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Trade Uncertainty, Geopolitical Fragmentation and Financial Stability in South Africa[1]

Abstract

This paper investigates the multifaceted impact of trade uncertainty and geopolitical fragmentation on the stability of the South African financial system. As global trade dynamics shift due to elevated tariffs, fractured alliances, and the weaponisation of financial infrastructure, South Africa, an open, trade-dependent economy, faces heightened vulnerabilities across macroeconomic and financial channels. Trade uncertainty manifests through exchange rate volatility, capital outflows, and deteriorating investor sentiment, which strain financial institutions, particularly those with foreign currency liabilities or exposure to export-oriented sectors. Empirical analysis using a structural VAR model confirms that even moderate shocks to trade policy uncertainty can tighten financial conditions and dampen economic activity. These effects, while modest in isolation, may compound existing vulnerabilities in a context of constrained fiscal space, high unemployment, and external financing needs.

Geopolitical fragmentation further complicates the financial stability landscape by disrupting cross-border capital flows, fragmenting payment systems, and intensifying operational risks. The proliferation of alternative financial architectures, such as China's CIPS and Russia's SPFS, alongside rising cyber threats and the accelerated adoption of artificial intelligence, introduces new challenges for regulatory oversight and institutional resilience. South African

[1] The paper benefited from inputs and comments by external reviewers.

financial institutions must navigate increased compliance burdens, valuation risks, and cybersecurity threats in a fragmented global environment. The paper concludes that safeguarding financial stability amid these disruptions requires a multi-pronged policy response, including trade diversification, enhanced macroprudential frameworks, and improved cross-border regulatory coordination. Strengthening institutional capacity and regional cooperation will be critical to navigating this increasingly multipolar and uncertain global order.

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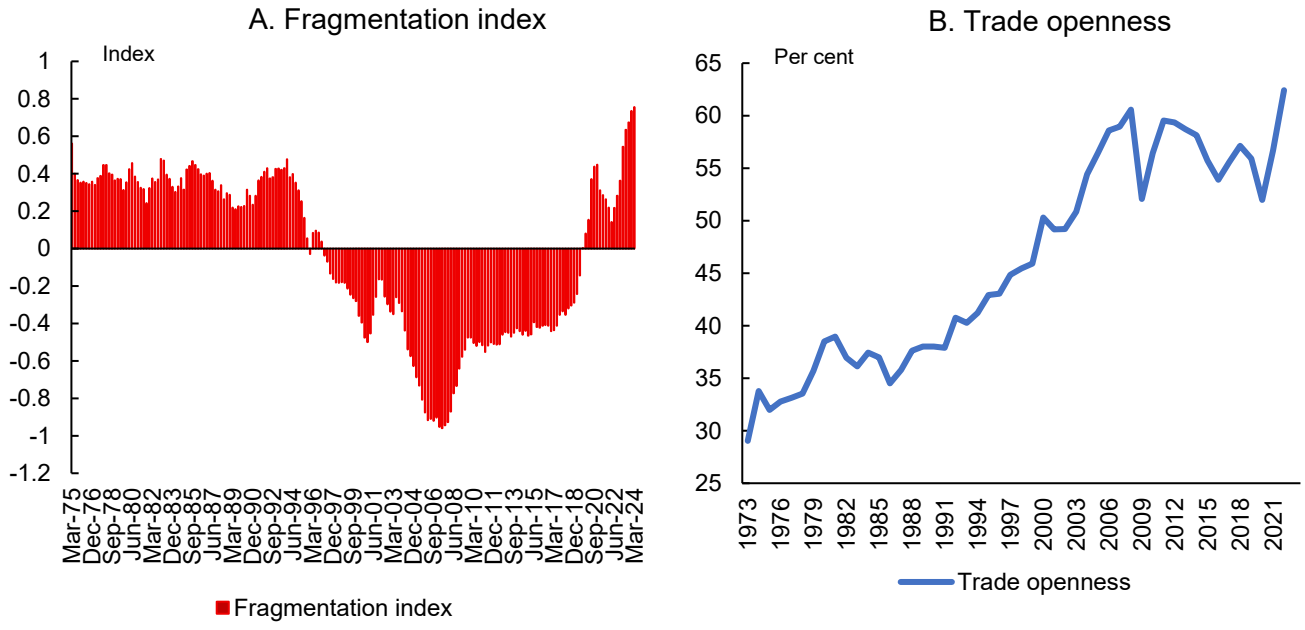
1. Introduction

Global trends have shifted markedly in recent decades. After decades of steadily rising trade openness in the postwar era, progress has stalled amid a resurgence of trade wars and protectionism. This shift is evident in Figure 1A, which tracks a broad index of economic fragmentation since the 1970s (Fernández-Villaverde et al., 2024), and in Figure 1B, which plots the long-run path of global trade flows (imports plus exports) relative to world GDP. Both figures point to a turning point around the global financial crisis: trade openness levels off while fragmentation continues to climb, before accelerating sharply during the pandemic and Russia's invasion of Ukraine. The geopolitical forces behind these developments are likely to endure. New trade paradigms such as friendshoring and the fragmentation of trade into blocs of geopolitically aligned countries are becoming increasingly normalised (Yellen, 2022). Rising geopolitical and trade tensions have also heightened concerns about geoeconomic fragmentation, defined as a policy-driven reversal of economic and financial integration, often motivated by strategic considerations (Aiyar et al., 2023).

