

REPUBLIC OF KENYA



THE NATIONAL TREASURY

ANNUAL PUBLIC DEBT MANAGEMENT REPORT
2025/2026

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TABLE OF CONTENTS

i.	LIST OF FIGURES	vi
ii.	LIST OF TABLES	vii
	FOREWORD	viii
	ACKNOWLEDGEMENT	xi
	ABBREVIATIONS AND ACRONYMS	xiii
	EXECUTIVE SUMMARY	xvi
	CHAPTER ONE: INTRODUCTION.....	1
1.1	Background.....	1
1.2	Legal Framework.....	1
1.3	Public Debt Management Institutional Framework.....	2
1.4	Structure of the Report	4
	CHAPTER TWO : THE 2025 MEDIUM TERM DEBT MANAGEMENT STRATEGY REVIEW	5
2.1	Introduction	5
2.2	Objectives of the Revised 2025 Debt Management Strategy	5
2.3	Debt Financing Performance under the Revised 2025 Debt Management Strategy	5
2.4	Assessment of Public Debt Costs and Risks as at End June 2026.....	6
	CHAPTER THREE: BORROWING AND LIABILITY MANAGEMENT OPERATIONS	9
3.1	Introduction	9
3.2	Macroeconomic Context.....	9
3.3	Deficit Financing	10
3.4	Domestic Financing	11
3.5	External Financing.....	12
	CHAPTER FOUR: TOTAL PUBLIC AND PUBLICLY GUARANTEED DEBT STOCK.....	13
4.1	Introduction	13
4.2	Debt Service Trends.....	14
4.3	Fiscal Pressure from Rising Debt and Debt Service.....	16
	CHAPTER FIVE: PUBLIC DOMESTIC DEBT	18
5.1	Introduction	18
5.2	Domestic Debt Stock.....	18
5.3	Domestic Debt by Type of Instrument	19
5.4	Domestic Debt by Investor Category	20
5.5	Treasury Bills by Investor Category.....	23
5.6	Treasury Bonds by Investor Category	24
5.7	Treasury Bills and Treasury Bonds by Remaining Time to Maturity.....	25
5.8	Treasury Bonds Average Time to Maturity as at end June 2026.....	25
5.9	Average Interest Rates on Treasury Bills	26

5.10	Secondary Market for Government Securities	27
5.11	Government Securities Yield Curve	28
5.12	Interest Payments on Domestic Debt	29
CHAPTER SIX: PUBLIC EXTERNAL DEBT		31
6.1	Introduction	31
6.2	External Debt by Creditor Category	32
6.3	External Debt by Major Creditors	33
6.4	Currency Composition of External Debt	34
6.5	Maturity Structure of External Debt	34
6.6	External Debt Service	35
6.7	External Loan Disbursements	36
6.8	New Commitments	37
CHAPTER SEVEN: CONTINGENT LIABILITIES		39
7.1	Introduction	39
7.2	Government Guaranteed Debt Stock	39
7.3	State Corporations Non-Guaranteed Debt	41
7.4	Analysis of Non-Guaranteed Debt by Sector	43
7.5	On-Lent and GoK Direct Loans	45
7.6	Loans Written off through Cabinet Approval in FY 2025/2026	45
7.7	On-lent and GoK Direct Loans (Arrears)	49
7.8	PPP Related Contingent Liabilities	50
7.9	Other Government Disclosures of Asset-Backed and Revenue-Linked Financing Structures	51
CHAPTER EIGHT: PUBLIC DEBT SUSTAINABILITY		53
8.1	Introduction	53
8.2	Assumptions underlying the Debt Sustainability Analysis (DSA)	53
8.3	Debt Carrying Capacity Indicator	54
8.4	External Debt Sustainability Analysis	54
8.5	Total Public Debt Sustainability Analysis	56
8.6	Improving Debt Sustainability	56
CHAPTER NINE: PUBLIC DEBT RISKS MANAGEMENT		57
9.1	Introduction	57
9.2	Debt Service as a Percentage of Revenue and GDP	57
9.3	Interest Payment as a percentage of Revenue	58
9.4	Weighted Average Interest Rate	59
9.5	Average Time to Maturity	59
9.6	Debt Maturing in One-Year as a percentage of GDP	60
9.7	Redemption Profile	61

9.8	Redemption Profile of External Debt by Creditor Category	62
9.9	Composition of Fixed and Variable Rate External Debt	63
9.10	Currency Composition.....	64
CHAPTER TEN: SOVEREIGN CREDIT RATING		65
10.1	Introduction.....	65
10.2	Kenya's Sovereign Credit Rating.....	66
10.3	Engagement with Credit Rating Agencies	68
10.4	Impact of Sovereign Credit Rating Upgrades.....	69
10.5	Kenya credit rating improvement strategy	69
10.6	Challenges in achieving higher rating scores:	70
CHAPTER ELEVEN: OUTLOOK FOR THE MEDIUM TERM		71
11.1	Introduction.....	71
11.2	Debt Trajectory	71
11.3	Debt Sustainability Analysis (Dsa) Trajectory	74
11.4	Macroeconomic Trajectory.....	76
11.5	Risks to the Outlook	78
CHAPTER TWELVE: INVESTOR RELATIONS.....		79
12.1	Introduction.....	79
12.2	Investor Relations Survey	79
12.3	Investor Engagements.....	80
12.4	Effective Development Cooperation Coordination in Kenya	81
12.5	Stakeholder Engagements.....	82
CHAPTER THIRTEEN: PUBLIC DEBT MANAGEMENT REFORMS		83
13.1	Introduction.....	83
13.2	Strengthening Public Debt Management Operations	83
13.3	Diversifying Borrowing Sources	83
13.4	Enhancing Public Debt Reporting	85
13.5	Liability Management Operations	85
13.6	Status of Implementation of Domestic debt reforms	86
CHAPTER FOURTEEN: PUBLIC DEBT REPORTING AND DISSEMINATION		88
14.1	Introduction.....	88
14.2	Annual Public Debt Management Report.....	88
14.3	Medium-Term Debt Management Strategy.....	89
14.4	Statistical and Analytical Reports.....	89
14.5	Annual Borrowing Plan.....	89
14.6	External Resources Estimates Handbook.....	89
14.7	Report on New Loans Contracted by Government.....	90

14.8	Public Debt Register	90
14.9	Annual Public Debt Management Performance Report	90
CHAPTER FIFTEEN: PUBLIC DEBT AUDIT		91
15.1	Introduction.....	91
15.2	Statutory audit of public debt financial statements.....	91
15.3	Performance audit on the management of public debt in Kenya	92
15.4	Performance audit on the management of fiscal risk.....	92
15.5	Forensic Audit on Public Debt Stock in Kenya.....	93
15.6	Audit of on-lending activities.....	95

LIST OF FIGURES

Figure 1: Trend of Public and Publicly Guaranteed Debt-to-GDP Ratios.....	14
Figure 2 Trend of Debt service as percentage of revenue and export.....	16
Figure 3: Composition of FY 2025/26 Expenditure	17
Figure 4: Domestic Debt by Instruments (as percentage of total Domestic Debt)	20
Figure 5: Outstanding Domestic Debt Stock by Holders (in percentage).....	22
Figure 6: Government Domestic Debt Securities by Remaining Time to Maturity	25
Figure 7: Average Time to Maturity of Treasury bonds in years	26
Figure 8: Average Interest Rates and Spreads on Treasury Bills	27
Figure 9: Secondary Market Turnover for Treasury Bonds, FY2021/2022- 2025/ 2026 (KSh. Billion)	28
Figure 10: Government of Kenya Securities Yield Curve	29
Figure 11: External Debt by Creditor Category as percentage of external debt for end June 2025	33
Figure 12: External Debt by Major Creditors.....	33
Figure 13: Currency Composition of the External Debt Stock (Percentage)	34
Figure 14: Composition of new external borrowings by Creditor Category.....	38
Figure 15: Debt Service as a percentage of Revenue and GDP	58
Figure 16: Interest Payments as a percentage of Revenue	58
Figure 17: Trend on Weighted Average Interest Rate of Public Debt	59
Figure 18: Average Time to Maturity	60
Figure 19: Debt Maturing in One-Year as a percentage of GDP	60
Figure 20: Redemption Profile of Total Public Debt.....	61
Figure 21: Redemption Profile of Total Public Debt by Interest Rate Type.....	62
Figure 22: Redemption Profile of External Debt by Creditor Category	63
Figure 23: Composition of Fixed and Variable Rate External Debt.....	63
Figure 24: External Debt Currency Composition	64

LIST OF TABLES

Table 1: Evaluation of Costs and Risks Characteristics.....	6
Table 2: Financing Target and Outturn (KSh Billion)	10
Table 3: Trends in Kenya’s Public and Publicly Guaranteed Debt (KSh Million)	13
Table 4: Trend in Public Debt Service (FY 2021/22 – FY 2025/26) (KSh Million).....	15
Table 5: Outstanding Domestic Debt (KSh Million)	19
Table 6: Domestic Debt by Investor Category (KSh Million)	21
Table 7: Outstanding Stock of Treasury Bills by Investor Category (KSh Million)	23
Table 8: Outstanding Stock of Treasury Bonds by Holder (KSh Million)	24
Table 9: Interest Payments on Domestic Debt (KSh Million).....	30
Table 10: External Debt Stock by Creditor Type (KSh Million)	31
Table 11: Exchange rate movement against major currencies	32
Table 12: Outstanding External Debt by Remaining Maturity (Percentage)	35
Table 13: External Debt Service by Creditor Category (KSh Million)	36
Table 14: External loans disbursements (KSh Million).....	37
Table 15: Stock of Public Guaranteed External Debt by Creditor Category (KSh. Million).....	40
Table 16: list of Guaranteed Stock Balances in FY 2025/2026 (KSh Million)	40
Table 17: Outstanding Non-Guaranteed Public Debt as at 30th June 2026 (KSh Million)	42
Table 18: Outstanding Non-Guaranteed Debt by Sector as at 30th June 2026 (KSh Million).....	44
Table 19: Comparative Summary of Outstanding On-Lent and GoK Direct Loans as at 30th June 2025 and 30th June 2026 (KSh Million).....	47
Table 20 : Related Contingent Liabilities as at 30 June 2025	50
Table 21: Kenya’s Debt Carrying Capacity Classification	54
Table 22: Kenya’s External Debt Sustainability Analysis	55
Table 23: Kenya’s Public Debt Sustainability Analysis	56
Table 24: Kenya’s fiscal Deficit over the medium term	56
Table 25: Rating Scales	65
Table 26: Kenya’s Credit Ratings in 2024 and 2025	68
Table 27: Projected Public Debt Stock	72
Table 28: Projected Public Debt Service.....	73
Table 29: Investor Relations Survey	80

FOREWORD

The National Treasury remains firmly committed to prudent, sustainable and transparent public debt management as an integral component of sound fiscal and macroeconomic management. Public debt management is part of wider public finance management function of the National Treasury and is critical to ensuring that the Government mobilises the resources required to finance national development priorities while maintaining fiscal sustainability, safeguarding macroeconomic stability, preserving investor confidence, and minimising the cost and risks associated with public borrowing.

The Annual Public Debt Management Report for the Financial Year 2025/26 has been prepared pursuant to Article 201 of the Constitution of Kenya, Section 64(2)(c) of the Public Finance Management Act, (Cap. 412A), and Regulation 200 of the Public Finance Management (National Government) Regulations, 2015. The Report provides a comprehensive review of the Government's public debt management operations during the financial year and covers key areas including: the financing of the budget deficit; the composition and evolution of external debt; publicly guaranteed debt; on-lent loans, contingent liabilities; debt management strategy; debt sustainability; the medium-term debt outlook; and commitment fees and penalties relating to undisbursed loans.

Publication of the Report is an important instrument for promoting transparency and accountability in the management of public debt. It provides Parliament, investors, development partners, credit rating agencies, researchers and the public with timely and comprehensive information on the Government's borrowing and debt management operations. The public debt management operations remain anchored in the Debt and Borrowing Policy, 2020 and the Medium-Term Debt Management Strategy (MTDS), which provide the framework for ensuring that financing needs are met at the lowest possible cost over the medium to long term, subject to a prudent degree of risk.

Kenya's economy continued to demonstrate resilience during the period under review. Real Gross Domestic Product (GDP) growth accelerated to 5.3 percent in the first quarter of 2026, from 4.9

percent in the corresponding quarter of 2025. High economic growth strengthened the economy's capacity to withstand domestic and external shocks.

Notwithstanding this resilience, the Government remains cognisant of the vulnerabilities associated with the country's public debt position and the need to maintain public debt within sustainable path by ensuring moderate pace of debt accumulation, strengthening the fiscal position, reducing refinancing and other debt-related risks, while creating fiscal space for priority development and social programmes.

During the Financial Year 2025/26, the National Treasury continued to implement reforms in the domestic and external debt markets aimed at improving the efficiency and resilience of public debt management. The reforms focused on reducing borrowing costs, lengthening the maturity profile of Government debt, mitigating refinancing and other financial risks, deepening the domestic debt market, and strengthening institutional and operational frameworks for effective debt management.

The Government also continued to implement liability management operations and expanding access to concessional financing as part of its broader strategy to address debt vulnerabilities. These measures targeted to smoothen the debt maturity profile, reduce near-term refinancing pressures, and enhance the overall resilience of the public debt portfolio. In this regard, the successful issuance of USD 1.5 billion Eurobond in October 2025 and USD 2.2 billion Eurobond in February 2026 demonstrated the Government's continued access to international capital markets and supported efforts to manage the external debt maturity profile.

The improvement in Kenya's sovereign credit profile during the period under review also reflects progress in strengthening macroeconomic and fiscal fundamentals. In January 2026, Moody's upgraded Kenya's sovereign rating from Caa1 to B3 and revised the outlook from positive to stable. In July 2026, Fitch Ratings affirmed Kenya's sovereign rating at B- and maintained a stable outlook. These developments, together with successful international capital market transactions and liability management operations, underscore the value of continued fiscal discipline, prudent debt management and sustained efforts to strengthen investor confidence.

The Government recognises that effective public debt management requires continuous strengthening of debt management institutions, debt market infrastructure, transparency and risk management frameworks. The National Treasury will therefore continue to enhance the capacity of the Public Debt Management Office, strengthen coordination with relevant Government institutions, and leverage digital technologies to improve debt recording, reporting, analysis and payment processes. These efforts will contribute to greater efficiency, accountability and transparency in public debt management.

Looking ahead, the National Treasury remains steadfast in its commitment to provide accurate, timely and comprehensive public debt information in line with the provisions of the law and best practice. In addition, the Government remains focused to ensure fiscal and economic stability for Kenya's long-term development.

The Government remains committed to prudent borrowing, responsible debt management and enhanced transparency and accountability as we work towards a more resilient, inclusive and prosperous Kenyan economy.

I commend the National Treasury, the Public Debt Management Office, for the preparation of this Report. I encourage Parliament, investors, development partners, researchers, the media and the general public to use the Report to enhance understanding, oversight and informed dialogue on Kenya's public debt management.

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

ACKNOWLEDGEMENT

The Annual Public Debt Management Report for the Financial Year 2025/26 has been prepared pursuant to Section 64(2)(c) of the Public Finance Management Act, (Cap. 412A), and Regulation 200 of the Public Finance Management (National Government) Regulations, 2015. The Report underscores the Government's commitment to transparency, accountability, and prudent management of public debt. It is an important source of information on the Government's debt management operations and serves as a valuable reference for policymakers, oversight institutions, development partners, investors, researchers and the public.

The Public Debt Management Office (PDMO) coordinated the preparation of the Report, drawing on inputs from the various technical teams and considering developments in the domestic and international economic and financial environment within which public debt is managed during the Financial Year 2025/26.

I wish to acknowledge and commend the dedication and professionalism of the technical officers within the Public Debt Management Office for their invaluable contribution to the preparation of this Report. I particularly appreciate their efforts in consolidating and analysing the relevant public debt data and information, as well as documenting the key developments, performance, risks, and initiatives undertaken during the year under review. Their technical expertise and commitment were instrumental in ensuring that the Report was comprehensive, accurate, and prepared within the statutory timelines.

I also extend my sincere appreciation to officers from the various departments and directorates of the National Treasury and other Government agencies for their timely provision of information, technical inputs, and constructive engagement throughout the preparation of the Report. Their cooperation and collective efforts greatly enriched the quality and comprehensiveness of the Report.

I further acknowledge the leadership, guidance, and support provided by the Cabinet Secretary, the National Treasury, which contributed significantly to effective management of Kenya's public debt.

I trust that the Report will provide useful and comprehensive insights into Kenya's public debt position, debt management operations, and the measures undertaken by the Government to promote debt sustainability and manage associated risks. I encourage members of the public, policymakers, investors, development partners, researchers, and other stakeholders to acquaint themselves with the contents of the Report and continue to participate constructively in the public debt discourse.

Comments and suggestions on this Report may be channelled through pstnt@treasury.go.ke copying pdmo@treasury.go.ke. The Report, together with other public debt-related reports and publications, are available on the National Treasury website: <https://www.treasury.go.ke>.

DR. CHRIS K. KIPTOO, CBS

PRINCIPAL SECRETARY / THE NATIONAL TREASURY

ABBREVIATIONS AND ACRONYMS

ABP	Annual Borrowing Plan
AIA	Appropriation In Aid
APDMR	Annual Public Debt Management Report
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
ATS	Automated Trading System
CBK	Central Bank of Kenya
CI	Composite Indicator
CRAs	Credit Rating Agencies
Dhow CSD	Central Securities Depository for Government Securities
DPF	Development Partnership Forums
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EDC	Effective Development Cooperation
EM	Emerging Markets
EUR	Euros
EURIBOR	Euro Interbank Offered Rate
FMIs	Financial Market Infrastructures
FTSE	Financial Times Stock Exchange
FX	Foreign Exchange
FY	Financial Year
GBP	Sterling Pound
GDP	Gross Domestic Product
GFSM	Government Finance Statistics Manual
HRT	Horizontal Repo Transactions
IDA	International Development Association
IFMIS	Integrated Financial Management Information System

IIF	Institute of International Finance
IMF	International Monetary Fund
ISB	International Sovereign Bond
JPY	Japanese Yen
KenGen	Kenya Electricity Generating Company PLC
KNBS	Kenya National Bureau of Statistics
KPA	Kenya Ports Authority
KQ	Kenya Airways
KSh	Kenya Shilling
LIBOR	London Interbank Offered Rate
MFS	Monetary and Financial Statistics
MSME	Micro, Small and Medium Enterprise
MTDS	Medium Term Debt Management Strategy
O/W	Of which
OAFPs	Official Aid Funded Projects
ODA	Official Development Assistance
OTC	Over The Counter
PDMO	Public Debt Management Office
PFM	The Public Finance Management
PPG	Public & Publicly Guaranteed
PPPs	Public Private Partnership
PV	Present Value
S&P	Standard & Poor's
SACCOs	Savings and Credit Cooperative Organizations
SDR	Special Drawing Rights
SGR	Standard Gauge Railway
-SNA	System of National Accounts
SOEs	State Owned enterprises
SOFR	Secured Overnight Financing Rate
TSA	Treasury Single Account

UNDP	United Nations Development Programme
US	United States
USD	United States Dollar
WAIR	Weighted Average Interest Rate

EXECUTIVE SUMMARY

The Annual Public Debt Management Report (APDMR) for FY 2025/26 has been prepared pursuant to Section 64(2)(c) of the Public Finance Management Act, Cap. 412A, and Regulation 200 of the Public Finance Management (National Government) Regulations, 2015. Its objective is to enhance transparency and accountability in public debt management and to provide Parliament, stakeholders, and the public with a comprehensive report of debt developments, financing operations, and risk exposures during the fiscal year.

The 2025 Medium-Term Debt Management Strategy (MTDS) projected a 80:20 net domestic to external financing mix for the fiscal deficit spelled in the BPS for the period 2025/26-2027/26. Actual borrowing outcomes have broadly been aligned with this projection, though external inflows underperformed due to delayed disbursements and adverse global financing conditions. By end-June 2026, net cumulative domestic financing for 2025/26 was KSh 983.7 billion against a target of KSh 973.6 billion, while net external financing was KSh 267.3 billion against a target of KSh 384.0 billion. Therefore financing mix was 79:21, consistent with MTDS guidance but reflecting constrained access to external markets.

At end-June 2026, public and publicly guaranteed debt stood at KSh 13,120.9 billion (70.4 percent of GDP). Domestic debt was KSh 7,327.2 billion (39.3 percent of GDP; 55.8 percent of total), while external debt was KSh 5,793.7 billion (31.1 percent of GDP; 44.2 percent of total). The present value of debt-to-GDP was estimated at 65.6 percent, indicating sustainability under baseline assumptions.

Refinancing pressures increased, with debt maturing within one year rising to 12.5 percent of total debt against a target of 11.9 percent. The Average Time to Maturity was 8.6 years compared to a target of 9.0 years. External debt composition was dominated by concessional debt stock from multilateral creditors (54.6 percent), followed by commercial debts (27.1 percent) and bilateral debts (17.1 percent).

Debt service obligations increased. External debt service totalled KSh 716.10 billion, exceeding the budgeted KSh 673.76 billion on account of prepayments through liability management operations. Debt service to bilateral creditors accounted for 24.4 percent, multilateral 21.3 percent, and commercial 54.3 percent. Domestic interest payments were KSh 859.8 billion against a budget of KSh 883.76 billion a reduction on account of reduced interest rates. Treasury bonds remained dominant, with a bond-to-bill ratio of 84:16, reflecting deliberate maturity lengthening. The yield curve was upward sloping, with long-term yields aligned to the term structure of interest rates.

During FY 2025/26, the Government implemented liability management operations across both the external and domestic debt portfolios to reduce refinancing risk and smooth the public debt redemption profile. Externally, the Government successfully issued a USD 2.25 billion dual-tranche Eurobond and undertook a tender offer targeting the 2028 and 2032 Eurobond maturities. Out of USD 982.6 million tendered by investors, USD 415.4 million was accepted and retired, comprising USD 90.5 million of the 2028 notes and USD 324.8 million of the 2032 notes, significantly easing near-term redemption pressures and extending the external debt maturity profile. Domestically, the Government executed bond switches and buybacks amounting to KSh 66.8 billion, including KSh 47.4 billion through switches and KSh 19.4 billion through buybacks, facilitating the migration of debt into longer-dated instruments and improving the overall cost-risk characteristics of the debt portfolio

On 27 January 2026, Moody's upgraded Kenya's long-term issuer rating to B3 (stable outlook) from Caa1, on account of stronger external liquidity and smoothened amortization arising from Liability Management Operations conducted by the PDMO. Standard & Poor's and Fitch maintained Kenya's Sovereign ratings at B/B (stable outlooks).

In the outlook, debt optics remain sensitive to global interest rates, exchange rate volatility, and domestic revenue performance. The medium-term strategy emphasizes concessional financing, liability management operation to smoothen maturities, and deepening of domestic debt markets to facilitate domestic access to long term capital. Enhancing debt management transparency and reporting remain central to reinforcing accountability and investor confidence.

While debt remains within sustainable thresholds, the Government remains committed to prudent borrowing strategies, and reforms that safeguard debt sustainability and macroeconomic stability

CHAPTER ONE: INTRODUCTION

1.1 Background

The 2026 Annual Public Debt Management Report (APDMR) for the Financial Year (FY) 2025/2026 presents an overview of the Government's borrowing activities and public debt management operations undertaken during the financial year. The scope of the Report includes Public and Publicly Guaranteed (PPG) debt (hereinafter referred to as "Public Debt" a definition in line with the Constitution of Kenya) and highlights the financing arrangements implemented by the National Treasury during the fiscal year.

The APDMR contains a review of budget deficit financing activities, the composition of the public debt stock, publicly guaranteed debts, on-lent loans, contingent liabilities related to Public Private Partnerships; implementation of public debt management strategy, status of Kenya's debt sustainability, investor relations, costs and risks of Kenya's public debt, Kenya's sovereign credit rating and medium-term public debt outlook.

The objective of preparing and publishing the APDMR is to provide information to the general public, Parliament, lenders, and investors in Government securities on the Government's borrowing activities, public debt service, composition of the public debt portfolio and the measures undertaken to manage it. Publication of the Report is in line with the obligation to promote transparency and accountability in public debt management in accordance with the provisions of Chapter 12 of the Constitution.

1.2 Legal Framework

Public debt management in Kenya is anchored in Article 201 of the Constitution which establishes the key principles to guide public finance management, requiring openness, accountability and public participation in financial matters, fair distribution of the costs and benefits of public borrowing and resource use between present and future generations; and responsible financial management supported by clear and transparent fiscal reporting. Further, the Public Finance

Management (PFM) Act, Cap. 412A, the Public Finance Management (National Government) Regulations, 2015, and the Public Finance Management (County Governments) Regulations, 2015, together provide the legislative framework for public debt management in Kenya.

Regulation 200 of the Public Finance Management (National Government) Regulations, 2015 provides for preparation and publication of the APDMR and requires the Cabinet Secretary for the National Treasury to submit an annual public debt management report to Parliament not later than three months after the end of each fiscal year.

Publication of the APDMR is in line with the National Treasury's commitment to promoting fiscal transparency, accountability and prudent public debt management. The Report serves as a key instrument for disseminating public debt information to Parliament, investors, and the general public, thereby promoting fiscal transparency, accountability, and informed decision-making in the management of public debt.

1.3 Public Debt Management Institutional Framework

The Public Debt Management Office (PDMO) is established under Section 62 of the Public Finance Management (PFM) Act, Cap. 412A. Section 62 (3) of the Act provide the objectives of public debt management which includes to:

- (a) minimize the cost of public debt management and borrowing over the long-term taking account of risk;
- (b) promote the development of the market institutions for Government debt securities; and
- (c) ensure the sharing of the benefits and costs of public debt between the current and future generations

Further, Section 64 of the Act, together with Regulation 194 of the Public Finance Management (National Government) Regulations, 2015, sets out the roles and responsibilities of the PDMO and the Cabinet Secretary for the National Treasury in the management of public debt in Kenya.

In line with the Public Debt and Borrowing Policy, the PDMO is organized into three departments, each with distinct but complementary responsibilities. The Resource Mobilization Department undertakes Front Office functions including mobilizing domestic and external financing. The Debt Policy, Strategy and Risk Management Department undertakes Middle Office functions including public debt policy formulation, debt sustainability analysis and advisory, financing agreements

review, medium term debt management strategy, public risk management, reporting and dissemination on public debt, and debt service budgeting. The Debt Recording and Settlement Department undertakes Back Office functions including debt recording, updating and maintaining the public debt register and debt servicing and settlement transactions and preparation of debt related financial statements. The functions of each department are distinct but interrelated and therefore require close coordination and collaboration for effective execution of the PDMO mandate.

The PDMO works closely with a wide range of stakeholders, including debt market institutions, fiscal agents, lenders and investors. The PDMO also collaborates with the National Assembly Committee on Public Debt and Privatization Committee, the fiscal agents of foreign securities issued and fiscal agent (Central Bank of Kenya (CBK)), for domestic securities issuance, the Office of the Auditor-General and the Office of the Controller of Budget.

