



SOUTH AFRICAN RESERVE BANK

**Address by Lesetja Kganyago,
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at the PSG Think Big Series,
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**One crisis after another: shocks, imbalances and resilience
in the global economy**

Good day.

The Best Picture Oscar this year went to a film called *One battle after another*. Based on the title, it could have been a documentary about the global economy. Instead, it is a movie about unrelenting conflicts and how they intrude on plans to live a quiet life. This is actually a pretty good way to describe the experience of being a mid-sized emerging market nowadays. I will discuss this predicament today.

There are many challenging aspects of the global situation. Today I will talk about four: geopolitics, government debt, global imbalances and financial instability.

I will start with the most visible, which is geopolitical conflict. This is the euphemism central bankers use for war. We are technocrats, so we do not have much to say about fighting wars, but we do study their economic consequences. The war in Ukraine delivered a huge shock to global food and fuel prices. Now, renewed conflict in the Middle East is delivering another shock.

Looking at our economic outlook, I can tell you that geopolitical risk is now a more important factor than it has been at any point in my career.

For monetary policy, the shocks inflicted by geopolitics tend to drive inflation while suppressing output.¹ These supply shocks are more complex to deal with than demand-side pressures where inflation and output are moving in the same direction. It is easy to say that we are hiking because the economy is overheating or that we are cutting to warm it up. But with supply shocks, good policy is a bit more abstract and harder to execute.

There is not much we can do about the shocks themselves. The SARB policy rate does not affect global oil prices. What we can do, however, is manage expectations, to ensure that inflation comes back to target when the shock has passed. Success lies not in preventing higher inflation right now, but in getting back to target after the shock has passed. This requires clear communication, and it may also entail timely moves in interest rates. Of course, it is not desirable to put the economy under more pressure, but we need to keep our options open.

The second big risk factor after geopolitics is high and rising sovereign debt levels. Government over-indebtedness has typically been a problem of poorer countries but today the warning lights are also flashing for developed countries.²

For example, the debt-to-gross domestic product (GDP) ratio for the United States is now over 120% – the highest since World War II.³ Meanwhile, the political will to lower

¹ For a fuller discussion of supply shocks and monetary policy, see 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. <https://www.resbank.co.za/en/home/publications/publication-detail-pages/speeches/speeches-by-governors/2026/kganyago-rhodes>

² H Curr, 'Across the rich world, fiscal crises loom'. *The Economist*, 13 October 2025. <https://www.economist.com/special-report/2025/10/13/across-the-rich-world-fiscal-crises-loom>

³ This claim omits the COVID-19 outlier. In 2020 the US debt-to-GDP ratio reached 125.9% but fell to 119.6% the next year as GDP rebounded. The debt-to-GDP ratio for 2025 was 121.5%; for 1946 it was 119.1%. All data from the St Louis FRED database: <https://fred.stlouisfed.org/series/GFDGDP188S>

debt is hard to find, while new spending pressures are building for items like defence as well as pensions for ageing populations.⁴

Excessive government borrowing poses many challenges. It diverts government resources to interest costs and away from other priority areas. It crowds out private sector activity by driving up interest rates and tax burdens. It also undermines resilience, depleting fiscal capacity that should be kept for rainy days.

For countries with sustainable fiscal policies, debt works as a tool that smooths income, supports development, and ensures the safe assets governments create stay safe. Unfortunately, this is difficult to do, which is why debt crises are a routine feature of history. The trend in modern sovereign debt levels suggests this history could be repeated.

It is very hard nowadays to find experts who think government debt levels are safe. Even the doves are sounding hawkish.⁵ Unfortunately, many governments do not seem to be listening.

In South Africa, we are unusual because we are not in denial. We endured large and costly fiscal deterioration after the global financial crisis. Debt rose from about 30% of GDP to nearly 80%, and we lost our investment-grade credit ratings. The result of this painful experience is that we are now pursuing fiscal adjustment with determination – and the market believes us.

It is hard to overstate the importance of debt declining as promised so we can sustain this differentiation. As for other economies, if their learning curves are not shorter and flatter than ours, then their outlook is not healthy.