Figure 1: Geoeconomic fragmentation and globalisation trends

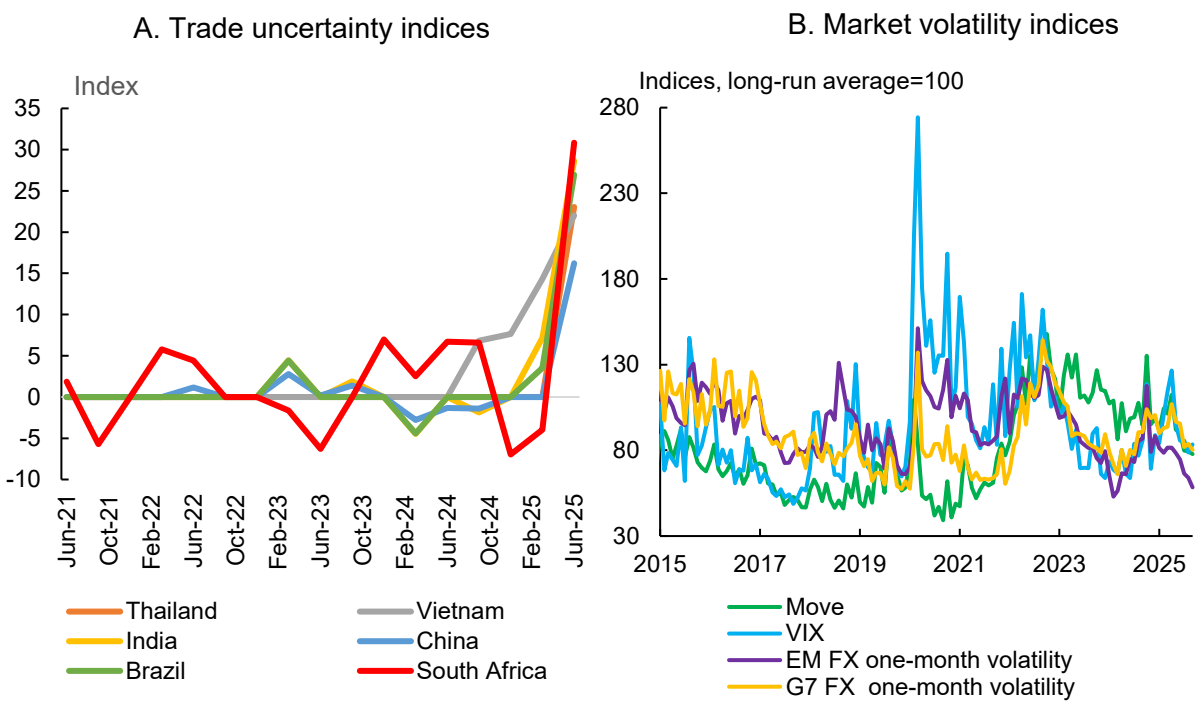


Source: Fernández-Villaverde and Mineyama (2024) and World Bank

Trade uncertainty, driven by elevated tariffs, shifting global alliances, and intensifying geopolitical tensions, has become a persistent driver of volatility in global financial markets. This affects financial stability through multiple transmission mechanisms, including exchange rate fluctuations, capital flow reversals, and shifts in investor sentiment. Globally, asset markets have since staged a notable recovery since the 2nd of April 2025 tariff

announcement initially triggered a broad-based sell-off. This rebound has been accompanied by a net decline in volatility across major asset classes (Figure 2B), contrasting with the sustained elevation in trade uncertainty indices (Figure 2A), macroeconomic, and geopolitical risk indicators. For South Africa, a small open economy with deep exposure to global trade and capital flows, these dynamics manifest in heightened currency volatility, increased risk premia, and portfolio outflows. Domestic financial institutions, particularly those with foreign currency liabilities or concentrated exposure to export-oriented sectors, are especially vulnerable.

Figure 2: World trade uncertainty indices and market volatility



Source: Census Bureau/Haver

Prolonged trade disruptions and subdued global demand can impair the creditworthiness of firms in trade-dependent industries, leading to rising non-performing loans and weakening bank balance sheets. Liquidity risks may also intensify if global risk aversion tightens funding conditions or reduces access to offshore markets. These pressures could constrain the effectiveness of monetary and macroprudential policy tools, particularly in the context of limited fiscal space and elevated sovereign debt among emerging and developing economies (EMDEs).[2]

[2] https://www.imf.org/en/Publications/GFSR/Issues/2025/10/14/global-financial-stability-report-october-2025.

Geopolitical fragmentation further complicates the financial stability landscape. The proliferation of bilateral trade agreements and the weakening of multilateral institutions are reshaping global trade and investment flows. This fragmentation can lead to abrupt shifts in asset valuations, especially in equity and bond markets, exposing South African pension funds, insurers, and asset managers to valuation losses and increased portfolio volatility. In a globally interconnected financial system, contagion risks are amplified, with shocks in major economies quickly transmitting to emerging markets through financial channels and investor sentiment.

A particularly concerning trend is the weaponisation of finance, notably by the US. The freezing of Russian reserves and exclusion from SWIFT following the Ukraine invasion marked a turning point in the use of financial infrastructure as a geopolitical tool. These actions signal that access to global financial networks may increasingly depend on geopolitical alignment. In response, countries such as China and Russia have accelerated the development of alternative payment systems, CIPS and SPFS respectively, while regional digital currency initiatives are gaining traction. The UK is exploring a domestic alternative to Visa and Mastercard as part of efforts to reduce exposure to the potential weaponisation of US-controlled payment infrastructure[3].

This fragmentation of global payment systems could result in parallel financial architectures, increasing operational complexity, reducing transparency, and undermining cross-border regulatory coordination. For South African financial institutions, adapting to this evolving landscape may require costly system upgrades, new compliance frameworks, and enhanced risk monitoring.

Operational risks are also intensifying in this fragmented environment. The rise in geopolitical tensions has coincided with a surge in cyber threats targeting financial infrastructure. Trade fragmentation often leads to digital decoupling, where countries adopt divergent technological standards and cybersecurity protocols. For South Africa, this raises the risk of exposure to cyberattacks, particularly in cross-border payment systems and digital banking platforms. The IMF's technical assessments have highlighted the need for enhanced cyber resilience, especially among systemically important financial institutions.

