REPUBLIC OF KENYA

The National Treasury & Economic Planning

The National Treasury

IPF
INSTITUTE OF PUBLIC FINANCE

Kenya's 2025 Medium Term Debt Management Strategy

Mwananchi Version

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What is the Medium-Term Debt Management Strategy?

The Medium-Term Debt Management Strategy (MTDS) is a planning document prepared by the government to guide borrowing and public debt management. It ensures that Kenya borrows responsibly to finance national projects while keeping debt affordable and sustainable. The strategy, which is reviewed annually, ensures that borrowing supports the country's budget needs, as outlined in the Budget Policy Statement (BPS), without putting too much strain on future finances. It is prepared in accordance with Section 33 (2) of the Public Finance Management Act, 2012.

Why Does Kenya Borrow?

The government borrows money to:

1. To finance fiscal deficit (when government spending is higher than revenue collected).

The national government borrows pursuant to the requirements of section 49 of the Act and Regulation 192 of the PFM Act

2. Financing national government budget deficits;
3. Borrowing for purposes of cash management;
4. Honouring obligations under outstanding national government guarantees;
5. Refinancing outstanding debt or repaying a loan before its date of repayment;
6. Mitigation against adverse effects caused by an urgent and unforeseen event in cases where the contingency fund has been depleted;
7. Mitigation against significant balance of payment imbalances; and
8. Meeting any other development policy objectives that the Cabinet Secretary shall deem necessary, consistent with the law, and as Parliament may approve.

However, high public debt levels may lead to high interest costs and economic challenges. The MTDS aims to balance borrowing and repayment to keep Kenya's debt manageable.

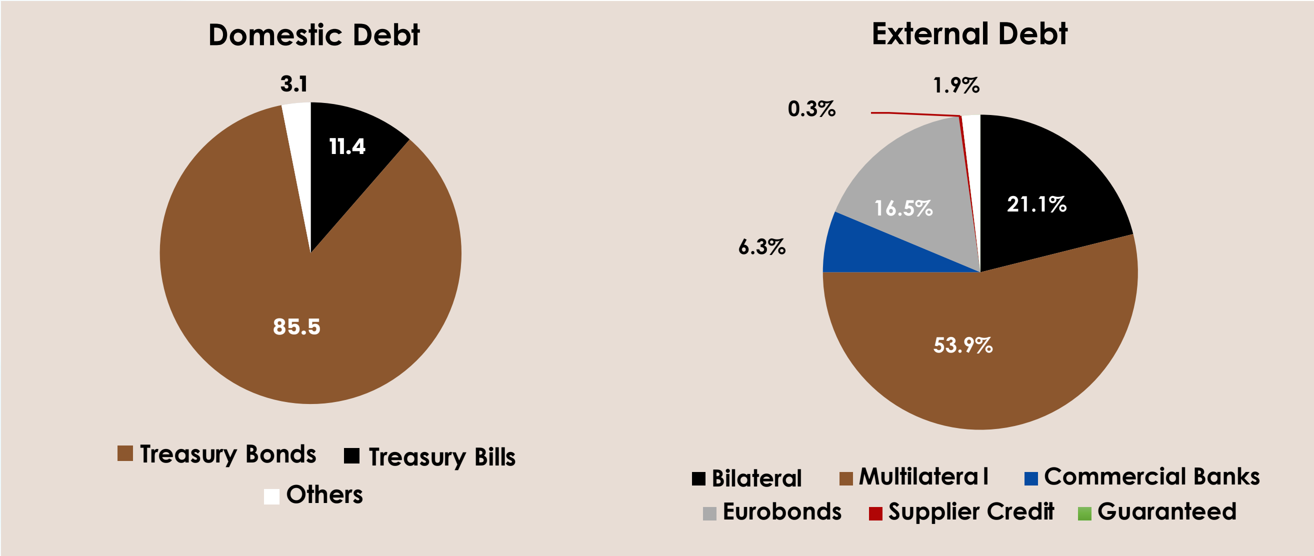
Overview of Kenya's Debt Situation

As of **June 2024,** Kenya's total public debt stood at **Ksh. 10.58 trillion**, divided as follows:

Table 1: Existing Public Debt Stock as of June 2024

Debt Category	Amount (Ksh. Trillion)	% of Total Debt	% of GDP
External Debt (borrowed from international lenders)	**5.17**	**49**	**32.1**
Domestic Debt (borrowed from local lenders)	**5.41**	**51**	**33.6**
Total Public Debt	**10.58**	**100**	**65.7**

