Rt. Hon. Speaker
To approve for tabling.
CNA
5/3/25

Approved.
SNA
5/2/25

THE NATIONAL ASSEMBLY

THIRTEENTH PARLIAMENT - FOURTH SESSION - 2025

LIAISON COMMITTEE

REPORT ON THE CONSIDERATION OF THE 2025 MEDIUM TERM DEBT MANAGEMENT STRATEGY

DIRECTORATE OF AUDIT, APPROPRIATIONS
& GENERAL-PURPOSE COMMITTEES
THE NATIONAL ASSEMBLY
PARLIAMENT BUILDINGS
NAIROBI

MARCH 2025

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LIST OF ACRONYMS & ABBREVIATIONS

ATR	Average Time to Re-fixing
ATM	Average Time to Maturity
BPS	Budget Policy Statement
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CFS	Consolidated Fund Services
DCC	Debt Carrying Capacity
DhowCSD	Central Securities Depository System
DSA	Debt Sustainability Analysis
GDP	Gross Domestic Product
IMF	International Monetary Fund
MTDS	Medium-Term Debt Management Strategy
OCOB	Office of the Controller of Budget
OAG	Office of the Auditor General
PV	Present Value
PPG	Public and Publicly Guaranteed
PPP	Public Private Partnerships
SOE	State Owned Enterprise
WAIR	Weighted Average Interest Rate

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CHAIRPERSONS FOREWORD

The Medium-term Debt Management Strategy (MTDS) is an internationally recognized framework designed to aid countries in formulating Debt Management Strategies. This framework considers the relative costs and risks associated with various financing options, considers their alignment with macroeconomic policies, ensures debt sustainability, and promotes the development of the domestic debt market.

The 2025 Medium Term Debt Management Strategy (MTDS) was tabled in the National Assembly on 13th February, 2025, and committed to the Liaison Committee for consideration, following the communication by the Speaker of the National Assembly on 18th February, 2025. The submission of the MTDS is in line with section 33(1) of the Public Finance Management Act (2012), which requires the Cabinet Secretary responsible for finance to submit to Parliament a statement setting out the debt management Strategy of the National Government. Accordingly, this report has considered the following information required to be provided by the strategy, as outlined under Section 33(3) of the PFM Act:

a) The stock of public debt as of 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) Principal risks associated with these loans and guarantees;
d) Assumptions underlying the debt management strategy; and
e) An analysis of the sustainability of the amount of debt, both actual and potential.

Subject to Standing Order 232A (8), the resolution of the House on the report on the Medium-Term Debt Management Strategy is to form the basis for the appropriate limit on proposed domestic and foreign borrowing and a basis for the approval of the Budget Policy Statement Report. The 2025 MTDS proposes a strategy composed of a) Gross financing of 25:75 for external to domestic gross borrowing, respectively, and b) a Net financing strategy of 35:65 for external financing and domestic financing, respectively. This indicates that the domestic market will be the main source of financing for the fiscal deficits in the medium term.

The most recent data available indicates that the national debt stood at Kshs. 11 trillion as of January 2024 and is projected to rise to Kshs. 13 trillion by June 2027. Consequently, debt servicing costs are expected to increase to Kshs. 1.87 trillion by June 2025 and further to Kshs. 2.4 trillion by June 2027. In addition, the debt service payments (interest and redemption payments) will remain elevated at an average of 60 percent of revenue, reflecting a tightening fiscal space and emphasizing the need for a strong. Debt Management Strategy that is aligned to lower the costs and risks of high levels of debt distress.

Examination of the 2025 Medium-term Debt Management Strategy

In reviewing the 2025 MTDS, the Committee held meetings with the Controller of Budget (OCOB), the National Treasury, and Economic Planning and further received written submissions from the Central Bank of Kenya (CBK).

Further, in line with Article 201(a) of the Constitution, the National Assembly undertook public participation on the 2025 MTDS through a request for memoranda. Following the request, the Committee received submissions from: the Civil Society Parliamentary Engagement Network (CSPEN) and the Institute of Public Finance (IPF).

Committee Key Recommendations

Arising from these consultative engagements, the Committee recommends:

i. Non-financial Recommendations

1. To meet the PFM Act 2012 threshold of Debt to GDP in Present Value terms of 55% (+5%) by 2028, the Cabinet Secretary National Treasury and Economic Planning should publish quarterly reports detailing progress on fiscal consolidation as outlined in the 2025 Budget Policy Statement.

2. **That**, the Cabinet Secretary National Treasury and Economic Planning, Governor, Central Bank of Kenya, and Controller of Budget should fully automate the withdrawal of debt service payments from the Consolidated Fund by 31st May, 2025, and submit a report to the National Assembly within 15 days.

3. **That**, to strengthen financial controls, ensure accurate and timely public debt statistics, and enhance decision-making for greater transparency and accountability, the National Treasury should integrate the Public Debt Management System with the Integrated Financial Management System (IFMIS) by 31st May, 2025, and submit a report to the National Assembly within 15 days of implementation.

4. **That**, to mitigate the growing risk of domestic debt interest payments and to reduce the tendency of the government borrowing funds held by public entities, the National Treasury should deploy the Treasury Single Account (TSA) for all MDAs, parastatals, and public funds by 1st July, 2025.

5. **That**, to improve transparency and accountability in anticipated increase in domestic borrowing, the Cabinet Secretary National Treasury and Economic Planning should, within 60 days:

   i. Form a working committee to establish criteria for assessing the effective utilization of borrowed funds by Ministries, Departments, and Agencies (MDAs), establish the registrar of Government securities pursuant to Section 55 of the PFM Act, and

   ii. Record in the debt register the details on the utilization of the borrowed funds, including the set of projects funded from the proceeds of infrastructure bonds.

6. **That**, the Cabinet Secretary National Treasury and Economic Planning should establish an interagency committee, including representatives from the Central Bank of Kenya and the Controller of Budget to review the public debt procurement process, debt utilization, and submit a report to the National Assembly by 31st May, 2025.

7. **That**, the Cabinet Secretary National Treasury and Economic Planning should establish an interagency committee, including representatives from the Central Bank of Kenya and the Controller of Budget to review the public debt procurement process, oversee debt utilization, and submit a report to the National Assembly by 31st May, 2025.
8. **That**, the Cabinet Secretary, National Treasury and Economic Planning shall report and seek approval from the National Assembly on any variation to the approved borrowing mix in the 2025 Medium Term Debt Management Strategy (MTDS).

ii. Financial Recommendations

1. **That**, the fiscal deficit target for the medium term is approved and set at 4.3 percent of GDP for FY 2025/26; 3.5 percent of GDP for FY 2026/27, and 3.2 percent of GDP for FY 2027/28, in line with the fiscal consolidation path; and
2. **That**, the country's borrowing strategy is approved at 35 percent for net external borrowing and 65 percent for net domestic borrowing as contained in the 2025 Medium Term Debt Management Strategy.