Moreover, the accelerated adoption of artificial intelligence (AI) in financial services, while offering efficiency gains, introduces new vulnerabilities. AI systems trained on biased or incomplete data may amplify systemic risks, while opaque decision-making

[3] https://www.theguardian.com/business/2026/feb/16/uk-bank-bosses-plan-visa-mastercard-alternative

processes can hinder effective risk management and regulatory oversight. In a fragmented global environment, the absence of harmonised AI governance frameworks may further complicate cross-border financial operations and supervisory coordination. For South Africa, where digital transformation is advancing rapidly but regulatory capacity remains stretched, these risks warrant close attention.

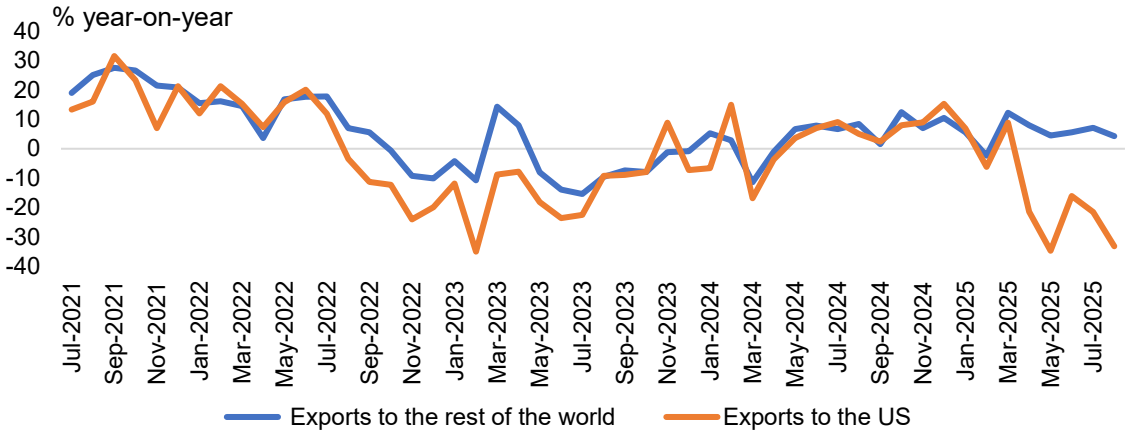
In sum, the convergence of trade uncertainty, geopolitical fragmentation, and emerging operational risks presents a complex and evolving challenge to financial stability in South Africa. While these dynamics are often discussed in macroeconomic terms, such as their effects on growth, inflation, and trade balances, their implications for financial stability are distinct yet deeply interconnected. It is important to recognise that although financial stability risks may arise from different channels than those affecting macroeconomic performance, in practice, the separation between the two is not always clear-cut. Shocks in one domain frequently amplify vulnerabilities in others, underscoring the need for integrated policy responses and robust institutional frameworks.

2. Geopolitical fragmentation in its global context

Systemic risk has increased due to heightened policy uncertainty, trade conflicts, and geopolitical tensions. These factors have contributed to market volatility and capital outflows, posing challenges to emerging markets' financial system resilience. Trade uncertainty, driven by elevated tariffs, shifting alliances, and fragmented supply chains, has become a persistent source of global instability. The UNCTAD Global Trade Update[4] (2025) notes that sudden shifts in trade policy, especially by major economies like the US, could disrupt global supply chains and unsettle financial markets. Chinese exports have however structurally shifted away from the US to the rest of the world (Figure 3), reorganising supply chains and cost structures, which could disproportionately affect lower income countries and small firms.

[4] https://unctad.org/system/files/official-document/ditcinf2025d7_en.pdf

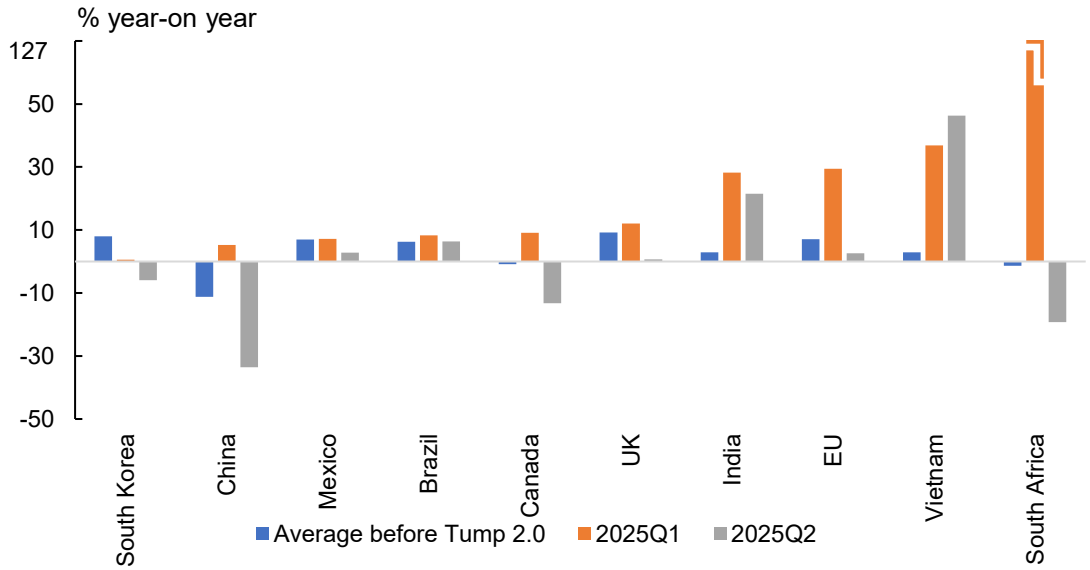
Figure 3: Chinese exports



Source: Census Bureau/Haver

The first half of 2025 witnessed a pronounced front-loading of US exports by a number of countries, driven by anticipatory behaviour in response to escalating tariff tensions and geopolitical uncertainty (**Figure 4**)**.** US imports from China have declined, while countries such as Vietnam, India, and Brazil have gained market share. This trade rerouting reflects both substitution effects and the reconfiguration of supply chains, as firms seek to mitigate exposure to tariff costs. The shift is not merely transactional, it signals a deeper realignment of global production networks, with long-term implications for efficiency, cost structures, and geopolitical influence. SA also experienced significant front loading of exports to the US in H1 2025. Part of this ramp up in exports to the US began earlier than 'Liberation Day' tariff announcements.

