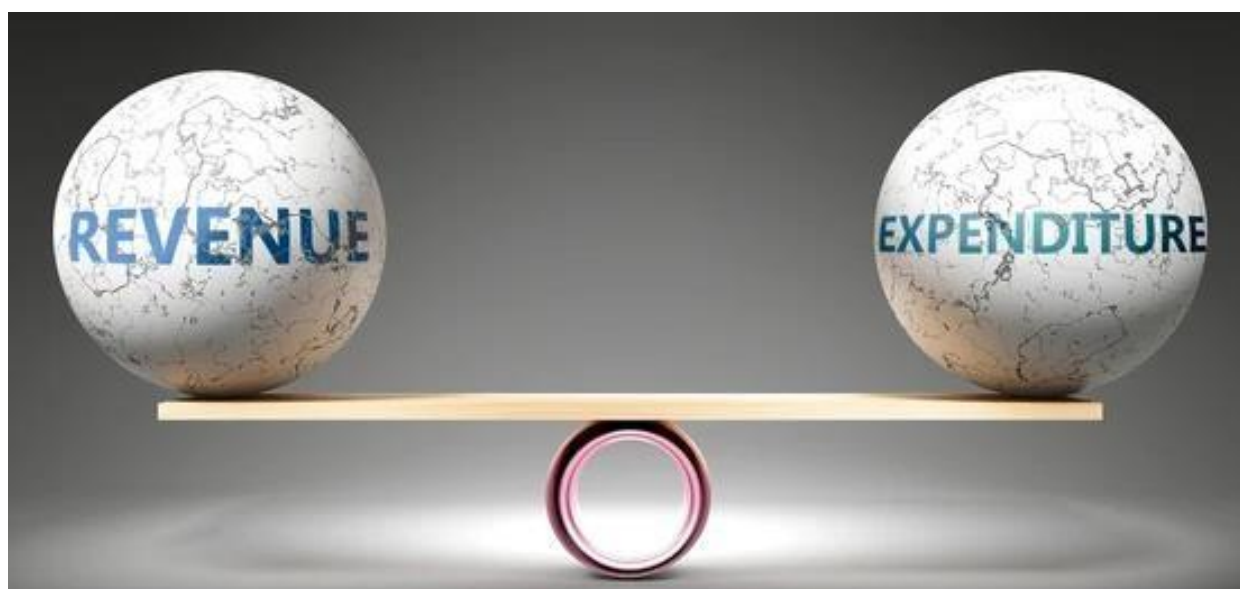


Actual Revenues and Exchequers Issues First 5 Months of FY25/26



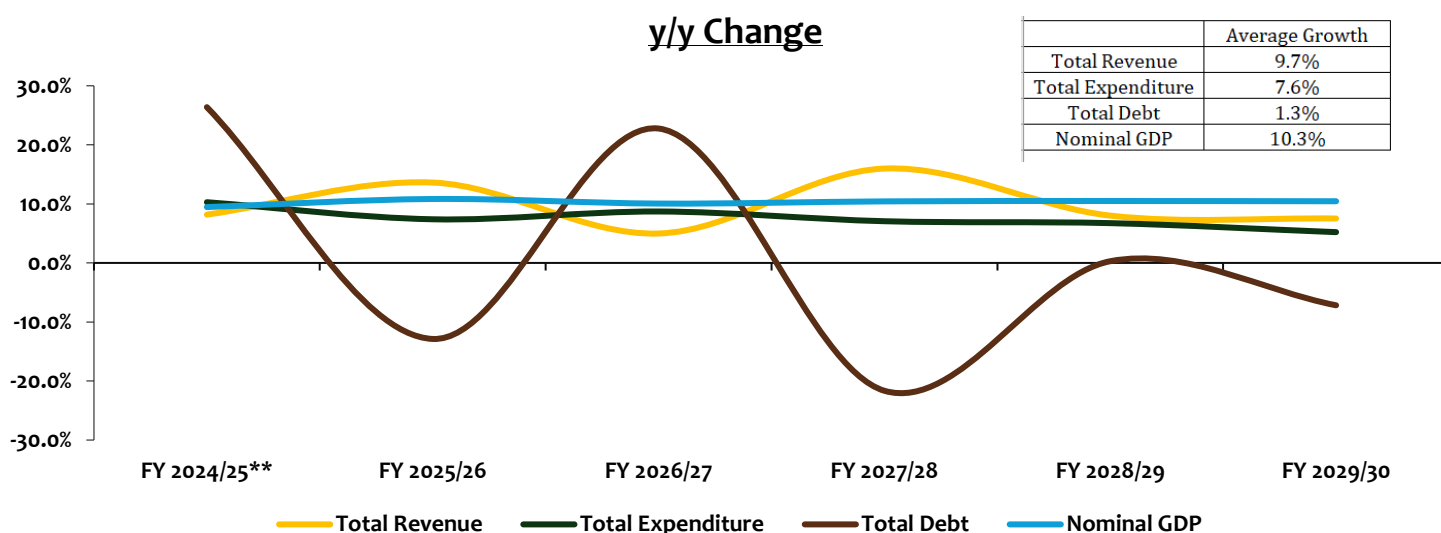
Fiscal Pressures and Future Paths

Preface

Kenya's fiscal space has been anything but light in recent times. At the heart of it all sits one unavoidable subject: debt. And rightly so. With Eurobond maturities—arguably the most sentiment-sensitive layer of our debt stack—coming due, the conversation was bound to intensify. We have since witnessed buybacks, refinancing, and an array of debt-management maneuvers, each drawing its own set of concerns and reactions. Our task, as always, is not to take sides, but to examine both, weigh the trade-offs, and draw out the implications.

Against this backdrop, the National Treasury last week published the Draft Budget Policy Statement (BPS) for 2026, alongside the Exchequer receipts and outlays for the first five months of FY25/26. Given its draft status, we will not dwell extensively on the BPS, but instead offer a concise snapshot of the elements that matter most.

