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**REPUBLIC OF KENYA
THE NATIONAL ASSEMBLY**

THIRTEENTH PARLIAMENT (FIFTH SESSION) - 2026

PUBLIC DEBT AND PRIVATIZATION COMMITTEE

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**REPORT ON THE CONSIDERATION OF THE MEDIUM-TERM
DEBT MANAGEMENT STRATEGY (FY 2026/27- FY 2028/29)**

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 25 FEB 2026	DAY: WEDNESDAY
TABLED BY:	HON. ABDUL CHURIE, MP CHAIR, PUBLIC DEBT
CLERK-AT-THE-TABLE:	ESTHER NGINYO

FEBRUARY 2026

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LIST OF ACRONYMS & ABBREVIATIONS

ATR	Average Time to Re-fixing
ATM	Average Time to Maturity
BPS	Budget Policy Statement
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CFS	Consolidated Fund Services
DhowCSD	Central Securities Depository System
DSA	Debt Sustainability Analysis
GDP	Gross Domestic Product
IMF	International Monetary Fund
MTDS	Medium-Term Debt Management Strategy
OCOB	Office of the Controller of Budget
OAG	Office of the Auditor General
PV	Present Value
PPG	Public and Publicly Guaranteed
WAIR	Weighted Average Interest Rate

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CHAIRPERSONS FOREWORD

The Medium-Term Debt Management Strategy (MTDS) for FY 2026/27–FY 2028/29 is a critical instrument for guiding Government borrowing and managing public debt in a manner consistent with the Constitution and the Public Finance Management framework. It provides the National Treasury’s proposed approach to meeting the Government’s financing needs while seeking to minimize costs and contain key risks—particularly refinancing, interest rate, and foreign exchange risks—over the medium term.

In reviewing the Strategy, the Committee held a consultative engagement with the National Treasury and Economic Planning, received a written submission from the Office of the Controller of Budget, and considered inputs received through public participation in line with Article 201(a) of the Constitution. The Committee appreciates the submissions and perspectives provided by stakeholders, which enriched the review and reinforced the importance of transparency, accountability, and public involvement in public debt management.

The Committee notes that the MTDS is being implemented in a challenging macro-fiscal context. Revenues are projected to grow in nominal terms, but remain below levels often required to sustainably finance development and strengthen fiscal resilience. Expenditure pressures persist, with recurrent spending continuing to take a significant share of the budget. At the same time, debt service obligations continue to tighten fiscal space, underscoring the urgency of fiscal consolidation, strengthened revenue mobilization, improved expenditure control, and sustained economic growth. The Committee further observes that the strategy’s increased reliance on domestic financing presents both opportunities and risks—offering reduced foreign exchange exposure.

Notwithstanding these concerns, the Committee is encouraged that the MTDS outlines deliberate measures to improve debt portfolio composition and manage risks over the medium term. The Strategy’s focus on smoothing the maturity profile, strengthening fixed-rate borrowing, and maintaining prudent exposure to foreign currency liabilities is directionally sound. However, the Committee emphasizes that success will ultimately depend on disciplined implementation, coherent alignment between the MTDS and broader fiscal policy instruments, and enhanced transparency in the use of borrowed resources—particularly where commercial borrowing is utilized for general budget support.

The Committee remains optimistic that, with sustained reform commitment and close adherence to the fiscal responsibility principles enshrined in the Constitution, Kenya can progressively rebuild fiscal space, restore confidence in debt management, and place the debt trajectory on a firm and sustainable path. The Committee therefore presents this Report to the House with recommendations intended to strengthen the credibility, transparency, and effectiveness of the MTDS, while safeguarding macroeconomic stability and supporting inclusive growth.

Examination of the Medium-term Debt Management Strategy for FY 2026/27 to FY 2028/29

In its consideration of the MTDS, the Committee convened one engagement with the National Treasury and Economic Planning and received a written memorandum from the Office of the Controller of Budget (OCOB). Further, pursuant to Article 201(a) of the Constitution, the National Assembly facilitated public participation by inviting memoranda, with a public notice advertised on 14th February 2026. Accordingly, the Committee received submissions from the National Democratic Institute, Institute for Social Accountability (TISA), John Treaver Ouma, and the Bajeti Hub.

Committee Key Recommendations

Arising from these consultative engagements, the Committee recommends:

i. Non-financial recommendations:

The committee recommends, That,

1. All securitization and commitment of public money be subjected to transparent disclosure and parliamentary oversight, including publication of the fiscal implications of these commitments to the future debt sustainability.
2. The National Treasury scales development expenditure above the statutory minimum (30% of all expenditures are set under Section 15 of the PFM Act. CAP 412) over the medium term, to strengthen productive capacity, accelerate growth, and expand future debt repayment capacity.
3. Given the declining CBR, the National Treasury should ensure that planned domestic borrowing remains appropriately sized and carefully timed so that Government demand for funds does not unduly crowd out credit to the private sector.
4. The National Treasury provide a risk-mitigation plan for election-cycle and other unavoidable spending pressures, including safeguards to prevent obvious shocks to the fiscal framework over the medium term, supplementary budgets and in-year reallocations from undermining the MTDS consolidation path.
5. Future MTDS incorporate explicit sensitivity analysis and contingency measures for climate-related and growth downside risks, including mechanisms to protect priority spending while maintaining adherence to fiscal targets.
6. The National Treasury outline expenditure rationalization measures required to accelerate convergence toward the 55% statutory debt anchor (PV terms) under Section 50 of the PFM Act, within 6 months.
7. The National Treasury ensures that Public Private Partnerships (PPPs), securitization and other alternative financing mechanisms be fully integrated into fiscal risk reporting and stress testing, to ensure the total fiscal exposure is transparently captured.
8. In view of the anticipated reliance on commercial borrowing over the medium term, the National Treasury institutes robust reporting mechanisms on the utilisation of commercial

loans to enhance traceability and accountability, particularly where such proceeds are applied to general budget support.

9. The National Treasury and relevant institutions sustain structural reforms aimed at raising potential growth and competitiveness, including reforms that strengthen productivity, support exports, and enhance the investment climate, in line with the objective of improving long-term debt sustainability.

ii. Financial recommendations

1. **That**, the fiscal deficit target for the medium term is approved and set at 5.3 percent of GDP for FY 2026/27; 3.6 percent of GDP for FY 2027/28, and 3.3 percent of GDP for FY 2028/29, in line with the fiscal consolidation path; and
2. **That**, the country's borrowing strategy is approved at 22 percent for net external borrowing and 78 percent for net domestic borrowing as contained in the 2026 Medium Term Debt Management Strategy.

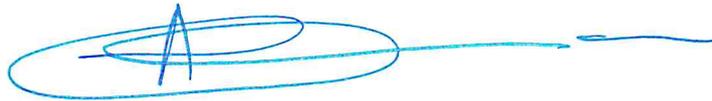
ACKNOWLEDGEMENTS

The Committee extends its gratitude to the Office of the Speaker of the National Assembly and the Office of the Clerk of the National Assembly for the support extended in fulfilling its mandate of reviewing the expenditures of the Medium-Term Debt Management Strategy (FY 2026/27 – FY 2028/29). Sincere gratitude is also extended to the National Treasury and the Office of the Controller of Budget for honouring the invitation and providing critical information.