Figure 4: US imports by country



Source: Census Bureau/Haver

Simultaneously, the rise in non-US bilateral trade agreements underscores the growing regionalisation of trade. Countries are increasingly pursuing strategic partnerships outside the traditional multilateral frameworks. Agreements such as the UAE–Malaysia Comprehensive Economic Partnership (CEPA)[5] and the China–Russia investment pact[6] illustrate how nations are responding to fragmentation by diversifying trade relationships and strengthening regional blocs. These developments suggest a move away from globalisation towards a more multipolar trade environment, where economic alliances are shaped by political alignment and strategic interests. Together, these trends point to a more fragmented and complex global trade landscape, with implications for growth, inflation, and financial stability.

2.1. Geopolitical fragmentation and financial system integrity

Geopolitical fragmentation is increasingly reshaping the global financial architecture, with profound implications for systemic stability and policy effectiveness.[7] According to the World Economic Forum's *January 2025 Insights Report*,[8] cross-border bank credit surpassed $40 trillion in 2024, while cross-border payments exceeded $190 trillion in 2023, underscoring the scale of global financial interdependence. Yet, fault lines are emerging as states intensify the use of economic statecraft,[9] leveraging financial infrastructure such as payment systems, reserve currencies, and regulatory standards to advance strategic interests. This poses a threat to the integrity of the financial system and could induce costs both at a macroeconomic level as well as for financial institutions.

These dynamics are not merely abstract; they have direct operational consequences for financial institutions. Banks and insurers with exposure to export-oriented sectors are facing elevated credit risks amid weakening global demand and trade fragmentation. While financial conditions are currently easier, there is a growing risk that they could tighten, particularly if geopolitical tensions escalate or investor sentiment deteriorates. This would likely amplify liquidity risks, particularly by constraining access to offshore capital markets and increasing the cost of funding. In such a scenario, the effectiveness of monetary and

5 The CEPA reflects a regionalisation trend where middle powers like the UAE and Malaysia pursue strategic bilateral agreements to hedge against global trade fragmentation.

6 This is a regionalisation model based on strategic bilateralism, where economic cooperation is tightly linked to political alignment. It contributes to the emergence of parallel trade and investment systems, challenging traditional multilateral frameworks and reinforcing multipolarity in global governance.

7 Geopolitics and Fragmentation Emerge as Serious Financial Stability Threats.

8 https://reports.weforum.org/docs/WEF_Navigating_Global_Financial_System_Fragmentation_2025.pdf.

9 Economic statecraft refers to the strategic use of economic tools by states to achieve geopolitical, foreign policy, and national security objectives.

macroprudential policy tools may be undermined, especially in jurisdictions with limited fiscal space and elevated sovereign debt burdens.

For South Africa and other emerging markets, the implications are particularly pronounced. Geoeconomic fragmentation introduces valuation volatility, reduces market liquidity, and worsen sovereign and institutional credit-rating risks. The proliferation of bilateral trade agreements, often driven by strategic rather than economic considerations, and the weakening of multilateral institutions further complicate the risk landscape. Financial institutions with international exposure are increasingly required to navigate an increasingly fragmented and volatile global landscape. This demands more sophisticated risk management frameworks and greater agility in policy responses to remain resilient amid shifting geopolitical and economic dynamics.

2.2. Weaponisation of finance and payment system fragmentation

Following Russia's invasion of Ukraine in 2022, the freezing of approximately $280 billion[10] in Russian foreign exchange reserves, alongside its exclusion from the SWIFT international payment system, marked a watershed moment in the use of financial infrastructure as a geopolitical instrument. These actions demonstrated how access to core components of the global financial system can be conditioned by geopolitical alignment, fundamentally altering the perceived neutrality of international financial networks. This shift has prompted some countries to reconsider their reserve strategies, explore alternative payment systems, and diversify away from the dollar.

The weaponisation of finance, while effective in the short term, may accelerate long-term fragmentation of the global financial system and erode trust in the dollar's role as a neutral reserve currency.[11] In response to the growing weaponisation of global finance, several countries, including China, Russia, India, and Iran, have accelerated the development of alternative payment systems such as CIPS (Cross-Border Interbank Payment System) and SPFS (System for Transfer of Financial Messages). These initiatives aim to reduce reliance on Western-dominated infrastructure like SWIFT, thereby contributing to the fragmentation of global payment networks and undermining the interoperability that has traditionally supported international financial flows.

While these efforts may enhance long-term resilience and reduce vulnerability to external shocks, they also introduce short- to medium-term risks. The transition to a

[10] https://www.brookings.edu/articles/what-is-the-status-of-russias-frozen-sovereign-assets/

[11] https://www.statestreet.com/web/insights/articles/documents/weaponization-of-global-finance-mean-for-us-dollar-dominance.pdf

fragmented financial system presents operational complexities for South African banks and financial institutions. Navigating multiple payment networks and regulatory regimes requires significant investment in infrastructure, legal compliance, and cybersecurity. Ensuring interoperability with both emerging and established systems is critical but resource-intensive. Moreover, exposure to sanctions risk, particularly in transactions involving sanctioned jurisdictions, entities or individuals, adds another layer of complexity.

