SOUTH AFRICAN RESERVE BANK

Address by Lesetja Kganyago,
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Policy challenges of the new global disorder

On 26 August, just over a month ago, Nepal was hit by a horrific natural disaster, something between a flash flood and an avalanche. It seems to have come from a collapsed glacier. Huge amounts of water, rock, ice and debris travelled over 70 kilometers, killing thousands of people. Many of you have probably seen pictures and videos of this catastrophe. Perhaps the worst showed a huge wave crashing through the China-Nepal border, much bigger than the buildings ahead of it, moving so fast that no one in front could escape.[1]

If you are looking for a metaphor of the global situation, this might be it.

The engineers who built hydropower dams down that valley designed them to survive 100-year floods. But the historical record did not have floods like these. Actual water levels were 20 times higher than the 100-year line.[2] The standard precautions were not enough. Spaces that should have been safe were not. Fundamentally, the environment had become much more dangerous and unpredictable than people

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[1] BBC News, 'Nepal glacier collapse causes deadly flood', 1 September 2026.
[2] National Revealed, 'Melting glaciers and monster floods threaten Nepal's big bet on hydropower', 9 September 2026.

had realised. There was a gradual buildup of danger, and then there was a catastrophe many could not escape. It was literally a crisis cascade.

There are several dimensions to this analogy and its relevance to our global situation. In this speech, I will discuss five: climate change; imbalances; technological change, chiefly artificial intelligence (AI); debt; and fiscal dominance of monetary policy.

I will start with the most direct connection, which is climate change. This event was a result of the world getting warmer. This August was the joint hottest month on record.[3] The El Niño phenomenon developing in the Pacific looks set to break records. We do not have climate change on this scale in our historical experience.

Unfortunately, some leaders do not even acknowledge the problem. This has led to a general weakening of global resolve to tackle climate change. We are almost certain to miss the target of keeping global warming below 1.5°C. Based on current behaviour we will end up 2.6°C warmer by the end of the century.[4]

From a central bank perspective, we are heading into a world with more supply shocks. We will see severe disruptions to productive activities, like agriculture, which will create bursts of inflation. And we can expect threats to financial stability and financial development as disasters produce large insurance claims and vulnerable places become too risky to cover, widening insurance gaps.

The Nepal disaster is also a relevant metaphor for less literal reasons.

Top of mind is geopolitics. This year we have had two confrontations that would have been unthinkable a few years ago. One involved American claims to Greenland, and the other is a trade war between Canada and the US – areas that have never been problems in the past.

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[3] Copernicus Climate Change Service, '[Copernicus: August was world's joint hottest month on record, pushing global temperatures back above 1.5°C]', media release, 10 September 2026.
[4] *The New York Times*, '[United Nations climate target overshoot]', 2 September 2026.

Meanwhile, pre-existing problems have become worse. We are now into the fifth year of the Russia-Ukraine war, which has seen attacks on infrastructure, such as oil refineries, ports and shipping, creating global price pressures. For example, Russia and Ukraine are major wheat producers.[5] A third of global wheat exports come through the Black Sea, and these shipments are now under attack, contributing to rapid increases in global wheat prices.[6] Similarly, crack spreads for fuels like diesel are at all-time highs, given the destruction of refineries by drones.[7]

At the same time, the conflict in the Middle East seems to be intensifying. In recent weeks oil prices have fluctuated around $100 a barrel, with few tankers getting through the Strait of Hormuz. We have also seen new attacks on Saudi oil facilities and shipping. The International Energy Agency reports that Saudi crude production hit a three-decade low in August.[8]

This shows how supply shocks are coming to dominate global macroeconomic fluctuations, with demand pressures taking a back seat.[9]

Another problem area is the return of large global imbalances.[10] For example, the French President has called China's trade surplus "unbearable".[11] We know from history that large trade imbalances are often resolved chaotically, with high adjustment costs. Sometimes these costs are mostly borne by the deficit economy, which experiences a sudden stop of capital inflows and imports. Sometimes the pain is concentrated in the surplus economy, which loses access to export markets.

