



2026 outlook: All Is Calm, But the Books Are Heavy

Macroeconomic stability masks rising fiscal strain

KINGDOM SECURITIES

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Preface

2025 was an action-packed year for the markets. It was equally busy on the fiscal front, with authorities working round the clock to plug budget financing gaps. For the layperson, it was also a year in which long-forgotten jargon resurfaced and new concepts entered everyday conversations.

On the fiscal side, securitizations and privatizations/divestitures took center stage in shaping the fiscal space. In the monetary arena, conditions were broadly stable, but the introduction of an official risk-free rate stood out as a defining development. Meanwhile, the investment landscape was marked by heightened activity, particularly ownership changes and capital raising through corporate bonds. These corporate actions rewarded speculative investors, even as the exchange enjoyed a broad-based rally.

Building on this reality, 2026 is expected to be a cautiously constructive year, with macroeconomic conditions broadly positive, even as risks persist. While the approach of the election cycle cannot be ignored, 2026 will likely be a year of profit-taking and active positioning, as investors seek to maximize returns. Consequently, risk appetite is expected to remain elevated, with investors willing to take on more risk in search of yield and growth.

At the same time, macroeconomic conditions are expected to sustain a risk-on environment. Notably, 2026 carries no significant external debt maturities, more so in the sensitive Eurobond segment. In line with government signaling, a Eurobond issuance is expected, which would support external financing and ease pressure on domestic borrowing markets.

Taken together, this implies that:

- i. **Fiscal buffers** are likely to be bolstered, and we project that official reserves will close the year past USD 13.0Bn, assuming a USD 1.0Bn Eurobond issuance, which remains the most probable option in the absence of contingencies.
- ii. **Private sector credit** is expected to expand steadily, with a full recovery anticipated from September 2026, as base effects fade.
- iii. **Liquidity conditions** in the money market is likely to remain ample, supported by declining interest rates and an accommodative monetary policy stance by the Central Bank.

Fiscal sleight of hand

In 2025, the fiscal landscape underwent a clear strategic pivot. Unlike the aggressive revenue-raising stance adopted earlier by the Kenya Kwanza administration, the Finance Bill 2025 was notably lean, largely in response to the widespread public unrest witnessed in 2024. It was within this context that privatization, divestiture, and securitization gained prominence in the policy conversation as alternative financing tools.

These measures are now materializing in 2026. We anticipate that the government will hit their target with the Kenya Pipeline Company (KPC) Initial Public Offer, on the back of the company's strategic importance and defensive business profile. In addition, the Safaricom transaction between the Government and Vodafone Kenya is expected to be concluded in the second half of FY25/26, further supporting non-tax financing efforts.

Looking ahead to FY26/27, we remain mindful that this period will coincide with the campaign cycle. Consistent with the Political Business Cycle (PBC) Theory, we expect the incumbent administration to prioritize popular and voter-friendly policies. This likely implies another lean Finance Bill in May, alongside a renewed tilt toward visible, high-impact spending.

Against this backdrop, crowding out of the private sector is likely to persist, as government borrowing requirements increase to finance elevated expenditure. In our view, the following themes are expected to shape the fiscal landscape over the period: Arrears Accumulation (More Pending Bills)