Parliament enacts legislation governing public debt management and oversight over the overall level of public indebtedness. In addition, Parliament plays a critical role in ensuring that the Government's borrowing is within debt limits in line with Section 50(2A) of the PFM Act, Cap 412A (which provide that *‘The borrowing by the national government referred to in subsection (2) shall not exceed fifty-five percent of the gross domestic product in present value terms*) and Regulations 196 Public Finance Management (National Government) Regulations.

The CBK serves as a fiscal agent of Government in line with Section 44 of the Central Bank of Kenya Act, Cap. 491. In this capacity, the CBK is responsible for registering investors in the National Treasury's Central Securities Depository (CSD) for regarding issued securities and reporting to the National Treasury on domestic debt management operations.

Further, Article 229 of the Constitution mandates the Auditor-General to audit and report on the accounts of all government entities, including those relating to public debt, thereby strengthening transparency, oversight, and accountability in the management of public debt.

In addition, the Office of the Controller of Budget plays an oversight role by reviewing the Consolidated Fund Services (CFS) Account withdrawal requests and authorizing eligible

withdrawals from the Consolidated Fund for public debt servicing, in accordance with the provisions of the Constitution and the PFM Act, Cap. 412A. This function ensures that public debt service payments are lawful, properly authorized and consistent with approved budgetary allocations.

1.4 Structure of the Report

The Report is structured into fifteen chapters. Chapter One provides the Introduction and an overview of public debt management during the period under review. Chapter Two presents a review of the objectives and implementation of the 2025 Medium-Term Debt Management Strategy (MTDS). Chapter Three highlights borrowing and related financing activities undertaken during the period. Chapter Four presents the total public and publicly guaranteed debt stock, while Chapter Five examines developments in public domestic debt. Chapter Six focuses on public external debt, including its composition, creditor structure and developments during the period under review. Chapter Seven provides an assessment of the Government's contingent liabilities. Chapter Eight analyses public debt sustainability, while Chapter Nine highlights public debt risk management. Chapter Ten presents Kenya's sovereign credit rating developments, and Chapter Eleven outlines the outlook for public debt management over the medium term. Chapter Twelve discusses investor relations and initiatives undertaken to strengthen engagement with investors. Chapter Thirteen highlights key public debt management reforms undertaken during the period. Chapter Fourteen presents developments in public debt reporting and dissemination, while Chapter Fifteen covers the audit of public debt.

CHAPTER TWO: THE 2025 MEDIUM TERM DEBT MANAGEMENT STRATEGY REVIEW

2.1 Introduction

The 2025 Medium-Term Debt Management Strategy (MTDS) was approved by Parliament as the guiding framework for public borrowing during the financial year 2025/26 and over medium-term. The Strategy was aligned with the 2025 Budget Policy Statement (BPS), which underscored the need for fiscal consolidation to mitigate public debt risks while safeguarding fiscal space for the provision of critical public goods and services.

Although the 2025 MTDS received parliamentary approval in February 2025, it was subsequently revised in June 2026 in response to increased financing requirements, changing conditions in global capital markets and the need to ensure that borrowing plans remained consistent with updated national development priorities.

2.2 Objectives of the Revised 2025 Debt Management Strategy

The revised 2025 Strategy sought to extend the maturity profile of public debt, reduce dependence on short-term Treasury bills and enhance the use of concessional financing. To finance the fiscal deficit, the strategy projected that 80 percent of net borrowing requirements would be met through domestic sources, with the remaining 20 percent sourced from external financing. The financing mix is a critical component of debt management policy, as it determines how the Government balances domestic and external borrowing to meet financing needs while safeguarding debt sustainability.

2.3 Debt Financing Performance under the Revised 2025 Debt Management Strategy

The actual net domestic to net external financing ratio of 79:21 was marginally different from the revised target of 80:20. This variance reflects minor adjustments in the composition of financing during implementation, driven by financing needs, market conditions, and the availability of borrowing sources. Nonetheless, the financing outcome remained broadly consistent with the strategic objective of prioritizing domestic borrowing while maintaining prudent access to external financing

Table 1: Evaluation of Costs and Risks Characteristics

Risk Indicators					
		Revised 2025 MTDS (1) Targets	Actual (2) June 2026	Deviation (2-1)	Remark on deviation
Interest payment as % of GDP		5.1	6.2	1.1	Increased debt service costs due to elevated domestic interest rates and increased domestic borrowing quantum.
Refinancing risk	Debt maturing in 1yr (% of total debt)	11.9	12.7	0.8	Increased refinancing risks due to higher issuance of short-term domestic securities.
	Debt maturing in 1yr (% of GDP)	7.5	9.7	2.2	
	ATM External Portfolio (years)	10.0	10.0	0.0	
	ATM Domestic Portfolio (years)	8.3	7.0	-1.3	
	ATM Total Portfolio (years)	9.0	8.5	-0.5	
Interest rate risk	ATR (years)	8.7	7.6	-1.1	Worsening in interest rate risk indicators due to increased reliance on short-term borrowing instruments and variable rate debt
	Debt refixing in 1yr (% of total)	17.9	24.2	6.3	
	Fixed rate debt (% of total)	92.9	87.5	-5.4	
	T-bills (percent of the total)	3.4	7.3	3.9	
Foreign exchange (FX) risk	FX debt as % of total debt	43.4	44.6	1.2	Moderate exposure to foreign exchange rate risk

Source: National Treasury

2.4 Assessment of Public Debt Costs and Risks as at End June 2026

The Revised 2025 MTDS largely achieved its intended financing objectives, however, moderate

deviations were observed across certain debt costs and risks indicators, reflecting evolving financing requirements, market conditions, and debt portfolio management considerations. Interest payments as a share of GDP stood at 6.2 percent, compared to the revised 2025 MTDS target of 5.1 percent, resulting in a deviation of 1.1 percentage point. This indicates that the cost of servicing public debt was higher than anticipated under the revised strategy (see **Table 1** above)

Debt maturing within one year as a share of total debt stood at 12.7 percent, slightly above the target of 11.9 percent, resulting in a deviation of 0.8 percentage points. Similarly, debt maturing within one year as a share of GDP stood at 9.7 percent, compared to a target of 7.5 percent, reflecting a higher deviation of 2.2 percentage points. The deviations indicate that a larger portion of the debt portfolio was due for repayment within the short term than envisaged under the strategy. This was driven by higher issuance of short-term domestic securities, particularly Treasury bills and the need to roll over maturing obligations during the fiscal year.

The ATM of the domestic portfolio declined to 7.0 years, compared to the target of 8.3 years, resulting in a negative deviation of 1.3 years. This shows that the domestic debt portfolio had a shorter maturity profile than intended. Consequently, the overall ATM for public debt portfolio shortened to 8.5 years, below the target of 9.0 years. These outcomes reflect slight increase in refinancing risk, mainly due to the shorter maturity structure of domestic borrowing.

Interest rate risk indicators show that exposure to interest rate fluctuations was higher than envisaged under the revised 2025 MTDS. The Average Time to Refixing (ATR) decreased to 7.6 years against a target of 8.7 years, representing a shortfall of 1.1 year. In addition, the proportion of debt subject to interest rate re-fixing within one year reached 24.2 percent of total debt, exceeding the target of 17.9 percent by 6.3 percentage points. This outcome indicates that a larger share of the debt portfolio was either due to mature or vulnerable to interest rate adjustments in the near term. The deviation was largely driven by increased reliance on short-term borrowing instruments and variable-rate financing.

Foreign exchange risk increased marginally compared to the revised 2025 MTDS target. Foreign currency-denominated debt accounted for 44.6 percent of total debt, compared to the target of 43.4 percent, resulting in a deviation of 1.2 percentage points. This slight deviation indicates that

external debt formed a marginally higher share of the total debt portfolio than targeted. The increase was attributed to use of external financing to meet part of the Government's financing requirements.

Overall, the external debt maturity profile performed slightly better than targeted, and the domestic portfolio recorded shorter maturities than planned, contributing to higher refinancing and interest rate risks. The debt management operations should continue to prioritize lengthening the maturity profile of domestic debt, reducing reliance on Treasury bills, and maximizing concessional external financing.

CHAPTER THREE: BORROWING AND LIABILITY MANAGEMENT OPERATIONS

3.1 Introduction

Kenya maintained a resilient macroeconomic environment during FY2025/26 despite heightened global uncertainty, tighter global financing conditions and geopolitical tensions. The resilience of the economy reflected sound macroeconomic management, sustained structural reforms and increasing economic diversification, which strengthened the economy's capacity to withstand external shocks. Against this backdrop, the Government remained focused on maintaining macroeconomic stability, advancing fiscal consolidation and strengthening public financial and debt management to safeguard fiscal and debt sustainability.

3.2 Macroeconomic Context

During the period under review, Kenya's real GDP grew by 5.3 percent in the first quarter of 2026 compared to 4.9 in the corresponding quarter of 2025, reflecting continued resilience of economic activity. Growth was driven by key sectors including manufacturing, agriculture, accommodation, and real estate.

Inflation moderated from 6.7 percent in May to 6.4 percent in June 2026, with the decline in global oil prices and Government fuel stabilization measures contributing to the moderation. Inflation nevertheless remained subject to risks arising from geopolitical tensions and developments in global energy and commodity prices. Monetary conditions continued to ease, with the Central Bank Rate reduced to 8.75 percent by July 2026, while average commercial bank lending rates declined to 14.4 percent in June 2026 from 15.3 percent in June 2025.

The external position remained relatively stable, supported by strong foreign exchange reserves, export and remittance inflows and improved market confidence. Official foreign exchange reserves increased to US\$14,023.5 million in June 2026, equivalent to 5.8 months of import cover, from US\$11,407.7 million in June 2025. The Kenya Shilling remained relatively stable, averaging KSh129.5 per US dollar in June 2026 compared to KSh129.3 per US dollar in June 2025.

The current account deficit widened to US\$4,366.3 million, equivalent to 2.8 percent of GDP, in the year to June 2026 from US\$2,585.3 million, or 1.9 percent of GDP, in the year to June 2025, mainly reflecting a higher trade deficit. The deficit was more than fully financed by financial

account inflows.

Capital market activity also strengthened during the period. The NSE 20 Share Index increased by 58.8 percent to 4,063 points in July 2026 from 2,559 points in July 2025, while market capitalization increased by 57.4 percent to KSh3,972 billion. These developments reflected improved investor confidence, lower domestic interest rates and a relatively stable exchange rate.

3.3 Deficit Financing

The fiscal deficit, including grants, for FY2025/26 amounted to KSh 1,264.7 billion, equivalent to 6.8 percent of GDP, compared to a target of KSh 1,357.7 billion, equivalent to 7.3 percent of GDP. The lower-than-target deficit reflected lower-than-programmed expenditure and net lending, which partly offset the shortfall in revenue performance. The outcome underscores the Government's continued commitment to fiscal consolidation while safeguarding essential public services and economic recovery.

The fiscal deficit was financed through net external financing of KSh 267.3 billion against a target of KSh 384.0 billion, and net domestic financing of KSh 983.7 billion against a target of KSh 973.6 billion. The lower-than-target external financing was partly reflected in lower external disbursements, while the slightly higher domestic financing helped meet the Government's financing requirements within the financial year.

The financing outcome reflected greater reliance on domestic financing relative to external financing. While domestic financing reduces exposure to foreign exchange risk, sustained reliance on the domestic market requires careful management of borrowing costs, refinancing and liquidity risks. The Government therefore continued to implement liability management measures aimed at lengthening debt maturities, managing refinancing pressures and improving the overall cost and risk profile of the public debt portfolio.

Table 2: Financing Target and Outturn (KSh Billion)

	FY 2024/25			FY 2025/26		
	Target (A)	Outturn (B)	Deviation (B-A)	Target (A)	Outturn (B)	Deviation (B-A)
TOTAL FINANCING	1,012.3	1,034.2	21.9	1,357.7	1,251.1	-106.6
NET FOREIGN FINANCING	186.5	179.7	-6.8	384.0	267.4	-116.7
Disbursements	548.0	527.0	-21.0	907.7	771.7	-136.0
i. Commercial Financing	253.1	253.1	-	540.1	475.1	-65.0
o/w Other Commercial Financing	64.7	64.7	-	331.4	332.4	1.0

	FY 2024/25			FY 2025/26		
External Debt Operations – Refinancing	188.3	188.3	-	143.6	142.7	-1.0
ii. Project Loans AIA	74.5	65.6	-8.9	102.5	86.1	-16.4
iii. Project Loans Revenue	93.8	85.8	-8.0	130.3	110.7	-19.6
iv. OPEC Funds	8.4	8.8	0.4	4.0	-	-4.0
v. Programme Loans	118.2	113.7	-4.5	130.9	99.9	-31.0
o/w P for R Programme Loans	9.5	15.3	5.9	3.5	2.6	-0.9
IMF - RCF/ECF/EFF	50.2	50.2	-	-	-	-
Development Policy Operations – WB	32.6	21.8	-10.9	101.4	97.2	-4.2
Support for COVID-19 Vaccine Purchase	-	-	-	-	-	-
Development Policy Operations – ADB	25.9	26.3	0.4	26.0	-	-26.0
External Debt repayment – Principal	-361.5	-347.3	-14.2	-523.6	-504.3	19.3
i. Debut SV Bond/SV 2019	-	-	-	-70.6	-	70.6
ii. TDB	-59.0	-52.1	6.9	-99.4	-98.5	1.0
iii. Other repayments	-75.2	-77.0	-1.9	-372.6	-139.7	232.9
iv. Exim Bank of China	-91.4	-88.6	2.8	-75.5	-74.9	0.6
v. IDA	-40.7	-39.3	1.3	-49.2	-48.7	0.5
vi. External Debt Operations - Refinancing	-95.3	-90.2	5.1	143.6	-142.7	-286.3
vii. Food for Debt Swap	-	-	-	-	-	-
NET DOMESTIC FINANCING	825.8	854.5	28.7	973.6	983.7	10.1
i. Government Securities	817.3	853.1	35.8	961.7	993.7	32.0
ii. Government Overdraft & Others	-	1.9	1.9	-	21.8	21.8
iii. Government Deposits	-	24.8	24.8	33.2	-9.4	-42.6
iv. Domestic Loan Repayments (Receipts)	9.6	8.0	-1.9	11.9	13.7	1.8
v. Domestic Loan Repayments CBK	-1.1	-1.1	-	-1.1	-1.1	-
vi. Accounts Payable	-	-32.2	-32.2	-32.0	-35.0	-3.0
vii. Privatization Proceeds	-	-	-	-	-	-

Source: The National Treasury

3.4 Domestic Financing

During FY 2025/26, net domestic financing amounted to KSh 983.7 billion against a target of KSh 973.6 billion, representing a marginal overperformance of KSh10.1 billion. The slightly higher domestic financing partly reflected the shortfall in net external financing, which amounted to KSh 267.4 billion against a target of KSh 384.0 billion. Government securities accounted for KSh 993.7 billion of net domestic financing, underscoring the continued role of the domestic debt market in meeting the Government’s financing requirements.

The National Treasury, in collaboration with the Central Bank of Kenya as the Government's fiscal agent, continued to implement liability management operations aimed at improving the structure of the domestic debt portfolio. These measures included switches and buybacks designed to lengthen the maturity profile, manage refinancing pressures and support the Government's objective of containing borrowing costs and risks. The measures were complemented by efforts to deepen the domestic debt market and diversify financing sources.

3.5 External Financing

Net external financing during FY 2025/26 amounted to KSh 267.4 billion against a target of KSh 384.0 billion. The shortfall of KSh 116.7 billion was mainly reflected in lower external disbursements, which amounted to KSh 771.7 billion against a target of KSh 907.7 billion. Principal repayments amounted to KSh 504.3 billion against a target of KSh 523.6 billion. The lower-than-target external financing was partly offset through increased reliance on domestic financing, while liability management operations helped smooth the maturity profile and manage refinancing pressures.

During FY 2025/26, a US\$1 billion debt-for-food-security swap was approved by the U.S. International Development Finance Corporation (DFC), with the associated savings to be channeled through the World Food Programme (WFP) to support food security programmes.

In October 2025, the National Treasury conducted a liability management operation to smoothen the maturity profile of the public debt portfolio. This operation successfully repurchased USD 718.95 million of the 2028 Eurobond and USD 324.84 million of the 2032 Eurobond, with the 2032 allocations prorated at 32.9 percent owing to excess market demand. Subsequently, in February 2026, a further USD 415 million comprising USD 90.5 million of the 2028 Eurobond and USD 324.8 million of the 2032 Eurobond was bought back through a Dutch auction structure, financed by the proceeds of a new USD 2.25 billion dual-tranche Eurobond issuance.

In February 2026, a further US\$415 million comprising US\$90.5 million of the 2028 Eurobond and US\$324.8 million of the 2032 Eurobond was bought back through a Dutch auction structure, financed by proceeds from a new US\$2.25 billion dual-tranche Eurobond issuance. These liability management operations supported the smoothing of debt maturities and the management of near-term refinancing pressures.

CHAPTER FOUR: TOTAL PUBLIC AND PUBLICLY GUARANTEED DEBT STOCK

4.1 Introduction

As at 30th June 2026, the total stock of public and publicly guaranteed debt stood at KSh 13,120.9 billion, equivalent to 70.4 percent of GDP, compared to KSh 11,814.5 billion (67.8 percent of GDP) at the end of June 2025. The increase was primarily attributable to domestic borrowing undertaken to finance the fiscal deficit. Over the period, domestic debt increased by 15.8 percent from KSh 6,326.0 billion to KSh 7,327.2 billion, while external debt rose by 5.6 percent to KSh 5,793.7 billion. As a result, the share of external debt in the total public debt portfolio declined from 46.5 percent in June 2025 to 44.1 percent in June 2026. This reflects the Government's continued implementation of the Medium-Term Debt Management Strategy, which prioritises domestic financing while seeking to maintain a sustainable and prudent public debt portfolio.. The (see **Table 3** below).

Table 3: Trends in Kenya's Public and Publicly Guaranteed Debt (KSh Million)

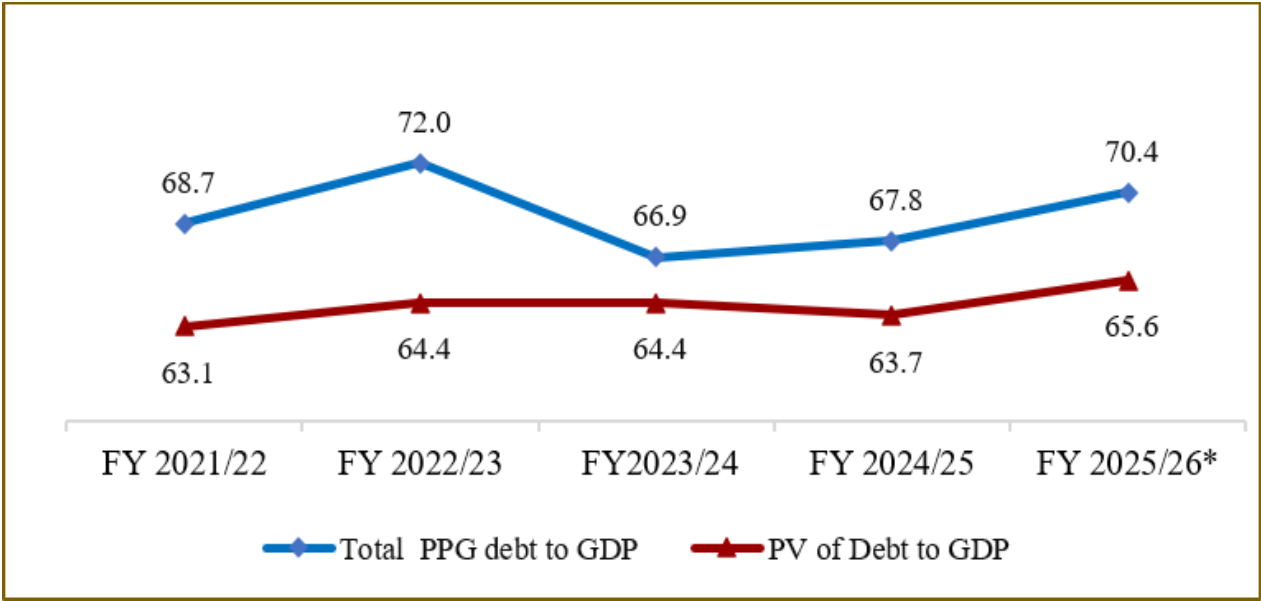
	FY 2021/22	FY 2022/23	FY2023/24	FY 2024/25	FY 2025/26*
Total PPG debt stock	8,761,418	10,278,879	10,580,455	11,814,474	13,120,868
O/w External	4,334,791	5,446,561	5,171,704	5,488,465	5,793,666
O/w Domestic	4,426,627	4,832,318	5,408,751	6,326,009	7,327,202
% share of External debt	49.5	53.5	48.9	46.5	44.2
% share of Domestic debt	50.5	46.5	51.1	53.5	55.8
Nominal GDP	12,752,164	14,274,419	15,826,415	17,434,534	18,642,472
As percentage of GDP					
Total PPG debt to GDP	68.7	72.0	66.9	67.8	70.4
O/w External	34.0	38.2	32.7	31.5	31.1
O/w Domestic	34.7	33.9	34.2	36.3	39.3
PV of Debt to GDP	63.1	64.4	64.4	63.7	65.6
Annual Growth Rate					
Total PPG debt stock	13.8	17.3	2.9	11.7	11.1
O/w External	8.4	25.6	-5.0	6.1	5.6
O/w Domestic	19.7	9.2	11.9	17.0	15.8
Real GDP Growth	4.8	5.3	5.6	4.9	5.1

**Provisional Source: National Treasury*

During FY 2025/26, nominal Gross Domestic Product (GDP) increased to KSh 18,642.5 billion, while the public debt-to-GDP ratio rose from 67.8 percent in FY 2024/25 to 70.4 percent. The

economy remained resilient, recording real GDP growth of 5.3 percent compared to 4.9 percent in the preceding financial year. Notwithstanding the improved growth performance, the rate of increase in public debt outpaced the expansion in nominal GDP, resulting in a higher debt burden relative to the size of the economy. This underscores the importance of sustaining fiscal consolidation efforts and reducing fiscal deficits to support long-term debt sustainability. The Present Value (PV) of public debt-to-GDP stood at 65.6 percent, as illustrated in Figure 1 below.

Figure 1: Trend of Public and Publicly Guaranteed Debt-to-GDP Ratios



Source: National Treasury

4.2 Debt Service Trends

Kenya’s public debt service obligations increased significantly over the five-year period, rising from KSh 917.8 billion in FY 2021/22 to KSh 1,872.1 billion in FY 2025/26. The increase was driven by higher principal repayments and interest payments, with interest payments rising from KSh 578.0 billion in FY 2021/22 to KSh 1,071.6 billion in FY 2025/26. The trend underscores the growing fiscal pressure associated with debt service obligations and the need for prudent debt management.

External debt service increased to KSh 716.1 billion in FY 2025/26, largely reflecting higher principal repayments arising from maturing Eurobond obligations during the financial year.

Domestic debt service also increased to KSh 1,156.0 billion, with interest payments accounting for the largest component at KSh 859.8 billion. The increase in both external and domestic debt service reflects the rising cost of servicing public debt and underscores the importance of effective liability and refinancing risk management.

Total interest payments absorbed 41.4 percent of ordinary revenue in FY 2025/26, with domestic interest payments constituting the largest component at 33.2 percent of revenue, while external interest payments accounted for the remaining 8.2 percent. In addition, external debt service as a proportion of export earnings increased from 35.1 percent in FY 2024/25 to 41.4 percent in FY 2025/26. The increase highlights the vulnerability of the external debt position to developments in export performance and foreign exchange market conditions, and reinforces the need to strengthen export earnings and maintain sustainable external borrowing levels (see **Table 4 and Figure 2** below).

Table 4: Trend in Public Debt Service (FY 2021/22 – FY 2025/26) (KSh Million)

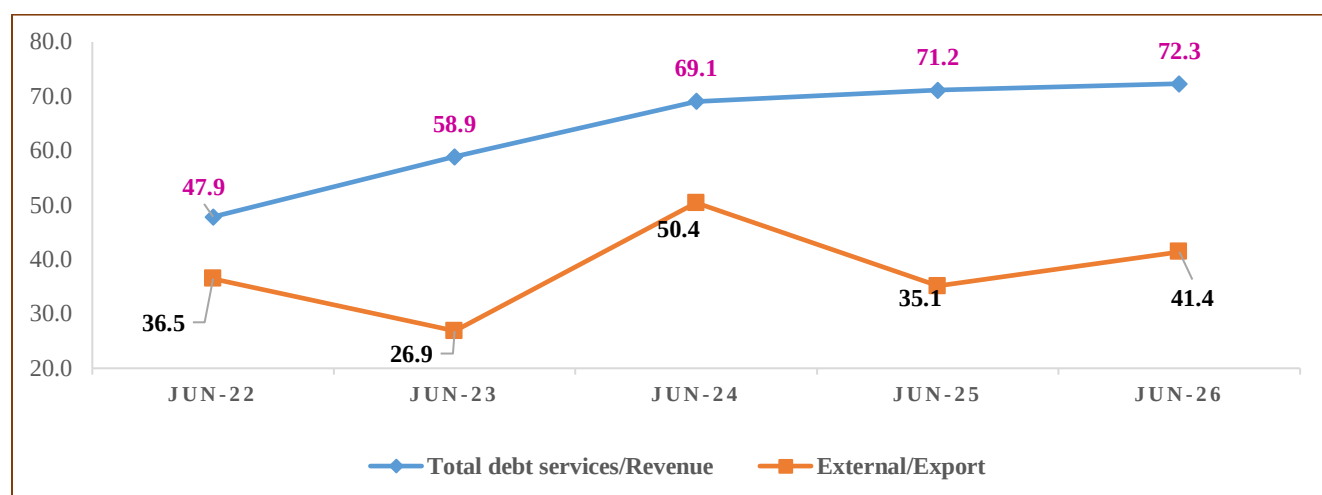
	FY 2021/22	FY 2022/23	FY2023/24	FY 2024/25	FY 2025/26*
Total Debt Service	917,778	1,202,075	1,580,766	1,722,104	1,872,138
Total interest	577,979	689,327	843,846	987,495	1,071,589
External Debt Service	305,666	405,004	773,406	579,042	716,104
External Principal	184,536	248,776	552,104	367,804	504,344
External Interest	121,130	156,229	221,302	211,238	211,760
Domestic Debt	612,112	797,071	807,360	1,143,062	1,156,034
Domestic Interest	456,849	533,098	622,544	776,257	859,829
Domestic Principal	155,263	263,973	184,816	366,805	296,205
Memorandum items					
As a percentage of Revenues					
Total debt services	47.9	58.9	69.1	71.2	72.3
Total interest	30.1	33.8	36.9	40.8	41.4
External interest	6.3	7.7	9.7	8.7	8.2
Domestic interest	23.8	26.1	27.2	32.1	33.2

Ordinary Revenue	1,917,911	2,041,119	2,288,921	2,420,174	2,588,401
As a percentage of Export					
External Debt Service	36.5	26.9	50.4	35.1	41.4
Export Earnings (Goods only)	838,024	1,507,072	1,533,781	1,648,898	1,729,207

**Domestic Principal excludes Treasury Bills Redemptions*

Source: National Treasury and Central Bank of Kenya

Figure 2 Trend of Debt service as percentage of revenue and export



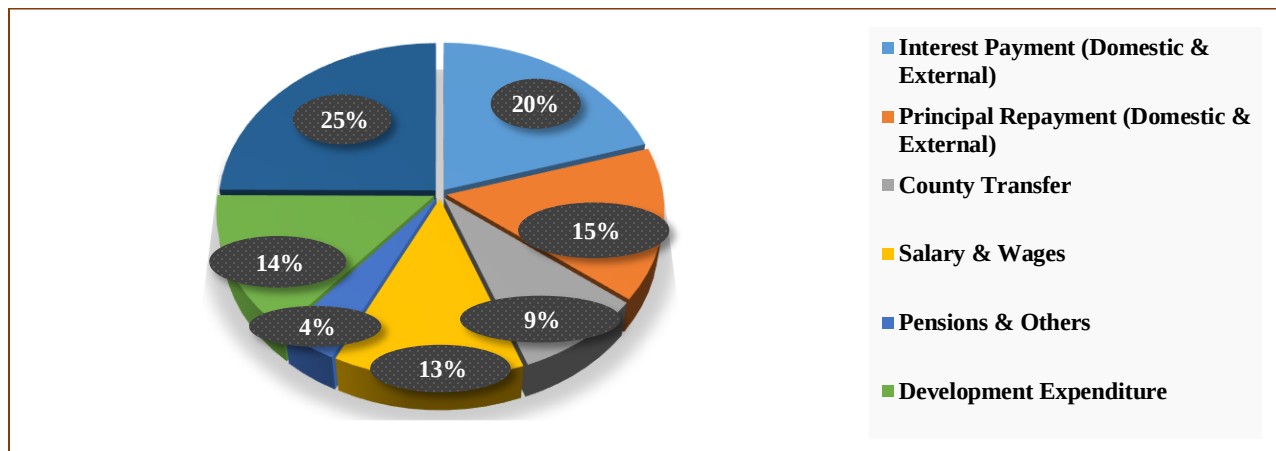
Source: National Treasury

In terms of fiscal impact, total debt service as a proportion of Government revenue increased from 47.9 percent in FY 2021/22 to 72.3 percent in FY 2025/26. The increase reflects the growing burden of debt service on Government resources and has constrained fiscal space available for financing other priority Government programmes and development expenditure.

