REPUBLIC OF KENYA

2025 MEDIUM TERM DEBT MANAGEMENT STRATEGY

PREPARED BY PUBLIC DEBT MANAGEMENT OFFICE

THE NATIONAL TREASURY AND ECONOMIC PLANNING

DECEMBER 2024

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TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

FOREWORD

The Medium-Term Debt Management Strategy (MTDS) is an annual publication that enables the Government to make informed decisions regarding public borrowing and public debt management. The Strategy guides the Government in pursuing the desired structure of public debt portfolio in pursuit of cost minimization and risk management while ensuring debt remains sustainable over the medium-term.

The 2025 MTDS has been prepared pursuant to Section 33 of the Public Finance Management Act, 2012. The Strategy recognizes that a diversified public debt structure and deepening of the domestic debt market is necessary to mitigate against exchange rate risks on Kenya's external public debt.

Public and publicly guaranteed debt stock increased to Ksh. 10,581.98 billion as of the end of June 2024 from Ksh. 10,278.88 billion as of the end of June 2023. This comprises an external debt stock of Ksh. 5,171.70 billion and a domestic debt stock of Ksh. 5,410.28 billion.

The 2025 MTDS was prepared on the background of successful debt maturity management operation. The operation involved prepaying USD 1.50 billion that was undertaken in February 2024 of the USD 2.00 billion June 2024 maturing Eurobond.

The Public Debt Management Office will continue to monitor and assess the macroeconomic and market developments to explore opportunities for diversifying sources of external borrowing in particular targeting Diaspora Bond, and Environmental, Social and Governance (ESG) debt instruments.

Additionally, the National Treasury will continue to undertake domestic debt market developments reforms whose objective is to reduce the cost and minimize risks inherent in public debt while also improving the institutional structure and policies to ensure efficient and effective public debt management operations. Measures aimed at addressing public debt vulnerabilities including liability management operations, prioritizing concessional borrowing and continuation of fiscal consolidation path will be pursued in the short and over medium term. These measures are broadly aimed at fostering public debt sustainability by reducing the pace of public debt accumulation.

It is hoped that this MTDS will provide a firm foundation to supplement fiscal consolidation aimed at slowing accumulation of rapidly changing global financial environment.

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

ACKNOWLEDGEMENT

The 2025 Medium-Term Debt Management Strategy (MTDS) has been developed to guide public debt management over the period 2025-2028. Analyses of costs and risks and both the domestic and external operating environments have been employed cognizant of the objectives of the Public Debt and Borrowing Policy and the Public Finance Management Act, 2012.

Projected borrowing is in line with the objectives of the 2025 Budget Policy Statement and to meet the redemption of maturing debt. Emphasis will also be on promoting the development of a sustainable domestic debt market and intergenerational equity.

Preparation of the 2025 MTDS, was by way of collaborative teamwork and inputs that involved officers from various Departments within the National Treasury.

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

Moreover, I recognize the efforts of the Public Debt Management Office for providing the technical inputs towards developing this Strategy.

The 2025 MTDS and previous years' versions of the Medium-Term Debt Management Strategies are available for reference and information on the National Treasury website: www.treasury.go.ke.

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

ABBREVIATION AND ACRONYMS

ABP	Annual Borrowing Plan
APDMR	Annual Public Debt Management Report
BETA	Bottom-Up Economic Transformation Agenda
CBK	Central Bank of Kenya
DSA	Debt Sustainability Analysis
EAC	East Africa Community
ESG	Environmental, Social and Governance
GDP	Gross Domestic product
IDA	Internatinoal Development Association
IBRD	International Bank for Reconstruction & Development
IMF	International Monetary Fund
KQ	Kenya Airways
KenGen	Kenya Electricity Generation Company
KPA	Kenya Ports Authority
LMOs	Liability Management Operations
MTDS	Medium-Term Debt Management Strategy
NSE	Nairobi Securities Exchange
ODA	Official Development Assistance
OTC	Over the Conter
PPG	Public & Publicly Guaranteed
PDMO	Public Debt Management Office
PFM	Public Finance Management
SDR	Special Drawing Rights
S&P	Standard and Poor's
PV	The present value
USD	United State Dollar

EXECUTIVE SUMMARY

The 2025 Medium-Term Debt Management Strategy (MTDS) has been prepared in accordance with Section 33 (2) of the Public Finance Management (PFM) Act, 2012. It serves as a roadmap for the management of the country's public debt for the period FY 2025/26-2027/28. It outlines the strategies and initiatives aimed at minimizing costs and management of risks of debt over the medium term.

Public and publicly guaranteed debt stock increased to Ksh. 10,581.98 billion as of the end of June 2024 from Ksh. 10,278.88 billion as of the end of June 2023. This comprises an external debt stock of Ksh. 5,171.70 billion and a domestic debt stock of Ksh. 5,410.28 billion.

The October 2024 Debt Sustainability Analysis (DSA) reports Kenya's public debt to be sustainable but with a high risk of debt distress. The present value (PV) of public debt was 63.0 percent of GDP against the benchmark debt threshold of 55 percent of debt to GDP. The National Treasury has until 1st November 2028 to bring the present value of public debt to within the threshold.

The MTDS has been prepared in an environment of vibrant economic growth but a volatile financial market globally and locally. The domestic economy grew by 5.0 percent in the first quarter and 4.6 percent in the second quarter of 2024. Kenya's economic performance is projected to remain stable over the medium term. Growth is expected to moderate to 5.2 percent in 2024 and 5.4 percent in 2025 from 5.6 percent in 2023. Growth will be largely driven by broad-based private sector activities and ongoing government interventions and strategies under the Bottom-Up Economic Transformation Agenda (BETA).

The 2025 debt management strategy seeks to gradually reduce the stock of Treasury bills while lengthening maturity of public debt instruments and deepening the domestic debt market through issuance of medium to long term debt securities accompanied by debt market reforms. From the external sources, the strategy proposes a mix of concessional and commercial borrowing.

The strategy aims at 25 percent and 75 percent gross borrowing from external and domestic sources, respectively.Net borrowing to finance fiscal deficits is structured into 65 percent and 35 percent from domestic and external sources, respectively.

I. INTRODUCTION

1. The Medium-Term Debt Management Strategy (MTDS) is the policy framework that guides government borrowing and public debt management. The framework guides the Government in pursuing a desired structure of the public debt portfolio which reflects costs and risks trade-offs, to support the fiscal deficit path outlined in the Budget Policy Statement (BPS).

2. The preparation and submission of the 2025 MTDS for the period FY 2025/26 to 2027/28 is in accordance with sections 33(2) and 63(c) of Public Finance Management Act, 2012.

3. The National Treasury is mandated to manage the levels and composition of public debt, including guarantees and other financial obligations as provided for in sections 12 (1) (b) and 62(b) of the Public Finance Management (PFM) Act, 2012.

a) Objectives of the 2025 Debt Management Strategy

4. The 2025 debt management strategy aims at:

   a) Reducing refinancing risks by reducing short maturities debt while lengthening the total portfolio Average Time to Maturity (ATM) by deepening the domestic bond market through issuance of more medium to long term instruments as the main source of domestic financing;

   b) Reducing the interest rate risk by increasing the Average Time to Refixing and reducing the amount of debt with variable interest rates;

   c) Reducing the foreign exchange risk by diversifying debt held in foreign currencies; and

   d) Promoting intergenerational equity.

b) Scope of the MTDS

5. The MTDS analysis takes into account outstanding public debt and projected borrowing and debt service in the context of ongoing and projected macroeconomic environment and the conditions in the international and domestic capital markets. Performing guaranteed debt and other local debts and overdraft are excluded from the proposed debt management strategies. Debts excluded amounts to Ksh. 263.74 billion which includes Ksh.100.17 billion uncalled guaranteed debts, Ksh. 61.03 billion Government overdraft at CBK, Ksh.13.54 billion Suppliers credit, Ksh. 83.54 IMF SDR Allocation and Ksh. 5.47 billion Bank advances.

c) Organisation of the document

6. The succeeding sections comprise of: Review of the Existing Public Debt Portfolio; Analysis of Costs and Risks of Existing Public Debt; Review of Performance of the 2023 MTDS; Kenya's Debt Sustainability; Challenges to Debt Management; Macroeconomic Assumptions and Key Risks; Potential Sources of Financing; Debt Management Strategy; Strategy Implementation, Monitoring, Evaluation; and Annexes.

II. REVIEW OF THE EXISTING PUBLIC DEBT STOCK

7. As at end June 2024, the stock of public debt was Ksh. 10,581.98 billion (65.7 percent of GDP), equivalent to USD 81.70 billion in nominal terms, of which domestic debt was Ksh. 5,410.28 billion while external debt was Ksh. 5,171.70 billion (**Table 1**).