On the numbers, total public debt is projected to grow at an average of 1.3% y/y over the next six years, including the current fiscal year. Beneath that headline, however, lie notable shifts—most prominently a sharp upward revision in FY26/27, followed by an equally pronounced pullback in the year that follows. Revenues, on the other hand, are projected to expand at a much healthier 9.7% average, while expenditure growth is expected to trail at 7.6% over the same horizon. Taken together, nominal GDP is forecast to grow steadily, averaging 10.3% across the six-year period. See the chart below:



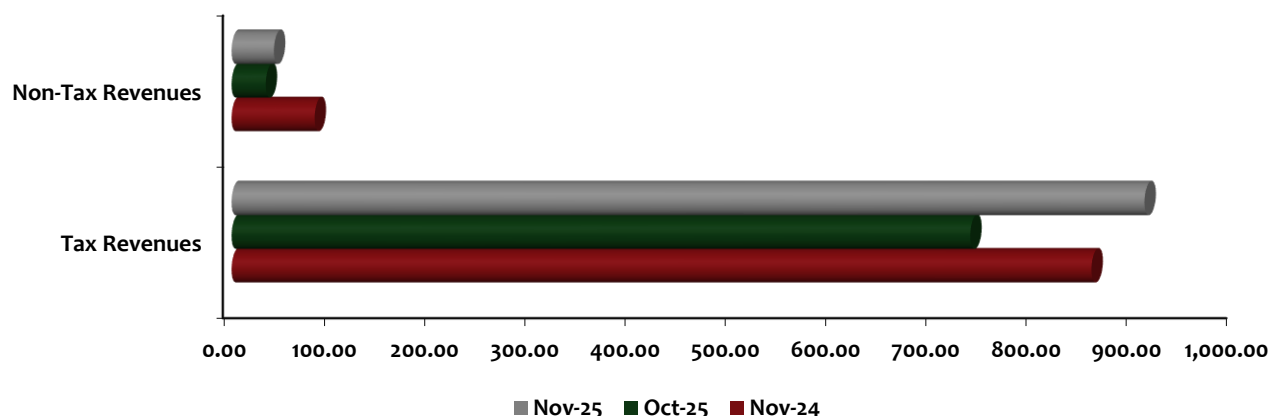
Our take: The projections are not inherently gloomy, but they do raise important concerns. Chief among them is the quality and sustainability of growth, as borrowing increasingly finances recurrent expenditure and debt refinancing rather than productive investment. In effect, this leaves behind debt without an asset, offering little

in the way of a lasting growth dividend. The risk, ultimately, is a continued erosion of fiscal flexibility—where debt rises without a commensurate expansion of the economic base, and GDP growth becomes increasingly consumption-led rather than capacity-building. With that, we leave it there for now.