4.3 Fiscal Pressure from Rising Debt and Debt Service

During the Financial Year under review, contractual expenditures including debt service, county transfers, salaries, and pensions absorbed 61 percent of total public spending, leaving little room for adjustment in the short term. In contrast, discretionary expenditures comprised 39 percent, split between development expenditure (14 percent) and other operations and maintenance costs (25 percent). This distribution highlights the limited fiscal flexibility available, underscoring the need for prudent debt management and careful prioritization of discretionary spending. (see **Figure 3**).

Figure 3: Composition of FY 2025/26 Expenditure



Source: National Treasury

CHAPTER FIVE: PUBLIC DOMESTIC DEBT

5.1 Introduction

The stock of domestic debt comprises Treasury bills and bonds, Central Bank of Kenya (CBK) overdraft advanced to Government, pre-1997 CBK debt, bank advances from commercial banks, and CBK on-lent loans to Government (including IMF SDR allocations to Kenya). In a significant stride towards modernization, CBK successfully implemented the DhowCSD system, Central Securities Depository in July 2023. Among other functions, this innovative platform serves as the official register of all Government securities, with the added capability of identifying ultimate beneficiaries or holders of these securities.

Moreover, CBK has implemented a sectoral classification of Government securities holders consistent with Government Finance Statistics Manual (GFSM) 2014, Public Sector Debt Statistics Manual 2014, System of National Accounts (SNA) 2008, and Monetary and Financial Statistics (MFS) 2016, thereby ensuring transparency, comparability, and methodological conformity with international standards.

5.2 Domestic Debt Stock

As at end June 2026, the domestic debt stock stood at KSh 7,327.2 billion, representing a 15.8 percent rise from a stock of KSh 6,325.5 billion in June 2025. The growth in domestic debt reflects the Government's policy of relying more on domestic than on external resources to finance the budget deficit.

The stock of Treasury bonds rose to KSh 6,021.2 billion in June 2026 from KSh 5,110.0 billion in June 2025, representing a 17.8 percent (KSh 911.1 billion) increase. The significant rise in Treasury bonds reflected Government commitment to reduce refinancing risks by employing strategies to lengthen maturities and strengthen debt sustainability. The stock of Treasury bills also rose in the financial year to KSh 1,118.2 billion as at end June 2026 from KSh 1,036.9 billion in June 2025, marking a 7.8 percent (KSh 81.3 billion) increase. The pre-1997 CBK debt stock stood at KSh 15.0 billion by June 2026, while the CBK overdraft to Government increased from KSh 67.6 billion in June 2025 to KSh 91.0 billion in June 2026 representing a 74.8 percent utilization of the overdraft limit of KSh 121.7 billion by end of FY 2025/26 (See **Table 5** below).

Table 5: Outstanding Domestic Debt (KSh Million)

	Instrument	FY 2021/22	FY 2022/23	FY2023/24	FY 2024/25	FY 2025/26
	Total Domestic Debt (A+B)	4,329,099	4,832,318	5,408,751	6,325,454	7,327,202
A	Government Securities (1+2+3)	4,216,745	4,646,405	5,260,246	6,162,454	7,154,319
1)	Treasury Bills	628,754	614,726	615,890	1,036,875	1,118,151
	Banking Institutions	287,684	263,082	185,610	534,475	652,997
	Others	341,070	351,644	430,280	502,400	465,155
2)	Treasury Bonds	3,569,092	4,013,891	4,627,123	5,110,010	6,021,154
	Banking Institutions	1,710,357	1,826,599	1,408,643	1,650,634	1,890,998
	Others	1,858,735	2,187,291	3,218,480	3,459,376	4,130,156
3)	Pre-1997 Government Debt	18,899	17,789	17,234	15,569	15,014
B.	Others	112,354	185,912	148,505	163,001	172,883
	O/w CBK Overdraft	58,502	76,457	61,021	67,629	90,993
As a percentage of Total Domestic Debt						
	Government Securities	97.4	96.2	97.3	97.4	97.6
	o/w Treasury bills	14.5	12.7	11.4	16.4	15.3
	Treasury bonds	82.4	83.1	85.5	80.8	82.2
	Pre-1997 Government Debt	0.4	0.4	0.3	0.2	0.2
	Others	2.6	3.8	2.7	2.6	2.4

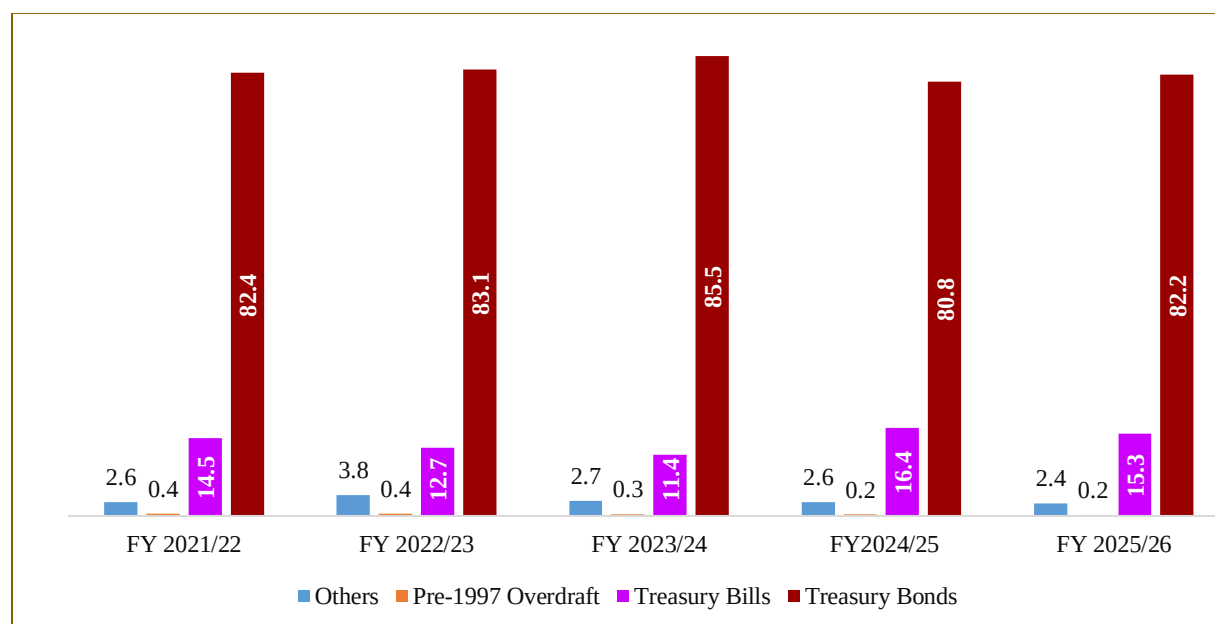
**Others include IMF On lent loans, Bank advances and CBK overdraft Source: National Treasury*

5.3 Domestic Debt by Type of Instrument

As at end June 2026, Treasury bonds and Treasury bills accounted for 82.2 percent and 15.3 percent of the total domestic debt respectively. Other domestic debts comprising IMF debt on-lent

to Government, Pre-1997 Government Debt and the CBK overdraft, accounted for 2.6 percent of the domestic debt. The share of Treasury bonds in total domestic debt increased from 80.8 percent in June 2025 to 82.2 percent in June 2026, reflecting a gradual shift toward longer-term instruments. Conversely, the proportion of Treasury bills declined from 16.4 percent in June 2025 to 15.3 percent in June 2026, indicating reduced refinancing risk, as illustrated in **Figure 4**

Figure 4: Domestic Debt by Instruments (as percentage of total Domestic Debt)



Source: Central Bank of Kenya

5.4 Domestic Debt by Investor Category

The holders of domestic debt mainly concentrated in Government Securities have remained diversified across sectors. Both banks and non-banks increased their portfolio of domestic debt by 15.6 percent and 16.0 percent to KSh 2,726.5 billion and KSh 4,600.7 billion respectively in FY 2025/26. This reflected a sustained market appetite and uptake of Government Securities issuances by local institutions as shown in the **Table 6** below.

Table 6: Domestic Debt by Investor Category (KSh Million)

Description	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Banks	2,103,687	2,294,331	1,769,829	2,357,925	2,726,519
Central Bank of Kenya	85,141	198,108	170,109	178,569	187,897
Commercial Banks	2,018,546	2,096,223	1,599,720	2,179,356	2,538,622
Non-Banks	2,185,521	2,537,929	3,648,759	3,967,530	4,600,684
Government (Parastatals)			930,704	874,246	894,573
Households			333,743	397,774	451,180
Non-Residents			325,268	279,734	297,411
Pensions	1,403,175	1,583,455	751,870	894,493	1,028,357
Insurance Companies	309,904	345,796	689,684	799,140	1,009,762
Other Investors	472,442	608,678	617,490	722,143	919,400
Total	4,289,208	4,832,260	5,418,588	6,325,455	7,327,202
As a percentage of Domestic Debt					
Banks	49.0	47.5	32.7	37.3	37.2
Central Bank of Kenya	2.0	4.1	3.1	2.8	2.6
Commercial Banks	47.1	43.4	29.5	34.5	34.6
Non-Banks	51.0	52.5	67.3	62.7	62.8
Government (Parastatals)	0.0	0.0	17.2	13.8	12.2
Households	0.0	0.0	6.2	6.3	6.2
Non-Residents	0.0	0.0	6.0	4.4	4.1
Pensions	32.7	32.8	13.9	14.1	14.0
Insurance Companies	7.2	7.2	12.7	12.6	13.8
Other Investors	11.0	12.6	11.4	11.4	12.5
Total	100.0	100.0	100.0	100.0	100.0

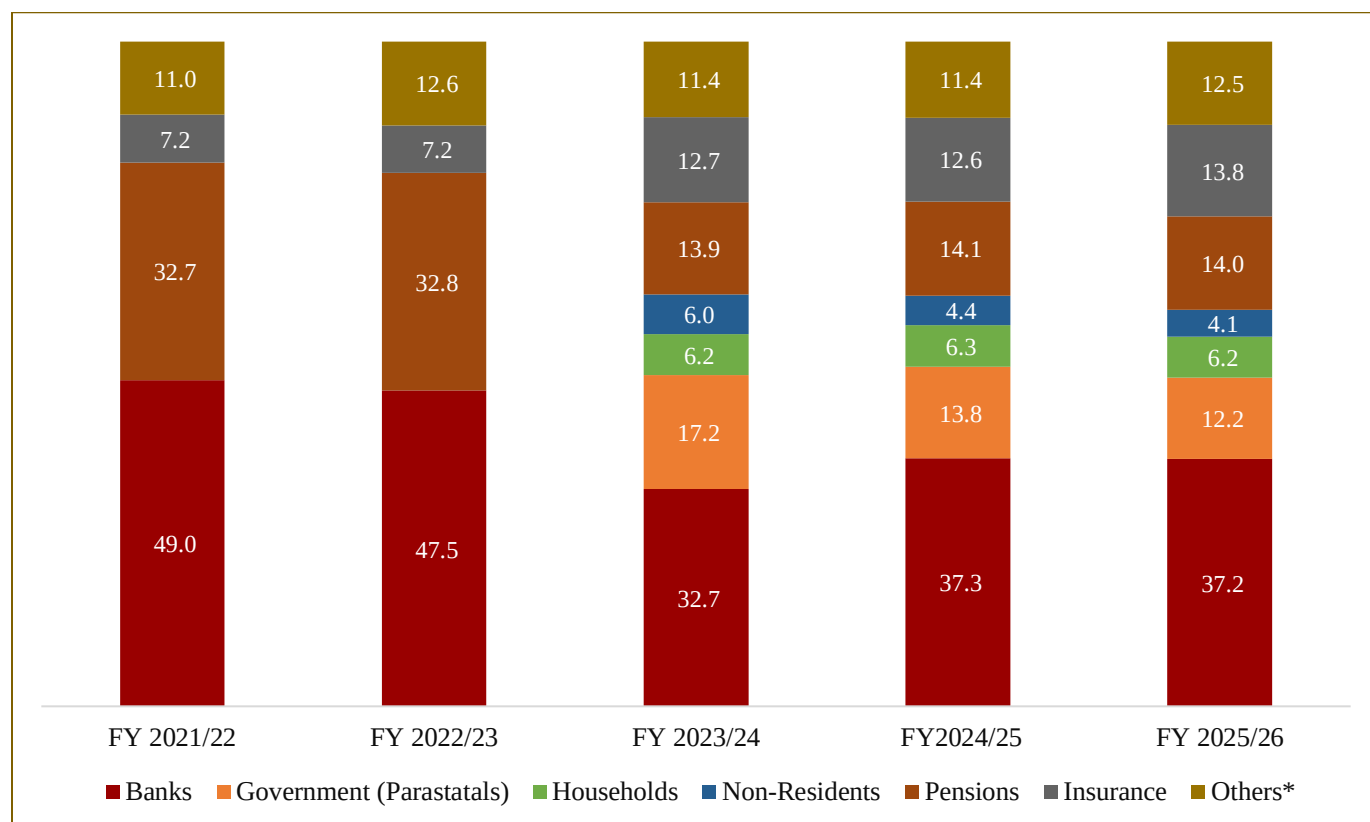
* Data from FY 2023/24 follows the GFSM 2014 Manual

Source: Central Bank of Kenya

The holders of domestic debt stock have remained diversified across sectors. Commercial banks remained the main holders of government securities with a share of 34.6 percent in June 2026 which was a slight increase compared to 34.5 percent in June 2025. The proportion of domestic debt held by private pension funds decreased slightly to 14.0 percent in June 2026 compared to 14.1 percent in June 2025, whereas holdings by insurance companies rose to 13.8 percent in June 2026 from 12.6 percent a year before. The share of government institutions that include public

pension funds stood at 12.2 percent of the domestic debt portfolio in June 2026 compared to 13.8 percent level in June 2025. The proportion of household and non-resident investors in domestic debt was 6.2 percent and 4.1 percent respectively in June 2026 while other investors who include private companies, investment banks, and money market funds among others stood at 12.5 percent in June 2026 compared to 11.4 percent in June 2025 driven majorly by the rise of collective investment schemes funds targeting government securities. This trend reflects a gradual diversification of the investor base to enhance market resilience and reduce concentration risks, thereby supporting the stability and efficiency of the domestic debt market (**Figure 5**).

Figure 5: Outstanding Domestic Debt Stock by Holders (in percentage)



Other includes private companies, investment banks, money market funds, and non-government agencies*

Source: Central Bank of Kenya

5.5 Treasury Bills by Investor Category

As at end June 2026, banks increased their holdings of Treasury bills by 22.2 percent to KSh 652.8 billion, accounting for 58.4 percent of the total stock, up from KSh 534.3 billion (51.5 percent of Treasury bills stock) in June 2025. This increase indicated banks' demand for short-term government securities in light of the uncertainty in interest rates partly reflecting the impact of the conflict in the Middle East in the domestic market. Meanwhile, other investors, private companies and licenced funds that include collective investment funds, held Treasury bills valued at KSh 227.5 billion (20.3 percent) in June 2026 compared to KSh 214.9 billion (20.7 percent) in June 2025. Government institutions and households held 13.6 percent and 4.3 percent of Treasury bills stock in June 2026 respectively with minimal holding by insurance companies and pension firms as shown in **Table 7** below.

Table 7: Outstanding Stock of Treasury Bills by Investor Category (KSh Million)

Description	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Banks	287,684	263,082	185,610	534,289	652,828
Government (Parastatals)	-	-	161,041	190,143	152,102
Pension	167,554	166,420	36,659	24,395	11,612
Insurance Companies	6,581	6,937	5,371	10,994	21,295
Households	-	-	57,794	58,594	48,411
Non-Residents	-	-	2,890	3,581	4,377
Other Investors	166,936	178,286	166,526	214,880	227,528
Total	628,755	614,725	615,891	1,036,875	1,118,151
As a Percentage of the Treasury Bills Stock					
Banks	45.8	42.8	30.1	51.5	58.4
Government	-	-	26.1	18.3	13.6
Pension	26.6	27.1	6	2.4	1.0
Insurance	1	1.1	0.9	1.1	1.9
Households	-	-	9.4	5.7	4.3
Non-Residents	-	-	0.5	0.3	0.4
Other Investors	26.6	29	27	20.7	20.3
Total	100	100	100	100	100

Source: Central Bank of Kenya

5.6 Treasury Bonds by Investor Category

The stock of outstanding Treasury bonds held by financial institutions including banks, pensions, and insurance rose in FY 2025/26. Banks' holdings stood at KSh 1,885.8 billion (31.3 percent of total Treasury bonds stock), up from KSh 1,645.1 billion in June 2025, while private pension funds increased their Treasury bond holdings to KSh 1,016.7 billion (16.9 percent of total Treasury bonds stock) from KSh 870.1 billion (16.9 percent growth). Similarly, insurance companies' holdings grew to KSh 988.5 billion (16.4 percent of total Treasury bonds stock) from KSh 788.1 billion (25.4 percent growth) in June 2025. Government institutions including public pensions funds had Treasury bond stock of KSh 742.5 billion representing 12.3 percent of the bond portfolio. Notably, household holdings expanded to KSh 402.8 billion (6.7 percent of total Treasury bonds stock) from KSh 339.2 billion (18.8 percent growth) in June 2025, underscoring the transformational impact of the DhowCSD in broadening retail investor participation in the Government securities market. Non-residents held 4.9 percent of Treasury bonds stock by end June 2026 which was lower than 5.4 percent held in June 2025 mainly influenced by exit by offshore investors to safer haven in light of the Middle East crisis. The distribution of Treasury bonds across key investor groups is shown in **Table 8** below.

Table 8: Outstanding Stock of Treasury Bonds by Holder (KSh Million)

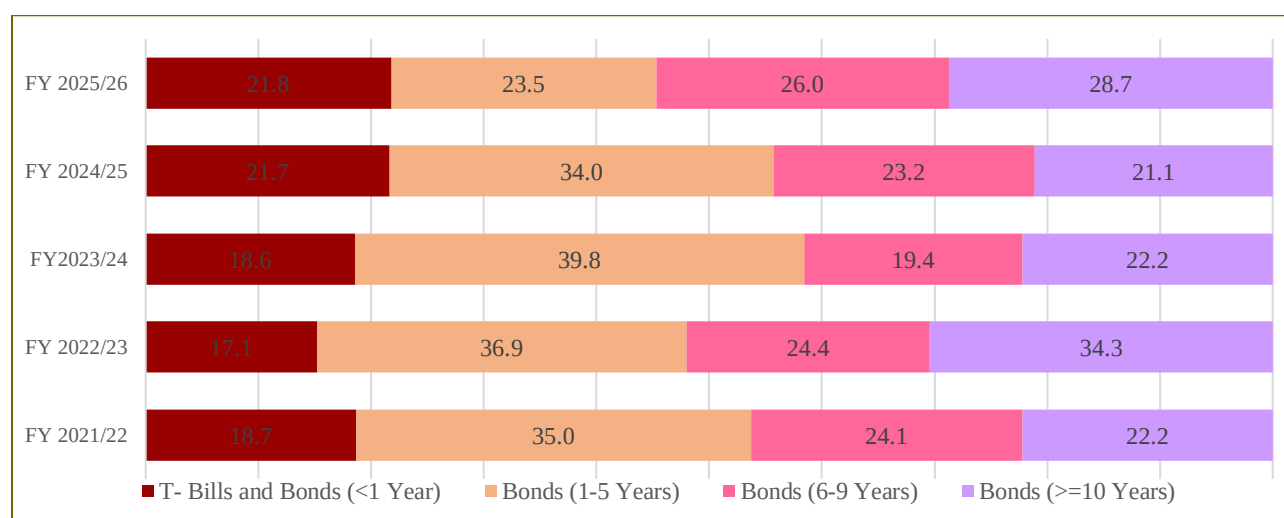
Description	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Banks	1,710,357	1,826,599	1,408,643	1,645,067	1,885,794
Government (Parastatals)	-	-	769,663	684,102	742,472
Pension	1,224,108	1,416,117	715,212	870,098	1,016,746
Insurance	301,265	338,657	684,313	788,146	988,467
Households	-	-	275,949	339,180	402,770
Non-Residents	-	-	322,378	276,153	293,034
Others	333,179	432,517	450,965	507,263	691,872
Total	3,568,909	4,013,890	4,627,123	5,110,010	6,021,154
Banks	47.9	45.5	30.4	32.2	31.3
Government (Parastatals)	-	-	16.6	13.4	12.3
Pension	34.3	35.3	15.5	17	16.9
Insurance	8.4	8.4	14.8	15.4	16.4
Households	-	-	6	6.6	6.7
Non-Residents	-	-	7	5.4	4.9
Others	9.3	10.8	9.7	9.9	11.5
Total	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

5.7 Treasury Bills and Treasury Bonds by Remaining Time to Maturity

The share of Treasury bills and bonds maturing within one year rose slightly from 21.7 percent in FY 2024/25 to 21.8 percent in FY 2025/26, mainly driven by a rise in Treasury bill stock. Over the same period, the proportion of Treasury bonds with a remaining time to maturity of between 1–5 years declined significantly from 34.0 percent to 23.5 percent, while those with more than 10 years to maturity increased from 23.2 percent to 26.0 percent in light of new issue and reopening of Treasury bonds with longer time to maturity within FY 2025/26 including an issue of a new 30-year Treasury bond. This trend in the maturity structure of domestic debt is illustrated in **Figure 6** below.

Figure 6: Government Domestic Debt Securities by Remaining Time to Maturity



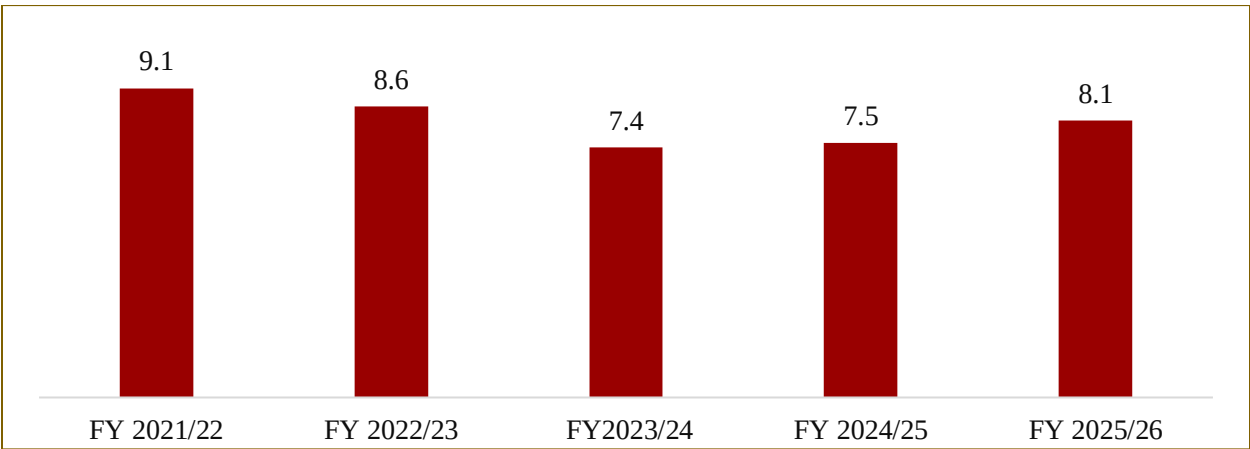
Source: Central Bank of Kenya

5.8 Treasury Bonds Average Time to Maturity as at end June 2026

The Average Time to Maturity (ATM) of Treasury bonds increased moderately to 8.1 years as at end-June 2026, compared to 7.5 years in FY 2024/25 reflecting the effort to issue longer-term instruments including the new 30-year Treasury bond issued in FY 2025/26, as shown in **Figure 7** below. This stability reflects the Government’s domestic debt issuance strategy, particularly the implementation of the benchmark bonds program through the reopening of existing longer-tenor Treasury bonds to reduce market fragmentation and build up issuance sizes. These efforts have

supported a more balanced maturity profile, thereby mitigating refinancing risk while enhancing liquidity and efficiency in the domestic debt market.