8. The 2025 MTDS analysis takes into account debt stock of Ksh. 10,318.25 billion or USD 79.66 billion excluding the performing guarantees debts, IMF SDR Allocation, Government overdraft at Central Bank of Kenya (CBK), Suppliers credit and Bank advances.

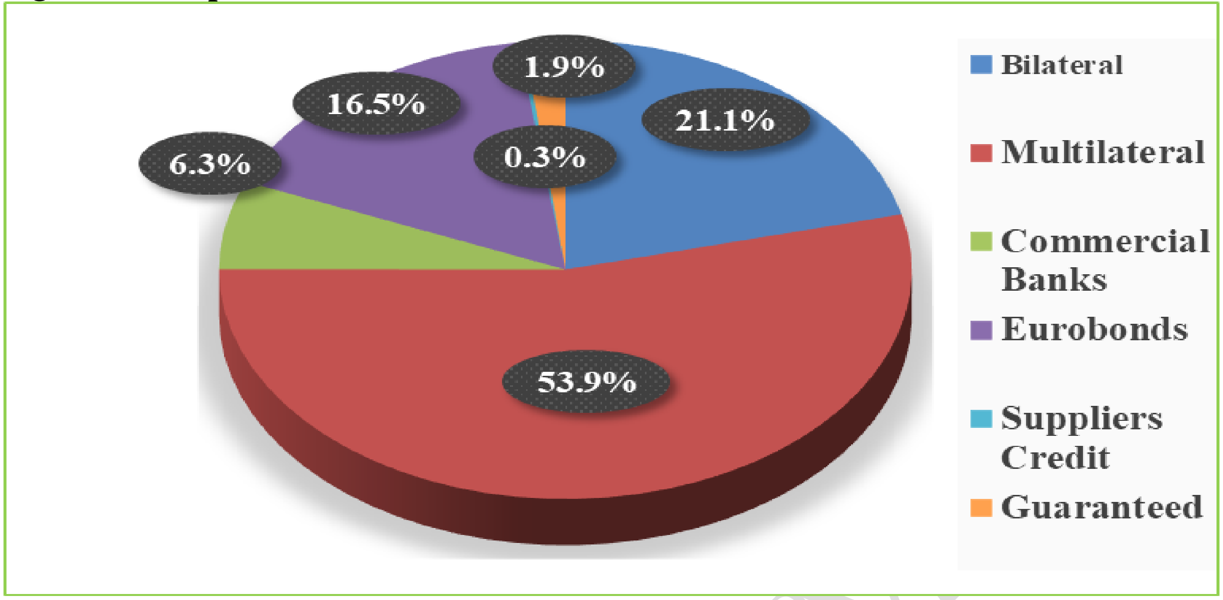
Table 1: Public and Publicly Guaranteed Debt in the MTDS end June 2024

Description	Ksh. (billions)	USD (billions)*
A. Domestic Debt (included in MTDS)		
Treasury Bills	615.89	4.75
Treasury Bonds	4,627.12	35.72
Pre-1997 Government Debt	17.23	0.13
Sub Total	**5,260.25**	**40.61**
B. External debt (included in MTDS)		
IDA/IBRD	1,786.03	13.79
ADF/AfDB	508.50	3.93
Bilateral	1,092.69	8.44
Multilateral	492.42	3.80
Commercial Banks	323.49	2.50
International Sovereign Bond	854.88	6.60
Sub Total	**5,058.00**	**39.05**
C. Excluded from MTDS		
Suppliers Credit(external)	13.54	0.10
CBK Overdraft(domestic)	61.03	0.47
IMF SDR Allocation(domestic)	83.54	0.64
Performing Guarantees(external)	100.17	0.77
Bank advances(domestic)	5.47	0.04
Sub Total	**263.74**	**2.04**
TOTAL DEBT Included in MTDS (A+B)	**10,318.25**	**79.66**
TOTAL DEBT (A+B+C)	**10,581.98**	**81.70**
Domestic	5,410.28	41.77
External	5,171.70	39.93

Source: *The National Treasury and Central Bank of Kenya*
**Exchange Rate (USD/Ksh) is 129.527*

9. External public debt comprises of multilateral, bilateral and commercial creditors while the domestic debt comprise Treasury bonds and bills. As a proportion of total external debt, multilateral accounted for 53.9 percent (**Figure 1)**. The high proportion of multilateral and bilateral debt reflects the Government's deliberate strategy of maximizing the use of concessional financing and minimizing the use of commercial debts.

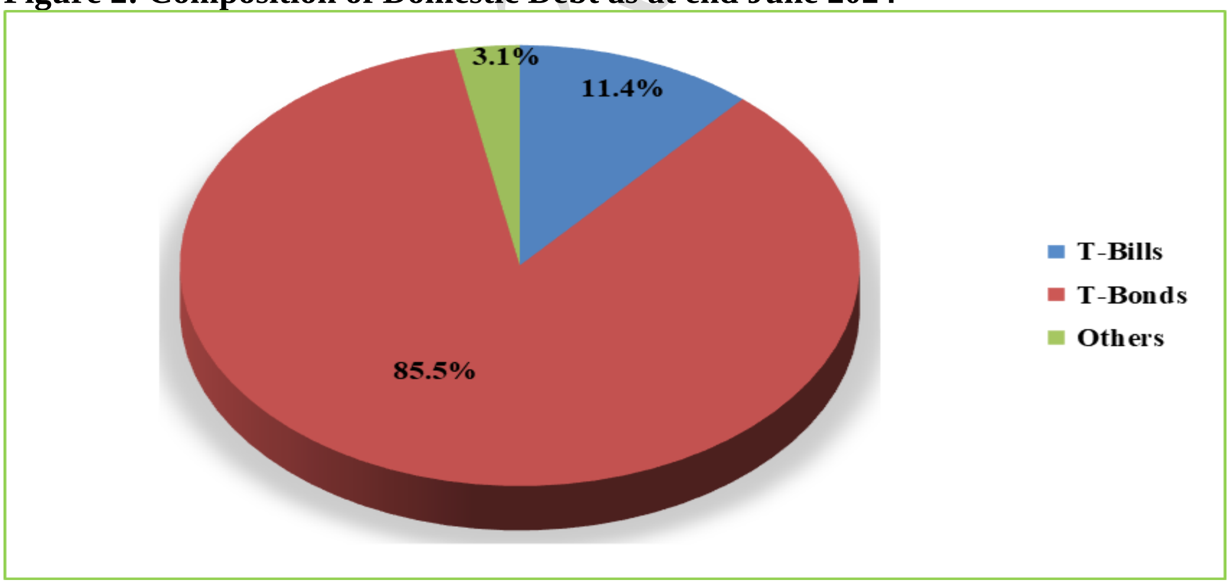
Figure 1: Composition of External Debt as at end June 2024



Source: *The National Treasury*

10. As at end June 2024, Treasury bonds accounted for 85.5 percent of total domestic debt, while Treasury bills accounted for 11.4 percent of total domestic debt. The other domestic debts categories accounted for 3.1 percent of the total domestic debt **(Figure 2**).

Figure 2: Composition of Domestic Debt as at end June 2024



Source: *The National Treasury*

11. Government guaranteed debt as at end June 2024 amounted to Ksh.100.2 billion. The debts are held by Kenya Ports Authority (KPA), Kenya Electricity Generation Company (KenGen) and Kenya Airways (KQ) (**Table 2**).

Table 2: Outstanding Government Guaranteed Debt (End June 2024)

Agency	Project	Amount Ksh. (Millions)
Kenya Electricity Generating Company	Mombasa Diesel Generating Power Plant	343
	Sondu Miriu Hydropower Project	819
	Sondu Miriu Hydro Power II	5,589
	Sondu - Miriu Hydropower Project Sangoro Power Plant	2,630
	Olkaria 1 Unit 4 and 5 Geothermal Power Project	15,528
	Rehabilitation and Upgrade of the Geothermal Plant Olkaria	1,449
	DSSI Japan For KenGen Loans Phase I	709
	DSSI Japan For KenGen Loans Phase II	824
Kenya Ports Authority	Mombasa Port Development Programme (Mombasa Port A)	15,422
	Mombasa Port Development Programme (Mombasa Port)	1,393
	Kenya Port Development Project - Phase II (Principal I)	23,271
	Kenya Port Development Project - Phase II (Principal IIA)	2,574
	DSSI Japan-Kenya Ports Authority (KE-P25) - Phase I	219
	DSSI Japan-Kenya Ports Authority (KE-P25) - Phase II	256
Kenya Airways	Kenya Airways Guarantee (for Local Banks)	29,139
Total		**100,165**

Source: *The National Treasury*

III. ANALYSIS OF COSTS AND RISKS OF EXISTING PUBLIC DEBT

12. This section highlights the costs and risks characteristics of the existing public debt portfolio as at end June 2024.