Finally, the Committee would like to thank the Parliamentary Budget Office and the Directorate of Audit, Appropriations, and other Select Committees for the invaluable support provided in the review of the Consolidated Fund Service Expenditures and the finalization of this report.

It is therefore my pleasant undertaking, on behalf of the Public Debt and Privatization Committee, to table this report and recommend it for adoption by this House.

SIGNED



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HON. ABDI SHURIE, CBS, MP.
CHAIRPERSON, PUBLIC DEBT & PRIVATIZATION COMMITTEE

25th Feb 2026

.....
DATE

THE NATIONAL ASSEMBLY	
PARLIAMENTARY SECRETARIAT	
DATE	25 FEB 2026 WEDNESDAY
APPROVED BY:	HON. ABDI SHURIE, MP
FOR:	CHAIR, PUBLIC DEBT
	KO THEA NGINTO

PREFACE

a) Establishment and Mandate of the Committee

The powers of each House of Parliament to establish committees and to make Standing Orders for the orderly conduct of its proceedings are provided for under Article 124 of the Constitution of Kenya, 2010. To ensure effective oversight on matters concerning public debt, debt guarantees, public-private partnerships, and the privatization of national assets, the National Assembly Standing Order 207A establishes the Public Debt and Privatization Committee, which is tasked with specific mandates such as:

- i. Oversight of public debt and guarantees, pursuant to Article 214 of the Constitution
- ii. Examine matters relating to debt guarantees by the National government;
- iii. Oversight Consolidated Fund Services excluding audited accounts;
- iv. Examine reports on the status of the economy in respect of the public debt;
- v. Oversight of public-private partnership programs by the national government with respect of the public debt; and
- vi. Oversight privatization of national assets.

This Committee is therefore mandated, among other functions, to examine the Medium-Term Debt Management Strategy (2026/27 – 2028/29) and propose recommendations to the House for adoption.

b) Membership of the Committee

The Public Debt and Privatization Committee as currently constituted, comprises the following Members of Parliament:

CHAIRPERSON

Hon. Abdi Shurie, CBS, M.P.
Balambala Constituency
Jubilee Party

VICE-CHAIRPERSON

Hon. Njoki Irene Mrembo, M.P
Bahati Constituency
Jubilee Party

Hon. Omboko Milemba M.P
Emuhaya Constituency
ANC Party

Hon. (CPA) Suleka, H. Harun. M.P
Nominated MP
UDM Party

Hon. (Dr.) Irene Kasalu M.P
Kitui County
Wiper Party

Hon. Kipkoros Joseph Makilap M.P
Baringo North Constituency
UDA Party

Hon. Kwenya, Thuku Zachary, M.P
Kinangop Constituency
Jubilee Party

Hon. Chege Njuguna M.P
Kandara Constituency
UDA Party

Hon. Muiruri Muthama Stanley, M.P
Lamu West Constituency
Jubilee Party

Hon. Abdi Ali Abdi, M.P
Ijara Constituency
NAP-K

Hon. Aden Daud, EBS, M.P
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Jubilee Party

Hon. Kirwa Abraham Kipsang, M.P
Mosop Constituency
UDA Party

Hon. (Dr.) Daniel Manduku, M.P
Nyaribari Masaba Constituency
ODM Party

Hon. Letipila Dominic Eli, M.P
Samburu North Constituency
UDA Party

Hon. Barongo Nolfason Obadiah, M.P
Bomachoge Borabu Constituency
ODM Party

c) Committee Secretariat

The Committee was supported by the following staff in the preparation of this report:

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Ms. Rehema Koech
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d) Parliamentary Budget Office

The Committee also received technical support from the following staff of the Parliamentary Budget Office:

FA (Dr.) Martin Masinde, OGW.
Director, Parliamentary Budget Office (PBO)

Mr. Robert Nyaga
Senior Deputy Director (PBO)

Ms. Julie Mwithiga
Senior Fiscal Analyst

I) INTRODUCTION

1. The Medium-Term Debt Management Strategy proposes a borrowing framework to reduce the cost and risk of public debt and to finance fiscal deficits expected over the medium term. It is prepared subject to Section 64(2), and Section 33 and Regulations 184 & 185 PFM Act, 2012. The MTDS is required to indicate: the total stock of debt as at the date of the statement, the sources of loans made to the national government and the nature of guarantees given by the national government, the principal risks associated with those loans and guarantees, the assumptions underlying the debt management strategy and analysis of the sustainability of the amount of debt, both actual and potential.
2. The MTDS for the period between FY 2026/27 to FY 2028/29, outlines a borrowing framework comprising: (a) a gross financing mix of 18:82 for gross external and gross domestic borrowing, respectively; and (b) a net financing composition of 22:78 for external and domestic financing, respectively. This configuration confirms that the domestic market will remain the primary source of deficit financing during the period. Broadly, the strategy aims to lower the overall cost of the debt portfolio and mitigate refinancing risks by rebalancing issuance toward medium- and long-term Treasury Bonds. On the external side, the MTDS signals continued reliance on concessional and semi-concessional resources. Commercial borrowing is expected to persist, thereby exerting upward pressure on the overall cost of financing the fiscal deficit.
3. An assessment of the MTDS indicates that the costs and risks of the current debt stock are elevated, largely driven by the structural characteristics of the rising domestic debt portfolio. As such, prudent debt management is increasingly imperative, as sustained risk exposure combined with the rising frequency and magnitude of debt servicing obligations could undermine medium-term fiscal sustainability and dampen economic recovery. Accordingly, sustained fiscal consolidation, strengthened transparency, improved efficiency in resource allocation, optimal utilization of constrained fiscal space, and firm fiscal discipline should constitute central policy priorities for both national and county governments over the long term.

2) MACROECONOMIC ASSESSMENT

i. Economic Growth

4. The 2026 Budget Policy Statement (BPS) projects real GDP growth of 5.0% in 2025 and 5.3% in 2026, up from 4.7% in 2024, on the back of a rebound in agriculture, continued momentum in construction, and sustained activity across industry and services. The baseline assumes favourable agro-climatic conditions, uninterrupted implementation of infrastructure programmes, and continued strength in tourism and transport/logistics. However, recent outturns point to downside risks, notably climate-related production shocks and a moderation in services-sector growth, with GDP averaging about 4.9% in early 2025 and 5.0% over the medium term. This growth outlook underscores the need for broad-based structural reforms to raise potential output toward the 10% GDP growth target under Kenya Vision 2030, including measures that deepen productivity, strengthen competitiveness, and accelerate Kenya's transition into a newly industrializing economy.

ii. Inflation

5. Inflation remained within the Central Bank of Kenya's medium-term objective of 5.0% (± 2.5 percentage points) and is expected to remain anchored within this band over the strategy implementation period. Headline inflation increased from 3.3% in January 2025 to 4.6% in September–October 2025, before easing to 4.4% by January 2026. Core inflation peaked at 3.1% in mid-2025 and subsequently declined to 2.2%, pointing to contained underlying demand pressures and an effective monetary policy stance. By contrast, non-core inflation, driven largely by food and energy price movements, remained elevated at 11.2% in December 2025 and 10.3% in January 2026, reflecting persistent supply-side shocks. These pressures were amplified by adverse weather conditions, global commodity price dynamics, higher import and logistics costs, and geopolitical developments, which present a material risk factor during implementation of the MTDS. While monetary policy can anchor aggregate inflation expectations, it has limited traction over food-price volatility and externally transmitted shocks; accordingly, complementary fiscal and structural interventions—including targeted measures to enhance agricultural productivity, strengthen export performance, and improve supply-chain efficiency—remain necessary to reinforce durable price stability.

