Kenya's Annual Borrowing Plan (ABP) for FY'2025/26

On 9th September 2025 the National Treasury released the Annual Borrowing Plan (ABP) for FY'2025/26, providing a framework to guide the Government's borrowing operations over the financial year. The plan outlines how the fiscal deficit will be financed, how maturing obligations will be refinanced, and how debt sustainability will be safeguarded in line with the 2025 Medium-Term Debt Management Strategy (MTDS).

The ABP is anchored on Kenya's fiscal consolidation agenda, which aims to reduce the budget deficit, slow down the accumulation of public debt, and create fiscal space for priority investments under the Fourth Medium-Term Plan (MTP IV) and the Bottom-Up Economic Transformation Agenda (BETA)

Macroeconomic Assumptions

The borrowing plan is built on the assumption of a stable macroeconomic environment. Real GDP growth is projected at 5.3% in FY'2025/26, up from 5.0% in FY'2024/25, supported by agricultural recovery, improved private sector activity, and the rollout of BETA projects. Inflation is expected to rise to 5.0% from 3.8%, while the GDP deflator is projected at 5.4%.

Revenue collection is expected to improve, increasing by 13.6% to Kshs 3.3 tn in FY'2025/26 from Kshs 2.9 tn in FY'2024/25, reflecting enhanced tax mobilization efforts. Expenditure is projected to grow by 7.4% to Kshs 4.3 tn from Kshs 3.98 tn, helping to narrow the overall fiscal deficit. Consequently, the fiscal deficit is projected at 4.7% of GDP in FY'2025/26, improving from 5.8% in FY'2024/25, while the primary balance is expected to swing to a surplus of 1.0% of GDP from a deficit of 0.2%, marking progress toward fiscal consolidation.

Despite these projections, the ABP highlights key risks, including exchange rate volatility given the large share of foreign currency debt, global growth uncertainties, revenue shortfalls, rising interest rates, and climate-related shocks such as droughts and floods.

Public Debt Stock

As at 30th June 2025, Kenya's total public and publicly guaranteed debt stood at Kshs 11.8 tn equivalent to 67.8% of GDP. This comprised:

i. Domestic debt: Kshs 6.3 tn equivalent to 36.3% of GDP and representing 53.5% of the total stock, up from 52.0% in June 2024.
ii. External debt: Kshs 5.5 tn equivalent to 31.5% of GDP and representing 46.5% of the total stock, down from 48.0% in June 2024.

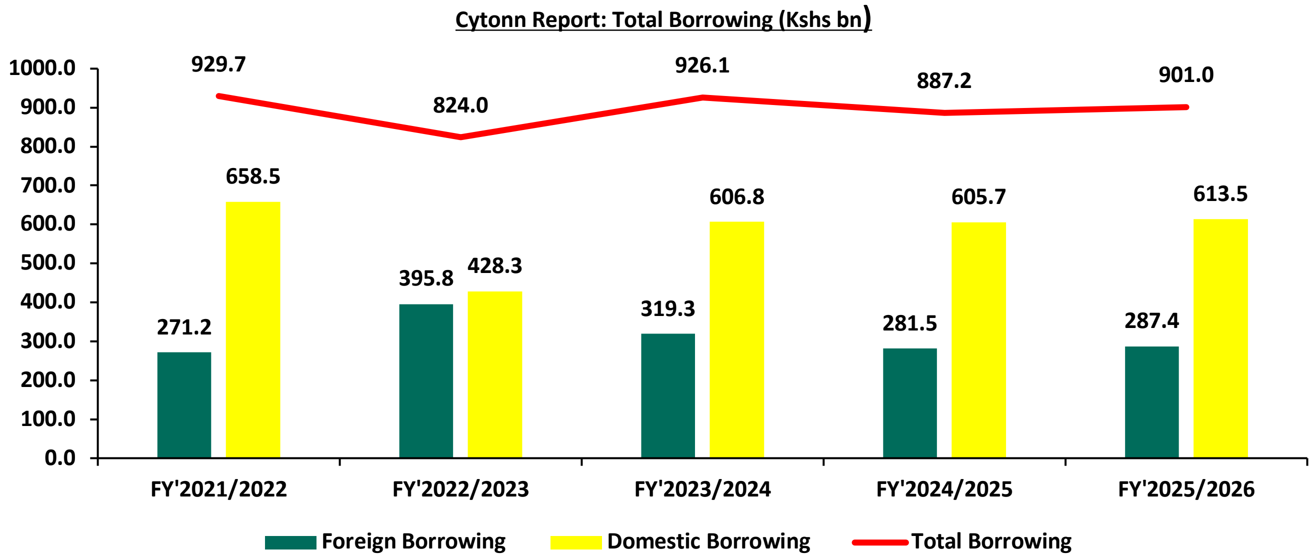
This shift reflects the Government's continued strategy to rely more on domestic financing while minimizing exposure to external shocks such as exchange rate depreciation.