13. Nominal debt as a percentage of GDP declined to 65.7 percent in June 2024 from 72.0 percent in June 2023 due to appreciation of Kenya shilling against major currencies while the present value of public debt to GDP declined to 63.0 percent from 68.2 percent in the same period (**Table 3**).

Table 3: Costs and Risks Indicators for Existing Debt

		External Debt		Domestic Debt		Total Debt		Remarks
Risk Indicators		2023	2024	2023	2024	2023	2024	
Nominal debt as percentage of GDP		38.2	31.4	33.9	32.3	72	65.7	High debt burden.
PV as percentage of GDP		31.7	25.8	36.5	32.3	68.2	63	
Cost of debt	Interest payment as percentage of GDP	1.4	1.2	3.8	4.3	5.2	5.4	Rising cost of debt due to high domestic interest rate
	Weighted Av. IR (percentage)	3.7	3.8	11.4	13.2	7.3	8.5	
Refinancing risk	ATM (years)	9.3	9.5	7.5	6.6	8.5	8.1	High refinancing risk due to increased uptake of short-term domestic debt
	Debt maturing in 1yr (percentage of total)	9.7	5.2	16.8	17.6	13	11.2	
	Debt maturing in 1yr (percentage of GDP)	3.6	1.9	5.6	5.7	9.2	7.5	
Interest rate risk	ATR (years)	7.7	7.9	7.5	6.6	7.6	7.3	Overall, the interest rate risk has reduced
	Debt re-fixing in 1yr (percentage of total)	33.9	31	16.8	17.6	25.9	24.6	
	Fixed rate debt incl T-bills (percentage of total)	73.2	71.8	100	100	85.7	85.2	
	T-bills (percentage of total)			13	10.7	6.1	5.1	
FX risk	FX debt (percentage of total debt)					51.5	49.3	Reduced foreign exchange rate risk
	ST FX debt (percentage of reserves)					49.9	27.5	

Source: *The National Treasury*

14. The domestic debt with maturity of 4 to 10 years improved as at end June 2024. The proportion of instruments with less than one year to maturity increased to 18.6 percent as at end June 2024 from 16.7 percent as at end June 2023 and this was attributed to the National Treasury uptake of short-term instruments. As a result, the proportion of instruments with maturity of 2-3 years and greater than 11 years as at end June 2024 reduced from 15.3 percent and 26.9 percent as at end June 2023 to 13.5 percent and 22.2 percent as at end June 2024, respectively (**Table 4**).

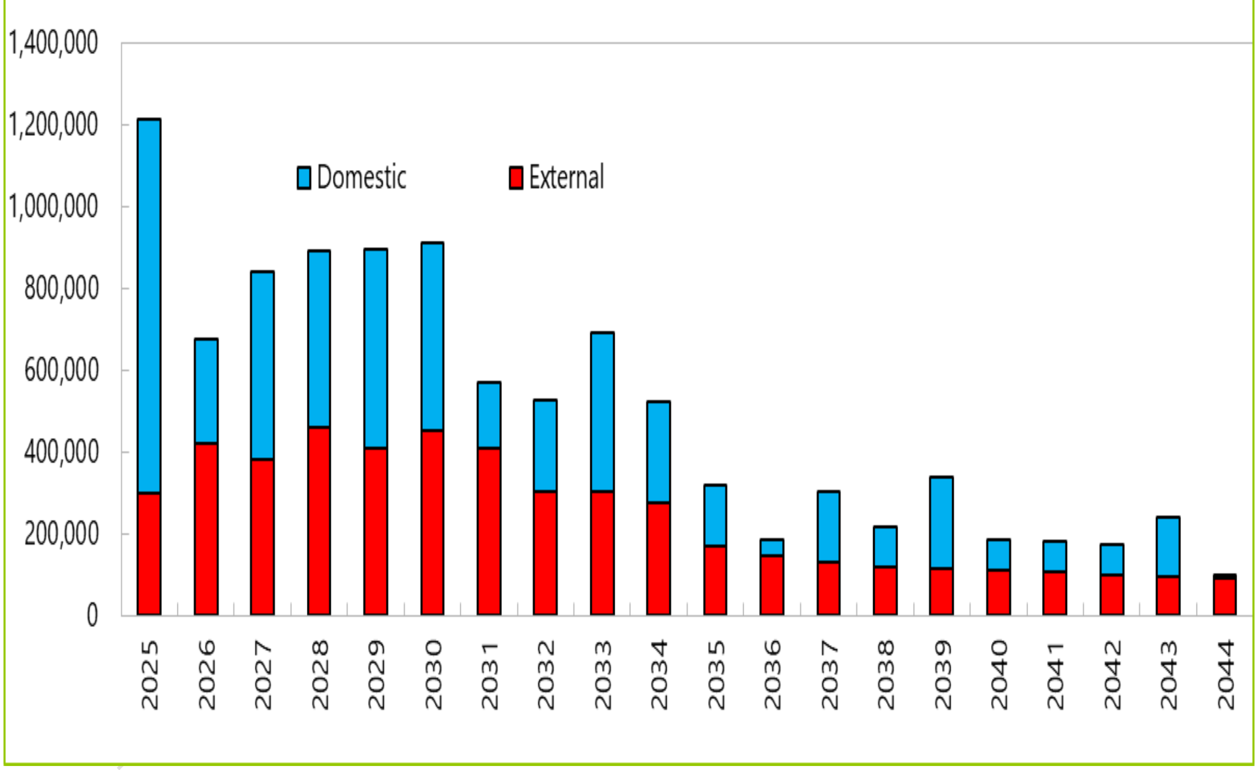
Table 4: Domestic Debt Securities by Maturity Profile, in USD Equivalent

Remaining Maturity in Years	End June 2023 In million USD	As Percent of Total	End June 2024 In million USD	As Percent of Total
Less than one year	5,645	16.7	7,525	18.6
2 to 3 years	5,143	15.3	5,482	13.5
4 to 5 years	5,407	16.0	7,113	17.6
6 to 10 years	8,465	25.1	11,377	28.1
Above 11 years	9,085	26.9	8,982	22.2
Total	**33,745**	**100.0**	**40,479**	**100.0**

Source: *The National Treasury*

15. The redemption profile shows that 18.6 percent of domestic debt will mature by June 2025, mainly due to short-term (treasury bills) government securities falling due. Overall, the repayment schedule is bunched for the next nine years due to large share of Treasury bills and near-term maturities treasury bonds, international sovereign bonds and syndicated loans. The full public debt repayment schedule, as of June 2024, is shown below (**Figure 3**).

Figure 3: Redemption Profile as at end June 2024 (Ksh millions)



Source: *The National Treasury*

IV. REVIEW OF PERFOMANCE OF THE 2023 MTDS

16. The FY 2023/24 MTDS aimed at maximizing use of concessional funding and rollover of commercial debt from external borrowing accompanied by liability management operations whereas on the domestic borrowing front, the target was to lengthen the maturity profile and mitigate refinancing risk through issuance of medium to long term benchmark Treasury bonds.

17. Whereas the overall strategy was to minimize costs and risks through a net financing mix of 50 per cent from both external and domestic sources, the outcome was in the ratio 73:27 net domestic to external financing, as reported in Budget Outturn (2024 Budget review and outlook paper) (**Table 5**).

Table 5: MTDS Targets against Borrowing Outturn (Percent)

Borrowing source		FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24
External	MTDS	38	28	27	25	50
	Actual	28	19	15	22	27
	Deviation	**10**	**9**	**12**	**3**	**23**
Domestic	MTDS	62	72	73	75	50
	Actual	72	81	85	78	73
	Deviation	**-10**	**-9**	**-12**	**-3**	**-23**

Source: *National Treasury*

18. The deviation was attributed to limited access to external financing which resulted to more uptake of borrowing from domestic sources. In FY 2023/2024, Kenya's net domestic financing was Ksh. 595.57 billion, or 89 per cent of the target. From external financing, the net amount was Ksh. 222.75 billion, or 86 per cent of the target during the fiscal year.

19. In February 2024, The National Treasury successfully refinanced USD 1.50 billion (75%) of the USD 2.00 billion Eurobond maturity through issuance of international Eurobond, with the remaining USD 500 million repaid from the exchequer in June 2024. The actual gross external borrowing in the period was 25.0 percent of the total public borrowing, which was below 35.0 percent target (**Table 6**).