iii. Interest Rates and Credit

6. In 2025, monetary conditions eased markedly following the Central Bank's reduction of the policy rate from 11.25% to 8.75% by February 2026, which translated into lower short-term Treasury bill yields. Accordingly, yields on the 91-day, 182-day, and 364-day Treasury bills declined from 9.14%, 9.57%, and 10.8% to 7.78%, 7.8%, and 9.28%, respectively. The decline in rates helped sustain credit availability to the public sector and eased liquidity pressures amid elevated debt-service obligations. This accommodative stance improved liquidity conditions and reduced the Government's domestic borrowing costs, thereby supporting continued reliance on the domestic market for financing. However, private sector credit growth remained modest (about 5%) and was highly sector-selective, reflecting the cost of credit and sector-specific risk considerations. During implementation of the MTDS, maintaining interest rate stability will be critical, given the expanded role of domestic financing in supporting development expenditure while managing risks of crowding out households and businesses, particularly in a context of constrained access to international capital markets.

iv. Balance of payments

7. Balance of payments developments point to persistent external imbalances that heighten MTDS refinancing and foreign-exchange risk. Over 2023–2025, Kenya's current account remained in deficit, reflecting a sustained gap where import demand exceeded export earnings and net transfers. The deficit widened from -1.1% of GDP in Q3 2024 to -3.2% in Q3 2025, signaling rising external financing needs and a need to address competitiveness. In nominal terms, the current account deficit reached Ksh 135.3 billion in Q3 2025 (the highest in two years) driven by a sharp increase in imports, alongside continued net income outflows, reduced donor disbursements and foreign investment. Over the same period, capital account inflows remained subdued (about 0.1% of GDP in

Q3 2025), while the financial account was volatile, with weaker net investment and financial inflows. For MTDS implementation, these developments are important as they signal external-sector risks; accordingly, the efforts should prioritize maintaining adequate reserve buffers, aligning external borrowing with projected foreign-exchange availability, and strengthening measures that support export growth and supply-side competitiveness to reduce external vulnerability over the medium term.

v. Exchange Rate

8. The Kenya Shilling strengthened in early 2024, appreciating from Kshs. 159.7 to Kshs. 129 against the US dollar, and also firming against the Pound Sterling and the Euro. Overall, exchange-rate movements since mid-2024 have been associated with improved foreign-exchange market conditions and a gradual strengthening of buffers, supporting relative stability. For MTDS implementation, these developments are material because the exchange-rate path directly affects the local-currency cost of external debt service and the valuation of the external debt stock. Accordingly, the strategy's external borrowing profile and risk-management measures should take into consideration the outlook for foreign-currency inflows (export performance, commodity price developments, remittance trends) while closely monitoring external debt service pressures and the pace of reserve accumulation to limit vulnerability to depreciation shocks over the medium term.

3) FISCAL POLICY ASSESSMENT

9. Over the medium term, the 2026 BPS projects that total revenues will rise from Kshs. 3.53 trillion to Kshs. 4.04 trillion and Kshs. 4.34 trillion in FY 2026/27, FY 2027/28, and FY 2028/29, respectively. In ratio terms, revenues are projected to average about 17% of GDP over the period, remaining below the 20% benchmark often cited as necessary to underpin sustainable development, fiscal resilience, and poverty reduction. Ordinary revenue—anchored on income tax and VAT—is expected to remain the mainstay, averaging about 83% of total revenue. Appropriations-in-Aid (AIA) are projected to contribute an average of 10% of total revenues; however, despite their growth, AIA resources are largely earmarked to specific expenditures, limiting their contribution to overall financing flexibility. In addition, measures such as securitization of income streams can further constrain the general usability of revenues, potentially increasing reliance on borrowing—particularly for budget support—over the medium term.
10. The 2026 BPS projects that total expenditure and net lending will increase from Kshs. 4.7 trillion to Kshs. 4.9 trillion and Kshs. 5.2 trillion in FY 2026/27, FY 2027/28, and FY 2028/29, respectively, averaging about 21.5% of GDP over the period. Expenditure composition remains largely recurrent, with recurrent outlays projected to average about 72% of total spending. While the national requirement to allocate 30% of total expenditure to development spending is met, development expenditure is projected to average only about 18% of overall expenditure annually. This suggests limited deliberate effort to raise development spending beyond the statutory minimum, which may partly account for the persistence of GDP growth at around 5% per year and the muted growth impact of

development outlays that are central to strengthening productive capacity and, ultimately, enhancing debt repayment capability.

11. The fiscal deficit, being the primary driver of new debt accumulation, is expected to remain elevated. For FY 2026/27, the deficit is projected at about Kshs. 1.116 trillion, broadly in line with the FY 2025/26 projected level of Kshs. 1.14 trillion as indicated in the 2026 Budget Policy Statement. Although the fiscal deficit(including grants) is projected to narrow over the medium term to Kshs. 837.3 billion, by FY 2028/29. On this basis, cumulative additions to the public debt stock are estimated at approximately Kshs. 2.8 trillion over the medium term, largely on the domestic side. Implementing fiscal consolidation will also be challenging, especially for FY 2027/28 given the presence of unavoidable critical expenditures, such as election-related financing, that are likely to occur within the strategy horizon.

4) PUBLIC DEBT STOCK AND DEBT SERVICING EXPENDITURES

12. The public debt stock continues to expand, increasing the macroeconomic adjustment required to keep debt on a sustainable path. As at November 2025, total public debt stood at Kshs. 12.25 trillion, comprising Kshs. 6.78 trillion (55%) in domestic debt and Kshs. 5.47 trillion (45%) in external debt. The stock is projected to rise further to about Kshs. 15.7 trillion by June 2029. Over the same horizon, the debt ratio is expected to average about 67 percent of GDP in nominal terms, and approximately 62 percent in present value (PV) terms. Consequently, the statutory PFM benchmark of 55 percent by October 2028 may not be achieved, implying continued breach of the threshold. In this context, the fiscal path underpinning the 2026 MTDS does not adequately align with the debt-limit requirement set out under Section 50 of the PFM Act (Cap. 412). Rising public debt is increasingly tightening fiscal space through higher debt-service obligations. Over FY 2026/27–FY 2028/29, interest costs alone, averaging at Kshs. 1.2 trillion over the medium term, are expected to average roughly 5.4 percent of GDP and to consume approximately 41 percent of total revenue. In addition, they are to be the largest singular expenditure head with interest payments averaging 34 percent of recurrent expenditures and 150 percent of development expenditure over the medium term, implying that a growing share of resources will be absorbed by servicing debt rather than financing productivity-enhancing investments that support GDP growth. The ongoing Liability Management Operations (LMO), if pursued without an explicit **Liability Management Policy (LMP)** or long-term impact assessment, could increase the debt stock without delivering the intended debt relief or risk-reduction outcomes.