Figure 7: Average Time to Maturity of Treasury bonds in years



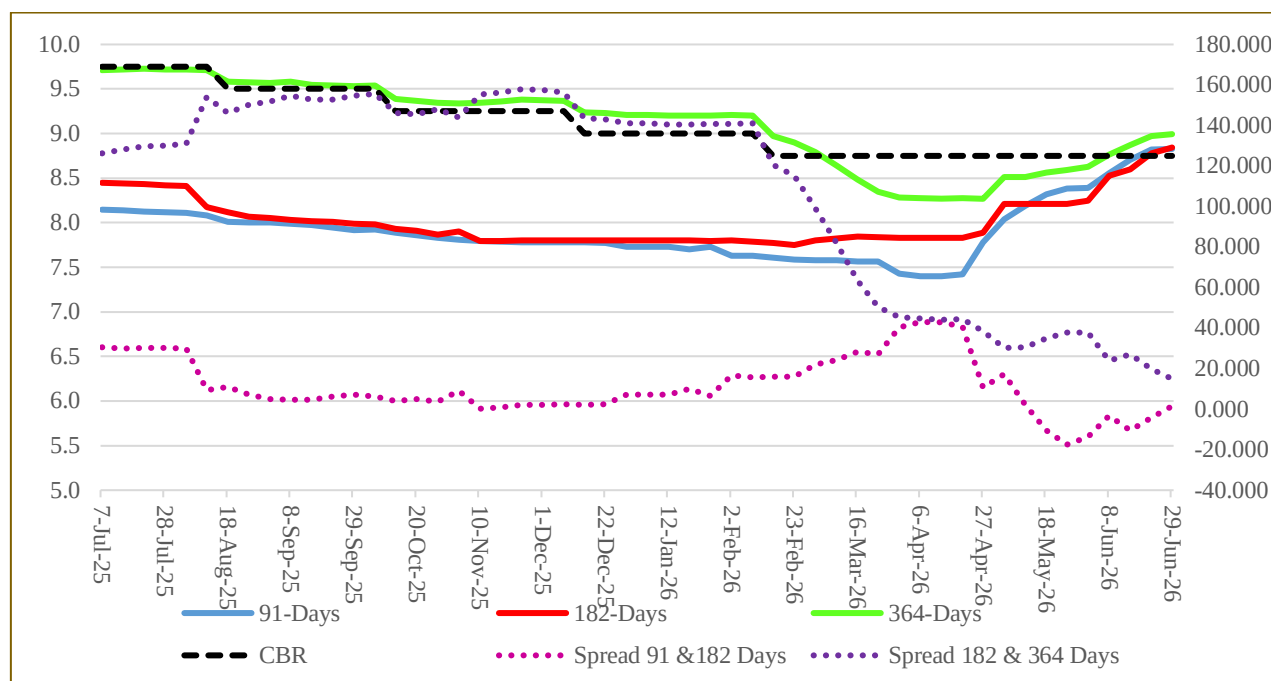
Source: Central Bank of Kenya

5.9 Average Interest Rates on Treasury Bills

The average interest rates eased from the second quarter of FY 2025/26, broadly aligning with the prevailing monetary policy stance. During the review period, the spreads across the 91-day, 182-day and 364-day tenors narrowed markedly, leaving the short end of the Treasury bill yield curve virtually flat (see Figure 7: 5.8-1 below). By June 2026, the average interest rates on the 91-day and 182-day Treasury bills had risen moderately to 8.8 percent each, from 8.1 percent and 8.4 percent respectively in June 2025, while the rate on the 364-day tenor declined to 8.9 percent from 9.7 percent over the same period.

The broad stability of Treasury bill rates, together with the compression of spreads across tenors, points to improved liquidity conditions and the pass-through of a more accommodative monetary policy stance, alongside easing inflationary pressures during the fiscal year.

Figure 8: Average Interest Rates and Spreads on Treasury Bills

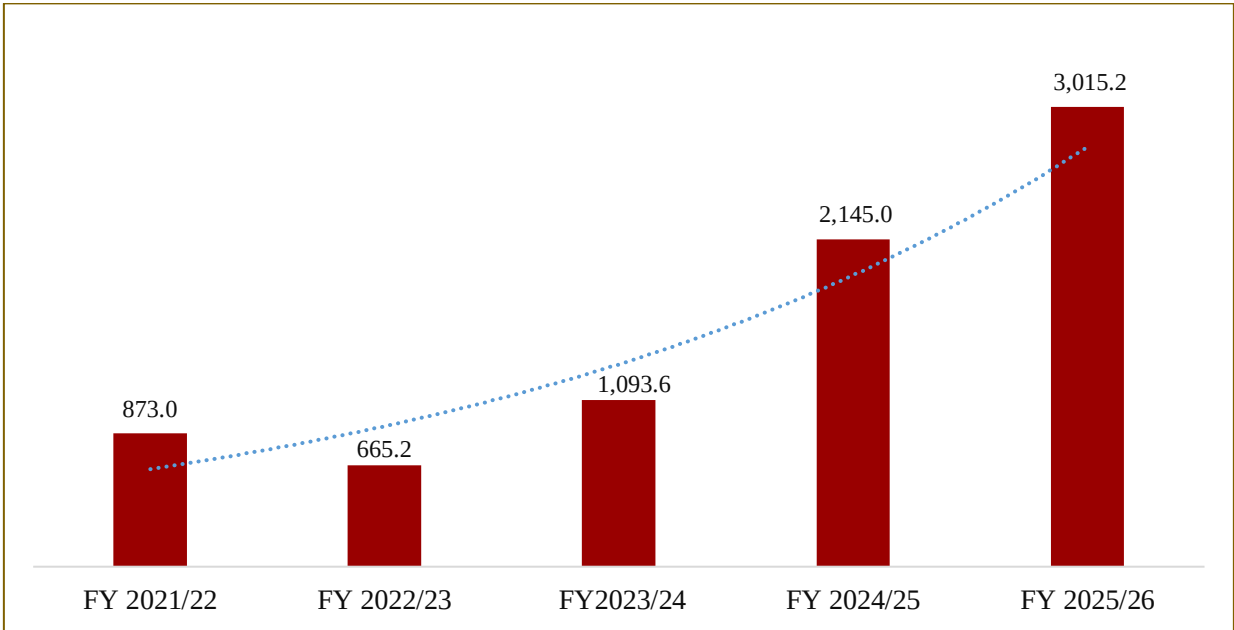


Source: Central Bank of Kenya

5.10 Secondary Market for Government Securities

The secondary market activity improved significantly in FY 2025/26 where Treasury bonds worth KSh 3,015.2 billion were traded at the Nairobi Security Exchange (NSE) compared to KSh 2,145.0 billion in FY 2024/25. This improvement was largely supported by ongoing actions to enhance the benchmark bond programme by reopening existing bonds to increase their size and deepen secondary market liquidity and the increased issuance sizes under the expanded domestic borrowing programme that has improved supply and liquidity in the secondary market (see Figure 9 below).

Figure 9: Secondary Market Turnover for Treasury Bonds, FY2021/2022- 2025/2026 (KSh. Billion)

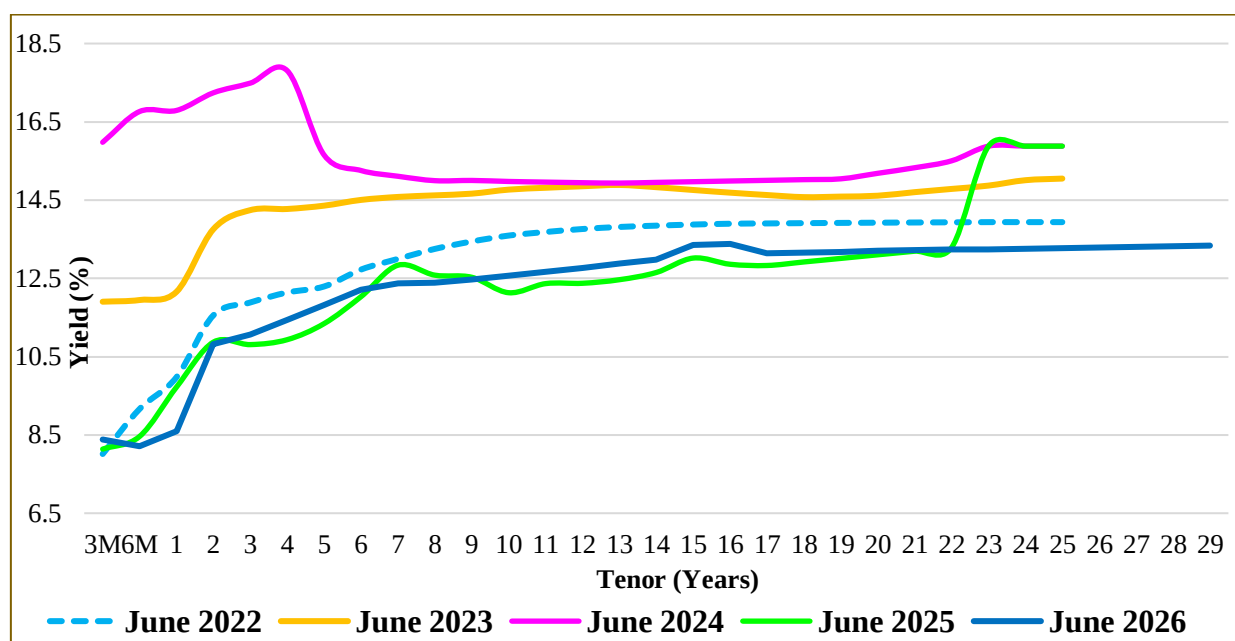


Source: Nairobi Securities Exchange (NSE)

5.11 Government Securities Yield Curve

The secondary trading yield curve normalization progressed during FY 2025/26, recording a downward shift from previous years as shown in **Figure 10** below. This development was partly attributed to a declining interest rate environment, consistent with the prevailing liquidity in both local and international markets. The 2026 yield curve was steeper in the short end segment but remained relatively stable in the medium to long term segments. The Yield curve had a downward shift in June 2026 from June 2025 reflecting reduced yield and interest rates in local currency debt instruments.

Figure 10: Government of Kenya Securities Yield Curve



Source: Nairobi Securities Exchange (NSE)

5.12 Interest Payments on Domestic Debt

During FY 2025/26, the total interest payments and other charges on domestic debt amounted to KSh 859.8 billion, representing an increase of KSh 83.6 billion from KSh 776.3 billion in the previous fiscal year. This rise was largely attributed to higher interest obligations on Treasury bonds, which increased to KSh 754.9 billion from KSh 677.8 billion in FY 2024/25. Similarly, the discount cost on Treasury bills rose to KSh 98.3 billion from KSh 87.6 billion over the same period. Consequently, the ratio of domestic interest payments to total revenue rose from 32.1 percent in FY 2024/25, to 33.2 percent in FY 2025/26, indicating a growing share of government revenue devoted to debt servicing. Likewise, the ratio of domestic interest payments to GDP increased from 4.5 percent to 4.6 percent in the year, underscoring rising debt service pressures on fiscal sustainability (see **Table 9** below).

Table 9: Interest Payments on Domestic Debt (KSh Million)

Type of Debt	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Treasury Bills	61,374	58,987	70,395	87,560	98,265
Treasury Bonds	389,819	466,396	539,016	677,762	754,945
CBK Commission	3,000	3,000	3,000	3,000	3,000
Pre - 1997 Debt	592	557	524	491	466
Others (Overdraft)	2,064	4,158	9,608	7,444	3,153
Total	456,849	533,098	622,544	776,257	859,829
Nominal GDP	12,752,164	14,274,419	15,826,415	17,434,534	18,642,472
Ordinary Revenue	1,917,911	2,041,119	2,288,921	2,420,174	2,588,401
Ratios					
Domestic Interest/Revenue	23.8	26.1	27.2	32.1	33.2
Domestic Interest/GDP	3.6	3.7	3.9	4.5	4.6

Source: National Treasury/Central Bank of Kenya

CHAPTER SIX: PUBLIC EXTERNAL DEBT

6.1 Introduction

During the financial year ending June 2026, Kenya's total public and publicly guaranteed external debt stock increased by KSh 305.2 billion, or 5.6 percent, to KSh 5,793.7 billion, driven by net external financing of the fiscal deficit. Within this portfolio, multilateral debt grew from KSh 3,045.4 billion at end-June 2025 to KSh 3,180.4 billion by June 2026, underscoring sustained strategic support and endorsement from multilateral institutions. Concurrently, commercial debt obligations rose from KSh 1,312.6 billion to KSh 1,538.7 billion over the June 2025–2026 period—a shift largely driven by increased international sovereign bond borrowing, which grew from KSh 1,022.7 billion to KSh 1,361.4 billion, reflecting the Government's continued access to international capital markets for deficit financing (See Table 10).

Table 10: External Debt Stock by Creditor Type (KSh Million)

Creditor Type	FY 2021/22	FY 2022/23	FY2023/24	FY 2024/25	FY 2025/26
Bilateral	1,105,737	1,257,498	1,092,689	1,032,812	990,065
Multilateral	1,923,444	2,654,934	2,786,948	3,045,391	3,180,402
Commercial	1,113,256	1,349,052	1,178,364	1,312,602	1,538,663
O/w ISB holders	836,610	997,717	854,878	1,022,701	1,361,431
Suppliers' Credit	12,154	14,848	13,537	14,419	14,139
Guaranteed External Debt					
Bilateral	67,532	82,005	71,026	73,551	60,688
Commercial	83,712	88,224	29,139	9,690	9,710
Multilateral	0	0	0		
Total External Debt	4,305,835	5,446,561	5,171,703	5,488,465	5,793,666
In percentage of Total External Debt (%)					
Bilateral	27.2	24.6	22.5	20.2	18.1
Multilateral	44.7	48.7	53.9	55.5	54.9
Commercial	27.8	26.4	23.3	24.1	26.7
O/w ISB holders	19.4	18.3	16.5	18.6	23.5
Suppliers' Credit	0.3	0.3	0.3	0.3	0.2
Total	100	100	100	100	100

Source: National Treasury

During FY 2025/26, the Kenya Shilling remained relatively stable against the US Dollar, while appreciating against the Euro, Sterling Pound and Japanese Yen. However, the Shilling depreciated against the Chinese Yuan over the period under review, as illustrated in **Table 11** below.

Table 11: Exchange rate movement against major currencies

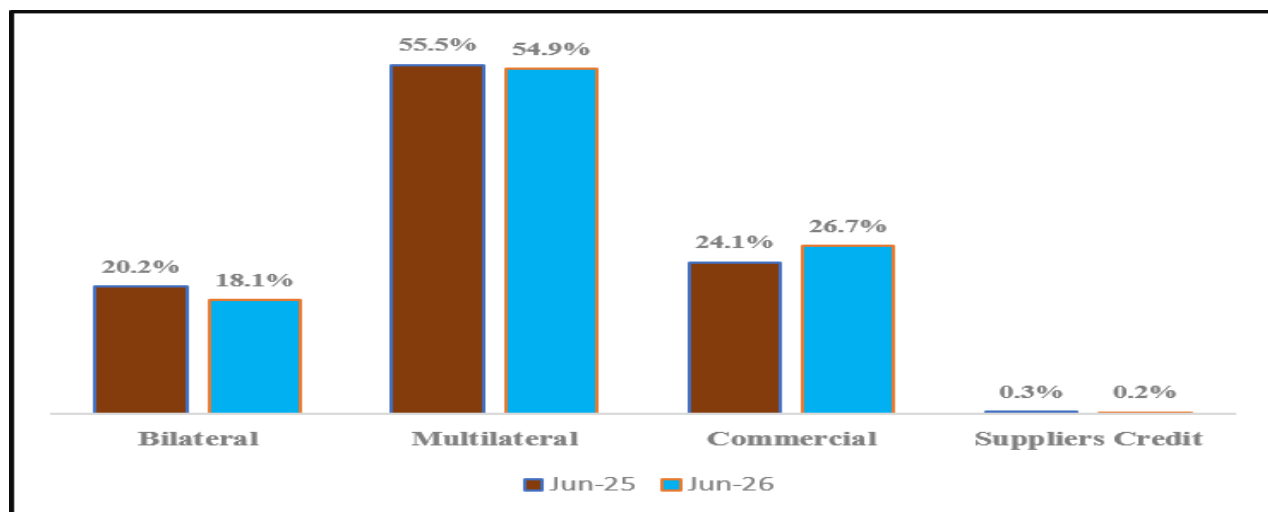
Major Currencies	Exchange rate		Percentage Change
	Jun-25	Jun-26	
US Dollar (USD)	129.2	129.5	0.2
Euro (EUR)	151.7	147.5	-2.8
Sterling Pound (GBP)	177.5	171.3	-3.6
Japanese Yen (JPY)	89.8	79.8	-12.6
Chinese Yuan	18.0	19.1	5.3

Source: Central Bank of Kenya

6.2 External Debt by Creditor Category

As at the end of June 2026, multilateral, bilateral and suppliers' credit decreased to 55.0 percent, 18.1 percent and 0.2 percent, respectively, of the external debt portfolio, compared to 55.5 percent, 20.2 percent and 0.3 percent, respectively, as at the end of June 2025. This represents a reduction in the shares of multilateral, bilateral and suppliers' credit during the period under review. Conversely, the share of external debt owed to commercial creditors increased from 24.1 percent at the end of June 2025 to 26.6 percent at the end of June 2026, reflecting a higher proportion of commercial borrowing in the external debt portfolio.

Figure 11: External Debt by Creditor Category as percentage of external debt for end June 2025



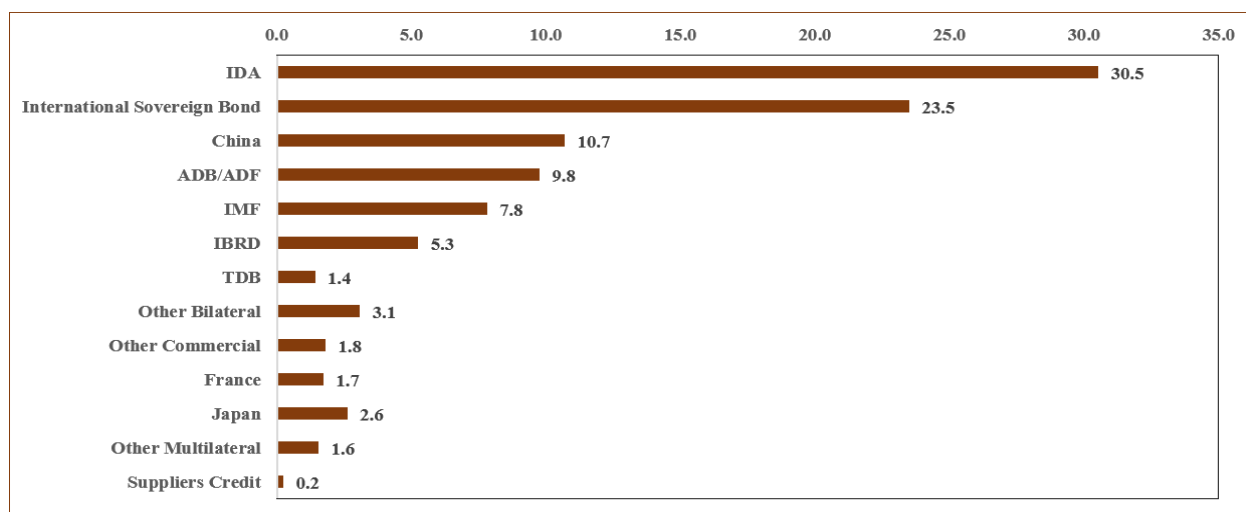
End June 2025 and end June 2026

Source: National Treasury

6.3 External Debt by Major Creditors

As at end of June 2026, Kenya's primary external creditors were the International Development Association (IDA), International Sovereign Bond holders (ISB), and the Government of China (majorly Export, Import Bank of China), accounting for 30.5 percent, 23.5 percent and 10.7 percent of the total external debt, respectively. (See Figure12).

Figure 12: External Debt by Major Creditors

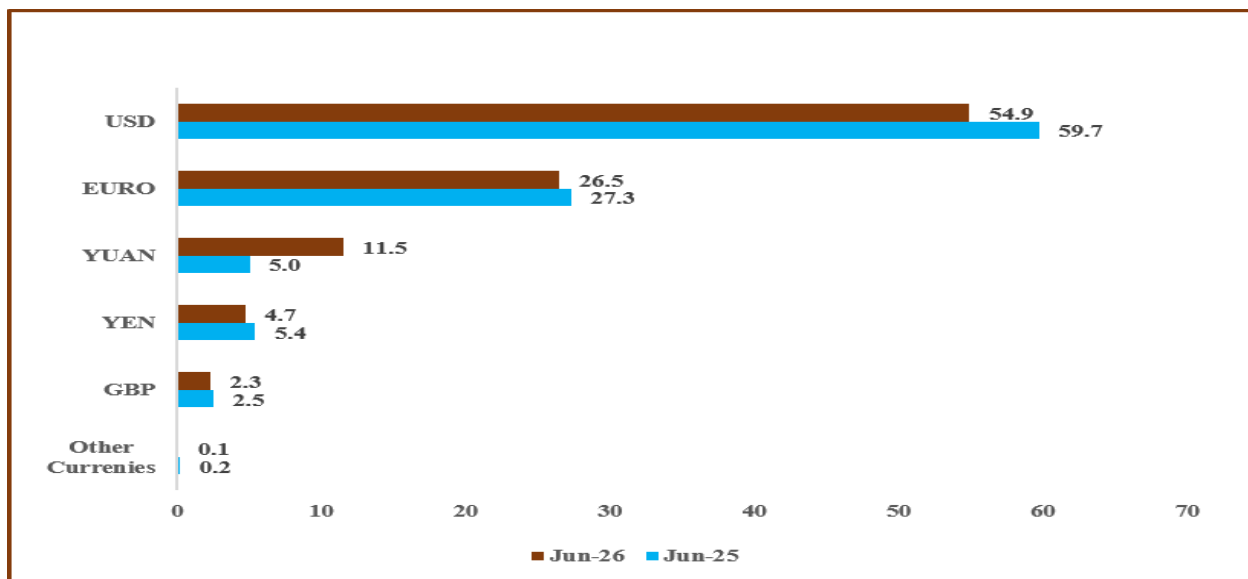


Source: National Treasury

6.4 Currency Composition of External Debt

During the financial year, the US Dollar (USD) dominated currency composition in Kenya's external public debt portfolio. However, the proportion of external debt denominated in USD fell from 59.7 percent in June 2025 to 54.9 percent in June 2026 (See Figure 13). At the same period, the proportion of Yuan denominated debt rose to 11.5 percent from 5.0 percent of the external debt portfolio. The share of external debt in Euro, Yen, Sterling Pound (GBP) and Other Currencies were at 26.5 percent, 4.7 percent, 2.3 percent and 0.1 percent, respectively, as at the end of the period.

Figure 13: Currency Composition of the External Debt Stock (Percentage)



Source: National Treasury

6.5 Maturity Structure of External Debt

During the financial year 2025/26, the proportion of external debt with a remaining maturity of more than 10 years increased from 62.9 percent in the previous financial year to 64.6 percent of the total external debt stock. Over the same period, the share of external debt maturing within 0–1 year declined from 1.5 percent to 0.9 percent, while the proportion with a remaining maturity of 2–5 years increased marginally from 11.5 percent to 12.0 percent. Conversely, the share of external debt with a remaining maturity of 6–10 years declined from 24.1 percent to 22.5 percent. Overall, the maturity profile indicates a shift towards longer-term external debt, thereby reducing near-term refinancing risk (See Table 12).

Table 12: Outstanding External Debt by Remaining Maturity (Percentage)

Maturity Structure (Years)	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26
0-1	0.8	5.6	0.3	1.5	0.9
2-5	11	10.5	11.6	11.5	12.0
6-10	23.1	20.2	23.6	24.1	22.5
Over 10 years	65.1	63.8	64.4	62.9	64.6

Source: National Treasury

6.6 External Debt Service

Multilateral debt service increased from KSh 118.9 billion in June 2025 to KSh 152.4 billion in June 2026. The percentage share of multilateral debt service increased from 20.5 percent in June 2025 to 21.3 percent in June 2026. Bilateral total debt service decreased from KSh 200.6 billion in June 2025 to KSh 174.7 billion in June 2026. The percentage share of bilateral debt service decreased from 34.6 percent in June 2025 to 24.4 percent in June 2026.

Commercial debt service increased from KSh 259.5 billion as at end June 2025 to KSh 389.0 billion as at end June 2026. The increased debt service is attributed to the Eurobond buy-back operations conducted in October 2025 and February 2026, which were financed through new international sovereign bond issuances. Thus, the share of commercial external debt service increased from 44.8 percent in June 2025 to 54.3 percent in June 2026. Commitment fees payments increased from KSh 1.1 billion paid in FY2024/25 to KSh 1.3 billion as at end June 2026.

Table 13: External Debt Service by Creditor Category (KSh Million)

		Jun-22	Jun-23	Jun-24	Jun-25	Jun-26*
Multilateral	Principal	32,249	45,879	52,643	55,433	93,429
	Interest	19,074	30,956	56,801	63,474	58,923
	Sub Total	51,323	76,835	109,444	118,906	152,352
Bilateral	Principal	75,161	116,482	147,464	150,358	132,795
	Interest	27,356	36,930	58,624	50,264	41,945
	Sub Total	102,517	153,413	206,089	200,622	174,740
Commercial	Principal	77,125	86,414	351,997	162,013	278,120
	Interest	74,700	88,342	105,876	97,501	110,893
	Sub Total	151,825	174,757	457,874	259,513	389,012
Grand Total	Principal	184,535	248,776	552,104	367,804	504,344
	Interest	121,130	156,229	221,302	211,238	211,760
	Sub Total	305,665	405,004	773,406	579,042	716,104
As as percentage						
Multilateral		16.8	19.0	14.2	20.5	21.3
Bilateral		33.5	37.9	26.6	34.6	24.4
Commercial		49.7	43.1	59.2	44.8	54.3
Total		100	100	100	100	100

Source: National Treasury

6.7 External Loan Disbursements

During the period under review, external loan disbursements amounted to KSh 771.7 billion. The disbursements comprised KSh 86.1 billion in Project Loans A.I.A, KSh 99.9 billion in Programme Loans, KSh 110.7 billion in Project Loans-Cash, and KSh 475.1 billion in commercial loans. Commercial loans accounted for the largest proportion of total external loan disbursements, amounting to 61.6 percent of the total. This reflects the significant contribution of commercial financing to the overall external borrowing during the period under review as illustrated in **Table 14**.

Table 14: External loans disbursements (KSh Million)

Type of Disbursement	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26*
Project Cash Loans	58,601	61,975	87,444	85,810	110,650
Project Loans A-I-A	92,619	74,245	68,343	64,451	86,110
Projects Loans A-I-A, SGR	0	0	0	0	0
Project Loans A-I-A, SGR-Phase 2A	0	0	0	0	0
Commercial Financing	0	102,218	286,875	253,070	475,071
Programme Loans	175,840	266,885	317,837	113,684	99,860
Total	327,060	505,323	760,499	517,015	771,691
Project Loans	17.9	12.3	11.5	16.6	14.3
Project Cash Loans	28.3	14.7	9.0	12.5	11.2
Project Loans A-I-A	0.0	0.0	0.0	0.0	0.0
Commercial Financing	0.0	20.2	37.7	48.9	61.6
Programme Loans	53.8	52.8	41.8	22.0	12.9

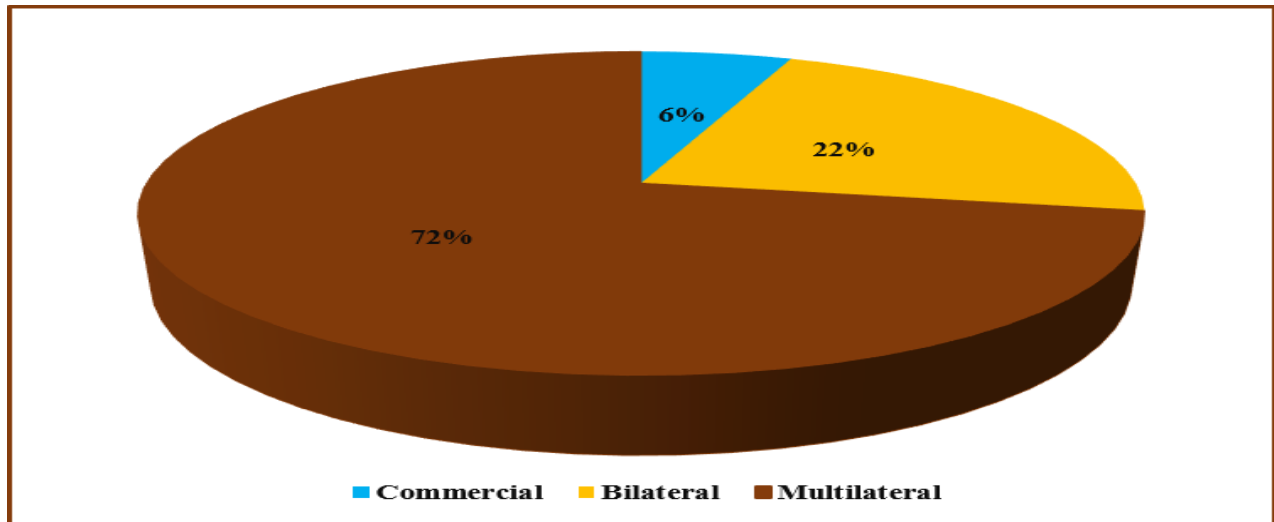
**Provisional*

Source: National Treasury

6.8 New Commitments

During the FY 2025/26 the Government contracted sixteen (16) new external loans amounting to KSh 344.5 billion out of which one (1) was from commercial banks, eight (8) from multilateral and seven (7) from bilateral creditors.

