

# SOVEREIGN RATING REPORT **ON THE REPUBLIC OF KENYA**

**2025**



# RATING RATIONALE

**Rating Assigned: B+**

**Outlook: Stable**

**Issue Date: 26 January 2026**

**Expiry Date: 31 December 2026**

Agusto & Co. hereby affirms the “B+” rating assigned to the Republic of Kenya (“Kenya”, “the Country”, or “the Nation”) and attaches a stable outlook. The rating affirmation reflects our opinion on Kenya’s macroeconomic fundamentals underpinned by resilient real gross domestic product (GDP) growth averaging 4.5% over the past five years and a moderating inflationary environment with annual average inflation declining to 4.1% in 2025. The rating also takes into consideration the Country’s expanding foreign reserves and import cover which stood at US\$ 12,394 million and 5.3 months respectively, as at 31 December 2025, and the relative stability of the Kenyan Shilling throughout 2025, with the exchange rate averaging Kshs/US\$129 supported by stable services receipts and sustained remittance inflows. We have also taken into account the Nation’s relative political calm since June 2025, coupled with ongoing reforms and policy implementations which have supported economic confidence and contributed to stable business conditions. The rating is however moderated by a high debt-to-GDP ratio (67.8%) and rising debt service to revenue ratio (71.2%), which constrain fiscal flexibility and heighten vulnerability to interest rate and refinancing risks.

As at 30 September 2025, the Nation’s earnings from exports stood at Kshs 1,239.3 billion, representing a 4.8% decline compared to the

comparable nine-month period of the previous year, largely due to subdued prices for key commodities, including tea. Looking ahead, we estimate Kenya’s total export earnings at approximately Kshs 1,652.5 billion by the end of 2025, premised on a rebound in agricultural production, seasonal recovery in export volumes, improved access to regional markets and a more stable exchange rate environment. As at the end of Q3 2025, the value of Kenya’s imports stood at Kshs 2,249.6 billion, remaining largely unchanged from the comparable period of the previous year (2024: Kshs 2,247.7 billion). Agusto & Co. estimates the total imports for the year ended 31 December 2025 to broadly mirror the prior period, reflecting restrained growth in consumer and intermediate goods imports, partly offset by sustained demand for capital goods linked to infrastructure development and industrial activity. Consequently, the Nation’s trade deficit for the nine-month period ended September 2025 narrowed to Kshs 1,010.3 billion, representing a 22.7% moderation, reflecting an improvement in external balances supported by relatively contained import growth. However, we expect this improvement to reverse by the end of 2026, with the trade deficit projected to widen largely due to increased capital and energy related imports associated with economic expansion, and Kenya’s continued reliance on imported intermediate and petroleum products.

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During the fiscal year ended 30 June 2025 (FY 2024/25), Kenya recorded a moderate revenue outturn, with total revenue including Appropriations-in-Aid (AiA) amounting to Kshs 2,923.6 billion (17% of GDP), representing an 8.2% year-on-year increase and accounting for 97.9% of the budget target. The underperformance was largely driven by a shortfall in ordinary revenue which recorded a 97% performance of the target of Kshs 2,496.2 billion. Income tax attained 97.1% of the target, reflecting weaker Pay As You Earn (PAYE) collections due to delayed private sector bonus payments, the offsetting of PAYE liabilities through tax refunds by large taxpayers and the impact of policy changes related to Social Health Insurance Fund (SHIF) and the Housing Levy. Going forward, the Kenyan Government projects total revenue of Kshs 3,321.7 billion in FY 2025/26 budget, to be supported by a mix of tax policy and tax administration reforms. Agusto & Co. expects revenue performance in FY 2025/26 to improve gradually, though risks remain tilted to the downside in the near term, given the weak first quarter of FY 2025/26 (Q1) outturn, and ongoing compliance and enforcement challenges.

