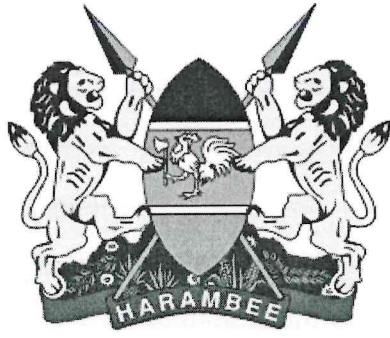


*R.T. Hm. Speaker
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2/6/26*


REPUBLIC OF KENYA

THE NATIONAL ASSEMBLY

THIRTEENTH PARLIAMENT (FIFTH SESSION) - 2026

PUBLIC DEBT AND PRIVATIZATION COMMITTEE

**REPORT ON THE CONSIDERATION OF THE EXPENDITURES
OF THE CONSOLIDATED FUND SERVICES UNDER THE FY
2026/27 BUDGET ESTIMATES**

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 02 JUN 2026 DAY: Tuesday	
TABLED BY:	<i>Hon. Abdi Shurigmp Chairperson - PDP Committee</i>
CLERK-AT THE-TABLE:	<i>Halima Ahmed</i>



JUNE 2026

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LIST OF ACRONYMS & ABBREVIATIONS

ABP	Annual Borrowing Plan
CBK	Central Bank of Kenya
CFS	Consolidated Fund Services
GDP	Gross Domestic Product
MTDS	Medium-Term Debt Management Strategy
OCOB	Office of the Controller of Budget
PSSS	Public Service Superannuation Scheme
USD	United States Dollar

ANNEXURES

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CHAIRPERSON'S FOREWORD

The Consolidated Fund Services (CFS) expenditures remain central to Kenya's fiscal sustainability framework, given that they are direct charges on the Consolidated Fund and directly affect fiscal space, budget flexibility and the resources available for development priorities. In FY 2026/27, CFS expenditures are estimated at Kshs. 2.56 trillion, with public debt service accounting for the largest share at Kshs. 2.31 trillion, equivalent to about 90 percent of total CFS expenditures.

A review of the debt service structure shows that, of the Kshs. 2.31 trillion allocated for public debt service, Kshs. 1.25 trillion relates to interest payments, while Kshs. 1.06 trillion relates to redemptions. This means that more than half of debt service expenditure will be applied towards the cost of borrowing rather than repayment of principal. Further, interest payments are estimated at about 6 percent of GDP, compared to development expenditure at 3.6 percent of GDP, highlighting the need to progressively shift fiscal policy towards growth-enhancing expenditure that will push the real growth of GDP towards the 10 percent target.

These developments call for a forward-looking fiscal response. The Committee therefore emphasizes the need for a credible medium-term fiscal consolidation framework that progressively reduces the fiscal deficit, stabilizes public debt within the statutory debt anchor, and strengthens the credibility of fiscal rules. This is particularly important given that the fiscal deficit for FY 2026/27 is projected at 5.3 percent of GDP, the highest deficit projected at the beginning of a financial year.

The Committee further underscores the need to improve the quality and impact of public borrowing. Additional borrowing should not only address recurrent pressures or refinance existing obligations, but should also generate measurable economic returns. The Report also stresses the importance of strengthening debt management practices, particularly in respect of liability management operations and commercial borrowing. Where commercial loans are contracted for liability management, their use should be clearly disclosed, including the amounts applied towards debt prepayment, general budget financing and specific projects financed.

Finally, the Committee calls for stronger accountability in the management of on-lent loans. The continued write-off or forgiveness of obligations owed by defaulting entities, without clear accountability and reporting to the National Assembly, may create moral hazard and weaken financial discipline among implementing agencies.

The recommendations contained in this Report are therefore aimed at strengthening fiscal sustainability, improving public debt management, safeguarding development expenditure and ensuring that borrowing decisions are aligned with Kenya's long-term economic growth objectives.

It is therefore my honor and privilege, on behalf of the Public Debt and Privatization Committee, to present this Report to the House for consideration and adoption.

Examination of the Consolidated Fund Service Expenditures (CFS), under the FY 2026/27 Budget Estimates.

The Committee has examined the proposed estimates of expenditure of the Consolidated Fund Services (CFS) in line with its mandate and has prepared this report for consideration by the National Assembly. In reviewing the CFS expenditures, the Committee held 4 sittings during which, it held productive deliberations with key stakeholders and received their submissions. The stakeholders include: the Central Bank of Kenya, the Office of the Controller of Budget and the National Treasury and Economic Planning.

Key Recommendations

Arising from these consultative engagements, the Committee has made the following recommendations, THAT:

1. In order to contain the growth of debt service expenditures, the National Treasury should implement a fiscal consolidation framework on a medium-term basis, ensuring it is aligned to Section 16 of the PFM Act CAP 412A, and aimed at progressively reducing the fiscal deficit and stabilizing public debt within the statutory debt anchor set under Section 50.
2. In order to strengthen compliance with the statutory debt anchor, the National Treasury should, within 30 days of the adoption of this report, submit to the National Assembly a clear debt reduction path indicating annual targets, policy measures, and timelines for achieving the 55 percent debt-to-GDP threshold in Net Present Value terms.
3. In order to ensure that additional borrowing generates measurable economic impact, the National Treasury should, as from 1st of July 2026, strengthen resource mobilization procedures by subjecting all loans to adequate project appraisal, economic valuation, and assessment of expected economic rates of return before contracting.
4. In order to safeguard value for money in liability management operations, the National Treasury should ensure that all such operations are supported by cost-benefit analysis, disclosure of terms and conditions, and assessment of their impact on debt sustainability.
5. In order to improve accountability of commercial loans contracted for liability management, the use of these loans should be clearly disclosed, including the portion used for debt prepayment, the portion applied towards general budget financing, and the projects financed.
6. In order to preserve fiscal space for development priorities, the National Treasury should rationalize non-priority recurrent expenditure and progressively increase allocations to growth-enhancing development expenditure from 3.6 percent of GDP to 10 percent of GDP, over the medium term.
7. In order to address moral hazard in on-lent loans, the National Treasury should:
 - a. Within three (3) months of the adoption of this report, develop an accountability framework for defaulting entities, including clear reporting to the National

Assembly before any write-off, restructuring, or forgiveness of obligations is undertaken;

- b. Ensure that any proposed write-off, restructuring or forgiveness of on-lent loan obligations is submitted to the National Assembly for consideration and approval before implementation, and;
- c. Within three (3) months of the adoption of this report, submit to the National Assembly a comprehensive report on all defaulting entities over the past ten years, indicating the total amounts forgiven, outstanding obligations, reasons for default, impact on projects, recovery measures undertaken, and the accountability measures to be applied before any forgiveness of obligations was approved.

