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SARB Consultation Paper on the Cessation of the Prime Lending Rate

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The South African Reserve Bank (SARB) has published a consultation paper on a landmark proposal to discontinue the long-standing prime lending rate (PLR) as a reference rate in financial contracts. This forms part of ongoing reforms to modernise South Africa's interest rate benchmarks and ensure alignment with international best practice.

For decades, the PLR has served as a base rate for pricing credit across a range of products, including mortgages, vehicle finance, personal loans and other credit facilities. However, the SARB notes that the PLR has gradually shifted from its original purpose to become a largely administrative benchmark. According to the SARB, the use of the PLR has contributed to persistent misconceptions about how lending rates in South Africa are set. Many consumers still view the PLR as the base rate for loan pricing and believe the fixed spread leads to excessive bank profits, despite lending rates being determined by banks' own funding costs, risk assessments and market conditions.

As such, retiring the PLR and adopting a more transparent reference rate is seen as necessary to create a clearer link between monetary policy decisions and lending rates, while improving public understanding of how banks price loans.

The history of the prime lending rate and its intended use

The PLR was originally introduced as the rate that banks offered to their most creditworthy clients, known as "prime clients." Each bank set its own prime rate independently, reflecting its specific funding costs, risk appetite and credit assessments. Over time, however, competition narrowed the differences between bank-specific base rates, and the banking sector evolved toward a predominant PLR.

Following financial system reforms in the late 1990s and early 2000s, the PLR evolved from a bank-determined "base rate" into a standardised reference rate for loan pricing. In 2001, it was fixed at 350 basis points (3.5%) above the SARB policy rate (SPR), commonly known as the repurchase (repo) rate. This change marked the PLR's full transition from a rate rooted in individual bank-client relationships to a general reference rate for quoting prices. It became a benchmark for pricing consumer and business loans rather than a reflection of the premium charged to prime clients over the SPR.

Importantly, the 350-basis-point spread above the policy rate was never intended to represent a reasonable or minimum lending margin. Although banks may quote lending rates in prime-based terms, this does not mean that the PLR serves as the starting point for loan pricing or negotiation. Actual bank lending rates are determined by multiple factors, including a bank's cost of funding, the client's risk profile and the institution's risk appetite. In principle, a bank should determine the appropriate lending rate for a client first and then link that lending rate to prime. There is also no regulatory requirement compelling lenders to quote prices using the PLR.

As a result, the SARB argues that the PLR no longer represents the economic interest it was meant to measure and no longer meets global principles for reliable and transparent financial benchmarks.

A Proposal Rooted in Past Reviews

This is not the first time the relevance of the PLR has been questioned. In 2009, a joint technical committee of the SARB and the Banking Association South Africa (BASA) examined whether the PLR–SPR spread distorted lending practices or inflated bank margins. The committee found no such evidence, confirming that the PLR served as a reference rate for pricing loans rather than a determinant of actual lending rates. The committee also recommended that the SPR be considered as a replacement for the PLR as the primary reference rate, provided that the implementation be careful managed. However, concerns about legal complications and potential market disruption prevented the proposal from being implemented at the time.

Today, with the reference rate reforms currently underway including the ongoing transition away from the Johannesburg Interbank Average Rate (Jibar)—the SARB believes the timing is right to re-evaluate the appropriateness of maintaining the PLR as a reference rate for lending in South Africa. These reforms not only present an opportunity to simplify the interest rate structure for PLR-based products, but also address the transition risks that previously prevented adoption of the 2009 recommendation to replace the PLR with the SPR.

Choosing an alternative reference rate to replace the prime lending rate

In its consultation paper, the SARB evaluated two possible approaches: refining the PLR methodology or abolishing it outright.

Refining the PLR calculation methodology would require the SARB to define a new process for adjusting the spread between the PLR and the SPR. While this would reflect the dynamics of financial conditions, it would also require extensive governance systems and control measures to ensure that the rate remains credible, reliable and robust. It would also risk unintended transfer of economic value in existing contracts.

The alternative approach is to abolish the PLR and replace it with an appropriate benchmark for legacy PLR-linked contracts. Market participants would need to agree on an alternative reference rate that would be used instead of the PLR. Under this approach, lenders would still retain the discretion to use reference rates that best align with their own funding structures and minimise basis risk by matching the reference rate used for their assets and liabilities.

The SARB acknowledges, that while the change does not alter lending rates, it may initially create confusion among clients unfamiliar with the SPR. Some consumers may interpret a higher numerical spread as indicating higher lending rates. This potential for misperception highlights the need for a well-designed communication strategy to support the transition. Over time, however, replacing the PLR with the SPR is expected to improve transparency and public understanding of how monetary policy influences borrowing costs

It is important to note that alternative benchmarks, such as the South African Rand Overnight Index Average (ZARONIA), are available and may be suitable for certain wholesale market contracts. However, adopting ZARONIA as a replacement for the PLR in retail lending would introduce unnecessary complexity in rate-setting processes and is therefore not recommended.

Implications and transition process

Estimates suggests that more than 12 million existing financial contracts, worth an estimated R3.2 trillion, currently reference the PLR, with retail mortgages and consumer loans being the largest segment, accounting for 37% of the total exposure.

As good practice, the SARB outlines a three-part transition approach for successful transition:

- Adding fallback language in new PLR-linked contracts in anticipation of the cessation of the PLR.
- Begin issuing new contracts using the SPR as the reference rate.
- Transitioning legacy PLR-linked contracts.

The SARB acknowledges that banks will need time to adjust their business processes, technological infrastructure, customer communication strategies, and regulatory compliance frameworks.

The SARB indicates that, while it might not be feasible to amend existing retail contracts given the scope of products, the number of financial contracts as well as the applicable consumer protection laws and regulations that serve the retail market, it would be necessary to include safe harbour provisions in the relevant legislation to facilitate the transition of these contracts and minimise legal costs.

Timing and Consultation

The PLR transition will commence only after the formal cessation of Jibar, allowing the shift to the SPR to build on the insights and initiatives of the Jibar reform ensuring an efficient and orderly transition. Active transition away from the PLR is therefore expected to begin no earlier than 2027.

In the meantime, the SARB has begun engaging with stakeholders through existing structures such as the Market Practitioners Group, the Money Market Subcommittee and the Financial Markets Liaison Group. Given their respective mandates, these structures will provide critical perspectives on technical implementation, transition mechanisms and market implications.

Public consultation begins immediately and may be supported by targeted surveys and industry roundtables, with initiatives, including consumer education and industry workshops, is expected as the transition roadmap develops.

How SAICA Will Support Its Members

SAICA will continue to monitor these developments closely and assess their implications for members across the financial services sector. Support will include providing technical updates and facilitating discussions within relevant SAICA industry interest groups to help members understand the practical, financial reporting and regulatory implications of the transition. SAICA will also engage with regulators and industry bodies on behalf of its members to ensure that emerging challenges are raised and addressed. In addition, SAICA will host webinars and knowledge-sharing sessions to help members prepare for changes in contract structures, reference rate disclosures and related governance requirements.

A copy of the Consultation Paper can be accessed here:
https://www.resbank.co.za/en/home/publications/publication-detail-pages/other-publications/2026/prime-consultation-paper