

# Banking, Finance & Projects



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## SOUTH AFRICA

- Prime rate under pressure: SARB signals a shift in South Africa's lending reference rate framework

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## Prime rate under pressure: SARB signals a shift in South Africa's lending reference rate framework

The prime lending rate has long occupied a central, if increasingly misunderstood, position in South Africa's lending landscape. In its February 2026 consultation paper, the South African Reserve Bank (SARB) proposes bringing this era to an end by replacing the prime lending rate with the SARB policy rate as the primary reference point for loan pricing. This alert considers the rationale for the proposed reform, the mechanics of the transition, and the key implications for lending documentation and market participants.

SARB's consultation paper on the cessation of the prime lending rate (Prime Rate), published on 16 February 2026, signals an important step in the evolution of South Africa's interest rate framework. The proposal would see the Prime Rate replaced with the SARB policy rate (i.e., the repurchase rate) (Repo Rate) as the primary reference point for lending, continuing the broader reform agenda that has followed the transition away from JIBAR to the risk-free rate of ZARONIA (see our previous alerts on the cessation of JIBAR, ["The end of an era: what JIBAR's demise means for South African finance"](#) and ["Out with the old, in with the new: transitioning from JIBAR to ZARONIA"](#))

While the Prime Rate has been fixed to 3.5% above the Repo Rate, the proposal is not expected to alter the economics of loan pricing itself, it has important implications for how lending rates are structured, referenced and communicated across retail and commercial markets.

### Why prime is no longer fit for purpose

The Prime Rate occupies a unique position in South Africa's lending landscape. Although it is widely perceived as the baseline for loan pricing for home loans, car loans and other credit transactions, its role has long been administrative rather than economic. Since 2001, the Prime Rate has operated at a fixed spread above the Repo Rate, serving as a convenient reference point rather than a rate that necessarily reflects funding costs, a funder's risk appetite or borrower risk.

This disconnect has created a persistent misunderstanding. The Prime Rate is frequently viewed as the starting point for negotiating lending rates, and the fixed spread above the Repo Rate is often assumed to reflect lender margins. In reality, lending rates are determined independently, based on a combination of funding conditions, risk assessment and commercial considerations, with the Prime Rate serving merely as a quoting convention. There is no requirement for lenders to quote for loans using the Prime Rate. To this end, as at 31 December 2025, there is over R77 billion worth of mortgages linked to JIBAR instead of the Prime Rate as the reference rate.



The SARB's consultation paper makes it clear that this disconnect has become increasingly problematic, obscuring how monetary policy decisions flow through to borrowing costs and undermining transparency in the pricing of credit.

### **A direct link to monetary policy**

Against this backdrop, the SARB proposes replacing the Prime Rate with the Repo Rate as the reference rate for lending. Under this approach, loans would be priced directly as a spread above the Repo Rate, rather than as a margin relative to the Prime Rate.

From a pricing perspective, the SARB is at pains to emphasise that nothing changes. The existing fixed relationship between the two rates would be preserved through an equivalent spread, ensuring continuity and avoiding any unintended transfer of economic value between lenders and borrowers. The difference lies in transparency: the Repo Rate would be clearly identified as the anchor, with the lender's margin explicitly reflecting risk and funding considerations.

Although alternative benchmarks such as ZARONIA are acknowledged, particularly for wholesale markets, the SARB's clear preference is for the policy rate to be used in retail and mainstream lending, given its stability, simplicity and direct link to monetary policy.

### **The scale of the transition challenge**

The proposed reform is not without complexity. The Prime Rate is deeply embedded in South Africa's financial system, with millions of existing contracts referencing it across mortgages, vehicle finance, personal loans and commercial facilities. As at 31 December 2025, the SARB estimates that Prime Rate-linked contracts exceed R3 trillion in value and more than 12 million Prime Rate-linked contracts.

Recognising this, the consultation paper outlines a gradual transition strategy. This includes enhancing fallback language in new Prime Rate-linked contracts, issuing new contracts that reference the Repo Rate directly, and developing mechanisms to transition legacy contracts over time. To minimise disruption, fallback spreads would replicate the existing prime-to-policy-rate relationship.

Given the operational and legal challenges of amending large volumes of retail contracts, the SARB also anticipates legislative support in the form of safe-harbour provisions to facilitate the transition and reduce litigation risk.

### **Timing and market readiness**

Importantly, the SARB does not envisage an immediate move away from prime. Active transition is expected only after the completion of the JIBAR cessation process, with 2027 identified as the earliest realistic start date. In the interim, the

consultation process is intended to allow lenders, borrowers and other stakeholders to assess exposure, identify operational dependencies and prepare for a gradual shift.

### **What this means for clients**

The shift away from the Prime Rate has implications for lenders and borrowers alike.

For lenders:

- the proposal is a clear signal to begin assessing Prime Rate-linked exposure across loan books, systems and documentation.
- since it may not be practical to amend existing Prime Rate-linked loans, there may be changes to legislation that facilitate the transition and minimize legal costs for lenders and borrowers.
- taking the lessons learnt from the cessation of JIBAR, the need to incorporate appropriate fallback language upon the cessation of the Prime Rate in any new Prime Rate-linked loans provided to its clients.
- to consider how future lending products may be structured around the Repo Rate.

For borrowers, the shift is unlikely to affect borrowing costs in practice as the margin will also incorporate the differential between the Repo Rate and Prime Rate, but it may change how those costs are presented and understood based on costs, a funder's risk appetite or borrower risk.

More broadly, the consultation paper highlights the direction of travel in South Africa's broader benchmark reform agenda: fewer legacy reference rates, greater transparency, and a closer alignment between monetary policy and market pricing. Clients engaging in new lending, refinancings or portfolio reviews should factor this trajectory into their documentation, pricing strategy and long-term planning.

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Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

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