During the FY 2024/25 fiscal year, the Nation's total government expenditure amounted to Kshs 3,975.9 billion, representing 98.3% of the budgeted level, with recurrent expenditure at 74.2% and development spending at 25.8%. The underperformance was largely driven by below target absorption in both recurrent and development spending, particularly lower outlays on operations and maintenance, foreign interest payments, pensions and delayed execution of development projects. Looking ahead, the Government of Kenya projects total expenditure of Kshs 4,239.9 billion (22.0% of GDP) in FY 2025/26, reflecting a continued emphasis on balancing fiscal consolidation with growth supportive spending. Agusto & Co. notes that

while the strong Q1 execution signals improved absorption capacity, elevated recurrent pressures particularly interest payments could constrain fiscal flexibility over the medium term.

Furthermore, Kenya's fiscal deficit stood at 5.9% of GDP as at 30 June 2025, widening by 70 basis points (bps) from the previous fiscal year end, reflecting elevated expenditure pressures driven by higher debt service costs, public sector wage obligations and sustained development spending. Nevertheless, we expect the Country's fiscal deficit to narrow to circa 4.5% of GDP by the end of FY 2025/26, driven by continued consolidation efforts, tighter control of recurrent expenditure and incremental gains from domestic revenue mobilisation measures.

Kenya's total public debt increased year-on-year by 11.9% to Kshs 11,814.5 billion as at 30 June 2025, comprising 53.5% domestic debt and 46.5% external debt. Agusto & Co. anticipates the Country's public debt to cross Kshs 12,500 billion mark by December 2026 driven by increased domestic borrowings to finance infrastructure projects. Moreover, the Nation's Public debt as a share of GDP stood at 67.8% as at 30 June 2025 (June 2024: 65.5%), and is projected to moderate slightly to around 67% by June 2026, supported by GDP growth and a gradually narrowing fiscal deficit. The Country's debt service-to-revenue ratio rose to 71.2% as at 30 June 2025 (June 2024: 68.8%), continuing a sustained upward trajectory from 47.9% in FY 2021/22, driven by higher interest costs and increased amortisation of maturing debt obligations. Agusto & Co. expects the debt service to revenue ratio to remain broadly unchanged by the end of FY 2025/26, as higher refinancing costs and amortisation pressures are likely to offset expected improvements in revenue collection, thereby continuing to constrain fiscal flexibility and development spending space.

In 2025, the Kenya Shilling remained broadly stable against the US Dollar, averaging Kshs/US\$ 129.01, having opened the year at KES/US\$ 129.29. This relative exchange rate stability was underpinned by easing inflationary pressures, tight monetary policy by the CBK, improved foreign currency inflows from remittances and services exports. However, we expect moderate depreciation pressures to re-emerge, with the annual average exchange rate projected to weaken gradually to circa Kshs/US\$ 133 for the year 2026, reflecting higher import demand linked to infrastructure and energy investments.

Kenya's unemployment rate declined from 5.4% in 2024 and is expected to moderate to about 5% by 31 December 2025, supported by improved labour absorption in agriculture, construction and services, alongside a recovery in tourism and transport and employment gains from public infrastructure projects. We project the Nation's unemployment rate to ease further to about 4.5% by the end of 2026, driven by the continued implementation of the Government's Bottom-Up Economic Transformation Agenda (BETA), with expanded funding support for MSMEs, affordable housing, manufacturing value chains and the digital economy.

Kenya's economy is expected to sustain its growth momentum, with real GDP projected to expand by 5.6% in 2026, supported by resilience in agriculture, continued recovery in construction and mining, and robust growth across the services sector, particularly financial services, transport, information communication technology and tourism. While downside risks persist, notably from elevated debt service pressures, global commodity price volatility and climate-related shocks, the Country's strong macroeconomic fundamentals and policy support provide a stabilising backdrop. In addition, the government initiatives to monetise selected state-owned assets, including the planned divestment in Safaricom Plc - selling a 15% stake to Vodacom Group at circa \$1.6 billion (Kshs 204 billion)- and reforms around other public enterprises, are expected to support liquidity, reduce financing pressures and create fiscal space for priority infrastructure investment. Moreover, strengthening diplomatic and trade relationships with key partners including the G7, continued openness through visa-free travel initiatives and improving capital market performance enhance investor confidence and medium-term growth prospects. Thus, we attach a stable outlook to the Republic of Kenya.