ACKNOWLEDGEMENT

The Committee appreciates the Office of the Speaker, Office of the Clerk of the National Assembly, and the Members of the Liaison Committee for their support in fulfilling the mandate in reviewing the 2025 Medium Term Debt Management Strategy (MTDS).

Further, the Committee appreciates the Office of the Controller of Budget (OCOB), the National Treasury & Economic Planning, the Central Bank of Kenya (CBK), the Civil Society Parliamentary Engagement Network and the Institute of Public Finance for their key input in the process of reviewing the MTDS.

Finally, the Committee would like to thank the Parliamentary Budget Office and the Directorate of Appropriations, Audit, and General-Purpose Committees for the extensive technical assistance provided in the review of the 2025 MTDS and the finalization of this report.

It is, therefore, my pleasant undertaking, on behalf of the Liaison Committee to table this Report to this House and recommend it for adoption.

HON. GLADYS J. BOSS, MGH, M.P.
DEPUTY SPEAKER/CHAIRPERSON, LIAISON COMMITTEE

PREFACE

Establishment and Mandate of the Committee

Liaison committee is established under Standing Order 217(1) whose mandate pursuant to the Standing Order 217(2), is as follows;

(a) to guide and coordinate the operations, policies, and mandates of all Committees;
(b) to deliberate on and apportion the annual operating budget among the Committees;
(c) to consider the programs of all Committees, including their need to travel and sit away from the precincts of Parliament;
(d) to ensure that Committees submit reports as required by the Standing Orders;
(e) to determine, whenever necessary, the committee or committees to deliberate on any matter; and
(f) to give such advice relating to the work and mandate of select committees as it may be considered necessary.

In addition, the standing order 217(3) makes it non-discretionary for the Committee to consider reports of the Committee that have not been deliberated by the House and report to the House on the consideration of such reports.

Committee Membership

1. Hon. Gladys J. Boss, MGH, M.P. – **Deputy Speaker/Chairperson**
2. Hon. Martha Wangari, CBS, M.P. – **Vice-Chairperson**
3. Hon. Kimani Ichung'wah, MGH, M.P.
4. Hon. Japhet Kareke Mbiuki, CBS, M.P.
5. Hon. Julius Kibiwott Melly, M.P.
6. Hon. David Gikaria, CBS, M.P.
7. Hon. James Gakuya Mwangi, M.P.
8. Hon. Daniel Epuyo Nanok, CBS, M.P.
9. Hon. (Dr.) Robert Pukose, CBS, M.P.
10. Hon. Vincent Musyoka, CBS, M.P.
11. Hon. Johana Ng'eno Kipyegon, CBS, M.P.
12. Hon. Joash Nyamoko, HSC, M.P.
13. Hon. GK, George Macharia Kariuki, CBS, M.P.
14. Hon. Gathoni Wamuchomba, M.P.
15. Hon. Gabriel Koshal Tongoyo, CBS, M.P.
16. Hon. George Gitonga Murugara, CBS, M.P.
17. Hon. Peter Lochakapong, CBS, M.P.
18. Hon. Daniel Sitati Wanyama, CBS, M.P.
19. Hon. Nelson Koech, CBS, M.P.
20. Hon. John Kiarie Waweru, CBS, M.P.
21. Hon. Kangogo Bowen, CBS, M.P.
22. Hon. (Dr.) John Mutunga Kanyuithia, CBS, M.P.

23. Hon. (CPA) Francis Kuria Kimani, CBS, M.P.
24. Hon. Alice Wambui Ng'ang'a, CBS, M.P.
25. Hon. Eric Karemba Muchangi Njiru, CBS, M.P.

Committee Secretariat

The Committee was supported in the execution of its mandate by a secretariat composed of:

1.	Ms. Florence Abonyo, OGW	Director, DAA & GPC (Directorate of Audit, Appropriations & General Purpose Committees)
2.	Dr. (FA.) Martin Masinde, OGW	Director, Parliamentary Budget Office (PBO)
3.	Mr. Nicholas Emejen	Deputy Director, DAA & GPC
4.	Mr. Daniel Mutunga	Deputy Director, Departmental Committees
5.	Mr. Robert Nyaga	Ag. Senior Deputy Director, PBO
6.	Mr. Oscar Namulanda	Deputy Director, DAA & GPC
7.	Mr. Leonard Machira	Principal Clerk Assistant II
8.	Ms. Lynette Otieno	Senior Legal Counsel
9.	Ms. Julie Mwithiga	Senior Fiscal Analyst
10.	Mr. Chacha Machage	Senior Fiscal Analyst
11.	Ms. Ella Kendi	Clerk Assistant I
12.	Mr. Sakana Saoli	Clerk Assistant II
13.	Mr. Job Mugalavai	Fiscal Analyst III
14.	Mr. Josphat Bundotich	Principal Sergeant at arms
15.	Ms. Fridah Ngari	Media Relations Officer III
16.	Mr. Kenneth Waweru	Office Assistant
17.	Mr. Rodgers Kilungya	Audio Officer

1. INTRODUCTION

1.1. The 2025 Medium Term Debt Management Strategy

1. This borrowing strategy is anchored on the macroeconomic indicators outlined in the 2025 MTDS. Notably, the borrowing strategy will be backed by stable inflation, robust economic growth of at least 5%, stable exchange rates and interest rates, favorable global economic conditions, and strong revenue collections. The MTDS is further based on the planned reduction of fiscal deficits which harnesses revenue collection and while limiting unproductive expenditure growth.
2. The BPS and the MTDS projects total borrowing amounting to Kshs. 831 billion in the 2025/26 financial year, which is the deficit resulting from estimated total expenditure and expected total revenue collections. To raise the expected borrowing, the 2025 MTDS seeks to have the share of domestic borrowing in the total planned borrowing debt at 65%, while external borrowing share at 35% of total planned borrowing. Over the medium term the strategy proposes to have the share of external debt at 45%, which is expected to reduce the cost of public debt service. This means that out of the planned borrowing amounting to Kshs. 831 billion, the government will raise Kshs. 540.15 billion in net domestic borrowing and Kshs. 290.85 billion in net external borrowing.
3. The review of the MTDS has uncovered a variation in the borrowing strategy provided in the 2025 BPS which seeks to raise Kshs. 684.2 billion in net domestic borrowing and Kshs. 146.8 billion in net external borrowing – indicating a more aggressive domestic borrowing strategy. Continuous assessment of deviations from the medium-term set strategy is critical to ensuring alignment with the broader debt management strategy and achievement of the desired cost and risk objectives.
4. The 2025 MTDS further seeks to explore new funding instruments like Sustainability-Linked Bonds, Debt Swaps, Diaspora Bonds, and green bonds with respect to external debt. Domestic borrowing will be undertaken by reducing the stock of Treasury Bills with greater preference for medium-term to long-term bonds so as to help reduce the pressure on debt repayment.
5. On external borrowing, the composition will be comprised of concessional borrowing at 14 percent, semi-concessional borrowing at 3 percent, and commercial borrowing at 8 percent. This policy will require a stable exchange rate and macro-fiscal variables that influence international credit rating to allow Kenya access cheaper borrowing internationally.
6. The 2025 MTDS indicates that several challenges could arise during the implementation of the proposed debt strategy. These include: a) Sovereign credit rating downgrades that negatively impact the terms of new commercial borrowing, b) External factors such as global market volatility and interest rate fluctuations which affect the timing and cost of debt management operations, c) increased debt service costs with interest payments on public debt projected to

cross Kshs.1 trillion in FY 2024/25, thereby constraining fiscal consolidation efforts, among others.