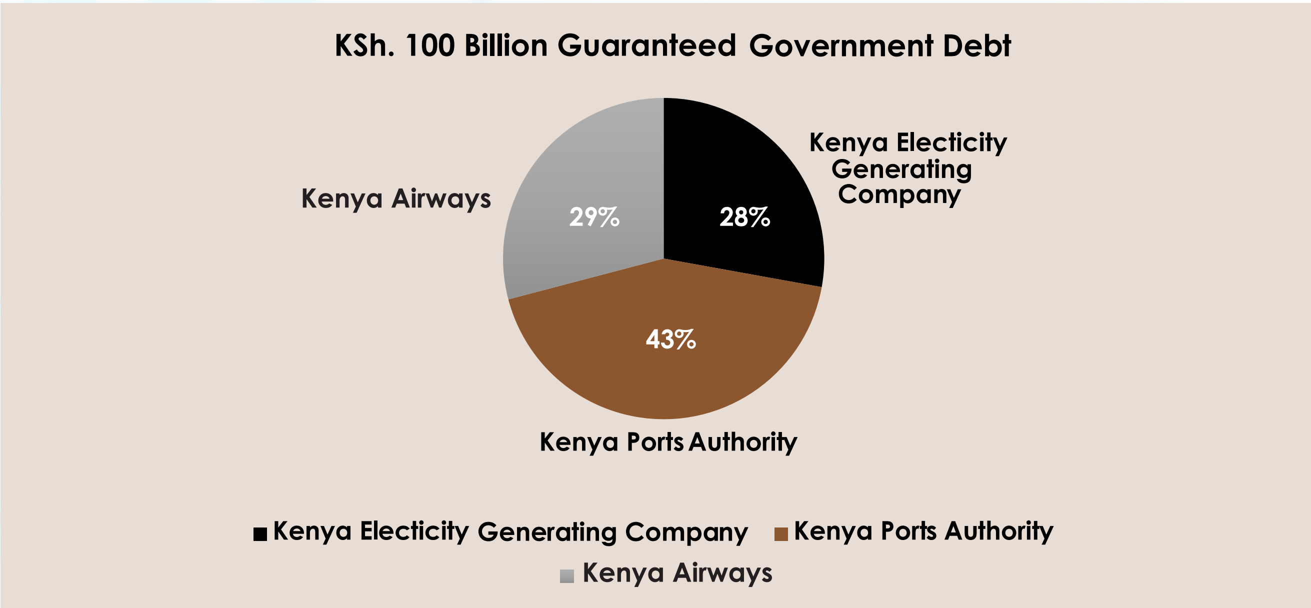
Composition of Kenya's Total Public Debt (Domestic and External)



The highest percentage of domestic debt is held in Treasury Bonds, While Multilateral debt makes up the highest percentage of external public debt.

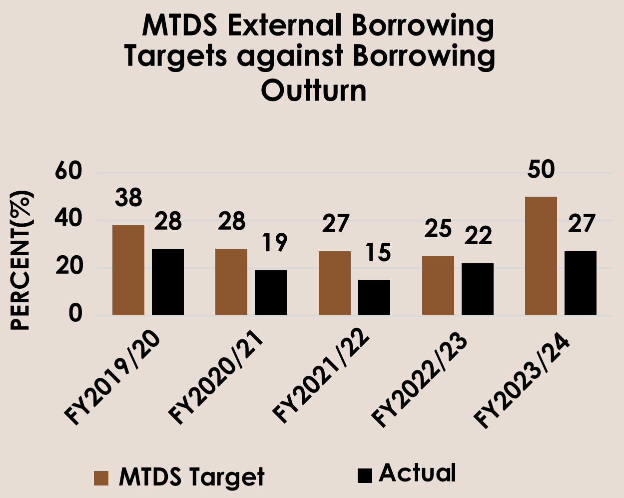
Outstanding Government Guaranteed Debt to State-Owned Enterprises

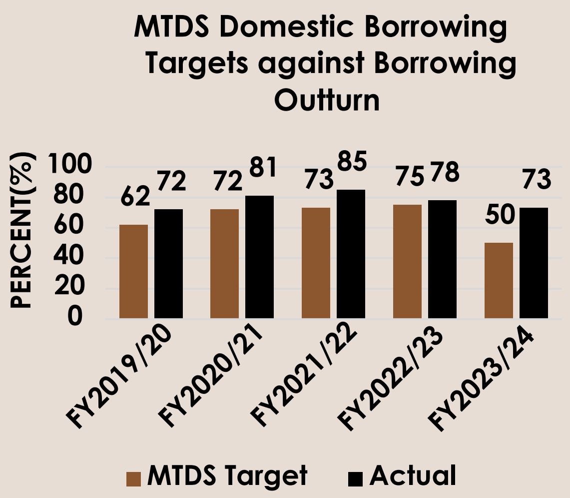
As at the end of June 2024, government guaranteed debt amounted to Ksh 100.2 billion, owed to Kenya Ports Authority (KPA) Kenya Airway (KQ) and Kenya Electricity Generation Company (KenGen)



While the MTDS aims to minimize risks and costs through its overall debt strategy, deviations from the strategy often occur, as outlined below.

In FY 2023/24, the government set a 50:50 mix of domestic and external borrowing but ended up with a 72:27 mix. This was attributed to limited access to external financing, which resulted in more uptake of domestic debt to finance fiscal deficits.





Debt Sustainability Analysis (DSA)

Kenya's debt is considered sustainable albeit with high risk of debt distress.

