REPUBLIC OF KENYA

MEDIUM TERM DEBT MANAGEMENT STRATEGY (2026/27—2028/29)

PREPARED BY PUBLIC DEBT MANAGEMENT OFFICE

THE NATIONAL TREASURY AND ECONOMIC PLANNING

JANUARY 2026

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FOREWORD

The Medium-Term Debt Management Strategy (MTDS) is an annual publication that guides public borrowing and public debt management by the Government cognizant of public debt sustainability, costs and risks minimization over the medium term. The MTDS informs the desired structure of public debt portfolio reflective of the choice of cost and risk trade-offs. In addition, the MTDS highlights the Government's commitment to implement viable and innovative strategies designed to maintain public debt at sustainable level.

The 2026 MTDS has been prepared pursuant to Section 33 of the Public Finance Management Act, Cap 412A. The Strategy recognizes diversification of the public debt structure and deepening of the domestic debt market as a necessity in mitigating exchange rate risks.

During the implementation period, the Government will continue to assess and monitor macroeconomic and market developments both domestically and globally, thereby, exploring the opportunities for diversifying sources of borrowing. Consideration will also be given to innovative financing instruments over the medium term without compromising the legal framework.

Furthermore, the Government will continue to pursue domestic debt market reforms currently under implementation. The main objective of these reforms is to reduce the cost and minimize risks inherent in public debt while also strengthening the legal, policy, and institutional framework to ensure effective public debt management operations. Measures aimed at addressing public debt vulnerabilities including liability management operations, prioritizing concessional borrowing and continuation of implementation of fiscal consolidation path will remain a high priority in both the short and medium term.

The 2026 MTDS thus provides a firm foundation for enhancing public debt management while ensuring adequate funding of the budget as outlined in the Budget Policy Statement (BPS).

HON. FCPA JOHN MBADI NG'ONGO, EGH
CABINET SECRETARY/THE NATIONAL TREASURY

ACKNOWLEDGEMENT

The 2026 Medium Term Debt Management Strategy (MTDS) has been developed to guide public debt management for the financial year 2026/2027 and the medium term through the analysis of costs and risks on both the domestic and external environments in line with the objectives of the Public Debt and Borrowing Policy and the Public Finance Management Act, CAP. 412A.

The development of the 2026 MTDS has been subjected to public participation through the National Treasury website, in line with the Statutory Instruments Act, CAP2a. The National Treasury received vital inputs and comments from members of the public, which helped re-shape the final version of the MTDS. I am also grateful for the inputs received in form of written memoranda submitted, which further enriched the process.

The National Treasury will continue to engage members of the public on matters of public financial management, including budget making and public debt management, so that the views of the citizens are taken on board in the design of public finance management policies and strategies.

Finally, the preparation and finalization of the 2026 MTDS, was a collaborative effort involving various Departments within the National Treasury and the Central Bank of Kenya (CBK). I thank all the officers from the various departments and directorates for their contribution to the MTDS. I recognize the efforts of the Public Debt Management Office for providing the technical inputs towards developing this Strategy.

I appreciate the invaluable leadership and guidance provided by the Cabinet Secretary, the National Treasury and Economic Planning, towards the development of this Strategy.

The 2026 MTDS and previous years' versions of the Medium-Term Debt Management Strategies are available for reference and information on the National Treasury website: www.treasury.go.ke.

DR. CHRIS K. KIPTOO, C.B.S.
<u>PRINCIPAL SECRETARY/ THE NATIONAL TREASURY</u>

ABBREVIATIONS AND ACRONYMS

MTDS	Medium Term Debt Management strategy
USD	United States Dollar
BPS	Budget Policy Statement
CAP	Chapter
CBK	Central Bank of Kenya
PFM	Public Finance Management
GDP	Gross Domestic Product
DSA	Debt Sustainability Analysis
PV	Present Value
BETA	Bottom-up Economic Transformation Agenda
ATM	Average Time to Maturity
IMF	International Monetary Fund
SDR	Special Drawing Rights
IDA	International Development Association
IBRD	International Bank for Reconstruction and Development
ADF	African development Fund
KPA	Kenya Ports Authority
KQ	Kenya Airways
DSSI	Debt service suspension initiative
IR	Interest rate
ATR	Average time to refixing
FX	Foreign exchange
FY	Financial year
PPG	Public and publicly guaranteed
KESONIA	Kenya Shilling Overnight Interbank Average
ESG	Environment, Social and Governance
FY	Financial Year
DSA	Debt Sustainability Analysis
ST	Short term
LMO	Liability management operations
SLB	Sustainability linked bond
CI	Composite indicator
DX	Domestic debt
KenGen	Kenya Electricity Generation Company

EXECUTIVE SUMMARY

The 2026 Medium Term Debt Management Strategy (MTDS) has been prepared in accordance with Section 33 (2) of the Public Finance Management (PFM) Act, Cap 412A. The Strategy is formulated to guide management of Kenya's public debt over the period FY 2026/27-2028/29. It outlines the strategies and initiatives aimed at minimizing costs at a prudent degree of risk over the medium term. As at end June 2025, the stock of public and publicly guaranteed debt was Ksh. 11,814.47 billion (67.8 percent of GDP), equivalent to USD 91.42 billion in nominal terms of which domestic debt was Ksh. 6,326.01 billion while external debt was Ksh. 5,488.46 billion.

The 2025 Debt Sustainability Analysis (DSA) undertaken jointly by the National Treasury indicates that Kenya's public debt remains sustainable but with high risk of debt distress. The Present Value (PV) of total public debt as a percentage of GDP is expected to stay above the 55 percent benchmark until 2029. The present value (PV) of public debt projected was at 65.3 percent of GDP at the end of 2025 against the benchmark debt threshold of 55 percent.

The 2026 MTDS is anchored on the macroeconomic assumptions outlined in the 2026 Budget Policy Statement. Over the medium term, economic growth is projected to remain at 5.3 percent, supported by enhanced agricultural productivity, a resilient services sector, and ongoing implementation of priority programmes under Bottom-Up Economic Transformation Agenda (BETA). Domestic interest rates have declined in line with the easing of monetary policy by the Central Bank of Kenya, following a gradual reduction of the Central Bank Rate from 13.0 percent in August 2024 to 9.00 percent in December 2025 to support private sector credit and economic activity.

The 2026 MTDS aims to reduce public debt costs and risks by sourcing 16 percent gross borrowing from external sources and 84 percent from domestic sources over the medium term. From the domestic sources, the strategy is to gradually reduce the stock of Treasury bills while lengthening debt maturity by issuance of medium to long term debt securities. On the external end, the target is a mix of concessional financing, new instruments such as sustainability linked bonds and minimal other commercial borrowing.

Public debt management requires both operational, institutional, legal and governance reforms necessary to strengthen debt sustainability, fiscal resilience, and market credibility. The key reforms envisaged include review of the Public Debt and Borrowing Policy to bring on board new developments in debt management, and development of a Liability Management Policy to guide and ensure that liability management operations are executed in line with the MTDS.

I. INTRODUCTION

1. The Medium–Term Debt Management Strategy (MTDS) is a policy framework that aims to ensure that public debt is sustainable and financing needs are met at minimum cost with prudent risk, supporting macroeconomic stability and development goals.

2. The framework guides the Government in pursuing a desired structure of the public debt portfolio which reflects costs and risks trade-off, and supports the fiscal deficit financing as outlined in the Budget Policy Statement (BPS).