7. To address these issues, the 2025 MTDS indicates that the following approaches will be followed:

    i. Centralization of trade to a Single Trade Repository platform to improve post-trade transparency that would lead to better price discovery.
    ii. Operationalization of the Sinking fund - this will also support Liability Management Operations (LMO) to reduce the costs and risks of borrowing.
    iii. Improvement of cash management to reduce the use of overdraft facility, which is costly.
    iv. Sustain Fiscal Consolidation to reduce fiscal deficits and the pace of Public Debt accumulation.
    v. Develop a government securities issuance policy to guide the issuance and trade of government securities and reflect market evolution over time.

1.2. Review of the previous MTDS performance

8. A review of the implementation of Medium-Term Debt Management Strategies since 2020 reveals that there has been a consistent deviation from the approved debt management strategy in the actual borrowing. In general, external borrowing targets have underperformed, leaving domestic borrowing as the mainstay of budgetary finance. The largest deviation was experienced in the financial year 2023/24, whereby the target ratio of 50:50 for external to domestic borrowing resulted in an actual ratio of 27:73 for external to domestic borrowing, respectively.

1.3. The public debt stock, debt service expenditure & fiscal deficit outlook

i. Public Debt Stock

9. The public debt stock stood at Kshs.10.56 trillion by June 2024, with external debt accounting for Kshs. 5.15 trillion (49 percent) and domestic debt at Kshs. 5.41 trillion (51 percent). As a percentage of GDP, this debt level represented 63 percent in Present Value (PV) terms, exceeding the PV-to-GDP threshold of 55 percent (+5) set in the PFM Act. As of September 2024, Kenya's public debt stood at Kshs. 10.78 trillion. The primary driver of the rising debt stock is the persistent fiscal deficit, influenced by significant infrastructure development needs, increasing debt servicing costs, and exchange rate fluctuations.

10. Debt service (interest and redemptions) is expected to reach Kshs. 1.87 trillion in FY 2024/25 and a further increase to Kshs. 2.47 trillion by FY 2026/27, driven primarily by domestic debt service and interest payments. Debt service share to revenue will remain, comprising more than 60%over the medium term. The high proportion of debt service to revenue signals a reduction of resources that would otherwise be used to undertake other critical development and recurrent expenditures given that debt service is a first charge on the Consolidated Fund.

11. The fiscal framework for FY 2025/26 projects revenue of Kshs. 3.39 trillion (17.6 percent of GDP) against an expenditure of Kshs. 4.26 trillion (22.1 percent of GDP) resulting in a fiscal deficit amounting to Kshs. 831.1 billion in FY 2025/26 (4.3 percent of GDP). As a percentage of GDP, fiscal deficits are expected to decline from 6.2 percent of GDP in FY 2021/22 to 3.2 percent of GDP in FY 2027/28, reflecting ongoing revenue-driven fiscal consolidation efforts and increased economic growth. Maintaining debt sustainability will require strict adherence to fiscal consolidation measures, effective management of macroeconomic risks, and policies that support robust economic expansion.

1.4. Composition of public debt in the 2025 MTDS

i. External Debt Stock

12. As of 30th June 2024, the stock of external debt amounted to Kshs. 5.15 trillion, representing 32.5 percent of GDP. This debt consists of multilateral debt (54 percent), commercial debt (23 percent), bilateral debt (22 percent), and Suppliers Credit (0.3 percent). The largest creditors to Kenya include the World Bank which contributes 35 percent of total external debt followed by China which has lent Kenya 14 percent of total external debt. Other large creditors include the African Development Bank/Fund and the International Monetary Fund, providing 10% and 8 percent share of external loans to Kenya, respectively. Loans from the World Bank and IMF are concessional which helps mitigate the increased cost and risk associated with external commercial debt and domestic debt.

ii. Domestic Debt Stock

13. The stock of domestic debt amounted to Kshs. 5.41 trillion as of 30th June 2024. It comprises Treasury Bonds (Ksh. 4.63 trillion), Treasury Bills (Kshs. 616 billion), and others (Kshs. 166 billion). The structure of domestic debt reveals that over the past 5 years, the stock of Treasury bonds has been increasing while the stock of Treasury Bills has been declining. This reflects the efforts to lengthen the repayment term of the domestic debt stock through the use of medium-term to long-term securities (T-Bonds) and minimizing short-term securities (T-Bills) for cash management purposes.

14. Among the holders of domestic debt, banking institutions remain the largesteven though the debt holdings by banks has declined from 55 percent to 47 percent. An increase in borrowing has been observed from trust funds, pension funds, and other investors. This shift is attributed to innovative policies implemented by the Central Bank of Kenya through the DhowCSD, which have enhanced access to government securities, thereby diversifying the ownership of government debt.

iii. Guaranteed Debt

15. Loan guarantees are provided in accordance with Article 213 of the Constitution and Section 58 of the PFM Act 2012. These statutes empower the National Treasury to guarantee a loan

for a private entity, County Government, or any other borrower on behalf of the national government, subject to approval by Parliament. The stock of guaranteed debt as of 30th June 2024 was Kshs. 100.2 billion, having declined from Kshs. 170.2 billion reported as of 30th June 2023 due to the novation of the Kenya Airways guaranteed debt to government debt. Notably, 71 percent of the guaranteed loans are provided by bilateral creditors such as Japan with 29 percent provided by local banks.

16. Other key changes in the 2025 MTDS include: (a) the exclusion of a Kshs. 9 billion guarantee to Kenya Power and Lighting Company, which was included in the 2024 MTDS, and (b) the inclusion of a Kshs. 29.14 billion guarantees to local banks that financed the Aircraft Finance and Leasing Agreement for KQ. This adjustment increases the government's exposure to the full Kshs. 29.14 billion in the event of a default by Kenya Airways. By June 2027, approximately Kshs. 156 billion will have been utilized to fully settle Kenya Airways PLC's debt obligations under the government guarantee. As stipulated in Section 61(1) of the Public Finance Management (PFM) Act, 2012 any payments made under a guarantee are considered a debt to the national government and should be recovered from the borrower. However, there are legislative gaps in implementing this provision, particularly in defining timelines and procedures for enforcement.

1.5. Risks to Kenya's Debt and Debt Sustainability Indicators

17. The MTDS notes that domestic debt portfolio has higher cost and risk characteristics compared to the external debt portfolio. This is due to the fact that domestic debt has shorter repayment periods, about 6.6 years compared to external debt whose average repayment is 9.5 years. Further, the MTDS has indicated that domestic debt has about 17.6% to be repaid within one year as opposed to 5.2% for external debt.