### Positive Rating Triggers

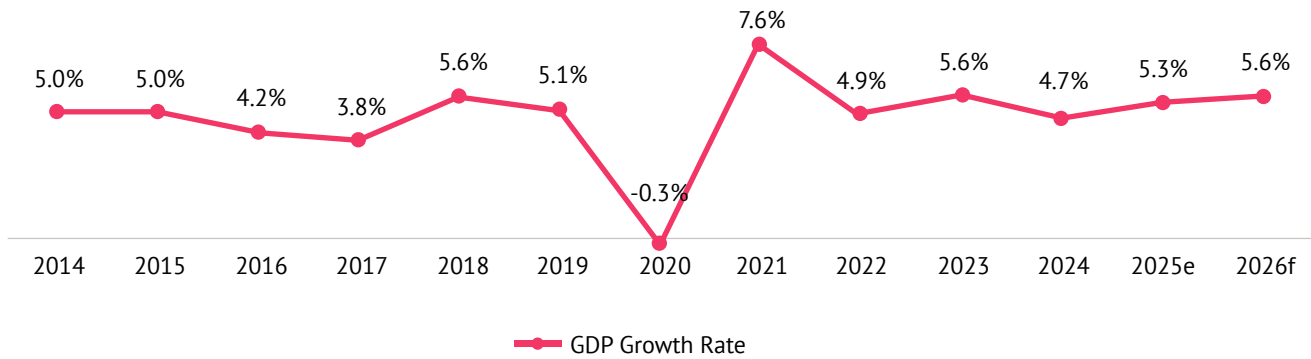
- **Fiscal deficit to GDP of below 4.5%.**
- **Sustained inflation rate below 5% in line with the Central Bank of Kenya's mid-target range.**
- **Increase in foreign exchange reserves by 5%.**

### Negative Rating Triggers

- **Rise in debt service to revenue ratio above 75%.**
- **Fiscal deficit to GDP of above 6%.**
- **Decline in foreign exchange reserves by 15%.**

