CONSULTATION PAPER ON THE CESSATION OF THE PRIME LENDING RATE

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South African Reserve Bank

Contents

1. Executive summary

This paper examines the continued use of the prime lending rate (PLR) as a reference rate in financial contracts as part of ongoing reforms to modernise domestic benchmark interest rates and promote alignment with international best practice.

The PLR has evolved into a rate that no longer represents a base rate for pricing credit to bank clients. Its current role is largely administrative and detached from its original purpose, having become a fixed spread (currently 350 basis points) above the South African Reserve Bank (SARB) policy rate (SPR) since 2001.[1]

While the simplicity of the PLR has enabled the comparability of lending rates and better monetary policy transmission, it has also led to widespread misconceptions about its function. Many still perceive the PLR as the base rate for loan pricing and believe the fixed spread contributes to excessive bank profits, despite lending rates being determined by banks' funding costs, risk appetites and client risk profiles.

Consequently, the SARB prefers that the use of the PLR as a reference rate ceases. Instead, the PLR should be replaced with the SPR. This approach would enhance transparency, create a clearer link between monetary policy decisions and lending rates, and make it easier for consumers to understand how banks price their loans. Actual loan pricing would remain unchanged; banks would continue to set lending rates based on risk and funding considerations, quoting them as a margin above the SPR rather than the PLR.

The transition from referencing the PLR to referencing the SPR, however, must be carefully managed due to the extensive use of PLR-linked contracts in retail and commercial lending. It is envisaged that the transition process will entail incorporating robust fallback language in new contracts and establishing safe harbour provisions to facilitate the migration of legacy contracts. Lessons from the recent Johannesburg Interbank Average Rate (Jibar) benchmark transition will inform the strategies needed

[1] The SPR refers to the interest rate commonly known as the repurchase (repo) rate. The term "repo rate" was appropriate when the SARB implemented monetary policy using a structural shortage framework and the policy rate reflected the cost at which the SARB lent short-term liquidity to commercial banks using repurchase agreements. However, in 2022, the SARB transitioned to a surplus framework for monetary policy implementation, which has reduced the need to refinance liquidity shortages significantly.

for an orderly transition. While stakeholder engagement and public consultation commence now, the transition is only expected to start after the official cessation of Jibar in order to avoid overlaps.

2. The history of the prime lending rate and its intended use in South Africa

The PLR originated as an interest rate set by banks for their most creditworthy clients, known as 'prime clients'. Traditionally, it represented the lowest interest rate that a bank could offer, with each bank setting its own rate independently.

In South Africa during the mid-1970s, individual banks' PLRs were typically 2.5–3.5 percentage points above the policy rate set by the SARB. This link between PLRs and the policy rate was discontinued in 1982 and, consistent with the intended purpose of the PLR, banks became free to determine their own PLRs in response to market forces and subject only to the influence of broad official monetary policy and statutory ceilings.[2]

Banks routinely quoted distinct PLRs reflecting differences in their risk appetites, funding costs and customer risk profiles. As such, the PLR reflected the interest rate that respective banks offered only to their top-tier clients, and its primary role was to function as a 'base rate' set individually by each bank.

Nonetheless, competition and similar cost structures among banks led PLRs to converge within a narrow range and a 'predominant PLR' was introduced, but only as a *benchmark* minimum lending rate for commercial banks. The predominant PLR was calculated as an average of individual banks' PLRs intended to reflect the prevailing or representative PLR in the market. It was not an administered or policy-determined interest rate. However, the predominant PLR was treated as the de facto PLR. Although it was still loosely linked to market conditions given how it was derived, the rate became increasingly detached from the interest it sought to measure. The informational role of the PLR began to diminish as the rate served as a familiar

[2] At the time, maximum interest rates were regulated under the Limitation and Disclosure of Financial Charges Act 73 of 1968, which was later repealed by the National Credit Act 34 of 2005.

reference in contracts and consumer communication rather than as an interest rate that conveys information about lending rates in the economy.

In the late 1990s and early 2000s, South Africa implemented financial reforms to modernise its financial system.[3] These reforms led to the PLR becoming a fully fledged reference rate and no longer a 'base rate'. As a reference rate, the PLR represented an interest rate against which banks *quoted* lending rates to their clients. The PLR was subsequently determined as a fixed spread of 350 basis points above the SPR. This spread was not a regulatory prescription, but an outcome of where the PLR was relative to the SPR at the time and the technical adjustments implemented by the SARB.

