

A Review of the 2026 Medium Term Debt Management Strategy (MTDS)

Every year the Public Debt Management Office (PDMO) prepares a Medium-Term Debt Management Strategy (MTDS) whose core objective is to formulate a debt strategy that minimize the costs and risks of borrowing. This analysis reviews Kenya's 2026 MTDS with a focus on whether it meets the core objectives of ensuring public debt sustainability, reducing refinancing risks, and ensuring financing needs are met at a minimum cost.

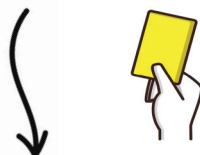
Key Messages:



In 2026, Kenya's debt is considered sustainable; however, it faces a high risk of distress due to weak fiscal buffers.



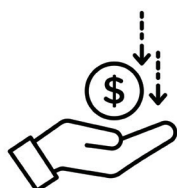
Kenya's debt portfolio is maturing at a faster rate than expected thus raising concerns on refinancing.



The Average Time to Maturity has been declining from 11.5 years in 2022 to 8.3 years in 2025.



Kenya's debt strategy does not significantly reduce borrowing costs. Refinancing pressures remain elevated, partly due to heavy reliance on high-interest domestic borrowing.



As of 2025, the weighted average interest rate for domestic debt in Kenya's portfolio is significantly higher at 13 % compared to that of external debt at 3.9 %.



Parliament should strengthen fiscal transparency in public debt decisions by requiring the Public Debt Management Office (PDMO) to report on securitization plans and government guarantees in the MTDS.

1. Introduction and Background

Kenya's total public and publicly guaranteed debt stock has continued to grow over the past decade and a half, reaching Ksh 12,301 billion as of December 2025. This growth and the resultant increase in debt servicing costs have raised concerns over the sustainability of Kenya's public debt as well as effectiveness of Kenya's debt management strategy.

2. Kenya's debt sustainability eroded by refinancing risks and persistent external pressures

Our evaluation of the past three years' MTDS shows actual borrowing mix has deviated significantly toward domestic borrowing. The most pronounced shifts occurred in FY 2023/24 and FY 2024/25. In FY 2023/24, the share of domestic borrowing rose to 73 percent against the MTDS target of 50 percent and in FY 2024/25 increased to 83 percent against a 55 percent target.

Refinancing risks have increased significantly, as the ATM has fallen from 11.5 years in June 2022 to 8.3 years in June 2025. Additionally, ATM has consistently fallen below target over the same period. This implies that Kenya's debt portfolio is maturing at a faster rate than expected thus raising concerns on refinancing. Shorter ATM exposes the government to higher rollover risks, higher interest rate risks and vulnerability to market shocks.

Kenya's current reserve levels remain adequate to cover short term external debt. International reserves play a critical role in managing short-term external liquidity risks. If short-term external obligations exceed reserves, the country may struggle to meet payments during a crisis. The IMF recommends that countries maintain international reserves sufficient to cover 100% of short-term external debt. For Kenya, short-term external debt stood at 40.5% of reserves in 2024. This implies that reserve buffers remain adequate to cover near-term external obligations. Kenya's reserve position reduces short-term external vulnerability, which creates room to safely increase concessional external borrowing to lower debt servicing costs.

The assumption made in the 2025 MTDS that the Kenya shilling will depreciate annually at an average rate of 2.8 percent against the U.S. dollar is not credible. Historically, the shilling has been more volatile. In 2024, there was a 17.4% appreciation, while in 2023, 2022, and 2021 the currency depreciated by 26.8%, 9.0%, and 3.6% respectively. On average over the four years, the shilling depreciated by 5.5%. This suggests that the assumed rate of depreciation may underestimate exchange rate volatility and may lead to a misrepresentation of future external debt servicing costs and risks.