Table 6: Gross Borrowing

	2023 MTDS (FY2023-2024) Targets (%)	FY2023-2024 Actual (%)	FY2023-2024 (Ksh. millions)
Gross domestic borrowing	65.0	75.0	2,341,234
Gross external borrowing	35.0	25.0	760,500
o/w Concessional and Semi-concessional	22.0	15.6	473,625
Commercial borrowing	13.0	9.4	286,875

Source: *National Treasury*

20. Global market rates have tightened and led to hardening of borrowing terms. Worsening market conditions were due to global and geopolitical economic shocks including monetary policy tightening in major economies and uncertainties related to Russia-Ukraine war.

21. New external debts average maturity lengthened to 20.5 years as at end June 2024 from 15.7 years in June 2023. The weighted average interest rate increased to 4.6 percent from 3.2 percent in June 2023. However, the grace period reduced to 4.4 years from 4.8 years during the same period (**Table 7**).

Table 7: Average Terms of New External Debt

Terms	2017	2018	2019	2020	2021	2022	2023	2024
Average Maturity (years)	17.6	20.8	15.3	26.1	23.3	25.9	15.7	20.5
Grace Period (years)	4.5	10.3	5.6	7.4	7.4	4.2	4.8	4.4
Average Interest Rate (%)	2.6	3.9	3.9	0.5	2.1	0.8	3.2	4.6

Source: *The National Treasury*

V. KENYA'S DEBT SUSTAINABILITY

22. The public debt[1] remains sustainable but with high risk of debt distress.

23. External Debt Sustainability Analysis (DSA) demonstrates that the Present Value (PV) of the external debt to GDP ratio is below the 40 percent sustainability threshold throughout the projection period. The PV of Public and Publicly Guaranteed (PPG) external debt-to-exports remains above the sustainability threshold of 180 percent through 2029.

24. The debt service to revenue ratio breaches the threshold of 18 percent from 2024 to 2028 due to heavy maturities during the period. Debt service-to-exports remains above the sustainability threshold of 15 percent through to 2029 (**Table 8**).

Table 8: External Debt Sustainability Analysis

Indicators	*Thresholds*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2034*	*2044*
		Actual		**Projection**							
PV of PPG external debt-to-GDP ratio	**40**	29.0	32.1	29.8	30.4	31.0	29.5	28.1	26.8	22.5	16.2
PV of PPG external debt-to-exports ratio	**180**	238.2	274.8	274.2	260.2	241.9	222.3	208.1	195.0	152.5	98.1
PPG debt service-to-exports ratio	**15**	21.4	26.9	40.5	31.9	29.8	27.3	27.0	22.0	16.7	11.6
PPG debt service-to-revenue ratio	**18**	15.4	18.8	25.2	20.6	20.4	18.9	18.6	15.5	12.6	9.8

Source: *The National Treasury & IMF country report*

25. The Present Value (PV) of total public debt-to-GDP ratio is projected to remain above the 55 percent benchmark through 2029 (**Table 9**), after which it is projected to decline to within the approved threshold.

26. Policy initiatives by the Government are necessary to diversify and/or expand export base and build gross international reserves to improve the external debt sustainability ratios.

27. The Government will sustain fiscal consolidation efforts over the medium term to create fiscal space and reduce debt related risks. The Government will also continue to optimize the use of external concessional funding and lengthen the maturity profile of public debt through issuance of medium to long dated bonds.

[1] Debt Sustainability Analysis (DSA) conducted in October 2024.
External and domestic obligations covering Central Government debt, Central Bank debt taken on behalf of the Government, Social Security Fund and Government guaranteed debt.
Excluded non-guaranteed debt of the public sector and arrears disclosed in the regular reports.

Table 9: Public Debt Sustainability Analysis

Indicators	Benchmark	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044
		Actual		Projection							
PV of debt–to-GDP ratio	**55**	63.9	68.7	63.0	64.0	63.7	61.2	58.6	56.2	49.7	35.5
PV of public debt-to-revenue and grants ratio	n/a	370.3	406.2	356.2	348.4	334.3	313.8	296.0	282.9	249.9	179.4
Debt service-to-revenue and grants ratio	n/a	56.0	60.6	63.7	62.5	61.4	58.1	55.7	49.0	47.1	29.4

Source: *The National Treasury & IMF Country report*

28. The Government will explore possibilities of various Liability Management Operations (LMOs) options with the aim of extending the maturity of existing debt to reduce near term maturities. In addition, a steady and strong outlook for exports will play a major role in supporting external debt sustainability.

29. For public debt to continue on a sustainable path, there is need to reduce annual borrowing limits (fiscal deficits) to slow the rate of debt accumulation.

VI. CHALLENGES TO DEBT MANAGEMENT

30. Kenya's recent downgrade in credit rating has a significant impact on the financial terms of various credit sources especially the commercial. Rating downgrades may lead to increased borrowing costs, limited access to credit markets, low investor confidence, currency depreciation, and debt sustainability risk.

31. Public debt legal framework not empowering enough as does not provide the PDMO with requisite autonomy to manage public debt.

32. Duplicated legal provisions-CBK Act, PFM Act 2012 providing CBK with leverage unqualified fiscal agency privileges without adequate accountability.

33. Tight budget provisions precipitate cash constraints leading to borrowing proceeds being a major budget funding source.

34. Deteriorating sovereign credit ratings due to debt accumulation on account of fiscal deficits.

35. Large share of foreign currency debt leading to exchange rate risks.

36. Changing Regulatory Environment: adapting to evolving lending patterns and ensuring adherence to international standards is very demanding.

37. External Market Volatility: External factors such as global market volatility, interest rate fluctuations, and low credit ratings impact debt management strategies.

38. Legal reforms required to deepen domestic market are slow and difficult to come due to duplicated authority among the fiscal agent and National Treasury.

39. Limited understanding in public debt management amongst major stakeholders. Public debt is both a highly technical and an emotive subject in the political arena. Need for a sustained capacity building on public debt management (it affects citizen welfare).

40. High stock of maturing Treasury bills exert pressure on liquidity and hence the need to reduce Treasury bills Stock. There is need to reduce refinancing risk by separating borrowing operations of the PDMO from liquidity management operations of the Exchequer.

VII. MACROECONOMIC ASSUMPTIONS AND KEY RISKS

a) Baseline Macroeconomic Assumptions

41. Over the medium-term, economic growth in Kenya is projected to remain at 5.4 percent supported by broad-based private sector activities and ongoing Government interventions and strategies under the Bottom-Up Economic Transformation Agenda (BETA). In addition, implementation of prudent fiscal and monetary policies will continue to support economic activity.

Table 10: Baseline Macroeconomic Assumptions as per the 2025 BPS

	Unit	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
		Pre-Act.	Projection				
Real GDP Growth	Percent	5.2	5.1	5.3	5.4	5.4	5.4
GDP Deflator	Percent	6.5	5.4	5.7	5.4	5.4	6.3
Inflation	Percent	6.9	5.4	5.0	5.0	5.0	5.0
Revenue	Percent of GDP	16.5	17.1	16.9	18.2	18.6	19.0
Expenditure	Percent of GDP	22.5	22.8	21.5	22.5	22.5	22.6
Overall Fiscal Balance	Percent of GDP	(5.4)	(5.3)	(4.3)	(3.9)	(3.5)	(3.3)
Primary Budget Balance	Percent of GDP	(0.8)	(0.3)	1.3	1.6	2.0	2.3
Revenue	Ksh. Billion	2,355.1	2,702.7	3,060.0	3,516.6	3,968.1	4,470.4
Expenditure	Ksh. Billion	3,221.0	3,605.2	3,880.8	4,329.3	4,782.0	5,309.1
Overall Fiscal Balance	Ksh. Billion	(805.8)	(835.1)	(768.6)	(759.4)	(750.3)	(771.9)
Primary Budget Balance	Ksh. Billion	(114.4)	(22.41)	234.7	319.5	441.0	561.2
GDP (Current Prices)	Ksh. Billion	14,299.2	15,826	18,053.7	21,286	23,529	26,019

Source: *The National Treasury*

b) Key Risks to Macroeconomic Assumptions

42. Risks to the strategy as enumerated below.

a) Unpredictable weather conditions may affect agricultural output and inflation assumptions.

b) Tight fiscal space and increase in the projected financing needs.

c) Uncertainties in the global economic outlook.

d) Likely constraint access to concessional financing.

e) Underperformance of Government Securities auctions may affect borrowing performance.

f) Failure to absorb external financing from creditors may lead to reduced underfunding of the budget.

g) Underperformance in revenue collection leading to increased debt accumulation.

h) The risk of depreciation of Kenya shilling against major currencies may increase fiscal pressure and pass-through inflation.