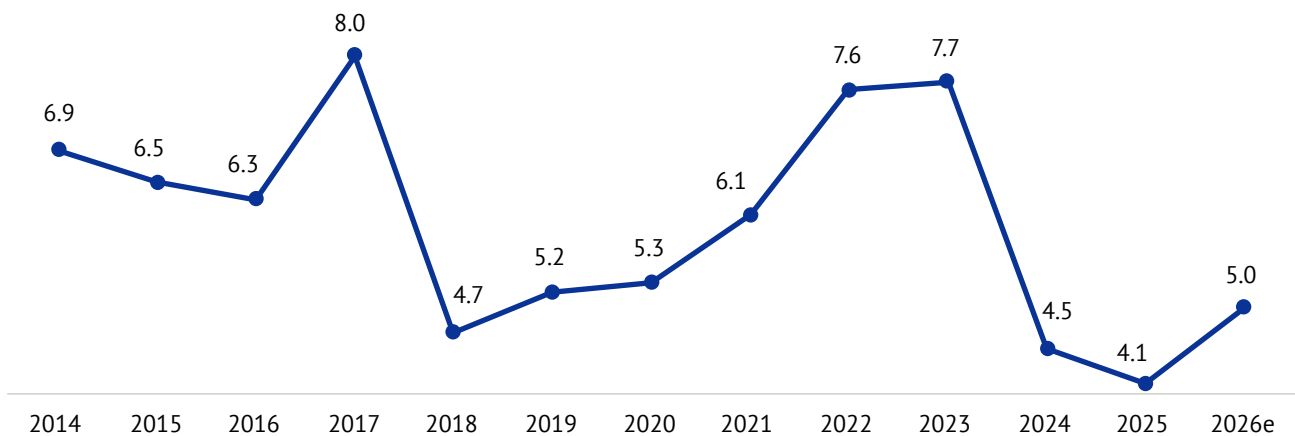
## CHARTS AND FIGURES

**Figure 1: Kenya's Real GDP Growth Rate (2014 – 2026f)**



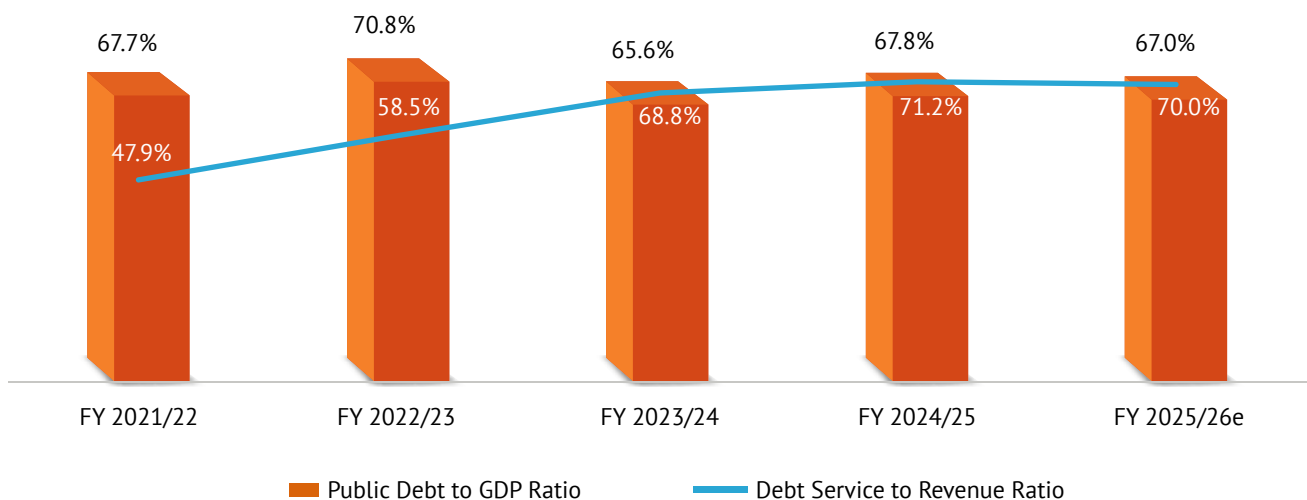
Source: Kenya National Bureau of Statistics, Agusto & Co. Research

**Figure 2: Kenya's Average Inflation Rate (%) (2014 – 2026f)**



Source: Kenya National Bureau of Statistics, Agusto & Co. Research

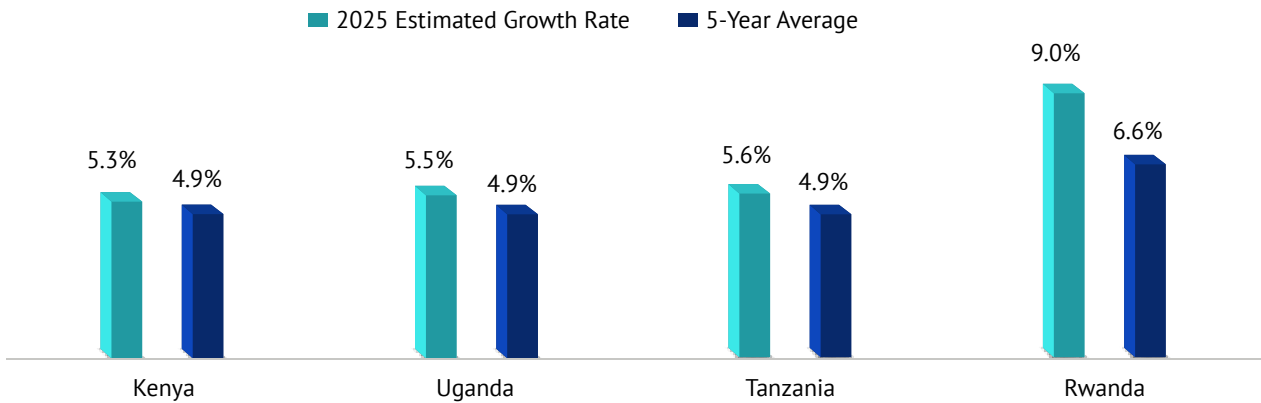
**Figure 3: Debt to GDP ratio and Debt Service to Revenue Ratio (FY 2020/21 - FY 2026/27f)**



