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

PREPARED BY PUBLIC DEBT MANAGEMENT OFFICE  
THE NATIONAL TREASURY

FEBRUARY 2026

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© **Medium-Term Debt Management Strategy (MTDS) (2026/27—2028/29)**

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## FOREWORD

In Kenya Medium-Term Debt Management Strategy (MTDS) is an annual publication that guides public borrowing and public debt management by the Government cognizant of public debt sustainability, costs and risks minimization over the medium term. The 2026 MTDS has been prepared pursuant to Section 33 of the Public Finance Management Act, Cap. 412A.

The MTDS informs the desired structure of public debt portfolio reflective of cost and risk trade-offs. In addition, the MTDS highlights the Government's commitment to maintain public debt at sustainable level. The Strategy recognizes diversification of the public debt structure and deepening of the domestic debt market as a necessity in mitigating exchange rate risks.

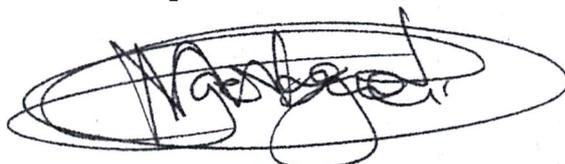
The National Treasury will continue to assess and monitor macroeconomic and market developments both domestically and globally, thereby, exploring the opportunities for diversifying sources of borrowing. Consideration will also be given to innovative financing instruments over the medium term to improve the debt maturity profile.

Furthermore, the National Treasury will continue to pursue domestic debt market reforms aimed at reducing the cost of debt and mitigating risks inherent in public debt while also strengthening the legal, policy, and institutional framework to ensure effective public debt management.

Measures aimed at addressing public debt vulnerabilities, including liability management operations, domestic debt market deepening, prioritizing concessional borrowing and complimented by sustained fiscal consolidation, will remain a high priority in both the short and medium term.

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

It is expected that implementation of the 2026 MTDS will yield improved debt optics in the medium term despite uncertain international capital markets landscape.



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

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## ACKNOWLEDGEMENT

The 2026 Medium Term Debt Management Strategy (MTDS) has been developed to guide public debt management for the financial year 2026/2027 and the medium term through. Designing the 2026 MTDS was informed by analysis of costs and risks of current debt portfolio composed of and observations in both the domestic and external capital markets environments in line with the objectives of the Public Debt and Borrowing Policy and the Public Finance Management Act, Cap. 412A.

The National Treasury publicized the draft 2026 MTD and invited members of public to review and provide comments to inform the final version of the 2026 MTDS. Accordingly, the National Treasury received vital inputs and comments from members of the public, which helped shape the final version of the MTDS. I am also grateful to the members of public for the inputs shared in form of written memoranda.

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

I recognize the efforts of the Public Debt Management Office for leading the technical inputs towards developing this Strategy. Additionally, preparation and finalization of the 2026 MTDS, was a collaborative effort involving various statutory Departments within the National Treasury. I thank all the officers from the various departments and directorates for their contribution to the MTDS.

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

The 2026 MTDS and previous years' editions of Medium-Term Debt Management Strategies are available for reference and information on the National Treasury website: [www.treasury.go.ke](http://www.treasury.go.ke).



**DR. CHRIS K. KIPTOO, CBS**  
**PRINCIPAL SECRETARY/ THE NATIONAL TREASURY**

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## ABBREVIATIONS AND ACRONYMS

|         |                                                       |
|---------|-------------------------------------------------------|
| MTDS    | Medium Term Debt Management strategy                  |
| USD     | United States Dollar                                  |
| BPS     | Budget Policy Statement                               |
| CAP.    | Chapter                                               |
| CBK     | Central Bank of Kenya                                 |
| PFM     | Public Finance Management                             |
| GDP     | Gross Domestic Product                                |
| DSA     | Debt Sustainability Analysis                          |
| PV      | Present Value                                         |
| BETA    | Bottom-up Economic Transformation Agenda              |
| ATM     | Average Time to Maturity                              |
| IMF     | International Monetary Fund                           |
| SDR     | Special Drawing Rights                                |
| IDA     | International Development Association                 |
| IBRD    | International Bank for Reconstruction and Development |
| ADF     | African Development Fund                              |
| KPA     | Kenya Ports Authority                                 |
| KQ      | Kenya Airways                                         |
| DSSI    | Debt Service Suspension Initiative                    |
| IR      | Interest Rate                                         |
| ATR     | Average Time to Refixing                              |
| FX      | Foreign Exchange                                      |
| FY      | Financial Year                                        |
| PPG     | Public and Publicly Guaranteed                        |
| KESONIA | Kenya Shilling Overnight Interbank Average            |
| ESG     | Environment, Social and Governance                    |
| FY      | Financial Year                                        |
| DSA     | Debt Sustainability Analysis                          |
| ST      | Short Term                                            |
| LMO     | Liability Management Operations                       |
| SLB     | Sustainability Linked Bond                            |
| CI      | Composite Indicator                                   |
| DX      | Domestic Currency Debt                                |
| KenGen  | Kenya Electricity Generation Company                  |

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## EXECUTIVE SUMMARY

The 2026 Medium Term Debt Management Strategy (MTDS) has been prepared in accordance with Section 33 (2) of the Public Finance Management (PFM) Act, Cap. 412A. The Strategy is formulated to guide management of Kenya's public debt over the period FY 2026/27-2028/29. It outlines the strategies and initiatives aimed at minimizing costs at a prudent degree of risk over the medium term.

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

The 2025 Debt Sustainability Analysis (DSA) by the National Treasury indicates that Kenya's public debt remains sustainable but with high risk of debt distress. The Present Value (PV) of public debt stood at 65.3 percent of GDP at the end of 2025.

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

The 2026 MTDS aims to reduce public debt costs and risks by sourcing 18 percent gross borrowing from external sources and 82 percent from domestic sources over the medium term. From the domestic sources, the strategy is to gradually reduce the stock of Treasury Bills while lengthening debt maturity by issuance of medium to long term debt securities. From external sources the target is to mix concessional financing, new instruments such as guaranteed sustainability linked bonds and minimal commercial borrowing.

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

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## I. INTRODUCTION

1. The Medium–Term Debt Management Strategy (MTDS) is a policy framework that aims to ensure that public debt is sustainable and financing needs are met at minimum cost with prudent risk, supporting macroeconomic stability and development goals.
2. The framework guides the National Treasury in pursuing structure of the public debt portfolio which reflects the desired costs and risks trade-offs under ensuing capital markets evolution, and supports the fiscal deficit financing as outlined in the Budget Policy Statement (BPS).
3. The 2026 MTDS has been prepared in conformity to Section 33(2) and 63(c) of Public Finance Management Act, Cap. 412A. Sections 12 (1) (b) and 62(b) of the Act which mandates the National Treasury to manage the levels and composition of public debt, including guarantees and other financial obligations.

