



SOUTH AFRICA GOVERNMENT, POLITICAL AND ECONOMIC STABILITY REPORT - Q2 2025

PRESENTED BY

Surgetower Associates

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COLLAB OR COLLAPSE

The second quarter of 2025 presented South Africa with a tale of two realities. April and May offered glimpses of progress, as the Government of National Unity (GNU) demonstrated its potential through cross-party cooperation on Budget 3.0 and the launch of Phase 2 economic reforms under Operation Vulindlela. These months saw relative stability in governance, with anti-corruption efforts gaining traction and business confidence showing tentative signs of recovery. However, this fragile momentum was abruptly derailed in June as persistent squabbling between the ANC and DA erupted into open conflict, triggered by the dismissal of DA Deputy Minister Whitfield and subsequent retaliatory measures.

The GNU is in its most precarious and turbulent time. The ANC and DA must choose between genuine collaboration to stabilise governance or risk collapsing the coalition entirely. Already, the quarter's moderate economic achievements - including slight GDP growth, trade surpluses and moderate improvement in logistics (port/rail) - are overshadowed by policy paralysis, eroding investor confidence, and social discontent. The government's inability to present a united front on critical issues like black empowerment, employment equity, and foreign policy (Israel matter) further exasperates stability.

My message is simple: unless the ANC and DA prioritise national stability over partisan interests, South Africa risks squandering progress.

Siseko Maposa,
Managing Director
July 2025



ABOUT THE G-PSS & ESS

Surgetower Associates has developed two proprietary indices to assess stability in South Africa: the Government-Political Stability Score (G-PSS) and the Economic Stability Score (ESS). These indices provide a structured framework for evaluating key risks and opportunities in the country's political and economic landscape. Each indicator is assigned a 0–5 rating, with the final scores derived from an equally weighted average.

Government-Political Stability Score (GPSS)

The G-PSS measures the strength and predictability of governance structures, policy direction, and societal cohesion. It is calculated based on five critical indicators, each contributing to an overall score ranging from 0 (complete instability) to 5 (optimal stability):

- *Government Effectiveness* – Evaluates institutional competence, service delivery, and bureaucratic efficiency.
- *Policy Formulation & Implementation* – Assesses the coherence, transparency, and execution of government policies.
- *Civic Participation* – Measures public engagement in governance, including electoral turnout and civil society influence.
- *Corruption Control* – Tracks perceptions and reported instances of graft, fraud, and state capture.
- *Social/Political Unrest* – Monitors protests, strikes, and civil disorder as indicators of instability.

Economic Stability Score (ESS)

The ESS evaluates the resilience and sustainability of South Africa's economic environment, incorporating six key indicators, also scored from 0 (severe instability) to 5 (high stability):

- *Economic Growth & Unemployment* – Tracks GDP expansion or contraction trends and the economy's ability to create jobs.
- *Business Confidence* – Reflects sentiment among firms and investors.
- *Trade Performance* – Assesses balance of trade, export/import trends, and global demand.
- *Exchange Rate Volatility* – Measures rand stability against major currencies.
- *Interest Rates* – Evaluates borrowing costs and monetary policy impacts.
- *Inflation Control* – Tracks price stability and central bank effectiveness.

Interpretation of Scores

- 4.0 – 5.0: High stability (minimal risk, strong institutional and economic fundamentals)
- 3.0 – 3.9: Moderate stability (manageable risks but requiring monitoring);
- 2.0 – 2.9: Low stability (elevated risks, potential disruptions);
- 0.0 – 1.9: Critical instability (severe dysfunction, high likelihood of crises)



GOVERNMENT & POLITICS

“A coalition at the crossroads is a river forced to choose its path - yet the true power lies not in the direction taken, but in the current beneath, unseen but unbroken”

G-PSS EXECUTIVE SUMMARY

Apr-Jun 2025

South Africa's government-political stability faced further erosion in the second quarter of 2025, with the Government-Political Stability Score (G-PSS) sliding from 2.0 in April to 1.5 by June - marking the lowest level on record.

After a marginal uptick to 2.2 in May, the score collapsed amid renewed coalition infighting and public disillusionment, compounding the deterioration seen earlier in the year (Q1: 3.0 to 2.0).

Q2 saw GNU stability unravel – from the Whitfield dismissal crisis to deadlocks on BBBEE and foreign policy. Corruption scandals undermined anti-graft efforts, while service delivery protests and campus violence exposed growing social fractures.

With the coalition resorting to courts rather than compromise, and reform promises unfulfilled, public trust corroded.