18. Similarly, the average rate of interest charged on domestic debt is relatively higher, at about 13.2% relative to external debt whose average interest is 3.7%. Thus, on average, and assuming stable exchange rate, domestic debt is substantially more expensive than external debt. The MTDS indicates that the risks associated with Kenya’s debt are declining as a result of falling domestic and international interest rates, stable Kenya’s exchange rates, and lengthening of the repayment periods.

19. Debt Sustainability Analysis (DSA) compares debt burden indicators to thresholds over a 20-year projection period. If a debt burden indicator exceeds its indicative threshold, then it would suggest the likelihood of experiencing some form of debt distress exists.

20. A review of total public sector debt indicates that the PV of total debt to GDP ratio declined to 63 percent as of June 2024, from 68.7 percent as of June 2023. This remained above the threshold of 55 percent, which is also the basis for the debt threshold contained in the PFM Act 2012[1]. This is projected to peak in June 2025 at 64 percent and decline gradually until 2029

[1] Amended in October 2023

21. The elevation of the Present Value of debt to GDP ratio over the projection period reveals that the 55 percent PFM threshold may not be achieved by the year 2028. Therefore, additional measures are required to facilitate this process. Pressure on Kenya's revenue in terms of servicing, Kenya debt (liquidity risk) is expected to persist until 2027, as the present value of debt service to revenue and grants ratio stays above its threshold. The ratio will peak between 2024 and 2026, exceeding 60 percent, which substantially reduces the amount of tax resources available for critical government services such as health and education.

22. Further, the review of Total External Debt indicates that external debt DSA remained stable despite large exchange rate shocks. The present value of external public and publicly guaranteed debt relative to GDP is the only indicator currently within its threshold of 40, standing at 29.8 in 2024. This ratio is projected to further improve over the long term. However, external debt service, as indicated by the Public and Publicly Guaranteed external debt to exports ratio and the Public and Publicly Guaranteed external debt service to exports ratio, are projected to exceed their respective thresholds in the medium term.

2. SUBMISSION BY THE CENTRAL BANK OF KENYA

Through their submission dated February 28, 2025, the Committee was informed that:

23. The 2025 MTDS aims at reducing the costs of public debt at a prudent level of risk. To achieve this objective, 75 percent of the government's gross financing needs will be sourced from the domestic market and 25 percent from external sources.

24. The proposed mix of debt instruments is broadly consistent with CBK's objective of lengthening the maturity of domestic debt through the issuance of medium-to-long-term debt securities; this will continue to contain the refinancing risks of domestic debt stock. Given the risks associated with the current debt profile,

25. CBK supports Government's intention to optimize borrowing from concessional external financing sources. In terms of budget deficit financing strategy, the 2025 MTDS envisages a net borrowing mix of 65 percent and 35 percent for domestic and external sources respectively. The financing strategy for 2025/26 and the medium term is feasible as the proposed net domestic borrowing is within range of the actual domestic borrowing in the past five years, which averaged Kshs. 521.7 billion.

26. There are significant differences between projected deficit financing in the 2025 Budget Policy Statement (2025 BPS) and the preferred strategy in the 2025 MTDS. The 2025 BPS has much higher levels of domestic borrowing. It is important to ensure consistency in the two policy documents for smooth financing of the budget and execution of the strategy. This will also enhance the predictability of the government financing needs and support efficient pricing of government securities.

27. The implementation of the most preferred strategy is expected to reduce the ratio of public debt to GDP from 63.7 percent at the end of June 2024 to 57.8 percent by June 2028. In Present

Value (PV) terms, the PV of public debt is projected to decline from 58.1 percent to 52.8 percent. The cost of debt is expected to decrease, with interest payment as a percentage of GDP projected to decrease from 5.4 percent in June 2024 to 4.6 percent by June 2028. This is consistent with improvements in the macroeconomic environment including easing inflationary pressures and reduction in the Central Bank Rate (CBR).

28. The strategy will also reduce both refinancing and interest rate risks through lengthening of maturity profiles of external and domestic debt portfolios as well as reducing the levels of Treasury Bills. External debt as a share of total public debt is expected to decline from 49 percent in June 2024 to about 45 percent, leading to a reduction in the exchange rate risk.

29. CBK continues to undertake reforms to strengthen and improve the efficiency of the domestic debt market. These include:

i. Diversifying the investor base in government securities through an enhanced market engagement program.

ii. Leveraging on the award-winning DhowCSD infrastructure to support market development initiatives including Over the Counter Trading. Implementation of a modern dedicated retail bond program, enhancing the guidelines for benchmark bond and Liability Management Program and diversifying financing sources and instruments.

iii. CBK is reviewing guidelines on benchmark bonds and liability management with a view to lowering the cost and risk of public debt.

30. To effectively realize the objectives of 2025 MTDS, it's important for the Government to:

i. Remain on course with the ongoing fiscal consolidation program.

ii. Explore non-debt creating financing options for public investments such as the public private partnerships (PPPs).

iii. Ensure consistency of deficit financing strategy in the 2025 MTDS and 2025 BPS will increase efficiency in the pricing of government security by increasing the predictability of government financing needs.

31. The CBK will continue to deploy measures to develop the domestic debt market including ongoing modernization of the market infrastructure to diversify investor base and mitigate against the exchange rate risk.

3. SUBMISSION BY THE CONTROLLER OF BUDGET

The Committee was informed that:

32. In the first six months of FY 2024/25, receipts from debt financing amounted to Kshs. 569.95 billion, 36 percent of the annual target. This comprised of Kshs. 477.17 billion (49 percent of the yearly target) as domestic borrowing and Kshs. 92.78 billion (16 percent of the annual target) from external loans and grants.

33. The public debt stock was Kshs. 10,581.98 billion (65.7 percent of GDP) as of 30th June 2024. This comprised of domestic debt of Kshs.5,510.28 billion (51 percent) and external debt of Kshs. 5,171.70 billion (49 percent). Multilateral and bilateral debt accounted for 54 percent of the total external debt, and commercial debt accounted for 46 percent. The low proportion of commercial debt is encouraged, and the government should ensure that the proportion of multilateral and bilateral debt is maximized while commercial debt is minimized.

34. As of 31st December 2024, the public debt stock was Kshs.10.93 trillion, with Kshs. 5.06 trillion owed to external lenders (46 percent) and Kshs. 5.87 trillion to domestic lenders (54 percent). Between June 2024 and December 2024, the external debt stock debt declined by Kshs. 9.34 billion (or 2 percent) from Kshs. 5.17 trillion to Kshs. 5.16 trillion (due to the appreciation of the Kenya Shilling against major currencies) while domestic debt recorded 8 percent growth (attributable to increased borrowing in the domestic market).

35. The continued growth in public debt requires a thorough reassessment of debt sustainability as continued borrowing could lead to a severe debt trap, constraining fiscal space and limiting the government's ability to invest in essential services and development initiatives.

36. The allocation towards servicing the public debt in the FY 2024/2025 amounted to Kshs. 1.91 trillion, compared to Kshs.1.87 trillion allocated in the FY 2023/2024. This comprised Kshs. 809.57 billion for principal and Kshs.1.01 trillion for interest payments.