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 Consolidated Fund Services under the Budget Estimates for FY 2026/27. Sincere gratitude is also extended to the Central Bank of Kenya, the National Treasury and Economic Planning, 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 for the invaluable support provided in the review of the of the expenditures of the Consolidated Fund Services and for 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



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

.....
2nd JUNE 2026
.....
DATE

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 Consolidated Fund Service Expenditures 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
Wajir East Constituency
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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Audio Officer III

Ms. Mwanasha Juma
Assistant Serjeant-at-Arms

Mr. George Mbaluka
Office Assistant

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

1) INTRODUCTION

1. The annual Budget Estimates provide an important framework for national planning, resource allocation and parliamentary scrutiny of Government priorities for the financial year. Through this process, the National Assembly examines the proposed fiscal framework, expenditure priorities and financing requirements. Accordingly, pursuant to Article 221 of the Constitution and Section 37 of the Public Finance Management Act, Cap. 412A, the National Treasury submitted the Budget Estimates for FY 2026/27 to the National Assembly on 30th April 2026 for consideration and approval.
2. Within this framework, the Public Debt and Privatization Committee is mandated, under Standing Order 207A(1)(c), to examine the estimates relating to Consolidated Fund Services expenditures and submit its report to the National Assembly in accordance with Standing Order 207A(4).
3. Consolidated Fund Services expenditures comprise direct charges on the Consolidated Fund as provided for under the Constitution and various Acts of Parliament. These include public debt service, pensions, salaries and allowances for constitutional office holders, and other statutory obligations.
4. In FY 2026/27, Consolidated Fund Services expenditures are estimated to amount to Kshs. 2.56 trillion. Since these expenditures are charged directly on the Consolidated Fund and are not subject to annual legislative appropriation, any increase or reduction has significant implications for budget flexibility, fiscal space, and the Government's capacity to finance priority programs and other critical public expenditures.
5. This Report is organized as follows: Chapter One provides the introduction and context of the review. Chapter Two examines the Consolidated Fund Services expenditures under the Budget Estimates for FY 2026/27, including Public Debt Service, Pension Expenditures, and Salaries, Allowances and other Miscellaneous Expenditures. Chapters Three, Four and Five present the submissions by the Controller of Budget, the Central Bank of Kenya, and the National Treasury, respectively. Chapter Six sets out the Committee's observations, while Chapter Seven contains the Committee's recommendations.

2) FISCAL FRAMEWORK FOR THE FY 2026-27 BUDGET

6. Total revenue for FY 2026/27 is projected at Kshs. 3.63 trillion, representing a growth of 6.8 percent from the Kshs. 3.40 trillion projected in FY 2025/26. However, as a share of GDP, total revenue is expected to decline from 18.2 percent in FY 2025/26 to 17.4 percent in FY 2026/27, indicating that the revenue trajectory remains below the policy target of 20 percent of GDP. The revenue framework is largely driven by tax revenues estimated at Kshs. 2.99 trillion, accounting for approximately 79 percent of total revenue.
7. Total expenditure for FY 2026/27 is projected at Kshs. 4.79 trillion (23 percent of GDP), up from Kshs. 4.64 trillion in FY 2025/26. The increase is mainly driven by higher interest payments of Kshs. 127.7 billion, additional allocations to the IEBC of Kshs. 14.82 billion, increased wages and salaries of Kshs. 12.64 billion, and higher pension obligations of Kshs.

8.91 billion. Notably, Consolidated Fund Services-related components account for approximately 93 percent, or Kshs. 136.63 billion of the total increase in above-the-line expenditures. This indicates that the expenditure growth is largely driven by statutory and non-discretionary obligations, particularly debt service and pensions, thereby increasing gross financing needs in FY 2026/27 and further constraining fiscal flexibility.

8. Total expenditure for FY 2026/27 comprises Kshs. 3.54 trillion in recurrent expenditure and Kshs. 748.96 billion in development expenditure. Recurrent expenditure is projected to increase by Kshs. 145.55 billion, while development expenditure is expected to decline by Kshs. 9.47 billion to Kshs. 749 billion. This is notable because development expenditure supports capital formation, productivity growth and long-term GDP expansion, which are important for economic development and debt sustainability.
9. Given that total expenditure exceeds total revenue, the fiscal deficit for FY 2026/27 is projected at Kshs. 1.11 trillion, (5.3 percent of GDP). This represents a marginal decline from the projected deficit of Kshs. 1.2 trillion (6.4 percent of GDP) in FY 2025/26. Nevertheless, this is the highest fiscal deficit projected at the beginning of any financial year and indicates a continued expansionary fiscal policy stance. It also points to sustained growth in the public debt stock, with public debt expected to increase by more than Kshs. 1 trillion for the third consecutive year.
10. To finance the deficit for the FY 2026/27, domestic borrowing is expected to account for the largest share. Net domestic borrowing is projected at Kshs. 995 billion, (of 90 percent of the fiscal deficit), while net external borrowing is projected at Kshs. 116.1 billion (10 percent). While borrowing from the domestic market provides a degree of stability and predictability in budget financing, among other benefits, the heavy reliance on domestic borrowing is likely to increase refinancing and interest payment pressures. This is particularly notable given that domestic debt service is projected to account for about 71 percent of total debt service expenditure in FY 2026/27.

3) THE CONSOLIDATED FUND SERVICE (CFS) EXPENDITURES

11. Overall Consolidated Fund Services (CFS) expenditure for FY 2026/27 is projected at Kshs. 2.56 trillion, reflecting a marginal decline of Kshs. 21.6 billion from Kshs. 2.58 trillion under Supplementary Estimates I for FY 2025/26. However, caution is warranted given that a similar decline had initially been projected in FY 2025/26 before reversing by Kshs. 443 billion under Supplementary Estimates I, highlighting persistent fiscal pressures of from these statutory expenditures.
12. The projected decline in FY 2026/27 is largely attributable to a Kshs. 28.6 billion reduction in public debt service expenditure, partially offset by a Kshs. 7 billion increase in pension-related expenditures.
13. Overall, CFS expenditure is composed of:
 - a. Public debt service expenditures worth Kshs. 2.31 trillion (90 percent),
 - b. Pension expenditures worth Kshs. 241.94 billion (9 percent), and
 - c. Salaries & other statutory expenditures amounting to Kshs. 5.15 billion (1 percent).