### a) Objectives of the 2026 Medium Term Debt Management Strategy

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

### b) Scope of the 2026 MTDS

5. The MTDS provides a clear pathway for Government to navigate public debt challenges, turning vulnerabilities into opportunities for market development and sustainable growth. Analysis informing the Strategy takes into account the outstanding public debt and projected borrowing and debt service and aim at stabilizing costs and risks of public debt taking into account the conditions in the international and domestic capital markets.

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6. In the stock of public debt informing development of this MTDS, and in line with IMF/World Bank recommended best practice, public debt excluded uncalled guaranteed debt amounting to KSh. 83.24 billion, KSh.67.63 billion in Government overdraft at Central Bank of Kenya (CBK), KSh. 14.42 billion in Suppliers credit, KSh. 80.56 billion from International Monetary Fund (IMF) Special Drawing Rights (SDR) Allocation and KSh. 14.79 billion commercial Banks advances, amounts to KSh. 260.64 billion.

**c) Organisation of the document**

7. The succeeding sections comprise: Review of the Existing Public Debt Stock; Costs and Risks Analysis of the Existing Public Debt Portfolio; Review of Performance of the 2024 MTDS; Kenya's Debt Sustainability; Macroeconomic Assumptions and Key Risks; Assessment of Potential Sources of Financing; Debt Management Strategy; Public Debt Management Reform Initiatives; and Annexes.

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## II. REVIEW OF THE EXISTING PUBLIC DEBT STOCK

1. As at end June 2025, the stock of public and publicly guaranteed debt was Ksh. 11,814.47 billion (67.8 percent of GDP), equivalent to USD 91.42 billion in nominal terms. Domestic debt was Ksh. 6,326.01 billion while external debt was Ksh. 5,488.46 billion (**Table 1**).
2. Therefore the 2026 MTDS analysis takes into account public debt stock of Ksh. 11,553.82 billion or USD 89.40 billion.

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

| Description                                | Ksh. (billions)  | USD (billions)* |
|--------------------------------------------|------------------|-----------------|
| <b>A. Domestic Debt (included in MTDS)</b> |                  |                 |
| Treasury Bills                             | 1,036.88         | 8.02            |
| Treasury Bonds                             | 5,110.02         | 39.54           |
| Pre-1997 Government Debt                   | 16.12            | 0.12            |
| <b>Sub Total</b>                           | <b>6,163.02</b>  | <b>47.69</b>    |
| <b>B. External debt (included in MTDS)</b> |                  |                 |
| IDA/IBRD                                   | 1,927.10         | 14.91           |
| ADF/AfDB                                   | 550.24           | 4.26            |
| Bilateral                                  | 1,032.81         | 7.99            |
| Multilateral                               | 568.05           | 4.40            |
| Commercial Banks                           | 289.90           | 2.24            |
| International Sovereign Bond               | 1,022.70         | 7.91            |
| <b>Sub Total</b>                           | <b>5,390.80</b>  | <b>41.71</b>    |
| <b>TOTAL DEBT Included in MTDS (A+B)</b>   | <b>11,553.82</b> | <b>89.40</b>    |
| <b>C. Excluded from MTDS</b>               |                  |                 |
| Suppliers Credit (external)                | 14.42            | 0.11            |
| CBK Overdraft (domestic)                   | 67.63            | 0.52            |
| IMF SDR Allocation (domestic)              | 80.56            | 0.62            |
| Performing Guarantees (external)           | 83.24            | 0.64            |
| Bank advances (domestic)                   | 14.79            | 0.11            |
| <b>Sub Total Excluded from MTDS</b>        | <b>260.64</b>    | <b>2.02</b>     |
| <b>TOTAL DEBT (A+B+C)</b>                  | <b>11,814.47</b> | <b>91.42</b>    |
| <b>Domestic</b>                            | <b>6,326.01</b>  | <b>48.95</b>    |
| <b>External</b>                            | <b>5,488.46</b>  | <b>42.47</b>    |

*Source: The National Treasury and Central Bank of Kenya*

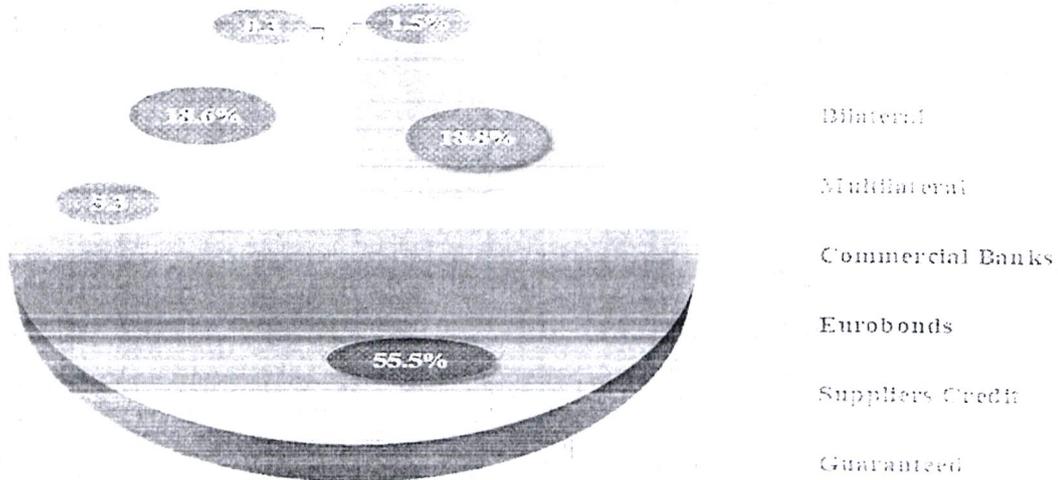
*\*Exchange Rate (USD/Ksh) is 129.2343*

3. External public debt comprises those sourced from multilateral, bilateral, commercial creditors and external performing guarantees while domestic debt comprises Treasury bonds, Treasury bills, Pre-1997 Government debt, CBK Overdraft, bank advances and IMF SDR allocation. As a proportion of total external debt, multilateral debt accounted for 55.5 percent (**Figure 1**). The high proportion of multilateral and bilateral debt reflects the Government's deliberate strategy of

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maximizing the use of concessional financing and minimizing the use of commercial debt.

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



Source: The National Treasury

- Government guaranteed debt as at end June 2025 amounted to Ksh.83.24 billion. The guaranteed debt is held by Kenya Ports Authority (KPA), Kenya Electricity Generation Company (KenGen) and Kenya Airways (KQ) (Table 2).