This change marked the PLR's full transition from a rate reflecting individual bank-client relationships to a reference rate for quoting prices. It became a general reference rate for pricing consumer and business loans rather than a reflection of the premium that banks charged their 'prime clients' over the SPR. Importantly, banks retained full discretion over actual lending rates, which were quoted as margins below or above the PLR.

The 350 basis points spread above the policy rate was and is not intended to be a reasonable minimum spread for lending rates above the policy rate. While banks may quote lending rates using prime rate terms, this does not mean that the PLR constitutes the baseline for loan pricing or negotiation. Rather, bank lending rates are typically determined by several factors, including the cost of funding, the client's risk profile and the institution's risk appetite. The intended use of the PLR as a reference rate is that only once an appropriate lending rate for a particular client has been determined should a bank link that lending rate to prime. Additionally, there is no regulatory requirement mandating lenders to quote loan prices in PLR terms. Lenders have discretion to use alternative reference rates such as the Jibar or the SPR.[4]

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[3] Among other things, this included South Africa's adoption of the inflation-targeting framework.
[4] As of 31 December 2025, more than R77 billion worth of mortgages were priced using the Jibar as a reference.

The approach to fix the spread between a reference rate and the interest rate set by the monetary authority (the SARB) has several benefits, especially in the context of retail lending:

- It establishes a link that ensures future changes in the policy rate are transmitted to clients.
- It eliminates the administrative burden and risk of renegotiating interest rates embedded in a contract by enabling adjustments in customer lending rates resulting from changes in the reference rate.
- It increases transparency and enables customers to easily compare lending rates, which would be difficult if each lender used their own PLR.

The approach is not without disadvantages, however. Given how the role of the PLR has evolved in South Africa, it can lead to misconceptions about how bank lending rates are determined. It can also introduce basis risk for lenders in cases where the rate is disconnected from how banks price their liabilities.[5]

The decision to fix the PLR at 350 basis points in 2001 was further reinforced in 2009, with a joint SARB/Banking Association South Africa (BASA) committee (henceforth, the 'technical committee') recommending that there should be a single PLR with a fixed spread to the SPR.

3. Revisiting the case for abolishing the prime lending rate

In May 2009, the technical committee (established by the SARB) had a mandate to examine the spread between the SPR and the prime lending rate. Furthermore, the committee sought to clarify the role of the PLR in the domestic banking system, its link to the SPR and interest rates charged by commercial banks, and how it related to commercial banks' net interest margins. In its final report, the committee also

[5] Basis risk arises when the reference rate used to price a loan does not move in line with the reference rate that determines the lender's funding cost or hedging position. In such cases, changes in the benchmark applied to assets are not matched by changes in the benchmark applied to liabilities or hedges, resulting in imperfect offset and potentially unexpected gains or losses for the lender.

considered whether adjustments to the spread between the PLR and the SPR were necessary.

The outcomes of this study were published in 2010.[6] Essentially, the committee concluded that the spread between the PLR and the SPR was largely immaterial for setting actual lending rates, as the PLR served as a reference rate for pricing loans rather than as a determinant thereof.

Several other aspects are instructive to note, remaining relevant for consideration in this proposal:

- The committee noted that the role of the PLR had changed from being the lowest or best lending rate to being a reference rate to which banks linked floating interest rates on loans and advances.

- The report of the committee noted that the fixed spread between the PLR and the SPR was not a guaranteed interest margin for lenders, although this misconception still persists in public discourse. There is a fundamental difference between how the public perceives the determination of lending rates where the PLR is used as a reference and how it is intended to work in practice. In fact, the report highlighted that lending rates have a more direct link to the cost of funding for banks, which itself is influenced by liquidity conditions in the money market. Nonetheless, it was important to maintain a link between the pricing reference and the SPR to ensure that changes in the SPR were transmitted to floating interest rates charged by banks to their clients.

