Debt trap among native working-class South Africans: A socio-economic reality

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Abstract

This conceptual study explores the persistent debt trap encountered by Native working-class South Africans, grounded in a complex interplay of colonial injustices and contemporary socio-economic challenges. The aftereffects of apartheid, including forced removals, the Bantu Education system, and systemic exclusion from formal employment, have left many individuals without generational wealth, financial literacy, or access to stable economic opportunities. These structural disadvantages have created fertile ground for chronic indebtedness and economic vulnerability. In the post-apartheid era, while employment opportunities have gradually expanded, financial hardship remains widespread due to limited financial education, impulsive spending behaviours, and cultural norms that prioritise social obligations and status-driven consumption. This conceptual study draws on secondary sources and informal community narratives to illustrate how poor financial management practices, the imitation of Western consumer culture, and reliance on unsecured credit, including informal loans such as EMI and retail store cards, often lead to blacklisting and exclusion from formal financial systems, thereby pushing individuals deeper into cycles of informal borrowing. Behavioural patterns such as prioritising luxury goods over basic needs, susceptibility to scams, and gambling as a coping mechanism exacerbate the debt spiral. To address this crisis, the study advocates for the implementation of comprehensive financial literacy programs within schools, workplaces, and community structures. It also suggests the revitalisation of traditional savings mechanisms such as stokvels, integrated with modern financial education to promote resilience. Ultimately, breaking the debt trap requires a coordinated, multi-dimensional strategy that addresses both structural inequalities and behavioural tendencies. Only through inclusive policy reform, education, and cultural transformation can long-term financial stability be achieved for South Africa’s Native Working-Class population.

Keywords: Debt trap; financial illiteracy; household debt; consumer behaviour; unsecured credit; cultural spending

1. Introduction

"A fool and his money are soon parted," an ancient West African proverb, serves as a timeless reminder of the importance of financial discipline and wise money management. It warns that carelessness with money leads to being penniless, an idea that strongly reflects in today's South African context. Despite the country's economic potential and gradual progress, household debt has become a persistent and deeply rooted challenge for the Native working-class population. This growing crisis is driven by a complex mix of financial mismanagement, limited financial literacy, and restricted access to affordable, low-interest credit. Lifestyle pressures and cultural expectations further compound the issue, trapping many individuals in cycles of debt that are difficult to escape. By September 2024, household debt had reached 40.7% of South Africa's GDP, amounting to approximately $171.2 billion. Alarmingly, many households were spending nearly three-quarters of their income on debt repayments. (CEIC Data, 2024). This hardship cannot be understood through present-day financial patterns—it is the product of imperial injustices and deliberate exclusion. Apartheid-era policies such as the Group Areas Act (Christopher 1994) forcibly removed Black South Africans from their land, erasing generational wealth and dismantling self-sustaining communities. These relocations pushed families into underdeveloped urban townships with limited infrastructure and economic opportunities (Jürgens, Donaldson, Rule, & Bähr, 2013). Along with the Bantu Education system (Christie & Collins, 1982), it further restricted access to quality education, constrained generations to low-paying or informal employment. In this uneasy environment, borrowing has become both a survival strategy and a cultural norm. For many, checking for available credit before the next payment due date has become a common routine. The issue is not always delayed salaries or missed payments—it is often a lack of financial management and planning. Many working-class individuals live in a "rolling to rolling" condition, where income is quickly spent and debt is used to bridge the gap.

This conceptual study investigates the real-life factors that extend beyond traditional micro and macroeconomic frameworks, which contribute to the debt trap among South Africa's working Class. It examines the historical, social, and behavioural dimensions of over-indebtedness, intending to identify practical strategies for financial recovery. The study also considers how self-focused spending, often at the expense of family needs and children's welfare, perpetuates poverty across generations. Without saving or investing, long-term financial insecurity becomes inevitable. The research has the following objectives:

1. To define the debt trap and explain its effects on working-class South Africans.

2. To examine the main historical, socio-economic, and behavioural causes of over-indebtedness.

3. To identify strategies for breaking the debt cycle and promoting long-term financial well-being.

The debt trap among Native working-class South Africans is shaped by inherited inequalities, imperial dispossession, and present socio-cultural behaviours. A great majority rely on small loans to meet their needs, and borrowing often becomes inevitable, reflecting both necessity and limited financial literacy. This pattern extends beyond individuals to communities, reinforcing cycles of indebtedness. While existing studies largely examine public debt, GDP, CPI, and unemployment, there is still limited focus on how socio-cultural attitudes drive over-indebtedness in today's South Africa. This study argues that, alongside historical disadvantages, current cultural practices and inadequate financial education worsen the debt trap. Comprehensive financial literacy initiatives are therefore essential to change behaviours and strengthen long-term fiscal stability. This study focuses on Native working-class South Africans, with particular attention to the realities of the debt trap from a conceptual perspective. It draws primarily on academic literature, media reports, magazines, and informal communications, including personal accounts and experiences shared within communities. The analysis does not involve formal fieldwork or the collection of primary data; instead, it develops insights through existing evidence and theoretical frameworks. The study is therefore limited to understanding common behaviours and patterns of financial decision-making among Native working-class South Africans across different regions. It highlights how socio-economic and cultural factors contribute to over-indebtedness, while also considering approaches to mitigate these challenges and promote long-term financial well-being. As the research is conceptual and relies exclusively on secondary qualitative and quantitative sources, no standardised scales, measurement tools, or survey instruments were employed. While this approach provides valuable insights through existing literature and secondary statistics, it also restricts the study in terms of empirical validation and direct field-based evidence. Ethical clearance was not required due to the absence of primary data collection; however, care has been taken to use credible, authentic, and properly referenced sources to ensure academic Discipline and integrity. The findings are not intended to be generalised to all South Africans but rather to provide a conceptual understanding of the credit-related challenges faced by this specific group.

