SOUTH AFRICAN RESERVE BANK

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From fragility to resilience: The emerging market journey

Good evening, and thank you for welcoming me back to the University of South Africa.

I want to start today with an old magazine cover. It's from *Time* magazine, dated 15 February 1999, with the title 'The Committee to Save the World'.[1] There are three men pictured, all Americans: Alan Greenspan, the Chair of the United States (US) Federal Reserve; Bob Rubin, the US Treasury Secretary; and his deputy, Larry Summers.[2]

The world that needed saving then was the world of emerging markets (EMs). In the 1990s, these economies were stumbling from one economic disaster to another. In 1994, the so-called Tequila crisis broke out in Mexico, with a collapse of the peso and a bailout orchestrated by the US Treasury.[3] In 1997 came the Asian crisis, which started in Indonesia and swept through the region, forcing countries such as South

[1] *Time*, 'The Committee to Save the World', 15 February 1999.
[2] Summers succeeded Rubin in July 1999.
[3] J Boughton, 'Chapter 10: Tequila Hangover: The Mexican Peso Crisis and Its Aftermath', *Documents*, 2012: 92.https://www.imf.org/external/pubs/ft/history/2012/pdf/c10.pdf

Korea and Thailand into International Monetary Fund (IMF) programmes.[4] In 1998, Russia defaulted and Brazil narrowly averted a currency crisis, with IMF help.[5]

These were provocative events. For instance, in the Asian crisis, the worst-hit economies saw output fall by 10–13%, with currencies losing 50–80% of their value. Indonesian inflation was 58% in 1998; Russian inflation was 85% that year.

South Africa also struggled. In 1998, our prime interest rate peaked at 25.5%. Government borrowing costs also spiked; the spread of South African yields over the benchmark US and German rates reached all-time highs.[6] The South African Reserve Bank (SARB) tried intervening in currency markets and ended up losing all its reserves. Inflation was close to double digits. As the SARB's *Annual Economic Report* recorded afterwards: "Business and consumer confidence wilted, and real output, which had been sluggish in the first half of 1998, fell in the third quarter of 1998, so that, for the year as a whole, real gross domestic product (GDP) rose by just 0.5%."[7]

In this context, it made sense for *Time* magazine to interpret EMs as vulnerable and the financial leaders in Washington as the people who could save them. But from our perspective, a couple of decades later, we can see that view was already passing its expiry date.

In fact, the next big crisis – the great financial crisis of 2007 to 2009 – started in the US. EMs held up better than expected during that period, and they have become stronger since.[8] Fundamentally, this strength didn't come from Washington; it was home-grown.

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[4] On these events, see P Blustein, *The Chastening*, 2003.
[5] T Baig and I Goldfajn, 'The Russian Default and the Contagion to Brazil', *IMF Working Paper Series* No. 2000/160, 1 October 2000.
[6] J W Fedderke, 'The South African – United States Sovereign Bond Spread and its Association with Macroeconomic Fundamentals', *ERSA Working Paper 830*, August 2020.
[7] SARB, *Annual Economic Report 1999*, 1999.
[8] A Kose, E Prasad and Directorate-General for Economic and Financial Affairs, 'Resilience of Emerging Market Economies to Economic and Financial Developments in Advanced Economies', *Economic Papers 411*, October 2010: "The global financial crisis has cast a shadow over the ability of EMEs [emerging market economies] to insulate themselves from developments in advanced countries. Still, the EMEs as a group have weathered the global recession better than the advanced economies; in some EMEs, growth rates have bounced back briskly during the past year."

We can now see that the shocks of the 1990s led EMs to build new and better policy frameworks. Among the major EMs, there is a core grouping which has gone decades without defaults, without IMF bailouts and without currency collapses.