Sources: Ministry of Finance of the Republic of Kenya, Agusto & Co. Research

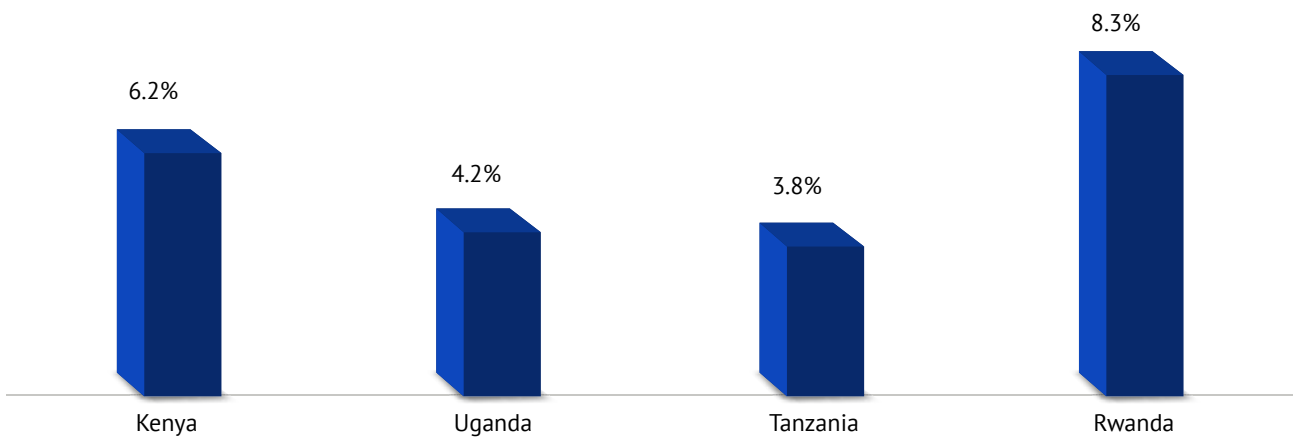
## PEER COMPARISONS

**Figure 4: Real GDP Growth Rates of Selected East African Countries**



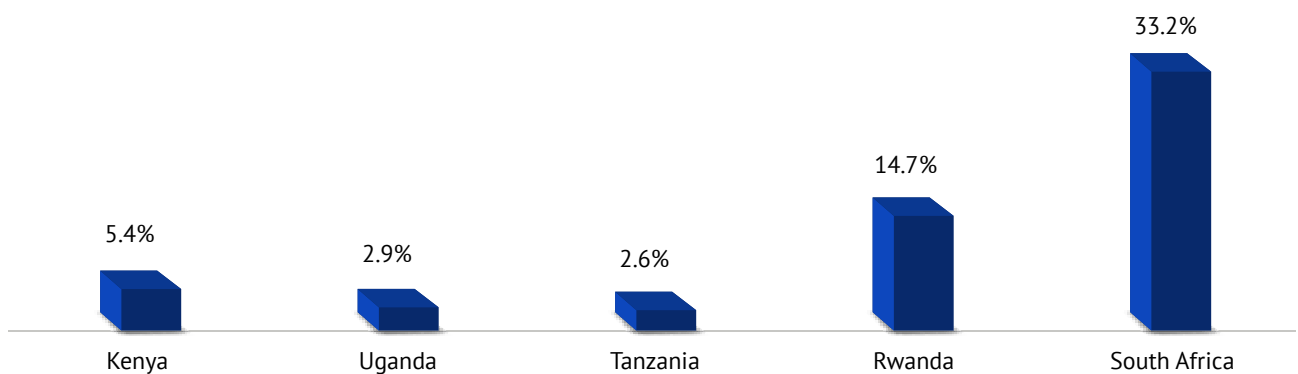
Sources: Bureau of Statistics of selected countries, World Bank, African Development Bank, Agusto & Co. Research