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[5] Al Jazeera, 'Infographic: Russia, Ukraine and the global wheat supply', 17 February 2022.
[6] *The Economist*, 'The renewed threat to global grain supplies', 24 August 2026.
[7] Financial Times, 'Diesel premium in Europe jumps to record high', 3 September 2026.
[8] Reuters, 'Saudi oil supply hits more than three-decade low after Houthi attacks, IEA says', 11 September 2026.
[9] A D Goolsbee, 'Remarks at Official Monetary and Financial Institutions Forum Event', remarks by Austan D Goolsbee, President and Chief Executive Officer of the Federal Reserve Bank of Chicago, at the Official Monetary and Financial Institutions Forum Event, London, England, 21 September 2026.
[10] E L Kganyago, 'One crisis after another: shocks, imbalances and resilience in the global economy', address by Lesetja Kganyago, Governor of the South African Reserve Bank, at the PSG Think Big Series, Sun City, 6 May 2026
[11] *The Guardian*, 'The second China shock is coming and the UK's response is too timid', 23 December 2025.

It would be better to coordinate a global adjustment under the auspices of the International Monetary Fund – but the major players disagree on the underlying causes of imbalances, and the trust needed for effective global cooperation is in short supply.[12] Unfortunately, the rule in these cases is Herb Stein's dictum: "If something cannot go on forever, it will stop."[13] The question is what sort of stop we get.

A further major issue is the rapid development of AI. It is only about four years since ChatGPT was first released, and the modern AI era began.[14] Clearly the technology has improved rapidly. Recent months have brought some shocking developments. The Hugging Face attack in July showed AI agents breaking out of their sandboxes and cooperating to cheat on tests, hacking into the systems of another firm. A recent report from Anthropic claimed that non-state actors in Yemen had used Claude to help build missiles.[15] Just a few days ago, we learnt that an OpenAI system had hacked into an Australian government website, perhaps the first known incident of an AI autonomously infiltrating a sovereign facility.[16] AI leaders are now calling for regulation and coordination to slow down AI development and manage risks.[17] Meanwhile their companies are embarking on trillion-dollar initial public offerings.[18]

Some people have warned that AI will bring about human extinction. This is not something I have the authority or expertise to pronounce on. But the risks in my domain are undoubtedly severe, ranging from cybersecurity to asset price bubbles. The Hugging Face attack did not actually hurt anyone, but imagine a swarm of super-smart and tireless agents hacking into South Africa's payment system or a big financial firm. This is why experts think the next financial crisis may well come from a cyberattack.[19]

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[12] *Foreign Affairs*, 'The great rebalancing is coming', 28 August 2026.
[13] W R White, 'If something cannot go on forever, it will stop', *CEP Policy Brief*, Council on Economic Policies, April 2021.
[14] ChatGPT was released on 30 November 2022.
[15] Al Jazeera, 'Anthropic claims Claude AI used for missile projects, global espionage', 11 September 2026.
[16] BBC News, 'Why did an OpenAI system hack Australia's health system - and can it be stopped in the future?', 24 September 2026.
[17] *The New York Times*, 'What Anthropic's CEO. argued in his calls for slower ai development', 13 September 2026.
[18] *The Wall Street Journal*, 'Why It Matters if OpenAI or Anthropic Wins the IPO Race', 1 June 2026.
[19] T Adrian, T Gaidosch and R Ravikumar, 'Financial stability risks mount as artificial intelligence fuels cyberattacks', *IMF Blog*, 7 May 2026.

Yet another dimension of danger is world debt. Debt levels, especially for advanced economies, are very high – and still rising. Private debt levels are also growing, with the so-called 'hyperscalers' borrowing aggressively to fund AI infrastructure.[20] In this context, long-term interest rates have been rising in most advanced economies, reaching multi-decade highs. The financial press has been raising concerns about global selloffs and bond routs.[21]

Just a few years ago, economists were debating whether interest rates would stay low indefinitely, and how you should conduct fiscal policy when money is free.[22] Those prescriptions have not aged well. Instead, major economies are now facing a toxic mix of high debt, high interest rates and large new spending demands for things like defence.