To be clear: not every developing country is stronger. The IMF is still doing bailouts, and there are still many vulnerable economies.[9] But there is a core group of big EMs that has changed fundamentally – countries like Brazil, India, Indonesia, Mexico, Thailand and South Africa.[10]

Recognising this, the policy literature has a new theme for EMs. That theme is resilience. For example, EM resilience was the subject of a special chapter in a recent IMF *World Economic Outlook*, and it has also been explored by institutions such as the Bank for International Settlements and the New York Fed.[11]

For EMs, resilience is hugely valuable. An economic crisis is a terrible thing. Also, nowadays, we wouldn't want to be looking to a committee in Washington to save our world. It's more important than ever that we can look after ourselves.

At the same time, we can aspire to more than resilience.

Today, I want to unpack how EMs moved from fragility to resilience, and discuss where the remaining gaps lie.

Looking back at the crises of the 1990s, it is clear that the central faultline was weak monetary credibility. To deal with that, EMs pegged their exchange rates, usually fixing on the dollar. They typically borrowed in foreign currency, too – a practice that has

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[9] T Chrimes et al., *Frontier Market Economies: Promise, Performance, and Prospects*, Washington, D.C.: World Bank Group.

[10] H L Clark, J B Dawson and J Gonzalez-Murphy, 'A Closer Look at Emerging Market Resilience During Recent Shocks', *Liberty Street Economics*, 9 April 2026.

[11] 'Emerging market resilience: Good luck or good policies?', *World Economic Outlook*, October 2025. https://www.imf.org/-/media/files/publications/weo/2025/october/english/ch2.pdf; see also the references cited above and below.

been called the 'Original Sin of EMs'.[12] Combine that with weak financial system supervision, and you have a very dangerous mix.

In good times, when foreign interest rates are low, capital floods in, debt mounts, and you get a boom. Then a shock hits, capital exits, the central bank struggles to keep the currency pegged, and you start to face only painful choices.

If you let the peg go, financial stability suffers. With earnings in local money and debts in foreign exchange, currency depreciation ruins local balance sheets. Inflation also spikes because the exchange rate is the anchor.

However, if you try to defend the peg, you run out of dollar reserves, and you probably need to set interest rates so high that you break local balance sheets anyway. Then you go to the IMF.

The first thing EMs did to get out of this trap was to build better monetary institutions. The recipe is familiar now, but it was new and provocative then: central bank independence, inflation-targeting and exchange rate flexibility. This dealt with the fundamental problem of central banks trying to do too many things: protect growth, control monetary aggregates, manage exchange rates, finance the government, grow employment and limit inflation.[13]

If you have many priorities, you really have no priorities. EM central banks desperately needed clarity of purpose and the freedom to make tough decisions for long-run gain. Independence and inflation-targeting gave them that.[14] It was the most important part of the paradigm shift.

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[12] M Onen, H S Shin and G von Peter, 'Overcoming original sin: insights from a new dataset', *BIS Working Papers* No. 1075, February 2023 (revised April 2025); M D Bordo, 'Sudden Stops, Financial Crises and Original Sin in Emerging Countries: Déjà Vu?', *NBER Working Paper Series* No. 12393, July 2006.

[13] On eclectic approaches to monetary policy, see J Aron and J Muellbauer, 'Estimating Monetary Policy Rules for South Africa', *Working Papers Central Bank of Chile* No. 89, 2000; see also G Debelle, P Masson, M Savastano and S Sharma, 'Inflation Targeting as a Framework for Monetary Policy', *IMF Economic Issues* No. 15, October 1998.

[14] J Aizenman, 'Macroeconomics Challenges and Resilience of Emerging Market Economies', *NBER Working Paper Series* No. 26361, October 2019.

The second change was the large-scale accumulation of foreign exchange reserves. These war chests grew tremendously in the decades after the EM crises of the 1990s, with Asian countries in particular building up huge reserve stockpiles.[15] Nearly all the big EMs achieved high levels of reserves, leaving behind the problem of reserve stores that were one shock away from zero. This strengthened their balance sheets and gave markets confidence that countries wouldn't fall of a cliff suddenly, when reserves ran out.

The third reform was better financial supervision, to get on top of the risks created by private borrowing.[16] Unfortunately, economic history is full of stories about borrowers in peripheral countries taking on more debt than they can repay. Whether it is railroads in 19th century US, Latin American economies in the 1980s, Asian economies in the 1990s or southern European countries in the 2010s, this is a movie we have seen many times. It doesn't end well.