5) COST AND RISK PROFILE

13. No discernible improvement has been recorded in the cost and risk profile of the public debt stock, as key indicators deteriorated between June 2024 and June 2025. The percentage of debt maturing in 1 year, in particular, increased as Domestic debt risk dynamics continue to exert upward pressure on the overall risk exposure of the portfolio. The domestic debt portfolio remains more exposed to highest refinancing and interest rate risks, despite efforts to lengthen maturities by shifting issuance from short-term

instruments to medium- and long-term tenors. This is evidenced by: (i) a shorter Average Time to Maturity for domestic debt (6.4 years) compared to external debt (10 years); (ii) a higher proportion of domestic debt maturing within one year (20.5%) relative to external debt (6.9%); and (iii) a higher Weighted Average Interest Rate on domestic debt (13%) compared to the external debt portfolio (4%).

i. Cost of debt & Interest Rate Risk

14. Between June 2024 and June 2025, the Weighted Average Interest Rate (WAIR) of the overall debt portfolio increased from 8.5% to 8.8%. This movement was largely attributable to the composition of external financing, including concessional borrowing and an expanded share of commercial loans, which raised the WAIR on external debt from 3.8% to 4%, thereby sustaining upward pressure on interest rate risk exposure. Conversely, the WAIR on domestic debt declined marginally from 13.2% to 13%, reflecting easing monetary conditions and a gradual reduction in domestic borrowing costs. Notwithstanding these developments, external debt accounted for only 1.3% of interest payments (as a percentage of GDP), compared to 4.6% attributable to domestic debt.
15. For the aggregate debt portfolio, the share of debt subject to re-fixing within one year increased marginally from 24.6% to 24.9%, while the Average Time to Re-fixing increased marginally from 7.3 years to 7.4 years. In addition, the proportion of total debt contracted at fixed interest rates rose from 85.2% to 86.6%. Overall, these developments suggest a modest reduction in the portfolio's vulnerability to interest rate volatility.

ii. Exchange Rate Risk

16. Exchange rate risk captures the impact of currency movements on the value and servicing cost of external debt. The level of exposure is largely determined by the size of the external debt portfolio and its currency mix. External debt constituted 49.3 percent of total public debt as at June 2024, easing marginally to about 47 percent in June 2025, suggesting a modest reduction in exchange-rate exposure. Under the proposed strategy, which places greater reliance on domestic borrowing to finance the fiscal deficit, the external share is projected to decline further to about 39.9 percent of the total debt stock, reinforcing the downward trend in exchange-rate risk.
17. The currency composition of external debt remains a key consideration. As at June 2025, the main currency exposures were approximately USD (59.8%), Euro (18%), and Chinese Yen (5.2%). Notably, the share denominated in USD has continued to decline over the past three years, while Euro exposure has increased. Given that the Euro has exhibited higher volatility than the USD in the last two years, external borrowing decisions should prioritize currencies with lower exchange-rate fluctuation risk, consistent with minimizing portfolio vulnerability.

iii. Refinancing Risk

18. Public debt refinancing remains the most significant source of risk exposure, given the deterioration in key refinancing indicators and the potential for liquidity pressures over the medium term. The 2026 MTDS reports: (a) a marginal improvement in the Average Time to Maturity (ATM) from 8.1 years to 8.3 years, driven by an increase in external

debt ATM from 9.5 years to 10 years; (b) an increase in debt maturing within one year, both as a share of GDP (from 11.2% to 13.3%) and particularly in domestic debt, which rose from 5.7% to 7.3% of GDP—signaling heightened refinancing requirements.

19. A key concern is that refinancing pressures appear broadly distributed across the maturity spectrum over the medium term. For instance, debt maturing in less than one year has increased from USD 7.5 billion to USD 10.306 billion, which is comparable to amounts falling due in subsequent periods i.e. approximately USD 10.96 billion (2–3 years), USD 11.2 billion (6–10 years), and USD 10.21 billion (above 11 years). Collectively, these patterns indicate sustained and elevated refinancing pressures, contrary to the expectation that refinancing risk would be progressively shifted to longer-term maturities.

6) THE MEDIUM-TERM DEBT MANAGEMENT STRATEGY, FY 2026/27 – FY 2028/29

20. The MTDS for FY 2026/27–FY 2028/29 is anchored on the macroeconomic assumptions set out in the 2026 Budget Policy Statement. Over the medium term, the framework assumes average real GDP growth of 5.3%, inflation anchored at 5.0% (± 2.5 percentage points), an improvement in revenue effort to 16.9% of GDP, and a strengthening of the primary balance from 0.4% to 1.6% of GDP, among other parameters. Consistent with these assumptions, the proposed borrowing mix aimed at minimizing the cost of financing while containing refinancing, interest-rate and foreign-exchange risks is as follows:
- a. Domestic borrowing will provide 82% of gross financing and 78% of net financing, leveraging local market depth and enhancing predictability of funding.
 - b. External borrowing will provide 18% of gross financing and 22% of net financing, to diversify the funding base while managing exposure to exchange-rate and external rollover risks.
21. Accordingly, domestic debt continues to be primary source of deficit financing resources, accounting for the largest share of financing. Domestic borrowing will be undertaken by reducing the stock of Treasury Bills while lengthening the maturity profile of domestic debt through the issuance of medium-term to long-term debt instruments to reduce refinancing risk. This will be spearheaded through the DhowCSD Platform.
22. With respect to external borrowing, the MTDS projects a financing mix comprising 10% concessional loans, 2% semi-concessional loans, and 6% commercial borrowing. This composition underscores the growing significance of commercial debt within the overall borrowing framework, especially in light of limited access to concessional and semi concessional financing. Further, notable deviations have been observed during the implementation period. For instance, whereas the Government projected external borrowing of Kshs. 221.2 billion in FY 2025/26, the 2026 Budget Policy Statement revised this figure to Kshs. 579.4 billion, representing a 262% increase within a single fiscal year. This trend signals rising costs of deficit financing and highlights the need for enhanced oversight and regulatory safeguards on the use of commercial debt, particularly given a) its classification as general budget support, b) Commercial borrowing carries

comparatively higher cost and refinancing risks and is highly sensitive to market sentiment, c) and the absence of a published Liability Management Policy(LMP).

23. Accordingly, although the overall stock of external debt is projected to decline, the share attributable to higher-risk instruments (Commercial debt) is expected to increase, potentially reflecting a neutral or unchanged posture on external financing over the medium to long term. This trajectory therefore underscores the need to stabilize the key macro-fiscal variables that influence assessments by Global Sovereign Credit Rating Agencies, including macroeconomic stability, fiscal deficit trends, primary balance performance, revenue mobilization capacity, the debt-to-GDP ratio, and the interest-to-revenue ratio, among other relevant indicators.

7) PUBLIC DEBT SUSTAINABILITY ANALYSIS

24. Debt Sustainability Analysis (DSA) compares debt burden indicators to thresholds over 20 -year projection period, if a debt burden indicator exceeds its indicative threshold, then it would suggest that a risk of experiencing some form of debt distress exists. The objective of DSA is to evaluate a country's capacity to finance its policy agenda, and service the ensuing debt without unduly large adjustments that may compromise its macroeconomic stability and/or that of its economic partners.
25. From a solvency standpoint, the Debt Sustainability Analysis indicates that the PV of debt-to-GDP is projected to average about 65% over the medium term. This level remains above the 55%(+5) statutory ceiling set out under Section 50 of the PFM Act, Cap. 412, implying that the 2028 target is unlikely to be met within the projected timeframe. Accordingly, additional adjustment measures will be necessary to support attainment of the threshold.
26. From a liquidity perspective, risks are expected to remain pronounced over the medium term, reflecting heightened debt service pressures. Specifically, the debt service-to-revenue (and grants) ratio is projected to stay elevated, while the external debt service-to-exports ratio is expected to breach the indicative limit over the medium-term horizon.