14. Over the medium term, CFS expenditure is projected to increase to Kshs. 3 trillion by FY 2029/30 and will have tripled from the Kshs. 1.1 trillion recorded in FY 2020/21. The upward trajectory is primarily driven by rising interest obligations and refinancing pressures associated with domestic debt, periodic maturities of sovereign bonds, and increasing pension expenditures.
15. Given that CFS expenditures constitute a direct charge on the Consolidated Fund, their sustained growth is likely to further constrain fiscal space over the medium term. This underscores the need for strengthened cash management practices, proactive debt restructuring measures, and broader liability management operations aimed at reducing the debt service obligations and creating lasting fiscal space to spur economic growth.

a) Public Debt Service Expenses

16. Public debt service expenditures are projected at Kshs. 2.31 trillion in FY 2026/27, accounting for 90 percent of total CFS expenditures, though reflecting a marginal decline from Kshs. 2.35 trillion in FY 2025/26. The projected debt service obligations comprise domestic debt service amounting to Kshs. 1.64 trillion (71 percent) and external debt service amounting to Kshs. 680.38 billion (29 percent). This composition indicates that domestic debt obligations remain the primary driver of debt service expenditures and, consequently, overall CFS expenditures. The trend is expected to persist over the medium term, largely due to the increasing reliance on domestic borrowing to finance fiscal deficits.
17. From an economic expenditure classification perspective, the FY 2026/27 public debt service allocation of Kshs. 2.31 trillion comprises Kshs. 1.06 trillion in redemptions, or principal repayments, and Kshs. 1.25 trillion in interest payments. Interest payments account for the larger share at 54 percent, reflecting the continued cost of carrying public debt. At about 6 percent of GDP, interest payments exceed development expenditure, which is estimated at 3.6 percent of GDP, indicating that debt service costs remain a major component of public spending and continue to shape the fiscal space available for development priorities.

i. Domestic Debt Service

18. Domestic debt service is projected at Kshs. 1.64 trillion in FY 2026/27, representing an increase of Kshs. 207.49 billion from Kshs. 1.43 trillion in FY 2025/26. The increase is largely attributable to rising interest payments and redemption obligations associated with Government securities, particularly Treasury bonds. The domestic debt service obligations comprise the following:
 - a. Domestic debt redemptions: In FY 2026/27, domestic debt redemptions are projected to increase to Kshs. 648.78 billion up from Kshs. 544.26 in FY 2025/26, and are expected to remain elevated over the medium term. The trend reflects increasing maturities of long-term domestic bonds. Domestic bond maturities in FY 2026/27 are projected at Kshs. 440.17 billion, compared to Kshs. 275.6 billion in FY 2025/26, representing an increase of Kshs. 164.52 billion and signaling heightened refinancing risks within the domestic debt portfolio.

- b. Domestic interest payments: In FY 2026/27, domestic debt interest payments are projected at Kshs. 986.73 billion, representing an increase of Kshs. 102.97 billion (12 percent) from Kshs. 883.76 billion in FY 2025/26. The increase is primarily driven by interest obligations arising from Treasury bonds.

- ii. External Debt Service.

19. External Debt Service in FY 2026/27 will amount to Kshs. 680.38 billion down from a Kshs. 916.53 billion in FY 2025/26 representing a decline of Kshs. 236.15 billion (26 percent) and will comprise of: a) External Interest of Kshs. 267.51 billion and b) External Redemption of Kshs. 412.87 billion. The relatively lower interest payments reflect the continued concessional nature of a significant share of the external debt portfolio. Over the medium term, however, commercial external debt is expected to remain a major driver of debt service costs. Between FY 2027/28 and FY 2029/30, approximately Kshs. 1.02 trillion is projected to be incurred in meeting interest payments and redemptions related to commercial external debt.

- a. External Debt Redemption payments: In FY 2026/27, external debt redemption expenditures are projected at Kshs. 412.87 billion, largely driven by obligations to commercial and bilateral creditors. These include repayments to the Export-Import Bank of China (China Exim Bank) amounting to Kshs. 71.78 billion, International Development Association (Kshs. 62.64 billion), International Monetary Fund (Kshs. 49.24 billion), Trade and Development Bank (Kshs. 38.37 billion), and International Sovereign Bonds (ISBs) amounting to Kshs. 15.42 billion. Redemption obligations associated with commercial borrowing are expected to increase over the medium term, with a total of Kshs. 486 billion projected to mature between FY 2027/28 and FY 2030/31.
- b. External debt interest payments: In FY 2026/27, external debt interest payments are projected at Kshs. 256.11 billion, largely driven by obligations arising from International Sovereign Bonds (Kshs. 128.03 billion), the Export-Import Bank of China (Kshs. 28.61 billion), International Development Association loans (Kshs. 27.9 billion), and the African Development Bank (Kshs. 16.39 billion). Over the medium term, interest payments on commercial borrowing are expected to remain significant, with approximately Kshs. 531.33 billion projected to be incurred between FY 2027/28 and FY 2030/31 in servicing interest obligations on commercial loans.

b) Pension Expenses

20. Pension expenditure constitute the second largest component of Consolidated Fund Services expenditure, accounting for approximately 9 percent of total CFS. In FY 2026/27, pension expenditure is projected at Kshs. 241.94 billion, reflecting an increase of Kshs. 7.04 billion, or 3 percent, from Kshs. 234.9 billion in FY 2025/26. The increase is distributed across the following pension categories:
- a. Ordinary pensions - Kshs. 103.33 billion;
 - b. Commuted pensions - Kshs. 92.21 billion;
 - c. Public Service Superannuation Scheme - Kshs. 39.57 billion; and

- d. Other pension-related obligations, including pensions payable to the UK Government (Kshs. 39 million) and accrued benefits to Public Service Superannuation Scheme members upon early exit (Kshs. 6.5 billion).
21. Over the past five years, pension reforms have not yet generated significant fiscal space, as pension expenditure has continued to rise. Over the medium term, pension costs are projected to increase further to approximately Kshs. 272.5 billion. Substantial budgetary allocations continue to be made to meet pension obligations for retired public servants and their dependants. Nonetheless, the pension system continues to face administrative and payment challenges, including prolonged waiting periods after retirement and delays in the settlement of pension benefits.

c) Salaries, Allowances and Others Expenditures

22. Salaries and allowances for constitutional office holders are projected at Kshs. 5.079 billion in FY 2025/26, a marginal increase of Kshs. 14.03 million from the revised estimates for FY 2025-26 of Kshs.5.065 billion. The increase is mainly driven by Kshs. 139.54 million for the Judicial Department, gratuity payments of Kshs. 14.63 million to the Controller of Budget, and Kshs. 44.40 million to Teachers Service Commission commissioners, partially offset by reductions across the other Commissions and Offices.