- The practice where banks each quoted their own PLRs, which represented the interest charged to their 'prime clients', was not ideal. The committee was concerned that this practice would result in multiple PLRs and complicate monetary policy transmission as well as the ability of consumers to compare interest rates across different institutions. It was therefore better practice to have one reference rate for all banks, which is currently the PLR. Conceptually,

[6] The report on the role of the prime rate and the prime-repurchase rate spread in the South African banking system can be accessed here.

any other reference rate that closely tracks changes in the SPR can be used as an alternative to the PLR.

The committee concluded that there was good reason to consider alternatives to the PLR setup and made three recommendations. First, the committee recommended that the SPR be considered as a replacement for the PLR. Second, the committee noted that South Africa could, in practice, revert to the old arrangement where banks quoted their own individual PLRs that were a true reflection of their 'base' for setting lending rates. The main drawback of this alternative, however, was that the multiplicity of PLRs would complicate the process of comparing offerings across different banks and could distort monetary policy transmission.

Thirdly, the committee considered an alternative where the SARB prescribed a narrower spread between the PLR and the SPR. However, the committee held a view that narrowing the spread without changing the refinancing rate for banks (i.e. their marginal cost of funding) or deposit rates would adversely affect banks' net interest margins.

In the end, the committee assessed that replacing the PLR with the SPR was the most viable alternative, but it would require careful implementation. The main concern at the time was that replacing the PLR with the SPR would be fraught with legal complications and would also be accompanied by market disruptions, albeit temporarily.

While the 2009 study clarified the role of the PLR and its relationship to the SPR and bank lending rates, misconceptions about these relationships remain. There is still a general view in society that the PLR is the 'base rate' for negotiating lending rates on loans and advances, and that the 350 basis points PLR margin above the SPR contributes to exorbitant interest margins for South African banks. Furthermore, it is often argued that reducing or eliminating this spread would lower consumer debt-service costs. This is not the case.

These misconceptions probably reflect the ever-evolving nature and use of the PLR since its introduction in South Africa's financial markets, which includes a time when the PLR was indeed used as a base rate for bank lending. Be that as it may, it is important to reiterate that, in its current form, the PLR is not, nor is it intended to be, the basis for pricing credit. It is also not intended to convey messages about the reasonable minimum spread that lenders should charge their clients – notwithstanding any perceptions or expectations that may be formed based on the mere existence of the spread. The PLR is an administrative reference rate which, for all intents and purposes, has become redundant. While there are benefits to using a PLR-like interest rate as a reference rate, the continued use of the PLR, given all these misconceptions, is deemed counterproductive.

Furthermore, the PLR fails to comply with the International Organization of Securities Commissions (IOSCO) principles for financial benchmarks, which serve as a globally accepted and overarching framework against which to judge the reliability, integrity and transparency of financial benchmarks. One of the critical shortfalls is that the PLR is no longer an accurate representation of the economic realities of the interest it seeks to measure.

Compliance with principles for financial benchmarks has become an indispensable condition that providers of critical benchmark and reference rates in South Africa must meet. This is underscored in the Financial Sector Conduct Authority's (FSCA) draft benchmark regulations which seek to enhance the integrity and accuracy of financial benchmarks while ensuring their alignment with international standards.

It is against this backdrop that the SARB deems it necessary to re-evaluate the appropriateness of maintaining the PLR as a reference rate for lending in South Africa. The reference rate reforms currently underway in South Africa not only present an opportunity to simplify the lending interest rate structure for PLR-based products, but also provide solutions to the transition risk that was the basis for not adopting the 2009 proposal to replace the PLR with the SPR.

4. Choosing an alternative reference rate to replace the prime lending rate

The SARB considered two options for addressing the shortcomings of the PLR.

The first option entailed refining the PLR calculation methodology such that the benchmark would be representative of the underlying interest it seeks to measure. Refining the calculation methodology would require the SARB to define a new process for adjusting the spread between the PLR and the SPR. For example, banks could be requested to submit lending rates charged to their ‘prime clients’, which could then be used to derive the PLR.