37. The overdraft facility established and operationalized as per Section 15 (3) of the Public Finance Management Act, 2012 amounted to Kshs. 97.05 billion and is charged an interest rate charge of 12.3 percent per annum on the amount outstanding at the end of each month.

38. In the first six months of FY 2024/25, the total charge on the overdraft facility was Kshs. 3.48 billion, indicating a 17 percent lower interest cost compared to Kshs. 4.21 billion in the first six months of FY 2023/24.

39. On the review of the 2025 Medium-Term Debt Management Strategy (MTDS) the following was observed:

    i. The total nominal public debt as a percentage of GDP in Kenya has been declining, decreasing from 71.9 percent in 2022 to 65.7 percent in June 2024. As per the 2025 Budget Policy Statement, this ratio will decrease to 52.5 percent in 2029.

    ii. The debt-to-GDP ratio is notably higher than the International Monetary Fund's recommended threshold of 50 percent. Therefore, a roadmap should be developed to achieve the benchmark debt threshold of 55 percent of GDP by 2029.

    iii. At the end of the strategy period, public debt is expected to be 46 percent external and 54 percent domestic. However, this is the current debt mix and hence represents no change in strategy over the medium term and may indicate an inability to respond to economic shocks due to limited fiscal space.

iv. The objectives of the 2025 Medium-Term Debt Management Strategy include reducing short-maturity debt, lengthening the total portfolio, and deepening the domestic bond market. However, the MTDS, indicates that by June 2024, the proportion of instruments with less than one year to maturity increased from 16.7 percent in June 2023 to 18.6 percent in June 2024.

v. The grace period for debt settlement has reduced from 4.8 to 4.4 years, while the weighted average interest rate increased to 4.6 percent from 3.2 percent in June 2023. The implication is that a shorter period to settle debts under high interest rate.

40. During a benchmarking visit to the United Republic of Tanzania, it was observed that the country has implemented advanced and fully functional automated debt management systems integrated with cash management systems. This integration has enhanced debt management by improving debt oversight, loan valuation and approval, and assessment of project viability against loan qualities and costs. Furthermore, the country has streamlined loan requisition processes and enabled the effective operation of a Single Treasury Account. As a result, there have been improvements in liquidity positions, as well as increased transparency and accountability in the use of public debt, leading to unqualified audit reports.

41. Regional economies are implementing advanced debt systems in their recording. Debt service is requisitioned one month in advance This has enhanced debt and resulted in unqualified audit reports.

42. In their presentations, the COB proposed the following policy measures to address elevated debt servicing that challenge Kenya's fiscal sustainability and economic resilience:

i. Emphasize the acquisition of concessional loans over expensive commercial borrowing. Due to their favorable repayment terms, concessional financing reduces the cost of debt servicing and extends repayment periods, easing fiscal pressures and ensuring sustainable development financing.

ii. Ensure alignment of projects to type of funding by having social projects funded solely through concessional loans and not otherwise.

iii. Operationalize Section 50(8) of the Public Finance Management Act 2012 by creating a Sinking Fund to ensure systematic savings for loan repayment, reduce reliance on new debt for refinancing, and enhance fiscal discipline in debt management.

iv. Implement comprehensive audits of debt procurement, utilization, and sustainability. Regularly review and flag unsustainable debts, ensuring transparency and accountability in public borrowing. Audit findings should guide future borrowing and repayment strategies, aligning them with national development priorities.

v. Avoid premature debt commitments by ensuring that projects are fully prepared for implementation before contracting loans by linking loans to projects, improving the efficiency of the use of borrowed resources, minimizing commitment fees on un-disbursed funds, and accelerating project delivery.

vi. The National Treasury should link loans to projects, and all borrowed public funds should be related to the financed projects to avert the diversion of borrowed funds.

vii. The National Treasury should engage the Central Bank of Kenya to establish affordable overdraft rates to reduce the cost of short-term financing, allowing more resources to be allocated to essential public services and development initiatives.

viii. Provide a stable monetary policy environment and use monetary policy tools to stabilize treasury bills and bond rates in order to minimize the impact of debt service expenditures on government revenues and prevent crowding out the private sector.

ix. Adopt alternative project funding models such as the Public-Private Partnerships (PPPs) and other innovative financing models for infrastructure and development projects in order to reduce direct borrowing, allocate risk between public and private sectors, and attract external expertise to improve project outcomes.

x. Establishment of the single treasury account to enable the optimal utilization of government cash resources by facilitating monitoring and control at an aggregate level. The Treasury Single Account is critical for financial control, improved monitoring of the cash position, better planning for future requirements, better fiscal reporting, and the availability of superior data for budget formulation.

xi. Enhancing cash flow management in order to improve liquidity parameters and ensure budgets are executed more predictably and in a timely manner.

xii. Adhere to the fiscal consolidation path by broadening the revenue base in order to reduce the deficit budget. This would also require minimization of non-core expenditure and focus on essential activities and development expenditures.

xiii. Increased transparency in External Borrowing by ensuring that loan contracts and other debt-related information are publicly available to enhance accountability and discourage wrong borrowing practices.

4. SUBMISSIONS BY THE NATIONAL TREASURY

The Committee was informed that:

43. The current stock of public and publicly guaranteed debt stands at Kshs. 11.02 trillion (65.7% of GDP2) as of the end of January 2025, up from Kshs. 10.58 trillion (65.7% of GDP) in June 2024.

44. The public and publicly guaranteed debt comprises a mix of Kshs. 5.93 trillion for Domestic debt and Kshs. 5.09 trillion for External debt.

45. The external debt stock has declined from Kshs. 6.09 trillion in December 2023 to Kshs. 5.09 trillion in January 2025. This reduction is attributed to the appreciation of the Kenya shilling against major currencies during the review period.

[2] Based on extrapolated January 2025 GDP number (Ksh. 16.76 trillion)

46. External debt as of January 2025 is composed of Kshs.2.83 trillion (55.6%) in multilateral debt with World Bank concessional loans comprising 63.3% of the multilateral debt, Kshs. 1.09 trillion (21.4%) in bilateral debt of which China accounts for 60.6%, and Kshs. 1.17 trillion (23%) in commercial debt, with the Eurobonds constituting Kshs. 0.85 trillion.

47. Domestic debt is composed of Kshs.4.93 trillion (83.3%) in Treasury-bonds representing; Kshs. 0.86 trillion (14.4%) in Treasury-bills making up of domestic debt; and Ksh.0.14 trillion (2.3%) in other domestic debt such as the overdraft from Central Bank of Kenya, IMF funds on-lent to Government, and Bank advances.

48. The stock of Government guaranteed debt stock as at end January 2025 stood at Ksh. 79.6 billion, which was a decrease from Ksh.170.2 billion as at end of June 2023 due to novation of Kenya Airways debt. The Government has provided guarantee to loans secured by KENGEN, KPA and Kenya Airways.