2.3. Operational Risks: Cybersecurity and artificial intelligence

Operational risks are also intensifying. The rise in geopolitical tensions has coincided with a surge in cyber threats targeting financial infrastructure. In South Africa, banks and other financial institutions are increasingly vulnerable to ransomware, phishing, and data breaches. The IMF[12] (2022) highlights that while systemically important financial institutions (SIFIs) have made substantial investments in cyber resilience, the threat landscape continues to evolve rapidly. South Africa's reliance on third-party service providers, many of which are global entities, introduces systemic vulnerabilities that could be geopolitically exploited, particularly in scenarios involving state-sponsored cyber threats.

Artificial intelligence (AI), while offering efficiency gains in fraud detection and risk modelling, introduces new vulnerabilities. AI systems trained on biased or unsecured data can amplify systemic risks and hinder regulatory oversight. In South Africa, where cybersecurity skills are in short supply, the integration of AI into financial services must be accompanied by robust governance and regulatory frameworks. Oluwatoyin et al. (2024) identity theft, malware, and phishing among the top threats hindering digital banking adoption in South Africa.

3. Related literature

An increasing number of studies have examined various aspects of geoeconomic trade fragmentation and policy-driven de-globalization. Firstly, one strand of this literature documents early evidence of trade being increasingly fragmented along geopolitical lines. For example, Gopinath et al. (2024), Fernández-Villaverde et al. (2024), Bonadio et al. (2024) and Conteduca et al. (2025) provide evidence for first signs of geoeconomic fragmentation at the level of global trade flows. In relation to US-Chinese trade relations, Alfaro and Chor (2023) and Freund et al. (2024) show a decline in Chinese exports to the US between 2017 and 2022, but an increase in indirect linkages through trade partners such as Mexico, which serve as a connector between the two economies. Building on these insights, Aiyar and Ohnsorge (2024)

[12] https://www.elibrary.imf.org/view/journals/002/2022/181/article-A001-en.xml

construct an index of geoeconomic connectedness at the country level, formalizing the idea of connector countries.

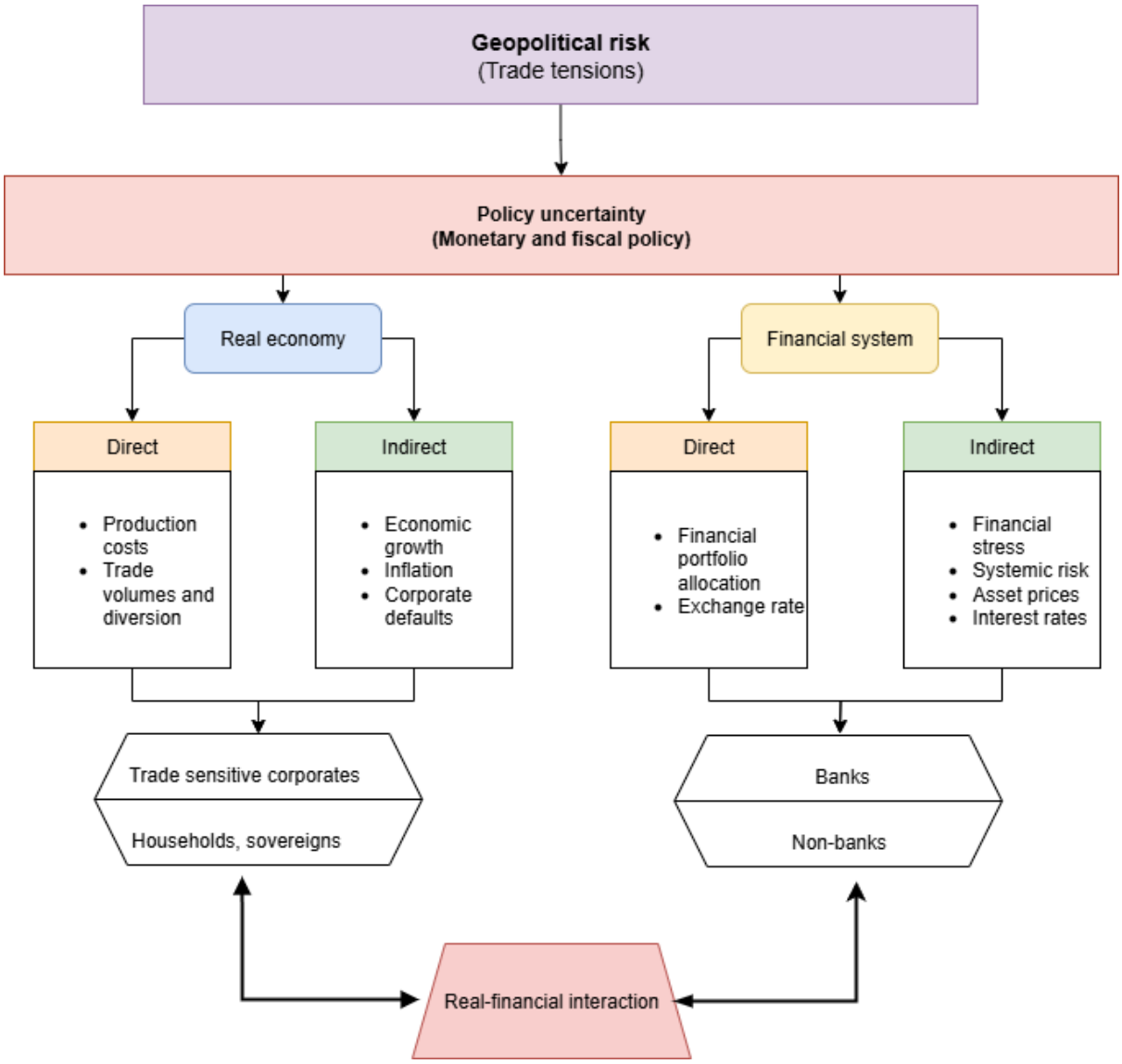
Secondly, another strand of the literature is that of the use of quantitative trade models to assess the economic costs of fragmentation. Several studies show that policy-driven reversals of global economic integration could lead to substantial welfare losses. Among others, Aiyar et al. (2023), Attinasi et al. (2025), Bolhuis et al. (2023), Cerdeiro et al. (2021), Clayton et al. (2023), Hakobyan et al. (2023), and Javorcik et al. (2024) quantify the economic costs of geoeconomic trade fragmentation.