**Figure 5: Five Year (2020 - 2024) Average Inflation of Selected East African Countries**



Sources: National Bureau of Statistics of the Select Countries, Agusto & Co. Research

**Figure 6: Unemployment Rate in Selected East African Countries as at December 2024**



Sources: Trading Economics, Statista, Agusto & Co. Research

RATINGS DEFINITIONS	
<b>Aaa</b>	<p><b>Extremely Low Risk</b></p> <p>Peaceful changes in leadership is assured, government pursues outstanding economic policies. Life, property and investments are very secure. The country therefore attracts very significant savings and investments and her citizens enjoy an extremely high standard of living.</p>
<b>Aa</b>	<p><b>Very Low Risk</b></p> <p>Peaceful changes in leadership is assured, government pursues very good economic policies. Life, property and investments are secure. The country therefore attracts significant savings and investments and her citizens enjoy a very high standard of living.</p>
<b>A</b>	<p><b>Low Risk</b></p> <p>Recent track record of peaceful changes in leadership, government pursues acceptable economic policies characterized by moderate government deficits financed by borrowing. Crimes involving fatalities are infrequent therefore the country attracts moderately high level of investments and savings, can access international credit and her citizens enjoy a moderately high standard of living.</p>
<b>Bbb</b>	<p><b>Acceptable Risk</b></p> <p>Recent track record of peaceful changes in leadership, government pursues acceptable economic policies characterized by moderate government deficits financed partly by monetary growth. Crimes rates are high but declining therefore the level of investments and savings is low but improving, Country may not be able to access international credit however new private investments are being attracted. Although standard of living of the citizens is low it is improving.</p>
<b>Bb</b>	<p><b>Moderately High Risk</b></p> <p>Country has a history of violent changes in leadership, central government runs a large deficit financed mainly with monetary growth thereby resulting in a moderate level of inflation. Crime rate is high and poses a risk to life and property, therefore savings and investments are low. A significant proportion of the population cannot access all the basic needs.</p>
<b>B</b>	<p><b>High Risk</b></p> <p>Violent changes to leadership are not unusual, central government runs large deficit financed with monetary growth resulting in a high inflationary environment. Serious crimes are prevalent and pose a high risk to life and property and investments therefore savings and investments are very low. A substantial proportion of the population does not have access to all the basic needs.</p>
<b>C</b>	<p><b>Very High Risk</b></p> <p>Violent changes to leadership are normal, central government runs very large deficits financed with monetary growth resulting in hyperinflation. Serious crimes are prevalent and pose a very high risk to life, property and investments therefore savings and investments are virtually non-existent. A very large proportion of the population lives in abject poverty.</p>
<b>D</b>	<p><b>Major Civil Disturbance or Breakdown of the system or War</b></p> <p>There really is no central government as the country is at war or there is a major civil disturbance. Central government financing is unrecorded or there is an unreasonably large deficits financed with monetary growth resulting in hyperinflation. Life, property and investments are not secure therefore there is significant capital flight. A significant proportion of the population lives in extreme poverty.</p>

**Rating Category Modifiers**

A “+” (plus) or “-” (minus) sign may be assigned to ratings from ‘Aa’ to ‘C’ to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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