4) SUBMISSIONS BY THE CONTROLLER OF BUDGET

The Committee was informed that:

23. The original gross national government budget for FY 2025/26 amounted to Kshs. 4.69 trillion, revised to Kshs. 5.50 trillion in Supplementary Budget I, representing a 17 percent increase (Kshs. 807.48 billion comprising of ministerial recurrent Kshs. 229.42 billion, ministerial development Kshs. 134.46 billion and Kshs. 443.69 billion for Consolidated Fund Services).
24. The budget comprised Kshs. 744.84 billion for ministerial development expenditure, revised to Kshs. 879.30 billion (18 percent increase), Kshs. 1,804.71 billion for ministerial recurrent expenditure, revised to Kshs. 2,034.13 billion (13 percent increase), and CFS expenditure Kshs. 2,141.03 billion revised to Kshs. 2,584.62 billion (21 percent increase). The revised ministerial development expenditure is funded through the net supply (from the government exchequer) of Kshs. 482.99 billion revised from Kshs. 407.10 billion and Appropriation-in-Aid (AIA) Kshs. 396.31 billion revised from Kshs. 337.74 billion, recording 19 percent and 17 percent increase respectively.
25. The revised ministerial recurrent expenditure is to be funded by the government through the exchequer, amounting to Kshs. 1,679.57 billion (revised from Kshs. 1,470.45 billion and AIA of Kshs. 357.56 billion revised from Kshs. 334.26 billion, representing 14 percent and 7 percent respectively. The Equitable share of revenue to County governments amounts to Kshs. 415 billion as per the County Allocation of Revenue Act, 2025. The budget movement is referenced in Annex I of this report.

26. To finance the budget, the Government planned to raise resources from several sources, including tax revenue, non-tax revenue, domestic borrowing, external loans and grants, and other domestic financing. Tax revenue was initially projected at Kshs. 2.63 trillion but was revised downwards to Kshs. 2.60 trillion under Supplementary Budget I. Non-tax revenue was revised upwards from Kshs. 127.65 billion to Kshs. 183.65 billion.
27. Domestic borrowing was initially projected at Kshs. 1,098.26 billion, comprising net domestic borrowing of Kshs. 634.75 billion and internal debt redemptions/rollovers of Kshs. 463.51 billion. Under Supplementary Budget I, domestic borrowing was revised upwards to Kshs. 1,669.70 billion, comprising net domestic borrowing of Kshs. 1,125.44 billion and internal debt redemptions/rollovers of Kshs. 544.26 billion.
28. External loans and grants were also revised upwards from Kshs. 569.81 billion to Kshs. 694.26 billion, while other domestic financing was projected at Kshs. 10.80 billion.
29. The gross expenditure for the National Government amounted to Kshs. 3.36 trillion, recording an absorption rate of 72 percent, compared to 66 percent (Kshs. 2.87 trillion) recorded in a similar period of FY 2024/2025. The expenditure comprises ministerial development expenditure at Kshs. 507.90 billion (absorption rate of 68 percent), ministerial recurrent expenditure at Kshs. 1.36 trillion (absorption rate of 75 percent), and Consolidated Fund Services at Kshs. 1.50 trillion (absorption rate of 70 percent).
30. Budget allocation to the CFS in the FY 2025/2026 amounted to Kshs. 2.14 trillion revised to Kshs. 2.58 trillion in Supplementary estimates I, representing 21 percent increase compared to Kshs. 1.99 trillion allocated in the FY 2024/2025.
31. That the key cost drivers for the Consolidated Fund Services include:
 - a. High Public Debt Stock and Debt Servicing Costs: The rising public debt stock directly impacts debt service obligations. During the first nine months of FY 2025/26, the total expenditure on government debt principal and interest amounted to Kshs. 1.35 trillion, representing 70 percent of the public budget allocation.
 - b. Commitment Fees, Penalties and Other Loan Charges: During the first nine months of FY 2025/26, the Government incurred Kshs. 3.56 billion in commitment fees, penalties and other loan charges on external loans, reflecting continued delays in the absorption and utilization of externally financed funds. The continued accrual of commitment fees points to slow implementation of externally financed projects, delayed procurement processes, and low absorption capacity.
 - c. Rising Pension and Gratuity Obligations: In the first nine months of FY 2025/26, expenditure on pensions and gratuities amounted to Kshs. 141.92 billion, reflecting an increase from Kshs. 124.25 billion recorded in a similar period of FY 2024/25. The upward trend in pension expenditure indicates rising retirement obligations in the public sector, driven by the growing number of retirees.

32. That the fiscal risks and vulnerabilities associated with CFS expenditure include;
- a. Debt Sustainability Risks: The increasing debt stock and high debt servicing costs pose a significant risk to fiscal sustainability. As at 31st March 2026, the public debt stood at Kshs. 12.82 trillion, and its servicing cost continues to consume a substantial portion of government revenues, given that public debt is a first charge, thereby reducing the fiscal space available for other development activities and public service delivery.
 - b. Refinancing and Rollover Risks: Domestic debt, as well as International Sovereign Bonds, exposes the Government to refinancing risks. Maturing debt instruments may require frequent liability management operations at potentially unfavourable terms, especially under tight liquidity conditions.
 - c. Liquidity and Cash Flow Pressures: The ever-expanding debt service obligations under CFS create cash flow pressures on the Exchequer. This may precipitate delayed disbursements to Ministries, Departments and Agencies (MDAs) and negatively affect budget implementation and service delivery.
 - d. Foreign Exchange Risks: Any depreciation of the Kenyan shilling increases debt servicing costs and necessitates higher budgetary allocations toward debt repayment at the expense of priority expenditure.
 - e. Interest Rate Risks: Continued reliance on domestic borrowing may sustain high domestic interest rates, thereby increasing the cost of government borrowing and debt servicing.
33. The Consolidated Fund Services (CFS) expenditure for FY 2026/27 is projected at Kshs. 2.56 trillion compared to Kshs. 2.58 trillion under Supplementary Estimates I for FY 2025/26, reflecting a marginal decrease of Kshs. 21.64 billion or 0.8 percent.
34. In FY 2026/27, interest payments are projected at Kshs. 1.25 trillion, accounting for approximately 54 percent of total debt servicing costs, while redemption payments are projected at Kshs. 1.06 trillion, representing approximately 46 percent.
35. The higher proportion of interest payments implies that more than half of the Government's debt servicing obligations will be used to meet financing costs rather than actual repayment of the principal debt.
36. Domestic debt servicing comprising domestic interest and redemption is projected at Kshs. 1.64 trillion in FY 2026/27, (64 percent of total CFS expenditure), compared to Kshs. 1.43 trillion in FY 2025/26 Supplementary Estimates I. The continued growth in domestic debt obligations may sustain high interest rates and crowd out private-sector credit.
37. External debt servicing is projected at Kshs. 680.38 billion in FY 2026/27, compared to Kshs. 916.53 billion under Supplementary Estimates I for FY 2025/26, reflecting a decline of Kshs. 236.15 billion or 26 percent, mainly due to lower projected external redemption payments.