Figure 1: The ATM has been declining and has fallen short of targets

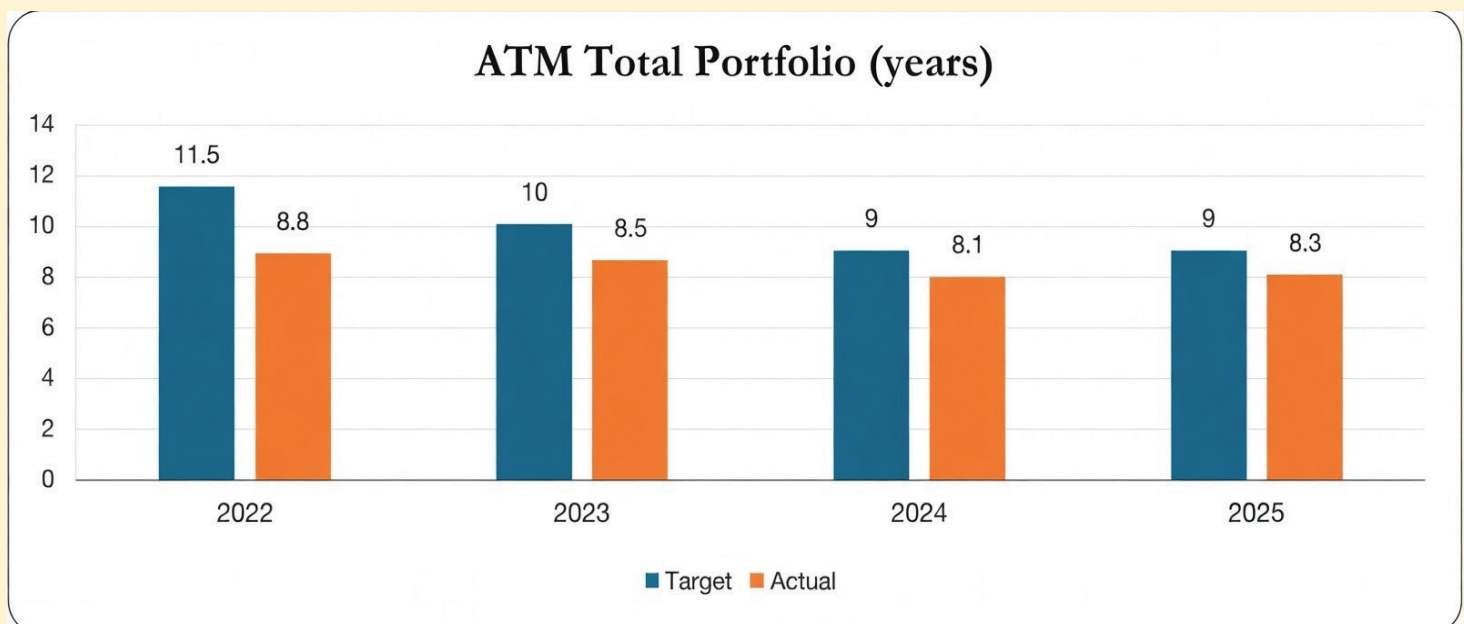


Figure 2: External debt as percentage of total actuals have been fluctuating against the targets