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

j) Risk of further credit downgrade

VIII. POTENTIAL SOURCES OF FINANCING

43. The domestic and external markets are the main sources of Government deficit financing.
44. The government will raise funds from the domestic market through issuance of Treasury bonds and bills.
45. The National Treasury will spearhead key reforms that deepen the market and diversify the investor base. To enhance the growth of the non-bank financial institutions such as pension, insurance and mutual funds, there is need to expand the volumes and initiate new financial products such as post-retirement and contributory pension schemes, diversified asset classes, private equity and venture capital.
46. The external borrowing will be through concessional loans from multilateral, bilateral and limited commercial loans such as international bond issuances.
47. The Government will also explore emerging funding instruments such as debt swaps, diaspora bond, sustainability linked bonds and Environmental, Social and Governance (ESG) debt instruments to fund budget deficit and manage public debt.

IX. DEBT MANAGEMENT STRATEGY

a) Analysis of Costs and Risks Indicators Under Alternative Debt Management Strategies

48. Analysis of various borrowing mixes and strategies has been undertaken to identify the mix and the strategy that minimises public debt costs and reduces risks to overall public debt.

49. Table 11 shows the costs and risks indicators of the four alternative strategies and Annexes 1 to 4 shows more details of the alternative debt management strategies. From array of strategies below analysed in Table 11 below Strategy 2 (S2) provides more prospective benefits in terms of costs and risks of public debt than any other alternative strategy.

Table 11: Expected Costs and Risks Indicators Under Alternative Strategies

Risk Indicators		2024	As at end 2028			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		63.7	52.7	52.8	52.7	52.5
Present value debt as percent of GDP		58.1	48.7	48.6	48.7	48.3
Interest payment as percent of GDP		5.4	4.3	4.4	4.3	4.1
Implied interest rate (percent)		8.5	8.7	8.7	8.6	8.3
Refinancing risk	Debt maturing in 1yr (percent of total)	11.2	13.3	12.2	13.4	16.1
	Debt maturing in 1yr (% of GDP)	7.5	7.0	6.5	7.1	8.5
	ATM External Portfolio (years)	9.5	8.8	9.1	8.5	8.6
	ATM Domestic Portfolio (years)	6.6	8.0	8.2	7.7	6.3
	ATM Total Portfolio (years)	8.1	8.4	8.6	8.1	7.5
Interest rate risk	ATR (years)	7.3	8.0	8.2	7.7	7.1
	Debt refixing in 1yr (percent of total)	24.6	20.0	18.9	21.3	24.4
	Fixed rate debt incl T-bills (percent of total)	85.2	91.9	92.1	90.6	90.0
	T-bills (percent of total)	5.1	4.8	3.9	4.8	6.2
FX risk	FX debt as % of total	49.3	46.0	45.5	47.9	51.7
	ST FX debt as % of reserves	27.5	32.6	31.2	34.2	36.0

Source: *The National Treasury*

b) 2025 Overall Debt Management Strategy

50. The gross borrowing is 25 percent external and 75 percent domestic. From the domestic sources, the target is to gradually reduce the stock of Treasury bills while lengthening debt maturity and issuance of medium to long term debt securities. On the external end, the target is to have a mix of concessional and commercial borrowing. Gross external financing would be composed of 11 percent concessional, 1 percent semi-concessional and 13 percent commercial borrowing. The expected composition of public debt at the end of the Strategy period will be 46 percent external and 54 percent domestic, as shown in Annex 2.

c) Deficit Financing Strategy (FY 2025/26-2027/28)

51. The MTDS analytical tool has guided that a net borrowing mix of 65 percent and 35 percent from domestic and external sources respectively will help optimize costs and risks of financing the fiscal deficits for the MTDS period 2025-2028.

d) Expected Costs and Risks Indicators in 2028

52. Implementation of the strategy will improve the debt sustainability indicators by reducing nominal debt to GDP to 52.8 percent from the current 65.7 percent and the present value of debt to GDP from 63.0 percent to 48.6 percent over the implementation period by FY2027/28 (**Table 12**).

53. The debt burden will significantly reduce as shown in the reduced interest payment as a percentage of GDP to 4.4 per cent from the current 5.4 per cent. Lower interest payments imply reduced pressure on the budget, which can free up resources for other priorities.

54. In terms of refinancing risks, the optimal strategy reduces the risk by lowering the debt maturing in 1 year as a percentage of GDP and lengthening the debt maturity both in the domestic and external portfolio.

55. The Strategy reduces the interest rate risk greatly by increasing the Average Time to Refixing to 8.2 years from 7.3 years, increasing the debt with fixed rates from 85.2 per cent to 92.1 per cent, and reducing the amount of Treasury bills in the portfolio to 3.9 per cent from the current 5.1 per cent.

56. In terms of exchange rate risk, it reduces the foreign exchange risk from 49.3 per cent to 45.5 per cent by focusing on borrowing more from the domestic debt market.

e) Risks to the Strategy

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

Table 12: Expected Costs and Risks Indicators of the Debt Management Strategy (2028)

Risk Indicators		June 2024	As at end 2028
		Current	**Optimal Strategy**
Nominal debt as percent of GDP		65.7	52.8
Present value debt as percent of GDP		63.0	48.6
Interest payment as percent of GDP		5.4	4.4
Implied interest rate (percent)		8.5	8.7
Refinancing risk	Debt maturing in 1yr (percent of total)	11.2	12.2
	Debt maturing in 1yr (% of GDP)	7.5	6.5
	ATM External Portfolio (years)	9.5	9.1
	ATM Domestic Portfolio (years)	6.6	8.2
	ATM Total Portfolio (years)	8.1	8.6
Interest rate risk	ATR (years)	7.3	8.2
	Debt refixing in 1yr (percent of total)	24.6	18.9
	Fixed rate debt incl T-bills (percent of total)	85.2	92.1
	T-bills (percent of total)	5.1	3.9
FX risk	FX debt as % of total	49.3	45.5
	ST FX debt as % of reserves	27.5	31.2

Source: *The National Treasury*

(f) Approaches to Deal with Debt Management Challenges

58. Fully implement the Hybrid Model of trading government securities where trading can be done at the Nairobi Securities Exchange (NSE) or Over the Conter (OTC).

59. Centralize the reporting of trades to a single Trade Repository platform to improve post-trade transparency which would facilitate better price discovery.

60. To promote the development of the domestic market by introducing market marking arrangements for per EAC Designated Market Makers for Government Securities (DMMGS's) framework being spearheaded by Central Banks.

61. Develop a system which guarantee settlement of all government securities transactions both in Primary and Secondary by having a mechanism where funds are confirmed

before concluding a transaction by obtaining a prior debit authorization from investors commercial bank before execution thus avoiding non-settlement of transactions.

62. Operationalize the sinking fund to reduce investor anxiety-efforts ongoing

63. Accelerate deepening of domestic market and institutional infrastructure -slow phase witnessed

64. Enforce revised Fiscal Agency Agreement with CBK Eliminate commissions paid to third parties on primary auction transactions and on foreign payments.

65. Continuously undertake LMOs to lower costs and risks of public debt- requires sinking fund.

66. Improve on cash management to reduce use of the costly overdraft

67. Sustain fiscal consolidation to reduce fiscal deficits and slow accumulation of public debt to comply with 55% percent public debt to GDP in present value terms by 31st October 2028

68. Provide electronic link to the Government Securities Depository for the OTC Exchange to launch trading of government securities in the OTC exchange

69. Develop government securities issuance policy to guide issuance and trading of government securities to reflect market evolution over time

70. Initiate local private placements for government securities targeting specific segment of the market

71. The National Treasury will review the variety and frequency of short-term securities so as to avoid having tenors with similar near-term bond maturities (1 year and below)

72. Introduction of offshore issuance of local currency denominated debt instrument to diversify investor base without elevating foreign currency risk. This will be through the proposed diaspora bond

73. Development of policies to streamline use of CBK overdraft facility

74. Increase digitization/automation of the auction processes to reduce the auction cycle from the current 6 calendar days to hours or at least one day

75. Support for legal amendments to:
    a) Empower PDMO perform its functions as Principal in issuance of Government securities;

b) Consolidate auction functions under PDMO as the Principal in domestic debt borrowing and not under a committee -to make PDMO more accountable in public debt issuance;

c) Eliminate duplication in the PFM Act 2012 and CBK Act -fiscal agency; and

d) PDMO status -elevate to a state Department -Empower PDMO to account for its budget (CFS) - running into half of the total Government budget.