On the upside, this option would retain the PLR and ensure that the PLR-SPR spread represents consumers’ cost of borrowing where credit risk is minimal. Changes to the PLR-SPR spread would reflect the dynamics of financial conditions. However, there are some drawbacks with this option, as the SARB and contributing banks would need to establish extensive governance and control measures to ensure that the rate is credible, reliable and robust. Furthermore, changing the methodology for calculating the PLR-SPR spread would result in a transfer of economic value in existing contracts and introduce complexity.[7]

The second – and preferred – option comprised abolishing the PLR and designating an appropriate replacement benchmark for legacy PLR-linked contracts. Market participants would need to consider and agree on an alternative reference rate that would be used instead of the PLR. As such, lenders would retain the discretion to use other reference rates, most probably those that minimise their basis risk through matching the underlying reference rate for their assets and liabilities. Nonetheless, the SARB would prefer that the SPR be used directly as the alternative reference rate (i.e. lenders should quote lending rates as the SPR plus a spread).

Using the SPR has several benefits:

- It is easy to understand, which is a desirable attribute for retail markets.

[7] This finding was also made as part of the 2009 review.

- It retains the direct link between lending rates and monetary policy.
- It creates transparency about the premium that banks charge their clients above the SPR. Such a premium should largely reflect funding conditions, the borrower's risk profile and the lender's risk appetite.
- It poses minimal transition complexities as there would be no need to devise a new methodology for determining reasonable credit adjustment spreads between the old and the new reference rate, given that the spread between the PLR and the SPR has been fixed since 2001.

Essentially, the pricing of loans and advances would remain unchanged, although the adoption of the SPR would enhance transparency as banks would need to disclose the spread they charge above the SPR. The spread would be set to the added risk premium as negotiated between the counterparties involved in the transaction. The additional spread to the SPR would therefore capture information about the additional cost of credit above where the central bank sets its policy rate – presumably the same way that margins over or below the PLR do.

Technically, changing the reference rate for pricing should not result in changes in lending rates and banks' profitability. The latter underscores the point that bank interest margins are not linked to the PLR-SPR spread per se, but are influenced by respective institutions' cost of funding. It also illustrates that bank lending rates are meant to be determined independently of the PLR.

From a consumer's perspective, using the SPR as the reference rate against which lending rates are quoted means that consumers would be quoted spreads that are positive and large compared to spreads quoted against the PLR, even though the actual lending rate is the same, all else being equal. While the change does not alter lending rates, it may create confusion among clients unfamiliar with the SPR, who could interpret a higher numerical spread as implying higher lending rates. This potential for misperception highlights the need for a well-designed communication strategy to accompany the transition. Over time, however, replacing the PLR with the SPR would improve transparency and public understanding of how monetary policy affects borrowing costs.

Over the long term, using the SPR directly would simplify the lending rate structure and eliminate misconceptions about the role of the PLR and its spread to the SPR. Consumers could better understand the SARB's influence on lending rates, enabling them to make more informed financial decisions.

It is also true that lenders may opt to use other reference rates. One such alternative is the South African Rand Overnight Index Average (ZARONIA) rate, which may be applicable to PLR-linked contracts in wholesale markets. The main benefit of using ZARONIA in wholesale contracts is that it likely reduces basis risk between products and any related loans and securities, securitisations or hedges.

It should be noted, however, that choosing ZARONIA as a replacement rate for the PLR would introduce complexity in the rate-setting process for retail clients and is therefore not recommended. Given that ZARONIA does not trade at a fixed spread to either the PLR or the SPR, market participants would need to agree on an appropriate adjustment spread that would minimise the risk of value transfer when the use of the PLR is discontinued. Unlike the case where the SPR is adopted as a replacement rate, it is unlikely that the risk of value transfer can be eliminated completely as the level of ZARONIA changes daily, which might not be palatable to some retail customers. Nonetheless, ZARONIA remains a robust interest rate benchmark, with relatively low volatility and a deep market that underpins it. It is also highly responsive to SPR changes, with an estimated long-term pass-through rate of 98.9%.

5. Implications of the proposed change and transition process

A shift away from the PLR to the SPR would leverage on the key insights and initiatives of the Jibar reform process to ensure an efficient and orderly transition. However, the move should recognise that, unlike Jibar, the PLR is used extensively in consumer products, including retail mortgage loans, vehicle finance, consumer credit cards etc. Therefore, some of the Market Practitioners Group's (MPG) recommendations for cash products may not apply.

As good practice, market participants would need to consider three essential steps that should lead to a successful transition, namely:

- adding fallback language in new PLR-linked contracts in anticipation of the cessation of the PLR;
- issuing new contracts that reference the SPR directly; and
- transitioning legacy PLR-linked contracts.