Worse, when the crash comes, it is not just the borrowers and lenders who get hurt; the pain is widely shared – through failed banks, bailouts and mass unemployment. For policymakers, the best practice is to limit risk in advance. It's not easy to do, but it can be done. More EMs did it, and that promoted resilience.

Curiously, a topic which has caused intense policy debate ended up being relatively unimportant. Capital flow measures used to be frowned upon in Washington, but then got rehabilitated.[17] But the controversy here turned out to be bigger than the underlying policy substance. Capital flow measures have been used only sparingly, and don't

[15] L Chiţu, J Gomes and R Pauli, '[Trends in central banks' foreign currency reserves and the case of the ECB]', *ECB Economic Bulletin* Issue 7/2019, 2019; M S Mohanty and P Turner, '[Foreign exchange reserve accumulation in emerging markets: what are the domestic implications?]', *BIS Quarterly Review*, September 2006.
[16] This factor is emphasised in research by the Bank for International Settlements; see B Hardy, D Igan and E Kharroubi, '[Resilience in emerging markets: what makes it, what could shake it?]', *BIS Bulletin* No. 88, 6 June 2024.
[17] T Adrian and G Gopinath, '[Toward an Integrated Policy Framework for Open Economies]', *IMF BLOG* blog, 13 July 2020.

feature in most accounts of EM resilience.[18] Much of the past two decades has been spent tackling capital flows that were too weak rather than too strong.[19]

A much tougher issue has been fiscal policy. Globally, we have proven toolkits for monetary policy, but we haven't got the same reliable solutions for fiscal policy.[20] We know this because sovereign debt remains a pain-point across many types of countries. Today, it is the advanced economies that stand out most for their unsustainable debt dynamics.[21] Informed observers look on with despair: rich-country debt is at multi-decade highs, borrowing costs are rising, and the outlook is full of spending commitments for defence, climate change and aging populations. But there is no course correction from fiscal policy.[22]

If this was monetary policy, there would be an accumulation of evidence, there would be scheduled meetings, and there would be new decisions. There would be a target and a tool you could adjust to hit that target.

Fiscal policy, whatever the country, doesn't work like that. Instead, we have ad hoc combinations of traditions, incentives, personalities and political coalitions, which sometimes achieve sustainability and sometimes don't. So fiscal policy remains a global vulnerability.

Finally, resilience is not growth. The fact that EMs became resilient doesn't mean they all found working growth models. On the whole, the EM category has grown strongly, and its share of world output has expanded dramatically. When *Time* published its story on the committee to save the world, EMs were at just over 40% of world GDP.

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[18] P Loungani, J D Ostry and A Korinek, '[A welcome evolution: The IMF's thinking on capital controls and next steps]', *VOX^{EU}/CEPR*, 8 April 2022.

[19] On global capital flows, see the data here, which shows a large surge in global capital flows before the global financial crisis and a different trend since: F Venditti and M M Habib, '[The global capital flows cycle and its drivers: Not only a US monetary policy story]', *VOX^{EU}/CEPR,* 5 July 2019; see also O Jeanne and D Sandri, 'Global financial cycle and liquidity management', *BIS Working Papers* No. 1069, 25 January 2023.

[20] On this point, see M Bolhuis, A Roy, P Schneider and Z Zhang, 'Good Policies (and Good Luck) Helped Emerging Economies Better Resist Shocks', *IMF BLOG* blog, 6 October 2025: "The presence of fiscal rules has also not prevented the buildup of debt in many emerging market economies – in large part due to limited compliance with the rules. The result: debt structures and vulnerabilities to global shocks differ widely across countries."

[21] H Curr, 'Across the rich world, fiscal crises loom', *The Economist*, 13 October 2025.

[22] C Giles, 'Whatever happened to prudence?', *Financial Times*, 3 August 2026

Now they're at just over 60%.[23] However, much of this growth came from Asia, especially China and India.[24] Other developing countries, such as those in Latin America and some in Africa, have not achieved sustained and rapid growth.