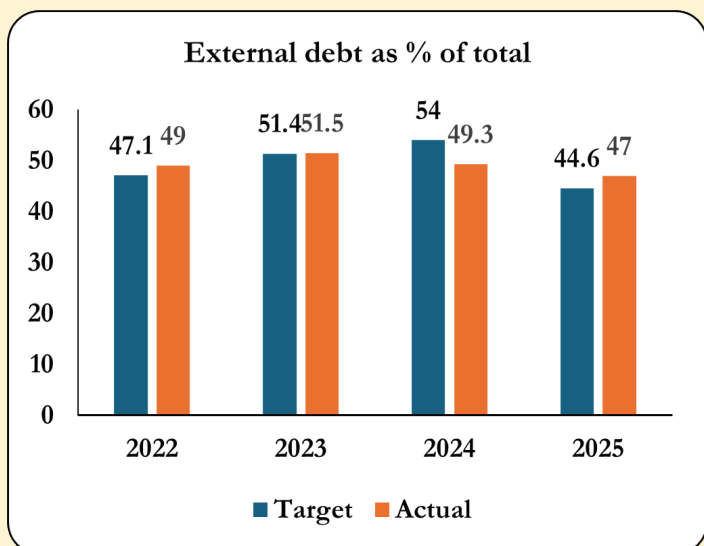
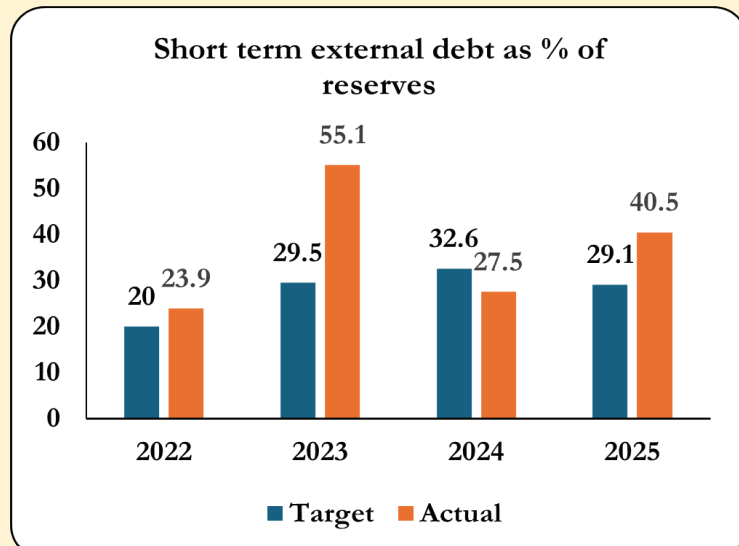


Figure 3: Short-term external debt has fluctuated with spikes noted



Sources: MTDS 2022, 23, 24, 25, 26, APDMR 2022-2026

3. Analysis of the 2026 MTDS

3.1 The 2026 MTDS lacks a description of the baseline pricing assumptions and shock scenarios, raising transparency concerns

IPF’s analysis flags a transparency gap in that this year’s MTDS does not have a section describing the baseline pricing assumptions and description of shock scenarios. Baseline assumptions are the expected interest rates and maturity profile of concessional, semi-concessional and commercial future loans. The shock scenarios are stress tests used to assess how Kenya’s debt portfolio would perform if key assumptions (including exchange rate depreciation and interest rates) would be worse than projected. The absence of these assumptions limits independent assessment of whether projected borrowing cost and risks are realistic. Information on baseline assumptions has historically been included in past MTDSs. For example, the 2025 MTDS clarified the assumption that concessional loans from the African Development Fund would be available at an average of 0.75 percent fixed interest rate with a 40-year tenor, while International Development Association debt would be on offer at 2.0 percent with a 30-year tenor. The lack of such assumptions in the 2026 MTDS means that different stakeholders cannot verify whether the projected average interest rate increases are based on realistic market conditions or on overly optimistic financing terms.

3.2 A review of the 2026 MTDS shows that Kenya’s public debt is sustainable but remains at high risk of distress

Kenya’s debt sustainability remains fragile and highly contingent on optimistic macroeconomic assumptions. A comparison of projections from previous MTDS projections with actual outcomes reveals that key debt indicators have consistently underperformed relative to expectations, pointing to a recurring gap between projected and realised debt outcomes. In several years, realized outcomes, for instance, public and publicly guaranteed (PPG) debt service-to-revenue ratio (Fig 5) and PPG debt service to export ratio (Fig 6) exceeded earlier projections (table 1). Overall, the data highlight not only breaches of current thresholds but also repeated upward revisions to key debt indicators across successive MTDSs, signalling credibility gaps in government projections and risk assumptions.