This study is significant because it provides a structured understanding of the patterns and behaviours that contribute to credit and debt issues among Native working-class South Africans. It offers valuable insights for households and individuals struggling with borrowing, highlighting the role of personal financial behaviour alongside broader socio-economic factors. The research emphasises that addressing the debt trap requires not only structural or policy interventions but also changes in individual attitudes and financial decision-making. By focusing on socio-cultural behaviours, the study fills a gap in the existing literature, which often prioritises macroeconomic or structural explanations. Ultimately, the findings can guide strategies to reduce over-indebtedness, enhance financial literacy, and foster enduring financial resilience and societal prosperity.

2. Literature Review

Mashigo (2006) explored the persistent issue of household debt among low-income communities in South Africa. Her research revealed that limited access to formal financial institutions had compelled many poor households to rely on informal and often exploitative lenders. This reliance contributed to a deepening debt spiral that was difficult to escape. Key socioeconomic factors, such as unemployment, low educational attainment, and income inequality, further exacerbated the problem. Mashigo emphasised that debt allocation had tended to favour higher-income earners, reinforcing financial disparities and limiting economic mobility for the poor. To address these challenges, Mashigo advocated for urgent policy interventions, including stricter regulation of the micro-lending sector and stronger consumer protection mechanisms. Her paper specified the need for a comprehensive strategy that combined financial reform, equitable credit access, and further research to protect vulnerable households from exploitative lending practices. Meniago, Mukuddem-Petersen, Petersen, and Mongale (2013) investigated the macroeconomic factors that drove household debt in South Africa. They identified key influences, such as the Consumer Price Index (CPI), which reflected rising living costs that compelled households to borrow to Balance expenses. Growth in Gross Domestic Product enhanced consumer confidence, leading to more frequent and extravagant spending, with increased reliance on credit. The study found that higher household consumption was strongly linked to elevated debt, especially where credit amounts bridged income gaps. Income inequality shaped borrowing patterns, favouring high-income earners, while declining incomes limited borrowing capacity. Property prices and personal savings had minimal impact on debt accumulation. Fluctuations in the prime interest rate were also found to have little effect on borrowing behaviour, indicating that interest rates were not a primary factor in debt decisions. Karambakuwa and Ncwadi (2021) examined the underlying causes of household over-indebtedness in South Africa, identifying a range of economic and social factors that had contributed to financial vulnerability. Their paper explained that financial illiteracy, unethical credit practices, rising living expenses, and persistently low-income levels were core causes of excessive debt. High interest rates and income inequality further intensified the burden, while unforeseen life events often pushed households beyond their financial limits. The research highlighted that certain groups were particularly at risk, including female-headed households, renters, larger families, urban residents, and those with unemployed or ill household heads. These demographics faced heightened exposure to debt due to structural disadvantages and limited financial resilience. To address these challenges, the authors proposed several interventions: enhancing financial management skills, enforcing responsible lending standards, reducing interest rates, and introducing consumption insurance mechanisms tied to loans.

Zhou and Niyitegeka (2023) conducted a comprehensive study that examined the long-term relationship between household debt and income inequality in South Africa, covering the period from 1980 to 2021. Their findings revealed a notable negative correlation between these two variables, challenging the widely accepted Rajan hypothesis, which had suggested that rising inequality led to increased household borrowing. The study highlighted that income inequality in South Africa had tended to concentrate debt among higher-income groups, who were better positioned to access and manage credit. This skewed allocation reflected a broader issue within the country's credit markets, where socio-economic equity was often overlooked. Additionally, the researchers found that economic growth had played a moderating role in this dynamic, influencing the way debt and inequality interacted over time. In short, credit distribution in South Africa had reflected biases that favoured the wealthy and limited access for the poor.

3. Methodology

This research paper presents a conceptual design to examine the debt trap among Native working-class South Africans, focusing on the causes, patterns, and consequences of over indebtedness. It relies primarily on secondary information from academic journals, government reports, and media sources, supplemented by informal community narratives that provide real-life insights into borrowing, spending, and debt management. The study employs a conceptual framework supported by tables to illustrate cause and effect relationships, with spending data converted into percentages for clearer comparison and interpretation. A conceptual Mapping is also developed to show how socio-economic, cultural, and behavioural factors interact to reinforce cycles of debt. To ensure clarity and academic tone, digital tools were used to refine grammar and structure without altering the original ideas or data. This approach enables a systematic conceptual understanding of the debt trap, integrating theoretical perspectives with practical observations to reflect the financial realities of the targeted population.

4. Findings and Discussion

4.1 Debt trap and credit culture in South Africa: A deep dive

The debt trap in South Africa represents a growing Economic crisis where Native individuals, particularly from working-class communities, find themselves unable to repay existing loans and are forced to take on new debt to meet essential needs. This cycle of borrowing becomes habitual rather than occasional, with a significant portion of household income consumed by repayments. Over time, debt no longer serves as a temporary relief but rather becomes a permanent reality in people's lives. That compromises economic freedom and the financial stability of individuals. South African household debt is multifaceted, comprising credit cards, store accounts, personal loans, leasing arrangements, unsecured borrowing options, microloans, payday loans, mortgage advances, and secured credit agreements. The banking sector remains the dominant source of credit. Hence, individuals voluntarily exclude themselves from banking services due to a lack of deep understanding and sometimes due to blacklisting. That is why non-bank lenders play a significant role here, particularly in short-term and unsecured lending. This broad access to credit has contributed to rising debt levels, especially as interest rates climb and household incomes Decline.