3. The 2026 Medium-Term Debt Management Strategy (MTDS) was prepared in conformity to Section 33(2) and 63(c) of Public Finance Management Act, Cap 412A. Sections 12 (1) (b) and 62(b) of the Act mandates the National Treasury to manage the levels and composition of public debt, including guarantees and other financial obligations.

a) Objectives of the 2026 Medium Term Debt Management Strategy

4. The 2026 Medium Term Debt Management Strategy aims at:
   a) Ensuring public debt sustainability;
   b) Reducing refinancing risks by reducing short term domestic debt while lengthening the total portfolio Average Time to Maturity (ATM) through issuance of medium to long term debt instruments;
   c) Ensuring financing needs are met at minimum cost;
   d) Reducing exposure to the variable-rate debt, extending debt maturities, undertaking Liability management operations and applying other strategies that increase average time to refixing;
   e) Reducing the foreign exchange risk exposure through currency diversification; and
   f) Promoting intergenerational equity.

b) Scope of the 2026 MTDS

5. This MTDS provides a clear pathway for Government to navigate public debt challenges, turning vulnerabilities into opportunities for market development and sustainable growth. The Strategy's analysis takes into account outstanding public debt and projected borrowing and debt service aimed at stabilizing the current and future macroeconomic environment taking into account the conditions in the international and domestic capital markets.

6. In the analysis of this MTDS, public debt excluded amounts to KSh. 260.64 billion which includes KSh. 83.24 billion uncalled guaranteed debts, KSh.67.63 billion Government overdraft at CBK, KSh. 14.42 billion Suppliers credit, KSh. 80.56 billion IMF SDR Allocation and KSh. 14.79 billion Bank advances.

c) Organisation of the document

7. The succeeding sections comprise: Review of the Existing Public Debt; Costs and Risks Analysis of the Existing Public Debt Portfolio; Public Debt Initiatives, Kenya's Debt Sustainability; Macroeconomic Assumptions and Key Risks; Assessment of Potential Sources of Financing; Debt Management Strategy; Strategy Implementation, Monitoring and Evaluation and Annexes.

II. REVIEW OF THE EXISTING PUBLIC DEBT STOCK

1. As at end June 2025, the stock of public and publicly guaranteed debt was Ksh. 11,814.47 billion (67.8 percent of GDP), equivalent to USD 91.42 billion in nominal terms inclusive of domestic bank advances, of which domestic debt was Ksh. 6,326.01 billion while external debt was Ksh. 5,488.46 billion (**Table 1**).

2. The 2026 MTDS analysis takes into account public debt stock of Ksh. 11,533.81 billion or USD 89.41 billion excluding the performing guarantees debts, IMF SDR Allocation, Government overdraft at Central Bank of Kenya (CBK), Suppliers credit and Bank advances.

Table 1: Public and Publicly Guaranteed Debt in the MTDS end June 2025

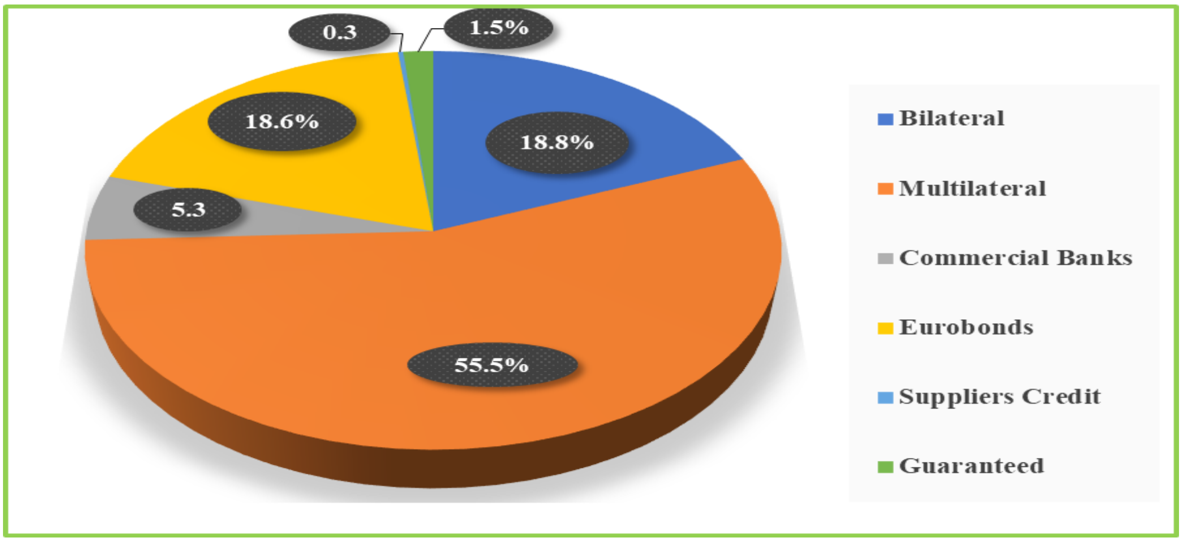
Description	Ksh. (billions)	USD (billions)*
A. Domestic Debt (included in MTDS)		
Treasury Bills	1,036.88	8.02
Treasury Bonds	5,110.01	39.54
Pre-1997 Government Debt	16.12	0.12
Sub Total	**6,163.01**	**47.69**
B. External debt (included in MTDS)		
IDA/IBRD	1,927.10	14.91
ADF/AfDB	550.24	4.26
Bilateral	1,032.81	7.99
Multilateral	568.05	4.40
Commercial Banks	289.90	2.24
International Sovereign Bond	1,022.70	7.91
Sub Total	**5,390.80**	**41.71**
TOTAL DEBT Included in MTDS (A+B)	**11,553.81**	**89.40**
C. Excluded from MTDS		
Suppliers Credit (external)	14.42	0.11
CBK Overdraft (domestic)	67.63	0.52
IMF SDR Allocation (domestic)	80.56	0.62
Performing Guarantees (external)	83.24	0.64
Bank advances (domestic)	14.79	0.11
Sub Total Excluded from MTDS	**260.64**	**2.02**
TOTAL DEBT (A+B+C)	**11,814.45**	**91.42**
Domestic	6,326.01	48.95
External	5,488.46	42.47

Source: *The National Treasury and Central Bank of Kenya*
**Exchange Rate (USD/Ksh) is 129.2343*

3. External public debt comprises multilateral, bilateral and commercial creditors while domestic debt comprise Treasury bonds, CBK Overdraft, bank advances and Treasury bills. As a proportion of total external debt, multilateral debt accounted for

55.5 percent (**Figure 1)**. The high proportion of multilateral and bilateral debt reflects the Government's deliberate strategy of maximizing the use of concessional financing and minimizing the use of commercial debt.