Table 1: Targets vs Actuals in Past MTDS

Indicators	Threshold	2022		2023		2024	
		Projected	Actual	Projected	Actual	Projected	Actual
External debt							
PV of PPG external debt-to-GDP ratio	40	26.6	29.0	31.7	32.1	29.8	30.8
PV of PPG external debt-to-exports ratio	180	221.5	238.2	256.9	274.8	274.2	180.3
PPG debt service-to-exports ratio	15	22.6	21.4	24.9	26.9	40.5	26.3
PPG debt service-to-revenue ratio	18	15.7	15.4	17.3	18.8	25.2	27.0
Total debt							
PV of debt-to-GDP ratio	55	61.7	63.9	68.2	68.7	63.0	65.7
PV of public debt-to-revenue and grants ratio	N/A	353.1	370.3	380.3	406.2	356.2	391.5
Debt service-to-revenue and grants ratio	N/A	52.0	56.0	55.2	60.6	63.7	-

The external debt service-to-revenue ratio also exceeded the 18 % prudential threshold in 2024 (27 %), it is projected to decline to 20.6% in 2025 and remain below the threshold over the medium term. The debt service-to-exports ratio is expected to remain above 15% over the medium term, indicating ongoing pressure on foreign exchange earnings and external liquidity risk. Although the ratio decreases from 26.3 % in 2024 to about 15.9 % near the end of the projection period it does not drop to below the prudential limit. Persistent breaches of this indicator mean that a larger share of export earnings is needed to cover external debt obligations, raising vulnerability to exchange rate depreciation and external financing shocks.

Figure 4: Kenya’s Debt Service to revenue ratio over the years

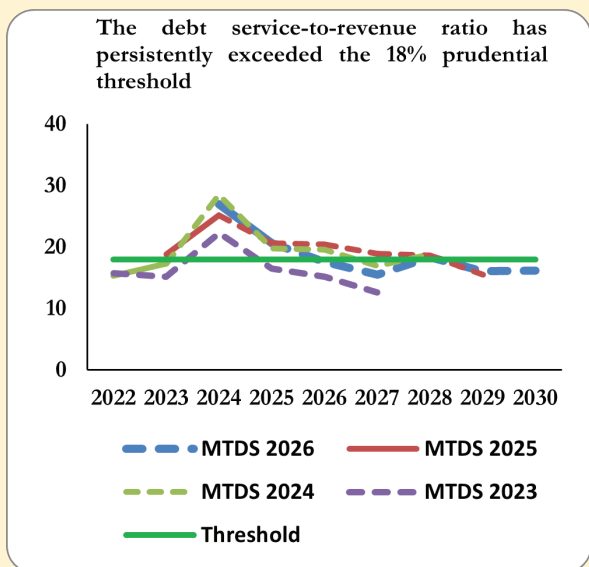
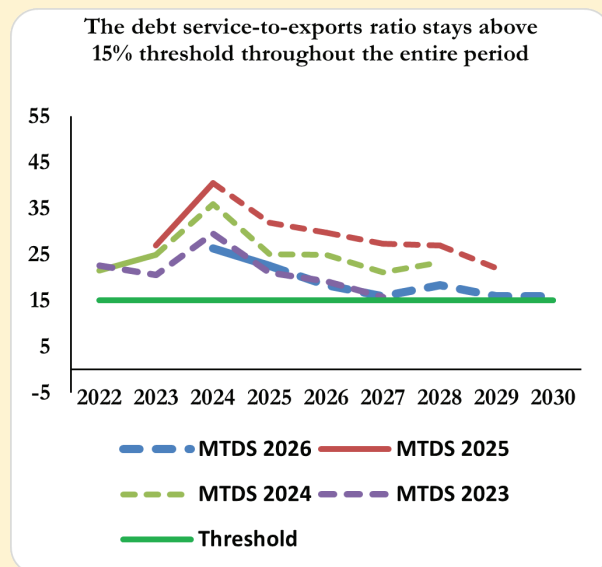
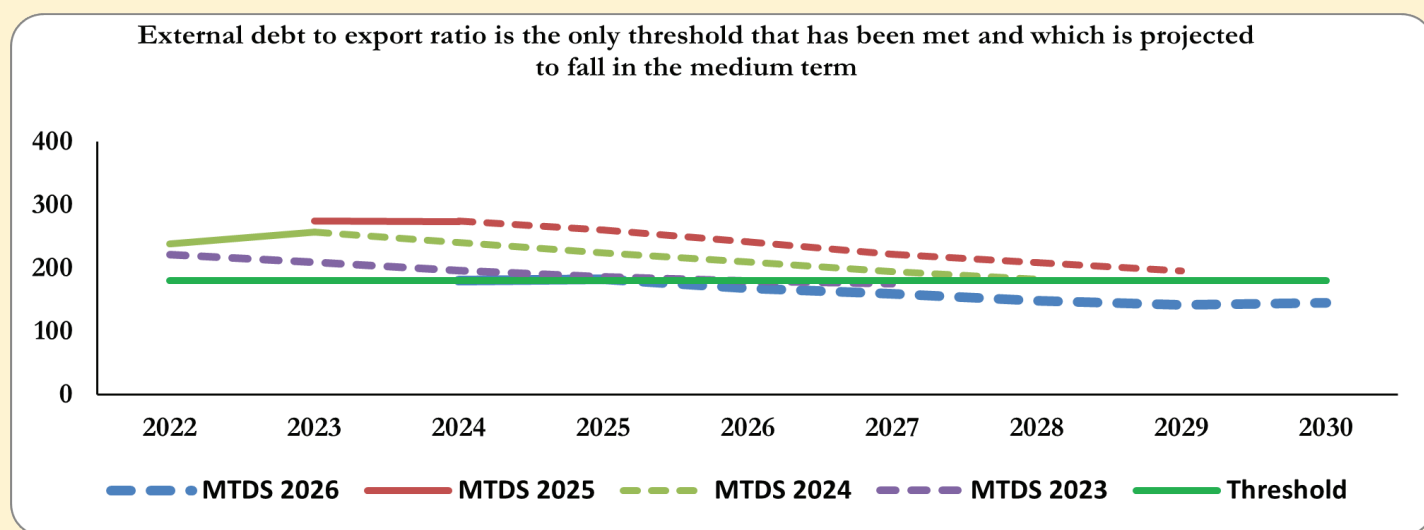


