Kenya's Debt Report Card Over the last 25 Years: Domestic Debt vs External Debt and what does this mean for financing public sector priorities?

Kenya's public debt surged from KSh 602 billion in FY 1999/00 to KSh 12 trillion by June 2025, with alternating dominance between external and domestic borrowing over the years. Currently, domestic debt holds the dominance, reshaping fiscal risks, debt servicing patterns, and the capacity of the government to finance social sectors

Ksh 12 trillion by June 2025

Ksh 602 billion in FY 1999/2000

Public Debt Surge in Kenya in over 25 years

54%

Over the past 25 years, Kenya's debt composition has shifted from external dominance to a near balance, with domestic debt rising to 54% by FY 2024/2025

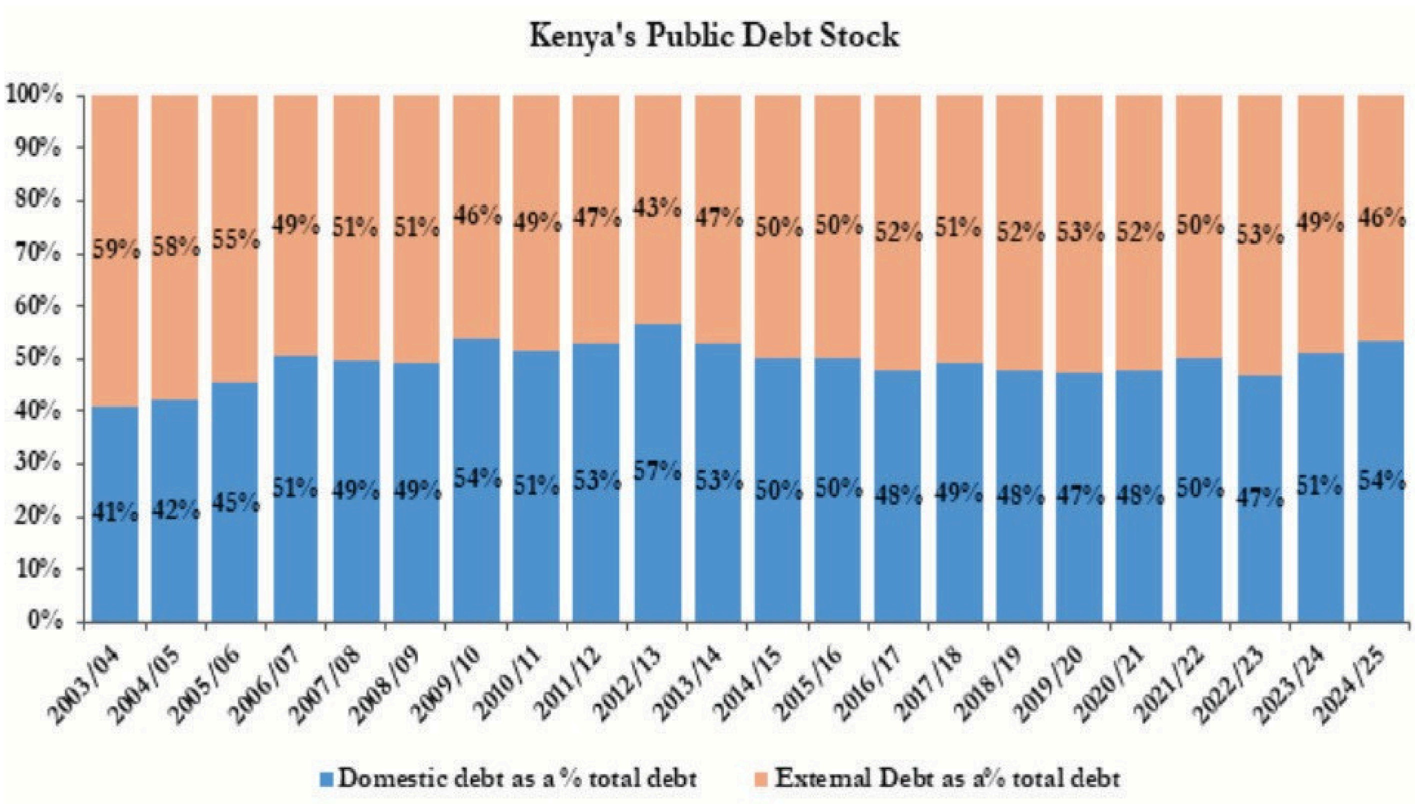
Kenya borrows more from domestic market in recent years

Kenya's domestic debt first overtook external debt in FY 2006/07, when it reached 51 per cent of total public debt. In FY 2009/10, domestic debt reached KSh 660 billion (54%) of the total public debt (Ksh 1 trillion). The composition of Kenya's debt has hovered around a 50/50 balance between domestic and external borrowing, with shifts in either direction.