The Big Calls for 2026

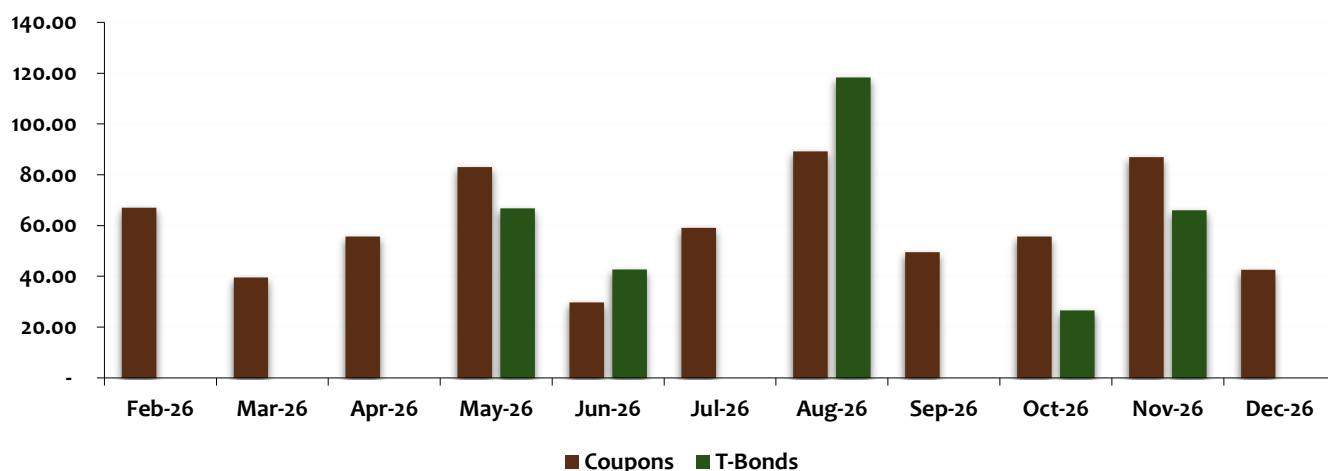
1. Front Loading: Pre-funding future needs while markets cooperate

2026 is significant as it precedes an electioneering year. We therefore expect front-loading of debt issuance, with borrowing concentrated earlier in the year when market conditions are more supportive, as the government seeks to pre-fund future financing needs.

The government has made effective use of quieter debt management levers, including bond switches, buybacks, and maturity extensions, both domestically and externally. While these measures have helped ease refinancing risks, external liability management has proven more costly.

Domestically, upcoming bond maturities are not expected to exert substantial fiscal pressure. Interest payments, however, remain elevated, making May, August, and November demanding months for cash-flow management. A summary of the key maturities is outlined below:

T-Bond Maturities & Interest Payments (Kes. Bn)



Source: CBK, NSE | Chart: KSL

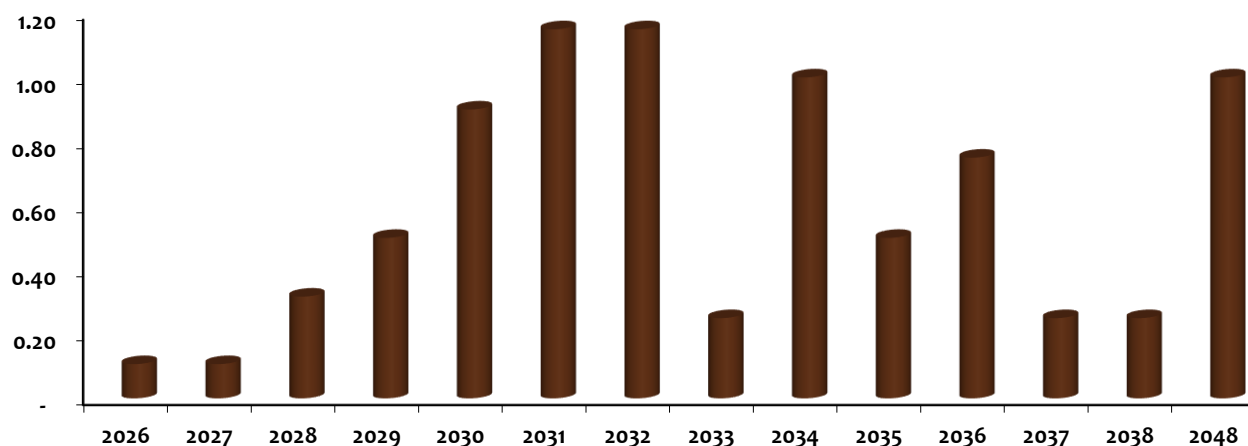
That said, we expect at least two Infrastructure Bond issuances in 2026. The first is likely in the first quarter or in the month of May, in line with historical patterns, to cushion weaker revenue collections in the opening months of the year. A second issuance is expected in the third quarter to help manage elevated maturities and interest obligations. In between, we anticipate the Treasury to maintain its established practice of twin issuances within the same month. Overall, longer-tenor bonds will continue to dominate the borrowing mix as the government prioritizes tenor extension and refinancing risk management.