49. In FY 2021/22, the Government guarantee to Kenya Airways (KQ) was called as a result of loan payment defaults. The loan was for the purchase of seven (7) aircrafts and one (1) engine. The lender of the loan was the Private Export Funding Corporation (PEFCO) of USA guaranteed by the Exim Bank of USA who in turn were guaranteed by the Government of Kenya. The guarantee issued in 2017 was for USD 525 million. The loan tenure was ten years and was expected to mature in FY 2027/28.

50. KQ experienced cash flow challenges which were exacerbated by strict COVID-19 containment measures that cut down business operations and global travel. Following the default, KQ sought GoK intervention, and the Cabinet gave approvals for the Government to pay the loan arrears on behalf of KQ, and the loan balance was novated to the Government. The novation process was finalized in the FY 2022/23 and the loan repayments are being done on behalf of KQ which shall be recovered through a subsidiary loan agreement between the Government and the airline as per the requirements of the PFM Act, 2012.

51. In 2014, KQ approached several local banks to fund its working capital requirements to the tune of USD 226 million. However, the airline started struggling to keep up with the loan repayments and by 2017, Kenya Airways owed a consortium of 10 local banks USD 217 Million. This necessitated the Project Safari Restructuring in 2017. KQ negotiated a restructuring of the outstanding debt which included incorporation of a Special Purpose Vehicle (SPV), KQ Lenders Company 2017 Ltd (KQ Lenders), to represent the interests of the local banks.

52. Out of the total debt of USD 217 million, USD 167 million was converted to equity through KQ Lenders. The balance of USD 50 million was issued as a mandatory convertible note.

53. The Government of Kenya guaranteed the local banks to the tune of USD 225 million split into USD 75 million for Standby Letters of Credit, USD 100 million multipurpose credit facility, and a USD 50 million guarantee to KQ Lenders should they sell their shares in KQ at the end of the facility period and are unable to cover the principal loan balance.

54. KQ issued the SBLCs to various lessors and suppliers as part of contractual obligations. These are mainly for security deposits and maintenance reserves. Between May 2022 to September 2024, the lessors called on SBLCs amounting to USD 107.7 million, and the local banks had to honor the call-ups and pay the lessors. KQ has been unable to fund the call-ups due to financial constraints and has requested the local banks to honor the call-ups and convert them into short-term loans under the terms of the GoK guaranteed multipurpose facility.

55. The call-up of SBLCs has resulted in the multipurpose facility rising above the guaranteed limit of USD 100 million causing a breach in the facility. Due to this breach, the Local Banks through their facility agent issued several notices to KQ, demanding immediate payment of the amount in breach.

56. To address the breach, the lenders called on the Government Guarantee and issued a demand to GoK for immediate settlement of USD 149,989,169. The GOK settled the debt to local banks on 3rd January 2025 and the loan shall be payable to GoK by KQ through a Shareholder Loan Agreement whose terms are to be negotiated and finalized in the first half of 2025.

57. As of the end of June 2024, twenty-one (21) SOEs reported non-guaranteed debt amounting to Kshs. 78,207 million

58. The proposed budget in the Budget Policy Statement (BPS) for FY 2025/26 has expenditures worth Kshs. 4.27 trillion, financed by revenues worth 3.4 trillion. As a result, the fiscal deficit for FY 2025/26 will be Kshs. 831 billion to be financed through net foreign financing (Kshs. 146.8 billion) and Net domestic Financing at Kshs. 684.2 billion.

59. This financing mix does not include any funding from the IMF. If the government successfully negotiates a funded programme with the IMF, then this would change the mix by increasing external financing and reducing domestic borrowing.

60. Kenya continues to meet its current and expects to meet future debt payment obligations. The latest Debt Sustainability Analysis Report indicates that Public debt remains sustainable though with a high risk of debt distress, and subdued growth in exports and revenue collections has increased external debt vulnerabilities.

61. The Government has put in place plans for improving Public Debt Sustainability, these include: Sustaining fiscal consolidation efforts over the medium term, optimizing the use of concessional funding, lengthening the maturity profile of public debt, proactiveness in public debt management through active Liability Management Operations (LMOs), and steady and strong inflow of remittances and a favorable outlook for exports will play a major role in supporting stability of the exchange rate and external debt sustainability.

62. In February 2024, Kenya undertook a USD 1.5 billion liability management operation on the USD 2 billion Eurobond maturing in June 2024 and executed a further liability management operation (LMO) targeting a USD 900 million Eurobond maturing in 2027 and high-interest

syndicated loans in the debt portfolio to a tune of USD 600 million. The operation will reduce near-term maturities, improve overall debt sustainability, and boost investor confidence.

63. The National Treasury conducted a countrywide public participation exercise from 27th to 31st January 2025, on the 2025 Medium-Term Debt Management Strategy, in accordance with your resolution dated 9th March 2023, which required the National Treasury to undertake public participation on the MTDS in line with the provisions of the law. The public participation report was submitted to the National Assembly alongside the 2025 MTDS report.

64. The nominal debt to GDP ratio of existing debt declined to 65.7% in June 2024, down from 72% in June 2023. The Present value (PV) of public debt was 63% of GDP and is projected to remain slightly above the 55 percent benchmark before declining to 52.8% in 2028.

65. On a gross basis, the strategy proposes a borrowing mix for FY 2025/26 to 2027/28 of 75% domestic borrowing and 25% external borrowing. In net terms, it assumes 65 percent and 35 percent from domestic and external sources, respectively.

66. The 2025 optimal Debt Strategy objectives are to a) Reduce refinancing risk by lengthening debt maturities and shifting reliance from short-term to long-term borrowing; b) Minimize interest rate risk by increasing fixed-rate debt and reducing exposure to variable interest rates; c) Reduce exchange rate risk by diversifying external borrowing; d) Strengthening domestic debt markets; and Promote intergenerational equity by ensuring prudent borrowing and liability management.

5. PUBLIC PARTICIPATION SUBMISSIONS

67. In line with Article 201 of the Constitution, the National Assembly undertook public participation on the 2025 Medium Debt Management Strategy through a request for memoranda from the public. Advertisements were placed in the Daily Nation and the Standard Newspapers for a period of seven days ending on 24th February, 2025. During this period, submissions were received by the following institutions:

5.1. Submission by the Civil Society Parliamentary Engagement Network

68. The Committee was informed that the Civil Society Parliamentary Engagement Network (CSPEN) is a platform for non-state actors, including civil society organizations, professional associations, think tanks, and research institutions that work with the legislature. It was established in 2019 by the Westminster Foundation for Democracy and Mzalendo Trust (and includes thirty-four national civil society organizations) to facilitate engagement with the Kenyan legislature.