38. Pension expenditure is projected at Kshs. 241.94 billion in FY 2026/27, compared to Kshs. 234.90 billion under Supplementary Estimates I for FY 2025/26, representing an increase of Kshs. 7.04 billion or 3 percent. The increasing pension obligations continue to place pressure on recurrent expenditure and reduce the fiscal space available for development programs.
39. The Controller of Budget makes the following recommendations to strengthen CFS Management, enhance Fiscal Resilience, and support Prudent Public Debt Management.
- a) **Adopt a Medium-Term Fiscal Consolidation Framework Anchored on Debt Sustainability Targets:** The Government should develop and implement a legally enforceable medium-term fiscal consolidation framework to progressively reduce the fiscal deficit and stabilize public debt within the statutory debt anchor.
 - b) **Reconfigure the Debt Mix Towards Affordable and Long-Term Financing:** The National Treasury should progressively reduce reliance on expensive short-term domestic borrowing and non-concessional external debt by prioritizing concessional and semi-concessional financing with longer maturities. Future borrowing strategies should focus on reducing refinancing risk, lowering interest costs, and smoothing the debt redemption profile over the medium- to long-term.
 - c) **Institutionalize Liability Management Operations within a Clear Fiscal Risk Framework:** Liability management operations, including bond buybacks, switches and refinancing transactions, should be guided by a transparent fiscal risk management framework supported by robust cost-benefit analysis. This will ensure that debt restructuring operations generate long-term fiscal gains rather than merely deferring repayment obligations at a higher future cost.
 - d) **Enhance Cash Management and Treasury Single Account (TSA) Operations:** The National Treasury should fully operationalize the Treasury Single Account (TSA) framework across government entities to improve cash visibility, reduce idle balances, minimize reliance on overdraft facilities, and enhance predictability in exchequer releases. Improved cash forecasting and commitment control systems would further reduce delays in debt servicing and budget execution.
 - e) **Link Borrowing to Growth-Enhancing and Revenue-Generating Investments:** Future borrowing should increasingly be directed towards high-impact and revenue-generating sectors capable of stimulating economic growth, enhancing export earnings, and strengthening domestic revenue generation. This will improve the economy's debt repayment capacity and enhance long-term fiscal resilience.
 - f) **Strengthen Oversight and Transparency in Borrowing Decisions:** There is a need to strengthen governance, transparency, and accountability in public borrowing through enhanced legislative scrutiny, publication of detailed debt utilization reports, and regular disclosure of debt acquisition terms, refinancing operations, and fiscal risks. Borrowing decisions should be supported by evidence-based analysis demonstrating economic returns, affordability, and alignment with national development priorities.

5) SUBMISSIONS BY THE CENTRAL BANK OF KENYA

The Committee was informed that:

40. The proposed budget for FY 2026/27, the total CFS expenditure is proposed to decline by Kshs. 21.6 billion from the FY2025/26 Supplementary budget largely on account of reduced redemptions that more than offset the increase in the projected interest payments. While foreign redemptions are expected to decline by Kshs. 260.9 billion, domestic redemptions are expected to rise by Kshs. 104.5 billion.
41. Debt service is expected to account for 77.6 percent of ordinary revenues in FY 2026/27, a decline of 6.6 percentage points from 84.2 percent in the FY 2025/26 Supplementary Budget, implying a reduced share of revenues are devoted to debt servicing. This will create some fiscal space for other expenditure items, including development.
42. Debt service is still projected to absorb almost half of total government expenditure in FY 2026/27, indicating the rising cost of both domestic and foreign debt.
43. In its role as fiscal agent, the CBK was advised by the National Treasury of a revised net domestic borrowing target of Kshs. 994.8 billion from the initial target of Kshs. 634.8 billion in FY 2025/26 Supplementary I Budget estimates. This revision reflected increased expenditure needs and shortfalls in external financing, necessitating a greater reliance on domestic borrowing to bridge the financing gap.
44. The domestic market continues to support growing budgetary needs, underpinned by close coordination between the National Treasury and CBK, including joint planning of Treasury securities issuance—covering timing, instrument mix, and auction sizes—to ensure predictability and stable investor expectations.
45. Active liability management operations (LMOs) have further supported smoothing of the maturity profile, reduced refinancing risks, eased near-term fiscal pressures, and contributed to foreign exchange market stability.
46. Further support has come from a stable and diversified investor base, an appropriate mix of instruments to manage cost and risk, and strong performance of Treasury bond and bill auctions, which continue to mitigate rollover risks. Improvements in market access and efficiency, particularly through the DhowCSD platform, have also strengthened the government securities market.
47. The CBK's role will remain pivotal in supporting Government financing, particularly in the context of the revised domestic borrowing requirement of Kshs. 995.7 billion (4.8 percent of GDP) in the FY 2026/27 Budget Estimates.
48. Sustained coordination with the National Treasury, active liquidity management, and continued market development will be critical to ensuring cost-effective financing, maintaining investor confidence, and safeguarding macro-financial stability.
49. The utilization of the government overdraft facility has consistently remained within the limit, implying no disruption to regular market operations. As at end-April 2026, the limit stood at Kshs. 121.7 billion, with utilization of Kshs. 63.6 billion (52.3 percent).