On the external front, access to concessional financing remains uncertain, reflecting the growing disconnect between IMF policy prescriptions and the government's practical policy space. Consequently, the authorities are likely to lean toward commercial external borrowing to relieve pressure on the domestic market—though capacity here remains limited.

Local borrowing will therefore remain the primary financing anchor, but we expect a Eurobond issuance to materialize in the first half of the year— as external disbursements trail prorated targets.

A summary of the Eurobond maturities is outlined below.

Kenya's Eurobond Maturity Profile (USD Bn)



Source: Treasury | Chart: KSL

Key to note, a second drawdown under the UAE private placement remains a viable alternative should terms on a new Eurobond issuance prove unattractive.

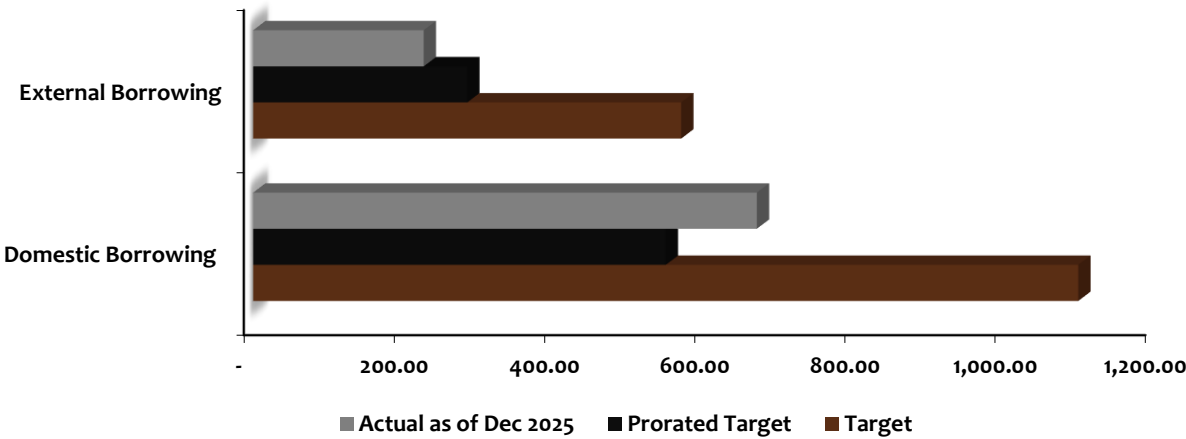
2. Guided Capital Flows: The path of least resistance

As of 26th January 2026, the government had already utilized 86.2% of its FY25/26 domestic borrowing target. This is ahead of the first supplementary budget, which historically tends to introduce upward revisions to borrowing requirements.

At the same time, external borrowing continues to lag plan, implying that even if disbursements improve in the second half of the fiscal year, pressure on the domestic market is likely to persist as the financing gap is bridged locally.

First, see below the performance of target borrowing against targets:

FY25/26 Borrowing Dynamics (Kes Bn)



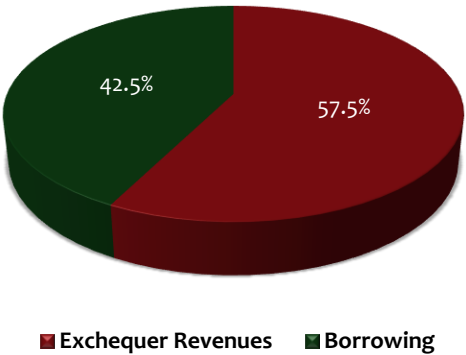
Source: Treasury | Chart: KSL

In this environment, we expect an increased flow of funds toward government securities, warranting caution around the private sector credit environment even as interest rates trend lower. Our concerns stem from elevated government borrowing, underpinned by:

- i. Issuance of longer-tenor bonds, offering relatively attractive returns and scope for duration positioning; and,
- ii. Subdued private sector credit demand, as capital-intensive investment decisions are deferred amid heightened uncertainty.