Review of FY'2024/25 Borrowing

The FY'2024/25 net financing requirement stood at Kshs 1.03 tn representing 5.9% of GDP, compared to a target of Kshs 1.01 tn representing 5.8% of GDP. The deviation was attributed to revenue shortfalls, which pushed up borrowing needs.

i. **External borrowing:** Net external financing closed at Kshs 178.9 billion, 4.1% lower than the target of Kshs 186.5 bn. Total inflows amounted to Kshs 527.0 bn, consisting of Kshs 151.4 bn in project loans, Kshs 113.7 bn in program loans, Kshs 8.8 bn from OPEC, and Kshs 253.1 billion from commercial loans. Principal repayments stood at Kshs 348.1 bn.

ii. **Domestic borrowing:** Net domestic financing rose to Kshs 853.4 billion surpassing the target of Kshs 825.8 billion by 3.3%, with commercial banks contributing Kshs 368.2 billion, non-bank financial institutions Kshs 483.9 billion, and government deposits Kshs 24.8 billion. The upward adjustment was necessitated by underperformance in external borrowing and revenue shortfalls. The chart below shows the evolution of public borrowing to fill the fiscal deficit gap over the last five years:



Source: National Treasury

Borrowing Requirements for FY'2025/26

For FY'2025/26, the Government's gross financing requirement is projected at Kshs 1.5 tn equivalent to 8.0% of GDP, rising to this level from Kshs 1.0 tn in FY'2024/25 representing a 51.5% increase. This will comprise:

i. Kshs 901.0 billion to finance the fiscal deficit, and
ii. Kshs 646.3 billion to refinance maturing debt obligations.

The net financing requirement is Kshs 901.0 billion equivalent to 4.7% of GDP, which will be financed through:

i. Net external financing: Kshs 287.4 billion representing 32.0% of the net financing requirement, and
ii. Net domestic financing: Kshs 613.5 billion representing 68.0% of the net financing requirement

The following table summarizes the gross financing requirements for FY'2025/26.

Cytonn Report: Gross Financing Requirements for FY'2025/2026		
	FY'2025/2026 (Kshs Tn)	As % of GDP
Total Revenue (Inclusive of Grants)	3.4	17.5%
Primary Expenditure	3.2	16.5%
Primary Balance	**0.2**	**1.0%**
Interest Payments		
Domestic	0.9	4.4%
External	0.2	1.3%
Total Interest Payments	**1.1**	**5.7%**
Net Financing Requirements	**0.9**	**4.7%**
Principal Payments		
Domestic*	0.3	1.6%
External	0.3	1.8%

Total Principal Payments	**0.6**	**3.4%**
Gross Financing Needs	**1.5**	**8.0%**

**Excludes treasury bill redemptions but includes IMF on-lent loans and pre-1997 government overdraft.*

External Financing Strategy

External financing will rely on a mix of concessional and commercial borrowing. In FY'2025/26, total disbursements are projected at Kshs 627.6 billion, comprising:

i. Kshs 221.2 bn in commercial borrowing,
ii. Kshs 211.2 bn in project loans, and
iii. Kshs 195.3 bn in program loans.