Table 2: Debt Sustainability Analysis (DSA)

Indicators	Threshold	2024
External Debt Sustainability Analysis		
PV of PPG external debt-to-GDP ratio	40	29.8
PV of PPG external debt-to-exports ratio	180	274.2
PPG debt service-to-exports ratio	15	40.5
PPG debt service-to-revenue ratio	18	25.2
Public Debt Sustainability Analysis		
PV of debt–to-GDP ratio	55	63
Debt service-to-revenue and grants ratio	n/a	63.7

The Present Value (PV) of total public debt-to-GDP ratio is projected to remain slightly above the 55 percent benchmark through 2029 after which it is projected to decline.

Plans on improving Public Debt Sustainability

1. The Government plans to sustain fiscal consolidation efforts over the medium term to restore fiscal space and reduce debt related risks.
2. The Government plans to diversify the export base, increase remittances, and build gross international reserves to improve the ratios.
3. The Government plans to continue optimizing the use of concessional funding, lengthen the maturity profile of public debt through issuance of medium to long dated bonds, and deepen domestic debt market to reduce cost of public debt and borrowing.
4. The Government will be proactive in public debt management through exploring possibilities of various Liability Management Operations (LMOs) with the aim of extending the maturity of existing debt to reduce immediate financial burden and manage cash flow more effectively.
5. In addition, a steady and strong inflow of remittances and a favourable outlook for exports will play a major role in supporting external debt sustainability.

Key Strategies for Managing Debt

The 2025 MTDS focuses on:

A. Borrowing More Long-term
- **Reducing reliance on short-term borrowing** (e.g., Treasury Bills) and shifting to long-term loans with better repayment terms.
- **Prioritizing** concessional loans (low-interest loans from development partners like the World Bank and IMF) over expensive commercial loans.

B. Reducing Debt Risks
- Minimizing foreign exchange risks by borrowing in a mix of different currencies
- Diversifying borrowing sources, including Diaspora Bonds and Environmental, Social, and Governance (ESG) Bonds.

C. Improving Debt Repayment Planning
The government targets to:
- Gradually reducing the debt-to-GDP ratio from **63.7%** in 2024 to **57.8%** by **2028.**
- Ensure revenue growth (more tax collection and economic growth) to meet debt obligations without straining government services.

Table 3: Debt Repayment Projections

Target	Current (2024)	Projected (2028)
Debt-to-GDP Ratio	**63.7%**	**57.8%**
Interest Payments as % of GDP	**5.4%**	**4.6%**
Fixed-rate debt (to reduce interest rate risk)	**85.2%**	**92.5%**
Treasury Bills (short-term debt)	**5.1%**	**3.7%**

What This Means: Kenya plans to **reduce debt risks** by shifting to **long-term, stable borrowing options** while ensuring the economy grows to sustain repayments.

How Will the Government Finance the Fiscal Deficit?

Kenya will raise funds to finance the fiscal deficit by engaging both external and domestic lenders, using a mix of borrowing strategies.

Table 4: Borrowing Strategy Mix

Source of Borrowing	Planned Borrowing (%)
Domestic Borrowing (Treasury Bonds, Treasury Bills)	**75%**
External Borrowing (Loans from World Bank, IMF, etc.)	**25%**

What This Means: Kenya will prioritize domestic borrowing to reduce reliance on external debt, which is affected by currency fluctuations.

Recent Debt Repayment Success

Kenya successfully refinanced **$1.5 billion of its 2024 Eurobond,** with the remaining USD 500 million repaid from the exchequer in June 2024, reducing financial pressure on the economy.

5. Challenges to Debt Management

Despite the government's **strategic debt plan**, several challenges remain:

Table 5:Challenges to Debt Management and their Impact

Challenge	Impact on Debt
High global interest rates	Makes borrowing more expensive.
Foreign exchange fluctuations	The weakening of the Kenya shilling increases the external debt burden and cost of paying external debt.
Limited concessional financing	Kenya may have to borrow more from commercial sources, which are more costly.
High debt service costs	Interest payments take up a large portion of government revenue.

Solution: The government is currently undertaking fiscal consolidation, increase tax revenue, and improve transparency in debt management.

Citizen Engagement and Transparency

How Can Citizens Stay Informed?

The government has committed to:

1. Regular updates on debt management through reports and forums.
2. Publishing detailed debt reports on the National Treasury website.
3. Public participation in the budget-making process to ensure transparency.

Key Takeaways

1. Kenya's debt is sustainable albeit with high-risk of debt distress.
2. The 2025-2028 strategy focuses on reducing risks and ensuring sustainable debt levels.
3. Less reliance on expensive loans and more focus on concessional borrowing will reduce debt costs.

Economic growth and revenue improvement will support debt repayment without affecting essential services.

The development of the Mwananchi version of the Medium-Term Debt Strategy (MTDS) 2025 was made possible through collaboration between the Public Debt Management Office (PDMO) and the Institute of Public Finance (IPF).

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Matumizi Bora ya Fedha Wajibu Wetu