X. STRATEGY IMPLEMENTATION, MONITORING AND EVALUATION

a) Domestic and External Borrowing Plan

76. The Government will implement the debt management strategy through the Annual Borrowing Plan (ABP). The implementation work plan is shown in Table 13 below.

Table 13: MTDS Implementation Work Plan

NO.	OUTPUT	ACTIVITY	TIME FRAME	ACTION BY	DATA/INFORMATION SOURCE
1.	2025 MTDS	Review of 2023 MTDS, preparation and submission of 2025 MTDS to Parliament	2024 November to 2025 February	PDMO PS/NT CS/NT&P Cabinet Parliament	2025 BPS, 2024 BROP CS DRMS CBK 2023 & 2024 MTDS
2.	Dissemination of the 2025 MTDS to the National Treasury Departments	Circulation of printed copies, clear dissemination of the information to implementing departments and training counties	2025 February	PDMO	2025 MTDS
3.	CFS (Debt) Budget estimates	Prepare the debt service projections and CFS budget estimates	Annually as per Budget Calendar and during revisions	PDMO /BD MFAD /CBK PS/NT, CS/NT&EP Cabinet /Parliament	PDMO
4.	Quarterly MTDS monitoring and evaluation report	Technical Fora and peer review of implementation of the MTDS	Quarterly	PDMO; MFAD CBK; CoG	2025 BPS, 2024 BROP CS DRMS; CBK 2024 & 2025 MTDS
5.	Monthly debt management reports	Access of domestic and external borrowing and repayment data	Monthly	PDMO CBK	RMD CBK FMA/NT
6.	2025 MTDS half year performance review	Undertake half year review of performance of the 2025 MTDS	Every six months after effective date of the MTDS	PDMO CBK MFAD	RMD DRS CBK MFAD
7.	FCCL Report	Undertake analysis of FCCL and FCCL assessment	Annually	PDMO; PPP Unit MFAD; CBK	PPP Unit

8.	Review of issuance calendar	Stakeholders Forums to review issuance calendar	Quarterly	PDMO AGD CBK MFAD Market Participants PS/NT CS/NT&EP	PDMO CBK AGD Market Participants

77. PDMO will prepare domestic and external borrowing plan comprising of projected borrowing and settlement of maturities within the 2025/26 fiscal year.

78. The external borrowing plan will comprise of expected disbursements by each creditor, the disbursement period and currency of disbursement within the fiscal year as per the 2025 MTDS.

79. The ABP may be revised to include liability management operations to manage debt stock risks when market conditions allow.

b) Review of the Borrowing Plan

80. Review of the outcome of implementation of the Borrowing Plan will be done on weekly, monthly and on annual basis to provide data for strategy evaluation and for public information.

81. The progress of implementation of the 2025 MTDS will be monitored and reported through monthly reports and the Annual Public Debt Management Report (APDMR) which is prepared and published after the end of the fiscal year.

c) Monitoring and Review of Cost and Risk Indicator Outturn of the Strategy

82. The costs and risks outcome characteristics in the 2025 MTDS will be evaluated semi-annually and annually against sustainability threshold indicators to determine deviations and suggest mitigation measures. Table 13 outlines the costs and risks parameters to be evaluated.

83. The evolving public debt structure and fiscal deficit will inform review of strategy for management of costs and risks of public debt going forward. In addition, any deviations will be used to inform strategy review and formulation of the MTDS in the next cycle.

84. Similarly, guaranteed State-Owned Enterprises' debt, fiscal commitments and contingent liabilities will be tracked and assessed against overall public debt sustainability levels.

Table 14: Template for Evaluation and Updating of Costs and Risks Indicators Under Alternative Strategies

Risk Indicators		Baseline June 2024	2025 MTDS (2028 Expected outcome)	Actual by month*	Deviation	Remarks
Nominal debt as % of GDP		63.7	52.8			
Present value debt as % of GDP		58.1	48.6			
Interest payment as % of GDP		5.4	4.4			
Implied interest rate (%)		8.5	8.7			
Refinancing risk	Debt maturing in 1yr (% of total)	11.2	12.2			
	Debt maturing in 1yr (% of GDP)	7.5	6.5			
	ATM External Portfolio (years)	9.5	9.1			
	ATM Domestic Portfolio (years)	6.6	8.2			
	ATM Total Portfolio (years)	8.1	8.6			
Interest rate risk	ATR (years)	7.3	8.2			
	Debt refixing in 1yr (% of total)	24.6	18.9			
	Fixed rate debt (% of total)	85.2	92.1			
FX risk	FX debt as % of total	49.3	45.5			
***December 2024 for Semi-Annual and June 2025 for Annual assessment**						

ANNEXES

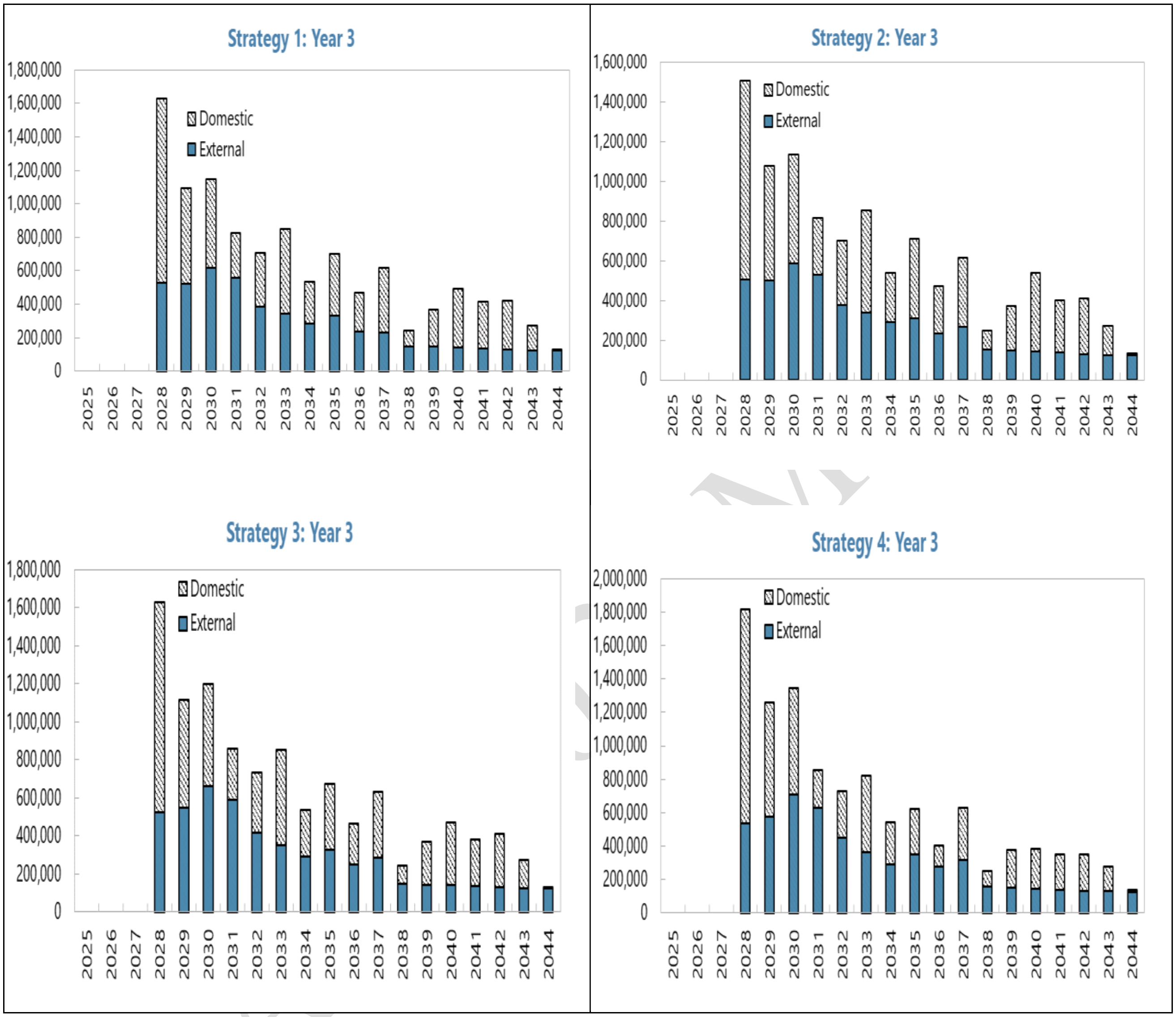
Annex 1: Average New Borrowing by Instrument under Alternative Strategies (in percent of gross borrowing by end of FY 2027/28)