Domestic debt ratio to external debt was at 34% in FY 1999/2000

Domestic debt has surged sharply over the past 25 years, rising from Ksh 206 billion in FY 1999/2000 to Ksh 6,326 billion in FY 2024/2025

Kenya's External and Domestic Debt as a Share of Total Debt



Why is Kenya borrowing more from the domestic market?

Constrained access to concessional external financing, the desire to avoid the volatility of foreign-denominated debt due to currency fluctuations, the 2014 rebasing of GDP that elevated Kenya to lower-middle-income status, and the downgrade of its sovereign credit rating by Moody's and other agencies which reduced investor interest and limited access to external debt have collectively pushed Kenya to rely more heavily on the domestic market in recent years.

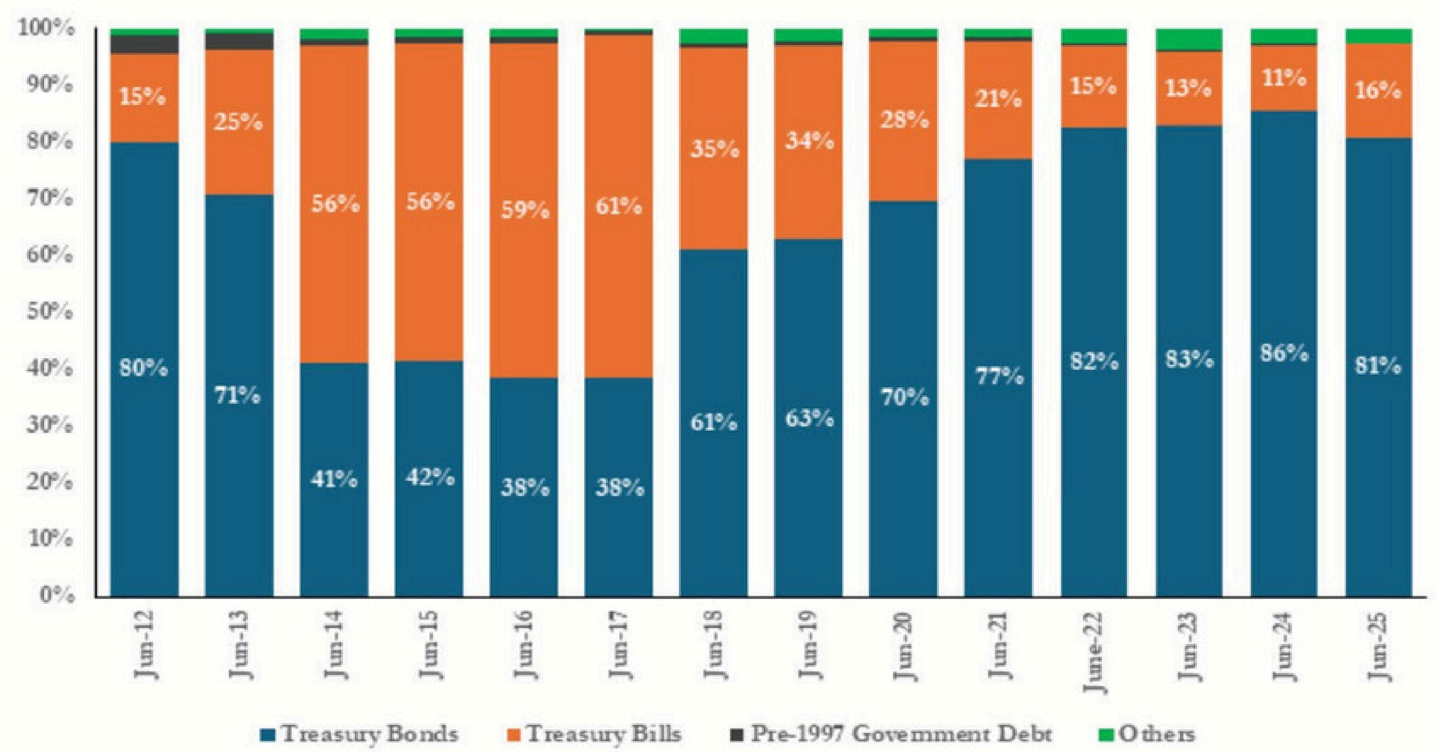
Institutions where Kenya's domestic debt is mostly concentrated (non-banks)