Finally, the last strand of literature is that of the macro-financial impact of trade policy uncertainty and how it exacerbates geoeconomic fragmentation, especially in emerging economies. Relatively less explored in the academic literature, the consequences of geopolitical fragmentation for international capital reallocation and the associated macro-financial risks are the focus in Catalan and Tsuruga (2023). Looking at firm-level evidence, D'Orazio et al. (2024) find that firms with greater exposure to geopolitical risk experience an increased probability of default, reduced market valuations, and higher financing costs. Ortiz and Rodrigo (2025) combine indicators of trade policy uncertainty, geopolitical risk, and financial markets and find that these factors significantly affect sovereign credit risk and financial stability, especially in emerging markets. Kyriazis (2021) shows that higher trade policy uncertainty increases financial market volatility and affects asset prices. Taken together, this emerging literature highlights the importance of macro-financial channels through which trade policy uncertainty may amplify the economic consequences of geoeconomic fragmentation.

4. Transmission channels to the domestic financial system

This section outlines the transmission mechanisms through which geopolitical risk, particularly trade tensions, can affect financial stability in South Africa. Geopolitical fragmentation introduces elevated policy uncertainty, which influences both the real economy and the financial system through a combination of direct and indirect channels. On the real economy side, trade tensions can raise production costs, disrupt trade volumes, and trigger diversion effects, ultimately impacting macroeconomic indicators such as growth, inflation, and corporate solvency.

Figure 5: Channels through which trade tensions impact financial stability



Source: Authors' formulation

In parallel, the financial system absorbs these shocks through shifts in portfolio allocations, exchange rate volatility, and broader market repricing, leading to increased financial stress, systemic risk, and asset price fluctuations. Together, these dynamics underscore the interconnectedness of the real and financial sectors and highlight the importance of monitoring trade-related vulnerabilities within macroprudential frameworks.

5. Macro-financial impact of trade policy uncertainty in South Africa

The rise in trade policy uncertainty could have an adverse impact on both the financial system and the real economy. Heightened uncertainty may lead to abrupt shifts in sentiment which would increase the volatility of asset and commodity prices and widen risk premia, tightening financial conditions. It may also increase exchange rate volatility, affecting portfolio investment decisions and capital flows. This analysis employs the trade policy uncertainty index developed by Caldara et al. (2020), which relies on newspaper coverage to count the number of occurrences of terms related to trade policy and uncertainty. The indicator can be driven by market sentiment or changes in expectations relating to restrictive trade policies rather than policies that have been implemented. To analyse the impact of trade uncertainty, consider a simple structural vector autoregressive (SVAR) model,

$$A_0 y_t = c + \sum_{i=1}^{p} A_i \, y_{t-i} + \varepsilon_t$$

where $y_t = \begin{bmatrix} tpu_t \\ beti_t \\ yield_t \\ rer_t \\ bond\_flows_t \\ fci_t \end{bmatrix}$

where tpu_t is trade policy uncertainty, and $beti_t$ is the Bankserv Economic Transaction Index (a proxy for real economic activity), $yield_t$ represents the 10-year yield for government bonds, rer_t represents the real effective exchange rate, $bond\_flows_t$ captures the net purchase of government bonds by non-residents on the Johannesburg stock exchange (JSE) and fci_t represents the financial conditions index.

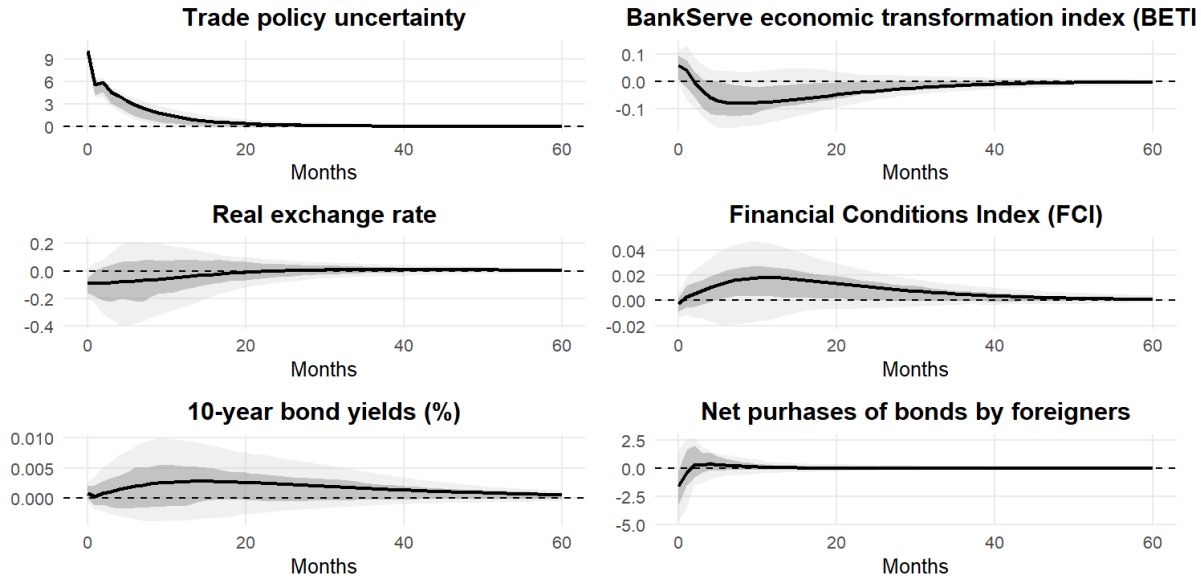
The dataset spans monthly observations from January 2003 to July 2025. All variables, except for bond flows and yields, are expressed as logged year-on-year percentage changes. The lag order p is selected using the Akaike Information Criterion (AIC) and set to 2. The error term ε_t is a 6 × 1 vector of structural shocks that are uncorrelated with each other. To identify the structural form, restrictions are imposed on the contemporaneous impact matrix A_0. The model can also be expressed in its reduced form for estimation purposes as follows,