For decades, the big, advanced economies have enjoyed excellent credit. But the world is changing. It used to be that rich countries like the United States (US) could borrow more cheaply because their debt gave its holders valuable liquidity and safety benefits. But these 'convenience yields' have evaporated.[23] Private investors are still excited about US equities, such as shares of the big tech companies,[24] but reserve managers have been diversifying their holdings, reducing dollar shares and buying more gold, euros and other currencies.[25] Increasingly, the marginal buyers of debt are price-sensitive and highly leveraged, like hedge funds.[26] As the Organisation for

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[20] E Tiftik, K Mahmood and R Aycock, 'Global debt surges as governments invest in national security and resilience', *Institute of International Finance Global Debt Monitor*, 25 February 2026.
[21] *The New York Times*, 'The Rising Stakes of the Global Bond Rout', 19 August 2026;
The Financial Times, 'Bond rout as it happened: US Treasury yields rise to session highs after Scott Bessent's buyback operation undershoots target; ECB raises interest rates', 10 September 2026;
The Guardian, 'Global bond sell-off resumes as surging oil prices stoke fears about inflation', 10 September 2026.
[22] O Blanchard, 'Chapter 7: Summary and open issues', *Fiscal policy under low interest rates*, Cambridge, Massachusetts: The MIT Press, 2022, p 139.
[23] Y Chien and K Bloodworth II, 'The Declining Convenience Yield and Quantitative Tightening', St. Louis Fed On the Economy, 27 February 2026; A Krishnamurthy and M Chumbo, 'Disappearing dollar convenience?', *NBER Working Paper Series* No. W35742, September 2026.
[24] *The Financial Times*, 'Welcome to the age of the Profit Dollar', 6 July 2026.
[25] S Arslanalp, B Eichengreen and C Simpson-Bell, 'The Stealth Erosion of Dollar Dominance: Active Diversifiers and the Rise of Nontraditional Reserve Currencies', IMF Working Paper No. WP/22/58, March 2022.
[26] *The Wall Street Journal*, 'Hedge Funds Are the Wild Card in the Turbulent Bond Market', 14 September 2026.

Economic Co-operation and Development has warned, global debt markets are indeed "navigating difficult terrain".[27]

All this speaks to a new era, one of insecurity, disruption and fragility. It has been called a 'polycrisis', a situation where there are large and overlapping shocks – a multiplicity of shocks.[28] The risk is that, instead of moving back towards stability, we get a 'crisis cascade' – an avalanche where the shocks get bigger and bigger, because they are feeding on each other.

Obviously, this is not an easy situation for economic policymaking.

In the global conversation, one increasingly popular claim is that central banking will get much harder.[29] The argument is that central banks had it easy in the 1990s and 2000s with the productivity gains of globalisation. They then had to struggle with totally different challenges after the great financial crisis (GFC), like deflation and the zero bound on interest rates. But now, it is said, they are in real trouble.

Economists are talking about 'fiscal dominance', a concept that may sound obscure but is dreaded by central bankers, in the same way that doctors fear antibiotic-resistant bacteria .[30] Fiscal dominance means that central banks deprioritise fighting inflation to finance government.[31] They could be literally printing money or intervening in debt markets to keep borrowing costs low. Whatever the techniques, the core idea is that, when government debt gets too burdensome, the central bank gets dragged in.

The global debt outlook is concerning, and it is correct to be worried about fiscal dominance. But I also reject counsels of despair. When people talk about how central

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[27] Organisation for Economic Co-operation and Development, *Global Debt Report 2026*, 4 March 2026.
[28] Radio Davos, 'This is why 'polycrisis' is a useful way of looking at the world right now', 7 March 2026.
[29] H Afrouzi, M Halac, K Rogoff and P Yared, 'Changing central bank pressures and inflation', paper presented at the Brookings Papers on Economic Activity Conference, March 2024.
[30] N Irwin, 'Two words that worry global central bankers the most', Axios, 31 August 2026; I Schnabel, 'The quiet erosion of central bank independence', Speech by Isabel Schnabel, Member of the Executive Board of the European Central Bank, at the Fifth Annual Charles Goodhart Lecture, London, 7 May 2026.
[31] J Yellen, 'The future of the Fed: Central bank independence and fiscal dominance', presentation to American Economic Association, Brookings Institution, 4 January 2026.