69. The CSPEN indicated that Kenya's growing appetite for borrowing to facilitate expenditure has seen Kenya's public debt stock grow from Kshs. 2.45 trillion as of December 2014 to Kshs. 10.58 trillion as of September 2023, representing a 335% increase. This significant growth in

Kenya's public debt burden over a short period has generated a vicious cycle, necessitating more expenditure on debt servicing and repayment each year. As such, the network proposed, that:

i. The Public Finance Management Act (2012) should be amended to grant the Public Debt Management Office (PDMO) fiscal and operational autonomy, in line with Section 62 of the PFM Act, and address the Auditor General's recommendations, relating to technical staffing, as contained in Public Debt Audit reports.
ii. The National Assembly should review the PFM Act, 2012, and the CBK Act to clearly define and separate the responsibilities for monetary policy and debt management policy between the CBK and PDMO. This would help prevent any potential conflict in monetary and fiscal operations that may arise from differing policy goals and could lead to inconsistent debt management practices.
iii. The Public Debt and Privatization Committee and the National Treasury should develop regulations introducing an annual budget deficit limit (net borrowing) limit to control the tendency to increase the fiscal deficit through supplementary estimates. This could be absolute or could be pegged as a percentage of GDP.
iv. Kenya's public finance architecture should enhance the role of the Public Debt and Privatization Committee in the contracting and approval of loans. This aligns with recommendations by the OAG in her 2022 Performance Audit Report on Public Debt Servicing Activities.
v. The National Assembly should seek clarity from the National Treasury on the status of the announced forensic public debt audit being conducted by the Office of the Auditor General, and the expected date of completion. While there have been efforts made by the National Treasury to avail more information on public debt, key gaps remain relating to the nature and size of guarantees provided.
vi. The National Treasury should create simplified versions of key public debt management documents for the public. These simplified debt documents will enhance the understanding and accessibility of debt information, thereby allowing more effective public input into budgeting and financing decisions during public participation.
vii. Instead of diversifying sources of borrowing, the National Treasury could examine alternative financing methods other than borrowing, as borrowing carries risks such as debt imbalance and high debt service costs.
viii. Transitioning from a debt limit to a debt anchor is a positive step; however, efforts should primarily focus on reducing overall debt. It is advisable to explore untaxed revenue streams, promote tax compliance, reduce tax expenditures, and enhance accountability and transparency. Additionally, implementing a wealth tax could generate further revenue.

70. Upon deliberation, the Committee observed the following:

i. It was not advisable to interfere with an ongoing audit process and the Office of the Auditor General should be allowed time and independence to undertake audits as required by the Constitution.

ii. That on undertaking reforms to loan approval processes and borrowing, the National Assembly alongside partners, is in the process of developing a Public Debt Management Bill that will enhance the capacity of the National Assembly in the approval of loans and oversight of public debt stock, without constraining fiscal flexibility. The assessment of the Fiscal deficit is undertaken under the current PFM Framework.

iii. That House resolutions on the Consolidated Fund Services for FY 2024/25 already resolved that the National Treasury should diversify budget financing away from borrowing.

iv. That efforts focusing on the reduction of the overall debt stock will be observed with the requirement to reduce the debt stock as a share of GDP (in Present Value Terms) to 55% by October 2028 are already outlined in the PFM Act 2012. Furthermore, proposals for tax mobilization are welcome and in line with current fiscal consolidation plans.

v. That the House resolution on the 2024 MTDS already resolved that the National Treasury should publish simplified, citizen-friendly documents to accompany the technical reports on public debt submitted to the National Assembly.

vi. That House resolution on the Consolidated Fund Services report for the FY 2024/25 budget estimates resolved that:

    i. The head of the PDMO be appointed as an accounting officer to enhance the efficiency of the officer.
    ii. That the National Treasury and the Central Bank of Kenya undertake macroeconomic reviews to ensure that fiscal and monetary policy operate synergistically to mitigate financial burden of debt.

5.2. Submission by the Institute of Public Finance (IPF)

71. In their submission, the Committee was informed that the Institute of Public Finance (IPF) is an independent non-profit think tank that focuses on principles of public finance management through the generation of credible evidence, advocacy, and technical assistance. The Institute proposed that:

i. The Medium Debt Management Strategy covers debt as of June 2024. The National Treasury should be required to provide debt records up to December 2024 which will lead to more informed decisions using updated debt data.

ii. While there is progressive improvement in reporting on guaranteed debt under the 2025 MTDS additional information such as the nature of the guarantee, duration of the guarantee, and risk assessment in respect of a Guarantee in line with Section 58 of the PFM Act 2012 is required to enable Parliament to decide whether to approve draft loan guarantee documents or not.

iii. The Medium-Term Debt Management Strategy should include a requirement that Annual Borrowing Plans should indicate the investment to be funded by borrowed funds. Specifically, any infrastructure bond procured should be able to identify the infrastructure to be funded by the proceeds to enhance accountability.

iv. The 2025 Medium-Term Debt Management Strategy proposes the use of debt swaps and Environmental, Social and Governance (ESG) financing to finance the budget deficit for FY 2025/26. Full disclosure of this type of financing should be made including but not limited to community displacements and risks associated with them.

v. There is an inconsistency between the net borrowing mix outlined in the Budget Policy Statement (BPS) and the Medium-Term Debt Management Strategy (MTDS). The MTDS suggests a 65:35 ratio of net domestic to external borrowing, whereas the BPS proposes a ratio of 82:18. It is crucial for these documents to align, as discrepancies in the fiscal deficit strategy can lead to uncertainty in debt planning and market expectations. This issue may be further exacerbated if macroeconomic assumptions and projections are not met, resulting in fiscal stress.

vi. The Medium-Term Debt Management Strategy should be fully integrated into the Budget Policy Statement to guide borrowing decisions effectively and avoid the deviations that happen through supplementary estimates increasing borrowing needs. This has often resulted in increased borrowing from the private sector leading to increased interest rates and crowding out of the private sector.

72. Upon deliberation, the Committee observed the following:

i. That in because of the lengthy process of developing a Medium Term Debt Management Strategy and requisite public participation, makes it unfeasible for the PDMO to utilize debt stock as of the end of December. However, the national treasury should endeavor to adhere to the PFM Act.

ii. House resolution on the 2023 MTDS and 2024 MTDS resolved that the National Treasury should ensure consistency between the Medium-Term Debt Management Strategy and the Budget Policy Statement regarding, undertake sensitivity analysis and report on deviations.

iii. While the development and purpose of the Annual Borrowing Plans are provided for under Section 63 of the PFM Act 2012 and Regulation 186 of the National Government PFM Regulations, 2015, the Committee concurs that there should be increased transparency and accountability in the use of domestic borrowing. This is particularly important when the funds are allocated towards general government support, which has been the practice for the proceeds of infrastructure bonds. This will also be of significance given the increased domestic borrowing proposed by the 2025 MTDS.

iv. The Committee concurs that the proposal under the 2025 Medium-Term Debt Management Strategy for the use of innovative financing instruments to finance the budget deficit for FY 2025/26 should require additional oversight, transparency accountability.

6. COMMITTEE OBSERVATIONS

73. Arising from the above deliberations the Committee made the following observations, that:

1) The 2025 Medium-Term Debt Strategy (MTDS) outlines a financing strategy comprising: a) gross financing ratio of 25:75 between external and domestic borrowing, respectively, and b) net financing strategy of 35:65 for external and domestic financing, respectively. This indicates that the domestic market will serve as the primary source of funding for fiscal deficits over the medium term.