New debt in % of Total Gross Borrowing		S1	S2	S3	S4
ADF		1	1	1	1
IDA/IFAD		4	5	3	4
Concessional		5	6	4	5
Semi-Concessional		1	1	2	2
Commercial/International Sovereign Bond		15	13	18	21
Treasury bills		32	28	32	40
Treasury bonds 2-3 Years		3	5	4	7
Treasury bonds 4-7 Years		6	7	6	3
Treasury bonds 8-12 Years		12	12	10	6
Treasury bonds 13-17 Years		12	13	11	7
Treasury bonds 18-22 Years		6	6	6	3
Treasury bonds 23-30 Years		4	5	3	1
External		**25**	**25**	**28**	**32**
Domestic		**75**	**75**	**72**	**68**
Total		**100**	**100**	**100**	**100**

Annex 2: Composition of Debt Portfolio by Instrument under Alternative Strategies, (in Percent of Outstanding Portfolio as at End of -FY 2027/28)

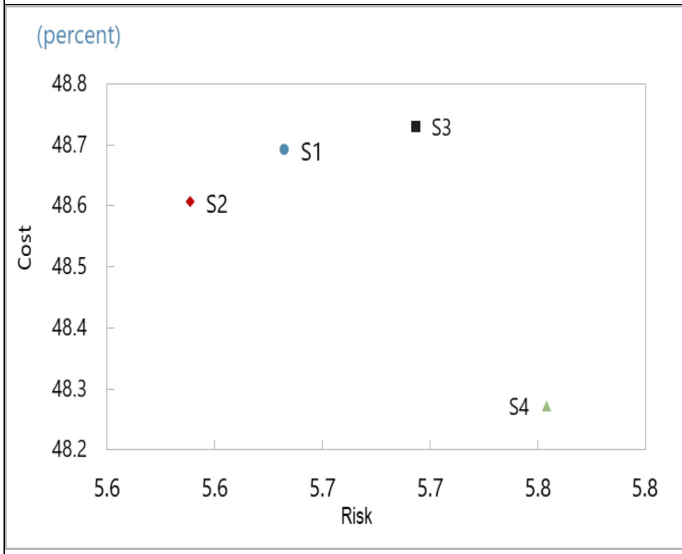
In Percent of Total	FY 2023/24	As at end FY2027/28			
Outstanding by Instrument	**Current**	**S1**	**S2**	**S3**	**S4**
ADF	3	3	3	3	3
IDA/IFAD	15	14	15	14	15
Concessional	3	5	5	4	5
Semi-Concessional	6	3	3	4	4
Commercial/International Sovereign Bond	23	21	20	23	26
Treasury bills	5	5	4	5	6
Treasury bonds 2-3 Years	3	1	2	2	4
Treasury bonds 4-7 Years	8	6	6	6	5
Treasury bonds 8-12 Years	11	13	13	12	10
Treasury bonds 13-17 Years	12	14	14	13	11
Treasury bonds 18-22 Years	9	10	10	10	9
Treasury bonds 23-30 Years	3	4	5	4	3
External	**49**	**46**	**46**	**48**	**52**
Domestic	**51**	**54**	**54**	**52**	**48**
Total	**100**	**100**	**100**	**100**	**100**

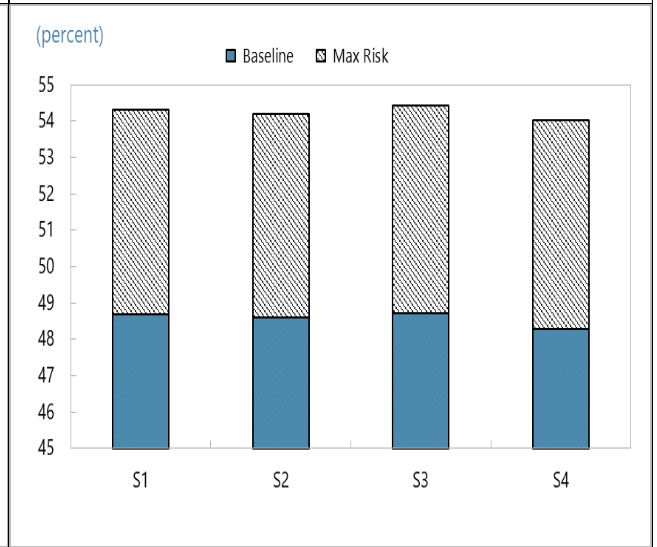
Annex 3: Redemption Profiles under Alternative Strategies Ksh. Million (End-FY2027/28)



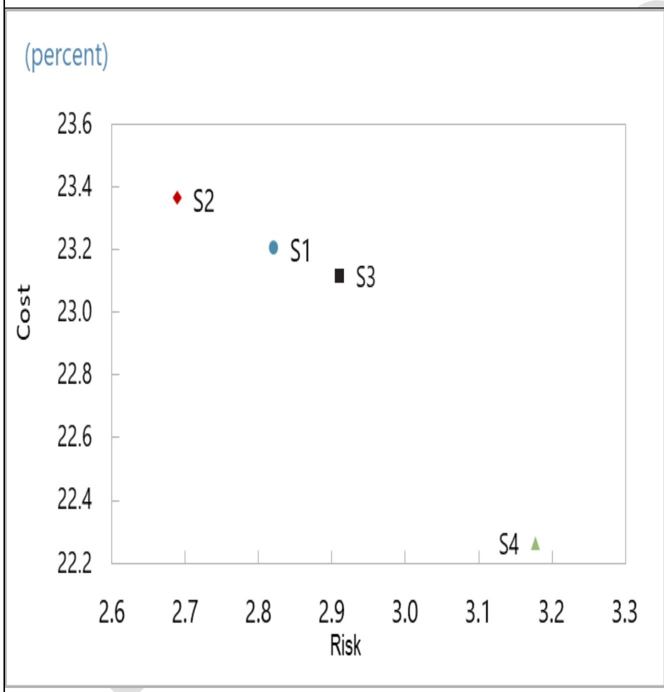
Annex 4: Cost and Risk Characteristics under Alternative Strategies