⁴ International Monetary Fund, *Fiscal Monitor: Fiscal Policy under Pressure – High Debt, Rising Risks*, April 2026 (Washington, DC). <https://www.imf.org/-/media/files/publications/fiscal-monitor/2026/april/english/text.pdf>

⁵ J Bernstein, A Shaw and D Posthumus, 'The US budget math is looking dangerous'. Stanford Institute for Economic Policy Research (SIEPR) policy brief, Stanford University, July 2025. <https://siepr.stanford.edu/publications/policy-brief/us-budget-math-looking-dangerous>

The global debt problem is related to another major issue that was front-and-centre at the last month's International Monetary Fund (IMF)-World Bank Spring Meetings, namely global imbalances.

This issue is more obscure than war and debt. It is the kind of problem that fascinates macroeconomists but not many others. Nonetheless, it is topical and important.

The core idea of a global imbalance is that you have some countries borrowing and consuming more, and others lending and saving. Sometimes these positions become so divergent that they end up being unbearable. This is not to say any imbalance is a problem. For example, there is nothing wrong when a country with an older population and ample savings lends some funds to a younger country with low savings and high investment needs. But imbalances are not always so natural, and big imbalances are rarely resolved smoothly.⁶

Global imbalances were very large in the years surrounding the global financial crisis. They declined from about 2014 but, since COVID-19, they have increased again. According to the Bank of England, they are now near their highest levels in 150 years.⁷ The composition of imbalances has also changed. The last time imbalances peaked, emerging markets – including South Africa – were running big deficits. You may recall how in 2013 we were among the so-called 'Fragile Five' emerging markets because of our high dependence on foreign capital flows.⁸ Resolving those imbalances was a difficult process.

Nowadays, much of the imbalance story is about just two countries: the United States (US) and China. The US is running large deficits and China is running large surpluses.

⁶ G Adler and L Cueddu, 'Global imbalances: Avoiding a tragedy of the commons'. IMF Blog, 28 July 2017. <https://www.imf.org/en/blogs/articles/2017/07/28/global-imbalances-avoiding-a-tragedy-of-the-commons>

⁷ C Lombardelli and A Cesa-Bianchi, 'Global imbalances are back'. Bank of England Bank, 30 March 2026. <https://www.bankofengland.co.uk/bank-insights/2026/global-imbalances-are-back>

⁸ See L Thomas Jr, "Fragile Five" Is the Latest Club of Emerging Nations in Turmoil'. *The New York Times*, 29 January 2014. <https://www.nytimes.com/2014/01/29/business/international/fragile-five-is-the-latest-club-of-emerging-nations-in-turmoil.html>; and L Kganyago, 'From fragility to strength: the role of price stability'. Address by Lesetja Kganyago, Governor of the South African Reserve Bank, at the National School of Government, Pretoria, 12 August 2025. <https://www.resbank.co.za/content/dam/sarb/publications/speeches/speeches-by-governors/2025/kganyago-price-stability.pdf>

Unfortunately, the world has often struggled to deal with imbalances effectively, especially when it is the most powerful countries that are responsible for them. Countries in deficit usually get punished because their funding flows dry up. They are left with higher interest rates, weaker currencies and slower growth. But that mechanism does not necessarily work as usual when the main deficit country is also the world's biggest economy, the prime issuer of global safe assets and the growth leader. Instead, it can feel like the US gets all the world's financial flows, and everyone else gets crowded out.

At the same time, the world has never developed effective rules for managing surplus countries. Quite often countries resort to raising tariffs or levying quotas to block 'unfair competition'. Sometimes countries also start providing subsidies to their own industries to make up for perceived disadvantages. Both trade and subsidy wars are costly, especially if they kick off a cycle of retaliation – and often these responses do not even get to the heart of the problem.⁹

The right response to today's imbalances would be to raise consumption in the surplus countries – for instance by letting currencies appreciate and focusing subsidies on consumers not producers – while cutting back government borrowing in the deficit countries.¹⁰ A coordinated macroeconomic rebalancing would make the global economy stronger and pre-empt inferior policy responses, like more tariffs and subsidies. But global conditions are not supportive of policy coordination currently. Multilateralism is threatened by fragmentation. And, as I have already argued, the appetite to tackle excessive government borrowing seems to be missing. There is a real risk the adjustment will be done the hard way instead.