Exchequer Revenues:

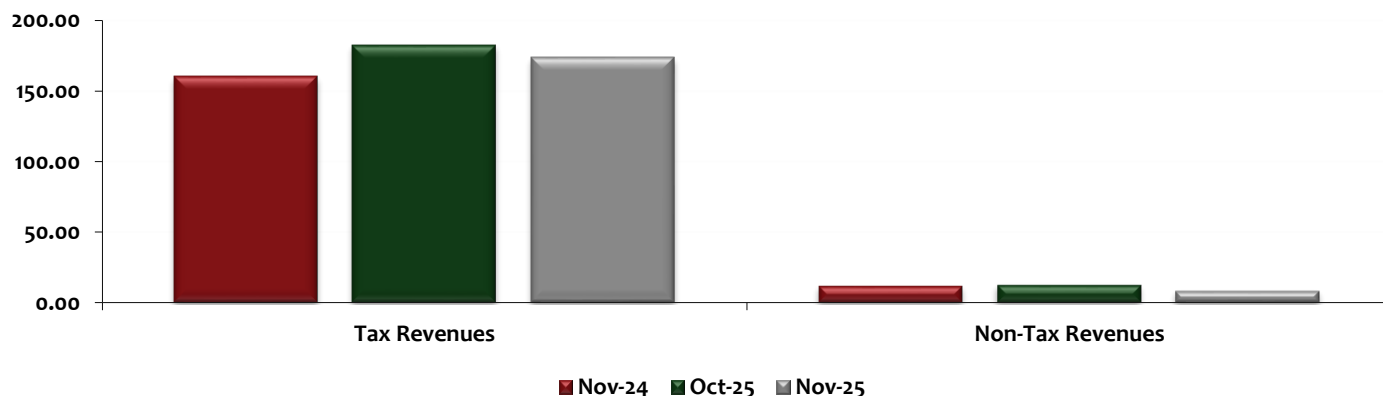
In the first five months of FY25/26, cumulative exchequer revenues came in at Kes. 951.95Bn, a 1.3%y/y growth from Kes. 939.78Bn and representing 34.6% of the full-year goal. Tax revenues grew by 6.2% to Kes. 909.77Bn in November 2025, from Kes. 857.00Bn. Non tax revenues dropped by almost half, due to a higher base effect that was largely one off in the previous fiscal year. See the visual below:

Cumulative Exchequer Revenues (Kes. Bn)



In November alone, however, the government collected Kes. 181.62Bn, 6.9% lower than the Kes. 195.09Bn recorded in November 2024. See the chart below:

Exchequer Revenue Collections (M/M, Y/Y Comparison)

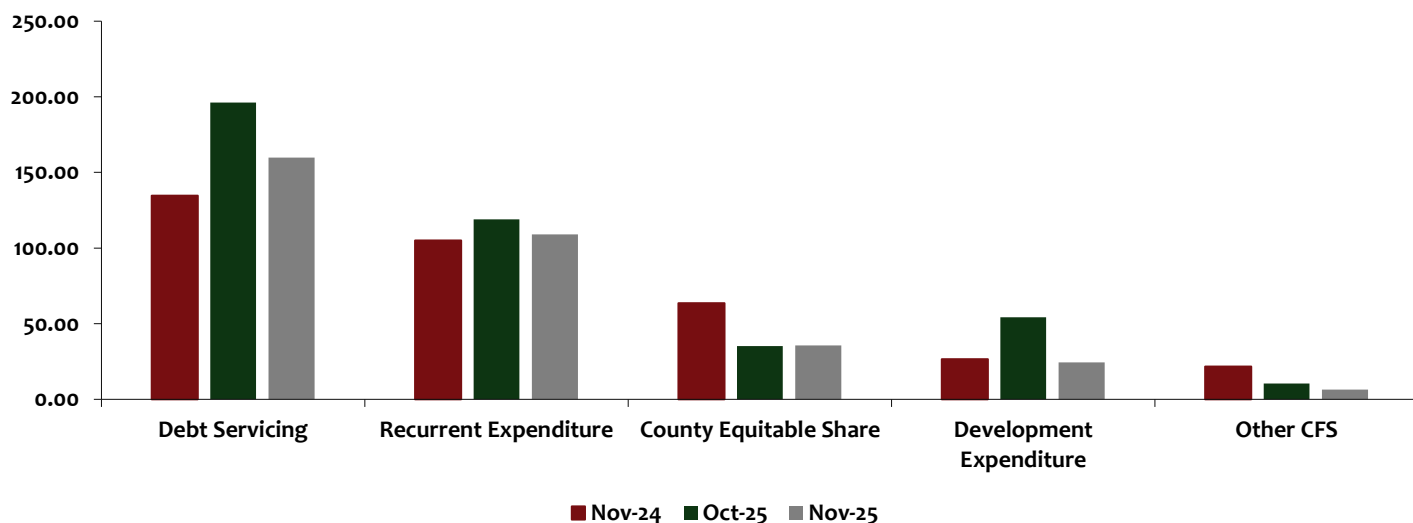


Expenditure:

Over the same period, the government spent Kes 1,773.13Bn, a 28.1%/y increase from the cumulative spent in November 2024. Debt servicing was the largest driver of the growth. In the month of November, total outlays came in at Kes. 335.28Bn, a 4.6% y/y decrease from Kes. 351.58Bn recorded in November 2024. The decline was largely on the back of lower disbursements in development and county equitable share in the month under review.

