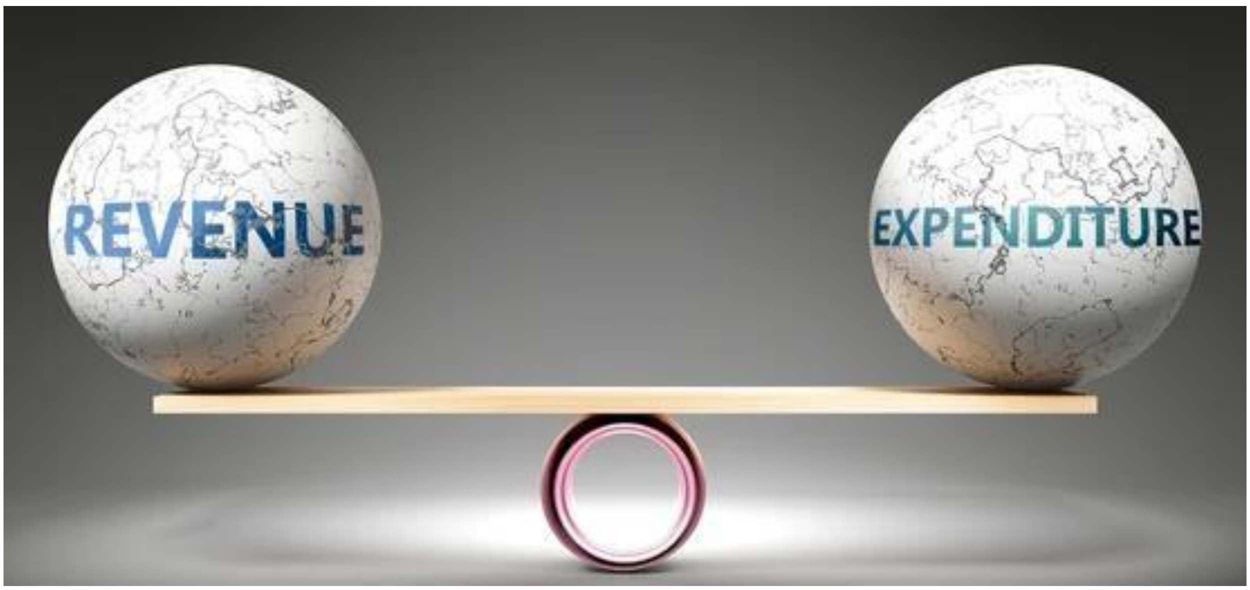
Actual Revenues and Exchequer Issues for the First Three Quarters of FY25/26



Fiscal Pressures and Future Paths

21st April 2026

Preface

FY2025/26 marks the first fiscal year post-COVID-19 in which the Government of Kenya is operating without an active International Monetary Fund Programme (IMF), effectively shifting the financing burden inward. This is already evident in the first supplementary budget, where 70.8% of total financing is projected to come from domestic borrowing.

Below, we break down the numbers and their implications:

The FY2025/26 Supplementary Budget I

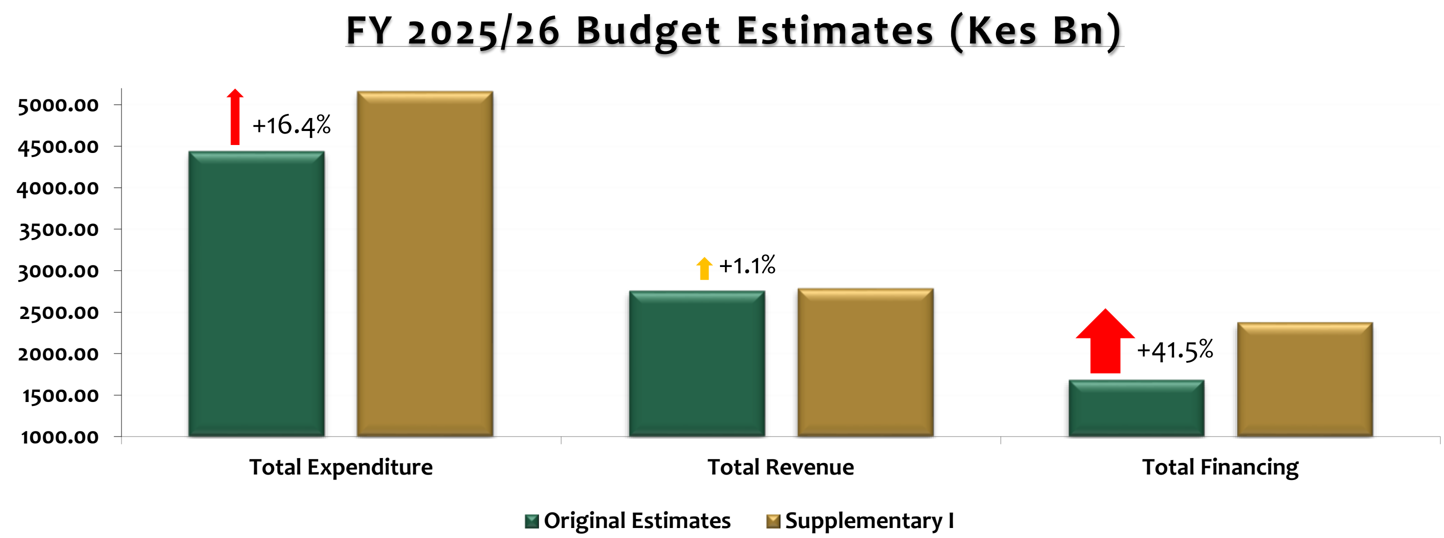
i. The **total expenditure** for FY25/26 is expected to go up by 16.4% to Kes 5,159.17Bn, from Kes 4,433.57Bn as per the original budget estimates.
   a. **CFS exchequer Issues** (public debt, pensions and gratuities, salaries, allowances and miscellaneous) recorded the highest increase, going up by 20.7% to Kes 2,584.62Bn, from Kes 2,141.03Bn. Debt servicing costs contribute the most to the growth (+23.3%) now standing at Kes 2,344.55Bn, from Kes 1,901.39Bn in the original estimates.
   b. **Recurrent expenditure** rose by 14.0% to Kes 1,676.57Bn, from 1,470.45Bn while development expenditure got a lower increment of Kes 75.89Bn, equivalent to an 18.6% increase.
   c. **County governments equitable share** remained unchanged at Kes 415Bn.

ii. **Tax revenues** have been slightly revised down to Kes 2,600.77Bn, from Kes 2,627.06Bn, reflecting the persistent shortfalls. Non tax revenues however have been revised upward by 43.9% to Kes 183.65Bn, from Kes 127.65Bn, resulting to an overall 1.1% increase in exchequer revenues.

iii. Our attention is drawn to the **borrowing** component, which has been revised sharply upward by 41.5% to Kes 2,374.76Bn, from Kes 1,678.87Bn, underscoring heightened financing pressures and a growing reliance on debt to bridge the fiscal gap.
   a. **Domestic borrowing** carries the burden accounting for 70.8% of the total expected financing and has been revised upwards by 52.0% to Kes 1,669.70Bn, from Kes 1,098.26Bn.
   b. **External Financing** on the other hand has been revised upward at a relatively moderate pace of 21.8% to Kes 694.27Bn, from Kes 569.81Bn in the original estimates. Notably, the

current fiscal year has already seen two Eurobond issuances, with the Government of Kenya continuing to engage the IMF and the World Bank for additional financing support.

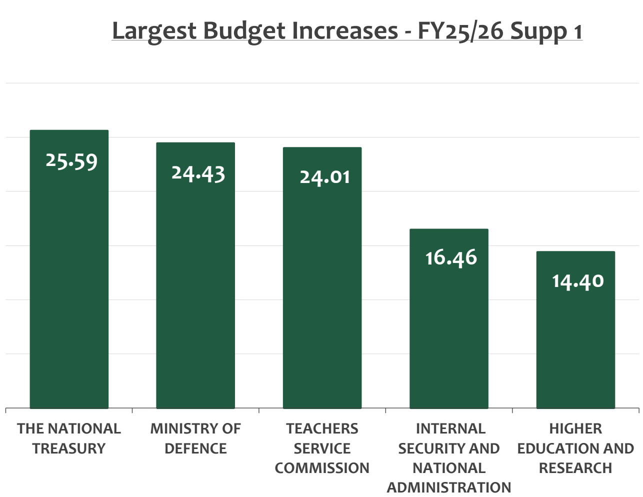
See the chart below for a visual presentation:

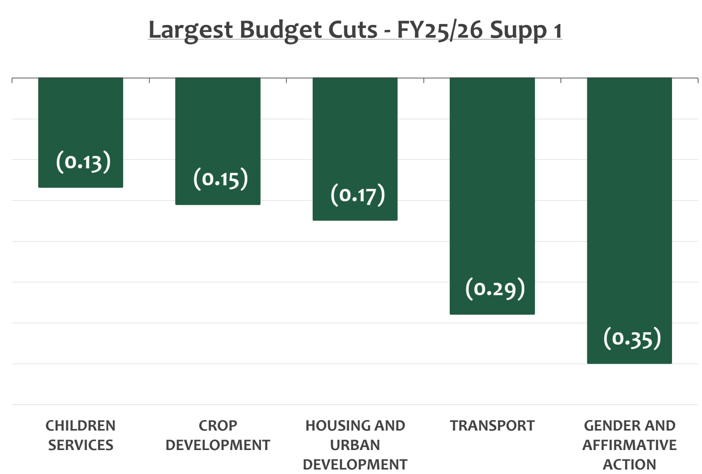


Data: National Treasury | Chart: KSL

Key line items:

Under recurrent expenditure, he National Treasury recorded the largest budget increase of Kes 25.59Bn, followed by the Ministry of Defence, with the Teachers Service Commission coming in close behind, reinforcing the continued dominance of administrative and wage-related spending pressures. See the major changes below:

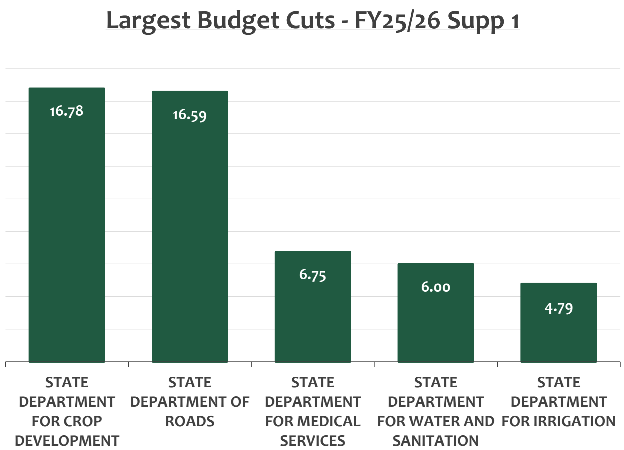


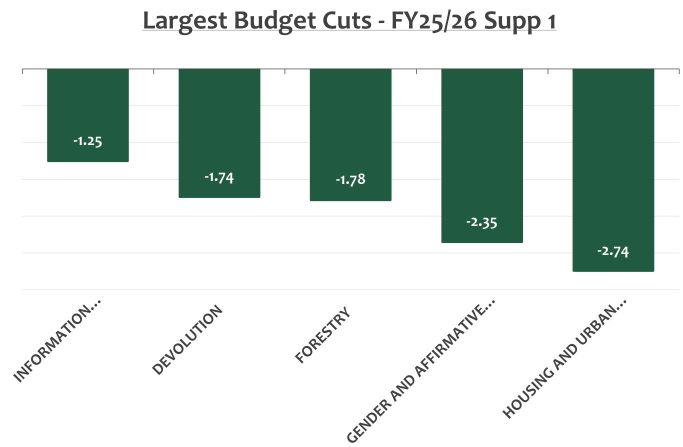


Data: National Treasury | Chart: KSL

Under development expenditure, the State Department for Crop Development and the State Department for Roads recorded the largest budget increases of Kes 16.78Bn and Kes 16.59Bn, respectively, signaling a continued focus on agriculture and infrastructure.

In contrast, allocations to the State Department for Housing and Urban Development and the State Department for Gender and Affirmative Action were reduced, pointing to a reallocation of resources away from social and housing programmes. See the charts below:



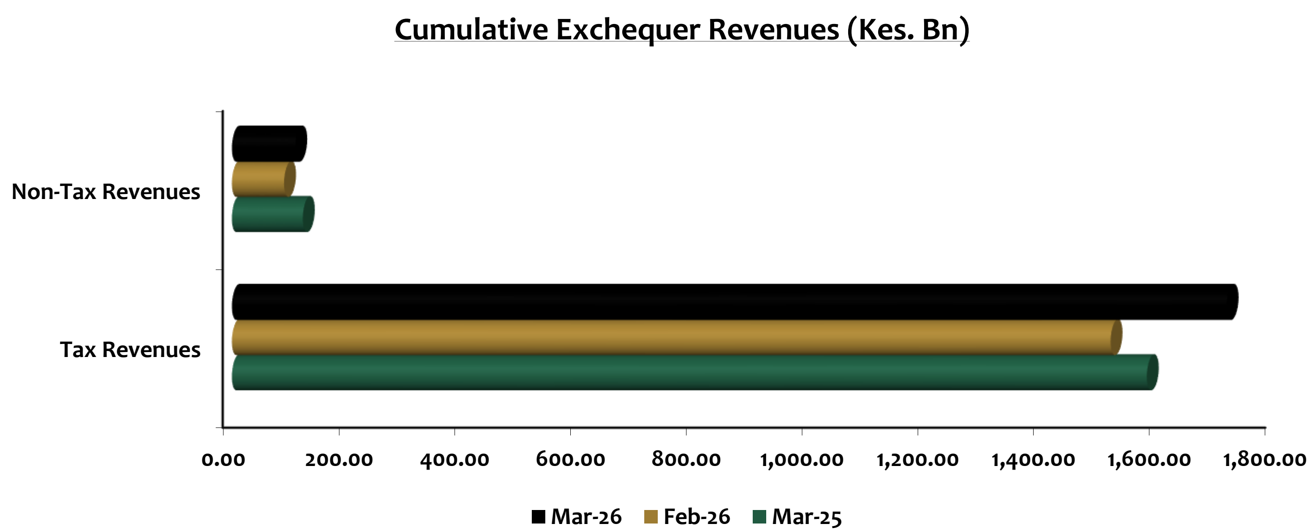


Data: National Treasury | Chart: KSL

While we had anticipated some easing in debt servicing costs amid declining interest rates, the upward revision of net domestic borrowing targets dampens that outlook. Moreover, given the prevailing political cycle, the expansion in expenditure alongside largely flat revenue projections is not entirely surprising. All in all, our fiscal space continues to tighten; incrementally, but persistently.

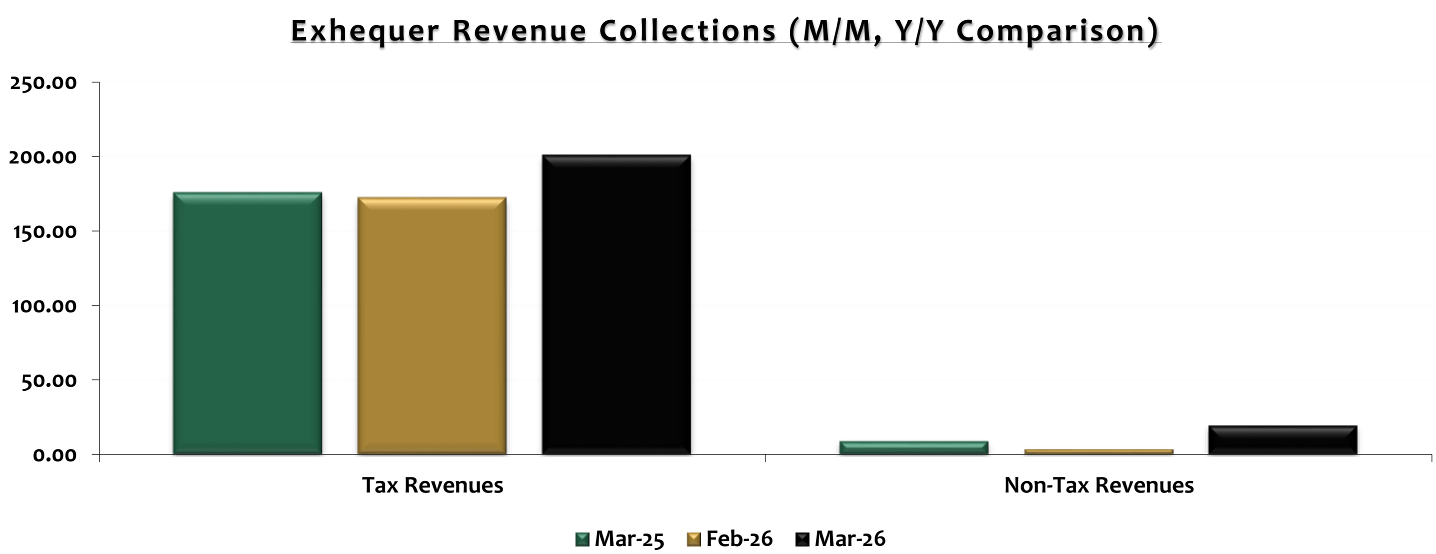
Exchequer Revenues – First 9 Months of FY25/26:

In the first three quarters of FY25/26, cumulative exchequer revenues came in at Kes. 1,826.91Bn, a 7.4%y/y growth from Kes. 1,701.74Bn and representing 65.6% of the full-year goal. Tax revenues grew by 8.7% to Kes. 1,717.63Bn in March 2026, from Kes. 1,579.44Bn. Non tax revenues on the other hand dropped by 10.7%, to Kes 109.28Bn which raises concerns on the upward revision. See the visual below:



Data: National Treasury | Chart: KSL

In March alone, however, the government collected Kes. 220.26Bn, 19.3% higher than the Kes. 184.56Bn recorded in March 2025, reflecting end of quarter remittances and better compliance. See the chart below:



Data: National Treasury | Chart: KSL

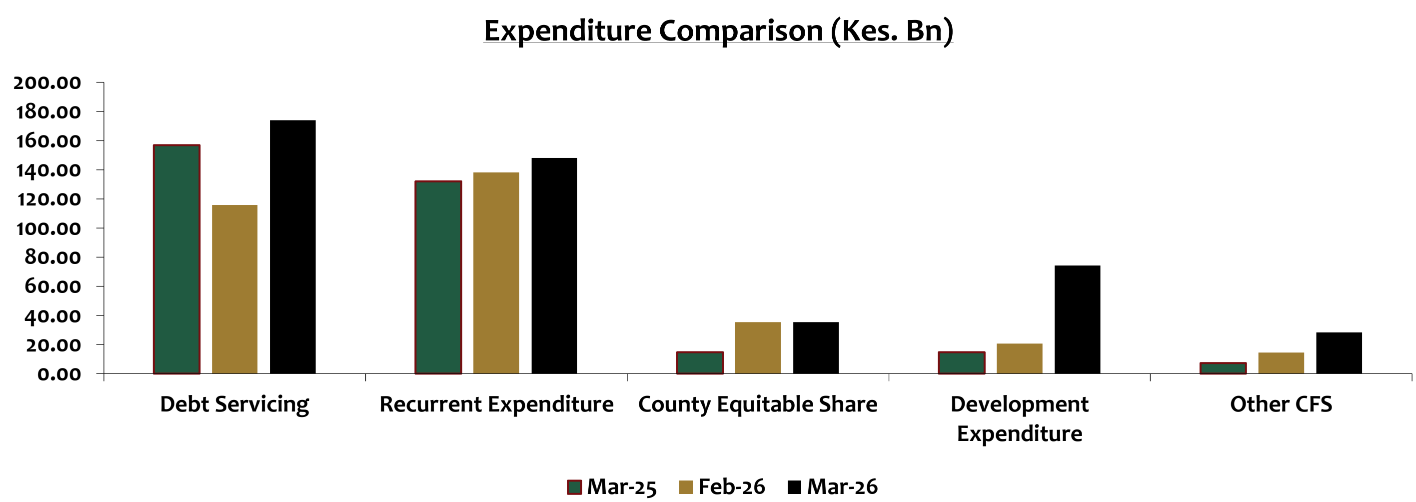
It is worth noting that, m/m, non-tax revenue rose by 21.5%, largely driven by a reclassification of Kes 15.0Bn from the Railway Development Levy Fund, which had previously been recorded under other domestic financing.

Expenditure:

Over the same period, the government spent Kes 3,207.22Bn, a 21.4%y/y increase from the cumulative spent in March 2026. Debt servicing was the largest driver of the growth. In the month of March 2026, total outlays came in at Kes. 459.75Bn, a 41.3% y/y increase from Kes. 325.35Bn recorded in March 2025.

The increase was largely driven by higher disbursements under development expenditure during the month under review. Specifically, the State Department for Roads accounted for the largest share of March outlays, followed by the State Department for Energy. The State Department for Housing and Urban Development and the State Department for Economic Planning also received significant disbursements.