Figure 14: Composition of new external borrowings by Creditor Category



Source: *National Treasury*

Quarterly reports on new borrowing were submitted to Parliament during the financial year and form part of the public debt register.

CHAPTER SEVEN: CONTINGENT LIABILITIES

7.1 Introduction

Contingent liabilities are potential obligations that may require the Government to make payments upon the occurrence of specified future events. In the context of public debt management, these liabilities primarily arise from guarantees issued by the Government in respect of borrowing undertaken by State-Owned Enterprises (SOEs).

During FY 2025/26, the Government of Kenya did not issue any new guarantees. However, existing Government guarantees extended to Kenya Electricity Generating Company PLC (KenGen), Kenya Ports Authority (KPA), and Kenya Airways PLC (KQ) remained outstanding during the period under review. In addition, fourteen (14) SOEs had outstanding non-guaranteed debt obligations.

The Government continues to monitor guaranteed and non-guaranteed debt obligations of SOEs to assess potential fiscal risks and ensure that emerging liabilities are identified and appropriately managed. Details of loans guaranteed by the Government in respect of KenGen, KPA and Kenya Airways

7.2 Government Guaranteed Debt Stock

The stock of Government-guaranteed debt stood at KSh 70,397 million as at end June 2026, representing a substantial decline from KSh 83,241 million recorded at end-June 2025. This represents a reduction of KSh 12,844 million, or 15.4 percent, during the financial year.

The significant decline in the guaranteed debt stock was primarily attributable to the repayment of guaranteed loans during FY 2025/26. The reduction reflects continued efforts to manage fiscal risks arising from contingent liabilities and to limit the accumulation of additional Government guaranteed obligations.

The composition and movements in Government-guaranteed debt during the financial year are presented in Table 15.

Table 15: Stock of Public Guaranteed External Debt by Creditor Category (KSh. Million)

Debt Type	FY2020/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26*
Guaranteed Debt					
Bilateral	67,532	82,005	71,026	73,551	67,943
Commercial	83,712	88,224	29,139	9,690	2,454
Multilateral	0	0	0	0	0
Total	151,244	170,229	100,165	83,241	70,397

Source: National Treasury

The Government has provided guarantee to loans secured by KENGEN, KPA and Kenya Airways as indicated in **Table 16**.

Table 16: list of Guaranteed Stock Balances in FY 2025/2026 (KSh Million)

Agency	Agreement Date/Year	Project	Creditor	Amount
Kenya Electricity Generating Company	1997	Sondu Miriu Hydropower Project	Government of Japan	2,372.8
	2004	Sondu Miriu Hydro Power II	Government of Japan	9,709.5
	2007	Sondu - Miriu Hydropower Project Sangoro Power Plant	Government of Japan	108.3
	2010	Olkaria 1 Unit 4 and 5 Geothermal Power Project	Government of Japan	72.2
	2021	DSSI Japan For KenGen Loans Phase I	Government of Japan	13,349.2
	2021	DSSI Japan For KenGen Loans Phase II	Government of Japan	4,971.0
Kenya Ports Authority	2007	Mombasa Port Development Programme (Mombasa Port A)	Government of Japan	233.7
	2007	Mombasa Port Development Programme (Mombasa Port)	Government of Japan	13,159.6
	2015	Kenya Port Development Project - Phase II (Principal IIA)	Government of Japan	348.9
	2015	Kenya Port Development Project - Phase II (Principal I)		269.9
	2021	DSSI Japan-Kenya Ports Authority (KE-P25) - Phase I	Government of Japan	21,888.4

Agency	Agreement Date/Year	Project	Creditor	Amount
	2021	DSSI Japan-Kenya Ports Authority (KE-P25) - Phase II	Government of Japan	1,459.6
Kenya Airways	2017	Kenya Airways Guarantee (for Local Banks)	MTC Trust & Corporate Services Limited (Security Agent for Local Banks)	2,453.9
Total				70,397.1

Source: National Treasury

7.3 State Corporations Non-Guaranteed Debt

State Corporations are legal entities established by the Government under the State Corporations Act, by an Act of Parliament, or under the Companies Act where the Government holds all or most of the shares. The entities are mandated to provide public goods, implement the Government's development agenda, policies and projects within the social, business and commercial sectors of the economy.

As part of ongoing public debt management reforms, the Government continues to strengthen the reporting and monitoring of non-guaranteed debt contracted by State Corporations. Inclusion of such debt in public debt reporting enhances transparency, accountability and assessment of fiscal risks arising from borrowing by Government-controlled entities.

As at 30th June 2026, eleven (11) State Corporations reported non-guaranteed debt amounting to KSh 62,013 million. This represents an increase of KSh 17,144 million, or 38.2 percent, from KSh 44,869 million reported as at 30th June 2025. The increase reflects higher outstanding borrowing among several State Corporations, particularly entities in the agriculture, energy and petroleum, roads and transport and forestry sectors.

The distribution of the outstanding non-guaranteed debt by State Corporation is presented in **Table**

17 below.

Table 17: Outstanding Non-Guaranteed Public Debt as at 30th June 2026 (KSh Million)

No.	State Corporation/Agency		Lender	Borrowing Currency	Amount Borrowed (Original Currency Millions)	Amount Outstanding, June 2026 (In KSh. Million)
1	Agricultural Corporation	Development	KCB Bank Kenya	KSH.	340	171
2	Geothermal Company	Development	Co-operative Bank	USD	29	806
3	Kenya Airports Authority		World Bank	USD	15	186.4
			World Bank	USD	34.8	1,685
			AFD (MIA)	USD	147.9	7,776
4	Kenya Electricity Generating Company PLC (KENGEN)		ABSA Bank	USD	80	9,324
			AFD	EUR	3	443
5	Kenya Ports Authority		Stanbic Bank	USD	50	3,821
			Stanbic Bank	USD	40	4,360
6	Kenya Power & Lighting Company		NCBA Bank Kenya	KSH.	6,750	3,100
7	National Cereals and Produce Board		KCB Bank Kenya - Fertilizer Loan	KSH.	13,938	13,938
8	National Oil Corporation of Kenya		KCB Bank Kenya	KSH.	4,698	3,000
			Stanbic Bank	KSH.	1,304	2,918
9	New Kenya Creameries Cooperative		Co-operative Bank	KSH.	504	78
			Co-operative Bank	KSH.	400	33
			Co-operative Bank	KSH.	500	299
			Co-operative Bank	KSH.	796	492
10	Nyayo Tea Zones Development Corporation		Credit Bank	USD	3	296
			UBA Kenya Bank	USD	1	33
11	Kenya Forest Service		French Government	EUR	22	3,252
			Africa Development Bank	EUR	5	769
			Africa Development Fund	UA	30	5,233
	Total					62,013

Source: National Treasury

The National Cereals and Produce Board (NCPB) had the largest stock of non-guaranteed debt at KSh 13,938 million, representing 22.5 percent of the total. This was followed by Kenya Electricity Generating Company PLC (Kengen) at KSh 9,767 million (15.8 percent), Kenya Airports Authority (KAA) at KSh 9,647 million (15.6 percent), Kenya Forest Service (KFS) at KSh 9,254 million (14.9 percent) and Kenya Ports Authority (KPA) at KSh 8,181 million (13.2 percent).

The five largest borrowers therefore accounted for 81.9 percent of the total outstanding non-guaranteed debt, indicating a high concentration of non-guaranteed borrowing among a few State Corporations. The remaining six entities accounted for approximately 18.1 percent of the portfolio.

The concentration is particularly notable in the energy and infrastructure-related entities. Kengen, KPLC, GDC and NOC collectively accounted for KSh 19,591 million, equivalent to approximately 31.6 percent of the total non-guaranteed debt. This underscores the importance of closely monitoring the financial performance and debt-servicing capacity of State Corporations operating in the energy and petroleum sector.

7.4 Analysis of Non-Guaranteed Debt by Sector

Sector analysis indicates that the largest stock of non-guaranteed debt was held by the Energy and Petroleum sector, with outstanding debt of approximately KSh 19,591 million, representing 31.6 percent of the total portfolio. This was followed by the Roads and Transport sector, with KSh 17,828 million (28.7 percent), comprising debt held by Kenya Airports Authority and Kenya Ports Authority.

The agriculture sector accounted for approximately KSh 15,340 million, representing 24.7 percent of the total. The Forestry/Environment sector, represented by Kenya Forest Service, accounted for KSh 9,254 million (14.9 percent).

Table 18: Outstanding Non-Guaranteed Debt by Sector as at 30th June 2026 (KSh Million)

Sector	Outstanding Balance	% of Total
Energy and Petroleum	19,591	31.6
Roads and Transport	17,828	28.7
Agriculture	15,340	24.7
Forestry/Environment	9,254	14.9
Total	62,013	100.0

Source: National Treasury

The sectoral distribution demonstrates that non-guaranteed debt remains concentrated in energy and petroleum, roads and transport, agriculture, and forestry, which together account for the entire reported portfolio. The relatively high exposure in these sectors reflects the capital-intensive nature of the activities undertaken by the respective State Corporations, including energy generation, airport and port infrastructure, strategic food reserves and forestry-related programmes.

The increase in the outstanding non-guaranteed debt from KSh 44,869 million in FY2024/2025 to KSh 62,013 million in FY2025/2026, equivalent to 38.2 percent, warrants enhanced monitoring given that such borrowing, although not explicitly guaranteed by the Government, may present contingent fiscal risks where State Corporations experience difficulties in servicing their obligations.

In particular, the high concentration of debt among a small number of entities calls for strengthened assessment of their debt-servicing capacity, cash-flow positions and financial sustainability. Continued monitoring of the borrowing activities of State Corporations is therefore necessary to ensure that non-guaranteed borrowing remains within sustainable levels and does not crystallize into direct fiscal obligations for the Government.

The Government's efforts to improve the collection, verification and reporting of State Corporations' debt data through enhanced public investment and debt management systems will further support comprehensive assessment of fiscal risks arising from non-guaranteed borrowing.

7.5 On-Lent and GoK Direct Loans

As at 30th June 2026, the cumulative stock of On-Lent and GoK Direct Loans stood at KSh 1,041,304 million, compared to KSh 1,051,177 million as at 30th June 2025, representing a decrease of KSh 9,873 million (1 percent). The decline in the outstanding portfolio was mainly attributable to repayments and loan write-offs approved through Cabinet Memoranda, which, cumulatively, exceeded new loan disbursements during the year. This resulted in a net reduction in the outstanding loan portfolio despite additional disbursements during FY 2025/2026.

Cumulative loan disbursements increased from KSh 1,128,045 million in FY 2024/2025 to KSh 1,145,285 million in FY 2025/2026, representing an increase of KSh 17,240 million (1.5 percent). During the same period, cumulative repayments increased significantly from KSh 76,932 million to KSh 91,304 million, representing an increase of KSh 14,372 million (18.7 percent). When measured against cumulative disbursements, the repayment rate improved from approximately 6.8 percent in FY 2024/2025 to 8.0 percent in FY 2025/2026. Notwithstanding this improvement, the repayment level remains relatively low compared to the overall loan portfolio, indicating continued challenges in loan recovery and debt servicing.

The portfolio remains highly concentrated in Kenya Railways Corporation, whose outstanding loan balance remained unchanged at KSh 547,378 million in both FY 2024/2025 and FY 2025/2026. Consequently, its share of the total portfolio increased marginally from approximately 52 percent to 53 percent, due to the overall reduction in the portfolio. This continued concentration exposes Government to significant fiscal risk arising from the non-servicing of a substantial portion of the loan portfolio by a single state corporation. The previous year's report similarly identified the Kenya Railways exposure as a major concentration risk.

7.6 Loans Written off through Cabinet Approval in FY 2025/2026

During FY 2025/2026, a few non-performing Government loans were written off following Cabinet approval. The write-offs were undertaken as part of efforts to clean up the National Treasury's loan records, address long-outstanding audit queries and facilitate implementation of Public Accounts Committee (PAC) recommendations on non-performing Government loans. The Cabinet Memorandum established that the non-performing and dormant loans had remained

outstanding for many years, in some cases dating back to the 1970s, largely due to financial constraints, cessation of operations, lack of proper or traceable loan documentation, disputes between the National Treasury and borrowing entities regarding implementation terms, changes in the law including transfer of functions and liabilities to County Governments and collapse of projects or sectors for which the loans had been advanced.

The Memorandum further categorised the loans proposed for write-off into entities facing financial challenges; collapsed, liquidated or defunct entities; entities with disputed loan balances due to lack of supporting documentation; irredeemable loans; and loans whose underlying projects or sectors had collapsed. These circumstances had made recovery of some of the loans impracticable and resulted in the accumulation of long-outstanding balances and unresolved audit queries. In accordance with Sections 69 and 77 of the Public Finance Management Act, 2012 and the PFM Regulations, Cabinet approval was sought to authorize the write-off where reasonable efforts had been made to recover the amounts.

The Cabinet was accordingly requested to approve the write-off of KSh 13,289.5 million in non-performing Government principal loans and the waiver of KSh 13,040.0 million in accrued interest arrears. The entities identified in the Memorandum included, among others, Catering Levy Trustee/Kenya Utalii College, Kenya Meat Commission, Moi University, National Irrigation Board, National Water Conservation and Pipeline Corporation, Agro Chemical Company, Halal Meat Products, Kenya Urban Transport Various Towns, Local Government Loans Authority, Mombasa Pipeline Board, Mumias Outgrowers Company Limited, Agricultural Settlement Fund and Central Land Board, Kenya Development Corporation and Co-operative Bank of Kenya Limited.

This explains why the affected entities in the FY 2025/2026 debt schedule nil outstanding balances have: the balances were extinguished through the Cabinet-approved write-off process and should therefore not be construed as amounts fully repaid by the respective borrowers.

Table 19: Comparative Summary of Outstanding On-Lent and GoK Direct Loans as at 30th June 2025 and 30th June 2026 (KSh Million)

	TO WHOM LENT	AMOUNT DISBURSED	AMOUNT REPAID/	LOAN BALANCE AS AT 30TH JUNE 2026	LOAN BALANCE AS AT 30TH JUNE 2025
		<u>Ksh</u>	<u>Ksh</u>	<u>Ksh</u>	<u>Kshs</u>
1	Agricultural Finance Corporation	1,703	197	1,507	1,387
2	Agricultural Settlement Fund and Central Land Board.	126	52	-	74
3	Agro-chemical & food Company Ltd	2,942	-	2,942	2,942
4	Athi Water Works Development Agency	62,485	657	61,957	61,957
5	Catering Levy Trustee/Kenya Utalii College	140	18	-	122
6	Central Rift Valley Water Works Development Agency	5,331	302	5,028	4,922
7	Coast Water Works Development Agency	18,887	-	18,887	16,862
8	Co-operative Bank of Kenya Ltd	339	72	-	267
9	East Africa Portland and Cement Ltd	1,943	-	1,943	1,943
10	Eldoret Water & Sanitation Co. Ltd	1,059	872	187	210
11	Equity Bank Ltd	534	256	279	190
12	Halal Meat Products	28	-	28	28
15	Kenya Airports Authority	2,995	2,111	884	1,091
16	Kenya Airways PLC	122,952	-	122,952	122,952
17	Kenya Civil Aviation Authority	2,726	1,608	1,117	1,300
18	Kenya Development Corporation	8,171	332	7,839	3,682
19	Kenya Electricity Generating Co. Ltd.	133,562	57,772	75,791	82,576
20	Kenya Electricity Transmission Co. Ltd.	2,833	472	2,361	2,458
21	Kenya Meat Commission	940	-	-	940
22	Kenya Mortgage Refinance Company	34,129	-	34,129	30,814
23	Kenya Power and Lighting Co.				

	TO WHOM LENT	AMOUNT DISBURSED	AMOUNT REPAID/	LOAN BALANCE AS AT 30TH JUNE 2026	LOAN BALANCE AS AT 30TH JUNE 2025
	Limited	98,242	25,566	72,676	73,379
24	Kenya Railways Corporation	547,378	-	547,378	547,378
25	Kenya Urban Transport Various Towns	41	-	-	41
26	Kenyatta University	10,774	-	10,774	10,774
27	Kilifi Mariakani Water & Sewerage Co. Ltd	1,691	-	1,691	1,256
28	Kwale Water & Sewerage Co. Ltd	2,773	-	2,773	1,385
29	Lake Basin Development Authority (LBDA)	2,000	-	2,000	2,000
30	Lake Victoria North Water Works Development Agency	16,582	97	16,486	16,156
31	Lake Victoria South Water Works Development Agency	9,839	5	9,834	9,692
32	Local Government Loans Authority	7,689	95	-	7,594
33	Malindi Water, Sewerage & Sanitation Co. Ltd	1,857	-	1,857	1,584
34	Moi University	250	19	-	231
35	Mombasa Pipeline Board	63	40	-	23
36	Mombasa Water & Sanitation Co. Ltd	1,850	-	1,850	1,301
37	Mumias Outgrowers Company Limited	43	27	-	17
38	Mumias Sugar Company Limited	3,000	-	3,000	3,000
39	Nairobi City Council	123	21	102	102
40	National Irrigation Board	1,128	-	-	1,128
41	National Water Conservation and Pipeline Corporation	2,461	-	-	2,461
42	Northern Water Works Development Agency	4,728	-	4,728	4,227
43	Nyeri Water and Sewerage Company	1,160	857	303	353
44	Rural Electrification & Renewable Energy Company	13,589	-	13,589	13,589
45	Tana Water Works Development Agency	9,270	-	9,270	8,887

	TO WHOM LENT	AMOUNT DISBURSED	AMOUNT REPAID/	LOAN BALANCE AS AT 30TH JUNE 2026	LOAN BALANCE AS AT 30TH JUNE 2025
46	Tanathi Water Works Development Agency	5,375	-	5,375	5,375
47	Tavevo Water & Sewerage Co. Ltd	1,555	-	1,555	964
48	Uchumi Supermarkets Limited	1,200	-	1,200	1,200
49	Water Resource Management Authority	363	6	357	363
	Total	1,148,851	91,453	1,044,629	1,051,177

7.7 On-lent and GoK Direct Loans (Arrears)

As at end June 2026, loan arrears comprising both principal and accrued interest amounted to KSh 563,873 million. Principal arrears amounted to KSh 371,465 million, while accrued interest arrears amounted to KSh 192,408 million.

Of the total arrears, KSh 473,167 million relates to the Kenya Railways Corporation, comprising KSh 322,533 million in principal and KSh 150,635 million in interest. This represents approximately 84 percent of total loan arrears and indicates a significant concentration of Government's recovery risk in a single borrower and infrastructure project.

Arrears in the water sector, based on the water-sector entities identified in the supplied schedule, amounted to approximately KSh 40,176 million. The continued accumulation of arrears in the sector constrains the debt-servicing capacity of the affected entities and may further weaken the financial sustainability of water sector institutions.

In view of the above, there is need to strengthen loan recovery and monitoring mechanisms, including closer follow-up of repayment obligations, timely engagement with beneficiary entities, and development of appropriate debt restructuring or recovery measures where necessary. For the water sector, stronger enforcement of remittance obligations, clearer intergovernmental financing arrangements and appropriate restructuring of sector debt should be considered to align debt-service obligations with available revenue flows.

7.8 PPP Related Contingent Liabilities

Based on the negotiated project agreements for PPPs within the directorate, the key contingent liability is termination payments. The termination clauses for the PPP projects vary depending on the negotiated project agreements. Assuming the worst-case scenario of termination of PPP projects due to Contracting Authority default the maximum termination sums as at financial close for executed projects have been reported as the contingent liability.

Given that the cut-off date requested on the memo is end June 2026, termination sums for PPP projects that had achieved commercial close as at June 2026 have been indicated as follows:

Table 20 : Related Contingent Liabilities as at 30 June 2025

Project Name	Contracting Authority	Project Stage	Project Cost KES (Million)	Estimated Termination Payment KES (Million)
Roads				
Lot 33 Roads Annuity Project	KeRRA	Operations and Maintenance	9,883	5,056
Nairobi Expressway	KeNHA	Operations and Maintenance	70,783	87,579
Lot 15 Roads Annuity Project	KURA	Operations and Maintenance	8,117	8,487
Lot 18 Roads Annuity Project	KURA	Construction	6,397	7,195
Rironi-Gilgil (A8) and Rironi-Maai Mahiu-Naivasha (A8 South) Road	KeNHA	Commercial Close	96,382	93,379
Gilgil-Nakuru-Mau Summit Highway (A8) Road	KeNHA	Commercial Close	86,346	95,563
Energy				
40 MW Malindi Solar Power Plant Project	Kenya Power	Operations and Maintenance	8,440	12,261
40 MW Cedate Solar Power Project	Kenya Power	Operations and Maintenance	8,189	9,946
50 MW Chania Green Wind Power Project	Kenya Power	Operations and Maintenance	12,978	14,706
40 MW Selenkei Solar Power Project	Kenya Power	Operations and Maintenance	8,446	10,372
35MW Sosian Menengai Geothermal Power Plant	Geothermal Development Company	Operations and Maintenance	11,699	11,518

35MW Quantum Menengai Geothermal Power Plant	Geothermal Development Company	Construction Operations and Maintenance	15,113	14,789
35MW Orpower Menengai Geothermal Power Plant	Geothermal Development Company	Construction	11,596	13,860
• 400kV Lessos-Loosuk & • 220kV Kisumu (Kibos)-Kakamega-Musaga Transmission Line PPPs	KETRACO	Commercial Close	40,489.8	43,943
Housing				
11.Kenya Defence Residential Accommodation	Ministry of Defence	Construction	4,346.7	3,570
Food Security				
12. Galana Kulalu Food Security	NIA & ADC	Commercial Close	10,039.3	15,401
Total			409,245	447,625

Therefore, the total estimated exposure related to termination sum payments amounts to KSh 447 billion. However, it should be noted that the likelihood of occurrence, value, and timing of such termination payments cannot be determined with certainty in advance. Furthermore, it is unlikely that all projects will be terminated simultaneously, resulting in the aggregate termination sum becoming due at once.

As such, based on an assumed 6% probability of termination by the Contracting Authorities as recommended by World Bank, the maximum contingent liability for the PPP projects is reported as KSh 26 billion.

7.9 Other Government Disclosures of Asset-Backed and Revenue-Linked Financing Structures

Kenya has increasingly explored innovative financing structures that leverage future revenue streams and infrastructure-related cash flows to mobilize long-term financing for major public projects. Examples include the financing of the Talanta Sports City Stadium, the securitization of the Roads Maintenance Levy Fund revenues by the Kenya Roads Board, and the ring-fencing of Tourism Levy revenues to support the development of the Bomas of Kenya International Convention Complex.

Talanta Sports City Stadium – Linzi 003 Infrastructure Asset-Backed Security

The Talanta Sports City Stadium project is being financed through an Infrastructure Asset-Backed Security (IABS) issued as secured Medium-Term Notes under the Linzi Infrastructure Asset-Backed Securities Programme. The security is backed by future revenue flows assigned from the Sports, Arts and Social Development Fund (SASDF), primarily derived from betting, gaming taxes and related levies. The financing associated with the project is reported at approximately Ksh 44.791 billion.

Kenya Roads Board – Roads Maintenance Levy Fund Securitization

The Kenya Roads Board (KRB) has utilized a future-flow securitization structure involving the Roads Maintenance Levy Fund (RMLF). The arrangement involves the securitization of ring-fenced levy revenues, with initial bridge financing provided by commercial banks and specified collection rights subsequently assigned to a Special Purpose Vehicle (SPV) managed by KRB. The financing is intended to be refinanced through infrastructure bonds listed on the Nairobi Securities Exchange (NSE), with repayment supported by dedicated Roads Maintenance Levy revenues.

The overall project cost is estimated at approximately Ksh 300 billion, comprising a first bond of Ksh 175 billion and a second bond of approximately Ksh 125 billion.

Bomas of Kenya International Convention Complex – Tourism Levy Ring-Fencing

The development of the Bomas of Kenya International Convention Complex (BICC) is being undertaken through a Public-Private Partnership (PPP) structure based on a “plan, design, finance, construct, operate and transfer” model. Under the proposed arrangement, the hospitality and commercial components are expected to be financed by the private sector, while the Government finances the core convention centre component. The financing structure incorporates revenue ring-fencing through the allocation of Tourism Levy revenues as a repayment and/or credit-enhancement pool to improve the project’s bankability. The overall project cost is estimated at approximately Ksh 42 billion, with the first phase estimated at approximately Ksh 31.5 billion.

CHAPTER EIGHT: PUBLIC DEBT SUSTAINABILITY

8.1 Introduction

As at end-June 2026, Kenya's total public debt stood at KSh 13,120.9 billion, equivalent to 70.4 percent of GDP. The National Treasury continues to implement fiscal consolidation measures aimed at narrowing the fiscal deficit, containing debt growth, and restoring sustainability while safeguarding macroeconomic stability and supporting inclusive growth.

The Public Debt Management Office's analysis confirms debt remains sustainable under baseline conditions, though at high risk of distress. Sustained revenue mobilisation, expenditure restraint, concessional financing, and active liability management will be critical to lowering debt ratios toward benchmark levels and reinforcing investor confidence.

8.2 Assumptions underlying the Debt Sustainability Analysis (DSA)

Kenya's economy remained resilient, expanding by 5.3 percent from 4.7 percent the year before, driven by services, agriculture recovery, and industry. Inflation eased to 4.8 percent, comfortably within target. Revenues strengthened to 17.5 percent of GDP against expenditures of 22.5 percent, narrowing the deficit to 6.8 percent and delivering a primary surplus of 1.0 percent.

The financial sector provided a stable anchor, with adequate liquidity, sound banking conditions, and a gradual recovery in private sector credit. Credit growth aligned with nominal GDP expansion, supporting investment financing while preserving price stability. Broad money growth remained consistent with macro fundamentals, ensuring liquidity without fueling inflation. Investor confidence was reinforced by resilient domestic debt issuance, though vigilance is required to avoid crowding out private credit or heightening foreign currency exposures.