A final problem is financial market risks. A curious feature of the global economy today is that major asset markets, like US stocks, seem to be indifferent to all other

⁹ P Gourinchas and C Mumssen, 'Global imbalances: old questions, new answers?'. IMF Blog, 6 April 2026. <https://www.imf.org/en/blogs/articles/2026/04/06/global-imbalances-old-questions-new-answers>

¹⁰ B Weder di Mauro and J Zettelmeyer, 'Why global imbalances matter again – and what to do about them'. VoxEU (CEPR column), 13 April 2026. <https://cepr.org/voxeu/columns/why-global-imbalances-matter-again-and-what-do-about-them>

problems.¹¹ Nonetheless, if something goes wrong and we have some financial stress, that will not be surprising. Indeed, it will be easy for some future historian to look back at this period and say the warning signs were obvious.

Apart from the sovereign debt problems I have already covered, you have private credit markets that have gone from almost nothing 20 years ago to US\$2.5 trillion globally.¹² These have limited transparency and regulation, and they probably are not as liquid as lenders believe. We had some stress in this space late last year following the collapse of two US vehicle parts companies, but that passed without triggering a broader crisis.¹³ It is nonetheless hard for policymakers to feel that this space is safe.

Similarly, while we are all excited about the potential of artificial intelligence (AI), the valuations of AI companies are extreme.¹⁴ The market is pricing for a best-case scenario for AI adoption and profitability, but we probably will not get the best case. Investors are going into these stocks because they think it is smart to buy the dip, and many have never experienced a bear market.¹⁵ There is plenty of room for gravity to re-assert itself, and for stock prices to decline.¹⁶

As the IMF's Tobias Adrian recently reminded us, for policymakers it is more effective to prepare than predict.¹⁷ We can see major risks but forecasting crises is nearly

¹¹ 'Stocks and oil prices surged as the Iran war dominated markets in April'. *The New York Times*, 1 May 2026. <https://www.nytimes.com/2026/05/01/business/stocks-oil-prices-iran-war-april.html>

¹² F Avalos, S Doerr and G Pinter, 'The global drivers of private credit'. Bank for International Settlements *Quarterly Review*, March 2025. https://www.bis.org/publ/qtrpdf/r_qt2503b.htm

¹³ K Makortoff, 'What is private credit, and should we be worried by the collapse of US firms?'. *The Guardian*, 18 October 2025. <https://www.theguardian.com/business/2025/oct/18/what-is-private-credit-us-first-brands-tricolor-banks>

¹⁴ G Cornelli, M J Lombardi and A Schrimpf, 'Bubble conditions in US equities and gold?'. Bank for International Settlements *Quarterly Review*, December 2025. https://www.bis.org/publ/qtrpdf/r_qt2512t.htm

¹⁵ A Haring, 'Retail investors' best year ever: dip-buying and the "TACO" trade powered a strong 2025'. CNBC, 31 December 2025. <https://www.cnbc.com/2025/12/31/retail-investors-dip-buying-taco-trade-strong-2025.html>

¹⁶ S Breeden, 'This time is different?'. Address by Sarah Breeden, Deputy Governor for Financial Stability of the Bank of England, at the Program on International Financial Systems Symposium, Harvard Law School, 17 April 2026. <https://www.bankofengland.co.uk/speech/2026/april/sarah-breeden-at-the-program-on-international-financial-systems-and-harvard-law-school>

¹⁷ T Adrian, 'War in the Middle East challenges global financial stability'. IMF, 14 April 2026. <https://www.imf.org/en/blogs/articles/2026/04/14/war-in-the-middle-east-challenges-global-financial-stability>

impossible. Nonetheless, when we think about what is secure in this world and what is at risk, global financial stability is in the latter category.

For emerging markets, you may think the environment I have described is all misery. The mix of geopolitical crises, frothy asset markets, unsustainable debt and major imbalances is daunting. In particular, higher fuel and food costs are making most of us poorer. Nonetheless, the key theme in the global discussion about emerging markets lately is not misery, but resilience.

This does not mean every developing country is holding up well. Some are fragile. Rather, the resilience claim is fundamentally that a core group of middle-income countries, about 15 in total, including South Africa, have built strong policy frameworks and track records of credibility.¹⁸ This means, when shocks hit, they do not fall into crisis. They don't get sudden stops of capital flows. They don't have a collapse in their asset prices, like bonds and currencies. They do not need IMF bailouts. Instead, assets reprice in an orderly way and, as the shock fades, they recover again.

