

ECONOMY



Higher repo rate adds pressure on South African households

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SOUTH African households are facing another squeeze on their finances after the South African Reserve Bank (Sarb) raised the repo rate by 25 basis points (bps) to 7.25%, increasing borrowing costs at a time when consumers are already battling rising living expenses and mounting debt.

The latest increase, the second since May, takes the prime lending rate to 10.75%.

For consumers with home loans, vehicle finance, credit cards and other variable rate debt, the decision means higher monthly repayments and less disposable income.

The increase comes as the cost of essentials remains elevated, while South Africa's economy contracted by 0.2% in the second quarter and growth prospects remain subdued.

Debt Rescue CEO Neil Roets said the cumulative impact of higher interest rates and rising living costs was particularly concerning for households already under financial strain.

"In the face of the expected October petrol and diesel price increases, driven by global energy market instability and rand weakness, which will impact transport, distribution, and food prices, worsening inflationary pressures, the accumulated impact will place already financially stretched South African households under even greater pressure," Roets said.

Reserve Bank Governor Lesetja Kganyago said the decision was driven largely by a global energy shock that was creating

additional inflationary pressure.

"While global growth has managed to weather the storms created by the energy shocks of 2026, the cracks are showing," Kganyago said.

The central bank expects headline inflation to rise above 5% later this year and into early 2027, largely because of higher fuel prices. Kganyago said the current average fuel price under recovery was R2.83 per litre.

"Headline inflation will likely be above 5% later this year and early next year, before slowing as the fuel shock recedes. We currently expect inflation to be back around 3% towards the end of 2027," he said. For consumers, however, the immediate concern is the impact on household cash flow.

Households face higher debt repayments

The latest rate increase will add to monthly bond repayments across a wide range of home loans.

Based on a 20 year repayment period at the prime lending rate, a R750 000 home loan would see the monthly repayment rise from about R7 488 to R7 614, an increase of R126.

A R1 million bond would increase by about R168 a month, while a R2m bond would rise by approximately R337. On a R3m home loan, the monthly repayment would increase by about R506, while a R5m bond would rise by approximately R842.

Samuel Seeff, chairman of the Seeff Property Group, said the rate increase would add to affordability pressures in an already constrained economy.

Consumers already under credit stress

The latest rate hike comes against a backdrop of significant consumer credit pressure.

According to the Eighty20 Credit Stress Report, 41.8% of credit-active South Africans are in default on at least one loan, while outstanding consumer debt has climbed to R2.7 trillion. Overdue balances increased by R8.3 billion to R233bn during the second quarter.

Roets said the figures showed why the cumulative effect of higher borrowing costs was so important.

"What concerns us most is the cumulative pressure on household affordability. When essential living costs and debt repayments absorb an increasing share of disposable income, consumers can become increasingly reliant on credit simply to bridge monthly shortfalls. That is one of the clearest warning signs of escalating financial distress," he said.

Debt Rescue's own consumer survey in June found that nearly half of respondents did not know how they would cope financially with another interest rate increase. Roets said the consequences extend beyond individual households, as consumers reduce spending and businesses face higher financing costs.

"We can expect a serious disruption to the working economy. Reduced disposable income will lead to weaker consumer spending, placing further pressure on economic activity, while persistent fuel, transport and other input cost pressures can continue to keep household inflation elevated," he said.



WITH consumer debt, fuel costs and household expenses rising, financial experts warn that the latest repo rate increase could further weaken disposable income and increase financial distress. | Supplied

Pressure builds ahead of Black Friday

The timing of the increase could also influence consumer behaviour as households move towards Black Friday, the festive season and the summer holidays.

Dean Hyde, chief operating officer at PayJustNow, said the company's data showed consumers were already using payment flexibility to manage their cash flow. The platform, which serves around 4.5 million customers, recorded its highest transaction value month on record in July. An active PayJustNow customer has also used buy now, pay later services an average of 5.08 times over the past 12 months, with the company reporting

successful repayment across more than 98% of total transaction value.

Hyde said the latest rate increase would make careful planning even more important as consumers approached the major spending period at the end of the year. "The important distinction is between planning the timing of a purchase you can afford and spending beyond your means. When household budgets are under pressure, knowing exactly what you need to pay and when becomes even more important," Hyde said.

Consumers urged to protect cash flow

Tando Ngibe, senior manager at Budget Insurance, said consumers were likely to feel the impact immediately.

For households, she said budgeting would become increasingly important as higher debt repayments competed with transport, groceries, insurance and other essential expenses. "Budget, budget, budget is the key message for consumers: understand where your money is going, cut back where you can and, where possible, use any available financial room to reduce debt or build a buffer for future costs," Ngibe said.

Hayley Parry, money coach and facilitator at 1Life's Truth About Money, said the rate increase would leave consumers with less disposable income, particularly those already carrying home loans, credit cards and personal loans.

"The key to credit repayments is paying extra toward the principal each month, no matter how small the additional payment, as this will reduce your loan payments and shorten the period

you need to repay your loan," Parry said. She also urged consumers to use the latest increase as an opportunity to reassess their finances ahead of the festive season. "Consumers should focus on what they can control which is your personal budget, look at your cash flow. What can you cut? Subscriptions, spending or lifestyle? Cut down on unnecessary spending and start saving. If possible, with whatever little is left, keep building your emergency fund," Parry said.

A wider economic impact

The consequences of the rate increase extend beyond individual consumers. Higher borrowing costs can affect small businesses, many of which rely on overdrafts and short term finance to manage cash flow. Roets said this could place further pressure on employment at a time when South Africa already faces exceptionally high unemployment.

"The rate hike itself is just the tip of the iceberg. Higher borrowing costs affect households directly, but they also flow through to small businesses, a critical part of South Africa's economy. Pressure on business cash flow can constrain expansion and hiring, while increasing the risk of job losses at a time when unemployment is exceptionally high," he said.

For consumers already struggling to meet their obligations, Roets said seeking help early was important.

With inflation expected to remain elevated before easing towards the Reserve Bank's 3% target in 2027, South African consumers face a difficult period in which managing household cash flow will remain critical.

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