Figure 5: Kenya’s debt service to exports ratio over the years



The PV of PPG external debt to export ratio is the only threshold that was met in 2024 (180%) and which is projected to remain below the threshold in the medium term. This aligns with the government’s shift to more domestic borrowing in the medium term even though that also comes with higher costs. Realism of the projected external debt to export ratio is highly dependent on growth in exports. If export performance weakens, the projected decline in this indicator could be slower than anticipated limiting the expected reduction in external debt vulnerabilities.



Repeated breaches of most of the debt sustainability indicators suggest that Kenya’s debt risks remain elevated. This is reflected in Kenya’s sovereign credit ratings from Moody’s, Fitch and S&P which still categorize it as high risk, showing ongoing concerns about debt sustainability even with recent liquidity improvements. The situation is worsened by persistent fiscal deficits, which have consistently exceeded targets over the past five years despite promises of fiscal consolidation. On average, the deficit stood at 6.5% of GDP in the past 5 years. The persistently elevated deficit has led to above target borrowing even as debt servicing already absorbs a significant share of government revenues. In addition, the government has failed to maintain fiscal deficits at levels recommended in the MTDS.

3.3 The chosen strategy fails to minimize costs, reduce refinancing risks or secure the most favourable refinancing terms

Under the preferred strategy (16% external debt and 84% domestic debt), interest payments are projected to decrease while the implied interest rate on the debt portfolio is projected to increase. The MTDS targets a decline in interest payments from the current 5.9 percent to 5.4 percent as a percent of GDP. Attainment of this target is contingent on a GDP growth rate of 5.3 percent in FY 2025/26, yet GDP growth has been below target for the past three years. Therefore, interest payments as a share of GDP are likely to be higher than projected if the [LL1.1][VN1.2][LL1.3]GDP growth will be lower than projected.