Looking ahead, growth is projected to hold at 5.3 percent, inflation near 4.8 percent, and fiscal consolidation to continue with revenues averaging 16.7–17.5 percent of GDP and expenditures trending down toward 20 percent. The overall deficit is expected to narrow below 3 percent by FY 2029/30, with sustained primary surpluses supporting debt stabilization. Under these conditions, the PV debt-to-GDP ratio is projected to ease toward 62–63 percent, reinforcing sustainability while safeguarding macroeconomic stability and investor confidence

8.3 Debt Carrying Capacity Indicator

Kenya's debt carrying capacity remains classified as Medium, with an estimated Composite Indicator (CI) of **3.01**.

Table 21: Kenya's Debt Carrying Capacity Classification

	May 2020	Mar 2021	Dec 2021	Dec 2022	June 2023	Dec 2023	Nov 2024	Jun- 2026
Debt Carrying Capacity	Strong	Medium	Medium	Medium	Medium	Medium	Medium	Medium
Composite Index (CI)	3.12	3.01	3.04	3.02	2.98	3.01	3.02	3.01

Source: IMF Country Reports, National Treasury

The Composite Indicator (CI) is a weighted index that captures the combined effects of institutional quality, real GDP growth, remittance inflows, international reserve adequacy, and global economic growth in assessing a country's debt-carrying capacity.

To strengthen Kenya's debt-carrying capacity and attain a Composite Indicator (CI) score above the 3.05 threshold required for classification as a country with strong debt-carrying capacity, sustained fiscal consolidation and structural reforms remain essential. This will require maintaining fiscal deficits at levels consistent with economic growth, strengthening domestic revenue mobilisation, and enhancing export performance to improve external resilience and create additional fiscal space.

8.4 External Debt Sustainability Analysis

Kenya's external debt sustainability analysis for 2025/26 confirms a high risk of external debt distress, though indicators show gradual improvement. The present value of PPG external debt to GDP stood at 27.5 percent, well below the 40 percent threshold, reflecting liability management operations.

Vulnerabilities remain against exports and revenue. The PV of debt to exports ratio was 167.5 percent, just under the 180 percent ceiling, while debt service to exports reached 18.3 percent, above the 15 percent limit. The debt service to revenue ratio improved to 17.6 percent, returning

within the 18 percent threshold for the first time in this cycle. These shifts highlight the impact of revenue mobilisation and liability management in moderating service pressures, even as the export base remains narrow.

Across the projection horizon, all indicators improve. By 2029, the PV of debt to GDP is expected to fall to 24.6 percent, debt to exports to 145.1 percent, debt service to exports to 15.9 percent, and debt service to revenue to about 16 percent. These paths reflect revenue-led consolidation, expenditure prioritisation, a concessional borrowing mix, and stronger export earnings.

Kenya's external debt remains sustainable but vulnerable to exports and revenue shocks. Concentrated service obligations and foreign currency exposure sustain high distress risk, yet the consistent downward trajectory signals a credible path to sustainability. Continued fiscal discipline, export diversification, and transparent debt reporting will be critical to reinforce accountability, investor confidence, and convergence toward thresholds by 2029.

Table 22: Kenya's External Debt Sustainability Analysis

Indicators	Threshold	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: National Treasury

8.5 Total Public Debt Sustainability Analysis

Kenya's debt position in FY 2025/26 remained high but stable. The PV debt-to-GDP ratio stood at 65.6 percent, above the 55 percent benchmark, while the PV debt-to-revenue and grants ratio was 379 percent, down from 380 percent in 2025 and 392 percent in 2024.

Projections show gradual improvement: the PV debt-to-GDP ratio is expected to ease to 62.1 percent by 2030, with the PV debt-to-revenue ratio stabilising near 365 percent. This trajectory reflects steady 5.3 percent growth, inflation anchored around 4.8 percent, and sustained primary surpluses, reinforcing debt sustainability under continued fiscal consolidation and prudent management.

Table 23: Kenya's Public Debt Sustainability Analysis

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

Source: National Treasury

8.6 Improving Debt Sustainability

Kenya's overall and external public debt remains sustainable but at high risk of distress. To mitigate debt-related vulnerabilities, the National Treasury is advancing fiscal reforms aimed at reducing deficits through revenue mobilisation and expenditure rationalization measures and slowing debt accumulation. The fiscal deficit has declined from 5.6 percent of GDP in FY 2022/23 to 5.3 percent in FY 2023/24, before rising temporarily to 5.8 percent in FY 2024/25. In the period under review, the overall budget deficit stood at 6.8 percent of the GDP. The trajectory thereafter points to further improvement, with the deficit projected at 4.9 percent in FY 2026/27, 3.8 percent in FY 2027/28, and 3.5 percent in FY 2028/29. (see **Table 23**).

Table 24: Kenya's fiscal Deficit over the medium term

Fiscal Deficit	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Balance inclusive of grants (cash basis) as a % of GDP	5.6	5.3	5.8	6.8	4.9	3.8

Source: National Treasury

CHAPTER NINE: PUBLIC DEBT RISKS MANAGEMENT

9.1 Introduction

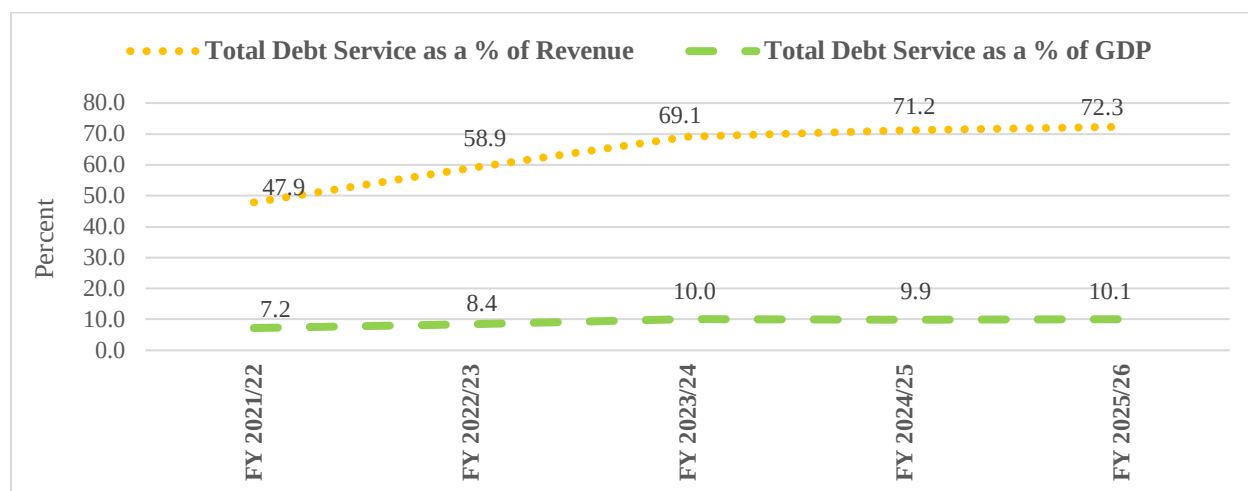
In line with Section 15(2)(e) of the PFM Act, Cap. 412A, the National Treasury is required to ensure prudent management of fiscal risks while adhering to established fiscal responsibility principles. Additionally, Section 33(3)(c) obligates the National Treasury to formulate the Medium-Term Debt Management Strategy (MTDS) and provide an assessment of the key risks arising from loans and guarantees. MTDS seeks to ensure that Government financing requirements are met at the lowest possible cost while maintaining risks at prudent levels. The Strategy evaluates the cost and risk implications of alternative borrowing options and identifies the mix that best supports fiscal consolidation and debt sustainability.

Consistent with these provisions, the National Treasury continues to actively monitor, manage, and disclose risks associated with public debt. MTDS is designed to address key vulnerabilities in public debt portfolio, particularly market-related risks such as refinancing and rollover pressures, fluctuations in interest and exchange rates, as well as constraints in accessing diversified sources of financing. The cost of public debt is driven by factors such as interest expenses, principal repayments, exchange rate movements and various borrowing-related charges, including commitment fees, upfront fees, insurance premiums and arrangement or management fees. In addition, costs may arise from contingent liabilities associated with government guaranteed debt.

9.2 Debt Service as a Percentage of Revenue and GDP

The ratio of debt service to revenue increased from 71.2 percent in FY 2024/25 to 72.3 percent in FY 2025/26, underscoring heightened fiscal pressure as a larger share of government revenues was allocated to debt repayments. The increase reflects rising borrowing costs and the impact of currency depreciation on external debt obligations. Similarly, debt service relative to GDP has continued to rise gradually over the years, pointing to a sustained increase in the economy's debt servicing requirements as shown in **Figure 15 below**.

Figure 15: Debt Service as a percentage of Revenue and GDP

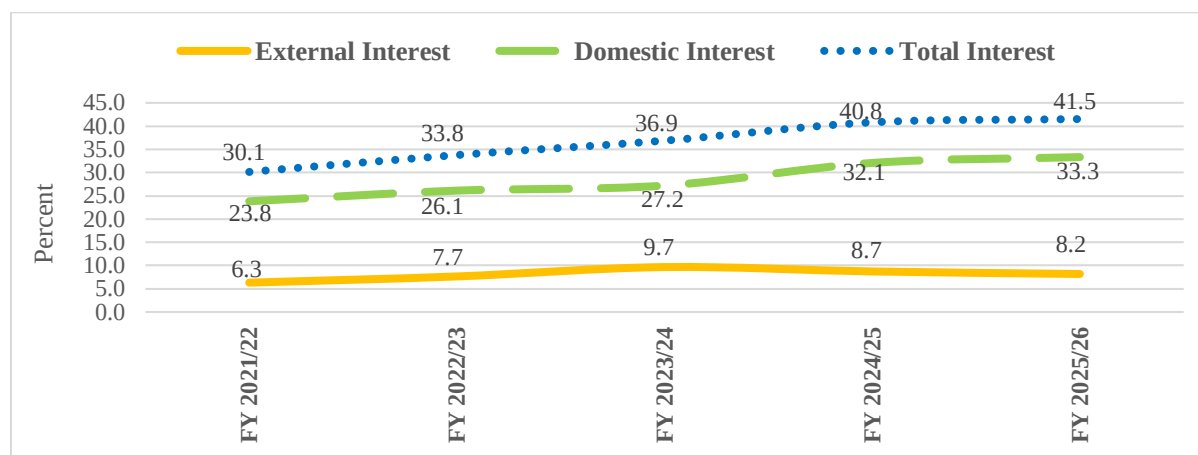


Source: National Treasury

9.3 Interest Payment as a percentage of Revenue

Total interest payments as a share of government ordinary revenue increased from 40.8 percent in FY 2024/25 to 41.5 percent in FY 2025/26, indicating that a larger proportion of revenue was required to meet interest obligations on public debt. The increase was driven by elevated interest rates on domestic debt instruments, which raised the cost of borrowing and refinancing maturing debt, as well as the depreciation of the Kenya Shilling against major currencies, which increased the local currency cost of servicing external debt. In addition, the continued growth in the public debt stock contributed to higher interest expenditures, reflecting increased debt servicing pressures (see figure 16 below).

Figure 16: Interest Payments as a percentage of Revenue

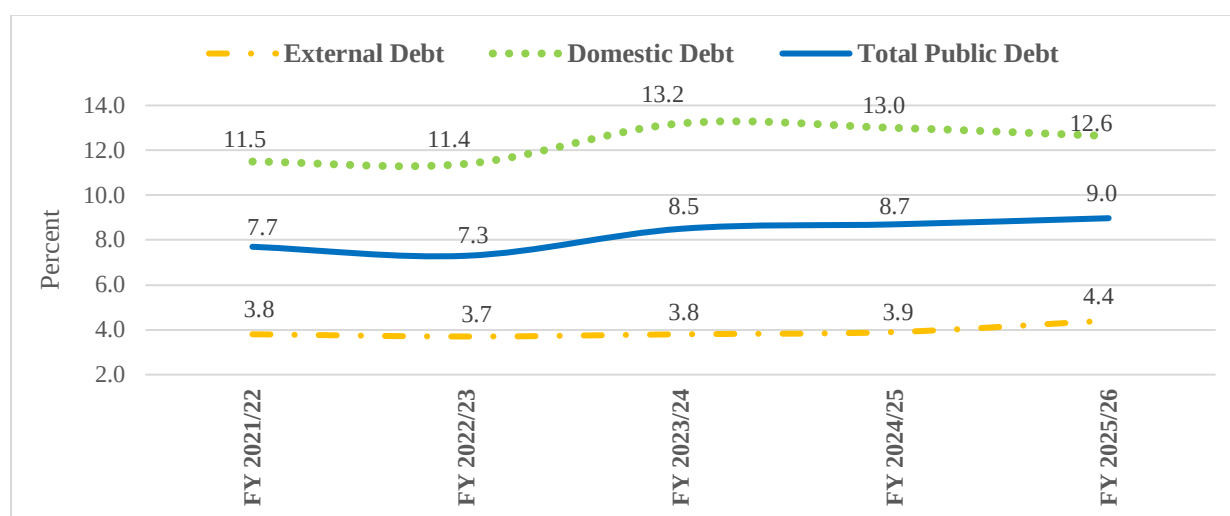


Source: National Treasury

9.4 Weighted Average Interest Rate

The average cost of public debt increased further in FY 2025/26, with Weighted Average Interest Rate (WAIR) on total public debt rising to 9.0 percent from 8.7 percent in the previous year. The increase was mainly attributable to a sharp rise in the cost of external debt, which grew by 12.8 percent, reflecting exchange rate pressures and higher international interest rates. Although the cost of domestic debt declined by 3.1 percent, the increase in external financing costs outweighed these savings, leading to a higher overall debt servicing burden (see **Figure 17 below**).

Figure 17: Trend on Weighted Average Interest Rate of Public Debt

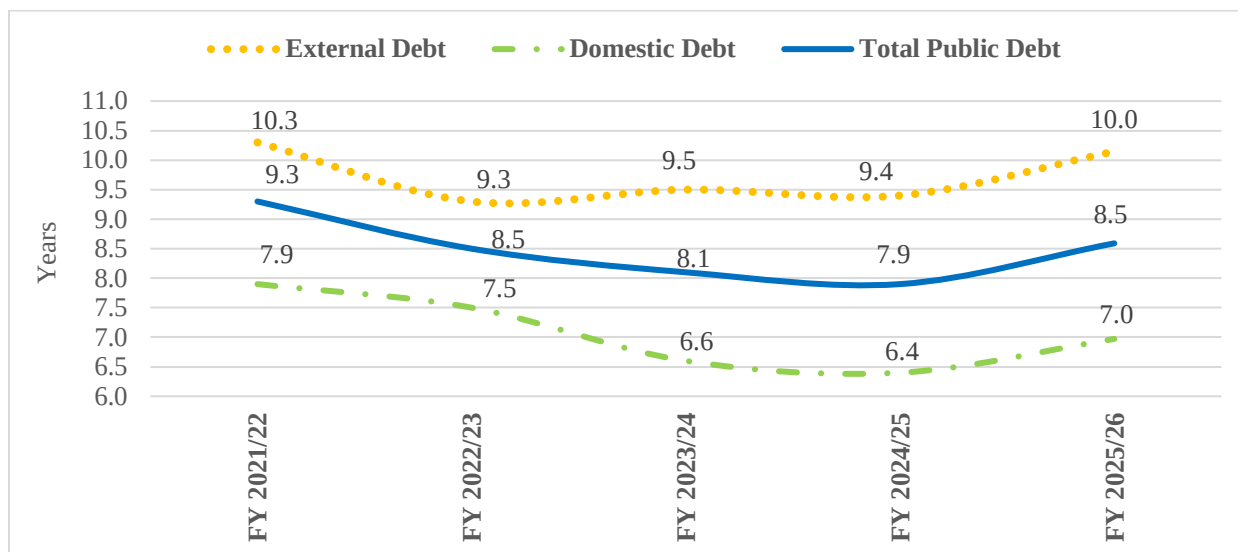


Source: National Treasury

9.5 Average Time to Maturity

The Average Time to Maturity (ATM) of the public debt portfolio improved in FY 2025/26, indicating a shift toward longer-dated debt instruments. Overall ATM increased from 7.9 years to 8.5 years, while domestic debt ATM rose from 6.4 years to 7.0 years and external debt ATM increased from 9.4 years to 10.0 years. The improvement reflects the government's efforts to lengthen debt maturities through the issuance of longer-term securities and the mobilization of longer-tenor external financing, thereby reducing rollover risks.

Figure 18: Average Time to Maturity

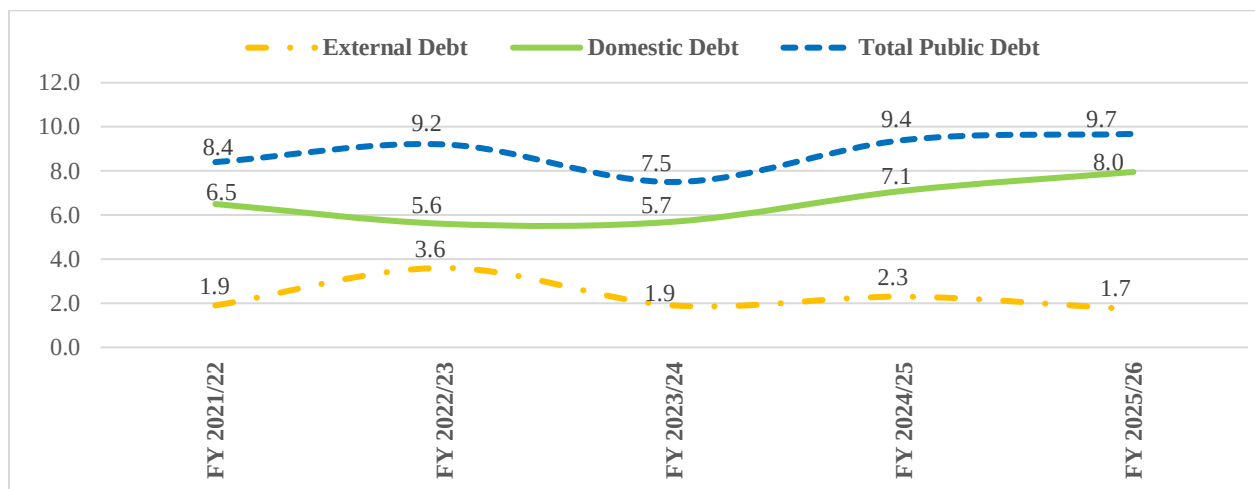


Source: National Treasury

9.6 Debt Maturing in One-Year as a percentage of GDP

Debt maturing within one year as a percentage of GDP rose to 9.7 percent in FY 2025/26 from 9.4 percent in FY 2024/25, reflecting increased short-term refinancing requirements. This rise was largely attributable to the growing stock of domestic debt with shorter residual maturities, while the proportion of external debt maturing within one year declined as illustrated in **Figure 19 below**.

Figure 19: Debt Maturing in One-Year as a percentage of GDP

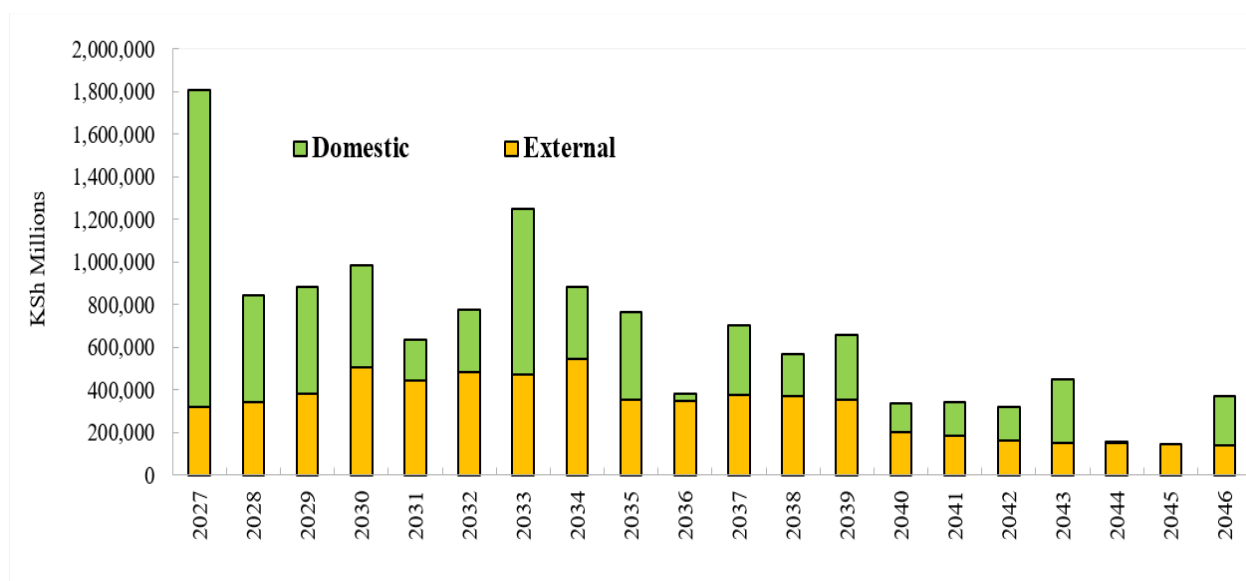


Source: National Treasury

9.7 Redemption Profile

The public debt redemption profile is characterized by significant maturities in the medium term, with the largest repayment obligations projected in 2027 and 2033, largely driven by domestic debt. Debt redemptions remain elevated through the period 2028 to 2039 before gradually declining in the outer years, indicating a more manageable maturity structure over the long term (**Figure 20**).

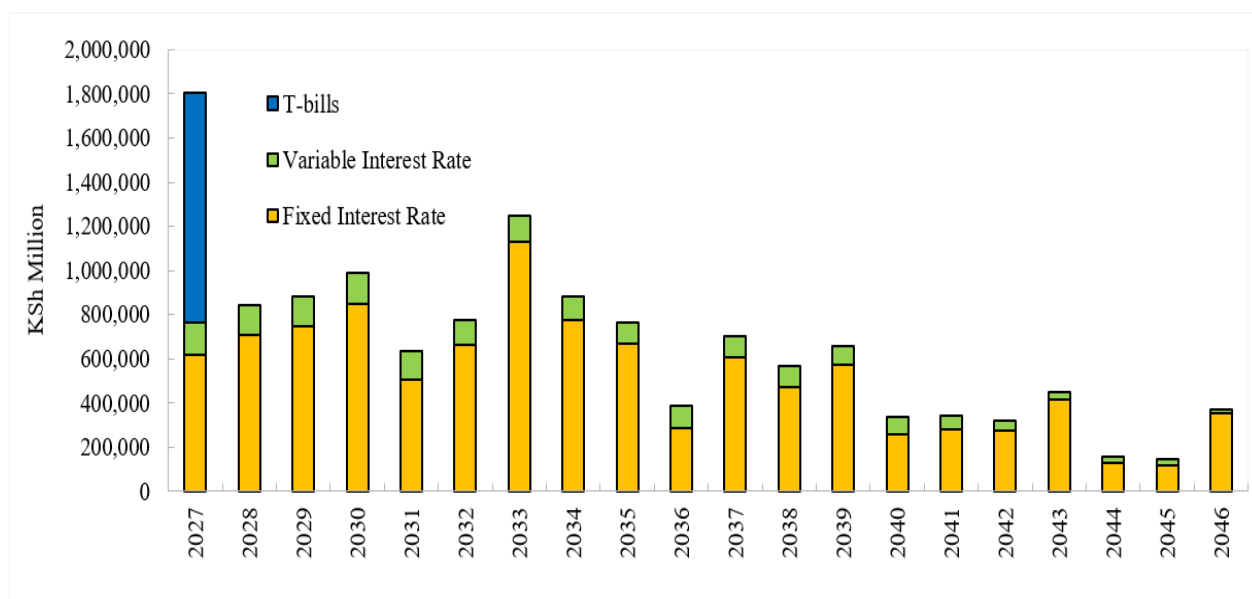
Figure 20: Redemption Profile of Total Public Debt



Source: National Treasury

The public debt portfolio remains predominantly composed of fixed-rate debt instruments, with only a small proportion exposed to variable interest rates. Throughout the period, variable-rate debt is projected to remain low relative to fixed-rate debt, reflecting a prudent debt management strategy aimed at minimizing exposure to interest rate volatility (**Figure 21** below).

Figure 21: Redemption Profile of Total Public Debt by Interest Rate Type

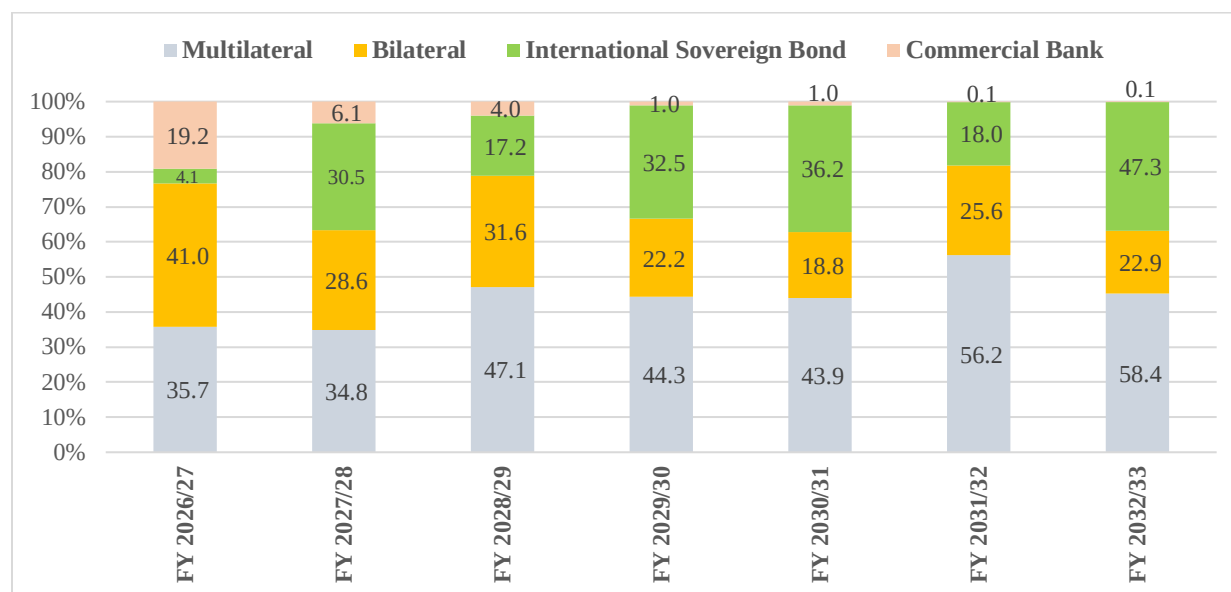


Source: National Treasury

9.8 Redemption Profile of External Debt by Creditor Category

Multilateral debt is projected to account for an increase in the share of external debt maturities, rising from 43.9 percent in FY 2030/31 to 58.4 percent in FY 2032/33. In contrast, the share of bilateral debt maturities is projected to increase from 18.8 percent in FY 2030/31 to 25.6 percent in FY 2031/32, before moderating to 22.9 percent in FY 2032/33. Meanwhile, international sovereign bond maturities remain substantial, projected to increase from 36.2 percent in FY 2030/31 to 47.3 percent in FY 2032/33, highlighting the need for continued liability management operations to smooth the external debt redemption profile and mitigate refinancing risks (**Figure 22**).

