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DEBT-MANAGEMENT company DebtBusters says inflation has eased but remains at the upper end of the central bank's range and continues to constrain consumer finances. | HENK KRUGER Independent Newspapers

South Africans relying on payday loans to make ends meet

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SOUTH African consumers continue to use loans to make ends meet as inflation's cumulative effect together with persistently high interest rates erode their income, despite the fact that inflationary pressure is somewhat subsiding.

The Debt Busters Debt Index for the second quarter of 2024 index showed that some 82% of people who applied for debt counselling during the quarter had a personal loan. A further 53% had one-month loans. These payday loans have become a lifeline for many households, but are very expensive with interest rates often in excess of 25% per annum, DebtBusters said.

Benay Sager, executive head of DebtBusters, explained that when the interest rate increases began, people started to feel the increasing pressure of servicing asset-linked debt.

He said the average interest rate for a bond went from 8.3% per annum in the last quarter of 2020 to 12.3% in the second quarter of this year.

"More alarmingly, the average interest rate for unsecured debt is now at an 8-year high of 26% per annum."

The debt-management company said inflation had eased but remained at the upper end of the central bank's range and continued to constrain consumer finances.

"Since 2016, electricity tariffs have increased by 2.35 times, the petrol price has doubled, and the compounded impact of inflation is 46% – all three indicators putting additional pressure on South Africans."

It added that while there were indications that the interest rates may finally start to tick down, they had been consistently high for over a year.

Although consumers were said to be better able to deal with elevated but stable interest rates, they were still feeling the impact of the successive rate increases that started in November 2021.

Sager said it was not all bad news. The median debt-to-annual-income ratio was stable and has been low for the past four quarters. While still high at 105%, it was much lower than levels seen in the past few years, he added.

"We welcome this, as well as the fact that debt counselling enquiries are up by 18% and registrations for online debt-management tools have increased. It indicates that more people are taking action to deal with debt," Sager said.

The Q2 2024 Debt Index found that compared to the same period in 2016, people who applied for debt counselling had significantly less purchasing power. Since 2016, nominal income had increased marginally by 2% but the cumulative impact of inflation is 46%. This meant that today's pay packet buys 44% less than eight years ago.

The index also found that these applicants had a high debt-service burden as on average these consumers need 62% of their take-home pay to service debt. Those earning R35 000 or more a month spend 68% on debt repayment.

Debt-to-income ratios for top earners were said to be at or near the highest-ever levels. For people taking home more than R20 000 a month the ratio was 128%, and for those earning R35 000 or more it was 167%.