According to South Africa's most awarded debt counsellor, Casper le Grange (2025), the country's loan balances continue to rise sharply every year. Total debt has increased from R2.43 trillion in 2024 to R2.56 trillion in 2025, an additional R130 billion and a 5.3% jump in just one year. At the same time, overdue loans, those already behind on payments, grew from R183 billion in 2024 to R208 billion in 2025, reflecting a 13.7% increase.

The number of accounts in arrears also increased from 17.6 million in 2024 to 17.97 million in 2025, meaning 370,000 more accounts are now falling behind. With nearly 18 million loans overdue, the crisis goes far beyond numbers; it represents unpaid rent, missed car payments, empty grocery baskets, and school fees that families can no longer afford. The assumption that owning a home equates to financial security is also being challenged. Overdue home loans climbed from R9.3 billion in 2024 to R11.3 billion in 2025, a steep 21.5% rise in one year. Meanwhile, credit cards and retail store cards have reached disturbing levels. Many households now rely on them for daily essentials, despite the punishing interest rates. The strain is evident across all income groups. In the mass market, 325,000 new credit users emerged in 2025, but over half — 53% — are already in default. Alarmingly, many of these are first-time credit users, showing that the problem stems less from irresponsible spending than from basic survival needs. The middle class and professionals are not immune either, with 1 million new loans taken out and a 3.4% increase in missed payments recorded.

South African coins, Image credit: Noor Suhairiya Pazhaya Puthen Veettil 2025

In urban centres like Durban's CBD, the visibility of mobile billboards and branded vehicles advertising credit options, loans, and debt solutions reflects how deeply embedded credit has become in the country's consumer culture. These vehicles, operated by banks, microlenders, and debt counselling agencies, target high-foot-traffic areas with eye-catching graphics and slogans, offering quick access to financial services. This marketing strategy shows the importance and urgency of credit in the lives of many South Africans, especially those struggling to make ends meet. The financial strain faced by many individuals has led to several concerning effects. There is a constant need to cover previous debts through new borrowing, creating a cycle that is difficult to escape. This has resulted in a growing reliance on unsecured debt options to meet immediate repayment demands. Most households lack an emergency fund or financial cushion, leaving them vulnerable to unexpected expenses. No investment in either long-term or short-term assets further limits financial prosperity and security. Over time, this pattern erodes financial stability and weakens financial discipline. Monthly expenditure is increasingly consumed by interest payments, instalments, or borrowing from others, leaving little or no margin for essential needs or savings.

4.2 Average household spending pattern

4.2.1 Middle income household (under R20000 /month)

Category	Monthly Spend (R)	% of Income
Groceries	R10000	50%
Transport	R2600	13%
Utilities	R2200	11%
Accommodation	R1800	9%
Cell phone/Data	R1000	5%
Debt Repayment	Up to R15000	Up to 75%
Other (Clothing, etc)	Minimal	—

Source: Household expenditure patterns in South Africa (Data compiled from Minnaar, 2025; Govender, 2025; Statistics South Africa, 2025; Business Tech Africa, 2025; DebtBusters, 2025; Eighty20 & XDS, 2025; South African Reserve Bank, 2024; Standard Bank, 2024).

This spending breakdown reveals the harsh financial reality faced by Middle-income households earning under R20,000 per month. With essential costs such as groceries, transportation, and utilities consuming the majority of their income, and debt repayments potentially exceeding earnings, families are left with little to no disposable income. The data underscores the urgent need for financial support systems, affordable services, and sustainable debt solutions to help these households achieve stability and long-term resilience.

4.2.2 High-income household (R35,000/month)

Category	Monthly Spend (R)	% of Income
Accommodation	R8,750–R10,500	25–30%
Groceries & Dining	R7,000–R8,050	20–23%
Transport	R4,200–R5,250	12–15%
Insurance & Medical Aid	R4,550	13%
Utilities & Services	R2,800–R3,500	8–10%
Education & Childcare	R1,750–R2,800	5–8%
Retirement & Investments	R1,750–R3,500	5–10%
Debt Repayment	R10,500–R14,000	30–40%

Source: Household expenditure patterns in South Africa (Data compiled from Minnaar, 2025; Govender, 2025; Statistics South Africa, 2025; Business Tech Africa, 2025; DebtBusters, 2025; Eighty20 & XDS, 2025; South African Reserve Bank, 2024; Standard Bank, 2024).

The spending profile of high-income households earning R35,000 or more per month reflects a balanced yet demanding financial landscape. While essentials like accommodation, food, and transport remain significant, there's also notable allocation toward long-term security through insurance, retirement planning, and education. However, the high proportion of income spent on debt repayment—up to 40%—suggests that even affluent households may be leveraging credit to sustain their lifestyle, potentially limiting their financial flexibility. This underscores the importance of disciplined budgeting and strategic financial planning, even at higher income levels. Well, the above tables show that the 2025 household spending data reveal a troubling financial landscape across income groups in South Africa. These spending patterns reflect South Africa's broader debt patterns among the Native working classes. In a consumption-driven economy, rising living costs and slow income growth have led to widespread over-indebtedness.

4.3 Debt relief mechanisms in South Africa

Debt servicing has become increasingly burdensome, with many households allocating a disproportionate share of their income to interest payments and instalments. High-interest loans, combined with limited financial awareness and social vulnerabilities such as unemployment, female-headed households, and larger family units, have intensified the risk of over-indebtedness.