After accounting for projected repayments of Kshs 340.2 bn, the net external financing requirement is Kshs 287.4 bn.

The Government will also diversify instruments, including sustainability-linked bonds, samurai bonds, diaspora bonds, and a planned debt-for-food security swap valued at USD 1.0 bn with the World Food Programme (WFP). External investor engagement will be strengthened through roadshows, forums, and structured interaction with credit rating agencies.

Cytonn Report: Sources of Net External Financing for FY'2025/2026 (Kshs Bn)		
A=B+F	**Net Foreign Financing**	**287.4**
B=C+D+E	**Total Disbursements**	**627.6**
C	**Commercial Financing**	**221.2**
D	**Project Loans**	**211.2**
	Project Loans AiA	86.5
	Project Loans Revenue	124.6
E	**Program Loans**	**195.3**
	Program for Results	**3.5**
	IMF-ECF/EFF/RSF	-
	World Bank: Development Policy Operations	170.5
	ADB: Program-Based Operation	21.3
F	**Debt repayment - Principal**	**(340.2)**

Source: Treasury

Key to note, the external financing plan for FY'2025/26 has no inflows pencilled in under the IMF-supported program the Extended Fund Facility (EFF), Extended Credit Facility (ECF), and the Resilience and Sustainability Facility (RSF). This follows the cancellation of the previous program this year, which had anchored fiscal consolidation and external financing in prior years. The omission of IMF disbursements in the current borrowing plan raises questions about the progress and credibility of the ongoing negotiations with the Fund, particularly given Kenya's elevated external refinancing needs and the importance of IMF support in bolstering market confidence.

Domestic Financing Strategy

Net domestic financing is projected at Kshs 613.5 billion, mainly through the issuance of government securities. This comprises:

i. Kshs 634.8 billion in Treasury bond and bill issuance,
ii. Kshs 149.0 billion in privatization proceeds, offset by

i. Kshs 1.1 billion in repayments to CBK, and
ii. Kshs 181.0 billion in accounts payable adjustments.

Liability Management Operations (LMOs)

The ABP highlights an active liability management agenda aimed at reducing refinancing risks and debt service costs. On the external front, the Government will prioritize non-market measures such as debt swaps, with a pipeline including the proposed USD 1.0 bn debt-for-food security swap. Building on the successful Euro 60 mn swap with Germany in 2024, these initiatives will provide fiscal relief without adding to debt stock.

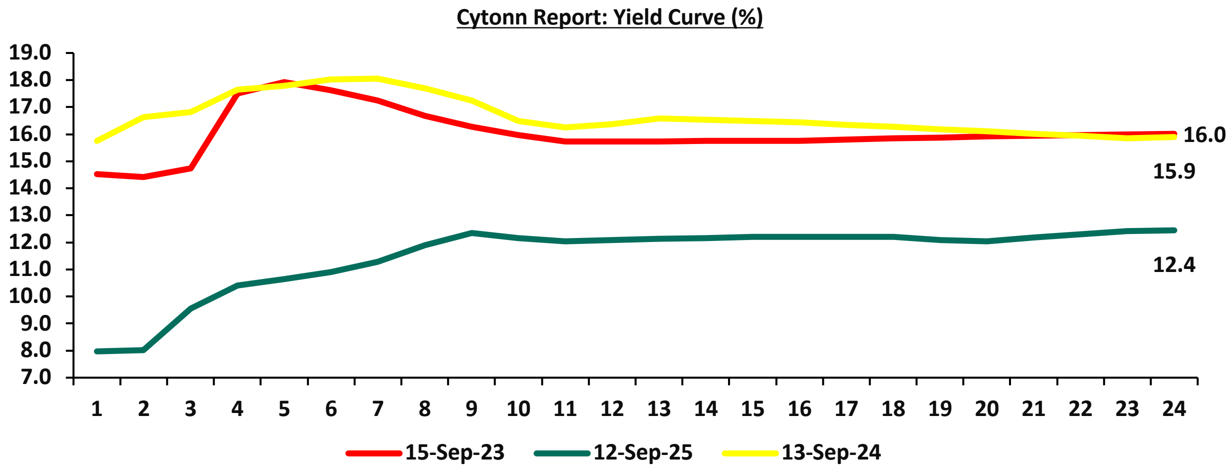
On the market-based side, the Treasury will continue with Eurobond buybacks and switches, citing the February 2024 buyback of USD 1.5 billion, which significantly eased external repayment pressure.

