

BANKING & FINANCE

The End of an Era? Key Considerations arising from the South African Reserve Banks’ Consultation Paper on the Cessation of the Prime Lending Rate

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In February 2026, the South African Reserve Bank ("**SARB**") published a 'Consultation Paper on the Cessation of the Prime Lending Rate' ("**Consultation Paper**") proposing the cessation of the prime lending rate ("**PLR**") as a reference rate for lending in South Africa.^[1] The paper recommends that the PLR be replaced with the SARB policy rate ("**SPR**"), commonly known as the repo rate, signaling a significant shift in how lending rates are referenced in the domestic financial system.^[2] Entities with PLR-linked exposures, whether in the retail, commercial, or wholesale lending market, should take careful note of the proposals set out in the Consultation Paper.

The central theme of the Consultation Paper is that the PLR no longer serves the function for which it was originally conceived. Historically, the PLR represented the lowest interest rate that a bank would offer to its most creditworthy clients, with each bank setting its own rate independently.^[3] Over time, however, the PLR evolved into a standardised reference rate, fixed at a spread of 350 basis points above the SPR since 2001.^[4] In its current form, the PLR is not intended to be the basis for pricing credit, nor does it convey information about the reasonable minimum spread that lenders should charge their clients.^[5] The SARB considers the PLR to be an administrative reference rate which has, for all intents and purposes, become redundant.^[6]

Entities should appreciate the SARB's concern that the continued use of the PLR perpetuates misconceptions in the market. There remains a general view in society that the PLR is the 'base rate' for negotiating lending rates and that the 350 basis points spread above the SPR contribute to excessive bank profits.^[7] The SARB stresses that this is not the case, because bank lending rates are determined by several factors, including the cost of funding, the client's risk profile, and the institution's risk appetite^[8] And that the spread between the PLR and the SPR was never intended to be a guaranteed interest margin for lenders. Replacing the PLR with the SPR is intended to eliminate these misconceptions and improve public understanding of how monetary policy affects borrowing costs.^[9]

The SARB's preferred option is for the SPR to be adopted as the alternative reference rate, with lenders quoting lending rates as the SPR plus a spread.^[10] The Consultation Paper outlines several benefits of this approach, the SPR is easy to understand, it retains a direct link between lending rates and monetary policy, and it promotes transparency about the premium that banks charge their clients above the policy rate.^[11] Critically, the intention is currently for the pricing of loans and advances to remain unchanged, with the adoption of the SPR merely enhancing pricing transparency, as banks would need to disclose the spread they charge above the SPR. Entities should note, however, that from a consumer's perspective, spreads referenced to the SPR will appear numerically larger than those quoted against the PLR, even though the actual lending rate remains the same which will require careful management.^[12] This potential for misperception underscores the need for clear communication strategies during the proposed transition from PLR to SPR. The consultation paper also considers the South African Rand Overnight Index Average ("**ZARONIA**") as a possible alternative reference rate, particularly for wholesale market contracts.^[13] However, the SARB does not recommend ZARONIA for retail contracts, as it would introduce unnecessary complexity because ZARONIA is a floating rate unrelated to either the PLR or the SPR, thereby increasing the risk of value transfer.^[14]

An important regulatory consideration highlighted in the Consultation Paper is that the PLR fails to comply with the International Organization of Securities Commissions ("**IOSCO**") principles for financial benchmarks.^[15] One critical shortfall is that the PLR is no longer an accurate representation of the economic realities of the interest it seeks to measure. This concern is reinforced by the Financial Sector Conduct Authority's ("**FSCA**") draft benchmark regulations, which seek to enhance the integrity and accuracy of financial benchmarks and ensure alignment with international standards.^[16] Entities operating in the South African financial markets should therefore view this reform not merely as a domestic initiative, but as part of a broader effort to align South Africa's benchmark framework with global best practice.

The scale of the proposed transition is substantial. Estimates suggest that there are more than 12 million contracts currently referencing the PLR, with an estimated value exceeding R3,2 trillion, of which retail mortgages and consumer loans account for 37% of total exposure.^[17] The Consultation Paper envisions three essential steps for a successful transition, adding fallback language in new PLR-linked contracts in anticipation of PLR cessation, issuing new contracts that reference the SPR directly, and transitioning legacy PLR-linked contracts.^[18]

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.^[19] The SARB cautions against developing contract language over a long period using an iterative approach, as unnecessary variability in fallback language would likely cause confusion among retail borrowers and lead to legal disputes. Banks are encouraged to leverage the robust contract language developed during the Johannesburg Interbank Average Rate ("**JIBAR**") transition process.^[20] For legacy contracts, the Consultation Paper acknowledges that it may not be feasible to amend existing retail contracts individually, given the number of affected contracts and applicable consumer protection laws and therefore, proposes that safe harbour provisions be included in relevant legislation to facilitate the migration of such contracts and minimise legal costs.^[21]

A comprehensive stock-taking exercise will also be required to assess the scale and nature of legacy contracts tied to the PLR, including quantifying the volume and maturity profile of affected contracts, identifying counterparties, and evaluating legal considerations.

Entities should note that the proposed active transition from the PLR is not expected to commence until 2027 at the earliest, following the completion of the JIBAR transition.^[22] In the interim, the SARB intends to undertake extensive data collection, stakeholder consultation, and the development of draft transition plans. The formal public consultation process is open for one month from the date of publication, and all comments and queries should be directed to the SARB at sarbwgrirb@resbank.co.za. Affected entities, particularly those with significant PLR-linked portfolios, are well-advised to engage in this consultation process and begin assessing their own exposures in preparation for the proposed transition ahead.

[1] See the Consultation Paper available on <https://www.resbank.co.za/en/home/publications/publication-detail-pages/other-publications/2026/prime-consultation-paper> (accessed on 17 March 2026)

[2] See paragraphs 1 and 8 of the Consultation Paper

[3] See paragraph 3 of the Consultation Paper

[4] See paragraph 2 of the Consultation Paper

[5] See paragraph 2 of the Consultation Paper

[6] See paragraph 3 of the Consultation Paper

[7] See paragraph 1 of the Consultation Paper

[8] See paragraph 2 of the Consultation Paper

[9] See paragraph 4 of the Consultation Paper

[10] See paragraph 4 of the Consultation Paper

[11] See paragraph 4 of the Consultation Paper

[12] See paragraph 4 of the Consultation Paper

[13] See paragraph 4 of the Consultation Paper

[14] See paragraph 4 of the Consultation Paper

[15] See paragraph 3 of the Consultation Paper

[16] See paragraph 3 of the Consultation Paper

[17] See paragraph 5 of the Consultation Paper

[18] See paragraph 5 of the Consultation Paper

[19] See paragraph 5 of the Consultation Paper

[20] See paragraph 5 of the Consultation Paper

[21] See paragraph 5 of the Consultation Paper

[22] See paragraph 5 of the Consultation Paper



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