The effects of the debt trap are Far-reaching. Individuals often find themselves paying off previous debts with new borrowing, relying heavily on unsecured credit for immediate repayments. The absence of emergency savings or safety nets means that even minor financial shocks can push households deeper into debt. Investment in long-term financial commitments such as education, marriage, and retirement becomes impossible, and financial discipline gradually breaks down. Monthly expenditure is consumed by debt obligations, leaving little room for personal growth or economic mobility. To escape this cycle, some common relief options are available. The most extreme is voluntary sequestration, a legal process where individuals surrender their assets to a court-appointed trustee and are declared insolvent. This option separates the person from their possessions and is often a last resort due to its complexity and long-term consequences. The second option is debt counselling, a structured and legally protected process regulated by the National Credit Act. Here, a registered counsellor assesses the individual's financial situation, negotiates lower monthly payments, and consolidates debts into a single manageable repayment. While under debt review, individuals are shielded from legal action but cannot access new credit until all debts are settled and a clearance certificate is issued. The third and most empowering option is disciplined self-repayment, which requires significant lifestyle changes and financial discipline but avoids legal consequences and preserves personal autonomy.

4.4 Debt trap and related practices of selected countries such as India, Canada and Nigeria

4.4.1 Understanding the household debt trap in India

India and South Africa, both once under colonial rule, share a common historical legacy. Today, India is recognised as a developed nation with a vast middle-class population and a rapidly expanding economy. The country has realised a significant increase in household debt in recent years, particularly after the COVID-19 pandemic. This increase is not just a reflection of economic strain but also of changing borrowing patterns and social behaviours. Between 2021 and 2024, household debt switched from 36.6% to 42.9% of GDP, a sharp hike from the pre-pandemic average of around 33%. In the pre-pandemic era, deeper analysis reveals that more individuals, especially super-prime borrowers, were accessing credit for asset creation or investing in wealth generation. Borrowing was often directed toward real estate, vehicles, weddings, children's education, and home construction, reflecting a family-oriented approach to financial planning rather than self-centred consumption. Traditionally, Indian households have invested in gold, property, education, and some small amounts in heritage ceremonies. These values continue to shape debt attitudes; hence, in later epidemics, there is a noticeable shift. The use of bank credit cards and EMI-based purchases became widespread, especially among lower-income groups. Social media platforms began to play a significant role in influencing impulsive buying behaviour, replacing older generational pressures rooted in customs and traditions. This shift led to increased reliance on consumer credit practices rather than investment, raising concerns about long-term financial stability.

Before, when making purchases or investments on credit, individuals often consulted family or friends before borrowing. Today, with the rise of online shopping and instant EMI options, goods can be selected and financed with a single click, often without considering the long-term financial consequences. As a result, people pay little attention to the actual Monetary condition of even those close to them, judging instead by outward appearance and lifestyle. Social media aggravates this effect by presenting selective images of wealth and success, creating social pressure to fit the spending habits of others. Consequently, many resort to credit purchases to keep up, even when such spending exceeds their financial capacity.

Retail credit from NBFCs and housing finance companies grew by 70%, and loans from microfinance institutions rose by 67% between March 2021 and March 2024. Banks expanded their personal loan portfolios by 75%, while NBFCs saw a 130% increase in unsecured lending. These aggressive lending practices have resulted in financial stress for many households, with nearly 60% of personal loan customers holding more than three active loans. In the microfinance sector, 6% of borrowers had loans from four or more lenders, and 27% were taking new loans to repay old ones—clear signs of a growing debt trap. The burden is extremely hard for lower-income households, who often borrow to meet basic needs, further widening income inequality. Although educational loans taken by students to study abroad represent a form of investment, they still contribute to the overall debt spiral. Fortunately, many of these borrowers demonstrate strong financial literacy, which may help mitigate long-term risks. To address the rising household debt, potential solutions include implementing stricter regulations on multiple lending, expanding financial literacy initiatives, and promoting labour-intensive industries to improve income stability (The Indian Express, 2025).

4.4.2 Understanding the household debt trap in Canada

Canada is a developed country with a high Human Development Index (HDI) and an advanced economy. Tragically, it is still facing a deepening household debt crisis, with total debt reaching a record $2.3 trillion by the end of 2023. This includes mortgages, credit card balances, and other consumer loans. As more household income is directed toward repayments, Canadians are left with less for savings and discretionary spending, which in turn affects overall economic growth. The Bank of Canada has responded to inflation by raising interest rates multiple times, making borrowing more expensive. Mortgage payments have become harder to manage, with average interest rates rising from 3.5% in early 2024 to 4.1% by June. credit card debt has also increased, with limits rising from $3,200 to $3,500, adding further pressure on families. In response, banks have begun to offer consultancy services to help individuals manage their debt, while the Bank of Canada continues adjusting rates to stabilise inflation and support recovery. But at the same time, Consumer behaviour has shifted, with many Canadians now prioritising saving and reducing debt. While this benefits personal finances, it can slow down economic activity. The future of home loans remains uncertain due to persistent inflation and elevated interest rates, though there is hope that economic improvement will eventually bring relief.

Debt affects Canadians across all income levels and is driven by a range of factors. Inflation and high interest rates reduce disposable income, while COVID-19 led to income loss, business closures, and repayment demands from government assistance programs. Misuse of credit cards is common, with overspending leading to long-term repayment challenges. Life events such as death, illness, and supporting loved one's strain finances, especially when savings are lacking. Job loss, separation, divorce, addictions, and tax debt further contribute to financial instability. Similar to South Africa, Canada's debt trap is not just financial—it is deeply psychological and social. The cycle often begins when expenses exceed income, prompting borrowing to maintain a standard of living. Then, other factors, such as financial mismanagement, impulsive spending, social pressure, reduced income, divorce, gambling, and insufficient savings, contribute to persistent debt. Escaping this cycle requires either an unexpected financial gain or a conscious lifestyle change, such as cutting non-essential spending. Research by Miranda Goode, Michael Moorhouse and June Cotte from Ivey Business School highlights the emotional toll of debt, introducing the concept of "anticipated stigmatisation." This refers to individuals concealing debt out of fear of judgment, often spending more to maintain appearances, which worsens financial instability and mental health. (Cotte, Moorhouse, & Goode, 2022)

