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South Africa's attempts to maintain its economic momentum as the United States of America goes to war with Iran

At the beginning of 2025, the global community was apprehensive, expecting upheaval to emanate from the United States of America ('United States', or 'US' or 'USA') based on the election promises made by President Trump's administration. It came quickly, in February 2025, when the USA administration announced their first round of tariffs on both allied and non-allied countries, exceeding predictions of political and economic turbulence across the globe. The announcement of subsequent Liberation Day tariffs in April 2025 injected much frustration and uncertainty into international relations at both the political and economic level, not least because of the irrational tariff formula, which risked the destabilisation of an increasingly fragile world order. Over the short-term, asset prices declined and country representatives scrambled to achieve an audience with the White House in efforts to negotiate more favourable trade terms with the USA.

For decades, societies in the western world developed deeply entrenched dependencies on USA goods and services, ranging from consumer goods and defence systems and equipment, to technology, financial systems and entertainment. This embeddedness rendered western partners particularly tied but also exposed to (shifts in) the norms, values and ideals espoused by the USA. Based on shared values and beliefs, the impact of this arrangement has remained benign, relatively constant and mutually beneficial in a rules-based geopolitical order following World War II.

The imposition of tariffs by the Trump administration on its allies, however, signalled the USA's departure from a values-based system, making the perils of the entrenched power imbalance unmistakably apparent. Erstwhile allies have been forced to now focus on ways to reduce the threats posed by the concentration of power held by the USA. In world politics, it has led to a rethink of global alliances. On an economic level, global supply chains and trade partners are being reassessed, all while attempting to appear neutral or allied to the current administration of the USA. Actions or stances perceived as non-conciliatory may invite potentially costly retaliation.

The result of tariff and other trade negotiations with the USA during the first half of 2025 came into effect in August 2025. Less severe than the near-prohibitive tariff schedule proposed in April 2025, some much-needed tariff certainty supported a growth-oriented second half of the year for the global economy, Africa and South Africa.

This is despite South Africa's inability to negotiate a reduction in the country's Liberation Day tariff. The Liberation Day tariff imposed on South Africa remains the highest in Africa at 30%, along with Libya and Algeria, while much of the rest of Africa face rates of half of this amount, if any. These tariffs, including the so-called punitive and reciprocal tariffs, were declared invalid by the US Supreme Court in February 2026 in a ruling that was globally welcomed, although triggering a new bout of global trade uncertainty.

Liberation Day tariff imposed on South Africa remains the highest in Africa at **30%**

Notwithstanding these uncertainties, South Africa was able to make progress with respect to its economic performance and global standing through some much-needed strategic interventions.

Formal interventions to address weaknesses in its mechanisms of oversight over money laundering and terrorism financing resulted in South Africa's delisting from the Financial Action Task Force's (FATF) grey list. Being removed from the FATF grey list reduces the compliance requirements for financial transaction interactions with South African entities.

While the delisting from the FATF grey list allows for a greater variety of access to South African securities, the reduction in compliance costs is expected to contribute to the growth in volume and value of transactions and therefore benefit South African trade and ultimately growth.

The encouraging statements made in November 2025 by the Minister of Finance in the medium-term budget policy statement served as a further tailwind to the South African economy. The Minister of Finance reiterated the government's commitment to fiscal consolidation and announced the reduction of the national inflation target to 3%, within a narrowed target range of 2% to 4%. Fiscal consolidation reinforces trust in the fiscal integrity of the country in an era of widely reported misuse of public funds, and entails the commitment that tax revenues will be directed towards service delivery and growth initiatives. Lowering the inflation target offers multiple, significant benefits for the country; broad macroeconomic benefits include a stronger exchange rate and lower interest rates. Lower inflation benefits growth through stimulating domestic savings and investment. It also improves the competitiveness of South African production and yields fiscal benefits in the form of reducing debt services costs, which would free up fiscal resources. Lower inflation also contributes to domestic distributional equality through less erosion of incomes and asset values for its citizens and preserving purchasing power of all South Africans.

The above-mentioned initiatives contributed to an upgrade of South Africa's sovereign credit risk rating towards the end of 2025. In addition, the Rand appreciated by 18% against the US dollar over the course of 2025. These improvements, coupled with the continued resilience of the South African economy over the year, resulted in real economic growth rate of 1.1% for 2025. Although a notable improvement over the decade-long average real growth of 0.8%, significantly faster growth would be required to meet South Africa's social and development objectives.

As 2026 began, the general sentiment was to continue with initiatives that would help South Africa maintain the momentum achieved by the successes from 2025, if the global economic and political climate remained supportive. The view was that this upward momentum would slowly begin to positively impact the high unemployment and poverty levels in South Africa. Inflation had continued to slow and would have allowed central banks to further reduce interest rates into 2026, with South Africa predicted to have undergone at least two 25 basis point reductions resulting in a repo rate of 6.25% and prime rate of 9.75% by the end of the 2026 year. Lower interest rates would mean greater demand for credit from both consumers and businesses, which would raise consumption and investment spending and ultimately lead to higher levels of economic growth globally. The same would be true for South Africa.