Emerging market vulnerability was a big theme in the 1990s and early 2000s but resilience has been building for a quarter century – and it is finally being recognised as a defining characteristic.

In the South African case, you will have noticed how the rand has held up well this year. When the Middle East conflict started, the rand depreciated but recovered quickly, and it has mostly been stronger than it was in 2025. Remember that the rand averaged R17.89 against the US dollar last year, roughly 6% weaker than current levels. The dynamics for government bond yields and the stock market are similar, with some losses recently but net gains compared with last year. The other core emerging markets have a similar story to tell.¹⁹

¹⁸ IMF, *Global Financial Stability Report: Global Financial Markets Confront the War in the Middle East and Amplification Risks*, Washington, DC: IMF, April 2026, pp. 15–17. <https://www.imf.org/-/media/files/publications/gfsr/2026/april/english/text.pdf>

¹⁹ H L Clark, J B Dawson and J Gonzalez-Murphy, 'A closer look at emerging market resilience during recent shocks', Liberty Street Economics, Federal Reserve Bank of New York, April 2026. <https://libertystreeteconomics.newyorkfed.org/2026/04/a-closer-look-at-emerging-market-resilience-during-recent-shocks/>

One broad explanation for this resilience is that the dollar is not the safe haven it used to be. At the same time, emerging market macroeconomic policy is much improved. With investors looking to diversify portfolios and hedge bets, it makes sense to invest in emerging markets.

Indeed, one could go further and say the old distinction between advanced economies and emerging markets is breaking down. It used to be that advanced economies were distinguished by strong institutions, which could make evidence-based, forward-looking decisions. Meanwhile, it was the emerging markets that suffered from populism, with erratic and short-sighted decisions that created long-term vulnerabilities. But this no longer seems true.

It is not that emerging markets are suddenly all grown up. Rather, the hierarchy has been flattened a bit. Many have learnt from past mistakes and reformed. At the same time, some of the advanced economies are regressing, for instance by tolerating unsustainable debt growth and attacking central bank independence. As Janet Yellen, the former US Treasury Secretary and Federal Reserve Chair, recently said, this is “the rhetoric of a banana republic”.²⁰ That is a good point, except it might be unfair to the banana republics. After all, the biggest producer of bananas is India, which has an independent, inflation-targeting central bank. We are more worried about the banana-importing republics.²¹

The emerging market reform programme still has a long way to go. In South Africa, inflation has been lower, debt seems to be stabilising and growth has been a bit stronger. But inflation is not yet anchored at the 3% target, debt is still high and growth is barely 1%. We have made a reasonable start – but it is a long way to the finish line.

When the global economy is faltering and other economies are making their investors nervous, the returns to domestic reform are very high. Reform was always a good idea

²⁰ A N Alim and C Jones, ‘Donald Trump’s push to cut US rates akin to “banana republic”, says Janet Yellen’. *Financial Times*, 15 April 2026. <https://www.ft.com/content/fcc0e47b-589b-49da-992c-f309a4783e23?syn-25a6b1a6=1>

²¹ H Vyas, Central bank independence is very important, need to collectively preserve it, says RBI Governor Malhotra’. *The Indian Express*, 13 January 2026. <https://indianexpress.com/article/business/central-bank-independence-is-very-important-need-to-collectively-preserve-it-says-rbi-governor-malhotra-10471890/>

in the South African context but, at a time like this, it is hard to think of any higher priority. If we cannot fix our own problems, it probably will not work to rely on the prosperity and safety of the global economy to sustain us.

Ladies and gentlemen, to conclude, the global environment has become more challenging. Geopolitical stresses are creating intense pressures. With high sovereign debt and large global imbalances, the system also lacks resilience. At the same time, the willingness to address these problems seems to be limited.

These are difficult circumstances for a middle power like South Africa. The good news is, unlike many other countries, we seem to be moving in the right macroeconomic direction. We are not in denial about our challenges. We are doing something about them.

Markets have become steadily smarter at differentiating between emerging markets, and I am confident that, if we get policy right, we will be rewarded. We have already had a taste of these rewards with the lower borrowing costs and higher asset prices seen over the past year or so. If we keep on this track, we can expect further gains. For that reason, ongoing domestic reform is the only game in town.

Thank you.