50. The FY 2026/27 budget is being prepared amid heightened global uncertainty linked to geopolitical tensions in the Middle East, which have disrupted commodity markets, increased inflationary pressures, and weakened global growth prospects.
51. Kenya's economic growth averaged 5.0 percent during 2022–2025, easing to 4.6 percent in 2025 due to weaker agriculture and manufacturing, but supported by strong performance in construction and services sector. The 2026/27 growth forecast has been revised to 5.0 percent from 5.3 percent, reflecting external pressures such as higher global oil prices, supply chain disruptions, and weaker global demand linked to geopolitical tensions.
52. Inflation rose to 5.6 percent in April 2026, reflecting impact of elevated global oil prices, but is expected to remain within the target range. With the monetary policy easing, lower interest rates are supporting private sector credit growth and reducing borrowing costs for Government.
53. The fiscal position is expected to improve, with the deficit projected to decline to 5.3 percent of GDP from 6.5 percent in the Supplementary I budget (2025/26) estimates, reflecting a return to fiscal consolidation in FY 2026/27. However, risks remain from climate shocks, global price volatility, tighter financing conditions, and weaker global growth, which could affect inflation, growth, and fiscal space.
54. The revised fiscal position implies higher borrowing needs and therefore an increase in public debt stock. Consequently, the present value of public debt is expected to remain above the 55 percent anchor and is projected to decline gradually over the medium term.
55. To effectively manage CFS expenditures and bolster long-term fiscal stability, the Government should:
 - a) Sustain ongoing fiscal consolidation to narrow the primary deficit and contain the growth of debt-service costs.
 - b) Diversify investment financing through non-debt-creating financing models, specifically PPPs to fund critical public infrastructure.
 - c) Continued implementation of active liability management strategy to smooth the maturity profile and mitigate refinancing risks in response to evolving market conditions.
 - d) Prioritize concessional external financing to alleviate pressure on domestic interest rates and support ongoing recovery of credit to private sector.
 - e) Fully leverage the DhowCSD platform to improve liquidity forecasting, deepen the interbank and repo markets, and stabilize domestic borrowing cycles.
 - f) Fast track the operationalize the Treasury Single Account (TSA) to optimize cash management and prevent the accumulation of new pending bills.

6) SUBMISSIONS BY THE NATIONAL TREASURY

The Committee was informed that:

56. The FY 2026/27 Budget is being prepared amid heightened global uncertainty following the escalation of conflict in the Middle East in early 2026, which has disrupted commodity markets, weakened investor confidence, and tightened financial conditions.
57. Consequently, global economic growth is expected to moderate to about 3.1 percent in 2026 and 3.2 percent in 2027, down from an average of 3.4 percent in 2024–2025. Growth in Sub-Saharan Africa is projected to maintain broadly stable growth at about 4.3 percent in 2026 and 4.4 percent in 2027, although vulnerabilities remain.
58. In 2025, the Kenyan economy sustained the growth momentum registering a growth rate of 4.6 percent compared with 4.7 percent recorded in 2024, with all the sectors registering positive growth. The expansion of real GDP was supported by a strong recovery in the construction sector, the Mining and Quarrying sector, Accommodation & Food Service, Financial & Insurance.
59. The growth momentum in 2025 was moderated by a slowdown in the Agriculture, Forestry and Fishing subsector which eased to grow by 3.1 percent in 2025 from 4.4 percent in 2024, largely reflecting varied weather patterns that resulted in mixed crop performance.
60. Over the period 2022–2025, the economy on average expanded by 5.0 percent, outperforming the global average growth rate of 3.4 percent and the Sub-Saharan Africa average of 4.1 percent.
61. The growth outlook for 2026 will be affected by emerging external risks, particularly the conflict in the Middle East. These developments are transmitting through higher global oil prices that rose from an average of US dollar 63.06 per barrel in February 2026 to average around US dollar 100 per barrel in April 2026.
62. The elevated fuel costs continue to increase transport and production expenses, thereby weighing on key sectors such as manufacturing, transport and storage, and wholesale and retail trade.
63. Against this backdrop, the 2026 growth projection has been revised downwards from 5.3 percent to 5.0 percent. This baseline projection assumes that the conflict in the Middle East will be contained in the near term, allowing for partial stabilization of global energy markets. The growth is projected to strengthen to 5.2 percent in 2027 as external pressures abate and global supply chains normalize.
64. The Government continues to implement complementary cross-cutting policy interventions to sustain macroeconomic stability and accelerate economic transformation. This roadmap emphasizes long-term industrial planning, expansion of productive capacity, large-scale investment in human capital, and strategic infrastructure development.
65. To sustainably finance Kenya's transformation agenda, the Government in March 2026 established the National Infrastructure Fund (NIF) to serve as the primary vehicle for

financing large-scale infrastructure expansion that underpins industrialization, lowers the cost of doing business, and positions Kenya as a competitive hub for regional trade and investment.

66. To complement the NIF, the Government will also establish the Sovereign Wealth Fund (SWF). The SWF will have three distinct components: the Stabilization Component, the Strategic Infrastructure Investment Component, and the Future Generation (Urithi') Component.
67. In the FY 2026/27, budget, the Total Revenues (including Appropriation-in-Aid) are projected at Kshs. 3,629.7 billion (17.4 percent of GDP) from Kshs. 3,399.1 billion (18.2 percent of GDP) in the FY 2025/26. Of this:
 - a. Ordinary revenue is projected at Kshs. 2,985.7 billion, 14.3 percent of GDP, reflecting a decline from 14.9 percent of GDP in FY 2025/26. The decline is mainly attributed to lower investment income, particularly the absence of the Kshs. 40.0 billion Safaricom advance dividend and the reduction of the CBK dividend from Kshs. 30 billion to Kshs. 6.5 billion.
 - b. Ministerial A-i-A is projected at Kshs. 644.0 billion only a 4.8 percent growth from Supplementary I of FY2025/26.
68. Total expenditure in the FY 2026/27 budget is projected at Kshs. 4,785.2 billion (23.0 percent of GDP) in the FY 2026/27 from Kshs. 4,638.4 billion (24.9 percent of GDP) in the FY 2025/26. This will comprise: a) recurrent expenditure of Kshs. 3,538.7 billion (17.0 percent of GDP); b) development expenditure of Kshs. 749.0 billion (3.6 percent of GDP); and c) transfers to County Governments of Kshs. 495.5 billion.
69. Fiscal deficit including grants is projected at Kshs. 1,111.8 billion (5.3 percent of GDP) in the FY 2026/27 budget which will be financed by ; a) net external financing of Kshs. 116.2 billion (0.6 percent of GDP); and b) net domestic financing of Kshs. 995.7 billion (4.8 percent of GDP).
70. In line with the fiscal consolidation plan, the overall fiscal deficit is projected to gradually decline from 5.3 percent of GDP in the FY 2026/27 to 3.6 percent of GDP in the FY 2027/28 and further to 3.3 percent of GDP in the FY 2028/29.
71. The National Treasury is currently reviewing the 2025 MTDS to align with the FY 2025/26 supplementary I approved budget. The FY 2026/27 Annual Borrowing Plan will be prepared after the approval of the FY 2026/27 budget estimates.
72. On the Monitoring of Projects funded through of On-Lent Loans:
 - a) The National Treasury is reviewing the project management processes with a view to identifying the implementation gaps and will undertake corrective action. Monitoring of sampled Projects financed through On-lent loans will be done in FY 2026/27.
 - b) Loans from the Two (2) Entities, National Water Harvesting Safety Authority and National Irrigation Authority were part of the dormant loans where following a

recommendation by the Taskforce dealing with Non-Performing Loans had recommended a write off of the historical loans. The Cabinet granted the approval for write off the loans vide letter ref. CAB/GEN.3/1/1 VOLXXIV/ (64) dated 11th November 2025. The loans were written off and has been removed from the records.