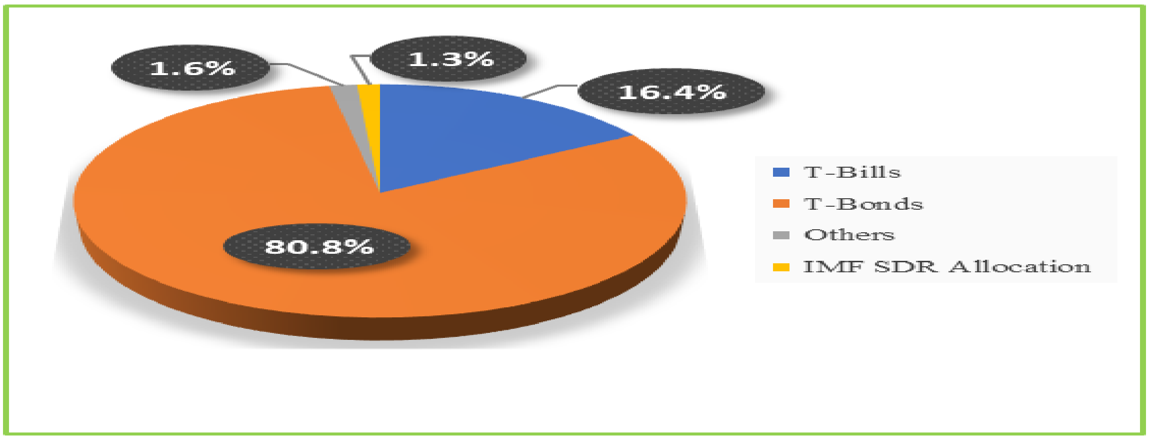
Figure 1: Composition of External Debt as at end June 2025



Source: *The National Treasury*

4. As at end June 2025, Treasury bonds accounted for 80.8 percent, Treasury bills accounted for 16.4 percent, IMF SDR Allocation accounted for 1.3 percent while other domestic debt categories accounted for 1.6 percent of the total domestic debt **(Figure 2**).

Figure 2: Composition of Domestic Debt as at end June 2025



Source: *The National Treasury*

5. Government guaranteed debt as at end June 2025 amounted to Ksh.83.2 billion. The guaranteed debt is held by Kenya Ports Authority (KPA), Kenya Electricity Generation Company (KenGen) and Kenya Airways (KQ) (**Table 2**).

Table 2: Outstanding Government Guaranteed Debt (End June 2025)

Agency	Agreement Date/Year	Project	Creditor	Amount
Kenya Electricity Generating Company	1997	Sondu Miriu Hydropower Project	Government of Japan	608
	2004	Sondu Miriu Hydro Power II	Government of Japan	5,907
	2007	Sondu - Miriu Hydropower Project Sangoro Power Plant	Government of Japan	2,798
	2010	Olkaria 1 Unit 4 and 5 Geothermal Power Project	Government of Japan	16,107
	2011	Rehabilitation and Upgrade of the Geothermal Plant Olkaria	Government of Fed. Republic of Germany - GTZ	791
	2021	DSSI Japan For KenGen Loans Phase I	Government of Japan	526
	2021	DSSI Japan For KenGen Loans Phase II	Government of Japan	655
Kenya Ports Authority	2007	Mombasa Port Development Programme (Mombasa Port A)	Government of Japan	15,726
	2007	Mombasa Port Development Programme (Mombasa Port)	Government of Japan	1,720
	2015	Kenya Port Development Project - Phase II (Principal I)	Government of Japan	25,490
	2015	Kenya Port Development Project - Phase II (Principal IIA)	Government of Japan	2,858
	2021	DSSI Japan-Kenya Ports Authority (KE-P25) -Phase I	Government of Japan	162
	2021	DSSI Japan-Kenya Ports Authority (KE-P25) -Phase II	Government of Japan	203
Kenya Airways	2017	Kenya Airways Guarantee (for Local Banks)	MTC Trust & Corporate Services Limited (Security Agent for Local Banks)	9,690
Total				**83,241**

Source: *The National Treasury*

III. COST AND RISKS OF THE EXISTING PUBLIC DEBT PORTFOLIO

1. The nominal public debt as a percentage of GDP increased to 67.8 percent as at end June 2025 from 65.7 percent in June 2024 due to slight depreciation of the Kenya shilling against major currencies while the present value of public debt to GDP declined to 65.3 percent from 65.7 percent over the same period (**Table 3**).

Table 3 : Cost and Risk Indicators for Existing Debt

		External Debt		Domestic Debt		Total Debt		Remarks
Risk Indicators		**2024**	**2025**	**2024**	**2025**	**2024**	**2025**	
Nominal debt as percentage of GDP		32.1	30.9	33.6	34.8	65.7	67.8	High debt burden.
PV as percentage of GDP		29.8	25.9	33.2	34.8	65.7	65.3	
Cost of debt	Interest payment as percentage of GDP	1.2	1.2	4.3	4.5	5.4	5.9	Rising cost of debt due to high domestic interest rate
	Weighted Av. IR (percentage)	3.8	3.9	13.2	13.0	8.5	8.8	
Refinancing risk	ATM (years)	9.5	9.4	6.6	6.4	8.1	8.3	High refinancing risk due to increased uptake of short-term domestic debt
	Debt maturing in 1yr (percentage of total)	5.2	6.5	17.6	20.5	11.2	13.3	
	Debt maturing in 1yr (percentage of GDP)	1.9	2.3	5.7	7.1	7.5	10.0	
Interest rate risk	ATR (years)	7.9	7.9	6.6	6.4	7.3	7.4	Overall, the interest rate risk has reduced
	Debt re-fixing in 1yr (percentage of total)	31.0	28.8	17.6	20.5	24.6	24.9	
	Fixed rate debt incl T-bills (percentage of total)	71.8	74.0	100	100.0	85.2	86.6	
	T-bills (percentage of total)			10.7	15.6	5.1	7.3	
FX risk	FX debt (percentage of total debt)					49.3	47.0	Reduced foreign exchange rate risk
	ST FX debt (percentage of reserves)					27.5	40.5	

Source: *The National Treasury*

2. The domestic debt with maturity of 4 to 10 years was about 38.3 percent as at end June 2025. The proportion of instruments with less than one year to maturity increased to 20.5 percent as at end June 2025 from 18.6 percent as at end June 2024 and this was attributed to uptake of short-term instruments. As a result, the proportion of instruments with maturity of 2-3 years and greater than 11 years as at end June 2025 increased from 13.5 percent and 22.2 percent as at end June 2024 to 15.1 percent and 26.1 percent as at end June 2025, respectively (**Table 4**).

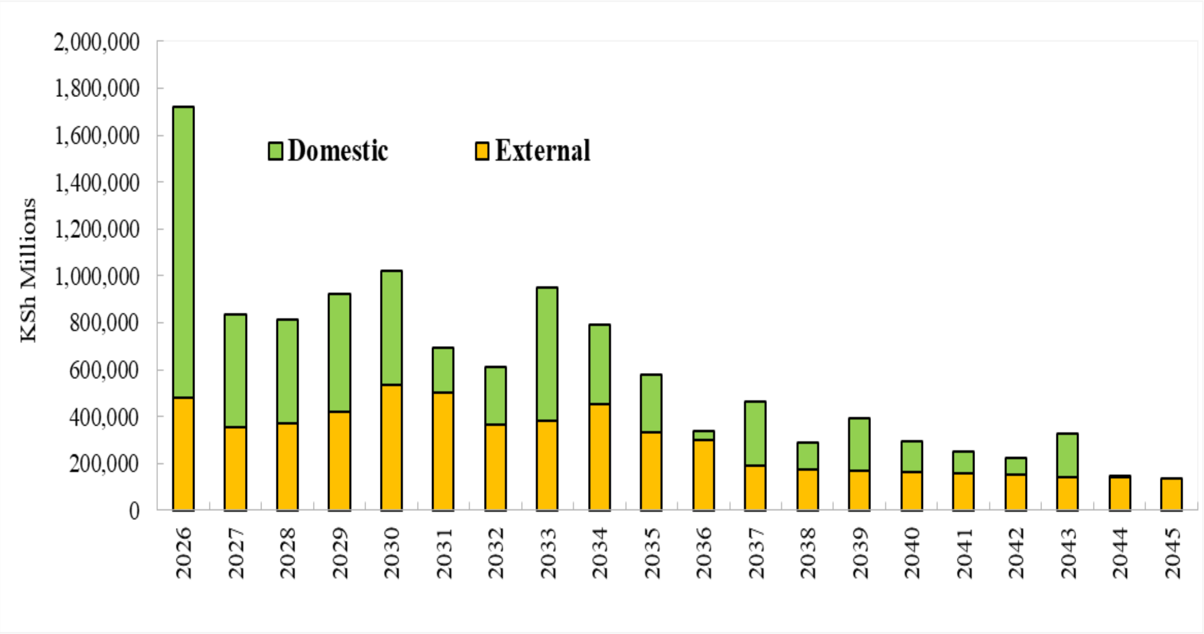
Table 4: Domestic Debt Securities by Maturity Profile, in USD Equivalent