banking used to be easy, I often wonder which years were easy for us. Do they mean the rand crisis of 2001 or the GFC of 2009, or the taper tantrum of 2013 or the attacks on our independence later that decade, or COVID-19? We have been targeting inflation since the start of the century. I do not recall it ever being easy.

We have also had plenty of fiscal trouble to worry about. You will all know how South African government debt more-or-less tripled since the GFC. Interest costs rose severely, now consuming around 5.3% of gross domestic product (GDP). To put that in context, the US is paying 4% of GDP in interest expenses, Britain is at 2.8% and France is at 2.1%.[32]

From my perspective as an emerging market central banker, interest burdens like these do not have to trigger fiscal dominance. Instead, they show that central bankers need their independence, and that they need courage. I know many colleagues in emerging markets who have faced worse and still avoided fiscal dominance and kept inflation under control.[33] It is not easy, but the whole point of independent central banks is to make tough decisions with longer-term payoffs.

The real problem is that controlling debt is also hard. Cutting spending is unpopular, raising taxes is unpopular, and these decisions are easy to protest. At the same time inflation is a mystery to much of the public. Bad monetary policy usually takes time to generate inflation and it can be done quietly. Many people do not even understand that the central bank is responsible for longer-term inflation. If there are protests, they probably happen at the wrong address.[34]

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[32] All data from International Monetary Fund, 'Interest paid on public debt, percent of GDP', 2024
[33] For instance, Brazil's interest paid on public debt is 8.3%; Mexico's is 6.5%; India is at 5.1%.
[34] C van der Cruijsen, J de Haan and M van Rooij, 'The impact of high inflation on trust in national politics and central banks', *DNB Working Paper* No. 762, January 2023; A Binetti, F Nuzzi and S Stantcheva, 'People's understanding of inflation', *NBER Working Paper Series* No. 32497, May 2024

People generally hate inflation, perhaps even more than economists hate it.[35] High inflation has severe effects on trust, undermining society.[36] But it is sometimes the least-hard choice. The role of central bankers is to make it hard so that better solutions dominate. As Kristalina Georgieva said at Jackson Hole, we do not want any "monetary policy cowboys riding to the fiscal rescue".[37]

Turning to South Africa, the good news is that our macroeconomic prospects are healthier. After many years of underperformance, with high and rising debt plus relatively high inflation, we are starting to look better, especially in comparative perspective.

For monetary policy, it has been about six months since we last hit our inflation target. I am not happy that we are missing – but six months is a lot better than 67 months, which is the interval since US inflation was last at target.[38] Various other major economies have also had prolonged target misses. Local inflation has been pushed away from target by the energy shock from the war but we were at target when the shock hit.[39]

We have a lot of experience dealing with supply shocks. We can all agree that they confront us with unpleasant trade-offs, with growth down and inflation up. Still, we have a strategy we believe in, which is to take a forward-looking approach and ensure policy is tight enough so that a temporary shock does not produce persistently higher inflation. We expect inflation to slow significantly next year, and we have increased our

