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Dr. Francois Stofberg

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For every one to attain financial well-being

WHO PAYS WHEN A COUNTRY RUNS OUT OF OPTIONS?

Japan bought its own currency. China stopped buying oil. The United States (US) discovered that investors now want 5.22% to hold its debt for 30 years. These decisions tell the same story: When a crisis arrives, countries with options can protect themselves. Countries without options pass the cost of a crisis to their citizens.

Japan offers a remarkable example. For years, its government, central bank, and public pension funds accumulated enormous foreign investments, while borrowing very cheaply at home. Together, those foreign assets are worth more than half of Japan's economy and earned an average annual return of 5.8% over 25 years up until 2023. This scenario worked while Japanese interest rates remained near zero. Now, inflation has returned, and interest rates are expected to rise. Japan has, therefore, started to sell dollars and buy yen after its currency weakened beyond ¥160 to the dollar. Because many of those dollars were bought when the yen was much stronger, Japan may have made as much as $36 billion while defending its currency.

This problem is not isolated to Japan. If higher Japanese interest rates encourage its investors to bring money home, they may sell foreign bonds. Global borrowing costs could rise further. What starts in Tokyo can eventually reach South African bond yields, the rand, and the repayments that we make on our home loans.

China used a different escape route when the Iran war disrupted oil moving through the Strait of Hormuz. Rather than competing desperately for oil, it reduced imports by roughly 5.5 million barrels a day. Its oil reserves, electric vehicles, public transport networks, and ability to restrict fuel exports allowed it to consume less without stopping its economy. This decision may have kept Brent Crude more than $30 below where it might otherwise have traded. The Organisation of the Petroleum Exporting Countries (OPEC) moves oil prices by limiting supply. China showed that the world's largest buyer can also move prices by limiting demand. Stockpiles will eventually run low, but it gave China time and helped shield oil-importing countries, such as South Africa (SA).

There is, however, an important warning. Some Chinese institutions that were created to remove bad loans from banks instead helped to hide them. They borrowed cheaply, lent to troubled property developers, and shifted losses out of sight. Now, some of these financial rescue companies need rescuing themselves. Moving a problem is not the same as solving it.

The same divide is appearing elsewhere. Switzerland entered this unsettled period with low inflation, disciplined public finances, and trusted institutions. Its economy grew by a surprisingly strong 1.5% in the second quarter, although pharmaceuticals did much of the work. The US remains vastly more powerful, but debt approaching $40 trillion means that more of its future tax revenue will be consumed by interest. Even a superpower eventually loses choices when it borrows too much.

SA still has important defences: A floating rand, deep financial markets, and a credible Reserve Bank. Yet, we import oil, pay heavily to service government debt, and remain vulnerable to unreliable electricity, railways, and ports. We cannot command the economy like Beijing, nor can we borrow as easily as Washington. So, when the next external shock arrives, government may not be able to absorb it. Households and businesses will pay through fuel prices, food inflation, higher interest rates, taxes, or weaker public services. This is the real value of repairing infrastructure, reducing debt, and building energy alternatives. They are not abstract policy ambitions. They create choices.

Investors should think similarly. Do not only ask how quickly a country or a company is growing. Ask whether it can refinance its debt, replace an important supplier, absorb a weaker currency, or survive several difficult months. Growth reveals how fast something moves in good times. Its available choices determine whether it survives bad times. When a country runs out of options, its citizens foot the bill.