded. On the positive side, the outlook for global growth is assessed by the International Monetary Fund (IMF) as 3.4% (2022), 2.9% (2023) and 3.1% (2024). The recent reopening of the Chinese economy, after a protracted Covid-19 lockdown, now offers the prospect of a faster-than-expected world economic recovery.

The IMF 2023 growth forecast is higher than predicted in October 2022, but below the historical (2000-2019) average of 3.8%. The Organization for Economic Cooperation and Development (OECD) also upgraded its outlook for growth this year from 2.2% to 2.6%, based on declines in energy and food prices, China's relaxation of Covid-19 restrictions and recovering business confidence. The world economy has recently proved to be more resilient than expected, although surveys suggest that global capex appears to have leveled off for now after its post-Covid lift.

World inflation appears to be peaking amidst this overall global growth scenario, with the prospect of lower rates of inflation in the period ahead. According to the IMF, about 84% of countries are expected to have lower headline inflation in 2023 than in 2022. Global inflation is expected to fall from 8,8% in 2022 to 6.6% in 2022 and 4.3% in 2024. Emerging economies, says the IMF, are likely to show a decline in annual inflation from 9.9% in 2022 to 8.1% (2023) and 5.5% (2024).

Although numerous countries have been countering the impact of high inflation through rising interest rates, and headline inflation appears to have peaked in many countries, it remains high. With the battle against inflation not yet conclusively won, several central banks have recently again nudged rates higher, including by the US Federal Reserve. However, recent shocks to financial markets from the Silicon Valley Bank fallout have left some central banks debating whether they will endanger financial stability, if they continue with the interest rate rises necessary to tame inflation.

The financial market turmoil arising from the collapse of the US start-up lender Silicon Valley Bank and stresses of the troubled Credit Suisse have – despite swift official intervention – therefore injected new uncertainties into market expectations. Yet for all the fears, a financial crisis on the scale of 2008 presently seems unlikely, although other vulnerabilities may lurk elsewhere. The IMF in any event warns that, although the global growth and inflation outlooks have improved somewhat, the balance of risks at present remains tilted to the downside.

Risks to the global economic outlook therefore remain elevated. In his testimony to the US Congress in mid-March, Federal Reserve chair Jay Powell indicated 'the ultimate level of interest rates is likely to be higher than previously anticipated' and 'restoring price stability will probably require that we maintain a restrictive stance for some time'. US jobs and pay data still generate uncertainty as to whether the US economy will experience a 'soft landing' or a 'hard one' later in 2023. As mentioned above, on March 22 the US Fed again raised its rates, this time by another 25 basis points.

The World Bank has previously emphasized that a sustained period of lower global growth and higher borrowing costs inevitably poses a threat to highly indebted countries. Sub-Saharan African economic growth is, however, now expected to rise modestly from 3.9% this year to 4.1% in 2024. And partly in tandem with global developments, SA's current account on the balance of payments moved into deficit in 4Q 2022, having previously been in surplus. This sharp narrowing of SA's trade balance reflected an amalgam of weaker external demand, lower global commodity prices, as well as domestic setbacks.

## 3.2 The South African Economy

### 3.2.1 Balance between positive and negative factors influencing the 1Q 2023 PUI

The 1Q 2023 PUI was pushed to a record level, rising from 53.2 in 4Q 2022 to 71.7. It strongly reversed the previous improvement (although still in negative territory) that was apparent in the 4Q 2022 PUI. Positive factors in the fourth quarter of last year – such as the better 3Q 2022 GDP growth figures and the re-election of President Cyril Ramaphosa at the ANC elective conference in December – proved to be transitory. Several negative factors aggressively asserted themselves in 1Q 2023, especially the impact of the extensive power blackouts.

The calibration of the 1Q 2023 PUI therefore reflects the extent to which negative global and domestic factors have both again greatly outweighed positive ones during the past quarter. It is now higher than even during Covid-19. Externally, global developments have continued to affect the SA economy in at least four uncertain ways: the continued Russia-Ukraine war; the weakness in the world economy; shaky international commodity prices; and a second year of 'dearer money' in the global economy. And on the domestic front?

*Firstly*, on the domestic front an important positive factor during the last quarter was the national budget on February 22, which concretized some of the promises outlined earlier that month in the State-Of-the-Nation Address (SONA). The budget was broadly seen as a pragmatic and credible fiscal response to a challenging set of global and domestic economic circumstances. It was generally well-received by the markets and business, with few reservations.