Collectively, these dynamics are likely to incentivize banks and institutional investors to allocate more capital to government paper, even as liquidity conditions in the money market remain accommodative. While still at it, see below the actual dynamics between debt and revenues:

Actual Debt-Revenue Mix (First Half of FY25/26)



Source: Treasury | Chart: KSL

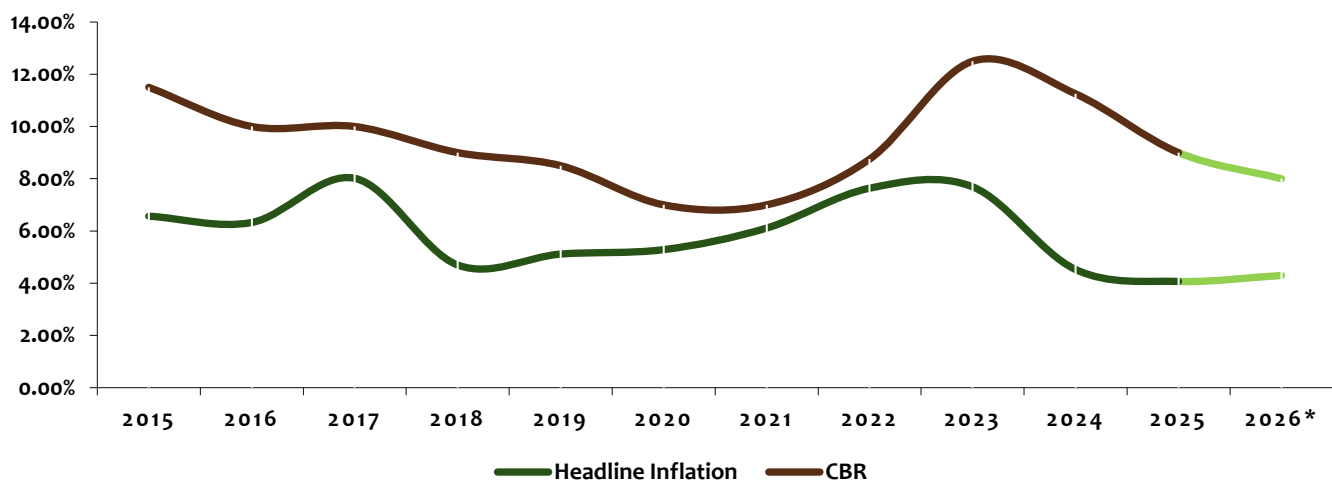
Yields: High Stakes, Soft Touch

In 2026, we expect the interest rate environment to remain stable. This may seem contradictory given the high borrowing needs (the high stakes) but expectations are anchored on ample liquidity and Central Bank policies.

We see the official risk-free rate as a crucial tool, particularly if CBK continues its “soft touch” approach with rate cuts. That said, we anticipate an up to 100bps reduction in the Central Bank Rate (CBR), bringing it to 8.0% by year-end. This conservative stance, compared to 2025, reflects the need to anchor inflation, stimulate credit growth, and maintain interest rate stability; Otherwise, a stagnant approach might have been expected.

See our projection below:

Central Bank Rate vs. Inflation

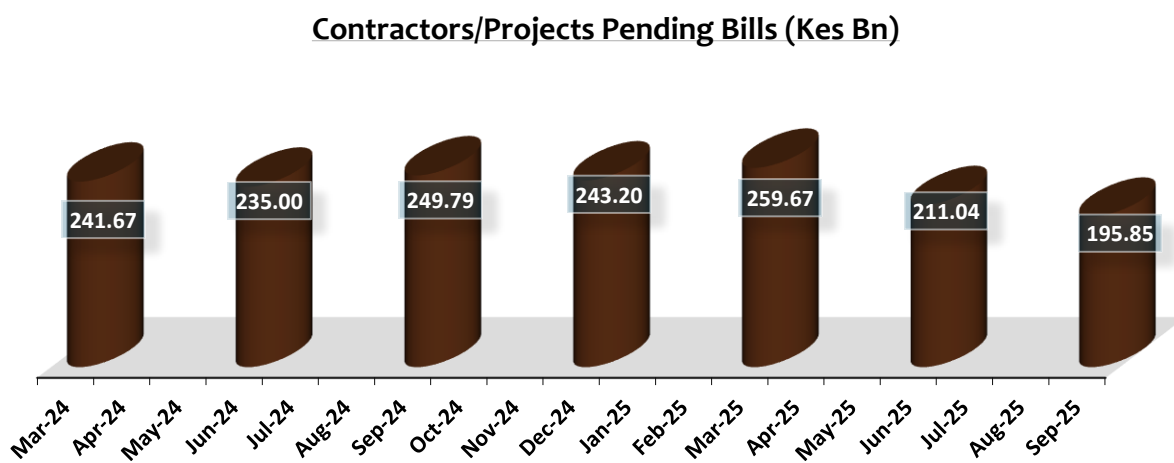


Source: CBK, KSL Estimates | Chart: KSL *Projections

In the same breath, we expect headline inflation to remain below the midpoint of CBK’s target range. We project it at 4.0%–4.3%, despite downside risks from potential global shocks and erratic weather.

3. Arrears Accumulation; Pending Bills & Securitization

The issue of pending bills has remained one of the most persistent and troubling challenges in public finance, with its effects spilling over into other areas of the economy, notably the rise in non-performing loans within the banking sector. In response—particularly within the construction sector—securitization was introduced as a tool to break this cycle by accelerating payments and unlocking stalled projects. As at September 2025, pending bills related to development projects and contractors under the national government stood at Kes. 195.85Bn, as shown below:



Source: COB | Chart: KSL

Note that the National Treasury began settling part of its outstanding obligations mid-year to revive stalled projects, causing the figure to drop 27.5%, from KES 249.79Bn the previous year.

The securitization of the Fuel Road Maintenance Levy in Kenya unfolded in deliberate stages against a politically charged fiscal backdrop. Initial signals came in April 2025, when National Treasury CS John Mbadi announced plans to raise about USD 600Mn in short-term road financing through levy securitization, targeted exclusively at institutional investors and structured as a bridge to a larger bond issuance.

This set the stage for more concrete disclosures in June 2025, when the Kenya Roads Board (KRB) unveiled a KES 175Bn securitization plan anchored on KES 7 per litre from the Road Maintenance Levy Fund (RMLF). Recall that this seven-shilling levy was added in 2024, bringing the total fuel levy to KES 25 per litre. See below a visual of the dynamics:

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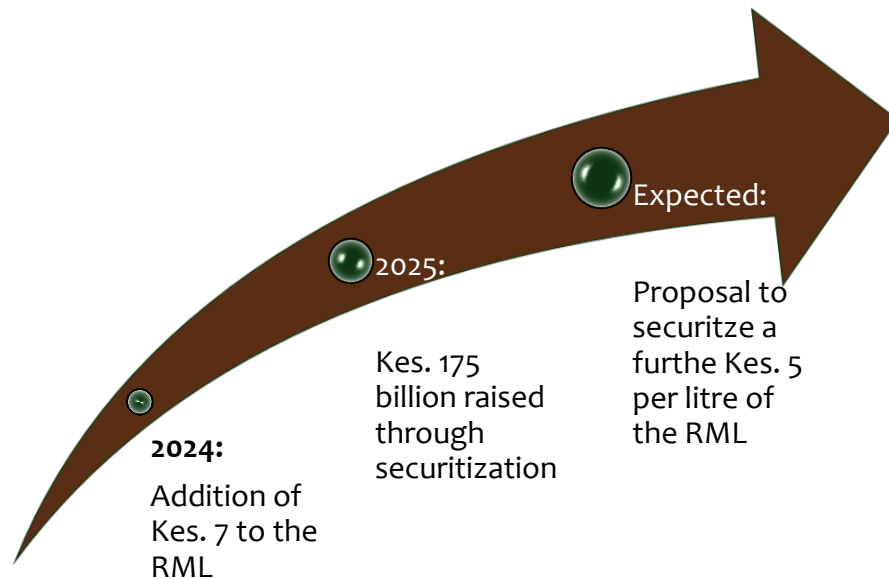