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

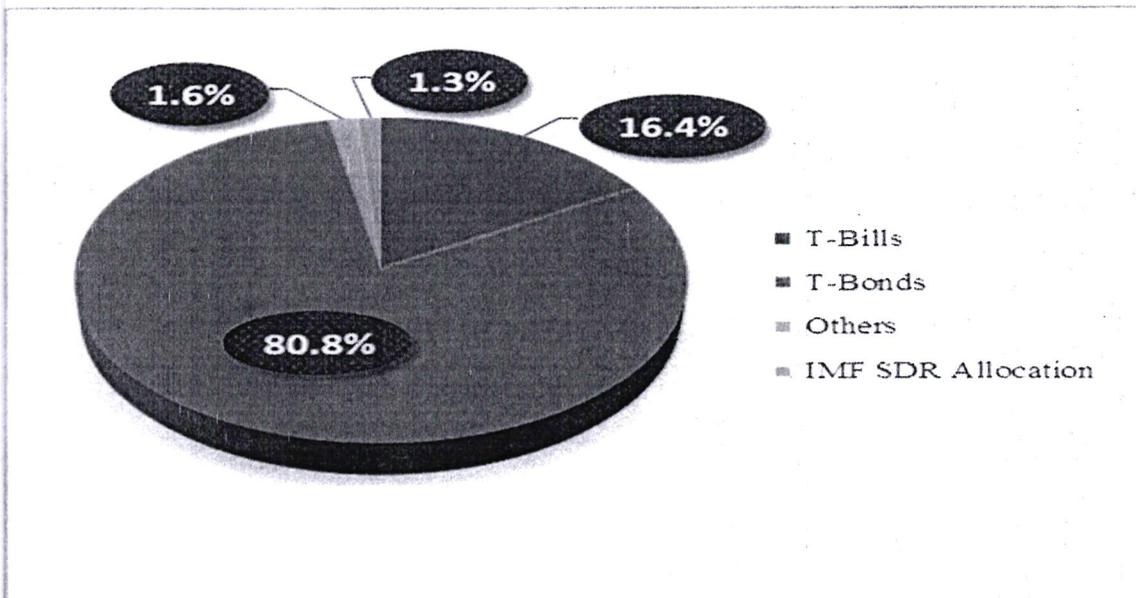
| Agency                               | Agreement Date/Year | Project                                                    | Creditor                               | Amount (Ksh Mns) |
|--------------------------------------|---------------------|------------------------------------------------------------|----------------------------------------|------------------|
| Kenya Electricity Generating Company | 1997                | Sondu Miriu Hydropower Project                             | Government of Japan                    | 608              |
|                                      | 2004                | Sondu Miriu Hydro Power II                                 | Government of Japan                    | 5,907            |
|                                      | 2007                | Sondu - Miriu Hydropower Project Sangoro Power Plant       | Government of Japan                    | 2,798            |
|                                      | 2010                | Olkaria 1 Unit 4 and 5 Geothermal Power Project            | Government of Japan                    | 16,107           |
|                                      | 2011                | Rehabilitation and Upgrade of the Geothermal Plant Olkaria | Government of Fed. Republic of Germany | 791              |
|                                      | 2021                | DSSI Japan For KenGen Loans Phase I                        | Government of Japan                    | 526              |
|                                      | 2021                | DSSI Japan For KenGen Loans Phase II                       | Government of Japan                    | 655              |
| Kenya Ports Authority                | 2007                | Mombasa Port Development Programme (Mombasa Port A)        | Government of Japan                    | 15,726           |
|                                      | 2007                | Mombasa Port Development Programme (Mombasa Port)          | Government of Japan                    | 1,720            |

| Agency        | Agreement Date/Year | Project                                                   | Creditor                                                                | Amount (Ksh Mns) |
|---------------|---------------------|-----------------------------------------------------------|-------------------------------------------------------------------------|------------------|
|               | 2015                | Kenya Port Development Project - Phase II (Principal I)   | Government of Japan                                                     | 25,490           |
|               | 2015                | Kenya Port Development Project - Phase II (Principal IIA) | Government of Japan                                                     | 2,858            |
|               | 2021                | DSSI Japan-Kenya Ports Authority (KE-P25) -Phase I        | Government of Japan                                                     | 162              |
|               | 2021                | DSSI Japan-Kenya Ports Authority (KE-P25) -Phase II       | Government of Japan                                                     | 203              |
| Kenya Airways | 2017                | Kenya Airways Guarantee (for Local Banks)                 | MTC Trust & Corporate Services Limited (Security Agent for Local Banks) | 9,690            |
| <b>Total</b>  |                     |                                                           |                                                                         | <b>83,241</b>    |

Source: The National Treasury

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

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



Source: The National Treasury

### III. COST AND RISKS OF THE EXISTING PUBLIC DEBT PORTFOLIO

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

**Table 3 : Cost and Risk Indicators for Existing Debt**

| Risk Indicators                   |                                                    | External Debt |      | Domestic Debt |       | Total Debt |      | Remarks                                                                   |
|-----------------------------------|----------------------------------------------------|---------------|------|---------------|-------|------------|------|---------------------------------------------------------------------------|
|                                   |                                                    | 2024          | 2025 | 2024          | 2025  | 2024       | 2025 |                                                                           |
| Nominal debt as percentage of GDP |                                                    | 32.1          | 31.5 | 33.6          | 36.3  | 65.7       | 67.8 | High debt burden.                                                         |
| PV as percentage of GDP           |                                                    | 30.8          | 28.3 | 34.9          | 37.0  | 65.7       | 65.3 |                                                                           |
| Cost of debt                      | Interest payment as percentage of GDP              | 1.2           | 1.3  | 4.3           | 4.6   | 5.4        | 5.9  | Rising cost of debt due to high domestic interest rate                    |
|                                   | Weighted Av. IR (percentage)                       | 3.8           | 4.0  | 13.2          | 13.0  | 8.5        | 8.8  |                                                                           |
| Refinancing risk                  | ATM (years)                                        | 9.5           | 10.0 | 6.6           | 6.4   | 8.1        | 8.3  | High refinancing risk due to increased uptake of short-term domestic debt |
|                                   | Debt maturing in 1yr (percentage of total)         | 5.2           | 6.9  | 17.6          | 20.5  | 11.2       | 13.3 |                                                                           |
|                                   | Debt maturing in 1yr (percentage of GDP)           | 1.9           | 2.8  | 5.7           | 7.3   | 7.5        | 10.0 |                                                                           |
| Interest rate risk                | ATR (years)                                        | 7.9           | 8.4  | 6.6           | 6.4   | 7.3        | 7.4  | Overall, the interest rate risk has reduced                               |
|                                   | Debt re-fixing in 1yr (percentage of total)        | 31.0          | 28.8 | 17.6          | 20.5  | 24.6       | 24.9 |                                                                           |
|                                   | Fixed rate debt incl T-bills (percentage of total) | 71.8          | 74.8 | 100           | 100.0 | 85.2       | 86.6 |                                                                           |
|                                   | T-bills (percentage of total)                      |               |      | 10.7          | 15.6  | 5.1        | 7.3  |                                                                           |
| FX risk                           | FX debt (percentage of total debt)                 |               |      |               |       | 49.3       | 47.0 | Reduced foreign exchange rate risk                                        |
|                                   | ST FX debt (percentage of reserves)                |               |      |               |       | 27.5       | 40.5 |                                                                           |

Source: The National Treasury

2. The domestic debt with maturity of 4 to 10 years was 34.2 percent as at end June 2025. The proportion of instruments with less than one year to maturity increased to 21.6 percent as at end June 2025 from 18.6 percent as at end June 2024 and this was attributed to uptake of short-term instruments. Additionally, the proportion of instruments with maturity of 2-3 years as at end June 2025 increased to 23.1 percent from 13.5 percent as at end June 2024. However, the proportion of instruments with

maturity of above 11 years as at end June 2025 decreased to 21.1 percent from 22.2 percent as at end June 2024 due to uptake of short-term debt (Table 4).