Remaining Maturity in Years	End June 2024 In million USD	As Percent of Total	End June 2025 In million USD	As Percent of Total
Less than one year	7,525	18.6	9,638	20.5%
2 to 3 years	5,482	13.5	7,122	15.1%
4 to 5 years	7,113	17.6	7,612	16.2%
6 to 10 years	11,377	28.1	10,384	22.1%
Above 11 years	8,982	22.2	12,255	26.1%
Total	**40,479**	**100.0**	**47,011**	**100.0%**

Source: *The National Treasury*

3. The redemption profile shows that 18.2 percent of domestic debt will mature by end June 2026, mainly due to a large share of short-term (treasury bills) government securities falling due during the year. Overall, the repayment schedule is bunched up in the medium term due to large share of near-term maturities treasury bonds, international sovereign bonds and syndicated loans. The public debt repayment schedule as at end June 2025, is shown below (**Figure 3**).

Figure 3: Redemption Profile as at end June 2025 (KSh. millions)



Source: *The National Treasury*

IV. REVIEW OF PERFOMANCE OF THE 2024 MTDS

1. The revised 2024 MTDS aimed to deepen domestic debt market capacity and lower portfolio risks by shifting issuance toward medium- to long-term Treasury bonds and reducing reliance on Treasury bills, while also prioritizing concessional financing and limiting the use of commercial borrowing.

2. The strategy envisaged that 55 percent of net deficit financing would be met through domestic sources, with the remaining 45 percent obtained externally. In practice, however, the financing mix shifted to 83 percent net domestic financing and 17 percent net external financing (Table 5). This deviation was largely due to delays in external disbursements, which required greater reliance on domestic borrowing.

Table 5: MTDS Targets Against Net Financing Outturn

Borrowing source		FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY 2024/25
External	MTDS	28	27	25	50	45
	Actual	19	15	22	27	17
	Deviation	**9**	**12**	**3**	**23**	**28**
Domestic	MTDS	72	73	75	50	55
	Actual	81	85	78	73	83
	Deviation	**-9**	**-12**	**-3**	**-23**	**-28**

Source: *National Treasury*

3. With respect to gross borrowing, the strategy anticipated a split of 75 percent domestic and 25 percent external. In contrast, actual borrowing resulted in an 82:18 ratio of gross domestic to gross external financing, as shown in Table 6.

Table 6 : Gross Borrowing

Description	2024 MTDS (FY2024-2025) Targets (%)	FY2024-2025 Actual (%)	FY2024-2025 (KSh. millions)
Gross domestic borrowing	75.0	82.0	2,413,331
Gross external borrowing	25.0	18.0	547,504
o/w Concessional and Semi-concessional	15.0	5.6	180,360
Commercial borrowing	10.0	12.4	367,144

Source: *National Treasury*

4. In February 2025, the National Treasury successfully issued a new USD 1.5 billion Eurobond maturing in 2036. Part of the proceeds was used to repurchase USD 579 million of the USD 900 million Eurobond due in 2027. This liability management operation was undertaken to smoothen the debt maturity profile by spreading repayment obligations over a longer horizon and easing near-term refinancing pressures.
5. The average maturity of new external debt shortened to 15.6 years at end-June 2025, down from 20.5 years in June 2024. Over the same period, the weighted average interest rate declined from 4.6 percent to 4.3 percent, while the average grace period eased slightly to 4.3 years from 4.4 years (Table 7).

Table 7: Average Terms of New External Debt

Terms	2018	2019	2020	2021	2022	2023	2024	2025
Average Maturity (years)	20.8	15.3	26.1	23.3	25.9	15.7	20.5	15.6
Grace Period (years)	10.3	5.6	7.4	7.4	4.2	4.8	4.4	3.7
Average Interest Rate (%)	3.9	3.9	0.5	2.1	0.8	3.2	4.6	4.3

Source: *The National Treasury*

V.KENYA'S DEBT SUSTAINABILITY

1. The National Treasury and Central Bank of Kenya undertook a joint debt sustainability analysis in September, 2025 and the analysis indicates that the public debt remains sustainable but with high risk of debt distress. The External Debt Sustainability Analysis (DSA) indicates that while the present value (PV) of external debt relative to GDP remains below the 40 percent threshold throughout the projection period, the PV of public and publicly guaranteed (PPG) external debt relative to exports is expected to be below the 180 percent limit through 2030 from 2025. Furthermore, debt service pressures are significant, as the debt service-to-revenue ratio breached the 18 percent threshold between 2024 and 2025 due to heavy maturities and thereafter is projected to be below the threshold while the debt service-to-exports ratio is anticipated to remain above the 15 percent sustainability benchmark through 2030 (**Table 8**).

Table 8:External Debt Sustainability Analysis

Indicators	Thresholds	2024	2025	2026	2027	2028	2029	2030
		Actual	Projection					
PV of PPG external debt-to-GDP ratio	**40**	30.8	28.3	27.5	26.8	25.5	24.4	24.6
PV of PPG external debt-to-exports ratio	**180**	180.3	182.2	167.5	158.7	147.9	141.6	145.1
PPG debt service-to-exports ratio	**15**	26.3	22.5	18.3	15.9	18.3	15.9	15.9
PPG debt service-to-revenue ratio	**18**	27.0	20.6	17.6	15.5	18.3	16.1	16.2

Source: *The National Treasury*

2. The Present Value (PV) of total public debt as a percentage of GDP is expected to stay above the 55 percent benchmark until 2029 (Table 9), after which it is projected to fall back within the approved limit.

3. To safeguard debt sustainability and reduce elevated risk of debt distress, it is recommended that the Government adopt targeted policy measures aimed at strengthening external debt indicators. Specifically, the Government to prioritise broadening and diversifying the export base to enhance foreign exchange earnings, while simultaneously building and maintaining robust gross international reserves to provide a stronger buffer against external shocks. These measures will improve the debt service-to-exports ratio, ease pressure on external debt sustainability thresholds, and reinforce Kenya's overall resilience in managing public debt obligations.

4. Also, to strengthen debt sustainability and mitigate risks, the Government should maintain a firm commitment to fiscal consolidation path over the medium term, thereby creating fiscal space and reducing vulnerabilities associated with public debt. In addition, it is recommended that the Government maximize the use of concessional external financing to lower borrowing costs, while strategically extending the maturity profile of public debt through the issuance of medium- to long-term bonds. These measures will ease near-term debt service pressures, improve debt sustainability indicators, and enhance Kenya's resilience in managing future financing needs.