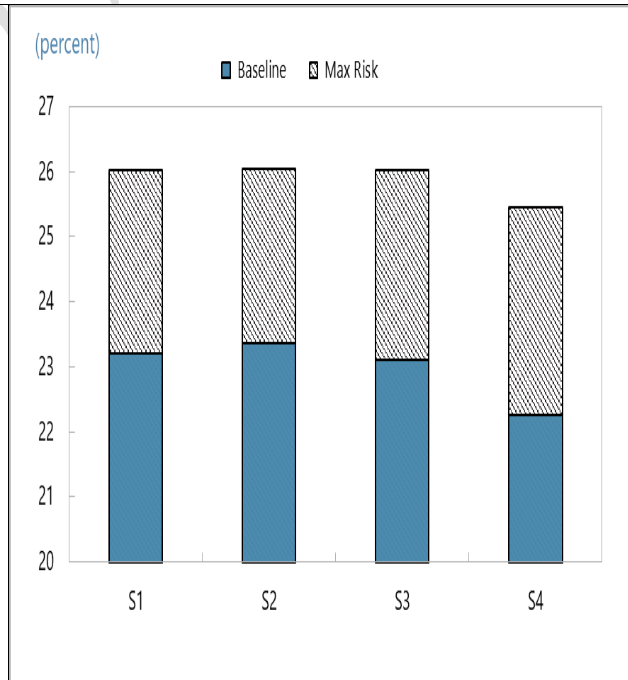
PV of Debt to GDP ratio

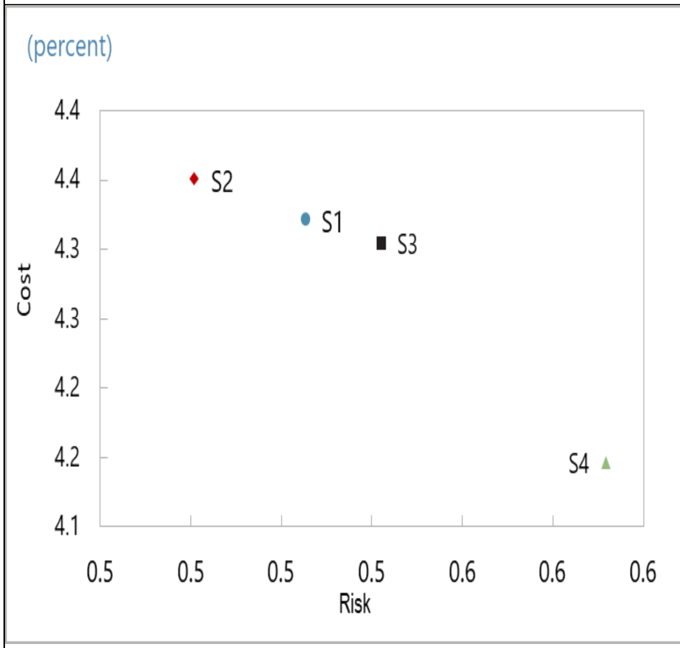
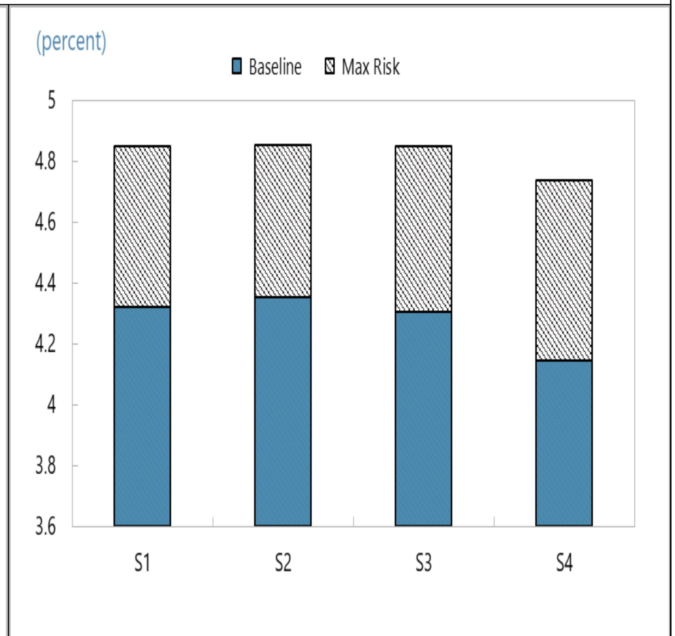
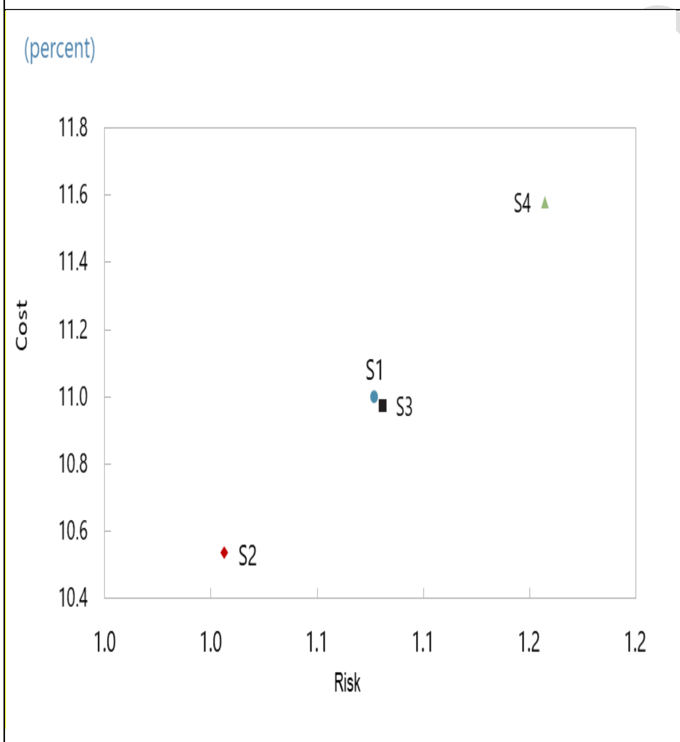
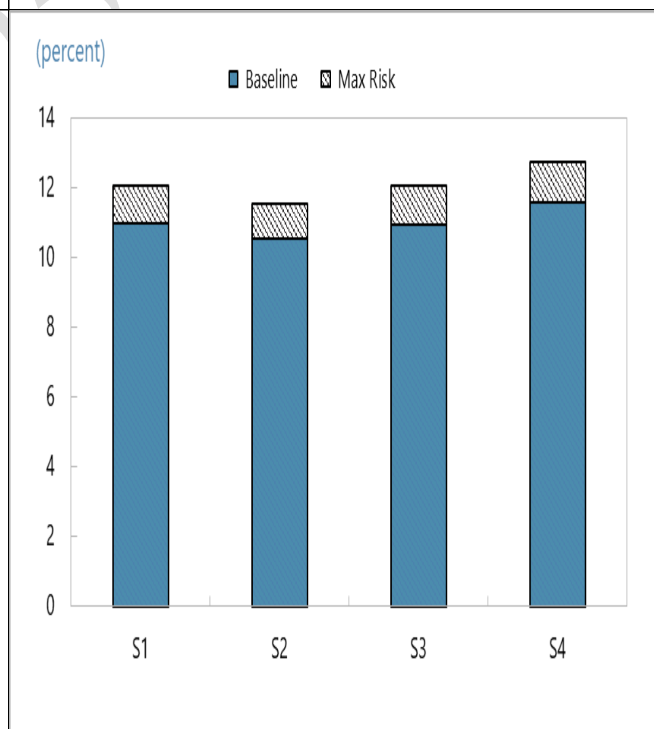




Interest to Revenue ratio





Interest to GDP ratio	
	
Total debt service to GDP ratio	
	

Annex 5: Baseline Pricing Assumptions and Description of Shock Scenarios

a) The pricing assumptions under the baseline scenario for interest rates and the exchange rates are as follows:

i. ADF loans are priced at an average fixed rate of 0.75 percent, with a 40-year tenor and up-to 10-year grace period.

ii. IDA/IFAD loans are priced at an average fixed rate of 2.0 percent, with a 30-year tenor and up-to 10-year grace period.

iii. Other concessional loans are priced at an average fixed rate of 2.0 percent, with a 28-year tenor and up-to 7-year grace period.

iv. Semi-concessional loans are assumed to be contracted at a fixed interest rate of approximately 3.0 percent and a maturity of 23 years including a grace period of up to 5 years.

v. Commercial borrowings and Export Credit Agencies financing with floating rates are contracted at a reference rate plus a margin.

vi. The pricing of Kenya's International Sovereign debt is based on US forward rates and credit spread.

vii. Pricing on the domestic debt instruments is based on US forward rates, credit spread and inflation differential.

b) The outlook on the baseline interest rates and exchange rates is based on the following considerations;

i. The exchange rate (Ksh/USD) is assumed to depreciate annually at an average of 2.8 percent.

ii. The fixed interest rates of market-based instruments in the international capital markets were based on US forward rates and credit spread. The domestic market yields were based on US forward rates, credit spread and inflation differential.

iii. The interest rates for fixed rate loans are assumed to remain priced as per the existing portfolio.

c) Three risk scenarios are evaluated as follows:

i. The risk scenario for interest rates assumes moderate interest rate shock of 0.75 percent and 1.5 percent in 2026 and 2027 respectively and a stand-alone extreme shock of 1.5 percent and 3.0 percent over the same period.

ii. The risk scenario for exchange rate assumes a stand-alone extreme shock of 25 percent in 2026 which was applied on the baseline exchange rate projections.

iii. The combined exchange rate and interest rate risk shock scenario assumes an increase in interest rate by a moderate shock of 0.75 percent combined with a 12.5 percent exchange rate depreciation in 2026.

Annex 6: Publication of the Debt Management Strategy

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

1) On or before 15th February in each year, the Cabinet Secretary shall submit to Parliament a statement setting out the debt management strategy of the national government over the medium term with respect to its actual liability in respect of loans and guarantees and its plans for dealing with those liabilities.

2) The Cabinet Secretary shall ensure that the medium-term debt management strategy is aligned to the broad strategic priorities and policy goals set out in the Budget Policy Statement.

3) The Cabinet Secretary shall include in the statement the following information: -

    a) The total stock of debt as at the date of the statement;

    b) The sources of loans made to the national government and the nature of guarantees given by the national government;

    c) The principal risks associated with those loans and guarantees;

    d) The assumptions underlying the debt management strategy; and

    e) An analysis of the sustainability of the amount of debt, both actual and potential.

4) Within fourteen days after the debt strategy paper is submitted to Parliament under this section, the Cabinet Secretary shall submit the statement to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council, publish, and publicize the statement.

5) PFM Act 2012, 'General responsibilities of the National Treasury' Section 12. Provides that: (1) Subject to the Constitution and this Act, the National Treasury shall— (b) manage the level and composition of national public debt, national guarantees and other financial obligations of national government within the framework of this Act and develop a framework for sustainable debt control.