GOVERNMENT EFFECTIVENESS & POLICY IMPLEMENTATION



The second quarter of 2025 exposed the fragile foundations of the GNU. April began with a fiscal crisis as the Western Cape High Court suspended the fiscal framework, forcing Finance Minister Godongwana to abandon the VAT hike. The month also exposed foreign policy fractures when the DA/PA's unauthorised Israel trip highlighted coalition disunity. May offered temporary respite through rare ANC-DA cooperation: Budget 3.0's cross-party approval stabilised markets, while Phase 2 of *Operation Vulindlela* extended reforms to municipal governance and digital transformation. The Washington delegation's successful rebuttal of 'white farmer genocide' claims laid groundwork for improved U.S. relations. Yet these gains proved fleeting - stagnant growth projections and unaddressed structural issues lingered beneath the surface.

June's political earthquake came with President Ramaphosa's dismissal of DA Deputy Minister Whitfield, triggering a chain reaction of retaliatory motions, budget boycotts, and ANC counter-threats. The coalition's dysfunction became institutionalized: critical policies on BBBEE and employment equity stalled as partners increasingly turned to courts rather than negotiation. With Ramaphosa's National Dialogue initiative widely dismissed as another empty promise, the GNU entered Q3 as a coalition in name only - its original promise of stability now overshadowed by policy paralysis and eroding investor confidence.

CORRUPTION CONTROL

South Africa's anti-corruption efforts in Q2 presented a mixed picture. April saw progress with reforms like the General Intelligence Laws Amendment Bill and increased border interceptions, though enforcement gaps persisted.

May's decline in reported corruption complaints was attributed to resource shifts rather than reduced malfeasance, with high-profile investigations into entities like RAF revealing systemic challenges.

June, however, dealt a severe blow to anti-corruption credibility as NPA head Shamila Batohi retracted claims of infiltration, while high-profile cases - such as the overturned Nulane acquittals and the prolonged Zuma trial - exposed prosecutorial inefficiencies.

The quarter ended with alarming revelations of "university capture" and tender abuses, emphasizing the entrenched nature of corruption across sectors.

Despite sporadic wins, the lack of decisive action against ANC-linked figures and institutional weaknesses undermined public trust.



South Africa's Q2 Anti- Corruption Fight Shows Patchy Progress, High-Profile Failures, and Deep-Sector Scandals Amid Weak Enforcement

CIVIC PARTICIPATION



South Africa's Q2 by-elections revealed deepening voter disillusionment, with average turnout stagnating at 40% – masking stark urban-rural divides. While Johannesburg wards saw record-low participation, rural KwaDukuza bucked the trend with 59.5% turnout as MK Party capitalised on ANC weaknesses in KZN, snatching eThekweni's Ward 110 from the DA.

The ANC maintained its grip but showed vulnerability: though it retained Eastern Cape and Limpopo seats, its margins narrowed significantly. The DA demonstrated strategic consolidation – holding 94.7% in Stellenbosch and Tshwane's Ward 56, yet suffered an unexpected loss in Mossel Bay (Ward 09) to the insurgent Patriotic Alliance (PA), which also gained a Northern Cape seat from the ANC. Meanwhile, the ANC's Mpumalanga resurgence contrasted with its near-loss in Knysna, underscoring uneven performance.

Three trends dominated:

- Urban apathy (Johannesburg 24.2%, Rand West City 27.2%)
- Opposition rise (MK's KZN gains vs. PA's breakthroughs),
- The ANC's maintaining traditional strongholds, despite declining winning margins and overall national appeal.

SOCIAL & POLITICAL INSTABILITY



South Africa's Q2 of 2025 saw social tensions reach boiling point, with protests evolving into a barometer of systemic governance failures. April set the tone with President Ramaphosa's warning of a 'perfect storm' as KZN's water tanker mafia exploited infrastructure collapse, while nationwide outrage erupted over the rape of 7-year-old Cwecwe - exposing both service delivery and justice system failures.

In May, anti-migrant marches spread across four provinces, coinciding with the deadly Soweto protest where two demonstrators were killed during water shortage riots. The month's volatility was compounded by a bomb threat against a Cape Town mosque and Red Card Israel protests at football matches, reflecting how international conflicts were amplifying local tensions.

June continued this trajectory, with Walter Sisulu University students clashing with police over perceived injustice in a campus shooting case, while Ekurhuleni and KZN residents barricaded roads over chronic water shortages.

With youth unemployment high and communities increasingly resorting to disruptive tactics, Q2's protest wave confirmed governments dwindling capacity to uphold its social contract obligations.