8) SUBMISSIONS BY THE CONTROLLER OF BUDGET

27. In their submission dated 24th February 2026, the Controller of Budget indicated that:
- i. The MTDS provides a structured medium-term framework for debt management and includes technically sound measures to mitigate refinancing and exchange-rate risks. However, its effectiveness is contingent on disciplined fiscal consolidation, credible revenue assumptions, stronger expenditure controls, and sustained economic growth. While the domestic market can support the strategy in the short term, durable debt sustainability will require comprehensive fiscal reforms to reduce borrowing needs and restore the debt trajectory toward the statutory anchor.
 - ii. As at 30 June 2025, the stock of public and publicly guaranteed (PPG) debt stood at Kshs. 11,814.47 billion (about 67.8% of GDP), remaining above the statutory 55% of GDP threshold set by Parliament, and thereby elevating debt distress risk.

- iii. Analysis of domestic debt by holder shows that financial institutions—particularly commercial banks and insurance companies—held the largest share of domestic debt (about Kshs. 5,247 billion as at December 2025). This concentration was attributed to the relatively attractive returns on Treasury bills and bonds, especially during periods of elevated interest rates.
- iv. The 2026 MTDS proposes a structural rebalancing of the financing mix, with about 82% of gross financing sourced domestically and 18% externally. The implied domestic borrowing requirement—estimated at about Kshs. 1 trillion in FY 2026/27—raises concerns regarding domestic market absorption capacity.
- v. While lowering exchange-rate exposure is prudent, heavy reliance on domestic borrowing may increase interest-rate pressures, constrain private sector credit, and dampen economic growth through potential crowding-out effects.
- vi. Kenya’s public debt ratio is higher than some peers (e.g., Nigeria at about 38% of GDP) but lower than others (e.g., Ghana, above 80%). South Africa is broadly comparable (around 70%), while Tanzania and Uganda typically range around 40–50%, with Rwanda and Burundi generally below 50%. High debt levels across emerging economies can increase borrowing costs and heighten vulnerability to external shocks.
- vii. The MTDS is anchored on fiscal consolidation assumptions—rising revenues, controlled expenditure growth, and narrowing deficits—to stabilize debt over the medium term. However, the framework faces risks from historical revenue underperformance, recurrent supplementary budgets, expenditure rigidities/pressures, and election-cycle fiscal dynamics.
- viii. Debt sustainability is ultimately driven more by fiscal discipline than by financing composition. Absent credible and sustained fiscal reforms, the projected debt-stabilization path may not materialize.
- ix. ~~The MTDS envisages a significant shift toward domestic financing (about 82%), which reduces external vulnerability but elevates domestic risks—particularly crowding out of private credit, limited market depth, and adverse growth-interest rate dynamics.~~
- x. The primary vulnerability in liability management measures arises from the debt-to-revenue burden rather than maturity concentration. While smoothing amortization profiles can spread repayments over time, it does not in itself reduce underlying fiscal pressure or the structural debt burden.
- xi. While the MTDS acknowledges governance safeguards, it does not comprehensively address broader fiscal risks, including accumulation of pending bills, quasi-fiscal liabilities, SOE debt, and the potential crystallization of Government guarantees.
- xii. Contingent liabilities—such as uncalled guarantees and potential bailout exposures—constitute significant off-balance-sheet fiscal risks. The MTDS primarily manages recorded debt and may therefore understate total fiscal exposure.
- xiii. Kenya’s domestic debt market is relatively advanced compared to many Sub-Saharan African peers; however, it remains structurally narrow and concentrated. Government

financing relies heavily on bank liquidity rather than a broad and diversified investor base, which heightens systemic risk and reinforces crowding-out pressures.

- xiv. The MTDS assumes increased domestic issuance over the medium term. The central issue is not only the Government's capacity to issue debt, but the market's ability to absorb sustained issuance without macroeconomic destabilization. While additional issuance may be feasible in the short term, persistent expansion could displace private investment, slow growth, raise systemic financial risks, and increase future interest costs—thereby compressing fiscal space and potentially undermining the MTDS debt-stabilization objective. Although the MTDS aims to lengthen maturities to reduce refinancing risk, market conditions may constrain implementation.
- xv. The domestic market can support the MTDS in the near term but may raise interest costs and intensify private-sector crowding out if relied upon as the primary financing engine. Accordingly, the domestic market should be treated as a shock absorber rather than a permanent source of expansionary financing. Sustainable success of the MTDS ultimately depends on fiscal consolidation, revenue enhancement, and expenditure rationalization.

28. The Controller of Budget further proposed that:

- a. Strengthening fiscal consolidation and restoring debt sustainability through tighter expenditure management, enhanced domestic revenue mobilization, and measures to expand exports would narrow the fiscal deficit and reduce reliance on debt financing.
- b. Deepening the domestic debt market and broadening the investor base should be prioritized to ease refinancing pressures and progressively lower borrowing costs.
- c. Greater emphasis should be placed on maximizing access to concessional external financing, to reduce the cost and risk profile of external borrowing.
- d. Establishing a comprehensive public debt register, alongside improved disclosure on the utilization of borrowed resources, would strengthen transparency, accountability, and related institutional reforms.
- e. Deploying liability management operations—such as bond buybacks—would help smooth redemption bunching, reduce refinancing risk, and improve cash-flow management.
- f. Commitment fees should be minimized through improved loan procurement and active portfolio management, including implementing a loan commitment tracking mechanism and promptly cancelling idle or undisbursed tranches.
- g. The Controller of Budget recommended amendments to the PFM Act, 2012 to broaden the definition of county public debt to include pending bills (payables). This would strengthen fiscal discipline, given that Section 107 of the PFM Act, read together with Regulation 25(1)(d), caps county public debt at 20% of a county's total revenue at any point in time.