Despite Canada's high financial literacy rates, it also has one of the highest household debt-to-income ratios. This paradox reveals that traditional academic tools, such as budgeting, are not enough. There is a need to address the behavioural and psychological aspects of debt. To tackle this, the Lawrence National Centre for Policy and Management, in collaboration with Ivey researchers, proposed a three-part policy framework. First, public campaigns should challenge misconceptions and reduce social prejudice around debt. Second, workplaces should promote financial wellness, supported by resources from the Financial Consumer Agency of Canada (FCAC). Third, schools should introduce standalone programs on financial well-being from an early age, covering both financial and emotional aspects. As Miranda Goode notes, improving financial literacy must also include tools to help people communicate openly about financial decisions. Globally, while many countries focus on financial education and savings products, few address the disgrace around debt. Canada's approach stands out for its emphasis on changing public perception and empowering consumers through education and behavioural strategies, drawing inspiration from mental health policy to create a more supportive environment for financial decision-making.

4.4.3 Understanding Nigeria's household debt burden

Nigeria, another country on the African continent, is currently battling the same rising household debt issues. Individuals and families are increasingly dependent on personal loans, credit card balances, and bank overdrafts to cover everyday expenses and make basic investments. Much of this debt is tied to private households. As defined by the Institute of International Finance (IIF), household debt contains financial obligations taken for personal consumption or investment, such as mortgage loans, consumer credit, and overdrafts. regional patterns suggest that household debt mainly concerns individuals and families, with small family-run businesses typically categorised separately. By the first quarter of 2025, Nigeria's household debt had grown to $38.7 billion, showing a 4.6% increase from the previous year. This figure now exceeds the combined debt of both non-financial and financial corporations. Household debt accounts for 20.4% of the country's GDP—a significant proportion for an emerging economy, especially considering the 23% inflation rate reported in February 2025 by the Central Bank of Nigeria.

Economic challenges such as high inflation and Low-income levels have made it increasingly difficult for Nigerians to manage their financial responsibilities. Many rely on consumer credit and overdrafts to fill the gap, but banks are becoming more cautious due to the growing risk of defaults. Although consumer loans slightly declined in early 2025, this drop reflects lenders' caution rather than a decrease in demand. Meanwhile, modest growth in credit within the agriculture and service sectors suggests that households and informal businesses continue to depend on borrowing to stay financially afloat. In conclusion, Nigeria's household debt burden is driven by economic strain, restricted financial access, and increasing reliance on credit. Tackling this issue will require stronger financial education, expanded banking access, and more responsible lending practices to help individuals manage their debt more effectively.

4.5 Reason behind native South African's household debt crisis: A thematic breakdown

4.5.1 Historical consequences of inequality

The high levels of household debt in South Africa cannot be understood without considering the historical context that shaped the economic realities of its native working-class population. Under apartheid, policies such as the Group Areas Act forcibly removed Black South Africans from their land and relocated them to underdeveloped townships. These removals erased generational wealth, destroyed agricultural livelihoods, and severed economic independence. The loss of homesteads and cultivated land was not merely a downturn; it dismantled the social and cultural foundations of entire communities. The resulting urban settlements were deliberately under-resourced, with limited access to quality services, infrastructure, and employment opportunities. Compounding this, the Bantu Education system (1953) was designed to restrict educational attainment, confining Black South Africans to low-wage labour and informal employment. These injustices created a dual economy within the country. one wealthy and structured white economy, and the other impoverished and unstructured Black economy. This divide persists today. Decades after the formal end of apartheid, its effects remain visible: unemployment rates remain high, with only around four in ten working South Africans employed in the formal sector, while many others depend on unstable informal work (Quarterly Labour Force Survey (QLFS) Q2: 2025, South Africa Statistics, 2025). The connection is therefore clear: imperial and apartheid-era policies systematically pushed entire communities into financial instability. Even after independence, the post-apartheid government has struggled to dismantle these entrenched inequalities. The pattern continues, as limited access to financial resources and education leaves many trapped in cycles of debt and economic vulnerability**.**

4.5.2 Lack of financial education and discipline

A widespread lack of understanding of core financial concepts, such as interest rates, saving methods, investment planning, and the difference between good and bad debt, often drives vulnerable groups into economic hardship. In this context, options like store cards, EMIs, and instalment plans become common yet risky choices that can worsen financial instability. An extensive issue arises from retail and business institutions such as Macro, Mr Price, Woolworths, Edgars, and Truworths, which offer credit cards to their customers. Within just a few months of opening an account, these companies often extend substantial credit limits ranging from R5,000 to R20,000, depending on the customer's profile. This easy access to credit encourages spending beyond one's actual financial capacity. Once purchases are made on credit, many individuals struggle to keep up with repayments, leading to serious financial pressure. Failure to manage these debts can result in being blacklisted, which in South Africa carries harsh consequences: blacklisted individuals are denied access to loans, mortgages, and even basic banking services, effectively excluding them from the formal financial system.

This credit model is not unique to South Africa—it's a global strategy used by banks and retailers to promote spending and cultivate long-term customers. However, the credit card itself is often seen as a symbol of status, and many swipe without considering the consequences. Unlike cash payments, where one can physically feel the money leaving their hands and be conscious of what remains, credit card transactions disconnect people from that awareness. The reality of their spending only hits when the bill arrives. A prevalent cognitive bias emerges in the adoption of instalment schemes, commonly referred to as Equated Monthly Instalments (EMIs), for consumer purchases. This bias stems from a psychological Tendency to perceive smaller, recurring payments as less financially burdensome than a single lump-sum expenditure. While this perception may offer short-term affordability, it often hides the true financial cost of the transaction. EMI structures typically incorporate compound interest and operate on the principle of the time value of money, which uses the reducing balance method. As a result, the total repayment amount can significantly exceed the original price of the good. For instance, purchasing a smartphone priced at 180,000 and converting the expense into a 12-month EMI plan at an interest rate of 12% yields a monthly payment of approximately 16000. Over the course of the year, the total payment accumulates to roughly 191,976—an excess of 11,976 above the initial cost. These globally accepted financing models pose heightened risks in socio-economic contexts where basic needs remain unmet.