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[35] R J Shiller, 'Why do people dislike inflation?', *NBER Working Paper Series* No. w5539, 20 February 2022; S Stantcheva, 'Why do we dislike inflation?', paper presented at the Brookings Papers on Economic Activity Conference, March 2024; *Financial Review*, 'Why people really hate inflation, but politicians don't get it', 14 August 2024.
[36] C van der Cruijsen, J de Haan and M van Rooij, 'The impact of high inflation on trust in national politics and central banks', *DNB Working Paper* No. 762, January 2023.
[37] K Georgieva, 'Navigating a financially more fluid world', Remarks by Kristalina Georgieva, Managing Director of the International Monetary Fund, at the Jackson Hole Economic Policy Symposium, 28 August 2026.
[38] As Kevin Warsh said at Jackson Hole in August: "The responsibility for 65 months of sustained, elevated inflation sits squarely with the central bank. And that is where it belongs." The number of months of misses has been updated with recent data. K Warsh, 'In our time', speech by Kevin Warsh, Chair of the Federal Reserve of the United States, at the Financial Innovation: Implications for Payments and Policy economic policy symposium, Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, 28 August 2026.
[39] E L Kganyago, 'Supply shocks, monetary policy and the 3% target', Public lecture by Lesetja Kganyago, Governor of the South African Reserve Bank, at Rhodes University, 4 May 2026.

policy rate to make sure we get back to 3%. We currently expect to get there around the end of next year.

For fiscal policy, we finally seem to be recovering from the 'outer year' syndrome. Sufferers of this disease promise that things will get better at the end of the forecast period but with each forecast the promise shifts later. Now there is increasing conviction that South Africa's debt has peaked already and the debt-to-GDP ratio will improve over the next few years.[40]

South Africa's better macro prospects have been important in shielding us from the 2026 global bond repricing. Because our country risk premium has fallen, our longer-term borrowing costs are not rising in line with rich country benchmarks.[41] In fact, yields have been quite contained this year, at around 9% at the longer end of the curve. This is roughly where we were at the end of 2025, and well below earlier levels. By comparison, the US 30-year yield is at its highest since 2007[42] and Japan's is at its highest since 1996.[43] We are also seeing that the rand is holding up well, with unusually low volatility.

Notwithstanding these gains, South Africa remains an outlier for growth. Everyone in the world has been affected by the Iran war shock but not many economies contracted in the second quarter. If anything, it is puzzling that world growth is not doing worse, considering all the shocks being thrown at the global economy. For South Africa, however, the fundamental problem is a weak underlying growth trend, so it does not take much to get us below zero.

Growth has averaged about 0.6% a year for the past 10 years. We think potential growth is a bit higher now, roughly double that, but this is still low growth.[44] There is a reform agenda, with good priorities, but progress is gradual – and there are strong headwinds. For example, South Africans are very happy load-shedding has stopped.

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[40] Precisely, the peak is expected to have been reached in the 2025/26 fiscal year.
[41] Evidence for this is the compression of South Africa's JPMorgan Emerging Markets Bond Index Plus spread, as well as narrower credit default swap spreads.
[42] Reuters, 'US 30-year yields hit highest level since 2007 as war, oil worries fester', 18 August 2026.
[43] Reuters, 'Japan's benchmark bond yield rises to 3% for first time in 30 years', 1 September 2026.
[44] The quarterly projection model potential growth estimate as of July 2026 was 1.0% for 2025 and 1.3% for 2026. The annual average growth rate for the past ten years was 0.6%.

But since that happened, they have had to contend with plenty of bad news, such as the Iran war and rising costs. For instance, even if electricity is now reliably available, it still costs double what it did in 2020.[45] The bad news offsets the good news. If we are going to get back to growth, we will need more good news than bad.

Ladies and gentlemen, to conclude: the world is clearly more dangerous, more volatile and less well governed than it used to be. Global governance was never that effective but, like many things, you only appreciate what you had when it is gone. Now we must deal with a new reality.

That reality is fragile. The world economy continues to grow. Trade has not collapsed; most countries have understood that trade is mostly a win-win and they want to keep doing it. But the debt burdens and the geopolitical stress are undeniable. The risks have piled up. We could well end up with a crisis cascade.

For South Africa, we need the situational awareness to understand our new circumstances. We will also need a pragmatic energy to identify our advantages and capitalise on them. We are a long way away from the geopolitical hotspots. Our macro positioning has become a positive differentiator. A youthful country with ample natural resources could do well from this starting point, despite the risks. But, if we do not get this right, it is unlikely we will get much outside help.

Thank you.

[45] Based on consumer price index data for electricity, the change is 100.4% since January 2020. Since January 2010, the change is 423.1%