Chart: KSL

In execution, the government raised upfront funding through a Kes 104 billion bridge facility secured via a Special Purpose Vehicle (SPV) by the Kenya Roads Board, clearing nearly 80% of road contractor arrears. While the full bond issuance remains pending, the funds were operational by mid-2025, with the bridge facility priced at about 7.8% for an initial two-year period and expected to roll into a longer-term structure, with repayments drawn directly from future levy collections, effectively backed by the Kes 175 billion securitized amount.

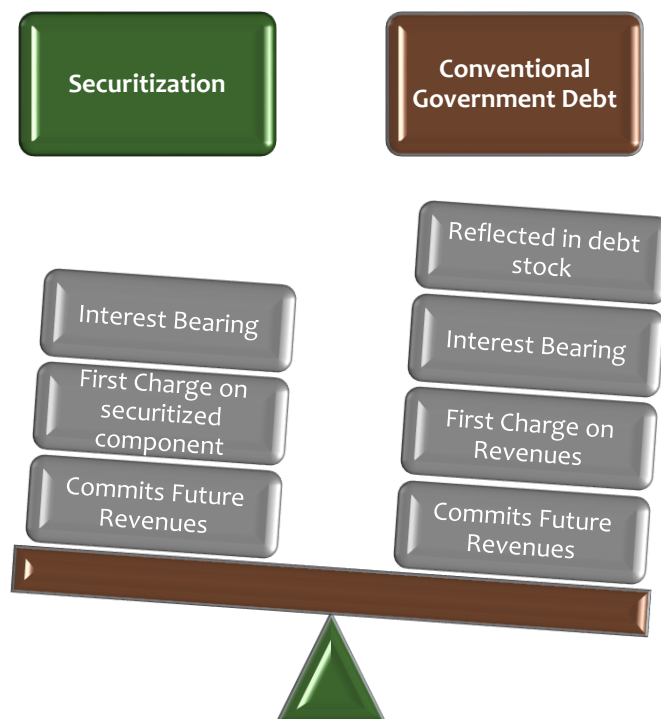
At the moment concerns are emerging around proposals to securitize a further Kes 5 per litre from the levy. Beyond roads, the securitization playbook is expanding. In December 2025, Cabinet approved the securitization of the Railway Development Levy (RDL) as part of the National Infrastructure Fund strategy, following a contract addendum with China Communications Construction Company and pending parliamentary approval under the PFM Act.

Going forward: We expect the conversation around securitization to continue. With 2026 being a pre-election period, we believe the payment of non-development bills may be further delayed as attention shifts toward development-related projects. Public-private partnerships are also likely to intensify as the government seeks ways to ease pressure on the exchequer. That said, non-performing loans in the construction sector may decline in 2026.

Our two cents on securitization: While securitization undoubtedly unlocks stalled projects and helps restore economic activity, the central issue for us is not the act of committing a portion of the Road Maintenance Levy itself. In our view, the obligation would have been settled regardless—whether through the Road Maintenance Levy or elsewhere within government revenues.

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Our principal concern, therefore, is that securitization is not treated plainly for what it is: debt. In substance, it creates a first charge on public revenues as provided for under the PFM Act, commits future cash flows, carries an interest cost, and simply repackages existing obligations into another debt instrument—essentially a form of refinancing. Securitization does not eliminate the liability; it merely shifts the identity of the debt holder. Seen through this lens, pending bills should also be reflected within the public debt stock, as they represent obligations owed by the state. See below our summary of the key elements;



Maybe—just maybe—if pending bills, and by extension the mechanisms used to clear them, were treated as debt, we would see stricter repayment schedules and clearer timelines. Perhaps then, the country would not be grappling with obligations that stretch a decade back, still waiting to be settled.