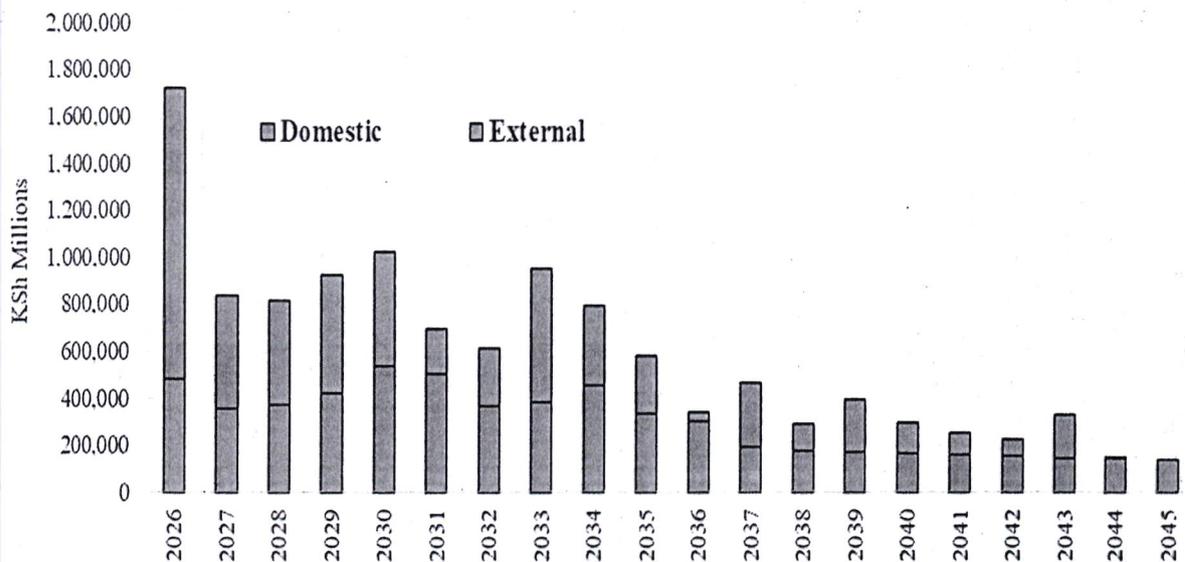
**Table 4: Domestic Debt Securities by Maturity Profile, in USD Equivalent**

| Remaining Maturity in Years | End June 2024 In million USD | As Percent of Total | End June 2025 In million USD | As Percent of Total |
|-----------------------------|------------------------------|---------------------|------------------------------|---------------------|
| Less than one year          | 7,525                        | 18.6                | 10,306                       | 21.6%               |
| 2 to 3 years                | 5,482                        | 13.5                | 10,966                       | 23.1%               |
| 4 to 5 years                | 7,113                        | 17.6                | 5,222                        | 11.0%               |
| 6 to 10 years               | 11,377                       | 28.1                | 11,015                       | 23.2%               |
| Above 11 years              | 8,982                        | 22.2                | 10,055                       | 21.1%               |
| <b>Total</b>                | <b>40,479</b>                | <b>100.0</b>        | <b>47,564</b>                | <b>100.0%</b>       |

*Source: The National Treasury*

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

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



*Source: The National Treasury*

#### IV. REVIEW OF PERFORMANCE OF THE 2024 MTDS

1. The revised 2024 MTDS aimed at prioritizing concessional financing and limiting the use of commercial borrowing as well as to deepen domestic debt market and lower portfolio risks by shifting issuance toward medium- to long-term Treasury bonds and reducing reliance on Treasury bills.
  
2. The strategy envisaged that 55 percent of net deficit financing would be met through domestic sources, with the remaining 45 percent obtained externally. In practice, however, the financing mix shifted to 83 percent net domestic financing and 17 percent net external financing (Table 5). This deviation was largely due to delays in external disbursements, which required greater reliance on domestic borrowing.

**Table 5: MTDS Targets Against Net Financing Outturn**

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

*Source: National Treasury*

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

**Table 6 : Gross Borrowing**

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

*Source: National Treasury*

4. In February 2025, the National Treasury successfully issued a new USD 1.5 billion Eurobond maturing in 2036. Part of the proceeds was used to repurchase USD 579 million of the USD 900 million Eurobond due in 2027. This liability management operation was undertaken to smoothen the debt maturity profile by spreading repayment obligations over a longer horizon and easing near-term refinancing pressures.
  
5. The average maturity of new external debt shortened to 15.6 years at end-June 2025, down from 20.5 years in June 2024. Over the same period, the weighted average interest rate declined to 4.3 percent at end-June 2025 from 4.6 percent in June 2024, while the average grace period eased slightly to 3.7 years at end-June 2025 from 4.4 years in June 2024 (Table 7).

**Table 7: Average Terms of New External Debt**

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

*Source: The National Treasury*

## V. KENYA'S DEBT SUSTAINABILITY

1. The National Treasury undertook debt sustainability analysis in September 2025 and the analysis indicates that the public debt remains sustainable but at high risk of debt distress.
2. The External Debt Sustainability Analysis (DSA) indicates that while the present value (PV) of external debt relative to GDP remains below the 40 percent threshold throughout the projection period, the PV of public and publicly guaranteed (PPG) external debt relative to exports is expected to be below the 180 percent limit through 2030 from 2026. Furthermore, debt service pressures are significant, as the debt service-to-revenue ratio breached the 18 percent threshold between 2024 and 2025 due to heavy maturities and thereafter is projected to be below the threshold while the debt service-to-exports ratio is anticipated to remain above the 15 percent sustainability benchmark through 2030 (Table 8).

**Table 8: External Debt Sustainability Analysis**

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

*Source: The National Treasury*

3. The Present Value (PV) of total public debt as a percentage of GDP is projected to remain above the 55 percent benchmark over the medium term (Table 9).