See the chart below:

Expenditure Comparison (Kes. Bn)



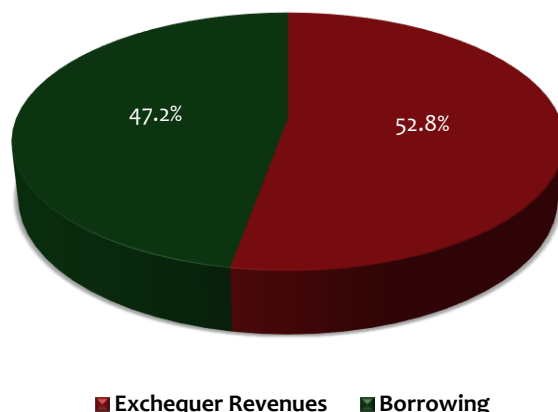
Data: National Treasury | Chart: KSL

Financing:

The debt conversation has resurfaced. Over the five months under review, the government recorded gross borrowing of Kes 851.08Bn—an 89.4% increase from Kes 449.36Bn in the same period of FY24/25. In November alone, borrowing amounted to Kes 114.73Bn, nearly 40% lower than November 2024.

Notably, 47.2% of the budget during this period has been financed through debt. This is largely driven by mounting debt-servicing pressures, which continue to consume a significant portion of collected revenues, leaving limited resources for other budget lines. See the visual representation below;

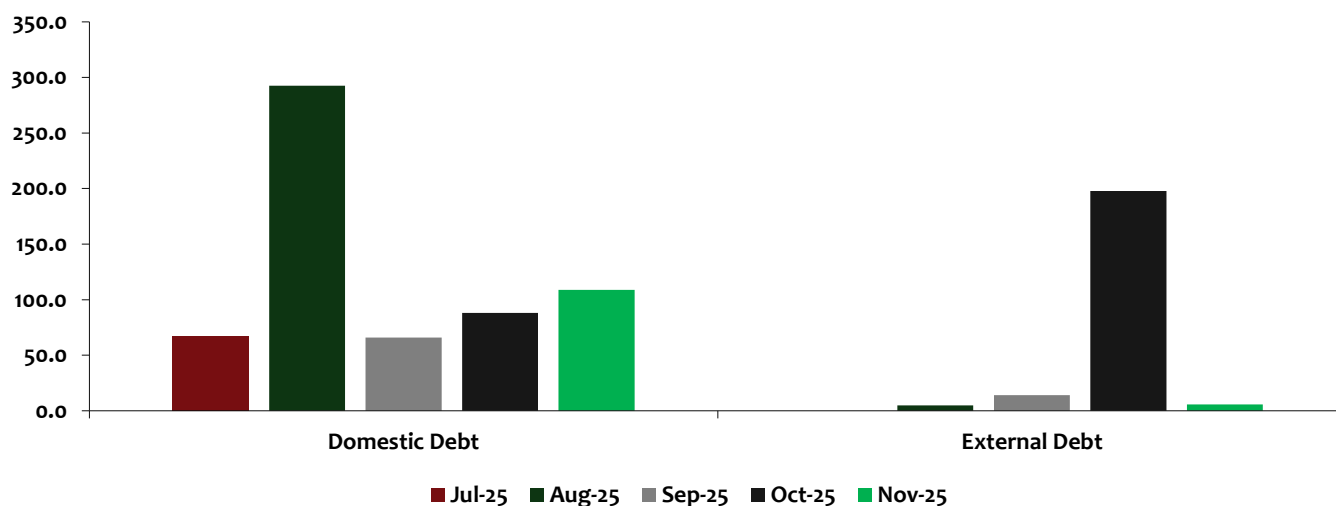
Debt-Revenue Mix (First 5 months of FY25/26)



Data: National Treasury | Chart: KSL

That said, we note that the bulk of debt financing has been sourced domestically, with external funding receiving a boost in October following the Eurobond issuance. See the chart below:

Debt Financing (Kes. Bn)



Data: National Treasury | Chart: KSL

We acknowledge the challenging circumstances the country has found itself in but remain wary of the effects of continued overreliance on debt. One such effect is the crowding out of the private sector—an increasingly pressing concern even as the Central Bank moves to lower rates in a bid to stimulate capital flows. We remain convinced that unless revenue sources are broadened, the same dilemma will persist, with fiscal space continuing to narrow.

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