national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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MEDIA STATEMENT

Bilateral Loan Agreements AFD and KFW

South Africa, France and Germany have signed loan agreements for the two European nations to each extend €300 million in concessional financing to South Africa to support the country's just energy transition. The loans are provided by the French and German public development banks, Agence Française de Développement (AFD) and Kreditanstalt für Wiederaufbau (KFW), directly to the National Treasury.

Both loans are sovereign loans that take the form of non-earmarked budget financing that is transferred directly into the National Revenue Fund of South Africa. These loans are in support of the policy and institutional reforms undertaken by the government of South Africa in support of its just energy transition.

The loans are highly concessional as their terms are substantially more generous than what the Government of South Africa would be able to raise in capital markets. These loans are already reflected in South Africa's gross borrowing requirement (in Table 3.7 of the Medium Term Budget Policy Statement) and well within South Africa's risk benchmark of foreign debt as percentage of total debt (in Table 7.1 of the Budget Review) The financial terms of the two loans are shown in Table 1.

Table 1. Financial terms of the AFD and KFW loans

TERMS	AFD	KFW
Nominal value	EUR300 million	EUR300 million
Maturity	20 years, including a 5-year grace period	20 years, including a 5-year grace period
Interest rate	3.6% (6-month Euribor plus 129bps)	3% (6-month Euribor plus 69bps)

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The estimated cost for the Government of South Africa to raise an equivalent loan today in the market would be around 8.9%. This estimate is based on a fair value estimation of South Africa's foreign currency bonds relative to the risk free rate, secondary market activity and historical issue spreads.

Due to South Africa's high stock of debt and the currently high interest rate environment, replacing market lending with much cheaper concessional loans, allows South Africa to reduce its cost of funding and overall debt burden. By lowering debt service costs, the Government of South Africa creates more fiscal space for critical social and other priorities.

A just energy transition can attract investment, create new industries and jobs, and help South Africa to achieve energy security and climate resilience. South Africa requires more support for its just energy transition given the large scale of the required transition in the context of the current socio-economic challenges and will therefore continue discussions with various multilateral lenders in pursuit of this objective.

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