

# Repo rate hike increases burden on homeowners and other workers who repay debt

By [Abigail Moyo](#)

28 Jan 2022

Yesterday saw the Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) increase the repo rate by 25 basis points at its first meeting of the year. This decision follows the increase of 25 basis points at its last meeting of 2021, bringing the interest rate up to 4% and the prime rate of banks to 7,5%.



Source: iStock

While economists widely expected the increase, it also increases the pressure on homeowners and others in debt due to higher interest payments.

Economists concur that, at 4%, the repo rate is still much lower than the 6.25% it used to be in March 2020 before the onset of Covid-19, which caused the MPC to reduce the repo rate to 3.5% in the middle of 2020. There it remained until the 25-basis point increase in November last year.

The decision to again increase the repo rate was widely expected following the continuous increase in the consumer price inflation (CPI) rate from 3.2% in January 2021 to 5.9% by December 2021. The MPC aims for a CPI rate of 4.5%.

## Second-round price increases of huge concern

Although the increase in the CPI rate was driven mainly by rising fuel prices (due to higher oil prices and a weaker rand exchange rate) and higher municipal rates, analysis shows that prices of other goods and services also increased on account of higher fuel and electricity prices – the so-called second-round effect. The MPC always stated clearly that it is more concerned about second-round price increases than, for instance, the effect of an “oil price shock” on CPI – and reiterated this stance.

The SARB expects economic growth to slow in 2022, following a recovery in 2021. High interest rates are a concern for a country that has an all-time high unemployment rate. This means that average South Africans will continue to get a huge knock in the pocket as they try to keep up with high interest rates on bonds and other debt payments.

## Savings the key to resilience

On behalf of South Africa's workers, UASA can only hope that the repo rate will remain at 4% for some time, allowing workers the opportunity to adjust their finances while they keep their households in good shape. We encourage our members and all South Africans to continue saving every bit that they can to be prepared for whatever the future may bring.

## ABOUT THE AUTHOR

Abigail Moyo is the public relations and research officer at UASA.

For more, visit: <https://www.bizcommunity.com>