However, these projections were never put to the test. On the last day of February 2026, the USA and Israel commenced a strategic offensive on Iran in the hope to overthrow the oppressive ruling theocracy and facilitate regime change towards a more moderate, modern and US-friendly government. The flawed expectation was for a swift decapitation of the regime through targeted strikes aimed at removing high-ranking Iranian leaders followed by a mass uprising of the people of Iran to take control of their country, with little collateral damage to civilian lives or upheaval of the global economy. Within the first weeks of the war, it became clear that Iran had long prepared for similar offensive actions and created a decentralised leadership structure that allowed the regime to retain power and maintain military action even if the executive leadership was disabled or inoperative. The preparedness demonstrated by the Iranian government made it clear that a drawn-out conflict was expected, irrespective of the scope and intensity of the US-Israeli offensive action.

There was an immediate negative impact on the global economy, given the importance of the region in global energy markets, with around 20% of all global oil moving through the Strait of Hormuz along with other key elements used in the production of fertilisers as well as other important commodities, like helium. The Iranians also demonstrated that it can easily and relatively cost-effectively extend its target area into both neighbouring gulf states as well as to ships moving in the Persian Gulf by using its arsenal of inexpensive drones. The threat of such actions resulted in most insurers cancelling war cover on vessels moving through the Strait of Hormuz or, in some rare exceptions, greatly increasing the premiums on such insurance. The prices of these commodities, and most noticeably fossil fuels, spiked immediately, as did the consequent fears of the potential inflationary impacts thereof on economic growth. In general, the inflationary impacts would be amplified through the depreciation of most currencies with respect to the US dollar, as capital fled back to perceived safe haven assets.

In the weeks that passed since the February 2026 attack on Iran, it became clear that the conflagration would not be short-term in nature. The inflationary impacts have started to seep into the economic system. Fuel and energy prices remain elevated, resulting in step-change increases in inflation data, while second-round effects from increases in production costs must still materialise. Growth forecasts have been lowered on the expectation that higher inflation will lead to higher interest rates, which would restrict borrowing by consumers and businesses and dampen aggregate demand.

The US economy has not been immune to these economic stresses and the rising cost pressures ('affordability crisis') have contributed to the USA considering a negotiated end to the war without achieving their initial objectives of facilitating regime change or the confiscation of Iran's enriched uranium stores. The affordability pressures, preparations for the mid-term elections currently underway and the growing public unpopularity of the war have also meant that the USA is attempting to negotiate the end to the war from a far weaker position, leading to a delay of around two months as the initial ceasefire framework was formalised into a 14-point memorandum of understanding (MOU) accompanied by ongoing US threats of continued strikes on the Iranian infrastructure and people.

It appears to most economic commentators that the war, along with elevated prices for those goods originating from the Persian Gulf, will only come to a negotiated end if the US concedes to Iranian demands, leaving the area potentially more unstable and volatile, albeit strategically emboldened, than it was prior to the onset of the war. This greater uncertainty will filter through global markets resulting in a permanently elevated geopolitical risk landscape.

Financial services firms and insurers face the prospect of continued headwinds in the economic and business environment in 2026 and beyond. The rapidly rising inflationary environment signals potential further increases in interest rates with an erosive effect on economic growth. Cost pressures on the economy will likely drive higher lapse rates on policies, as revenue and earnings are impacted by the slowing economy, the downsizing of firms and losses in income if unemployment rises. This would also place upward pressure on insurance premiums paid by businesses and individuals to cover the potential risks, adding costs and further reducing the ability of South African insurers to remain competitive. These stresses would likely be transferred to the reinsurance market, impacting both the pricing of risks and potentially also coverage, as evidenced by the cancellation of war insurance for marine vessels travelling through the Strait of Hormuz. Indirect negative impacts may come from the broad economic slowdown as well as asset/liability revaluations as exchange rates and interest rates respond to the changing environment.

Given the South African government's close ties with Teheran, Beijing and Moscow, an additional risk for the South African insurance market, and business environment generally, could be reduced access to financial technologies that underpin and support the infrastructure of South African insurers.

The country's perceived incongruent political and economic stance to that of the USA may prove costly in this regard. Insurers must assess their reliance on specific technologies and global financial systems, develop contingency plans and adapt their operations to mitigate potential disruptions stemming from geopolitical alignments.

There is still much uncertainty around when and on which terms the war will end, how the subsequent recovery of global energy markets will play out and the specificities of the long-term economic implications. Hopefully the war will end sooner rather than later and result in less severe consequences, allowing South Africa to focus on a continuation of its economic recovery, which began with the positive steps taken over the last quarter of 2025.

Considering the complex global challenges, especially the economic shifts and geopolitical tensions, insurers face a critical need to adapt and reaffirm their core values to maintain relevance with consumers, regulators and the wider community. Insurers are encouraged to focus on their foundational values of security, trust and community support. This means clearly communicating how their products and services provide stability in uncertain times and reinforcing their role as essential safety nets.

In addition, with rising inflation, increased interest rates and the prospect of higher premiums, consumers will be more sensitive to costs. Insurers are encouraged to develop innovative products and pricing models that remain accessible and affordable, especially for those facing economic strain due to downsizing of firms and losses in income. This could involve offering more flexible payment options, tiered coverage or plans that adapt to changing economic circumstances.

Insurers must actively engage with regulators, demonstrating their commitment to robust governance, transparency and consumer protection. This proactive approach can help shape more favourable regulatory environments.

By focusing on these areas, insurers can navigate the current turbulence and solidify their position as indispensable partners for individuals, businesses and society at large, demonstrating their enduring relevance beyond merely financial transactions.