CRITICAL ASSESSMENT & OUTLOOK

Q2 of 2025 has confirmed South Africa's governance system remains under severe strain. The GNU model continues to struggle with policy paralysis and implementation failures. Corruption control efforts show mixed results, while social tensions—particularly around service delivery and political infighting - persist.

Three key risks dominate the outlook for Q3:

1. **Coalition Fragmentation:** The ANC-DA rift has deepened, with the DA's retaliation over Whitfield's dismissal pushing the GNU to its breaking point. The ANC may now seek alternative partners, risking policy reversals and further instability.
2. **Institutional Decay:** The NPA's credibility crisis, high-profile corruption case delays, and political interference in law enforcement, including police services, underscore systemic weaknesses. Without urgent reforms, public trust in key institutions will continue eroding
3. **Escalating Social Unrest & Electoral Tensions:** Persistent service delivery protests, xenophobic rhetoric, and student demonstrations highlight growing discontent. With 2026 elections nearing, KZN remains volatile, and low voter turnout signals deepening disillusionment.



ECONOMY & FINANCE

"Fractured hands cannot lift the economy; idle fields, hungry dreams - growth withers in the shadow of divided wills."

ESS EXECUTIVE SUMMARY

Apr-Jun 2025

South Africa's economic stability remained fragile through Q2 2025, with the Economic Stability Score (ESS) hovering between 2.0 and 2.2 before settling at 2.0 in June.

This stagnation reflects persistent structural weaknesses: anaemic growth (0.1% QoQ in Q2), rising unemployment, and mounting debt pressures.

While inflation stayed within the SARB's target range, external risks—including volatile commodity markets and U.S. trade tariffs—kept the economy vulnerable.

The rand showed resilience but faced recurring pressure near the R18/USD threshold, underscoring sensitivity to global sentiment. Meanwhile, the SARB's cautious rate cuts provided limited relief as business confidence wavered and trade surpluses narrowed.

ECONOMIC GROWTH, INFLATION & MONETARY POLICY



Economic Growth

South Africa's economy teetered on stagnation in Q2, with GDP growth projections revised downward to 1.4% for 2025. Q1's 0.1% quarterly growth was narrowly saved by agriculture (+15.8%), while mining and manufacturing dragged performance. May's Budget Speech acknowledged sluggish reforms, and June's data revealed a debt spiral (77% of GDP) and rising servicing costs (R426bn). Despite S&P's upgraded medium-term outlook, Absa's sharp cut to 1.0% growth reflected global risks. The economy's reliance on commodities and lack of diversification left it vulnerable, with structural constraints persisting despite Operation Vulindlela's incremental gains.

Inflation

Inflation remained subdued, hovering near 2.8% in May (below SARB's target range) due to lower fuel prices. However, food inflation (4.8%) and housing (4.5%) posed upside risks. The OECD's call for a lower inflation target (3%) signalled potential long-term policy shifts, but SARB's caution amid global oil price volatility (Brent at \$75/barrel) delayed further rate cuts.

Interest Rates

SARB cut rates by 25bps in May (to 7.25%) amid low inflation but paused in June due to Middle East-driven oil price risks. The MPC's split March vote and debate over a 3% target hinted at future easing, though external uncertainties dominated. The quarter ended with rates on hold, balancing growth support against inflationary pressures.

RAND PERFORMANCE & BUSINESS CONFIDENCE

Rand Performance

The rand showed resilience, appreciating to 17.73/USD by June-end after April's volatility (R19.83/USD). Breaches of the 18.00 resistance signaled underlying strength, though global risk sentiment and dollar trends kept pressure on the currency.

The quarter closed with cautious optimism, contingent on external stability.

Business Confidence

Business sentiment fluctuated amid external and domestic pressures.

April's record SACCI BCI (125.8) was tempered by U.S. tariff fears, while May's high bond yields (10.93%) revealed investor skepticism. June's RMB/BER index drop to 40 reflected pessimism across retail, manufacturing, and construction, though the World Bank's \$1.5 billion loan for rail and energy reforms offered hope. Small business optimism (90%) contrasted with broader sectoral concerns, particularly logistics bottlenecks.

The quarter ended with cautious optimism hinging on reform implementation and global stability.

TRADE



South Africa's trade performance in Q2 2025 revealed both resilience and growing vulnerabilities in the face of shifting global demand. The trade surplus narrowed from R24.8 billion in March to R14.1 billion in April, reflecting softening international markets and domestic constraints. While mineral exports continued to buoy regional trade (Africa surplus: R33.5 billion in April), the widening Asian deficit (-R31 billion) laid bare the economy's structural dependence on manufactured imports and commodity exports.