Figure 22: Redemption Profile of External Debt by Creditor Category

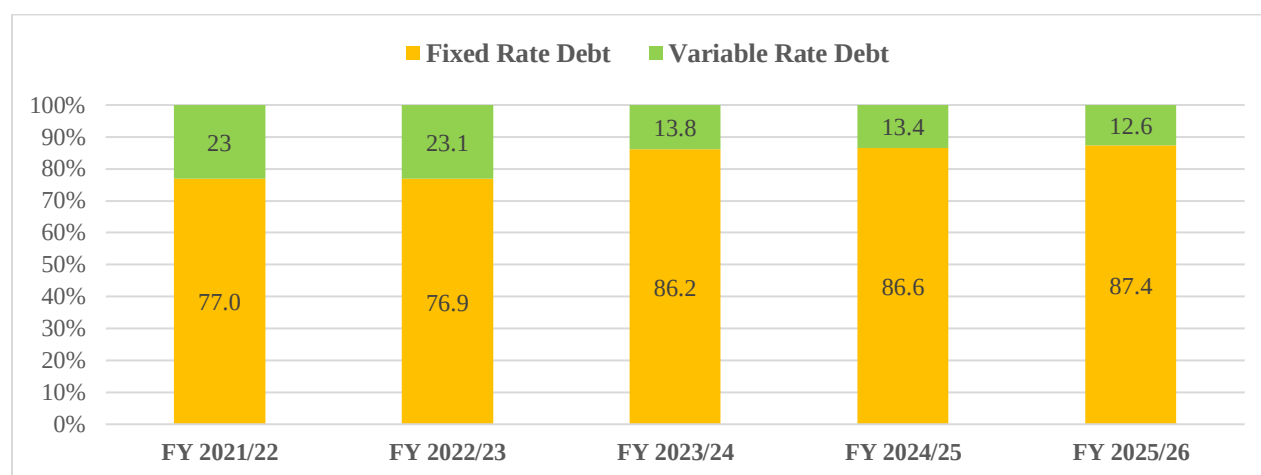


Source: National Treasury

9.9 Composition of Fixed and Variable Rate External Debt

The share of fixed-rate external debt increased slightly from 86.6 percent in FY 2024/25 to 87.4 percent in FY 2025/26, while the proportion of variable-rate debt declined from 13.4 percent to 12.7 percent over the same period. This indicates a continued issuance of fixed-rate debt, which reduces exposure to interest rate fluctuations and enhances predictability in debt servicing costs. (Figure 23).

Figure 23: Composition of Fixed and Variable Rate External Debt

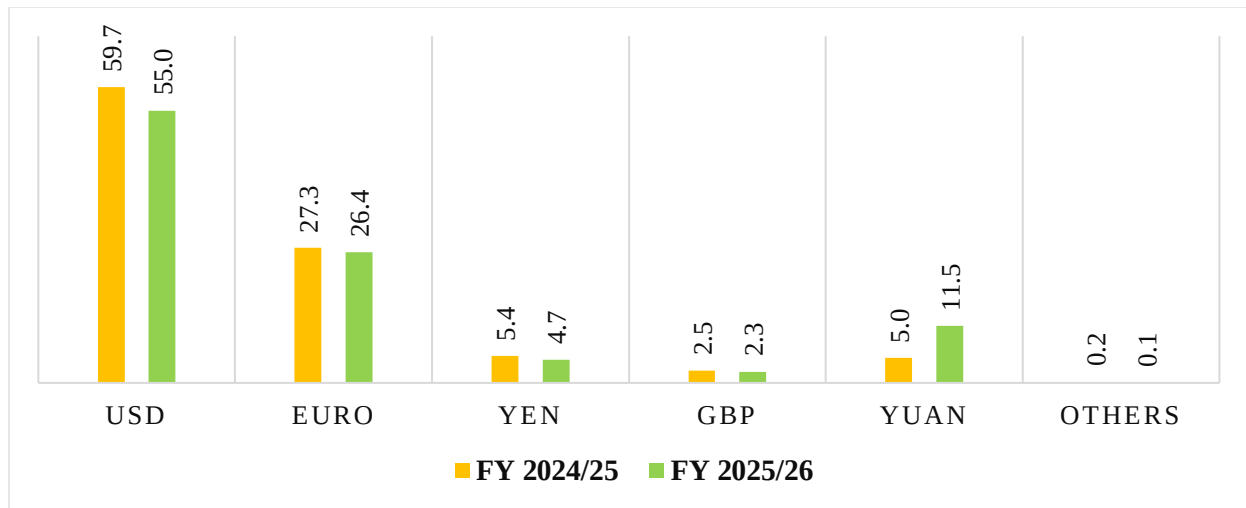


Source: National Treasury

9.10 Currency Composition

External debt continues to be dominated by the US Dollar and Euro, which together accounted for 81.4 percent of the portfolio in FY 2025/26. Compared to FY 2024/25, the currency composition shifted modestly, with a notable increase in the share of Yuan-denominated debt and slight declines in the shares of the US Dollar, Euro, Yen and Pound Sterling. This change highlights an increasing diversification of the external debt portfolio while maintaining significant exposure to major international currencies.

Figure 24: External Debt Currency Composition



Source: National Treasury

The National Treasury will continue to pursue reforms aimed at optimizing the cost-risk profile of public debt and strengthening the institutional and policy framework for debt management. This will help ensure prudent, efficient, and sustainable management of public borrowing.

CHAPTER TEN: SOVEREIGN CREDIT RATING

10.1 Introduction

Sovereign credit ratings are independent assessments done to determine governments' ability to repay their debt obligations in full and on a timely basis. They are vital indicators of a country's financial health and the level of risk and cost involved in borrowing by the sovereign. Fitch Ratings, Standard & Poor's (S&P), and Moody's dominate the global sovereign credit rating market, employing both qualitative and quantitative factors to determine a sovereign's credit rating.

A sovereign credit rating focuses on a country's economic resilience and government financial strength, both of which act as a measure of trust in a country's ability to repay its debts and have wide-ranging effects on its economy. The ratings, on the other hand, provide comfort to investors as they make investment decisions.

A stronger rating lowers borrowing costs by allowing the government to access credit at cheaper interest rates, while a weaker rating drives up debt servicing expenses and can even limit access to international markets.

Table 24 below shows the rating scale used by the three major rating agencies that reflects the level of creditworthiness.

Table 25: Rating Scales

Moody's	S&P	Fitch	Description	Grade
Aaa	AAA	AAA	Highest credit quality, minimum credit risk	Investment Grade
Aa1, Aa2, Aa3	AAA+, AA, AA-	AAA+, AA, AA-	Very high credit quality, very low credit risk	
A1, A2, A3	A+, A, A-	A+, A, A-	High credit quality (upper-medium grade)	
Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-	Good credit quality, currently low credit risk	

Moody's	S&P	Fitch	Description	Grade
Ba1, Ba2, Ba3	BB+, BB, BB-	BB+, BB, BB-	Speculative elements, issuer faces major uncertainties and adverse conditions	Non-Investment Grade
B1, B2, B3	B+, B, B-	B+, B, B-	High credit risk, but issuer still able to meet its financial commitments	
Caa1, Caa2, Caa3	CCC+, CCC, CCC-	CCC	Issuer currently highly vulnerable, default likely	
Ca	CC	CC	Issuer currently highly vulnerable near default	
C	R, SD, D	C, RD, D	Lowest rating, typically in default on some (SD, RD) or all its financial obligations	

Source: Credit Rating Institutions

In the global credit rating system, countries with an investment-grade (BBB/Baa3 and above) rating are considered low credit risk borrowers, associated with strong institutions, credible fiscal frameworks, stable economies and generally enjoy lower interest rates

10.2 Kenya's Sovereign Credit Rating

Since January 2026, Kenya has not undergone major changes in credit rating. The current sovereign credit rating is classified at B3 with a stable outlook by Moody's, an upgrade from Caa1 (with positive outlook) which had been in place since January 2025, and B stable by S&P Global Ratings, with both ratings indicating high credit risk. However, during the period Agosto & Co. in its report released in January 2026 reaffirmed the Country's "B+" rating with a stable outlook.

Both ratings reflected stability on Kenya's macroeconomic fundamentals underpinned by resilient real gross domestic product (GDP) growth and a moderating inflationary environment. The ratings also took into consideration the country's expanding foreign reserves, sustained remittance inflows and relatively political calm, coupled with economic policy reforms. However, the ratings are moderated by a high-debt-to-GDP ratio and rising debt service to revenue ratio, which constrain fiscal flexibility and heighten vulnerability to interest rate and refinancing risks. Key factors

affecting the credit rating include:

Increased External Liquidity: the country recorded expanding foreign reserves and import cover as at end-2025 and relative stability of the Kenyan Shilling throughout 2025. The country also recorded reduced external liquidity pressures through the relatively high stock of foreign exchange reserves.

Sustained Access to concessional external financing: To finance fiscal deficits and undertake liability management, Kenya has had sustained access to multiple external funding sources, both concessional and fairly priced commercial funding, ensuring reduced refinancing risks of external debt. This supports strong the buildup of foreign exchange reserves. The domestic debt market also provided a backup funding for any shortage or delays occasioned by foreign currency inflows.

Smoothed External Debt Maturity Profile: during the period under review, the government conducted both domestic and external liability management operations aimed at smoothing the debt maturity profile. This proactive action is viewed positively by investors and rating agencies alike. Both domestic and external refinancing pressures have consequently been de-risked.

Stronger and Deeper domestic debt market: over time the domestic debt market has deepened and facilitated local currency financing. The local financial institutions and fund managers continue to play major role in funding Government borrowing needs.

Strong macroeconomic stability: the country's macroeconomic environment remained broadly stable, supported by moderating inflation, a relatively stable exchange rate and resilient economic growth.

The Central Bank policy rate (CBR) was also lowered during the period, reflecting easing inflationary pressures and support to economic activities. GDP growth has remained robust, while annual growth is projected to remain strong in 2026.

Reduction of fiscal deficits: During the review period, fiscal deficits were projected to decline, reflecting the government continued efforts towards fiscal consolidation and managing the rate of debt accumulation in the medium term.

Strong institutions: the government continues to embrace independence of its institutions such as the Central Bank of Kenya and the constitutional offices such as the Office of the Auditor General and the Controller of Budget while receiving strong oversight from Parliament. Further, the government continues to promote reforms aimed at building a strong market based financial sector.

Table 26: Kenya’s Credit Ratings in 2024 and 2025

Rating Agency	Date	Rate	Outlook
Standard and Poor’s	22-Aug 2025	B	Stable
	25-Aug 2024	B-	Stable
	9-Feb 2024	B-	Stable
Fitch	25-Jul 2025	B-	Stable
	25-Feb 2025		
Moody’s	25-Jan 2025	Caa1	Positive
	25-Aug2024	Caa1	Negative

Source: Credit Rating Institutions

10.3 Engagement with Credit Rating Agencies

The National Treasury sustained active engagement with Credit Rating Agencies (CRAs) in the context of providing accurate and consistent fiscal and macro-economic data. In April, 2026, with UNDP support, the PDMO, KNBS, and CBK participated in the Africa Credit Rating initiative in Manila, Philippines, which brought together government officials from African countries, alongside representatives from the Government of the Philippines, relevant institutions involved in the sovereign credit rating process, and supporting partners. The initiative provided practical peer-learning platform for African officials to engage directly with Philippine counterparts and institutions involved in sovereign credit rating processes.

Further, during the year, the government formed an Inter-Agency Technical Committee to coordinate credit rating issues. The committee, with the support of UNDP, was capacity-built on rating methodology.

10.4 Impact of Sovereign Credit Rating Upgrades

The recent credit rating developments, including the upgrade by Moody's and the reaffirmation of Kenya's rating by Agusto & Co., mark an important milestone for Kenya's economy and reflect renewed confidence in the country's fiscal and economic management. These developments signal to global investors that Kenya's risk profile has strengthened, making the country a more attractive destination for investment translating lower market access cost, greater investor confidence and greater access to much-needed financing for development priorities.

The improved rating assessment further reflects confidence in economic and institutional arrangements and flexibility in Kenya's financial system. Stronger sovereign ratings often translate into better borrowing terms for Kenyan businesses and banks, supporting private sector growth and job creation. At the same time, the improved outlook can contribute to greater exchange rate stability by encouraging capital inflows and strengthening the country's foreign exchange position.

Overall, positive developments in the sovereign credit rating affirm the government's commitment to fiscal discipline, prudent debt management, and economic reforms by sending a clear message to both domestic and international stakeholders that Kenya is strengthening the foundations for sustainable growth and long-term investment.

10.5 Kenya credit rating improvement strategy

Kenya is committed to improving its credit standing by pursuing fiscal discipline, strengthening revenue collection, and managing debt more sustainably. The government is focused on reducing budget deficits, containing interest costs, and building foreign exchange reserves to ease external financing pressures. Recent progress, including timely Eurobond repayments and reforms in public financial management, has already supported greater investor confidence, reflected in improvements in the sovereign rating outlook. Kenya's priority remains to place debt on a firm downward path and maintain reform momentum to secure future rating upgrades and lower borrowing costs.

To build on this, the National Treasury has scheduled a National Credit Rating Strategic Working Group in the fiscal year 2026/2027 to enhance institutional capacity, align fiscal strategies with global best practices, and support efforts to improve Kenya's credit profile.

10.6 Challenges in achieving higher rating scores:

Reduced access to concessional funding and increased commercial funding, whose costs of borrowing are pegged on reference rates such as LIBOR, SOFR, or EURIBOR, can increase the cost of external borrowing. These rates are influenced by monetary policies of major world economies and fixed margins determined by sovereign risk perceptions, factors which are beyond government control.

Geopolitical tensions and heightened global economic and financial uncertainty also pose risks to Kenya's credit profile. Changes in the global risk environment can affect macroeconomic and exchange rate stability, capital flows, commodity prices and external financing conditions, potentially increasing borrowing costs and refinancing pressures. These risks can constrain fiscal and external buffers, particularly during periods of tighter global financial conditions.

Risk premiums are pegged on credit spreads on US risk-free securities versus similar Kenya government sovereign securities, which capture the market's perception of Kenya's credit risk.

Other financing costs such as margins, fees, insurance premiums, commitment charges, legal fees and administrative charges, interest payments, principal repayments and related expenses over the life of the loan further contribute to the total financial burden of borrowing.

High public debt and elevated debt-service costs continue to constrain fiscal space and increase exposure to interest rate, refinancing and rollover risks, limiting the scope for fiscal policy to respond to shocks. Sustained fiscal consolidation and prudent debt management will remain critical to reducing debt-related vulnerabilities, strengthening Kenya's credit profile and supporting future rating upgrades. The Kenyan economy depends to a large extent on the agricultural sector, whose output depends on rain-fed agriculture. Unfavorable weather conditions significantly affect productivity and by extension economic growth.

CHAPTER ELEVEN: OUTLOOK FOR THE MEDIUM TERM

11.1 Introduction

The medium-term outlook for Kenya's public debt is shaped by a confluence of fiscal consolidation efforts, macroeconomic dynamics, and deliberate debt management strategies. This chapter presents a comprehensive assessment of the projected debt trajectory, a debt sustainability analysis (DSA) trajectory, the broader macroeconomic trajectory, and the key assumptions underpinning the projections for the period FY 2025/26 to FY 2029/30. Together, these elements provide a forward-looking framework to guide fiscal and debt management policy, support investor confidence and safeguard Kenya's long-term debt sustainability.

11.2 Debt Trajectory

Projected Public Debt Stock

The total nominal public debt-to-GDP ratio is projected to decline significantly over the medium term, from 70.4 percent in FY 2025/26 to 64.3 percent in FY 2029/30. The projected decline reflects the Government's commitment to fiscal consolidation, prudent debt management, enhanced domestic revenue mobilization, and the maintenance of a stable macroeconomic environment, as well as the Government's commitment to reduce debt levels to the 55 percent threshold in Present Value (PV) terms.

In nominal terms, total public debt is projected to increase from KSh 13,120.9 billion in FY 2025/26 to KSh 18,239.7 billion in FY 2029/30. The projected fiscal deficit declines from 6.8 percent of GDP in FY 2025/26 to 3.4 percent in FY 2029/30, moderating the pace of new debt accumulation. Nominal GDP is projected to increase from KSh 18,642.5 billion to KSh 28,345.7 billion, providing the principal driver of the improving debt ratio.

Table 27: Projected Public Debt Stock

	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
External Debt	5,793,666	5,931,900	6,167,800	6,308,600	6,284,500
% of GDP	31.1	28.5	26.7	24.8	22.2
Domestic Debt	7,327,202	8,768,900	9,454,000	10,661,100	11,955,200
% of GDP	39.3	42.1	41.0	41.9	42.2
Total Public Debt	13,120,868	14,700,800	15,621,800	16,969,700	18,239,700
% of GDP	70.4	70.6	67.7	66.7	64.3
Fiscal Deficit % of GDP	6.2	5.6	3.9	3.6	3.4
Nominal GDP	18,642,472	20,816,800	23,081,700	25,446,800	28,345,700
Ordinary Revenue	2,588,400	2,883,900	3,207,800	3,559,000	4,062,800

Source: National Treasury

Composition of the Debt Portfolio

The composition of Kenya's public debt reflects a gradual rebalancing toward domestic financing over the medium term. External debt, which constitutes 31.1 percent of GDP in FY 2025/26, is projected to decline to 22.2 percent of GDP by FY 2029/30. This reduction is underpinned by significant external principal repayments, including the Eurobond redemptions and multilateral loan amortizations falling due within the projection period. The reduction in external debt exposure will materially reduce Kenya's vulnerability to exchange rate fluctuations and external financing shocks.

Domestic debt, on the other hand, is projected to rise from 39.3 percent of GDP in FY 2025/26 to 42.1 percent in FY 2026/27, before increasing marginally to 42.2 percent by FY 2029/30. The temporary increase in domestic debt in FY 2026/27 reflects the substitution of external financing with domestic borrowing to meet near-term financing needs, underscoring the importance of deepening domestic capital markets to absorb increased issuances without crowding out the private sector.

Table 28: Projected Public Debt Service

	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Domestic Interest	862,700	1,027,300	1,032,800	1,070,300	1,131,800
% of GDP	4.6	49.3	4.5	4.2	4.0
% of Revenue	33.3	35.6	32.2	30.1	27.9
External Interest	211,800	267,500	306,900	344,200	373,800
% of GDP	1.1	12.9	1.3	1.3	1.2
% of Revenue	8.2	9.3	9.6	9.7	9.2
Total Interest Payments	1,074,500	1,294,800	1,339,700	1,414,500	1,505,600
% of GDP	1.6	22.3	3.2	2.5	1.6
% of Revenue	11.4	16.1	22.9	18.2	11.4
Domestic Treasury Bond Redemption	296,205	463,511	735,241	647,858	463,824
% of GDP	2.7	26.1	2.0	2.0	2.3
% of Revenue	11.4	16.1	22.9	18.2	11.4
External Principal Payments	504,344	542,900	460,100	499,800	658,400
% of GDP	2.7	26.1	2.0	2.0	2.3
% of Revenue	19.5	18.8	14.3	14.0	16.2
Total Debt Service	1,875,049	2,301,211	2,535,041	2,562,158	2,627,824
% of GDP	10.1	110.5	11.0	10.1	9.3
% of Revenue	72.4	79.8	79.0	72.0	64.7
Ordinary revenue	2,588,400	2,883,900	3,207,800	3,559,000	4,062,800
Nominal GDP	18,642,472	2,081,680	23,081,700	25,446,800	28,345,700

Source: National Treasury

Public debt service is projected to remain a significant component of the Government's expenditure over the medium term. Total debt service is projected to increase from KSh 1,875.1 billion in FY 2025/26 to a peak of KSh 2,627.8 billion in FY 2029/30. As a share of nominal GDP, total debt service is projected to decline from 10.1 percent in FY 2025/26 to 9.3 percent in FY 2029/30.

As a share of ordinary revenue, total debt service is projected to account for 72.4 percent of revenue in FY 2025/26, rising to 79.8 percent in FY 2026/27, before declining to 64.7 percent in FY 2029/30. The projected decline towards the end of the period reflects the expected improvement in revenue performance and the moderation of debt service obligations.

Total interest payments are projected to increase from KSh 1,074.4 billion in FY 2025/26 to KSh 1,505.6 billion in FY 2029/30. Domestic interest payments remain a significant component, rising from KSh 862.7 billion to KSh 1,131.8 billion over the projection period. As a share of ordinary revenue, domestic interest payments are projected to decline from 33.3 percent in FY 2025/26 to 27.9 percent in FY 2029/30, showing a non-linear trajectory and peaking at 35.6 percent in FY 2026/27 before moderating. The continued predominance of domestic interest payments

underscores the importance of maintaining prudent domestic borrowing and improving the composition and maturity structure of the domestic debt portfolio.

Principal repayments constitute a significant and volatile component of the Government's debt service obligations. Domestic Treasury bond redemptions are projected to rise from KSh 296.2 billion in FY 2025/26 to a peak of KSh 735.2 billion in FY 2027/28, before declining to KSh 463.8 billion in FY 2029/30. External principal payments are projected at KSh 504.3 billion in FY 2025/26, before rising again to KSh 658.4 billion in FY 2029/30. The concentration of domestic redemptions in FY 2027/28 highlights the need for proactive liability management and refinancing strategies to mitigate rollover and liquidity risks.

11.3 Debt Sustainability Analysis (Dsa) Trajectory

11.3.1 Overview of the Debt Sustainability Framework

Kenya's Debt Sustainability Analysis (DSA) is conducted using the IMF-World Bank framework for market-access countries (MACs), which assesses debt sustainability through a combination of baseline projections, stress tests and risk indicators. The DSA evaluates both the level and trajectory of public debt against established benchmarks, including the approved Government threshold of 55 percent of GDP in Present Value (PV) terms, and provides a basis for determining whether the current fiscal path is consistent with long-term debt sustainability.

The IMF-World Bank DSA framework employs two principal lenses: (i) gross financing needs (GFN), which assess liquidity risks arising from the size of the fiscal deficit and maturing debt obligations; and (ii) the debt-to-GDP ratio, which captures solvency risks over the medium and long term. Kenya's DSA trajectory over the projection period reflects an improving sustainability profile, driven by fiscal consolidation, GDP growth, and declining external debt exposure.

11.3.2 Baseline DSA Trajectory

Under the baseline scenario, Kenya's public debt-to-GDP ratio is projected to follow a firmly declining path, from 70.4 percent in FY 2025/26 to 59.3 percent in FY 2029/30. This trajectory is consistent with the Government's commitment to achieve and sustain debt levels below the 55 percent PV threshold, placing Kenya on a path toward moderate debt risk over the medium term.

The primary balance is expected to improve progressively over the projection period as the Government implements revenue-enhancing measures and rationalizes expenditure. A sustained primary surplus, where revenue exceeds non-interest expenditure, is a critical driver of the declining debt trajectory, as it reduces the Government's net borrowing requirement and enables the gradual unwinding of the debt stock. The stabilization and eventual reduction of the debt-to-GDP ratio is contingent on maintaining a positive interest rate-growth differential (i.e., where nominal GDP growth exceeds the effective interest rate on public debt), which the macroeconomic projections support over the medium term.

11.3.3 Stress Testing and Risk Assessment

While the baseline trajectory is favourable, the DSA also incorporates stress tests to assess the resilience of the debt path to adverse shocks. Key risk scenarios include:

1. **Exchange Rate Shock:** A significant depreciation of the Kenya Shilling would increase the domestic currency value of external debt, temporarily reversing the declining debt-to-GDP trajectory. Given the projected reduction in external debt exposure from 31.0 percent to 23.4 percent of GDP over the medium term, this risk diminishes substantially toward the end of the projection period.
2. **Growth Shock: A slowdown in GDP growth:** whether from domestic or external shocks, would reduce the denominator effect that drives the declining debt ratio, potentially stalling the improvement in debt sustainability metrics. Kenya's debt trajectory is therefore sensitive to the realization of projected growth rates.
3. **Financing Shock:** A sudden tightening of global financial conditions or loss of market access could increase borrowing costs and widen the fiscal deficit, elevating gross financing needs. This risk is particularly relevant given Kenya's history of Eurobond issuances and its dependence on international capital markets for external financing.
4. **Revenue Underperformance:** Failure to achieve projected revenue targets would widen

the fiscal deficit, necessitate higher borrowing, and slow the pace of debt reduction. Given that debt service as a share of revenue remains elevated, peaking at 69.1 percent in FY 2026/27, revenue underperformance poses a material risk to debt sustainability.

11.3.4 Liquidity and Rollover Risk

Gross financing needs are projected to remain elevated in the near term, particularly in FY 2027/28, when domestic Treasury bond redemptions peak at KSh 735.2 billion. This concentration of maturities creates significant rollover risk and underscores the importance of proactive liability management operations, including debt re-profilings, buybacks, and switches, to smooth the redemption profile and reduce refinancing pressures. The Government will also need to maintain adequate foreign exchange reserves and access to multilateral financing facilities to manage external debt service obligations, particularly in FY 2025/26 when external principal payments are projected at KSh 504.3 billion.

11.4 Macroeconomic Trajectory

11.4.1 GDP Growth

Kenya's economy is projected to maintain a robust growth trajectory over the medium term, with nominal GDP expanding from KSh 18,642.5 billion in FY 2025/26 to KSh 28,024.3 billion in FY 2029/30, representing a cumulative nominal expansion of approximately 50 percent. In real terms, GDP growth is expected to remain supported by continued investment in infrastructure, recovery in agricultural output, expansion of the services sector, and a supportive monetary policy environment. Sustained GDP growth is a critical enabler of the declining debt-to-GDP ratio, as it expands the economic base against which the debt stock is measured.

11.4.2 Fiscal Consolidation and Revenue Mobilization

The fiscal deficit is projected to decline progressively from 6.2 percent of GDP in FY 2025/26 to 3.4 percent in FY 2029/30, reflecting the Government's commitment to fiscal consolidation. This improvement is underpinned by:

- Enhanced domestic revenue mobilization, with ordinary revenue projected to grow from KSh 3,258.9 billion in FY 2025/26 to KSh 3,957.6 billion in FY 2029/30, driven by tax administration reforms, broadening of the tax base, and improved compliance.

- Expenditure rationalization, through prioritization of capital expenditure, reduction of recurrent expenditure inefficiencies, and containment of the public wage bill.
- Reduction in fiscal financing needs, which moderates the pace of debt accumulation and supports the declining debt-to-GDP trajectory.

Despite the projected improvement, the revenue-to-GDP ratio will need to rise consistently to reduce the high share of debt service in revenue, which remains above 56 percent throughout the projection period, and create adequate fiscal space for development expenditure and social protection.

11.4.3 Inflation and Monetary Policy

A stable and low inflation environment is assumed over the medium term, consistent with the Central Bank of Kenya's (CBK) monetary policy framework and the inflation target band of 5 percent ± 2.5 percent. Price stability is essential to maintaining the real value of government revenues, containing the cost of domestic borrowing, and supporting private sector investment. Monetary policy is expected to remain appropriately accommodative to support growth while guarding against inflationary pressures arising from global commodity price volatility, exchange rate movements, and supply-side shocks.