Table 9:Public Debt Sustainability Analysis

Indicators	Benchmark	2024	2025	2026	2027	2028	2029	2030
		Actual	Projections					
PV of debt–to-GDP ratio	55	65.7	65.3	65.6	65.0	64.2	63.1	62.1
PV of public debt-to-revenue and grants ratio		391.5	379.8	379.0	369.5	365.0	367.1	365.1

Source: *The National Treasury*

5. The National Treasury, while monitoring market conditions will continue to actively pursue Liability Management Operations (LMOs) aimed at lengthening the maturity profile of both domestic and external debt, thereby alleviating short-term repayment pressures and reducing rollover risks. In parallel, the Government should prioritize policies that foster solid and consistent export growth, as sustained expansion of the export base is critical to strengthening external debt sustainability indicators and ensuring resilience against external shocks. Together, these measures will enhance Kenya's debt management strategy and support long-term fiscal and external stability.

6. To ensure that public debt remains on a sustainable trajectory, it is recommended that the Government lowers annual borrowing limits by reducing fiscal deficits. This measure will slow the pace of debt accumulation, create greater fiscal space, and mitigate the risk of debt distress. By aligning borrowing levels more closely with long-term sustainability objectives, the Government can strengthen investor confidence, safeguard macroeconomic stability, and enhance resilience against future fiscal and external shocks.

VI. MACROECONOMIC ASSUMPTIONS AND KEY RISKS

a) Baseline Macroeconomic Assumptions

1. The 2026 MTDS is anchored on the macroeconomic assumptions outlined in the 2026 Budget Policy Statement (BPS).
2. The global economy projected to decelerate to 3.2 percent in 2025 and 3.1 percent in 2026 from a growth of 3.3 percent in 2024. Advanced economies are projected to grow at 1.6 percent in 2025 and maintain the same growth momentum through 2026 from a growth of 1.8 percent recorded in 2024. At the regional level, growth in Sub-Saharan Africa is expected to remain subdued at 4.1 percent in 2025 and pick up to 4.4 percent in 2026 from a growth of 4.1 percent in 2024. This growth will be supported by easing inflationary pressures, recovery in domestic demand, improved macroeconomic stability, and gradual productivity gains across key sectors.
3. Over the medium term, economic growth is projected to remain at 5.3 percent, supported by enhanced agricultural productivity, a resilient services sector, and ongoing implementation of priorities under BETA as shown in Table 10.

Table 10: Baseline Macroeconomic Assumptions as per the 2026 Budget Policy Statement (BPS)

	Unit	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
		Pre-Act.		Projection				
Real GDP Growth	Percent	5.7	4.7	5.3	5.3	5.3	5.3	5.3
GDP Deflator	Percent	5.9	2.5	5.8	4.5	4.6	4.9	4.9
Inflation	Percent	4.5	4.5	4.8	4.8	4.7	4.7	4.9
Revenue	Percent of GDP	17.3	17.0	17.5	16.7	17.5	17.1	16.7
Expenditure	Percent of GDP	23.0	23.2	22.5	22.2	21.5	20.8	19.8
Overall Fiscal Balance including grants	Percent of GDP	-5.6	-5.9	-4.7	-5.3	-3.8	-3.4	-2.9
Primary Budget Balance	Percent of GDP	0.1	-0.2	1.0	0.4	1.6	1.5	1.4
Total Revenue	KSh. Billion	2,702.7	2,985.6	3,321.7	3,487.0	4,044.3	4,368.4	4,697.1
Expenditure	KSh. Billion	3,605.2	3,975.9	4,269.9	4,641.9	4,969.7	5,304.6	5,580.9
Overall Fiscal Balance including grants	KSh. Billion	835.1	1,012.3	901.0	1,106.1	866.6	869.1	806.7
Primary Budget Balance	KSh. Billion	22.4	-39.1	196.7	74.5	367.7	392.2	391.6
GDP (Current Prices)	KSh. Billion	15,667	17,157	19,273	20,954	23,126	25,527	28,158

Source: *The National Treasury*

4. Domestic interest rates have declined in line with the easing of monetary policy by the Central Bank of Kenya, following a gradual reduction of the Central Bank Rate from 13.0 percent in August 2024 to 9.25 percent in October 2025 to support

private sector credit and economic activity. Short-term rates fell markedly, with the overnight interbank rate (KESONIA) declining to 9.3 percent in October 2025 from 12.1 percent a year earlier, while the 91-day, 182-day, and 364-day Treasury Bills rates declined to 7.9 percent, 7.9 percent, and 9.4 percent, respectively, from between 15.0 and 16.1 percent in October 2024, thereby lowering domestic debt servicing costs. Consistent with these developments, commercial banks' average lending and deposit rates decreased to 15.1 percent and 7.6 percent, respectively, in September 2025, with the interest rate spread widening to 7.4 percent from 5.7 percent in the same period in 2024.

b) Key Risks to Macroeconomic Assumptions

5. The risks to the 2026 MTDS strategy are:

   a) Unpredictable weather conditions that may adversely affect agricultural output, real GDP growth, and inflation;

   b) Tight fiscal space and a potential increase in projected financing needs;

   c) Uncertainty in the global economic outlook, which may affect external demand and capital flows;

   d) Constraints in accessing concessional financing, leading to increased reliance on costlier sources of financing;

   e) Underperformance of Government Securities auctions, which may affect the achievement of domestic borrowing targets;

   f) Delays or failure to absorb external financing from creditors, potentially resulting in budget underfunding;

   g) Underperformance in revenue collection, increasing borrowing requirements;

   h) Depreciation of the Kenya shilling against major currencies, which may raise debt service costs, heighten fiscal pressures, and contribute to inflationary pass-through;

   i) Materialization of fiscal risks and contingent liabilities arising from debt obligations of state-owned enterprises; and

   j) Risk of credit rating downgrades, which could increase borrowing costs and limit access to external financing.

VII.ASSESSMENT OF POTENTIAL SOURCES OF FINANCING

The Government will explore innovative deficit financing options that balance development needs with debt sustainability. The options include:

1. The Government relies primarily on both domestic and external markets for deficit finance.
2. Domestically, the Government will continue raising funds through the issuance of Treasury Bonds and Treasury Bills.
3. The external borrowing will be majorly through concessional loans from multilateral, bilateral and limited commercial loans such as syndicated loans and international bond issuances.
4. The Government will explore innovative financing options such as Green & Sustainability-Linked Bonds (SLBs), Diaspora Bonds, Domestic Retail Digital Bonds via Mobile Money, debt swaps, Samurai, Panda Bonds, Environmental, Social and Governance (ESG) debt instruments to fund budget deficit and manage public debt.

VIII. DEBT MANAGEMENT STRATEGY

a) Cost and Risk Indicators Under Alternative Debt Management Strategies

1. The analysis of various borrowing mixes and strategies has been undertaken to identify the mix and the strategy that minimises public debt costs and reduces risks to overall public debt.
2. Table 8 shows the cost and risk indicators of the four alternative strategies and Annexes 1 to 4 show more details of the alternative debt management strategies.