$$y_t = a + \sum_{i=1}^{p} B_i \, y_{t-i} + e_t$$

where $a = {A_0}^{-1} c$, $B_i = {A_0}^{-1} A_i$ for $i = 1,2, \dots, p$, and $e_t = A_0^{-1} \varepsilon_t$ represents a recursive structure

that the reduced form e_t are linear combinations of the structural errors ε_t. A recursive identification scheme (Cholesky decomposition) is employed to isolate these shocks. Trade policy uncertainty is ordered first, reflecting its exogenous nature in the short run, while the financial conditions index is ordered last, assuming it responds contemporaneously to all other variables. To test the robustness of this identification strategy, the model is re-estimated using alternative variable orderings.

Figure 6: Impulse responses for trade policy uncertainty shocks: Cholesky decomposition.



Note: The impulse responses are percentage responses to a 10% trade policy uncertainty shock on impact, the darker shaded confidence bands are 68% and the lighter confidence bands are 95%.

Source: Authors' calculations

Empirical results suggest that, at a 68% confidence interval, an approximately 10% to trade policy uncertainty leads to an initial increase of 0.06% in economic activity and declining afterwards to 0.08% after eight months (Figure 6). The initial increase might be due to pre-emptive behaviour by firms (front-loading) in response to news about trade tariffs or restrictions. Government bond yields rise by 0.003% after about 15 months, and the real effective exchange rate depreciates by approximately 0.08% on impact before returning to equilibrium at about 20 months. Foreign purchases of government bonds decline by 1.6% on impact and return to equilibrium almost immediately, and financial conditions tighten almost

immediately and reach 0.018% at about 12 months. As robustness checks, generalised impulse responses are included and are quantitatively similar to impulses from the Cholesky decomposition **(Figure A1 in the Appendix).** Another robustness check is replacing the real effective exchange rate with its nominal version and including stock prices instead of the financial conditions index. The nominal exchange rate, just like the real exchange rate, also depreciates due to sticky prices while stock prices are depressed, which will tighten financial conditions especially for firms **(Figure A2 in the Appendix)**. **These responses are broadly consistent with theoretical expectations, although the magnitudes are relatively modest to say the least.**

These findings suggest that trade policy uncertainty can transmit through multiple channels, real activity, asset prices, capital flows, and financial conditions, potentially amplifying systemic risk. Although the estimated effects are small in magnitude, persistent or repeated shocks could cumulatively weaken investor sentiment, reduce risk appetite, and tighten financial conditions, particularly in an environment of already elevated macroeconomic vulnerabilities. The observed depreciation of the exchange rate and rise in bond yields may also increase refinancing risks for sovereign and corporate borrowers, while declining foreign bond flows could exacerbate funding pressures. These dynamics underscore the importance of maintaining credible and predictable trade and macroeconomic policy frameworks to mitigate uncertainty-induced financial stress.

6. Policy implications and strategic responses

Trade uncertainty and geopolitical fragmentation have emerged as significant sources of systemic risk for South Africa's financial system. The country's reliance on preferential trade arrangements, particularly with the US, exposes it to abrupt shifts in tariffs and market access, which can undermine export revenues, foreign direct investment, and employment in key sectors. The IMF[13] (2025) highlights that heightened trade uncertainty can trigger asset price corrections, raise sovereign risk premiums, and tighten financial conditions, particularly in emerging markets. The SVAR analysis confirms that shocks to trade policy uncertainty can tighten financial conditions and reduce economic activity. These effects, though modest in isolation, may compound existing macroeconomic vulnerabilities, especially in the context of high unemployment, fiscal constraints, and external financing needs. Such shocks can impair the creditworthiness of firms in trade-dependent sectors, increasing non-performing loans and weaken bank balance sheets.

Geopolitical fragmentation further complicates the financial stability landscape by disrupting cross-border capital flows, fragmenting payment systems, and increasing operational risks. The BIS[14] warns that the proliferation of alternative payment systems and the growing footprint of non-bank financial institutions (NBFIs) have heightened liquidity risks and reduced transparency in global financial markets. For South African financial institutions, adapting to this evolving architecture may require costly system upgrades, enhanced compliance frameworks, and more robust cyber resilience. The OECD[15] notes that geopolitical risk can erode bank capitalisation and increase sovereign-bank nexus vulnerabilities, particularly in countries with elevated public debt and limited fiscal buffers. These dynamics underscore the need for integrated macroprudential and microprudential oversight to manage systemic exposures.