Domestically, LMOs will include bond switches, buybacks, and refinancing, building on the successful Kshs 240.0 billion infrastructure bond in February 2024 and subsequent buybacks and switches. These measures are expected to smoothen the redemption profile and support investor confidence.

Bond Switches and New Issuance

In line with its liability management strategy, the Government intends to actively deploy bond switches, buybacks, and new issuances to manage domestic debt maturities in FY'2025/26. According to the National Treasury, the approach is designed to smoothen the redemption profile, reduce refinancing risks, and support the development of a stable benchmark yield curve.

On the new issuance side, Treasury will primarily rely on Treasury bonds, with benchmark tenors of 2, 5, 10, 15, 20, and 25 years. These will be complemented by infrastructure bonds, which have continued to attract strong investor appetite given their tax exemptions and alignment with long-term projects. Treasury bills, by contrast, will only be used for short-term cash and liquidity management. Additionally, tap sales of recently issued instruments will be employed to bolster market liquidity and enhance secondary market trading. Notably, the yield curve has shifted from the humped shape observed in 2023 and much of 2024 to a more traditional upward-sloping curve in 2025, with long-term bonds registering the highest yields. This adjustment reflects renewed investor confidence in Kenya's economic outlook, supported by fiscal consolidation efforts and improved macroeconomic stability. Importantly, the normalization of the yield curve has been accompanied by a significant reduction in yields across the curve particularly on short-term bonds, indicating a notable decline in the government's cost of borrowing. This lower cost of debt issuance enhances Kenya's ability to manage its debt sustainably, reduces pressure on interest payments, and supports the broader objective of creating fiscal space for development priorities. The chart below shows the yield curve movement;



On bond switches, the Government signalled that switch auctions will remain a key component of the FY'2025/26 borrowing program, following successful operations in prior years. These involve replacing near-maturity bonds with longer-tenor instruments, thereby extending maturities and easing refinancing pressure. The ABP highlights that such switches, together with buybacks, will be selectively applied to reduce rollover risk, particularly in years with heavy domestic maturities.

Notably, the Treasury references the record Kshs 240.0 bn infrastructure bond issued in February 2024, as well as bond buybacks in February 2025 and earlier switches in 2020 and 2022, as evidence that the domestic market can absorb large issuances when structured appropriately. Building on these precedents, FY'2025/26 issuance is expected to remain sizable, underpinned by both institutional and retail participation through the Dhow Central Securities Depository (DhowCSD).

Implementation and Monitoring

The ABP will run from 1st July 2025 to 30th June 2026. Progress will be monitored quarterly, with reviews capturing deviations due to market developments or fiscal changes. The plan will remain a living document, adjusted to reflect evolving global and domestic economic conditions. Importantly, publication of the ABP enhances transparency and provides clear guidance to investors and stakeholders in planning their investments.

The FY'2025/26 Annual Borrowing Plan represents a balancing act between fiscal consolidation and the need to finance critical development projects. With gross borrowing rising sharply to Kshs 1.5 tn from Kshs 1.0 tn in FY'2024/25, the challenge will lie in maintaining debt sustainability amid revenue shortfalls and heightened refinancing needs. The strategic shift towards domestic financing, complemented by innovative liability management operations and concessional external borrowing, reflects the Government's commitment to prudent debt management. Ultimately, the success of the plan will hinge on the Government's ability to sustain revenue mobilization, manage exchange rate volatility, and maintain investor confidence both domestically and externally.

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