11.4.4 External Sector and Exchange Rate

Kenya's external sector is expected to remain under moderate pressure over the near term, reflecting the current account deficit driven by the import-intensive nature of the economy and external debt service obligations. However, the projected reduction in external debt from 31.0 percent of GDP in FY 2025/26 to 23.4 percent in FY 2029/30 will significantly reduce Kenya's external financing vulnerability and exposure to exchange rate risk over the medium term. Remittance inflows, tourism receipts, and export growth are expected to provide some offset to the current account deficit, supporting the balance of payments and foreign exchange reserve adequacy.

11.4.5 Interest Rate Environment

Domestic interest rates are expected to reflect the interplay between monetary policy, inflation dynamics, and government domestic borrowing. The dominance of domestic interest payments in

total interest costs, projected to persist throughout the projection period underscores the sensitivity of the fiscal position to domestic interest rate movements. The Government's strategy to lengthen the maturity profile of domestic debt and reduce rollover risk will be important in managing interest rate exposure and containing the growth of interest payments as a share of revenue.

11.5 Risks to the Outlook

The realization of the medium-term projections is subject to both upside and downside risks. On the downside, key risks include revenue underperformance, adverse exchange rate movements, a tightening of global financial conditions, domestic political pressures on expenditure, and exogenous shocks such as climate-related disasters or global recessions. On the upside, stronger-than-projected GDP growth, improved tax compliance, successful liability management operations, and favourable global financing conditions could accelerate the pace of debt reduction and improve fiscal space beyond what is currently projected.

The Government remains committed to monitoring these risks closely and adjusting fiscal and debt management strategies as necessary to preserve debt sustainability and protect macroeconomic stability over the medium term. These policies will be essential to preserving fiscal space and sustaining the gains in debt sustainability over the medium term.

CHAPTER TWELVE: INVESTOR RELATIONS

12.1 Introduction

Public debt investor relations play an important role in promoting transparency, strengthening investor confidence, and supporting informed decision-making on Government securities and public debt. The function involves providing timely and relevant information on public debt, economic and fiscal developments, and other factors that may influence investment decisions. It also includes maintaining regular communication and engagement with domestic and international investors, as well as coordinating with credit rating agencies by providing relevant information to support informed and accurate sovereign credit ratings.

During the financial year, the National Treasury continued to strengthen investor engagement and communication to promote confidence in the management of public debt and support an efficient and well-informed market.

12.2 Investor Relations Survey

The Institute of International Finance (IIF) is a global association representing the financial industry and conducts an annual Investor Relations and Debt Transparency Survey to assess how emerging market and developing economies engage with investors and disseminate sovereign financial information. The 2026 assessment evaluates and scores three main areas: the Investor Relations Country Score, the Debt Transparency Score, and the Environmental, Social and Governance (ESG) Data and Policy Dissemination Score.

In the 2026 assessment, Kenya recorded an Investor Relations and Data Transparency Country Score of 42.8 out of 50.0, an improvement on the 2025 score of 42.1 (**Table 28 below**). The trend reflects the continuous improvement in the country's investor relations and transparency practices as spearheaded by the Investor Relations Unit at the National Treasury. Overall, the report findings reinforce the importance of maintaining continuous and credible engagement with investors and strengthening debt transparency as part of sovereign debt management.

Table 29: Investor Relations Survey

Year	Overall Scores (out of 50)
2022	34.0
2023	36.5
2024	36.9
2025	42.1
2026	42.8

Source: IIF investor relations and debt transparency reports

12.3 Investor Engagements

In the period ending 30th June 2026, the National Treasury, in collaboration with CBK, continued to engage domestic and international investors with the objective of promoting participation in the domestic debt market. CBK continued to facilitate monthly Bond Market Forum meetings with market participants, including banks, fund managers, pension schemes, broker-dealers, and other institutional investors, to discuss market developments, emerging challenges, policy initiatives, and strategies for enhancing the domestic debt market.

In addition, investor sensitization programmes were conducted through both virtual and physical forums targeting local individual investors, domestic institutional investors, the Kenyan diaspora, and international investors. These engagements focused on enhancing awareness of Government securities, improving understanding of investment opportunities and market processes, while receiving investor feedback on ways to improve the investment experience. The outreach initiatives strengthened relationships with key stakeholders, broadened the investor base, and increased market participation, supporting the successful achievement of the Government's borrowing programme for the FY 2025/26.

The National Treasury also engaged international investors and financial market participants during the IMF/World Bank meetings held in Washington, D.C. These engagements provided an opportunity to communicate the Government's economic and fiscal policies and public debt management strategy directly to the international investment community.

During the year, Kenya expanded its access to international capital markets and diversified its investor base. In August 2025, the Government accessed the Japanese capital market for the first time through a Samurai loan, raising approximately US\$169 million. In October 2025, the Government issued a US\$1.5 billion dual-tranche Eurobond, which attracted nearly US\$7.5 billion in investor orders. The proceeds supported the Government's liability management operations, including the repurchase of part of the US\$1 billion 2028 Eurobond.

In February 2026, the Government issued a further US\$2.25 billion dual-tranche Eurobond, part of which was used to support budget financing and a further buyback of the 2028 Eurobond. These transactions demonstrated continued access to international capital markets, while helping diversify Kenya's sources of financing, manage near-term refinancing requirements, and maintain access to international capital markets.

Overall, the investor engagement activities during the year strengthened communication with market participants, provided feedback on investor concerns, and supported Kenya's continued access to both domestic and international capital markets.

12.4 Effective Development Cooperation Coordination in Kenya

Effective Development Cooperation (EDC) promotes collaboration between the Government and development partners to ensure that external support is well coordinated and aligned with Kenya's development priorities. This coordination is also important for mobilising and effectively managing external development financing. During the financial year 2025/26, the Development Effectiveness Secretariat (DES) continued to coordinate quarterly Development Effectiveness Group (DEG) meetings to monitor the implementation of Official Aid-funded Projects and address issues affecting the use of development resources.

The National Treasury also convened the 13th Development Partnership Forum (DPF) in August 2025 under the theme "Enhancing Effective Development Cooperation." The forum brought together Government representatives, development partners, and other stakeholders to strengthen coordination, accountability, and alignment of development assistance with Kenya's national priorities. Discussions focused on improving the effectiveness of development cooperation and

ensuring that development support contributes to sustainable economic growth and the Government's development agenda.

Through these engagements, the National Treasury continued to strengthen coordination with development partners, improve information sharing, and promote the effective use of development resources in support of Kenya's development priorities.

12.5 Stakeholder Engagements

During the financial year 2025/26, the National Treasury undertook public participation on the 2025/26–2027/28 Medium-Term Debt Management Strategy (MTDS). The engagement provided an opportunity for members of the public and other stakeholders to give views on the Government's debt management plans. The views and concerns raised were considered and documented in a report that was submitted to Parliament.

The National Treasury also continued to engage key institutions and market participants in the implementation and monitoring of the debt management strategy, including through technical forums and consultations on Government securities issuance. These engagements supported the coordination of debt management activities and provided a platform for stakeholders to share views on market developments and financing requirements.

CHAPTER THIRTEEN: PUBLIC DEBT MANAGEMENT REFORMS

13.1 Introduction

During the Financial Year 2025/26, the Government continued implementing strategic public debt management reforms aimed at strengthening sustainability, enhancing domestic debt market development, improving and ensuring robust market infrastructure, and enhancing transparency in public debt management. The reforms were guided by the provisions of the PFM Act, Cap. 412A, the MTDS, the Annual Borrowing Plan (ABP), and international best practices. The reform agenda focused on improving the efficiency of the Government securities market, strengthening the legal and institutional framework, expanding the domestic investor base, enhancing debt reporting, and proactively managing refinancing risks through liability management operations while having engagement with stakeholders regularly.

13.2 Strengthening Public Debt Management Operations

A major milestone achieved during FY 2025/26 was the automation of the public debt payment process through the integration of the Common Wealth Meridian Debt Management System, the Integrated Financial Management Information System (IFMIS), and the Central Bank of Kenya (CBK) payment system under the Treasury Single Account (TSA) framework. This integration has significantly improved the efficiency, accuracy and security of debt servicing by creating a seamless end-to-end electronic payment workflow. The automation eliminates delays associated with manual data entry, multiple approval stages and fragmented payment processes, while strengthening internal controls, improving reconciliation, minimizing operational risk and ensuring timely settlement of debt obligations. The CBK also enhanced the investor journey in the Dhow Central Securities Depository (DhowCSD) system that has remained resilient and stable by further integrating Mobile Network Operator (MNO) payment module that enables retail investors to fund for their investment using mobile wallets.

13.3 Diversifying Borrowing Sources

The Government, as a strategy during the FY 2025/26, continued to implement borrowing from diversified sources aimed at ensuring stable access to financing while minimizing borrowing costs and managing refinancing risks. Consistent with the MTDS, the Government maintained an

appropriate balance between domestic and external borrowing and expanded the range of financing instruments and investor categories.

On the external front, the Government continued to prioritize concessional and semi-concessional financing from multilateral and bilateral development partners to finance priority development projects at favourable terms. These sources remained an important component of Kenya's external financing due to their relatively low borrowing costs, longer maturities and extended grace periods. The Government also maintained its presence in the international capital markets through sovereign Eurobond issuances and other commercial financing instruments where market conditions were favourable. International market access was complemented by proactive liability management operations, including debt refinancing and bond buyback transactions, which helped smoothen the external debt maturity profile and reduce refinancing risks.

In the domestic market, the implementation of the revised Benchmark Bond Programme concentrated issuances into liquid benchmark securities, enhancing market liquidity and improving price discovery. The investor base also continued to broaden. While commercial banks remained the largest holders of Government securities, participation by pension funds, insurance companies, fund managers, Savings and Credit Cooperative Societies (SACCOs), Collective Investment Schemes (CISs) and retail investors continued to increase.

The Government launched a successful Clearstream-Kenya Link through the DhowCSD that provides an efficient access by international investors to domestic debt. This link, which was the 60th domestic market link within Clearstream's global network, marked a significant milestone in developing the local debt markets as it supported to deepen liquidity, broaden the investor base, and enhance demand and price discovery in the Government securities market, and strengthened Kenya's position as a regional financial hub while advancing the development and internationalization of the domestic capital market. The continued enhancement of the DhowCSD platform including its cyber security features has supported the expansion of access to Government securities to both local and international investors, including Kenyans living in the diaspora and improved data integrity and compliance to international standards.

13.4 Enhancing Public Debt Reporting

The Government continued to strengthen the monitoring and reporting of debt and debt-related obligations of State Corporations and other public entities. Further, reforms to modernize public sector financial reporting through the gradual transition towards accrual-based accounting continue to provide a more comprehensive presentation of the Government's financial position through improved transparency regarding the utilization of borrowed resources.

In addition, the National Treasury continued to enhance disclosure of fiscal risks by strengthening the reporting of contingent liabilities that may arise from Government guarantees, Public-Private Partnerships (PPPs), on-lending arrangements, pending obligations, and other contractual commitments that may have adverse implications on public finances. These disclosures provide a more complete assessment of the Government's fiscal exposure and support prudent and proactive debt and fiscal risk management.

The Government sustained improvement of debt data management systems through enhanced digital integration of debt recording, payment, and financial management platforms. The integration of the Meridian Debt Management System with the Integrated Financial Management Information System (IFMIS) and the CBK payment platform under the Treasury Single Account (TSA) framework has improved data accuracy, facilitated real-time reporting, strengthened reconciliation processes, and enhanced reliability of public debt statistics.

Collectively, these reforms have significantly enhanced the scope, quality, and transparency of Kenya's public debt reporting. They have strengthened fiscal accountability, improved institutional oversight, facilitated informed decision-making by policymakers and investors, and reinforced the Government's commitment to prudent and transparent public debt management.

13.5 Liability Management Operations

Liability Management Operations (LMOs) in both domestic and external debt markets remained a key component of the Government's strategy to proactively manage refinancing risk, improve the domestic debt maturity profile and support orderly market functioning. During FY 2025/26, the Government made significant progress in implementing LMOs through the successful

execution of Treasury bond switch auctions and bond buyback operations covering source bonds with a combined face value of KSh 66.79 billion. This comprised Treasury bond switches amounting to KSh 47.38 billion and bond buybacks totalling KSh 19.40 billion. The bond switch operations resulted in the issuance of KSh 48.03 billion in longer-dated benchmark Treasury bonds, thereby smoothing the domestic debt redemption profile, extending the average maturity of the debt portfolio and reducing refinancing risk. These operations also enhanced secondary market liquidity by consolidating issuance into benchmark securities while supporting the Government's broader objective of developing a more efficient and liquid domestic bond market.

In February 2026, Kenya raised USD 2.25 billion through a new two-tranche Eurobond to refinance existing public debt obligations including the Government's tender offer to purchase up to USD 150 million and USD 350 million of the outstanding notes and accrued interest due in February 2028 and May 2032 with the remaining proceeds utilized for general budgetary support. The issuance was a continuation of the Government's proactive liability management strategy following a similar Eurobond operation in October 2025 of USD 1.5 billion that supported partial refinancing through a buyback of a portion of the 2028 Eurobond and provide budget support. These transactions contributed to smoothing the external debt redemption profile, extending the average maturity of the debt portfolio, reducing refinancing risk, and maintaining Kenya's continued access to international capital markets. The operations also demonstrated sustained investor confidence in Kenya's macroeconomic fundamentals and prudent public debt management strategy.

13.6 Status of Implementation of Domestic debt reforms

The Government has continued to implement comprehensive domestic debt market reforms aimed at modernizing the Government securities market and strengthening the domestic debt management framework. These reforms have significantly enhanced market efficiency, transparency, liquidity, and operational resilience while broadening the investor base and supporting the development of a deep, well-functioning, and sustainable domestic debt market:

- i. The automation of the debt payment process through the integration of the Meridian debt management system, IFMIS, and the CBK payment system under the Treasury Single Account (TSA) framework has significantly improved efficiency by creating a seamless,

end-to-end electronic workflow that eliminates delays from manual data re-entry and multiple approval points. The enhancement of the DhowCSD to improve investor journey and cyber security as well as the linkage with international networks continues to support the expansion of access and resilience of domestic debt. CBK is further developing a retail bond platform and programme to advance financial inclusion through investment in Government securities.

- ii. The National Treasury affirmed its full support for reforms to establish Kenya as a recognized netting jurisdiction under the International Swaps and Derivatives Association (ISDA) framework. This reform is a critical enabler for deepening Kenya's Over the Counter (OTC) market for government securities. By providing legal certainty for close-out netting arrangements, it will reduce counterparty risk, lower the cost of capital for market participants, and attract greater domestic and international investor participation in the trading of Treasury bonds and bills. The National Treasury will work closely with market regulators and relevant stakeholders to fast-track the necessary legislative and regulatory amendments required to give netting arrangements full legal enforceability in Kenya, in line with international best practice.
- iii. In line with the second objective of public debt management, the National Treasury continued to spearhead reforms in the domestic debt market aimed at enhancing domestic resource mobilisation, increasing the proportion of public debt raised from the domestic market, and reducing the cost of domestic borrowing.
- iv. The National Treasury is evaluating the structure to enhance the secondary bond market by establishing a dealer-driven Over the Counter (OTC) government bond market that will be phased beginning with the creation of an OTC framework and later the operationalization of a market-maker arrangement. This is anticipated to create a deeper, more liquid, transparent, and competitive government bond market that supports efficient price discovery. This model is expected to broaden participation beyond traditional banks, and create a clear benchmark yield curve, and ultimately lower market fragmentation while enhancing the effectiveness of government debt management and secondary market liquidity.

CHAPTER FOURTEEN: PUBLIC DEBT REPORTING AND DISSEMINATION

14.1 Introduction

The Constitution of Kenya, the Public Finance Management Act, Cap. 412A, and its attendant Regulations require preparation, publication and dissemination of public debt reports. The PDMO, through the National Treasury, facilitates regular disclosure of information on public debt management. The objective is to enhance transparency and accountability in the management of public debt in Kenya.

Key reports that are prepared and disseminated by the PDMO include:

- a) Annual Public Debt Management Report;
- b) The Medium-Term Debt Management Strategy aligned with the Budget Policy Statement;
- c) The Government Annual Borrowing plan for the approved Annual Budget;
- d) Statistical and analytical reports on public debt and borrowing; and
- e) Annual Public Debt Management Performance Report.

14.2 Annual Public Debt Management Report

The PFM Act, Cap. 412A mandates the PDMO to prepare and disseminate the APDMR. The Report provides comprehensive information on public debt management initiatives including a review of the financing of the budget deficit during the preceding fiscal year, composition of public debt, sustainability as well as the medium-term debt outlook.

During the period under review, the National Treasury prepared and disseminated the 2024/2025 APDMR.

The Annual Public Debt Management Reports are available on the National Treasury website <https://www.treasury.go.ke/annual-debtmanagement-reports>.

14.3 Medium-Term Debt Management Strategy

The MTDS provides a policy framework for guiding Government borrowing activities and public debt management over the medium term. It seeks to ensure that the public debt portfolio attains desired composition at the lowest cost and a prudent degree of risk.

During the year under review, the National Treasury prepared, published and disseminated the 2025 MTDS in accordance with the provisions of Sections 33 (1) of the PFM Act Cap. 412A.

The MTDS can be accessed on the National Treasury website through <https://www.treasury.go.ke/medium-term-debt-management-strategy>

14.4 Statistical and Analytical Reports

During the period under review, the National Treasury prepared and published twelve (12) monthly public debt bulletins. The bulletins provide regular updates on developments in public debt including changes in the level and composition, debt service obligations and Government borrowing activities.

The public debt bulletins can be accessed on the National Treasury website through <https://www.treasury.go.ke/monthly-bulletins/>

14.5 Annual Borrowing Plan

The National Treasury prepared and publicized its 2025 Annual Borrowing Plan (ABP) in accordance with Section 64(2)(b) of the PFM Act, Cap. 412A and the PFM Regulations, and the Public Debt and Borrowing Policy, 2020. The ABP is a tool used to implement the MTDS for each fiscal year.

The Plan can be accessed on the National Treasury website through <https://www.treasury.go.ke/annual-borrowing-plans>

14.6 External Resources Estimates Handbook

The External Resources Estimates Handbook provides a summary of all on-budget Programmes and projects financed through external borrowing as sourced by the Government. It contains details of the externally financed projects and programs as reflected in the development budget estimates.

During the period under review, the National Treasury prepared and published the External Resources Estimates Handbook for FY 2025/26 and made it available on its website through <https://www.treasury.go.ke/kenya-external-resources-policy/>.

14.7 Report on New Loans Contracted by Government

Section 33(3) of the PFM Act, Cap. 412 requires the National Treasury to report to Parliament every four months on new loans. During FY 2025/26, The National Treasury prepared and submitted the required reports on new borrowing to Parliament.

14.8 Public Debt Register

In the FY 2025/26, the National Treasury prepared and published the public debt register. The register contains details of loans contracted by the Government. The register is prepared in line with the requirements of the PFM Act, Cap. 412A and the Public Audit Act, Cap. 412B.

14.9 Annual Public Debt Management Performance Report

During FY 2025/26 the National Treasury prepared Annual Performance Report for the PDMO. The Report provided performance of PDMO assessed against its mandate and institutional responsibilities for public debt borrowing.

The PDMO Annual Performance Report can be accessed through <https://www.treasury.go.ke/pdmo-annual-performance-report>

CHAPTER FIFTEEN: PUBLIC DEBT AUDIT

15.1 Introduction

This Annual Public Debt Management Report is prepared pursuant to the Constitution of Kenya, the Public Finance Management (PFM) Act, 2012, its attendant Regulations, and other relevant legislation governing public debt management. In particular, Sections 47(9), 68(2)(k), and 80–83 of the PFM Act require the National Treasury, through the Public Debt Management Office (PDMO), to maintain comprehensive records of public debt, and provide regular reports on the status and performance of public debt. These provisions are intended to promote prudent borrowing, safeguard debt sustainability, and enhance transparency and accountability in the management of public debt.

This Report presents an overview of Kenya's public debt portfolio and debt management operations during the Financial Year 2025/26. It provides information on borrowing activities, debt servicing, debt portfolio developments, risk management, on-lending operations, compliance with the Medium-Term Debt Management Strategy, and the overall performance of the public debt portfolio. The Report also highlights key developments in the legal, policy, and institutional framework for debt management, as well as emerging fiscal and debt-related risks that may affect the achievement of national fiscal objectives.

In line with Article 229 of the Constitution and Section 7(1) of the Public Audit Act, 2015, the management of public debt remains subject to independent audit and oversight by the Office of the Auditor-General, thereby strengthening accountability and assurance in the stewardship of public resources.

15.2 Statutory audit of public debt financial statements

Two statutory public debt audits were undertaken during the period under review:

- (i) Audit of the Financial Statements of Consolidated Fund Services – Public Debt for the year ended 30th June 2025, for which an audit opinion has been issued.
- (ii) Audit of the Financial Statement of the Receiver of Revenue – External Resources.

The audits were carried out in fulfilment of the constitutional and statutory mandate of the Auditor-General to audit and report on public and other public resources.

15.3 Performance audit on the management of public debt in Kenya

The performance audit in respect to the public debt management during the reporting period is ongoing. It is intended to assess whether the National Treasury has managed national government borrowing in a manner that enhances public debt sustainability within the prevailing legal and policy framework.

The objectives of the audit are:

- (i) To determine whether the National Treasury optimizes its loan processes of sourcing, analysis, recording and settlement to ensure that funds are secured at minimal cost and with controlled risk.
- (ii) To assess the adequacy and timeliness of the National Treasury's institutional policies, legal framework and guidance in accommodating and regulating new financial instruments in line with best practice.

15.4 Performance audit on the management of fiscal risk

The audit is ongoing. It seeks to assess whether the processes instituted by the National Treasury minimise the materialisation of fiscal risk in Kenya. Its main objectives are:

- (i) To assess the adequacy of the fiscal risk management framework, guidelines and policies for identifying and assessing fiscal risk.
- (ii) To assess whether there are effective monitoring and mitigation strategies for the management of fiscal risk.
- (iii) To assess whether the measures instituted by the National Treasury ensure adequate disclosure and timely reporting of fiscal risks.
- (iv) To assess whether the measures instituted by the National Treasury ensure adequate monitoring, control and oversight of fiscal risk management.

15.5 Forensic Audit on Public Debt Stock in Kenya

Following requests by the National Assembly and the Executive Office of the President for a forensic and special audit of Kenya's public debt stock, an entry meeting was held on 25th September 2024 to commence the audit process. The audit was initiated against the backdrop of growing public concern regarding the transparency, accountability, and historical accumulation of public debt, and follows the Government's announcement in June 2025 of a comprehensive review of the country's public debt portfolio.

The forensic audit is ongoing and seeks to establish the accuracy and completeness of Kenya's public debt stock and to evaluate the debt acquisition process from conceptualisation and contracting through disbursement, utilisation, servicing, and repayment. Specifically, the audit aims to ascertain the total value of public debt, including external debt, guaranteed debt, and domestic debt; reconcile loan proceeds with the records of the National Treasury, lenders, and implementing agencies; assess value for money in the acquisition and utilisation of borrowed funds; evaluate the adequacy of the public finance management and legal framework governing public debt; and examine other matters related to public debt, including pending bills and public-private partnership obligations.

As part of the audit, a comprehensive review of the total public debt stock is being undertaken. This includes verification of the categorisation, principal amounts, borrowing terms, interest costs, fees, penalties, restructuring arrangements, and legal compliance of external public debt. The audit is also assessing the legal existence of creditors, drawdowns made under loan agreements, and the Government's contribution towards debt obligations. For domestic public debt, the audit is examining the categorisation of debt instruments, applicable legal provisions, interest costs, transaction charges, rollover risks, and any restructuring arrangements. In respect of guaranteed debt, the audit is reviewing the composition of domestic and external guaranteed loans, the classification of guarantees, borrowing entity details, creditor information, and any encumbrances associated with guaranteed obligations.

The audit further seeks to reconcile loan proceeds with exchequer receipts and disbursements. This involves comparing amounts provided under loan agreements with National Treasury records, special accounts, Central Bank of Kenya accounts, and exchequer receipts. Loan

servicing and repayment records are also being reconciled against loan terms and conditions. For domestic debt instruments, including Treasury Bills and Treasury Bonds, the audit is reviewing prospectus amounts, borrowing records, actual receipts, and disbursements, while investigating any deviations or variances. Similar reconciliation procedures are being undertaken for guaranteed loans and government overdraft facilities, including an assessment of compliance with statutory borrowing limits and the basis for interest charges.

A key component of the audit involves assessing value for money in both the acquisition and utilisation of public debt. The audit is examining whether borrowing decisions were justified by financing needs and whether alternative financing mechanisms, such as public-private partnerships, were adequately considered. It is also reviewing the Government's exposure to foreign exchange risks, the suitability of borrowing instruments used, the extent of penalties and commitment fees incurred, and the implications of debt on fiscal sustainability. In addition, the audit is assessing whether loan proceeds were applied to their intended purposes through a review of project planning, implementation, monitoring arrangements, and physical verification of selected projects funded through borrowed resources.

The audit also includes an assessment of the adequacy of the public finance management, legal, and institutional framework governing public debt management. This entails reviewing relevant laws, policies, systems, and controls relating to the management of external and domestic debt, identifying gaps in existing arrangements, evaluating the effectiveness of the Public Debt Management Office, and assessing the legal basis for Treasury Bill self-redeeming arrangements managed through the Central Bank of Kenya.

In addition, the audit is examining contingent and undisclosed obligations that may have implications for public debt sustainability. These include public-private partnership commitments, county government overdrafts, pending bills, pension liabilities, letters of credit, court awards, insurance liabilities, lease obligations, credit guarantee schemes, and any county borrowing guaranteed by the National Government. The audit is also reviewing compliance with the approved debt ceiling and its implications for fiscal sustainability.

Upon completion, the audit is expected to identify any irregularities, control weaknesses, governance gaps, and instances of management responsibility associated with the acquisition,

management, and utilization of public debt. The findings and recommendations will provide a basis for strengthening public debt management, enhancing accountability, and promoting long-term debt sustainability.

15.6 Audit of on-lending activities

The overall objective of the audit was to assess the effectiveness of the mechanisms established by the Directorate of Government Investment and Public Enterprises (D-GIPE) in the administration and oversight of on-lent loans, with a view to determining whether public funds were applied for their intended purposes and whether State-Owned Enterprises (SOEs) met their repayment obligations in a timely manner. The audit also sought to establish whether the existing governance, risk management and monitoring arrangements were adequate to safeguard public resources and minimise credit and recovery risks associated with on-lending operations.

The specific objectives were:

- i. To assess the adequacy and effectiveness of the credit appraisal and risk assessment mechanisms employed by Government Investment and Public Enterprises Department in evaluating the financial capacity and risk profile of SOEs, and to determine whether on-lent loans were granted only to eligible entities with the capacity to meet their repayment obligations.
- ii. To assess whether Government Investment and Public Enterprises Department had established effective monitoring, reporting and loan administration mechanisms to ensure compliance with loan terms and conditions, proper utilisation of funds by beneficiary SOEs, and timely repayment of principal, interest and other related obligations.
- iii. To assess the adequacy of measures implemented by Government Investment and Public Enterprises Department to identify, manage and mitigate credit risks, including the monitoring of loan performance, management of arrears and recovery of outstanding loan balances. The audit was completed and the findings are presented in this report.