9) SUBMISSIONS BY THE NATIONAL TREASURY

29. The Principal Secretary, National Treasury, appearing before the Committee on 24th February 2025, informed the Committee that:

1. The FY 2026/27–2028/29 MTDS was submitted to the National Assembly pursuant to Article 201 of the Constitution, Section 64(2)(c) of the PFM Act (Cap 412A) and Regulation 200 of the PFM (National Government) Regulations, 2015.
 2. The MTDS sets out the Government's optimal medium-term debt portfolio plan, including the cost–risk strategy to achieve the desired debt composition.
 3. The overarching objective is to ensure deficit financing needs (as reflected in the BPS) and debt service obligations are met at the lowest possible cost subject to a prudent level of risk.
 4. Over FY 2026/27–2028/29, the MTDS targets the following risk-management outcomes:
 - a. Reduction of refinancing (rollover) risk through easing near-term redemption pressures and smoothing cashflow needs.
 - b. Reduction of interest-rate risk by increasing the share of fixed-rate debt and extending the time to refixing.
 - c. Reduction of foreign-exchange risk through diversification of foreign-currency exposure.
 - d. Promotion of intergenerational equity by financing development projects using longer-term debt.
 5. The MTDS will serve as the Government's roadmap for public debt management over FY 2026/27–FY 2028/29, with continuous monitoring of domestic and global macro-financial conditions and exploration of borrowing diversification opportunities without undermining debt-management objectives.
-
6. The medium-term macroeconomic assumptions underpinning the MTDS include:
 - a. Real GDP growth averaging 5.3%, supported by private sector activity and BETA-related interventions;
 - b. Inflation anchored within the CBK target of 5.0% (± 2.5 percentage points), with inflation remaining within the target range since 2023; and
 - c. Easing domestic interest rates following a decline in the policy rate from 13.0% (Aug 2024) to 8.75% (Feb 2026), alongside a reduction in the overnight interbank rate (KESONIA) to below 9% by February 2026.
 7. As at end-June 2025, the public debt stock stood at Kshs. 11,814.5 billion, equivalent to 65.6% of GDP in PV terms, comprising:
 - a. Domestic debt of Kshs. 6,326.0 billion (about 53.5% of total debt); and
 - b. External debt of Kshs. 5,488.5 billion (about 46.5% of total debt).
 8. The fiscal deficit (including grants) for FY 2026/27 is projected at Kshs. 1,115.8 billion, to be financed through net external borrowing of Kshs. 225.5 billion and net domestic financing of Kshs. 890.4 billion.

9. The cost and risk of deficit financing will be minimized by adopting a gross borrowing mix of 82% domestic and 18% external.
10. Financing instruments will include domestic issuance of Treasury bonds, and external financing through concessional bilateral and multilateral loans alongside commercial borrowing, including potential international bond issuances.
11. The that the Treasury will explore innovative financing and liability management options, including Sustainability-Linked Bonds (SLBs), Diaspora Bonds, Domestic Retail Digital Bonds via mobile money, debt swaps, and thematic/market instruments such as Samurai and Panda bonds, to finance the deficit and manage redemptions.
12. In present value terms, public debt is projected to decline gradually from 65.6% to 62.1% by 2030, supported by continued fiscal consolidation to create fiscal space and reduce debt-related risks.
13. The Draft Liability Management Operations Policy had been prepared but however, due to austerity measures, stakeholder input is being sought online through publication on the Treasury website, and an expert has been engaged to support review and finalization by end-FY 2025/26.

10) RECEIVED MEMORANDA

30. The National Assembly placed a newspaper advert on 14th February 2026 calling for submission of Memoranda from the Public on the MTDS (FY 2026/27 – FY 2028/29). In response, the Committee received the following responses:
 31. In the submission by the National Democratic Institute, the Committee was informed that:
 1. Kenya's fiscal governance framework is grounded in the Constitution and the PFM Act, Cap. 412A, which set out principles on transparency, accountability, and public participation; however, implementation gaps and executive dominance have weakened fiscal discipline across the budget cycle.
 2. Public debt has increased to about 73% of GDP, exceeding the recommended 55% of GDP (PV) sustainability threshold (as at June 2024), alongside weak oversight capacity and limited enforcement of audit findings.
 3. At the budget formulation stage, fiscal planning was assessed as fragmented and debt transparency as inadequate, including the absence of a comprehensive, publicly accessible national debt and liability register capturing guarantees, pending bills/arrears, and SOE liabilities. Public participation was also viewed as largely procedural rather than substantive, compounded by the lack of a dedicated public participation law.
 4. Concerns were raised that tax incentives are granted without robust cost-benefit analysis and without effective parliamentary approval, weakening alignment with long-term development priorities. It was proposed that key pre-budget documents be published in machine-readable formats and accompanied by public participation reports to strengthen transparency and citizen engagement.

5. At the budget approval stage, it was observed that Parliament's oversight role is weakened by frequent reliance on Article 223 (post-expenditure regularization and supplementary spending).
6. It was further noted that loan agreements are often presented after signing, limiting meaningful legislative scrutiny. Proposed reforms included:
 - a) requiring the Budget and Appropriations Committee to pre-approve all requests under Article 223 and capping such expenditures at 10% of the initially voted amounts.
 - b) requiring parliamentary approval prior to disbursement for all new loan agreements to enhance transparency and accountability.In addition, amendments to the Central Bank Act were proposed to support issuance of domestic debt through publicly accessible digital platforms, enabling wider participation and potentially lowering issuance costs.
7. During the execution phase, fiscal indiscipline was reported to persist through irregular reallocations, cash flow mismatches, and accumulation of arrears. Audit follow-up was described as weak, with limited implementation of Auditor-General recommendations and no enforceable sanctions for non-compliance. Governance gaps in SOEs and PPPs were also cited as increasing exposure to hidden liabilities, while fragmented procurement and financial data systems constrain real-time monitoring and transparency. Recommendations included full integration of IFMIS across MDAs and SOEs, introduction of enforceable timelines for audit follow-up, and strengthening the Auditor-General's role in PPP and privatization audits, including proposing a new Section 45A in the Privatization Act (2025) to mandate independent verification of asset valuations and value-for-money analysis.
8. The evaluation stage was assessed as the least institutionalized component of the budget cycle, citing resource constraints within parliamentary oversight committees and weak coordination among enforcement agencies. It was observed that the Auditor-General lacks statutory powers to compel implementation of audit recommendations. It was further noted that IFI-supported programs tend to emphasize macro-fiscal consolidation but often lack binding governance benchmarks, allowing transparency and governance deficits to persist despite short-term stabilization gains.
9. Key recommendations included: establishing a public National Debt and Liability Register; integrating DSA with development planning by aligning the MTDS and MTEF to link borrowing to programmatic outcomes and the Public Investment Management framework; requiring parliamentary ratification of tax incentives and loan agreements prior to disbursement; capping supplementary expenditures under Article 223; strengthening independence and data access for fiscal oversight institutions; introducing statutory sanctions for failure to implement audit recommendations; fully integrating SOEs and PPPs into fiscal reporting; institutionalizing transparent procurement disclosure; strengthening inter-agency coordination (e.g., CoB, OAG and related bodies) to monitor reforms; establishing a statutory audit recommendation follow-up framework with mandatory implementation reporting; guaranteeing funding

autonomy for oversight institutions through direct charges on the Consolidated Fund for OAG, CoB, and EACC (each not less than 0.1% of the national budget); and standardizing procurement data disclosure through adoption of the Open Contracting Data Standard (OCDS) via the PPRA portal.

Recommendation

It is recommended that the Public Finance Management Act 412 A be amended to formalize stricter debt-reporting protocols. Such legislative reform would be essential to institutionalize parliamentary oversight and ensure that all sovereign borrowing is subject to legislative scrutiny.

32. In the Memoranda for John Treaver Ouma, it was proposed that the Treasury to publish a simplified debt risk report, disclose government guarantees, and set a ceiling for non-concessional borrowing; commitment to reduce expensive commercial debt and shift toward longer-term, lower-cost financing; transparent reporting on debt maturity, interest, currency exposure; clear policy on borrowing by state corporations and guarantees.

Recommendation

It is recommended that the Public Finance Management Act 412 A be amended to prescribe mandatory minimum disclosure standards. Such statutory requirements shall ensure the clarity, comparability, and accessibility of public debt data, facilitating rigorous fiscal analysis and informed legislative decision-making as well as measures to mitigate high-cost borrowing.