In response, South Africa must adopt a multi-pronged policy strategy to enhance resilience. First, trade diversification, especially through regional integration under the African Continental Free Trade Area (AfCFTA), can reduce dependence on geopolitically sensitive markets and foster more stable export revenues. Second, macroprudential frameworks should be strengthened to monitor cross-border exposures, stress test geopolitical scenarios, and build countercyclical buffers. Third, regulatory authorities must prepare for payment system

[13] https://www.imf.org/en/Publications/GFSR/Issues/2025/04/22/global-financial-stability-report-april-2025
[14] https://www.bis.org/publ/arpdf/ar2025e1.htm
[15] https://www.oecd.org/en/publications/global-debt-report-2025_8ee42b13-en.html

fragmentation by ensuring interoperability with emerging platforms and safeguarding access to global financial networks.

7. Conclusion

The convergence of trade uncertainty, geopolitical fragmentation, and emerging operational risks presents a complex and evolving challenge to financial stability in South Africa. These risks operate through multiple transmission channels - macroeconomic, financial, and institutional - and are amplified by domestic structural weaknesses. A proactive and coordinated policy response is essential to safeguard financial stability and ensure sustainable development in an increasingly multipolar global environment. Strengthening institutional capacity, enhancing regional cooperation, and investing in digital and financial infrastructure will be critical to navigating this new landscape.

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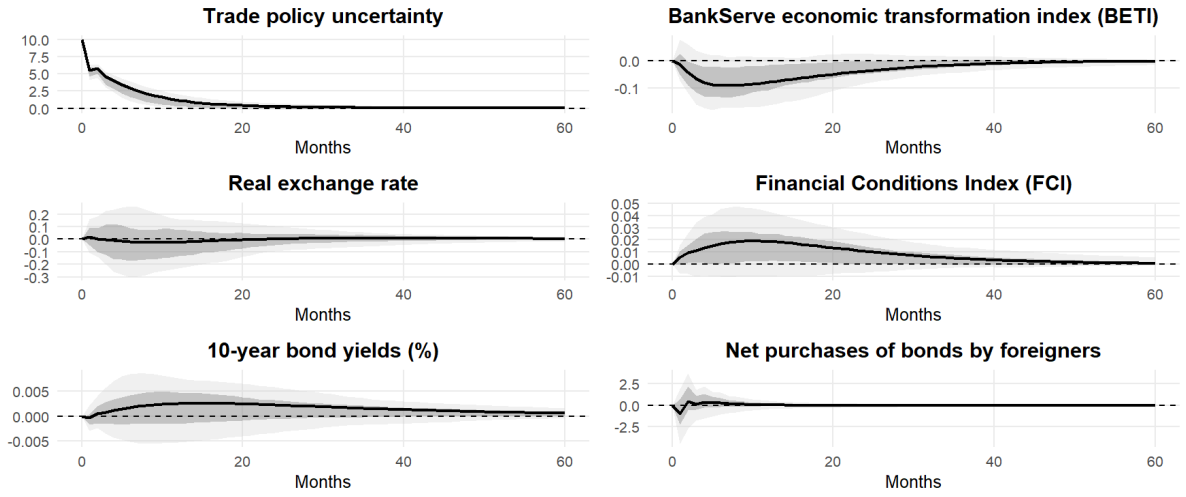
Appendix

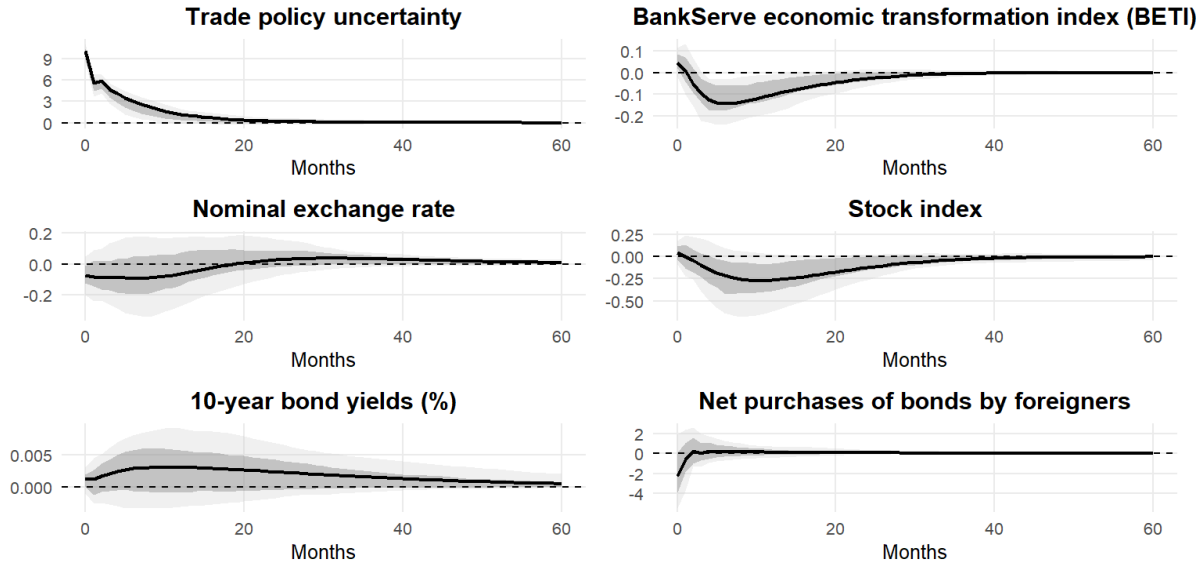
Figure A1: Impulse responses for trade policy uncertainty shocks: Generalised impulse responses.



Note: The impulse responses are percentage responses to a 10% trade policy uncertainty shock on impact, the darker shaded confidence bands are 68% and the lighter confidence bands are 95%.

Source: Authors' calculations

Figure A2: Impulse response for trade policy uncertainty shocks: with nominal exchange rate and stock prices.



Note: The impulse responses are % responses to a 10% trade policy uncertainty shock on impact, the darker shaded confidence bands are 68% and the lighter confidence bands are 95%.

Source: Authors' calculations