**Table 9: Public Debt Sustainability Analysis**

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

*Source: The National Treasury*

## VI. MACROECONOMIC ASSUMPTIONS AND KEY RISKS

### a) Baseline Macroeconomic Assumptions

1. The 2026 MTDS is anchored on the macroeconomic assumptions outlined in the 2026 Budget Policy Statement (BPS).
2. The global economy projected to decelerate to 3.2 percent in 2025 and 3.1 percent in 2026 from a growth of 3.3 percent in 2024. Advanced economies are projected to grow at 1.6 percent in 2025 and maintain the same growth momentum through 2026 from a growth of 1.8 percent recorded in 2024. At the regional level, growth in Sub-Saharan Africa is expected to remain subdued at 4.1 percent in 2025 and pick up to 4.4 percent in 2026 from a growth of 4.1 percent in 2024. This growth will be supported by easing inflationary pressures, recovery in domestic demand, improved macroeconomic stability, and gradual productivity gains across key sectors.
3. Domestic interest rates have declined in line with the easing of monetary policy by the Central Bank of Kenya, following a gradual reduction of the Central Bank Rate from 13.0 percent in August 2024 to 9.25 percent in October 2025 to support private sector credit and economic activity. Short-term rates fell markedly, with the overnight interbank rate (KESONIA) declining to 9.3 percent in October 2025 from 12.1 percent a year earlier, while the 91-day, 182-day, and 364-day Treasury Bills rates declined to 7.9 percent, 7.9 percent, and 9.4 percent respectively, from between 14.4 percent, 15.1 percent, 15.5 percent at end October 2024, thereby lowering domestic debt servicing costs. Consistent with these developments, commercial banks' average lending and deposit rates decreased to 15.1 percent and 7.6 percent, respectively, in September 2025, with the interest rate spread widening to 7.4 percent from 5.7 percent in the same period in 2024.

### b) Key Risks to Macroeconomic Assumptions

5. The risks to the 2026 MTDS strategy are:
  - a) Unpredictable weather conditions that may adversely affect agricultural output, real GDP growth, and inflation;
  - b) Tight fiscal space and a potential increase in projected financing needs;
  - c) Uncertainty in the global economic outlook, which may affect external demand and capital flows;
  - d) Constraints in accessing concessional financing, leading to increased reliance on costlier sources of financing;
  - e) Underperformance of Government Securities auctions, which may affect the achievement of domestic borrowing targets;
  - f) Delays or failure to absorb external financing from creditors, potentially resulting in budget underfunding;

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- g) Underperformance in revenue collection, increasing borrowing requirements;
- h) Depreciation of the Kenya shilling against major currencies, which may raise debt service costs, heighten fiscal pressures, and contribute to inflationary pass-through;
- i) Materialization of fiscal risks and contingent liabilities arising from debt obligations of state-owned enterprises; and
- j) Risk of credit rating downgrades, which could increase borrowing costs and limit access to external financing.

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## VII. ASSESSMENT OF POTENTIAL SOURCES OF FINANCING

In a rapidly evolving international capital markets and geopolitical dynamics, the Government will continue to focus more on concessional funding sources and minimise recourse to expensive commercial debt. Focus will be on traditional sources of funding while exploring frontier diversification sources. Thus, target funding sources will include:

1. Primary sources in domestic and external markets for deficit financing including issuance of Treasury Bonds and Treasury Bills for cash management purposes in the domestic market international bond issuances.
2. External borrowing will be majorly from concessional loans from multilateral, bilateral and limited commercial loans such as syndicated loans.
3. Debt source diversification liability management options frontiers will include: Green & Sustainability-Linked Bonds (SLBs), Diaspora Bonds, Domestic Retail Digital Bonds via Mobile Money, debt swaps, Samurai, Panda Bonds, Environmental, Social and Governance (ESG) debt instruments to fund budget deficit and manage public debt.

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## VIII. DEBT MANAGEMENT STRATEGY

## a) Overall Debt Management Strategy 2026

1. The 2026 MTDS aims to reduce debt costs and risks by sourcing 18 percent gross borrowing from external sources and 82 percent from domestic sources over the medium term. From the domestic sources, the strategy is to gradually reduce the stock of Treasury bills while lengthening debt maturity and issuance of medium to long term debt securities. On the external end, the target is a mix of concessional optimisation and minimal commercial borrowing. Gross external financing would be composed of 10 percent concessional, 2 percent semi-concessional and 6 percent commercial borrowing. The expected composition of public debt at the end of the Strategy period will be 40 percent external and 60 percent domestic, as shown in Annex 2.
2. The strategy is informed by the provisions of deficits projected in the 2026 BPS, ensuing and projected market indicators, structure of the current debt portfolio and observations from costs and risks analysis of various options as highlighted below:

## b) Cost and Risk Indicators Under Alternative Debt Management Strategies

3. Analysis of various borrowing mixes and strategies has been undertaken to identify the mix and the strategy that minimises public debt costs and reduces risks to overall public debt.
4. Table 10 shows the cost and risk indicators of the four alternative strategies and Annexes 1 to 4 show more details of the alternative debt management strategies.

Table 10: Expected Cost and Risk Indicators under Alternative Strategies

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

| Cost and Risk Indicators |                             | 2025    | As at end 2029 |      |      |      |
|--------------------------|-----------------------------|---------|----------------|------|------|------|
|                          |                             | Current | S1             | S2   | S3   | S4   |
| FX risk                  | FX debt as % of total       | 47.0    | 40.2           | 39.9 | 40.4 | 48.3 |
|                          | ST FX debt as % of reserves | 40.5    | 35.3           | 31.2 | 35.6 | 38.5 |

*Source: The National Treasury*

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

5. From an array of strategies analysed in Table 10, Strategy 2 (S2) proposes balancing lower cost external borrowing with deepening domestic debt market, locking in fixed rates, and lower foreign exchange rate exposure, this strategy will lead to reduction in debt burden while safeguarding fiscal sustainability and creating space for priority national investments. S2 provides more prospective benefits in terms of costs and risks of public debt than any other alternative strategy.

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

6. Based on the MTDS analytical tool analysis, a net borrowing mix of 78 percent and 22 percent from domestic and external sources over the medium term respectively will help optimize costs and risks of financing the fiscal deficits for the MTDS period 2026/27-2028/29.

7. The strategies were evaluated against three core pillars of public debt management: (1) Risk Exposure, and (2) Access to Funding and market deepening.