33. In the submission by the Bajeti Hub, it was indicated that, the designation of public debt as a “first charge” reduces fiscal space and limits the reallocation of funds toward priority functions. The high level of public debt stock and the associated servicing costs therefore present a significant challenge to fiscal sustainability. The institution recommended that, the national treasury should strengthen debt management strategies to reduce the reliance on expensive domestic borrowing, focusing instead on concessional external financing with favourable terms to lower overall debt servicing costs.

Recommendation

It is recommended that the Public Finance Management Act 412 A be amended to provide for robust statutory safeguards for debt sustainability. This reform should provide clear fiscal responsibility principles, mandating that debt servicing obligations remain within strictly defined sustainability thresholds. Furthermore, the Act should prescribe mandatory corrective mechanisms upon any breach of these thresholds. These measures aim to mitigate exposure to high-cost borrowing, reinforce parliamentary oversight, and establish a balanced fiscal framework that remains consistent with existing constitutional obligations.

34. In the Submission by the Institute for Social Accountability (TISA), the Committee was informed that:

1. The Medium-Term Debt Management Strategy (MTDS) 2026/27–2028/29 comes at a time when Kenya's public debt burden remains historically high, and the country is officially classified at high risk of debt distress. The MTDS 2026 does not sufficiently confront the structural drivers of Kenya's debt crisis: persistent fiscal deficits, over-reliance on expensive domestic borrowing, rising interest payments, and weak institutional safeguards around debt management and contingent liabilities.
2. The MTDS projects a fiscal deficit of 5.3% of GDP in FY2026/27, declining gradually to 2.9% by FY2029/30. However, this consolidation path rests on optimistic assumptions of sustained annual GDP growth of 5.3 per cent, revenue stabilising at around 17 per cent of GDP, and continued monetary easing alongside a stable exchange rate. If KRA fails to meet the projected revenue targets, and the deficit exceeds 5.3 per cent of GDP, there is a high likelihood of increased borrowing. Further, the heavy 91% reliance on domestic borrowing is poised to create the crowding out effect of the already struggling private sector credit, and intense pressure on domestic interest rates that contribute to reduced fiscal space for productive development expenditure and increased rollover risks resulting from the short maturity profile of domestic debts.
3. Recommends that the revision of the nominal GDP be limited to not more than KES 18,000 billion. Rationalize expenditure to ensure that the fiscal deficit does not exceed 3.5% of GDP in line with the fiscal consolidation policy. Further, urge Parliament to require a clear domestic debt retirement strategy articulating how it is spent, binding limits on short-term Treasury bill issuance, stronger prioritization of concessional external financing, and full disclosure of liability management operations together with their fiscal impact.

4. Recommends that Parliament introduce enforceable guardrails, including a statutory interest-to-revenue threshold, mandatory annual reporting on debt-service sustainability, and clear timelines for reducing the interest burden to below 4 per cent of GDP. The National Treasury must immediately disclose all securitization arrangements to the National Assembly and seek explicit legislative authorization. The MTDS must be revised to incorporate these liabilities before any further transactions proceed. All proposed securitizations must be subjected to intergenerational equity assessments, and levies designated by statute for specific purposes must be legally ringfenced from being pledged without sector-specific legislation.
5. Recommends that Parliament initiate legislative reforms to grant the Public Debt Management Office (PDMO) greater operational autonomy, establish an independent oversight board, require the quarterly publication of debt risk indicators and all significant debt transactions, and strengthen parliamentary scrutiny over the setting and revision of borrowing ceilings. Further recommend a time-bound refinancing risk

reduction framework, accompanied by enhanced disclosure of auction performance and rollover risk indicators.

6. The stakeholder concluded by urging the National Assembly to exercise its constitutional oversight mandate and strengthen the MTDS 2026 before approval to safeguard macroeconomic stability and protect present and future generations.

Recommendation

To strengthen fiscal discipline and ensure macroeconomic stability, the Public Finance Management Act (Cap. 412A) should be amended to provide for rigorous standards for revenue forecasting and deficit control. Furthermore, Section 2 of the Act may be expanded to define securitization as a formal category of "Public Debt," thereby subjecting the pledging of future revenue streams to the same stringent parliamentary approval processes required for sovereign loans under Article 211 of the Constitution. Parallel to these transparency measures, the legal framework may be reformed to grant the Public Debt Management Office (PDMO) full operational autonomy. Amendments to the PFM Act should enhance transparency to mitigate and manage refinancing risks associated with short-term domestic obligations. These institutional reforms are essential to empower the National Assembly to exercise its constitutional oversight mandate more effectively. By establishing these enforceable mechanisms, the state will protect the integrity of public finances and safeguard the economic interests of both present and future generations.

35. Overall, the Committee observed that the issues raised by stakeholders point to the need for deeper reforms that should be developed through broad-based public participation to ensure they are properly institutionalised. Accordingly, the Committee will engage the National Treasury and other relevant partners to strengthen the efficiency and effectiveness of the utilisation of borrowed resources.

II) COMMITTEE OBSERVATIONS

Arising from the consideration of the MTDS and submissions from stakeholders, the Committee made the following pertinent observations, THAT:

1. The Committee observed that the medium-term revenue outlook, while improving in nominal terms, remains structurally constrained in ratio terms, averaging about 17% of GDP over FY 2026/27–FY 2028/29. This level remains below the ~20% benchmark often associated with sustaining development expenditure, fiscal resilience, and reducing poverty.
2. The Committee observed that Appropriations-in-Aid (AIA) are projected to contribute an average of about 10% of total revenues; however, these receipts are largely earmarked to specific expenditures, limiting their effectiveness in reducing the overall financing gap and could require the increase of gross financing.
3. The Committee further observed that the growing use of revenue-tying measures, such as securitization of income streams, may reduce budget flexibility by pre-committing future revenues, potentially increasing future requirements for budget-support borrowing as general revenues become less available for discretionary financing needs.

4. The Committee noted that the fiscal deficit remains elevated and continues to drive debt accumulation. The fiscal deficit (including grants) is projected at about Kshs. 1.116 trillion in FY 2026/27 and, though expected to narrow, remains sizeable through the strategy horizon, implying sustained borrowing requirements.
5. The Committee observed that cumulative additions to the public debt stock are projected at about Kshs. 2.8 trillion over the medium term, largely financed domestically. While domestic financing reduces foreign exchange exposure, the scale of domestic borrowing raises concerns over domestic market absorption capacity, upward pressure on interest rates, and potential crowding out of private sector credit.
6. The Committee noted that the projected PV of debt-to-GDP is expected to average about 65% over the medium term, remaining above the statutory 55% (+5) threshold under Section 50 of the PFM Act, indicating that compliance with the 2028 target is unlikely under the current fiscal path.
7. The Committee observed that debt service continues to tighten fiscal space, with interest payments projected to consume about 41% of total revenue, average about 5.4% of GDP, and exceed development expenditure allocations—thereby constraining resources available for productive investment and priority programs.
8. The Committee noted that refinancing risks remain elevated given the volume of debt maturing within one year and the sustained rollover requirements across the maturity spectrum. This exposes the portfolio to liquidity pressures and heightens vulnerability to periods of market tightening.
9. The Committee further noted that increasing reliance on commercial external borrowing, including upward revisions to projected external borrowing, elevates exposure to higher financing costs, shifts in market sentiment, and potential implications for sovereign credit ratings. Furthermore, there needs to be procedures on transparency and accountability on the use of commercial debt when they are allocated for general budgetary support.
10. The Committee observed that declining concessional financing, alongside increased reliance on alternative approaches such as PPPs and securitization, may mask underlying external financing constraints while creating additional contingent and fiscal risks that require transparent disclosure and integration into fiscal risk management.
11. Overall, the Committee observed that the success of the MTDS is fundamentally dependent on sustained fiscal consolidation and structural reforms, particularly credible revenue mobilization and expenditure rationalization.