In these environments, the use of credit mechanisms to acquire esteem-related goods and material items can exacerbate financial vulnerability. The attraction of manageable monthly payments may lead individuals to prioritise non-essential consumption over essential needs, which deepens economic instability. Another financial approach, "saving what is left after spending," further reflects the absence of fiscal management. Importantly, this pattern is not confined to low-income earners. Professionals and senior employees also fall into similar habits, indicating that the challenge lies less in the size of the income and more in the ability to manage it effectively. Ultimately, the problem is not about how much is earned, but rather how that amount is planned, allocated, and controlled. Globally, shop credit, EMIs, and instalment-based payment schemes are widely adopted to facilitate access to goods and services. However, in the South African context, these mechanisms often contribute to financial strain rather than relief. In communities marked by limited financial literacy and economic hardship, the ease of accessing credit encourages consumption beyond actual means. The psychological appeal of deferred payments masks the long-term financial obligations, leading to increased debt burdens

4.5.3 Cultural shift toward western consumerism and spending behaviour

The influence of Western consumer culture, particularly through close interaction with White communities, has emerged as a significant factor in the debt trap affecting Native working-class South Africans. Exposure to the consumption patterns, lifestyles, and material values of these communities has shifted priorities, often placing luxury goods, personal status, and outward appearances above basic needs and family responsibilities. This cultural shift is evident in spending patterns, where individuals frequently purchase vehicles on credit or invest in branded clothing before securing essentials such as food, shelter, or savings. Such behaviour contradicts Maslow's Hierarchy of Needs (Maslow, 1943), which suggests that basic physiological requirements should be met before pursuing esteem or social recognition. In South Africa, many salaried workers bypass this hierarchy, prioritising image and lifestyle even when financial resources are limited. As a result, households accumulate debt to maintain appearances, diminishing savings and increasing long-term financial vulnerability.

A notable example of this mindset is the immediate priority placed on purchasing a car upon entering the workforce. The easy availability of vehicle loans encourages individuals to acquire cars on instalment plans, reinforced by the prevailing belief that "in South Africa, no car means no life." This tendency is happening due to the lack of reliable public transport and limited social support systems. When cars are bought on loan, car insurance often becomes mandatory, and loan interest rates vary significantly depending on one's credit score. Taking out a car loan adds a burden on top of existing financial pressures, much like the widespread spending on medical insurance. Despite government hospitals offering free services, the majority still pay monthly for private medical aid. While this may seem normal, it places a heavy strain on communities already facing debt and financial hardship. Many individuals commit to these financial obligations without considering the stability of their employment or preparing for potential setbacks. The pressure to showcase material success often outweighs practical financial planning, resulting in unsustainable debt. While discussing consumerist habits in South Africa, it becomes clear that these extend beyond luxury items into everyday choices.

A large number of households rely on tinned foods such as beans, peas, fish, and vegetables. Although convenient and long-lasting, these products are costlier per kilogram than fresh or dried alternatives. For instance, canned butter beans cost 30–40% more than dried ones, and tinned tomatoes can be up to three times more expensive than fresh items. This preference reflects not only convenience but also Western dietary influences, which can worsen financial strain for households already struggling with poverty and debt. A similar trend appears in beverage choices. While plain water costs around R8–R15 per litre, branded drinks like Coca-Cola, Aquelle, and Powerade are priced at R19–R20 per litre. Despite smaller volumes, these products are widely consumed. South Africa ranked 12th globally in per-capita Coca-Cola intake in 2024. This paradox shows how perceived value drives spending, with consumers willingly paying nearly double for emotional satisfaction and social recognition, even when it deepens financial pressure. Among households engaged in informal or low-wage sectors, the emphasis on clothing, grooming, and lifestyle further exacerbates financial imbalance. This self-focused materialistic consumption often neglects family priorities, particularly the needs of children, thereby perpetuating intergenerational poverty. Without saving or investing, households remain exposed to long-term financial insecurity. These patterns of consumption and financial behaviour reveal a broader cultural contradiction and highlight the socio-economic consequences of adopting Western consumer values.

4.5.4 Present-oriented mindset, impulsive spending, and debt accumulation

The rising levels of indebtedness among Native working-class South Africans are closely tied to a present-oriented mindset. This outlook prioritises short-term satisfaction and emotionally driven decisions over long-term financial planning and stability. The desire for immediate gratification reduces the likelihood of saving, encourages impulsive purchases, and undermines efforts to build financial security. One of the most visible expressions of this mindset is weekend social spending. From Friday evenings through to Sunday, many households prioritise leisure and celebration—even when critical financial obligations remain unmet. Monthly expenses such as food, rent, debt repayments, or school fees are often postponed, while resources are redirected toward social gatherings. Although these celebrations are deeply rooted in cultural traditions and serve as vital expressions of community bonding, they frequently occur at the expense of essential household needs.

