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MONETARY POLICY

SARB's rate decision offers little relief to debt stressed South African households

BUSINESS

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THE South African Reserve Bank's (SARB) decision to keep interest rates unchanged offers some breathing room for indebted households ahead of the festive season, but it does little to ease the financial pressure facing millions of consumers struggling to afford basic necessities.

With household budgets already stretched by years of rising living costs, the latest rate decision means consumers with variable rate loans will avoid an immediate increase in repayments.

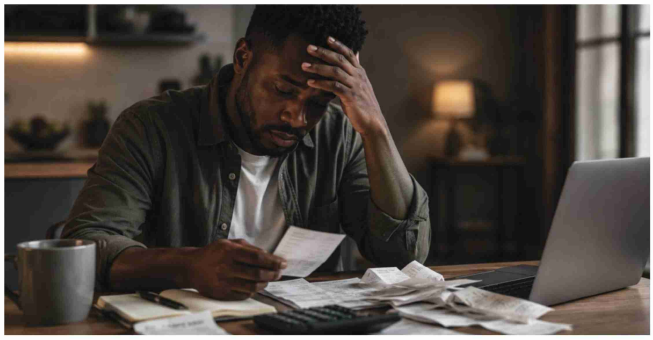
However, the impact of higher food, fuel, transport and electricity costs continues to erode disposable incomes.

Neil Roets, chief executive of Debt Rescue, said the decision to keep rates unchanged prevented further immediate increases in repayments on variable rate debt, but offered little meaningful relief to consumers already struggling to meet their financial obligations.

"South Africans are approaching the festive season against a backdrop of sustained financial pressure. Years of rising living costs have eroded household purchasing power, while existing debt commitments continue to place considerable demands on monthly incomes," said Roets.

October's inflation increase to 5.2%, from 4.5% in September, highlighted renewed pressure on household budgets, particularly through fuel and transport costs.

Roets said stable interest rates should not be confused with improved affordability, as households continued to face the accumulated impact of previous price increases across essential goods and services.



THE Reserve Bank's decision to keep interest rates unchanged prevents further immediate increases in loan repayments, but Debt Rescue warns that many households remain financially vulnerable. | ChatGPT

Of particular concern was the risk of consumers increasingly relying on credit to cover the gap between their incomes and essential expenditure.

"When borrowing becomes necessary to cover recurring costs such as groceries, electricity and transport, financial vulnerability increases, particularly where existing debt repayments already consume a substantial portion of disposable income," he said.

Roets warned that prolonged financial pressure could leave households exhausting their savings, falling behind on repayments or postponing important financial commitments.

He said interest rate stability was welcome, but meaningful relief would depend on sustained improvements in affordability and greater breathing room in already stretched monthly budgets.

Frank Blackmore of KPMG said the Monetary Policy Committee's decision to keep interest rates unchanged reflected a slightly improved inflation outlook, although risks to inflation and economic growth remained.

He said the Reserve Bank governor Lesetja Kganyago had acknowledged the pressure households were facing from rising costs, while noting that the economy was expected to begin recovering in the second half of the year.

Petrol and diesel prices had eased slightly, although they remained elevated, while the exchange rate was relatively stable at levels close to where it started the year.

Blackmore said the MPC had voted four to two in favour of keeping rates unchanged.

"I think this would be a relief to a lot of South Africans, as it will mean that no further interest rate increases are expected for this year," said Blackmore.

He added that there was hope further increases would not be necessary in January, provided inflation continued to show signs of easing. However, the outlook remains challenging for households carrying significant debt, particularly as the festive season approaches and consumers face additional spending demands.

For indebted consumers, the rate hold provides a pause in borrowing cost increases, but the wider cost of living remains a significant obstacle to financial recovery.

Samuel Seeff, chairman of the Seeff Property Group welcomed the central bank's decision to keep the repo rate unchanged at 7.25%, maintaining the prime lending rate at 10.75%.

Following two 25-basis-point hikes earlier this year in May and September, Seeff said that holding rates steady is a vital intervention that supports economic stability and avoids wiping out the remaining relief from last year's rate cuts.

"It provides an important reprieve for overburdened consumers ahead of the annual festive retail season, which is crucial for that sector and the economy. It also ensures households do not face a further increase in their monthly debt repayments at a time when spending is essential for economic momentum," Seeff said.

Seeff highlighted that the higher interest rate this year has clearly not curbed external fuel and energy shocks, but has strained household budgets and stunted the economy.

"It also seems that the SARB's 3% inflation target is perhaps premature given the sustained economic challenges. Even the SARB does not expect to reach it until 2028, which is concerning for the interest rate.

"With national GDP growth already downgraded from 1.6% to 1.2% at best, avoiding a third rate hike this year gives households and businesses essential breathing room, preventing further pressure on household budgets without curbing global supply-side shocks," Seeff observed.

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