These steps should be underpinned by a comprehensive assessment of PLR-linked contracts. Estimates suggest that there are more than 12 million contracts that currently reference the PLR. The estimated value of these contracts is more than R3.2 trillion, of which retail mortgages and consumer loans are the largest, accounting for 37% of the total exposure.[8]

Given the SARB's preferred alternative reference rate for the PLR, PLR-linked contracts would need to incorporate fallback language to facilitate the adoption of the SPR as the primary basis for a replacement rate. Furthermore, in order to maintain alignment in outcomes and minimise basis risk, the fallback spread for existing contracts should be set at the current fixed spread of 350 basis points above the SPR, ensuring continuity and minimising disruption. This would eliminate the risk of economic value transfer when South Africa stops using the PLR.

It might not be appropriate to develop contract language over a long time using an iterative approach as envisioned for other cash products. Unnecessary variability in fallback language would likely cause confusion among retail borrowers and lead to legal disputes. Banks would need to leverage on the robust contract language that has been developed for other cash products to ensure that the fallback language that would be incorporated into retail contracts is finalised before adding it in financial contracts.

Consequently, the inclusion of fallback language would need to target new contracts, where the PLR continues to be used, while organisations prepare for the transition to using the SPR directly. Banks would require some time to adjust their business

[8] These estimates are as of 31 December 2025. They include assets, liabilities and derivative instruments, and are based on responses from a select number of banks and non-banks.

operations for SPR-linked products, including effecting changes to their technological infrastructure and business processes, as might be necessary. They would also need to develop effective communication strategies to manage the transition process and ensure that their clients understand the changes being introduced.

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 therefore be necessary to include safe harbour provisions in the relevant legislation to facilitate the transition of such contracts and minimise legal costs.

A comprehensive stock-taking exercise would need to be conducted to assess the scale and nature of legacy contracts tied to the PLR. This would include quantifying the volume and maturity profile of affected contracts, identifying counterparties, and evaluating legal considerations to mitigate transition risks.

Importantly, the recommendation to stop using the PLR as a reference rate for lending comes at the tail end of the Jibar transition, which requires extensive engagement with market participants. It is therefore recommended that active transition from the use of the PLR begin in 2027 at the earliest. In the meantime, the SARB will engage in an extensive data collection exercise and consultation with relevant stakeholders on the proposed reforms and develop draft transition plans, which shall encompass the foundational work required to enable the transition.

6. Conclusion

This paper argues for no longer using the PLR as a reference rate for lending in South Africa and replacing it with the SPR. Managing the transition from the PLR to an SPR-based lending framework would require a careful and methodical approach, especially given the extensive use of the PLR in contracts. Many mortgages, personal loans and credit agreements are currently tied to the PLR, and an abrupt replacement could risk legal and operational complexities. A well-planned transition is therefore essential to mitigate these potential challenges and maintain consumer confidence.

A transition of this magnitude would necessitate a structured and inclusive consultation process. The SARB will therefore engage with key stakeholders, including through existing structures such as the MPG, the Money Market Subcommittee (MMS) and the Financial Markets Liaison Group (FMLG). Given their respective mandates, these forums will provide critical perspectives on implementation challenges, transition mechanisms and market implications. Consultation with the public – particularly the consumers affected by the shift – will also be conducted. This engagement will commence with a formal public comment process, but may also include targeted surveys, industry roundtables and consumer awareness initiatives to ensure that the implications of the transition are well understood and managed effectively.

The publication of this paper constitutes the start of the formal public consultation process, which shall be open for one month from the date of publication.

All comments and general queries relating to this consultation paper should be sent to the SARB at sarbwgrirb@resbank.co.za.

Abbreviations

BASA	Banking Association South Africa
FMLG	Financial Markets Liaison Group
FSCA	Financial Sector Conduct Authority
IOSCO	International Organization of Securities Commissions
Jibar	Johannesburg Interbank Average Rate
MMS	Money Market Subcommittee
MPG	Market Practitioners Group
PLR	prime lending rate
repo (rate)	repurchase (rate)
SARB	South African Reserve Bank
SPR	SARB policy rate
technical committee	SARB/BASA committee
ZARONIA (rate)	South African Rand Overnight Index Average (rate)