This behaviour reveals a striking contradiction. On one hand, festive gatherings foster social cohesion and provide a sense of belonging. On the other hand, they perpetuate compulsive spending that reinforces financial vulnerability. Added to this is the pursuit of social recognition through performative online behaviour[1], which further shifts spending priorities away from necessities toward discretionary, image-driven consumption. Together, these practices weaken long-term household financial stability. For families already living on limited incomes, this pattern often leads to borrowing to meet both social and household demands. Alvin Hall offers further insight into this mindset in his work *Money for Life: Everyone's Guide to Financial Freedom*. Hall (2000) explains that some individuals derive gratification from spending money, especially on items that were once out of reach. These purchases, often symbolic trophies, feel more rewarding than saving for an uncertain future. The underlying belief is: *"I have worked hard for it, so I deserve to enjoy it—nothing should stop me."* This permissive attitude reinforces the cycle of impulsive financial behaviour. Ultimately, the repeated reliance on credit—without adequate planning or savings—traps individuals in predatory lending. The merging of short-term thinking, socially driven spending, and impulsive financial habits intensifies economic vulnerability. As a result, many households remain locked in a cycle that prevents them from achieving lasting financial stability.

[1]*Performative online behaviour refers to audience-centric actions on social media platforms, where individuals present themselves in ways intended to attract likes, shares, and appreciation*

4.5.5 Belief in lotto draws and the illusion of financial escape

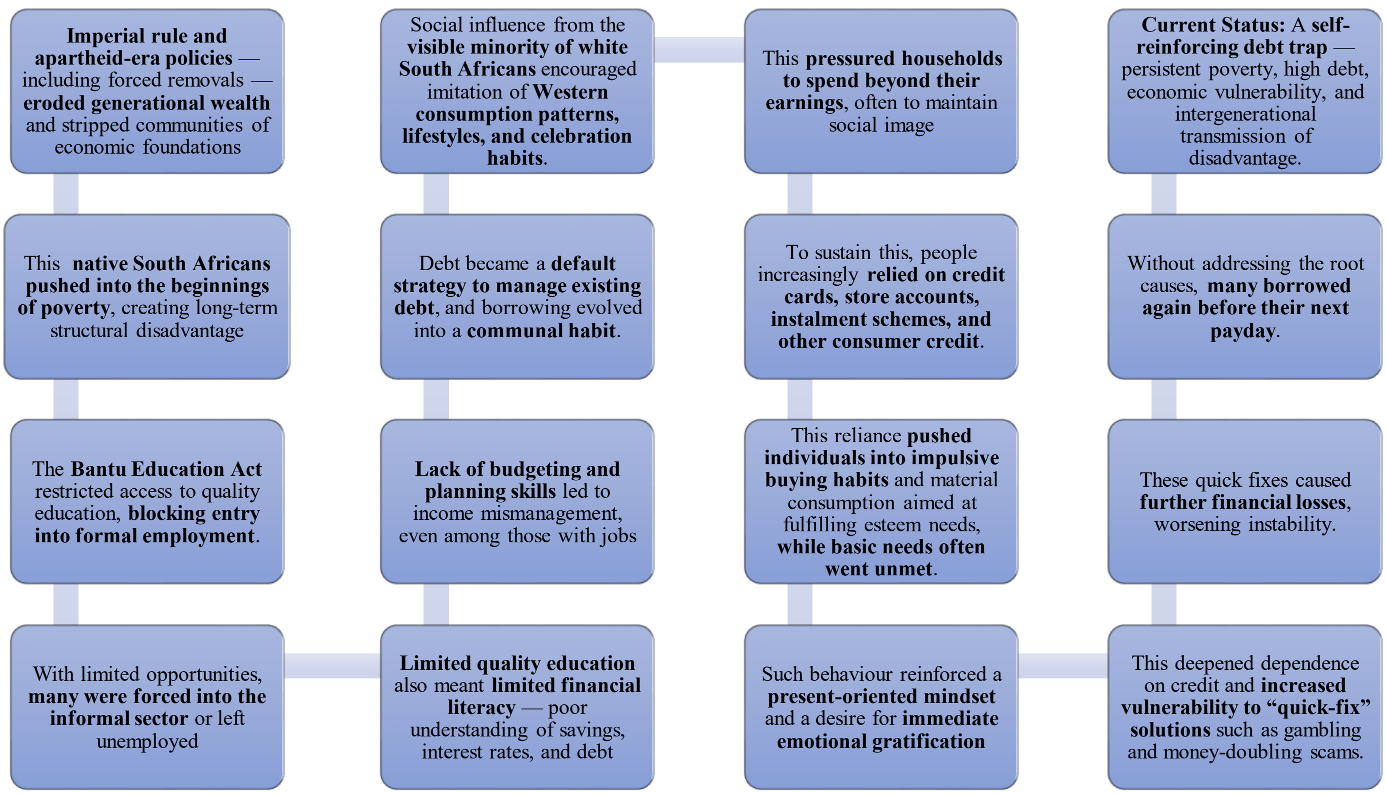
When household income fails to cover essential needs, many individuals turn to quick and alternative ways to address their financial difficulties. Instead of investing in long-term assets that could generate stability over time, they are often drawn to short-term options such as small funds, speculative stock trading, lottery draws, or so-called "money-doubling" schemes. Unfortunately, a significant portion of these opportunities prove to be financial scams, leaving participants in an even more vulnerable position. Among the most common practices is reliance on the national lottery and gambling in casinos. South Africa is home to the world's fifth-largest casino, which highlights the strong cultural presence of gambling in the country. For many South Africans, buying lottery or "lucky" tickets has become a routine practice, driven by the hope that one fortunate win might alleviate their financial burden. This behaviour reflects a strong desire for immediate relief from debt and poverty, where chance is trusted more than structured saving or financial planning. The promise of sudden wealth provides emotional comfort and a sense of possibility, even though the likelihood of winning remains extremely low. As a result, money is continuously spent on tickets, creating a repetitive cycle of hope with little tangible return. While the lottery may appear to offer an escape, it often diverts attention and resources away from more sustainable financial strategies that could secure long-term well-being.