Table 11: Expected Cost and Risk Indicators under Alternative Strategies

Cost and Risk Indicators		2025 Current	As at end 2029 S1	S2	S3	S4
Nominal debt as percent of GDP*		66.9	62.6	62.3	62.5	62.1
Present value debt as percent of GDP*		61.8	59.2	58.2	59.0	57.8
Interest payment as percent of GDP		5.9	5.6	5.4	5.5	5.2
Implied interest rate (percent)		8.8	9.8	9.5	9.7	8.9
Refinancing risk	Debt maturing in 1yr (percent of total)	13.3	15.2	13.4	13.7	15.6
	Debt maturing in 1yr (% of GDP)	10.0	9.5	8.4	8.6	9.7
	ATM External Portfolio (years)	10.0	8.2	8.9	8.2	8.3
	ATM Domestic Portfolio (years)	6.4	6.9	7.6	7.9	7.2
	ATM Total Portfolio (years)	8.3	7.5	8.2	8.0	7.8
Interest rate risk	ATR (years)	7.4	7.1	7.8	7.7	7.4
	Debt refixing in 1yr (percent of total)	24.9	22.0	18.8	20.0	22.6
	Fixed rate debt incl T-bills (percent of total)	86.6	91.9	93.7	92.6	91.7
	T-bills (percent of total)	7.3	6.5	5.3	5.6	6.5
FX risk	FX debt as % of total	47.0	40.2	39.9	40.4	48.3
	ST FX debt as % of reserves	40.5	35.3	31.2	35.6	38.5

Source: *The National Treasury*

**** Performing guaranteed debt, supplier credits and other local debts including overdraft are excluded from the proposed debt management strategies.*** *Debts excluded amounts to KSh. 260.64 billion which includes KSh. 83.24 billion uncalled guaranteed debts, KSh.67.63 billion Government overdraft at CBK, KSh. 14.42 billion Suppliers credit, KSh. 80.56 billion IMF SDR Allocation and KSh. 14.79 billion Bank advances.*

3. From an array of strategies analysed in Table 11, Strategy 2 (S2) proposes balancing lower cost external borrowing with deepening domestic debt market, locking in fixed rates, and lower foreign exchange rate exposure, this strategy will lead to reduction in debt burden while safeguarding fiscal sustainability and creating space for priority national investments. S2 provides more prospective benefits in terms of costs and risks of public debt than any other alternative strategy.

b) Overall Debt Management Strategy 2026

4. The 2026 MTDS aims to reduce debt costs and risks by sourcing 18 percent gross borrowing from external sources and 82 percent from domestic sources over the medium term. From the domestic sources, the strategy is to gradually reduce the stock of Treasury bills while lengthening debt maturity and issuance of medium to long term debt securities. On the external end, the target is a mix of concessional optimisation and minimal commercial borrowing. Gross external financing would be composed of 10 percent concessional, 2 percent semi-concessional and 6 percent commercial borrowing. The expected composition of public debt at the end of the Strategy period will be 40 percent external and 60 percent domestic, as shown in Annex 2.

c) Deficit Financing Strategy (FY 2026/27-2028/29)

5. Based on the MTDS analytical tool analysis, a net borrowing mix of 78 percent and 22 percent from domestic and external sources over the medium term respectively will help optimize costs and risks of financing the fiscal deficits for the MTDS period 2026/27-2028/29.
6. The strategies were evaluated against three core pillars of public debt management: (1) Risk Exposure, and (2) Strategic Feasibility and Market Realism.

d) Strategy Effects

These sections highlight the effects in the medium term (2026 to 2029) of implementing the foregoing debt management strategies:

Pillar I: Risk Exposure and Mitigation

7. A top concern for the National Treasury is the management of refinancing, currency, and interest rate risks.
   i. Refinancing Risk: Strategy S2 reduces near-term rollover pressures. It results in the lowest stock of debt maturing within one year, at 8.4 percent of GDP. This mitigates the vulnerability to occasional market disruption and ensures smoother cash flow management.
   ii. Foreign Currency (FX) Risk: Maintaining a prudent level of FX-denominated debt is critical for macroeconomic stability. Strategy S2 stabilises the share of FX debt at approximately 40 percent of the total portfolio, a reduction from the current 47 percent by the end of the strategy period. Most importantly, it achieves the strongest liquidity coverage, with short-term FX debt falling to 31.2 percent of foreign exchange reserves. This enhances the capacity to service external obligations during periods of external stress.

iii. Interest Rate Risk: Strategy S2 provides the greatest certainty for medium-term budget planning by securing the highest proportion of fixed-rate debt at 93.7 percent and extending the average time before debt is subject to interest rate refixing to 7.8 years.

Pillar II: Access to Funding

8. The composition of gross borrowing required to execute each strategy is a key factor in its practicality and long-term viability. Strategy S2 is predicated on a stable and credible funding mix. It predicts that 82 percent of gross financing needs will be met domestically, primarily through the issuance of medium- to long-term Treasury bonds. This commitment fosters the deepening of the domestic capital market, aligns with the broader financial sector development strategy, and insulates the budget from volatile international capital flows. Its external gross borrowing component is strategically focused on concessional and semi-concessional sources from multilateral and bilateral development partners, which constitute 12 percent of total external gross borrowing. Reliance on more volatile and condition-sensitive commercial borrowing is minimised to just 6 percent.

e) Alignment to Budget Policy Statement

9. Strategy S2 demonstrates strong alignment with several overarching government policies:
   i. Fiscal Consolidation Path: It supports the debt-to-GDP reduction trajectory outlined in the medium-term fiscal framework.
   ii. Financial Market Development: Its emphasis on domestic, long-term issuance which will facilitate the growth of the local investor base, including pension and insurance funds, contributing to private sector development.
   iii. Macroeconomic Stability: By prudently managing FX exposure and refinancing risk, it reduces potential contingent liabilities that could necessitate destabilising fiscal or monetary adjustments in the future.

f) Risks to the Strategy

10. Factors that could lead to the optimal strategy not being fully implemented may include emergency conditions like auction failure, widening of the fiscal deficit, limited access to external funding which could disrupt financing plan, and default on guarantees.

Table 12: Expected Cost and Risk Indicators of the Debt Management Strategy (2029)

Risk Indicator		Current	S2
Nominal debt as percent of GDP		66.9*	62.3
Present value debt as percent of GDP		61.8*	58.2
Interest payment as percent of GDP		5.9	5.4
Implied interest rate (percent)		8.8	9.5
Refinancing risk	Debt maturing in 1yr (percent of total)	13.3	13.4
	Debt maturing in 1yr (% of GDP)	10.0	8.4
	ATM External Portfolio (years)	10.0	8.9
	ATM Domestic Portfolio (years)	6.4	7.6
	ATM Total Portfolio (years)	8.3	8.2
Interest rate risk	ATR (years)	7.4	7.8
	Debt refixing in 1yr (percent of total)	24.9	18.8
	Fixed rate debt incl T-bills (percent of total)	86.6	93.7
	T-bills (percent of total)	7.3	5.3
FX risk	FX debt as % of total	47.0	39.9
	ST FX debt as % of reserves	40.5	31.2

Source: *The National Treasury*

** Performing guaranteed debt, supplier credits and other local debts including overdraft are excluded from the proposed debt management strategies. Debts excluded amounts to KSh. 260.64 billion which includes KSh. 83.24 billion uncalled guaranteed debts, KSh.67.63 billion Government overdraft at CBK, KSh. 14.42 billion Suppliers credit, KSh. 80.56 billion IMF SDR Allocation and KSh. 14.79 billion Bank advances.*

g) Approaches to Deal with Debt Management Challenges

11. Continuously undertake LMOs to lower costs and risks of public debt.
12. Improve on cash management to reduce use of the costly overdraft.
13. Sustain fiscal consolidation to reduce fiscal deficits and slow accumulation of public debt.
14. Develop government securities issuance policy to guide issuance and trading of government securities to reflect market evolution over time.
15. The National Treasury will continue with key reforms that deepen the domestic market and diversify the investor base such as the use of DhowCSD.