Now let me turn to South Africa, and ask how well this set of stylised facts about EMs fits us.

To start, we never had the full-blown macro-disasters experienced elsewhere. We had high inflation but not hyperinflation. We have not been to the IMF for a bailout. We were knocked around by EM crises in 1994, 1998 and 2001, but we were never at the centre of the storm. Still, we had ample reasons to reform – and we succeeded in implementing all the key reforms I just described.

Our 1996 Constitution made the SARB independent. After 1998, we stopped trying to control the exchange rate – a costly and fruitless endeavour – and let it float. In 2000, we started inflation-targeting. Our money started to hold its value better. For instance, the inflation differential between South Africa and the US fell from 10 percentage points (pp) in the 1980s, and almost 7 pp in the 1990s, to less than 1 pp this decade. With double-digit inflation in South Africa and a big gap to the US, you can see why people talked about hard currency and wanted to hold dollars. But that gap is almost gone now.[25]

We also grew foreign exchange reserves: 25 years ago we had basically no reserves left; now we have around US$74 billion. Furthermore, our prudential policies have helped maintain financial stability, with no systemic financial event in South Africa despite several global crises.

The result is a textbook case of the new EM resilience.

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[23] IMF, *GDP based on PPP, share of world*, 2026.
[24] J Perez-Goropze, C Cardenas and N Tesfay, 'Emerging Markets: A Decisive Decade', *S&P Global Look Forward*, 16 October 2024.
[25] The gap was 10 pp in the 1980s (14.7% for South Africa vs 4.7% for the US); 6.9 pp in the 1990s; 3.5% in the 2000s; 3.4% in the 2010s; and 0.7 pp for the 2020s to date (all based on IMF *WEO* data via Haver).

At the same time, we also embody vulnerabilities.

One is fiscal. As is well known, South Africa had one of the worst debt deteriorations after the great financial crisis of any major economy. Debt went from under 30% of GDP to nearly 80%. We lost our investment-grade credit ratings. Borrowing costs ratcheted higher, and debt-service costs became one of the biggest items in the budget – equivalent to a fifth of tax revenue.[26] We are a cautionary tale for all the big borrowers out there today.

We are also, perhaps, becoming an example. Government debt is finally stabilising. There is a recent book, by Charles Goodhart and Manoj Pradhan, which discusses debt trajectories of advanced economies and reaches some very pessimistic conclusions about their longer-run prospects. They show that few countries are nowadays running primary surpluses, which are necessary to stabilise debt. They add that most countries now achieving these surpluses only got there after suffering crises, like Greece. They conclude, and I quote: "Only Mexico and South Africa have run a primary surplus out of prudence."[27]

This prudence is valuable. It's already been recognised through higher credit ratings from Fitch and S&P. It has helped lower our long-run borrowing costs by around 300 basis points over the past year, and has narrowed our country risk premium. In a world of looming debt stress, and given our own painful experience of debt growth, the importance of stabilising debt is hard to exaggerate.

Then there is growth. It is a silent crisis. We didn't have a macroeconomic collapse; we didn't lose a war. But living standards are lower now than they were in the early 2010s.[28] The population has grown faster than the economy for a long time – something very rarely seen without a crisis.

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[26] National Treasury, *Budget Review 2026*, 25 February 2026 (pp 24–25).
[27] C Goodhart and M Pradhan, *The Unanchored Central Banker* (p. 291).
[28] OECD, *OECD Economic Surveys: South Africa 2025*, June 2025 (p. 9).

It is wrong and dangerous to argue that our growth stagnation is due to macro-policy.[29] It is wrong because, as we've seen, many EMs adopted similar macro-frameworks, and almost everyone has grown faster than us. It is dangerous because it takes one of the few areas where we got things right and makes that the scapegoat for failures elsewhere.

