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Author: Neesa Moodley

Inflation is easing, but debt is up

Inflation may be slowing, but consumers are drowning in debt and defaulting on essentials. By **Neesa Moodley**

Although inflation is slowing, South Africans are still drowning in debt. Two-thirds of South Africa's creditworthy consumers who took part in a Debt Rescue survey stated that they cannot repay their debt because of macroeconomic pressures beyond their control.

And DebtBusters' Debt Index for the first quarter of this year reported numbers just as bad – 91% of consumers who applied for debt counselling in the first quarter had a personal loan and 37% had a one-month loan, also known as a payday loan.

Over the past nine years, electricity tariffs have increased by 135%, the price of petrol has risen by 88% and the compound effect of inflation is 52%. As a result, consumers who applied for debt counselling in Q1 2025, on average, needed 69% of their take-home pay to service debt.

The most vulnerable consumers, taking home R5,000 or less per month, use 76% of their income to repay debt. Those earning R35,000 or more spend 77% on servicing debt. The ratios for these income groups are the highest since DebtBusters started analysing the data in 2016.

"It's clear that while consumers may feel a little more positive, personal loans, especially one-month loans, remain a lifeline for many because income has not kept pace with rising expenses," says Benay Sager, executive head of DebtBusters.

Debt Rescue CEO Neil Roets says 41% of people have indicated that they have defaulted on their credit cards over the past year, and 30% have missed payments on retail store accounts.

"These are the two most commonly used forms of credit for day-to-day expenses because they are existing facilities that they have access to, which are now becoming increasingly unaffordable while providing the only lifeline for many consumers," Roets notes.

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The Debt Rescue survey outcomes show that 24% of those polled cited defaults on personal loans, with 31% attributing this to unexpected expenses and 21% to loss of employment. "A total of 65% of those surveyed said that the current economic conditions are significantly affecting their ability to repay debt," Roets said.

"These numbers reflect the reality of life right now for millions of South Africans who are unable to keep up with paying their rent, car payments, groceries and school fees, and are defaulting on all sources of debt and credit. This is not a case of overspending on luxuries, but simply a means to financially get by," warns Roets, who has been sounding the alarm for well over a year now.

The elephant in the room is, of course, the many millions more who are not credit compliant and hanging on by a very thin thread. The latest statistics show that 25% of the population live below the food poverty line, and more than 30 million people live below the upper-bound poverty line of about R1,634 per month.

According to ISS African Futures, the percentage of South Africans living in poverty has hovered at about 62% in recent years. On the current growth trajectory, it is likely to inch down marginally to 60% over the next decade.

The number is largely the result of escalating food, energy, water and fuel costs, driven by an economy in deep trouble, which has led to the unsustainable unemployment level of 32.9% of the population.

"It is only possible to reduce unemployment with a rapidly growing economy, and the figures showing economic growth of just 0.1% in the first quarter of 2025 fail to inspire much hope," says Roets.

"Although 27% of people polled by Debt Rescue said they are compelled to take on part-time jobs or freelance to increase their income simply to meet the monthly needs of their families and themselves, many are simply not able to extend their working hours to accommodate earning an extra income, and taking on debt becomes the only other alternative," says Roets.

DebtBusters was able to show that compared with 2016:

- Today's consumers have 53% less purchasing power. Although the impact of inflation has recently subsided, average nominal incomes of incoming cohorts are now 1% lower than 2016 levels, and cumulative inflation over the nine years is 52%. There's better news for those taking home R35,000 or more. For them, nominal income has increased by 11% since 2016.
- Consumers in most income bands spend 25% of their disposable income, after debt repayments, to pay for water, electricity, rates and transport. For people in lower-income groups, who spend a larger portion of their income on food, food inflation has meant they have experienced 2% to 4% more inflation over the past few years.
- Top earners have unsustainable levels of unsecured debt. On average, unsecured debt levels are 34% higher than nine years ago, but for people taking home R35,000 or more, it has increased 90% – the highest ever. **DM**