IX. PUBLIC DEBT MANAGEMENT INITIATIVES

1. Kenya's economic stability and long-term prosperity depend on efficient Public Debt Management. Public debt management requires both operational, institutional, legal and governance reforms necessary to support public debt sustainability, fiscal resilience, and market credibility.

   The reforms include;

   (i) Review Debt and Borrowing Policy to bring on board new developments in debt management such as derivatives, liability management operations and associated instruments such as swaps, forwards and options and associated risks.

   (ii) Develop Liability Management Policy to serve as an operational guide to ensure that liability management operations are executed in line with the medium-term debt management strategy.

ANNEXES

Annex 1: Average New Borrowing by Instrument under Alternative Strategies (in percent of gross borrowing by end of FY 2028/29)

Average percentage of gross borrowing over simulation period					
New debt % of Total Gross Borrowing		S1	S2	S3	S4
ADF	FX	0.4	0.4	0.4	0.6
IDA/IFAD	FX	2.3	4.1	2.4	5.0
Concessional	FX	2.1	5.4	2.9	5.5
Semi-Concessional	FX	1.0	2.4	1.1	1.8
Commercial/International Sovereign Bonds	FX	12.4	5.7	12.4	16.3
Treasury bills	DX	36.7	31.4	32.8	37.3
Treasury bond 2-3 Years	DX	5.9	5.6	2.1	2.6
Treasury bond 4-7 Years	DX	9.7	8.9	8.7	6.2
Treasury bond 8-12 Years	DX	13.8	14.5	14.9	9.9
Treasury bond 13-17 Years	DX	9.7	12.2	12.6	7.9
Treasury bond 18-22 Years	DX	5.3	8.0	8.5	6.1
Treasury bond 23-30 Years	DX	0.9	1.3	1.4	1.1
External		**18.0**	**18.0**	**19.0**	**29.0**
Domestic		**82.0**	**82.0**	**81.0**	**71.0**
		100.0	100.0	100.0	100.0

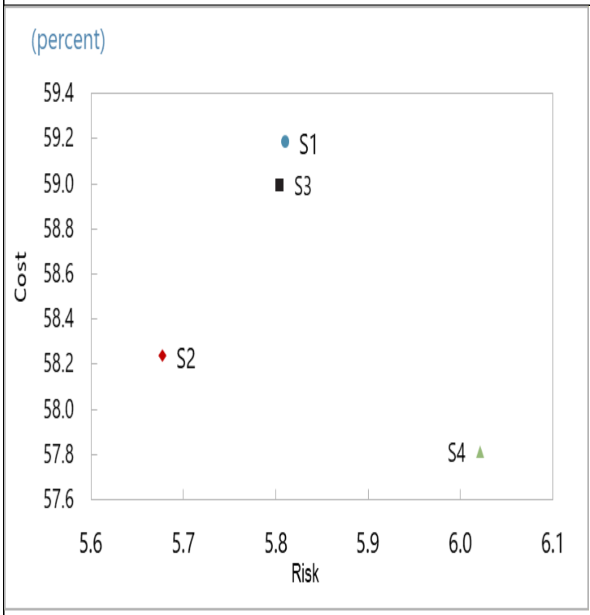
Annex 2: Composition of Debt Portfolio by Instrument under Alternative Strategies, (in Percent of Outstanding Portfolio as at End of -FY 2028/29)

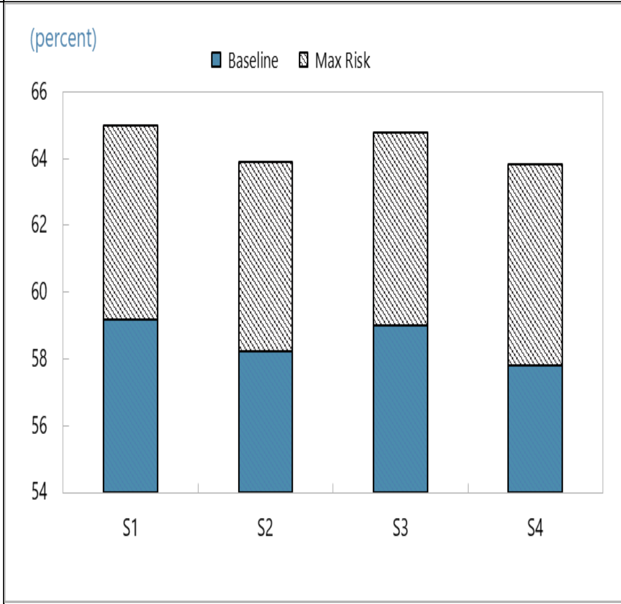
In percent of Total	**FY2025**	**As at end FY2029**			
Outstanding by instrument	**Current**	**S1**	**S2**	**S3**	**S4**
ADF	3	2	2	2	2
IDA/IFAD	11	9	10	9	11
Concessional	2	3	5	3	5
Semi-Concessional	10	6	7	6	7
Commercial/International Sovereign Bond	22	20	15	20	23
Treasury bills	8	6	5	6	7
Treasury bond 2-3 Years	2	4	3	1	2
Treasury bond 4-7 Years	6	8	7	7	6
Treasury bond 8-12 Years	11	14	14	14	11
Treasury bond 13-17 Years	13	14	16	16	13
Treasury bond 18-22 Years	9	10	11	12	10
Treasury bond 23-30 Years	4	3	4	4	3
External	**47**	**40**	**40**	**40**	**48**
Domestic	**53**	**60**	**60**	**60**	**52**
Total	**100**	**100**	**100**	**100**	**100**

Annex 3: Redemption Profiles under Alternative Strategies (End-FY2028/29)

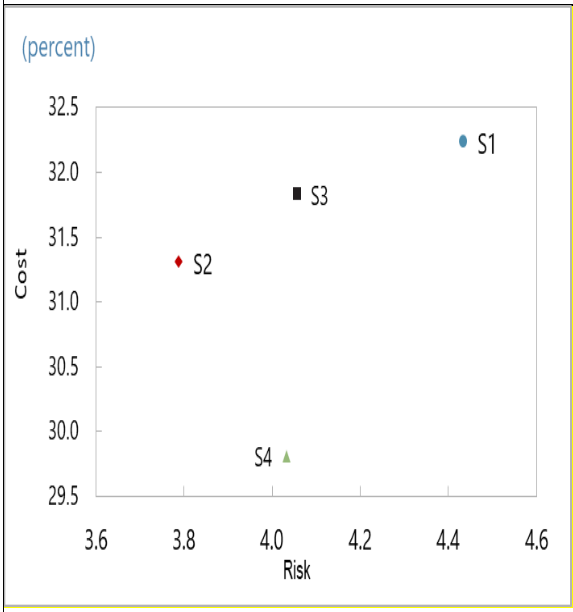
Annex 4: Cost and Risk Characteristics under Alternative Strategies