See the chart below:

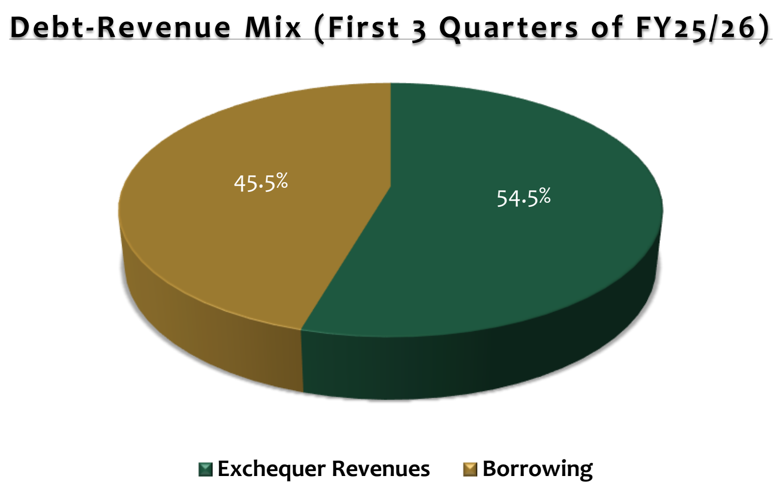


Data: National Treasury | Chart: KSL

Financing:

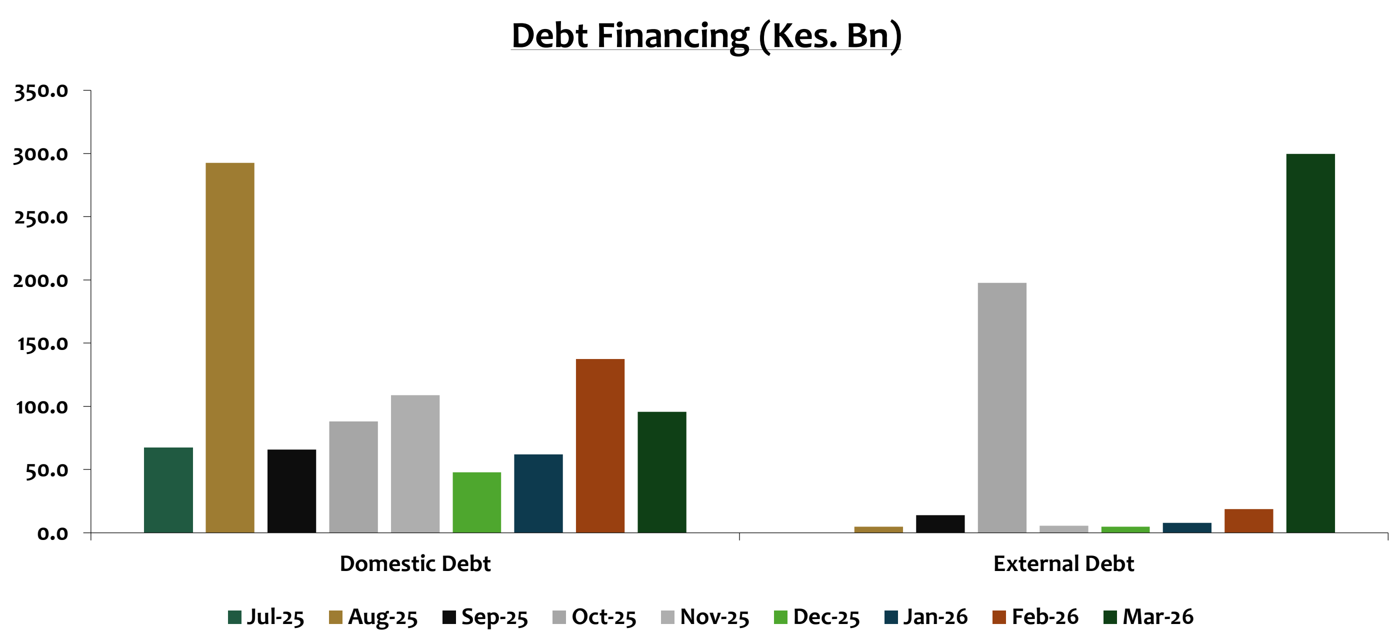
Over the seven months under review, the government recorded gross borrowing of Kes 1,527.40Bn, a 45.4% increase from Kes 1,050.12Bn in the same period of FY24/25. In January alone, borrowing amounted to Kes 382.10Bn. The hike was largely supported by external borrowing following the settlement of the Eurobond notes that were issued in early March.

Notably, 45.5% 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:



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 and March following the Eurobond issuance. See the chart below:



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