External Position

i. Currency

The Kenyan Shilling enjoyed a period of sustained stability against the US dollar in 2025, and we expect this to continue into 2026. Our outlook is anchored on:

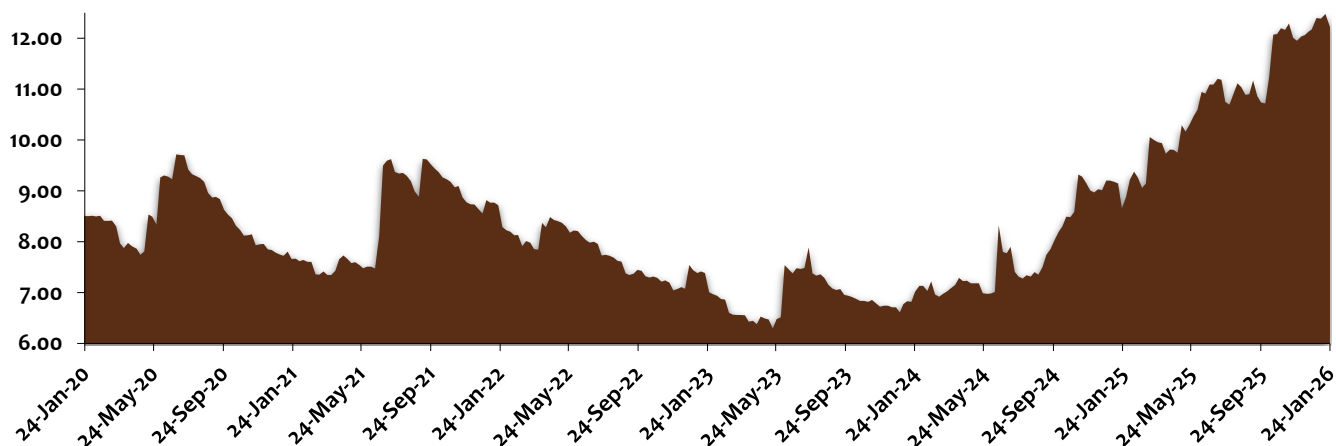
- a) Lower external debt maturities
- b) Ongoing global uncertainties, which are likely to continue putting pressure on the dollar
- c) Sustained dollar inflows from external funding, diaspora remittances, and portfolio flows

We expect stability to not follow a perfectly straight path, with moderate fluctuations likely. Large transactions in the foreign exchange market will continue to influence the official exchange rate, but the rate is unlikely to surpass 132 Shillings a dollar.

ii. FX Reserves

In 2025, Kenya's foreign exchange reserves were largely supported by external funding, notably the two Eurobond issuances in March and October, as well as the UAE private bond placement, under which the government drew down USD 500Mn. These inflows pushed reserves to an all-time high, as shown below:

Kenya's Forex Reserves (USD BN)