Finance Minister Enoch Godongwana, enjoying some windfall gains, was therefore seen as able to successfully navigate a difficult balancing act, given the political and economic constraints that existed. The Budget nonetheless acknowledged that significant risks to the economic and fiscal outlook remained. These included factors such as weaker-than-projected growth, higher interest rates, and an unaffordable public-service wage agreement. Since then, public sector unions have accepted a revised pay offer from government of 7.5%. The latest IMF report on SA still sees the country's public finances as highly vulnerable.

Another explicit development was the emphatic and clear recent recognition by government in the SONA, the Budget and the Cabinet reshuffle, of the paramountcy of urgently tackling the Eskom crisis and addressing the highly damaging impact of load-shedding on the economy. These responses ranged from the decision to give major debt relief to Eskom to the appointment of a Minister of Electricity as well as related steps in terms of the state-of-disaster regulations.

The Eskom debt relief, which is subject to strict conditions, is aimed at easing the great pressure on Eskom's balance sheet, enabling it to undertake the necessary maintenance and investment needed to support security of electricity supply. Standard and Poor (S&P) have as a consequence subsequently raised Eskom's credit rating. The task of the Minister of Electricity is to focus exclusively and urgently on reducing the stringency of load-shedding over a period.

*Secondly*, however, with negative factors strongly dominating the 1Q 2023 PUI, highly elevated policy uncertainty has inevitably been the outcome. Sales of SA shares by foreign investors have risen since the beginning of 2023, suggesting that renewed uncertainty has caused investor sentiment to weaken. The persistent power outages, the state of disaster, weak growth, acute public sector industrial action, disruptive national protests, infrastructural deficiencies, criminal activity, grey-listing and delayed reforms: it is the combination of these elements that has pushed the PUI much higher into negative territory in 1Q 2023.

Furthermore, in terms of overall economic activity, both the SARB and the Budget previously lowered their growth forecasts for 2023. On March 8, StatsSA released the GDP data for 4Q 2022, showing a significant 1.3% decline, which suggests that there are downside risks to even many of the already reduced growth forecasts for this year. And the IMF now sets growth at only 0.1% in 2023 from its previous 1.2%. Various data and surveys also reflect the current low levels of business and consumer confidence.

While several complex external and internal factors are involved here, it is evident that aggressive load-shedding has been the main driver of the recent bad economic news, which then also exacerbates other structural problems in the economy. Persistently high levels of load-shedding in recent months have now raised the risk that SA may well experience a 'technical recession' (i.e., two consecutive quarters of negative growth) soon in 2023.

In addition, factored into the economic outlook 'mix' has been the recent, although not unexpected, 'grey-listing' of SA by the Financial Action Task Force (FATF). This has negative implications for the cost of doing business in SA and adds to the level of policy uncertainty. It is, however, reassuring to know that SA remains heavily engaged with the FAFT to implement further remedies that will hopefully lead to the country's eventual 'delisting'.

Two recent responses from credit rating agencies also contributed to an elevated 1Q 2023 PUI. S&P reduced SA's economic outlook from 'positive' to 'stable', citing power blackouts as the main reason for the changed assessment. S&P warned, however, that a further downgrade was possible if key metrics further deteriorated. And at the political level Fitch believes the unresolved Phala Phala issue relating to President Cyril Ramaphosa still poses a potential risk to policy continuity and stability.

The next Monetary Policy Committee (MPC) statement on March 30th will be too late to influence the 1Q 2023 PUI, but the MPC is expected to continue its interest-raising cycle for now and provide an updated assessment of its GDP growth forecast.

### 3.2.2 Summary and Conclusion

The many red lights flashing – such as persistent load-shedding, weak growth, low business confidence, mixed policy signals, stubborn inflation, high borrowing costs, infrastructural obstacles, and crime – have not augured well for levels of economic certainty in 1Q 2023. However, the situation can be turned around. As the IMF recently also emphasized, these negative trends can be reversed – if the right policy actions are urgently taken and promptly implemented in the period ahead.

The issue of confidence remains paramount. The biggest challenge now is to rebuild confidence. Confidence-building is said to be the cheapest form of economic stimulation. Restoring confidence is half the battle for decision-makers as they seek to implement agreed solutions. The Presidential Investment Conference next week would be one good platform from which to help create an economic environment that is conducive to inclusive job-rich growth.

**North-West University Business School**
**29 March 2023**