Pension Funds, Insurance Companies and Fund Managers

This structural shift has diversified the investor base, reduced rollover risks, and strengthened domestic capital markets but it has also raised fiscal and macroeconomic vulnerabilities

The rise in domestic debt is driven mainly by Treasury Bonds which remain the dominant instrument, increasing from Ksh 687 billion (80%) in 2012 to Ksh 5 trillion (81%) in 2025.

Disaggregation of domestic debt by instruments



How much do we pay? Kenya's Debt Service Growth

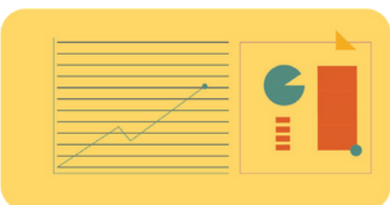
Increase in Kenya's debt service obligations over the years

KSh 99 billion in FY 2010/11

Debt servicing grew by more than fifteen times in just 14 years absorbing resources that dwarf spending in critical sectors therefore underscoring the scale of the fiscal trade-offs

KSh 1.6 trillion in FY 2023/24

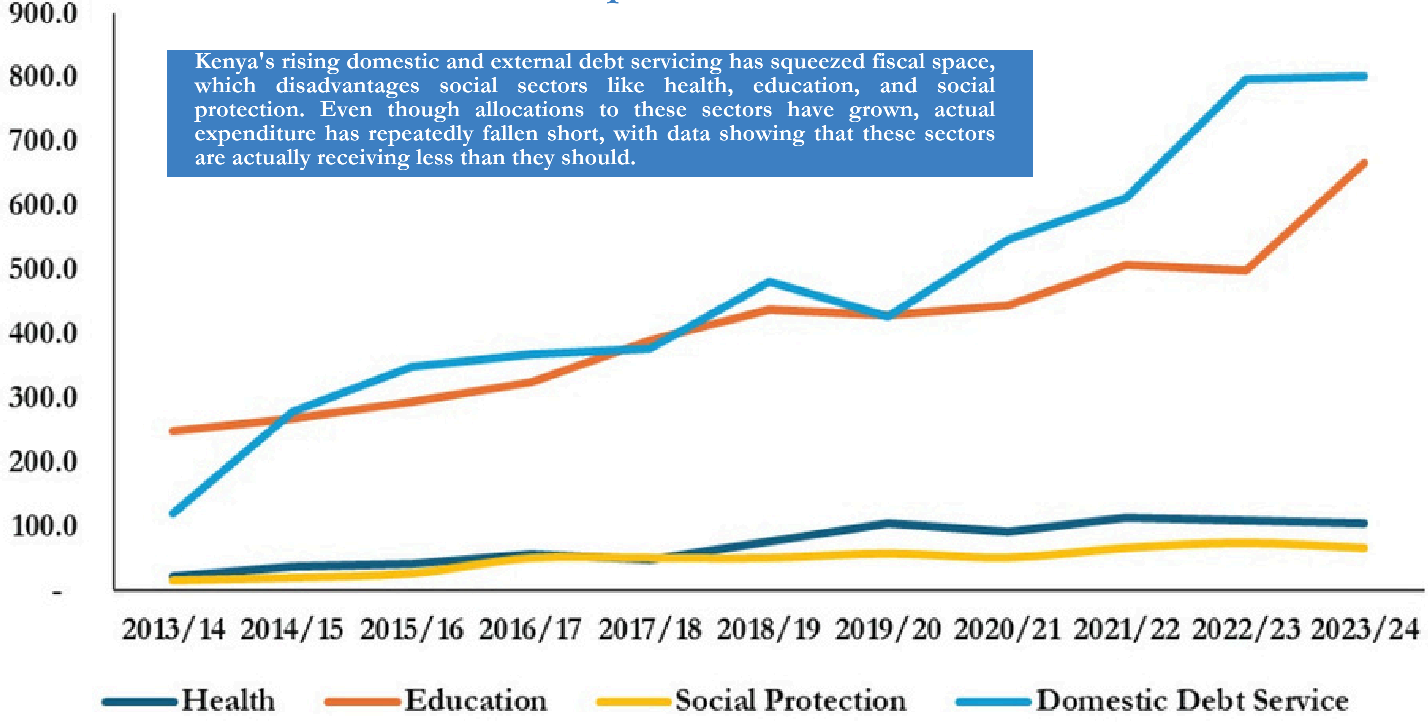
Domestic debt service now accounts for KSh 801 billion, slightly higher than external debt service at KSh 756 billion.