**d) Projected Debt ratios expected from the selected Strategy Implementation**

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

**Pillar I: Risk Exposure and Mitigation**

8. A top concern in public debt management is mitigation of refinancing, currency, and interest rate risks.

i. Refinancing Risk: Strategy S2 reduces near-term rollover pressures. It results in the lowest stock of debt maturing within one year, at 8.4 percent of GDP. This mitigates the vulnerability to occasional market disruption and ensures smoother cash flow management.

ii. Foreign Currency (FX) Risk: Maintaining a prudent level of FX-denominated debt is critical for macroeconomic stability. Strategy S2 stabilises the share of FX debt at approximately 40 percent of the total

portfolio, a reduction from the current 47 percent by the end of the strategy period. Most importantly, it achieves the strongest liquidity coverage, with short-term FX debt falling to 31.2 percent of foreign exchange reserves. This enhances the capacity to service external obligations during periods of external stress.

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

## **Pillar II: Access to Funding and Market Deepening**

9. The composition of gross borrowing required to execute each strategy is a key factor in its practicality and long-term viability. Strategy S2 is predicated on a stable and credible funding mix. It predicts that 82 percent of gross financing needs will be met domestically, primarily through the issuance of medium- to long-term Treasury bonds. This commitment fosters the deepening of the domestic capital market, aligns with the broader financial sector development strategy, and insulates the budget from volatile international capital flows. Its external gross borrowing component is strategically focused on concessional and semi-concessional sources from multilateral and bilateral development partners, which constitute 12 percent of total external gross borrowing. Reliance on more volatile and market-sensitive commercial borrowing is limited to 6 percent to make total gross external borrowing 18 percent of total gross borrowing.

### **e) Alignment to Budget Policy Statement**

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

### **f) Risks to the Strategy**

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

**Table 11: Expected Cost and Risk Indicators of the Debt Management Strategy (2029)**

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

*Source: The National Treasury*

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

#### **g) Approaches to Deal with Debt Management Challenges**

12. The National Treasury will continuously undertake LMOs to smoothen debt maturity profile and reduce refinancing risks.
13. National Treasury should improve on cash management to reduce use of the costly overdraft.
14. Keep fiscal deficits at lower single digits and well below annual GDP growth rate slow down accumulation of public debt.
15. National Treasury to develop government securities issuance policy to guide issuance and trading of government securities to reflect market evolution over time.
16. The National Treasury to spearhead key reforms that deepen the domestic market.

**IX. PUBLIC DEBT MANAGEMENT REFORMS INITIATIVES**

1. Kenya's economic stability and long-term prosperity is strongly anchored on prudent public debt management. Achieving this requires comprehensive reforms across operations, institutions, legal frameworks, and governance structures to ensure debt sustainability, strengthen fiscal resilience, and enhance market confidence.
2. The reforms include;
  - (i) Review Debt and Borrowing Policy to bring on board liability management operations and associated instruments such as swaps, forwards and options and associated risks.
  - (ii) Develop Liability Management Policy to serve as an operational guide to ensure that liability management operations are executed in line with the medium-term debt management strategy.
  - (iii) Leverage on the Government securities CSD (DhowCSD) infrastructure to strengthen liquidity forecasting, deepen interbank and repo markets, and smoothen domestic borrowing requirements as well as fast-track the implementation of the Treasury Single Account to enhance cash management and prevent buildup of pending bills.
3. In pursuit of debt sustainability and reduce risk of debt distress, the Government will adopt targeted policy measures aimed at strengthening external debt indicators such as broadening and diversifying the export base and volumes to enhance foreign exchange earnings, accumulating, targeting and achieving lower single digit fiscal deficits, and improved Country Policy and Institutional Assessment score and maintaining adequate net international reserves to provide a stronger buffer against external shocks. These measures will improve external debt service-to-exports ratio, ease pressure on external debt sustainability thresholds, and reinforce Kenya's overall resilience in managing public debt obligations.
4. Also, to strengthen debt sustainability and mitigate risks, fiscal deficits will be maintained at levels lower than GDP growth consistently, thereby reducing vulnerabilities associated with high borrowing and high debt accumulation rate. In addition, new borrowings should be targeted at maximizing the use of concessional external financing to lower borrowing costs, while strategically extending the maturity profile of public debt through the issuance of medium to long-term bonds. These measures will ease near-term debt service pressures, improve debt sustainability indicators, and enhance Kenya's resilience in managing future financing needs.
5. The National Treasury, will continue to actively pursue Liability Management Operations (LMOs) aimed at lengthening the maturity profile of both domestic and

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external debt, thereby alleviating short-term repayment pressures and reducing rollover risks where market conditions allow. In parallel, policies that foster solid and consistent export growth, and sustained expansion of the export base are critical to strengthening external debt sustainability indicators and ensuring resilience against external shocks. Together, these measures will enhance Kenya's debt management strategy and support long-term fiscal and external stability.

6. By aligning borrowing levels more closely with long-term sustainability objectives, the Government will strengthen investor confidence, safeguard macroeconomic stability, and enhance resilience against future fiscal and external shocks. This will lead to improved sovereign credit rating and likely lower the cost of borrowing.

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## ANNEXES

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

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

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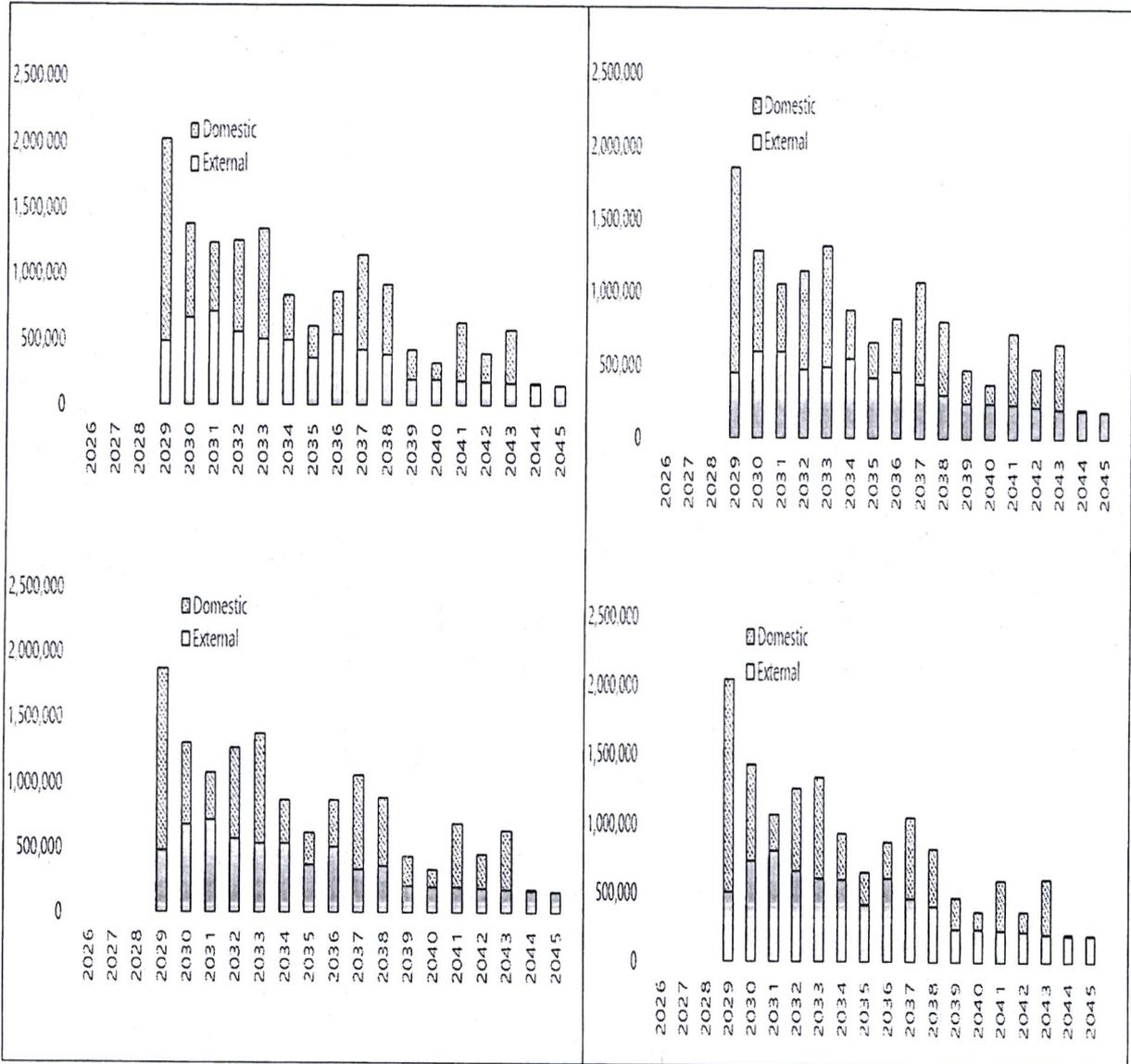
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**Annex 2: Composition of Debt Portfolio by Instrument under Alternative Strategies, (in Percent of Outstanding Portfolio as at End of -FY 2028/29)**