2) The 2025 MTDS aims to expand the domestic debt portfolio. However, since domestic borrowing already carries higher costs and risks compared to external debt, additional macro-fiscal measures will be necessary to mitigate any negative effects of increased reliance on domestic financing. Regular assessment reports should be submitted to the National Assembly and made public to ensure proactive monitoring of costs and risks, thereby fostering market confidence.

3) There is a misalignment between the fiscal deficit financing strategy outlined in the 2025 Budget Policy Statement (BPS) and the approach in the 2025 MTDS. Ensuring coherence between these strategies is crucial for enhancing the predictability of medium-term financing needs, strengthening debt management, and achieving cost and risk reduction objectives, which will ultimately support budget execution and debt sustainability.

4) The 2025 MTDS will explore alternative financing instruments, including Sustainability-Linked Bonds (SLBs), Debt Swaps, Diaspora Bonds, and ESG Bonds. It is essential to ensure that these mechanisms do not increase overall debt costs and risks. Furthermore, transparent contractual assessments and well-structured negotiations should be undertaken to align these instruments with the government's broader macroeconomic and fiscal objectives.

5) Relying on loan financing to bridge the fiscal deficit for FY 2025/26 and the medium term will contribute to the continued rise in public debt, which has already reached record levels. Therefore, it is crucial to explore alternative non-debt financing mechanisms to fund government expenditures while mitigating the growth of public debt and its associated costs and risks.

6) As of the end of FY 2023/24, Kenya's public debt stood at Kshs. 10.58 trillion, equivalent to 63% in Present Value (PV) terms. This exceeds the 55% (+5%) PV-to-GDP threshold established under the Public Financial Management (PFM) framework, which must be met by 2028. Achieving this target requires strict fiscal discipline and the adoption of appropriate consolidation measures.

7) The composition of domestic debt holders is becoming more diverse. While banks have historically been the largest holders of government securities, their share has declined from 55% to 47%, with increased participation from trust funds, pension funds, and other institutional investors. This shift is driven by the low-risk, high-return nature of government

securities, along with policy initiatives by the Central Bank of Kenya aimed at broadening access to government debt instruments and encouraging investor diversification.

8) Debt service obligations are projected to increase from Kshs. 1.87 trillion in FY 2024/25 to Kshs. 2.47 trillion by June 2027, raising the proportion of revenue allocated to debt repayment to an average of 60% over the medium term. This growing debt burden is likely to limit fiscal flexibility for other essential expenditures. To mitigate the associated budgetary constraints, it is critical to enhance the efficiency of resource utilization. Additionally, clear performance indicators should be established to identify high-impact investment sectors, assess their effectiveness, and facilitate timely corrective actions.

9) That, liquidity risk assessments indicate that debt repayment pressure will persist through 2027 despite the fact that domestic borrowing costs arising from short-term borrowing and the overdraft facility could be reduced substantially if the National Treasury would seamlessly access idle bank balances and AIA resources held by MDAs to meet short term exchequer payments.

10) Kenya's National Treasury lags behind its East African counterparts in adopting financial technology for public debt management. The debt recording system remains only partially automated and is yet to be fully integrated with the IFMIS payment system. As a result, reliance on parallel manual processes involving the Controller of Budget and the Central Bank of Kenya continues, hampering efficiency.

11) There is a need for greater transparency and accountability in the utilization of domestic borrowing, especially when funds are allocated for general budgetary support—an approach that has been common with the proceeds of infrastructure bonds. Clearer reporting mechanisms should be implemented to track and disclose how these funds are utilized.

7. COMMITTEE RECOMMENDATIONS

74. Following stakeholder submissions , public participation submissions, committee deliberations and observations, the Committee recommends as follows:

7.1. Non-financial recommendations:

1) **That**, to meet the PFM Act, 2012 threshold of Debt to GDP in Present Value terms of 55% (+5%) by 2028, the Cabinet Secretary National Treasury and Economic Planning should publish quarterly reports detailing progress on fiscal consolidation as outlined in the 2025 Budget Policy Statement.

2) **That**, the Cabinet Secretary National Treasury and Economic Planning, Governor, Central Bank of Kenya, and Controller of Budget should fully automate the withdrawal of debt service payments from the Consolidated Fund by 31st May, 2025, and submit a report to the National Assembly within 15 days after the automation.

3) **That**, to strengthen financial controls, ensure accurate and timely public debt statistics, and enhance decision-making for greater transparency and accountability, the National Treasury should integrate the Public Debt Management System with the Integrated Financial Management System (IFMIS) by 31st May, 2025, and submit a report to the National Assembly within 15 days after the integration of the two systems.

4) **That**, to mitigate the growing risk of domestic debt interest payments and to reduce the tendency of the government borrowing funds held by public entities, the National Treasury should deploy the Treasury Single Account (TSA) for all MDAs, parastatals, and public funds by 1st July, 2025.

5) **That**, to improve transparency and accountability in anticipated increase in domestic borrowing, the Cabinet Secretary National Treasury and Economic Planning should within 60 days:

   i. Form a working committee to establish criteria for assessing the effective utilization of borrowed funds by Ministries, Departments, and Agencies (MDAs), establish the registrar of Government securities pursuant to Section 55 of the PFM Act, and

   ii. Record in the debt register the details on the utilization of the borrowed funds, including the set of projects funded from the proceeds of infrastructure bonds.

6) **That**, the Cabinet Secretary National Treasury and Economic Planning should establish an interagency committee, including representatives from the Central Bank of Kenya and the Controller of Budget to review the public debt procurement process, debt utilization, and submit a report to the National Assembly by 31st May, 2025.

7) **That**, the Cabinet Secretary, National Treasury and Economic Planning shall report and seek approval from the National Assembly on any variation to the approved borrowing mix in the 2025 Medium Term Debt Management Strategy (MTDS).

7.2. Financial recommendations

8) **That**, the fiscal deficit target for the medium term is approved and set at 4.3 percent of GDP for FY 2025/26; 3.5 percent of GDP for FY 2026/27, and 3.2 percent of GDP for FY 2027/28, in line with the fiscal consolidation path; and

9) **That**, the country's borrowing strategy is approved at 35 percent for net external borrowing and 65 percent for net domestic borrowing as contained in the 2025 Medium Term Debt Management Strategy.

8. ANNEXURES

Further, pursuant to the National Assembly Standing Order 232A(5)(a), Schedule 1 indicates details on the stock of foreign denominated public debt, including publicly guaranteed debt, and Schedule 2 indicates details on the stock of domestic debt, are hereby attached in Annex 1 and Annex 2.

SIGNED

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HON. GLADYS J. BOSS, MGH, M.P.
DEPUTY SPEAKER/CHAIRPERSON, LIAISON COMMITTEE

5th March 2025

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DATE

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE:	05 MAR 2025	DAY.
TABLED BY:	Hon. Gladys Boss, MGH, M.P. Deputy Speaker.	
CLERK-AT THE-TABLE:	Kanda Tiliegi, CA, III	