12) COMMITTEE RECOMMENDATIONS

Arising from the observations and submissions from stakeholders, the Committee therefore recommends as follows:—

a. Non-financial recommendations:

The committee recommends, That,

1. All securitization and commitment of public money be subjected to transparent disclosure and parliamentary oversight, including publication of the fiscal implications of these commitments to the future debt sustainability.
2. The National Treasury scales development expenditure above the statutory minimum (30% of all expenditures are set under Section 15 of the PFM Act. CAP 412) over the medium term, to strengthen productive capacity, accelerate growth, and expand future debt repayment capacity.
3. Given the declining CBR, the National Treasury should ensure that planned domestic borrowing remains appropriately sized and carefully timed so that Government demand for funds does not unduly crowd out credit to the private sector.
4. The National Treasury provide a risk-mitigation plan for election-cycle and other unavoidable spending pressures, including safeguards to prevent obvious shocks to the fiscal framework over the medium term, supplementary budgets and in-year reallocations from undermining the MTDS consolidation path.
5. Future MTDS incorporate explicit sensitivity analysis and contingency measures for climate-related and growth downside risks, including mechanisms to protect priority spending while maintaining adherence to fiscal targets.
6. The National Treasury outline expenditure rationalization measures required to accelerate convergence toward the 55% statutory debt anchor (PV terms) under Section 50 of the PFM Act, within 6 months.
7. The National Treasury ensures that Public Private Partnerships (PPPs), securitization and other alternative financing mechanisms be fully integrated into fiscal risk reporting and stress testing, to ensure the total fiscal exposure is transparently captured.
8. In view of the anticipated reliance on commercial borrowing over the medium term, the National Treasury institutes robust reporting mechanisms on the utilisation of commercial loans to enhance traceability and accountability, particularly where such proceeds are applied to general budget support.
9. The National Treasury and relevant institutions sustain structural reforms aimed at raising potential growth and competitiveness, including reforms that strengthen productivity, support exports, and enhance the investment climate, in line with the objective of improving long-term debt sustainability.

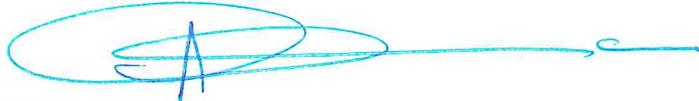
b. Financial recommendations

1. **That**, the fiscal deficit target for the medium term is approved and set at 5.3 percent of GDP for FY 2026/27; 3.6 percent of GDP for FY 2027/28, and 3.3 percent of GDP for FY 2028/29, in line with the fiscal consolidation path; and
2. **That**, the country's borrowing strategy is approved at 22 percent for net external borrowing and 78 percent for net domestic borrowing as contained in the 2026 Medium Term Debt Management Strategy.

36. ANNEXURES

Further, pursuant to the National Assembly Standing Order 232A(5)(a), Schedule 1 indicates details on the stock of foreign denominated public debt, including publicly guaranteed debt, and Schedule 2 indicates details on the stock of domestic debt, are hereby attached in Annex 1 and Annex 2.

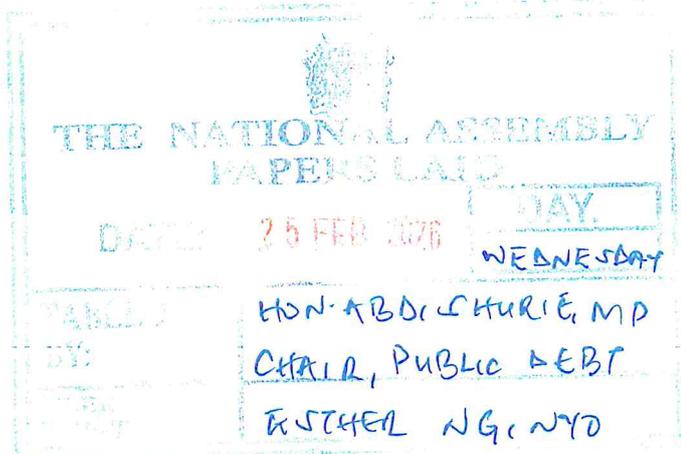
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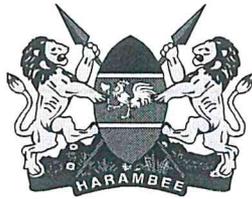


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HON. ABDI SHURIE, CBS, MP.
CHAIRPERSON, PUBLIC DEBT & PRIVATIZATION COMMITTEE

25th Feb 2026

.....
DATE





REPUBLIC OF KENYA
13TH PARLIAMENT
NATIONAL ASSEMBLY – FIFTH SESSION - 2026

PUBLIC DEBT AND PRIVATIZATION COMMITTEE MEMBERS.

ADOPTION SCHEDULE

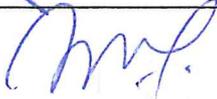
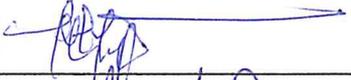
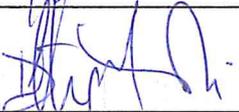
**REPORT ON THE CONSIDERATION OF THE MEDIUM-TERM DEBT
MANAGEMENT STRATEGY (2026/27- 2028/29)**

DATE..25.02.2026 TIME..11:00 A.M. SITTING3rd.....

VENUE...G.I.F.E. HOTEL...T.O.P.A.2...CONFERENCE.

No.	NAME	SIGNATURE
1.	The. Hon. Abdi Shurie CBS, M.P – Chairperson	
2.	The. Hon. Mrembo, Irene Njoki, M.P. – Vice-Chairperson	
3.	The. Hon. Omboko Milemba, CBS, M.P.	
4.	The. Hon. (Dr). Irene Kasalu, M.P.	
5.	The. Hon. Kwenya, Thuku Zachary, M.P.	
6.	The. Hon. Muiruri, Muthama Stanley, M.P.	
7.	The. Hon. Abdi, Abdi Ali, M.P.	
8.	The. Hon. Aden Daud, EBS. M.P	
9.	The. Hon. Barongo, Nolfason Obadiah, M.P.	



No.	NAME	SIGNATURE
10.	The. Hon. Chege Njuguna, M.P.	
11.	The. Hon. (Dr) Daniel Manduku, M.P.	
12.	The. Hon. Kipkoros, Joseph Makilap, M.P.	
13.	The. Hon. Kirwa, Abraham Kipsang, M.P.	
14	The. Hon. Letipila, Dominic Eli, M.P.	
15	The. Hon. (CPA) Suleka H. Harun, M.P.	

Committee Clerk

Date Signature