Our real problem was institutional destruction – a process often called 'state capture'.[30] It devastated capacity in national government; it just about broke the state-owned enterprises; and it persists in the municipal failures we see around us today. The essence of state capture is that institutions are no longer run for public benefit. Instead, they are taken over and used to extract resources for private gain. For instance, the maintenance budget pays for a big tender which ends up buying someone three Ferraris, but there are still holes in the road.

In this context, the private sector cannot flourish. Remember, we have a large and sophisticated private sector in South Africa, and that's the reason we are still much richer than our neighbours, even if we don't grow. But that private sector has been in survival mode. Investment has stalled.[31] Firms are not pouring their energies into growing their South African business; the ones that are here are treading water, and the others are in places where things work, like Australia or Canada or Dubai.

The diagnosis is clear and well understood. The reform effort, spearheaded by government's Operation Vulindlela, tackles all the right areas, like energy and ports and municipal governance. But progress is slow. Output in the network sectors, based on measures like rail tonnage and port volumes, looks like a Nike swoosh, with a long decline and then an uptick at the end.[32] In many areas, we are still below the 2019 levels of output.

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[29] R Hausmann et al., 'Macroeconomic risks after a decade of microeconomic turbulence: South Africa 2007–2020', *SA-TIED Working Paper #206*, February 2022.

[30] I Chipkin, 'Defining 'State Capture' in South Africa: Democracy, Bureaucratic Autonomy and Elite Populism', *GAPP Working Paper* Vol. 1 No. 1, 1 September 2020; H Bhorat et al., *Betrayal of the Promise: How South Africa is Being Stolen*, May 2017.

[31] Private investment is now around 9% of GDP, compared with around 12% a decade ago.

[32] An example is rail freight volumes, which exceeded 20 million tonnes a month during 2017, fell to around 9 million tonnes during 2023, and then recovered to about 14 million tonnes recently.

The fundamental question we need to ask ourselves, as country, is: do we truly want to grow? It seems the answer is obvious, but it is not. If we really want to grow, then it can't just be one goal halfway down the wish list. The economist Lant Pritchett has penned a devastating new paper titled 'Economic growth *is* enough and *only* economic growth is enough'.[33] In it, he demonstrates that growth is transformative for human well-being, and you don't need to be sidetracked by alternative policies and caveats. You don't need 'growth with adjectives', where growth is only worth doing if it's the right kind of growth. Just go for growth.

We also need to accept that growth means trying things that are risky. This is not always comfortable, especially for people who already have power and wealth. The Oxford economist Stefan Dercon talks about *Gambling on Development*.[34] South Africans love to gamble, but when it comes to growth, it turns out we are risk-shy. We like protecting incumbents. We like detailed rules, regulations and controls.[35] We are reluctant about shaking things up to make them more efficient. We would be much better off if we could stop betting on sports and start betting on growth instead.

Ladies and gentlemen, to conclude, there is a core group of EMs which has moved from fragility to resilience. It is an important achievement, which is now being widely recognised. With the world becoming more fractured, it is also crucial that our macroeconomic well-being is protected by our own policies, so that we don't have to depend on the good wishes of a 'committee to save the world' based in a foreign capital.

That said, while our frameworks are stronger than they used to be, many countries continue to struggle with fiscal sustainability – and they struggle to achieve growth. So our journey is unfinished. We are resilient, but we are not yet flourishing.

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[33] L Pritchett and A Lewis, 'Economic growth *is* enough and *only* economic growth is enough', *Basics Legatum Paper*, 29 June 2026.
[34] S Dercon, *Gambling on Development*, 2022.
[35] For instance, South Africa has the second-highest share of workers with occupational licences, according to this paper: J S Hartley and M Kleiner, 'Analyzing Occupational Licensing Across Nations', *Federal Reserve Bank of Minneapolis Staff Report 685*, 7 July 2026 (p. 15). The OECD documents that South Africa is an outlier for its high number of regulatory barriers: *OECD Product Market Regulation (PMR) indicators: How does South Africa compare?*; for a recent reiteration of this point see *OECD Economic Outlook: Under Pressure*, June 2026 (p. 266 and p. 268).

Thank you.