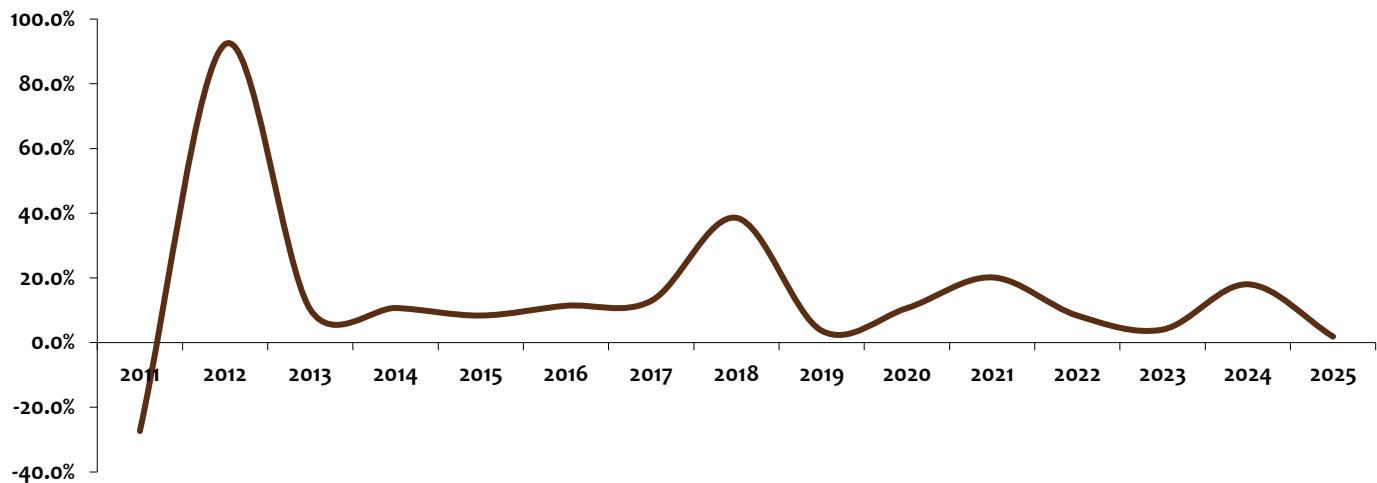
Source: CBK | Chart: KSL

We expect foreign exchange reserves to surpass USD 13.0Bn in 2026, supported primarily by continued funding inflows and sustained support from the CBK.

iii. Diaspora Remittances

Diaspora remittances have remained a key source of foreign exchange for Kenya. In 2025, growth was modest at 1.9% compared to the cumulative 2024 figure. With projected macroeconomic stability, we expect similar trends to persist, as disposable incomes remain predictable and stable. See below for the growth trends:

Y/Y Diasporance Remittance Growth Rate



Source: CBK | Chart: KSL

Receipts will also depend on the economic conditions in source countries, particularly the US, where higher living costs and ongoing uncertainties are likely to keep remittance growth flat.

Pockets of Opportunities

Overall, we expect 2026 to continue masking fiscal indiscipline, particularly given the looming elections, while also testing the credibility of Central Banks and the momentum of ongoing reforms. It will be a year in which monetary policy responses are largely localized, highlighting the sustainability of lower inflation. Even as we anticipate further stability, it is important to note that stability is not prosperity, but rather a necessary starting point.

Amid these dynamics, we still see opportunities in both the equities and fixed income markets. Below, we outline our expectations and the accompanying risks for the major asset classes:

Space	Asset Class	Key Drivers	Risks to the Outlook
Local Market	Equities	<ul style="list-style-type: none"> Company-specific developments, such as new listings, better valuations, and corporate actions. 	<ul style="list-style-type: none"> Subdued earnings or lack of significant developments
		<ul style="list-style-type: none"> Broad-based economic stability 	<ul style="list-style-type: none"> Valuation Fatigue
	Fixed Income	<ul style="list-style-type: none"> Duration investing opportunities 	<ul style="list-style-type: none"> Short-term Debt Issuances
		<ul style="list-style-type: none"> Fiscal Pressures 	<ul style="list-style-type: none"> Limited accessibility of external funding
Global Space	Commodities	<ul style="list-style-type: none"> Rising demand for silver amid persistent supply shortages 	<ul style="list-style-type: none"> Substitution or higher demand for copper and zinc, which may increase silver production
		<ul style="list-style-type: none"> Investor preference for stability in gold and copper 	<ul style="list-style-type: none"> Reduced demand for these commodities
		<ul style="list-style-type: none"> Sustained demand for artificial intelligence-related resources 	<ul style="list-style-type: none"> Maturing cycles of artificial intelligence reducing incremental demand

Despite the sustained rally in the domestic equities market, volatility continues to create pockets of opportunity for speculative traders. This implies taking short-term positions and focusing on generating returns irrespective of market direction, using portfolio hedging strategies.

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