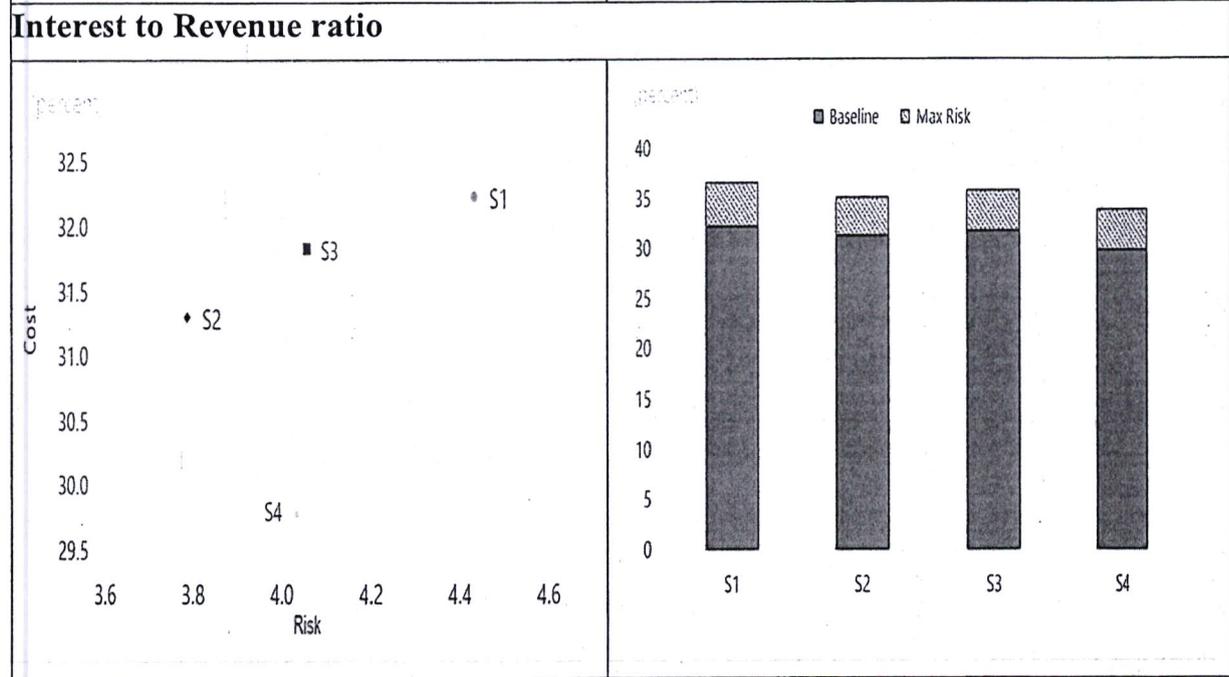
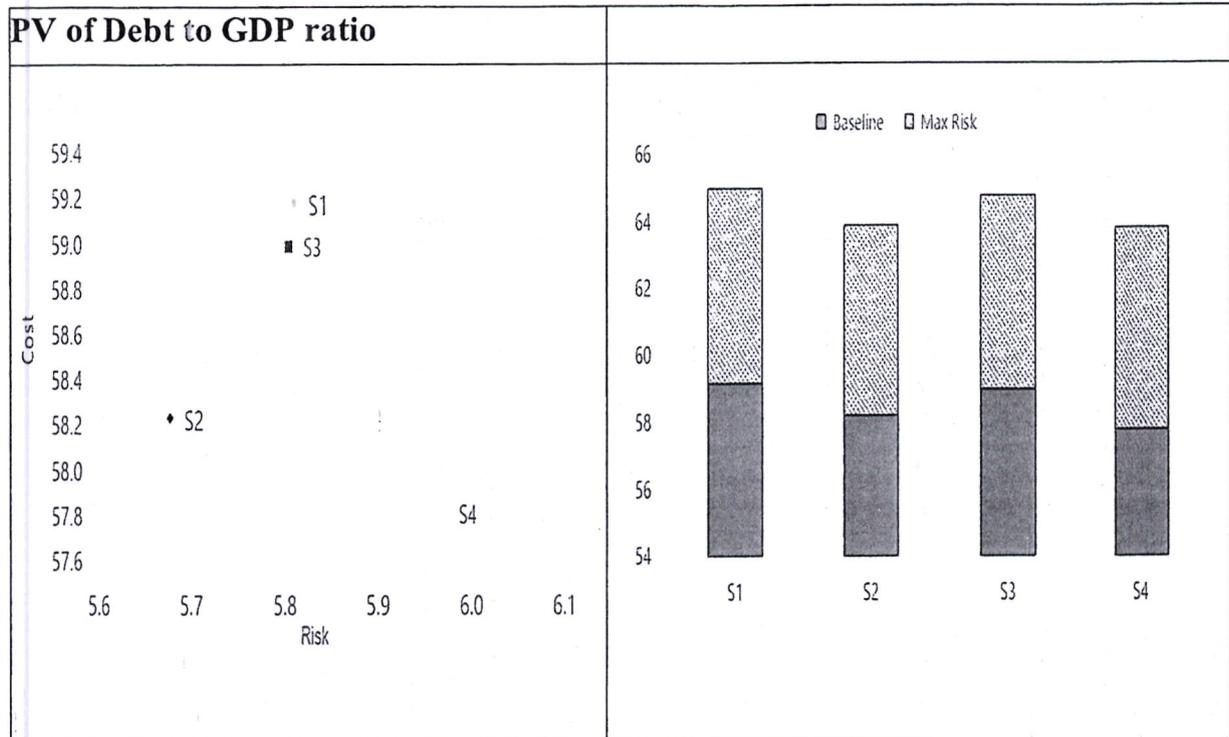
| In percent of Total<br>Outstanding by instrument | FY2025  | As at end FY2029 |     |     |     |
|--------------------------------------------------|---------|------------------|-----|-----|-----|
|                                                  | Current | S1               | S2  | S3  | S4  |
|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