70%

The fact that nearly 70% of domestic debt service is absorbed by interest payments underscores the high cost of turning to domestic debt as these payments erode the fiscal space without significantly reducing the debt stock, potentially crowd out private sector credit and weaken inclusive growth.

Spending on Health, Education and Social Protection in comparison to Debt Service



Our analysis on debt & financing public sector priorities by the Government of Kenya:

1. This rapid growth in debt servicing is absorbing a significant portion of public resources, limiting the government's fiscal space and constraining investments in critical sectors.

2. Between FY 2013/14 and FY 2023/24, Kenya's domestic debt servicing grew by 572%, far outpacing spending on critical social services where Health rose by 351%, Social Protection by 316% and Education by 169%.

3. By FY 2023/24, Kenya's debt service (KSh 1.6 trillion) exceeded combined spending on health, education and social protection (KSh 897 billion), a gap flagged in OCOB reports as evidence that rising debt costs are squeezing out essential services.

The sustainability of Kenya's domestic debt trajectory is increasingly under strain. Continued reliance on borrowing to finance recurrent expenditure at high interest rates of around 14% for Treasury bonds and around 8% for Treasury bills compared to external loans averaging 5% raises the risk of debt distress hence threatening both fiscal stability and the resilience of the financial sector. Domestic debt can still serve as a viable financing instrument if anchored in stronger governance and strategic use.

Most importantly, domestic borrowing must be better aligned with productivity-enhancing investments by unlocking its development potential rather than contributing mainly to debt service obligations without corresponding or visible development projects. It must also be accompanied by firm commitments to fiscal discipline. Such a shift would allow domestic debt to contribute to long-term growth, safeguard social and intergenerational equity and sustain investor confidence.

Call to Action:

Parliament should strengthen its oversight of domestic debt by setting clear borrowing limits and the permissible uses of domestic borrowing, explicitly prohibiting its use for recurrent expenditure while requiring regular debt sustainability analyses alongside mandatory disclosure of borrowing plans and liabilities. Such a framework would institutionalize fiscal discipline and subject borrowing decisions to democratic oversight.

The government should prioritize borrowing for high-return, productivity-enhancing investments in infrastructure, renewable energy and job-creating sectors given that most of Kenya's domestic borrowing currently finances recurrent spending. Aligning debt with growth-generating projects would help expand revenue streams, ease repayment burdens and prevent the intergenerational transfer of debt without social benefits

A joint Domestic Debt Oversight Committee bringing together the National Treasury, the Central Bank and Parliament's Budget Office should be established to improve coordination. This committee would publish quarterly reports on domestic debt composition, investor concentration and service projections, ensuring that borrowing decisions are transparent, accountable and responsive to fiscal risks.

The Central Bank and National Treasury should broaden retail investor participation by scaling up platforms such as M-Akiba and designing safe, small-scale savings products for informal workers, cooperatives and Micro, Small and Medium Enterprises. To avoid shifting fiscal risks onto vulnerable groups, such instruments should include safeguards such as caps on exposure and clear protection mechanisms. Done carefully, this would reduce concentration risks with institutional investors while ensuring that the benefits of domestic borrowing are more equitably shared.

This infographic has been developed by Institute of Public Finance, Kenya for the Christian Aid.
Data Source: Office of the Controller of Budgets Reports, Annual Public Debt Management Report, and National Treasury in Kenya.