MINISTRY OF FINANCE

PRESS RELEASE ON SIGNING BY GOVERNMENT OF KENYA OF A SYNDICATED LOAN OF US$ 600 MILLION FROM INTERNATIONAL COMMERCIAL BANKS ON 15TH MAY 2012.

I. Background

1. Today marks the occasion of the Government signing a facility agreement with international commercial banks for a loan of US$ 600 million. The borrowing is in accordance with the Constitution of Kenya and the External Loans and Credits Act, CAP 422 Laws of Kenya. The tender for obtaining the Mandated Lead Arrangers (MLAs) was conducted in accordance with the Government's Public Procurement and Disposal Act, 2005 and was awarded to a consortium of three banks comprising Citibank, N.A., London Branch, Standard Bank of South Africa and Standard Chartered Bank, London. The consortium will arrange, manage the primary syndication, and underwrite the loan facility. Below is an outline of the rationale for this borrowing, the terms of the loan and clarifications on the country's public debt.

II. Rationale for external borrowing from international commercial banks

2. In fiscal year 2011/12, the Government of Kenya had planned to borrow Ksh 119.5 billion from the domestic market to finance the budget. In view of the volatility in the domestic markets and the resultant under subscription of Treasury Bills and Bonds in the auction market for government securities and rising borrowing cost, the Government of Kenya in November 2011 embarked on plans to borrow an external loan of US$ 600 million which was about Ksh 54 billion at the ruling exchange rate of Ksh 90 to 1USD at the time.

3. The proceeds of the loan will go towards financing infrastructure projects in the roads, energy, water and irrigation sectors as well as financing some of the programs in the implementation of the new constitution. These programs are on-going and will continue in the next financial year of 2012/2013.

4. The loan will have significant positive impact in the economy. In relative terms, the cost of the loan compared to the domestic market is much lower. It will also ease pressure on the domestic interest rates and boost the international reserves of the Central Bank thus stabilizing the Kenyan shilling.

III. Terms of the Loan

5. The terms of the loan are quite competitive. In making comparisons with other facilities, it is important to take into account the following factors: -

    i. Banks price loans or bonds in accordance with the perceived risk of the borrower or issuer. A major determinant of the price is the rating of the country with those **rated high like AAA** borrowing at fine premium margins of even 1%, while those **rated low like B-** can borrow at excess of 10%. **Kenya is rated B+,** which is fairly good for a non- resource rich country.

    ii. Unlike sovereign bonds which have a liquid secondary trading market, loans are typically held by banks on their balance sheets. This relative illiquidity means that the pricing of the loan is normally higher than that of bonds.

    iii. Another key factor in pricing is whether the loan is underwritten or not. If it is underwritten, the borrower is certain to receive the funds at the agreed price regardless of the success of the syndication and for this the pricing is higher. The Kenyan loan is underwritten and hence it will be delivered under the negotiated terms and for this, the price is higher than in a situation where the facility was not underwritten.

    iv. Another factor affecting pricing is whether the borrower is accessing the capital market for the first time or is a frequent borrower or issuer. Rates for first time borrowers attract a premium and this being the first time that Kenya is entering the international debt market, such premium has been factored in the pricing.

6. When all the above factors are taken into account, the syndicated loan is competitively priced at **an interest rate of 4.75% per annum over Libor, and is also competitively priced when compared with other similar African debt financings.** The market for syndicated loans in Africa is relatively thin and the only comparisons available are with sovereign bonds where typically pricing for bonds is lower than that for loans. For bonds, the tenors of those issued in Africa range from five to ten years, and for countries with almost similar credit ratings to Kenya, the borrowing costs are higher. Ghana’s 10 year bond has a coupon of

8.50% p.a.; Senegal's 10 year bond is at 8.75% p.a.; and Gabon's 10-year bond is at 8.20% p.a. Tanzania issued a loan in 2009, and considering the size of the loan and the timing (which was before onset of the global financial crisis), the pricing of Kenya's loan is relatively more attractive.

IV. Issues Concerning Public Debt

7. I would like to take this opportunity to assure and clarify several issues commonly repeated in the press and by other parties regarding public debt:

   i. **The first is that the Government is borrowing too much and the country could have difficulty in servicing such huge debt in future.**

      On this, I wish to confirm current level of outstanding public debt of **Ksh 1.51 trillion comprising of Ksh 686 billion in external debt and Ksh 830 billion in domestic debt, is sustainable**. Kenya has pursued very prudent public debt policies and has not been granted debt relief under the HIPC initiative and the Multilateral Debt Relief Initiative. The amount borrowed in absolute numbers appears high but the correct way is to consider debt burden is in terms of the size of the economy and the capacity to repay. In that regard, the debt sustainability report published by World Bank and I.M.F in November 2011 shows that the **debt is sustainable and there is low risk of debt distress.**

   ii. **The second concern is that funds have been borrowed but in some cases the funds were misused and the projects for which the loans were taken collapsed. But that was a long time ago. The extreme view often taken is that the government should refuse to service such loans.**

      On this matter, it should be appreciated that governance issues have been of concern in the country but we have come a long way to ensure that identified projects are sound and are completed in time. The option of the government not servicing loans where the underlying projects collapsed as is sometimes suggested would have **serious negative impact on the creditworthiness of the country and should not be considered**.

   iii. **The third issue often reported by some parties is that information on public debt is not available and the Public Debt Register is secret**

      This contention is erroneous since all the information on public debt is in public domain. This includes the reports from the Auditor General which contain **a debt register of all the outstanding external loans, their terms and projects funded. The report is also posted in the Treasury website.** The published Budget books disclose a lot of information relating to loans; the Debt Management Department publishes Monthly Bulletin and Annual Debt Report; and there are several other publications from the Treasury and the Central Bank with information on public debt.

V. Conclusion

8. The signing of this syndicated loan marks an important stage in the entry of Kenya into the International capital markets and we look forward to successful syndication. Our plans are to retire the loan on or before its term of two years through issuance of a sovereign bond. I wish to confirm that Treasury will continue to ensure prudent management of public debt. The constitution and the Public Financial Management Bill demand a lot of accountability and stringent reporting on public debt. The PFM Bill also creates Debt Management Office (DMO) in the Ministry of Finance which will ensure public debt matters will be under constant focus so that the country does not fall into problems like those in some European countries.

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MINISTER FOR FINANCE

15th May 2012