- c) The National Treasury continues to issue demand letters on an annual basis to Entities with Government Loans. Next demand letters will be issued on 30th August 2026 once the Financial Statement for 2025/26 are finalized.
 - d) Loan recoverability within the Water sector is expected to improve once Water Agencies fully operationalize Bulky Water Operation Systems. Athi Water Works Development Agency, which has already operationalized bulk water systems in several projects, has led to enhanced loan repayment amount. For FY 2025/26 they have remitted Kshs. 70 million.
73. The Consolidated Fund Services (CFS) Estimates for FY 2026/27 total to Kshs. 2.56 trillion, compared to the FY 2025/26 Budget of Kshs. 2.58 trillion under Supplementary Estimates I.
74. The projected CFS expenditures for FY2026/27 are composed of domestic debt interest of Kshs. 986.7 billion, external debt interest of Kshs. 267.5 billion domestic debt redemptions of Kshs. 648.8 billion, external debt redemptions of Kshs. 412.9 billion, pensions of Kshs. 241.9 billion and salaries and allowances for the constitutional office holders of Kshs. 5.07 billion.
75. The Consolidated Fund Services (CFS) expenditures as a share of ordinary revenue increased steadily from 25.7 percent in FY 2016/17 to a peak of 50.3 percent in FY 2026/27. The increase over the historical period was largely driven by rising interest payments, which expanded significantly as public debt stock increased, while pension expenditures increased from 4.9 percent to above 8.7 percent over the same period.
76. The sharp rise in the CFS-to-revenue ratio over the recent period reflects effects of Kenya shilling depreciation over time and increased debt stock amid less than comparable revenue growth and fiscal shocks, underpinned by increased financing needs.
77. The debt service projected at approximately Kshs. 2.3 trillion in FY 2026/27, equivalent to approximately 91 percent of projected ordinary revenue which is inclusive of repayments (46 percent of the ordinary revenue) is rolled over during repayments. The measures being undertaken to contain and gradually reduce debt service expenditure include; liability management operations, domestic debt tenor extension through issuance of longer-dated instruments, concessional financing preference, fiscal deficit reduction.
78. The overall public debt and external debt sustainability analysis (DSA) shows that Kenya's public debt is facing a high risk of debt distress. The projected PV of public debt to GDP ratio is 65.7 percent above the indicative benchmark of 55 percent throughout the medium-term horizon up to the year 2031.
79. The pre-1997 government overdraft comprises various advances extended to the Government of Kenya by the Central Bank of Kenya prior to 1997. The projected

outstanding pre-1997 debt at the end of FY 2025/2026 is Kshs. 13.9 billion with associated interest costs of Kshs. 408.8 million projected for FY 2026/2027.

80. On ongoing and planned Liability Management Operations, in FY 2025/2026, the National Treasury projected a debt swap of approximately USD 1,000 million. This operation will involve the exchange of existing commercial debt for cheaper guaranteed and more sustainable instruments to smooth the repayment profile, reduce the present value of total debt obligations or exchanging external liabilities for domestic investments.
81. In FY 2026/2027 Budget Estimates incorporate a provision equivalent to USD 500 million earmarked for prospective external debt liability management operations to be undertaken by the National Treasury.
82. External loans contracted for budget support, including those associated with liability management operations, are not applied exclusively to debt prepayment. In accordance with Article 220 of the Constitution of Kenya, 2010, and the provisions of the Public Finance Management Act, 2012, such resources are applied toward financing the overall budget deficit and supporting approved government expenditures through the Consolidated Fund.
83. The framework for tracking and accounting for these resources is anchored in the government's public financial management system. The flow and utilization of funds are therefore traceable through the Integrated Financial Management Information System (IFMIS), Exchequer records, Appropriation Accounts, and audited financial statements, thereby providing a clear and auditable trail from disbursement by lenders to final expenditure by executing entities.
84. The assessment of the pension expenditures as a share of ordinary revenue is projected to decreased from 8.7 percent in FY 2025/26 to 7.0 percent in FY 2029/2030. Although the pensions expenditures are projected to rise by about 4 percent annually on nominal terms, as a share of GDP, the pensions expenditures are projected to decline marginally from 1.3 percent of GDP in FY 2025/26 to 1.2 percent in FY 2026/27 and to stabilize at 1.0 percent of GDP over the medium term as per the approved BPS 2026.
85. The Public Service Superannuation Scheme (PSSS) forms part of a broader government agenda that is established under the Public Service Superannuation Scheme Act, Cap 189A, to completely transition the larger public service pension framework from an unsustainable, non-contributory defined-benefit model financed entirely through the exchequer, to a defined-contribution scheme where benefits are pre-funded, ring-fenced in individual member accounts, and readily available upon exit from service.
86. The urgency of this shift is underscored by the scale of the fiscal burden: pension claims paid directly from the exchequer surged from KES 25 billion in FY 2008/09 to KES 189 billion in FY 2023/24, which illustrates the unsustainable trajectory the PSSS was designed to arrest.
87. As at 31 March 2026, PSSS has 517,236 members and Kshs. 322 billion in assets under management, making it the second largest pension scheme in Kenya. The scheme declared

17.68 percent interest for FY 2024/25, up from 11.9 percent the prior year which demonstrates strong fund performance that grows members' retirement savings in real terms.

88. The Government of Kenya and the Government of the United Kingdom entered the Public Officers' Pensions (Kenya) Agreement, 1977 to provide for the administration and payment of pensions to former non-Kenyan public officers and their dependents who served in the Kenyan Public Service and retired or died before 1 April 1971.
89. As at 28 February 2026, the arrangement covered 151 beneficiaries, comprising 127 pensioners and 24 widows and orphans. Pension expenditure funded through the CFS amounted to GBP 116,736.67 in FY 2023/24 and GBP 122,803.80 in FY 2024/25.