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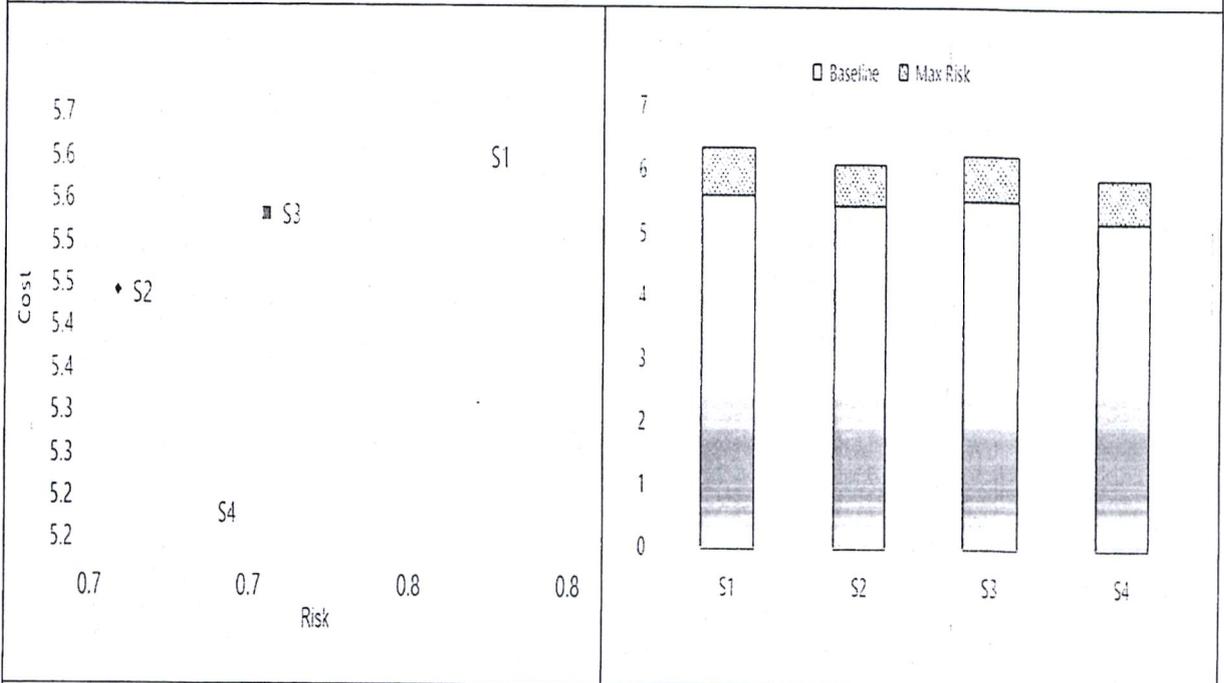
Annex 3: Redemption Profiles under Alternative Strategies (End-FY2028/29)



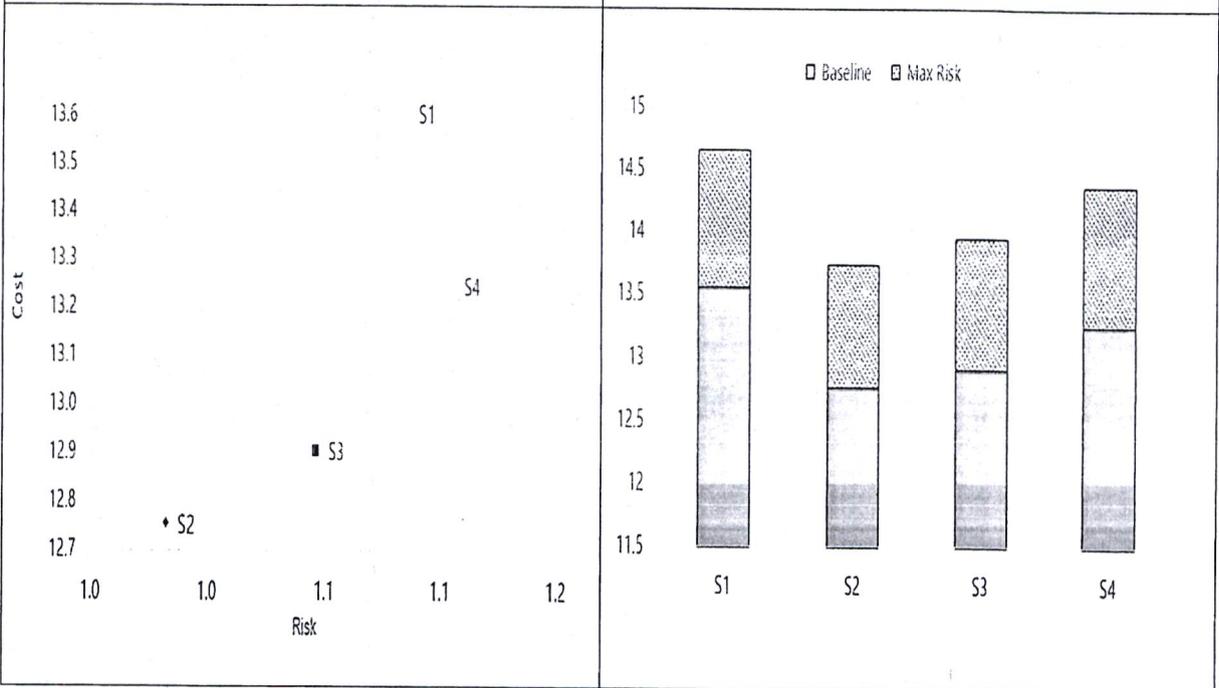
Annex 4: Cost and Risk Characteristics under Alternative Strategies



Interest to GDP ratio



Total debt service to GDP ratio



**Annex 5: Publication of the Debt Management Strategy**

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

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