Comparisons across African local-currency bond markets indicate that Kenya has issued domestic debt at yields broadly comparable to or in some cases higher than those in Nigeria (around 16–19 %) and significantly above those in Ghana (around 7-10%) over recent periods. Consequently, if domestic borrowing remains the main financing source and interest rates stay elevated, the overall cost of debt could remain high. As occurred recently when monetary policy tightening by the Central Bank of Kenya pushed government securities yields to around 17% (in 2023-2024), heavy reliance on domestic borrowing exposes Kenya to higher market interest rates.

Additionally, the proposed debt composition improves portfolio stability but does not necessarily secure the most favourable financing terms. The emphasis on concessional external loans, alongside limited use of commercial instruments and innovative tools such as sustainability-linked bonds supports improved financing terms. Increasing the share of fixed-rate debt and extending maturities enhances predictability by lowering exposure to interest rate fluctuations and refinancing pressures. However, the heavy dependence on domestic borrowing limits how much the portfolio can benefit from cheaper concessional external financing.

The 2026 MTDS aims to reduce refinancing risk by extending maturities and lowering reliance on short-term domestic debt. Under the optimal strategy, the share of debt maturing within one year is projected to decline from 10% to 8.4% of GDP in the medium-term, a move which reflects a shift towards longer domestic debt maturities (6.4 years in 2025 to 7.6 years by 2029), but this projection appears optimistic given that the government has historically not achieved comparable reductions in the share of debt maturing within one year.

Refinancing pressures remain significant due to the scale of scheduled redemptions and ongoing borrowing needs. Domestic debt repayments remain substantial, with Treasury bond redemptions projected at Ksh 464 billion in FY2025/26, rising sharply to Ksh 735 billion in FY2026/27 before easing to Ksh 648 billion in FY2027/28. At the same time, several external concessional loans are entering repayment phases. The external repayment schedule shows obligations to major creditors increasing from Ksh 88 billion in FY2025/26 to Ksh 103 billion in FY2026/27, Ksh 122 billion in FY2027/28 and Ksh 138 billion in FY2028/29. These dynamics suggest that while the MTDS improves the maturity structure of new borrowing, it does little to reduce the existing stock of legacy debt that is already scheduled to mature in the coming years. As a result, large annual redemption volumes persist and refinancing risks remain elevated. Consequently, future liability operations should aim at lengthening the maturity profile of debt.

4. Conclusion and policy recommendations

In conclusion, we note that Kenya's debt remains sustainable but at high risk of distress due to weak fiscal buffers and repeated breaches of prudential thresholds. Additionally, rising interest payments and persistent fiscal deficits are tightening fiscal space and increasing reliance on borrowing to service existing debt while refinancing risks are increasing as the debt portfolio matures faster and large domestic and external repayments fall due in the medium term. Our analysis has also flagged transparency gaps in the 2026 MTDS; unlike past MTDSs, the 2026 MTDS omitted baseline pricing assumptions and description of shock scenarios that informed the choice of the recommended debt mix. Furthermore, we observe that preferred debt strategy does not significantly reduce borrowing costs or refinancing pressures, partly due to heavy reliance on high-interest domestic borrowing.

From our analysis, we recommend:

1. The government should gradually shift its borrowing to concessional and semi-concessional external financing with the intention of reducing reliance on expensive domestic debt, which has high interest rates.
2. The government should prioritise a sustained reduction in the fiscal deficit by strengthening domestic revenue mobilisation and rationalising non-priority expenditures.
3. The MTDS should incorporate more realistic macroeconomic assumptions, particularly by reviewing its assumption on currency depreciation to ensure that they are consistent with historical averages.
4. Future MTDSs should clearly disclose baseline pricing assumptions, shock scenarios, and modelling methodologies used in the debt strategy thus enabling assessment of whether projected borrowing cost and risks are realistic.



This 2026 MTDS Analysis brief has been developed by the Institute of Public Finance.

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