4.6 Conceptual framework table: the debt trap among the native working-class South Africans

Cause	Effect
Apartheid-era policies—including forced removals	Erosion of generational wealth → High household debt and economic vulnerability → Beginning of poverty
Bantu Education Act	Limited access to quality education → restricted opportunities in formal employment→ Shift to the informal sector for survival
Limited access to financial education and management	Financial illiteracy → poor understanding of savings, investment, interest rates, and debt types
Lack of budgeting and planning skills across all income levels	Income mismanagement → financial instability regardless of earnings
Cultural norm of "saving what's left after spending"	No emergency funds or safety net → vulnerability to financial shocks
Poverty-driven reliance on borrowing for daily needs	Debt cycling → New loans to pay off old ones without solving the root issue
Aggressive retail credit offerings (e.g., store cards with high limits)	Overconsumption beyond means → Repayment struggles → blacklisting
Blacklisting due to unpaid debts	Exclusion from Financial services → deeper entrenchment in the informal economy
Exposure to the consumption patterns of White communities	Adoption of Western style buying habits → Decline in reuse and traditional resourcefulness
Spending on materialistic and lifestyle items	Emotional and social value drives choices→ Essentials like food, shelter, and savings are deprioritised
Present-oriented mindset and impulsive spending behaviours	Short-term needs Fulfilment →long-term financial instability
Emotional desire for immediate gratification	Reduced the likelihood of saving→ increased unplanned purchases
Cultural emphasis on celebration and community bonding	Strengthens social ties→ diverts funds from household priorities
Overlap of short-term thinking and socially driven spending	Prevents wealth-building→ Perpetuates economic insecurity
Attraction to quick fixes like "money-	Exposure to financial scams → loss of money

doubling" schemes and speculative trading	and increased hardship
Lack of investment in long-term assets	Missed opportunities for wealth accumulation and financial security
Constant return to hope through gambling	Entrenches poverty→ Delays meaningful financial progress

4.7 Interconnected pathways to indebtedness: A conceptual mapping



5. Conclusion and Recommendations

Native working-class South African's credit challenges result from historical legacies and current socio-cultural dynamics. Apartheid-era policies eroded generational wealth, entrenched poverty, and restricted access to formal employment, laying the foundation for long-term economic vulnerability and high household debt. In the post-apartheid era, many had to rebuild their lives without inherited assets or financial guidance, while political exclusion deepened hardship. Despite gradual improvements in employment, financial struggles persist due to financial illiteracy, compulsive spending, and cultural norms that prioritise social obligations over long-term planning. Poor financial management is widespread. Limited financial education leaves individuals uncertain about debt, interest, and saving, leading many to follow risky trends such as

EMI-based purchases or cryptocurrency investments. A "spend first, save later" mindset leaves households without emergency funds, while poverty-driven borrowing and aggressive retail credit create cycles of dependency, repayment struggles, and blacklisting. Cultural exposure to affluent consumption patterns shifts priorities toward luxury goods and appearances. Combined with impulsive spending, emotional gratification, and performative social media practices, this drives chronic debt and diverts funds from primary essentials. Short-term thinking, socially driven spending, and funding for quick financial fixes, such as money-doubling schemes, speculative trading, and gambling, further entrench poverty and delay progress. In summary, present-day financial hardship is closely tied to historical disadvantage and current socioeconomic attitudes. Debt traps persist not only because of limited income but also because of how resources are used and invested within already burdened communities.

5.1 Conclusion

This conceptual study has shown that the debt trap in South Africa is not only the outcome of structural inequalities inherited from apartheid but is also reinforced by present-day behavioural and cultural practices. A persistent drive to maintain social status, coupled with limited financial literacy and reliance on unsecured credit, has entrenched a cycle of borrowing and repayment that undermines long-term stability. Breaking this cycle requires a shift in mindset from consumerism driven by social pressures to a culture of saving and responsible financial planning. Financial literacy must be promoted at every level of society, with schools, workplaces, households, and community structures serving as platforms for practical education in budgeting, borrowing, and saving. Strengthening traditional collective savings mechanisms such as stokvels, while integrating them with modern financial education, can further enhance resilience and promote sustainable household practices. A coordinated effort from municipalities, government agencies, financial institutions, and employers is essential to expand financial inclusion and provide welfare initiatives that address the realities of working-class households. Without such interventions, families will remain trapped in a cycle of debt repayment while struggling to meet basic needs. In short, achieving financial resilience in South Africa demands a multi-dimensional approach that combines education, inclusive policy measures, and behavioural transformation. This conceptual study contributes to both literature and policy by mapping the interconnected historical, cultural, and behavioural factors that sustain indebtedness, offering a framework for targeted interventions to break the debt trap.

5.2 Recommendations

Addressing indebtedness among Native working-class South Africans requires a dual approach, managing immediate financial behaviour while encouraging long-term generational change. At the community level, municipalities should run structured financial literacy programs that teach budgeting, debt management, and responsible spending. Adults in both urban and rural areas require accessible, culturally relevant sessions to enhance financial decision-making. For the next generation, schools must reinforce initiatives such as *Project One Rand* and *Star Saver* by making them more interactive and tied to real-life financial choices. Early exposure to sound financial habits will help children grow into adults who manage money with balance and foresight. Expanding the reach of the National Stokvel Association of South Africa (NASASA) can also promote trusted, community-based saving practices. Workplaces should support employees through savings schemes, financial counselling, and welfare programs that reduce reliance on high-interest loans. Banks must promote financial inclusion by offering affordable credit and awareness campaigns, reducing dependence on informal lending. Government regulation is equally important. Stricter oversight of store and credit card issuance is needed, as low-income earners and young adults are often granted multiple credit instruments without the experience to manage them responsibly. Companies deliberately structure credit to stimulate consumption, which increases household debt and financial strain. Together, these measures, spanning households, schools, communities, workplaces, banks, and government, can help dismantle the debt trap and build lasting financial stability for Native working-class South Africans.

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