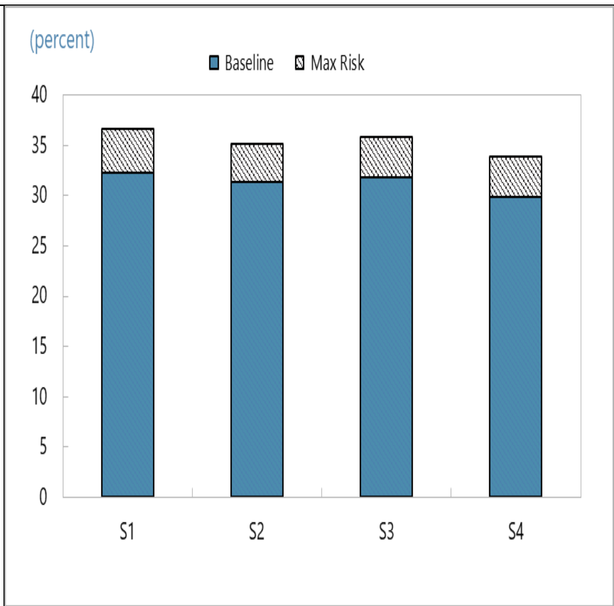
PV of Debt to GDP ratio



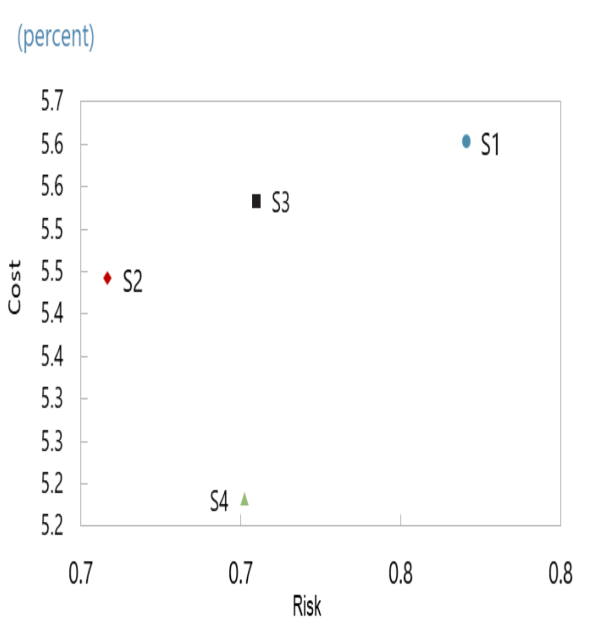


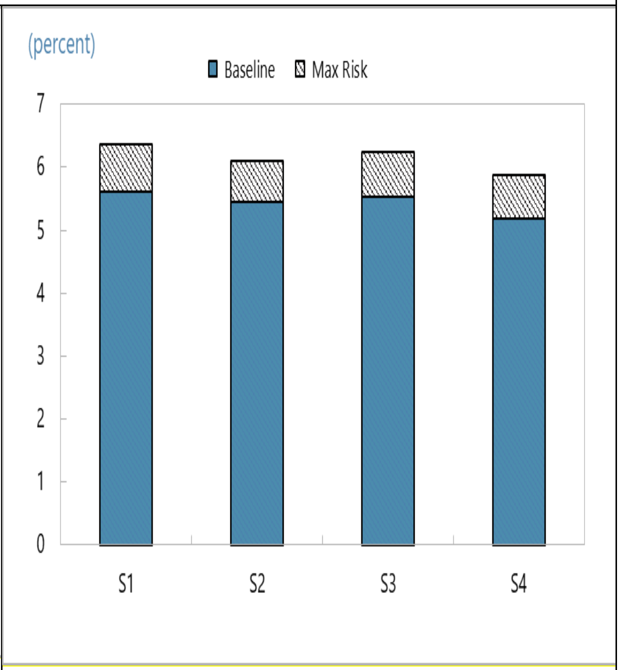
Interest to Revenue ratio



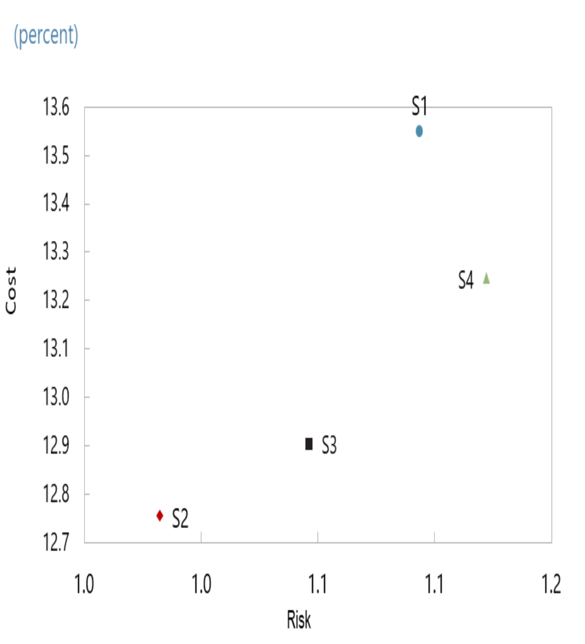


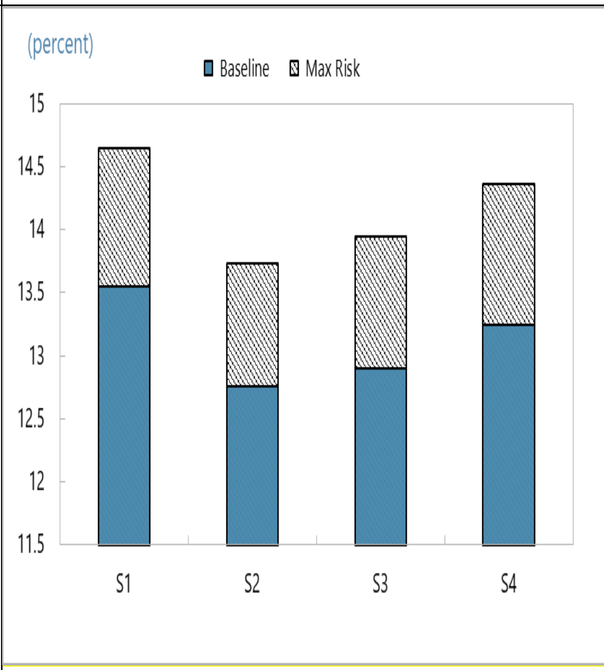
Interest to GDP ratio





Total debt service to GDP ratio





Annex 5: Publication of the Debt Management Strategy

Section 33 of the Public Finance Management Act, 2012 provides:

1) On or before 15th February in each year, the Cabinet Secretary shall submit to Parliament a statement setting out the debt management strategy of the national government over the medium term with respect to its actual liability in respect of loans and guarantees and its plans for dealing with those liabilities.
2) The Cabinet Secretary shall ensure that the medium-term debt management strategy is aligned to the broad strategic priorities and policy goals set out in the Budget Policy Statement.
3) The Cabinet Secretary shall include in the statement the following information:-
    a) The total stock of debt as at the date of the statement;
    b) The sources of loans made to the national government and the nature of guarantees given by the national government;
    c) The principal risks associated with those loans and guarantees;
    d) The assumptions underlying the debt management strategy; and
    e) An analysis of the sustainability of the amount of debt, both actual and potential.
4) Within fourteen days after the debt strategy paper is submitted to Parliament under this section, the Cabinet Secretary shall submit the statement to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council, publish, and publicize the statement.
5) PFM Act 2012, ‘General responsibilities of the National Treasury’ Section 12. Provides that: (1) Subject to the Constitution and this Act, the National Treasury shall—(b) manage the level and composition of national public debt, national guarantees and other financial obligations of national government within the framework of this Act and develop a framework for sustainable debt control.