The quarter saw volatile trends: February's strong R20.9 billion surplus (driven by 77% gold export growth and plunging oil imports) gave way to March's sustained performance (R24.8bn surplus on coal/iron ore exports), before April's decline as grape and gold shipments faltered. Notably, non-BELN trade weakened substantially, with year-to-date deficits expanding to R3.6 billion (vs R1.4bn in 2024). While Europe provided intermittent relief (March surplus: R6.6bn), its 6.8% MoM export drop in April signalled demand volatility.

Two critical patterns emerged: (1) The BELN bloc's growing importance as a stabilizer amid global uncertainty, and (2) Asia's entrenched dominance as both a market and supply chain bottleneck. With equipment imports rising and mineral exports facing demand headwinds, Q2's trade data underscores the urgent need for industrial diversification beyond raw materials and deeper regional integration to future-proof South Africa's trade ecosystem.

**Based on SARS Preliminary Data*

CRITICAL ASSESSMENT & OUTLOOK

South Africa's economic stability remained fragile through Q2 2025, with the Economic Stability Score (ESS) hovering between 2.0 and 2.2 before settling at 2.0 in June. This stagnation reflects persistent structural weaknesses: anaemic growth (0.1% QoQ in Q2), rising unemployment, and mounting debt pressures. While inflation stayed within the SARB's target range, external risks - including volatile commodity markets and U.S. trade tariffs - kept the economy vulnerable. The rand showed resilience but faced recurring pressure near the R18/USD threshold, underscoring sensitivity to global sentiment. Meanwhile, the SARB's cautious rate cuts provided limited relief as business confidence wavered and trade surpluses narrowed.

Three key risks that may dominate the economic outlook for Q3:

1) Growth Stagnation & Debt Spiral: GDP growth forecasts were repeatedly downgraded (now 1.0–1.4% for 2025), with agriculture masking deeper declines in mining and manufacturing. Debt servicing costs (5.2% of GDP) and a 77% debt-to-GDP ratio threaten fiscal sustainability.

2) Labour Market Collapse: Unemployment rose to 32.9%, with youth joblessness at 46.1%. Despite government job programs, formal sector losses (-245,000 jobs) outpaced gains, exacerbating social instability.

3) External Vulnerability: Trade surpluses shrank as Asian deficits widened, while U.S. tariffs and oil price volatility pressured the rand.

Without structural reforms to boost productivity, diversify trade, and stabilise debt, South Africa's economy risks prolonged low growth and worsening unemployment.

CONCLUSION: POLITICAL & ECONOMIC RISKS

South Africa faces a convergence of political and economic crises, with coalition instability, institutional decay, and social unrest exacerbating structural economic weaknesses. Without urgent reforms to restore governance coherence, curb corruption, and stimulate inclusive growth, the country risks prolonged stagnation, escalating unrest, and a downward spiral in both domestic and international confidence. The window for corrective action is narrowing rapidly.

The top 5 emerging risks are:

1) Coalition Fragmentation and Governance Paralysis

The coalition has deteriorated into dysfunction, marked by retaliatory actions (e.g., Whitfield dismissal crisis), policy deadlocks (BBBEE, foreign policy), and reliance on courts over negotiation. This instability risks a complete coalition collapse, policy reversals, and further erosion of investor confidence.

2) Institutional Decay

Anti-corruption efforts remain inconsistent, with high-profile failures (NPA credibility crisis, prolonged Zuma trial) and systemic scandals ("university capture," tender fraud). Public trust in institutions is cratering, undermining governance legitimacy and deterring investment.

3) Escalating Social Unrest and Electoral Volatility

Persistent service delivery protests (water shortages, justice failures), xenophobic tensions, and student demonstrations reflect deepening discontent. Coupled with low voter turnout (40%) and opposition fragmentation, the 2026 elections could exacerbate instability, particularly in volatile regions like KZN.

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4) Economic Stagnation and Debt Spiral

GDP growth is anaemic (0.1% QoQ, 1.4% annual forecast), masked only by temporary agricultural gains. Debt-to-GDP (77%) and servicing costs (R426bn) threaten fiscal sustainability, while unemployment (32.9%, youth 46.1%) fuels social instability.

5) External Vulnerabilities and Trade Risks

Shrinking trade surpluses, reliance on volatile commodity exports, and potential AGOA suspension (risking 0.8% GDP loss and 75,000 jobs) expose South Africa to global shocks. U.S. tariffs further compound economic fragility.

QUESTIONS? CONTACT US.



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