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PARIS CLUB
PRESS RELEASE

THE PARIS CLUB AND KENYA AGREE TO A DEBT RESTRUCTURING

Paris Club creditors agreed on November 15, 2000 with the Government of the Republic of Kenya to a restructuring of its external debt. This agreement follows the International Monetary Fund's successful approval of an arrangement under the Poverty Reduction and Growth Facility in July 2000, of which the first-year program was modified in October 2000 in order to take into account the impact of the severe drought experienced in the recent months by Kenya.

This agreement consolidates roughly US\$ 300 million. This amount is broken down between US\$ 23 million in arrears as of July 1, 2000 (of which US\$ 6 million of official development assistance loans) and US\$ 277 million of maturities in principal and interest falling due from July 1, 2000 up to June 30, 2001 (of which US\$ 111 million of ODA loans).

The rescheduling is structured on the following terms : ODA credits are to be repaid over 20 years, with 10 years of grace, at interest rates at least as favourable as the concessional rates applying to those loans ; commercial credits are to be repaid over 18 years, with 3 years of grace with progressive repayment, at market rates of interest. The attached tables describe the repayment profile of the restructured amounts.

This agreement is expected to reduce debt service due to Paris Club creditors during fiscal year 2000-2001 from US\$ 392 million down to US\$ 104 million, which consists in payments of interests on the rescheduled amounts, payments on maturities on post-cut-off-date debt and clearance of arrears due according to its previous Paris Club agreement.

On a voluntary and bilateral basis, each creditor may also undertake debt for nature, debt for aid, debt for equity swaps or other local currency debt swaps.

This debt restructuring is expected to make an important positive contribution to Kenya's economic outlook. After a comparable effort from other official creditors and from private creditors, this rescheduling will satisfy Kenya's financing requirements for fiscal year 2000-2001 (July 1, 2000-June 30, 2001).

Background notes

1. The Paris Club was formed in 1956. It is an informal group of creditor governments from major industrialized countries (i.e. OECD). It meets on a monthly basis in Paris with debtor countries in order to agree with them on restructuring their debts.

2. The members of the Paris Club which participated in the reorganization were representatives of the governments of Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States of America.

Observers at the meeting were representatives of the Governments of the Russian Federation and Spain, as well as the International Monetary Fund, the International Bank for Reconstruction and Development, the African Development Bank, the Secretariat of the U.N.C.T.A.D., the Organization for Economic Cooperation and Development and the European Commission.

3. The delegation of the Republic of Kenya was headed by Hon. Chrisanthus B. OKEMO, Minister for Finance. The meeting was chaired by Mrs Stéphane PALLEZ, Assistant Secretary for European and International Affairs at the French Treasury at the Ministry of Economy, Finance and Industry, Co-President of the Paris Club.

Technical notes

1. The arrangement under the Poverty Reduction and Growth Facility concluded by Kenya with the International Monetary Fund was approved by the Fund's Executive Board on August 4, 2000. The first year of the program was modified on October 18, 2000 in order to address the impact of the drought.

2. The total stock of the debt of Kenya's public sector has been estimated as at December 31, 1999 at US\$ 5.5 billion, out of which US\$ 2 billion due to the Paris Club (source: IMF staff report and Paris Club creditors). Paris Club creditors' stock of debt is divided into US\$ 1.6 billion pre-cut-off-date claims (out of which 75% ODA) and US\$ 0.4 billion post-cut-off-date claims (out of which 81% ODA).

The cut-off-date (December 31, 1991 for Kenya) is used by Paris Club creditors for the sole internal purpose of the Paris Club agreement. When a debtor country first meets with Paris Club creditors, the "cut-off-date" is defined and is not changed in subsequent Paris Club treatments and credits granted after this cut-off-date are not subject to future rescheduling. Thus, the cut-off-date helps restore access to credit for debtor countries facing liquidity problems.

3. Interest rates to be applied on the restructuring are to be negotiated with each creditor country by the government of Kenya in bilateral agreements implementing the Paris Club agreement. Official development assistance loans will be rescheduled at a below-market interest rate not higher than the interest rate of the original credits. Other loans will be rescheduled at a market interest rate (known as "appropriate market rate") defined on the basis of risk-free rates for the currency considered, plus a management margin.

4. The impact of the rescheduling on the net present value of the restructured claims is estimated to be, for a discount rate equal to the Paris Club appropriate market rate, a 15% reduction (this reduction in net present value results from the rescheduling at an interest rate lower than the market rate of official development aid loans) and, for a discount rate that includes the current spreads on emerging market debt, a 50% reduction. The impact of this rescheduling in the duration (discounted average maturity) of restructured claims is estimated to be a 11 year increase using the Paris Club appropriate market rate as a discount rate and a 8 year increase using the emerging market spreads.

5. As in any Paris Club agreement, Kenya agreed to seek comparable treatment from non-Paris Club creditors. In the present case, the comparable treatment shall imply an equivalent contribution of non Paris Club official creditors and private creditors to the financing gap during the consolidation period (from July 1, 2000 up to June 30, 2001). The Kenyan delegation indicated its willingness to meet these creditors soon in order to negotiate the terms of a future rescheduling.