7) COMMITTEE OBSERVATIONS

90. Arising from the consideration of the estimates and submissions from stakeholders, the Committee made the following pertinent observations, THAT:
 1. In FY 2026/27, the public debt service allocation of Kshs. 2.31 trillion comprises Kshs. 1.06 trillion in redemptions, or principal repayments, and Kshs. 1.25 trillion in interest payments. Interest payments account for the larger share at 54 percent, indicating that more than half of debt service will go towards financing costs rather than repayment of the principal debt. At about 6 percent of GDP, interest payments exceed development expenditure, which is estimated at 3.6 percent of GDP, indicating that debt service costs remain a major component of public spending and continue to shape the fiscal space available for development priorities.
 2. CFS expenditures, net of domestic debt redemption expenditures, as a share of ordinary revenue have increased steadily from 27 percent in FY 2016/17 to a projected peak of 50 percent in FY 2026/27. This growth has been driven largely by rising interest payments, reflecting the continued expansion of the public debt stock.
 3. The public debt stock, which amounted to Kshs. 12.84 trillion as at February 2026, is projected to reach Kshs. 14.12 trillion by June 2027, equivalent to a Net Present Value of public debt to GDP ratio of 65 percent. This remains above the statutory debt anchor of 55 percent, with a 5 percent margin, leaving only one year to meet the October 2028 target. If the target is not met, it may weaken the credibility of the fiscal rules framework and the legislative measures intended to support prudent fiscal management.
 4. Including the FY 2026/27 projections, the fiscal deficit has increased by approximately Kshs. 1 trillion annually. This implies that the public debt stock will continue to grow at an aggressive pace. Given the current reliance on domestic and commercial borrowing, the cost of debt is likely to remain above real GDP growth, while debt service may continue growing faster than revenue.
 5. The fiscal deficit is projected at 5.3 percent of GDP in FY 2026/27, the highest fiscal deficit projected at the beginning of a financial year. This continues the trend of

deviation from the fiscal consolidation path, pointing to the need to implement a legally enforceable medium-term fiscal consolidation framework to progressively reduce the fiscal deficit and stabilize public debt within the statutory debt anchor.

6. The financing framework presented in successive Budget Estimates has consistently deviated from the borrowing mix and fiscal path set out in the Medium-Term Debt Management Strategy. This raises concern on the practical role, credibility and policy relevance of the MTDS within the broader budget formulation process.
7. External loans contracted for liability management operations are not applied exclusively to debt prepayment. A portion of the proceeds is used to finance the overall budget deficit and support approved Government expenditures through the Consolidated Fund. Although these are commercial loans, they are not ring-fenced for specific projects but are pooled within the Consolidated Fund for general budget financing, even where they may be obtained on potentially unfavorable terms.
8. Development expenditure is estimated at approximately 3.6 percent of GDP. This raises concern on whether such a relatively low level of development spending is sufficient to generate the economic growth required to support fiscal consolidation and strengthen debt sustainability.
9. With the fiscal constraint arising from rising debt service expenditure and increased borrowing costs, there is need to strengthen resource mobilization procedures to ensure that any marginal increase in public debt translates into measurable economic impact. Each loan contracted should therefore be subjected to adequate project appraisal, economic valuation and assessment of expected economic rates of return, to ensure that additional borrowing supports growth-enhancing investments.
10. Regarding on-lent loans, the continued write-off or forgiveness of obligations owed by defaulting entities may create moral hazard and send the wrong message to implementing agencies. Debt forgiveness without legal consequences, accountability, or reporting to the National Assembly may encourage weak financial discipline among public entities and increase the cost of project financing.

8) COMMITTEE RECOMMENDATIONS

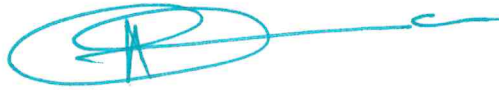
91. Arising from these consultative engagements, the Committee recommends, THAT:

1. In order to contain the growth of debt service expenditures, the National Treasury should implement a fiscal consolidation framework on a medium-term basis, ensuring it is aligned to Section 16 of the PFM Act CAP 412A, and aimed at progressively reducing the fiscal deficit and stabilizing public debt within the statutory debt anchor set under Section 50.
2. In order to strengthen compliance with the statutory debt anchor, the National Treasury should, within 30 days of the adoption of this report, submit to the National Assembly a clear debt reduction path indicating annual targets, policy measures, and

timelines for achieving the 55 percent debt-to-GDP threshold in Net Present Value terms.

3. In order to ensure that additional borrowing generates measurable economic impact, the National Treasury should, as from 1st of July 2026, strengthen resource mobilization procedures by subjecting all loans to adequate project appraisal, economic valuation, and assessment of expected economic rates of return before contracting.
4. In order to safeguard value for money in liability management operations, the National Treasury should ensure that all such operations are supported by cost-benefit analysis, disclosure of terms and conditions, and assessment of their impact on debt sustainability.
5. In order to improve accountability of commercial loans contracted for liability management, the use of these loans should be clearly disclosed, including the portion used for debt prepayment, the portion applied towards general budget financing, and the projects financed.
6. In order to preserve fiscal space for development priorities, the National Treasury should rationalize non-priority recurrent expenditure and progressively increase allocations to growth-enhancing development expenditure from 3.6 percent of GDP to 10 percent of GDP, over the medium term.
7. In order to address moral hazard in on-lent loans, the National Treasury should:
 - a. Within three (3) months of the adoption of this report, develop an accountability framework for defaulting entities, including clear reporting to the National Assembly before any write-off, restructuring, or forgiveness of obligations is undertaken;
 - b. Ensure that any proposed write-off, restructuring or forgiveness of on-lent loan obligations is submitted to the National Assembly for consideration and approval before implementation, and;
 - c. Within three (3) months of the adoption of this report, submit to the National Assembly a comprehensive report on all defaulting entities over the past ten years, indicating the total amounts forgiven, outstanding obligations, reasons for default, impact on projects, recovery measures undertaken, and the accountability measures to be applied before any forgiveness of obligations was approved.


SIGNED



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

2nd June 2026

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DATE

 THE NATIONAL ASSEMBLY PAPERS LAID			
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TABLED BY:	Hon. Abdi Shurie CBS MP Chairperson, PDP Committee		
CLERK-AT THE-TABLE:	Halima Ahmed		

