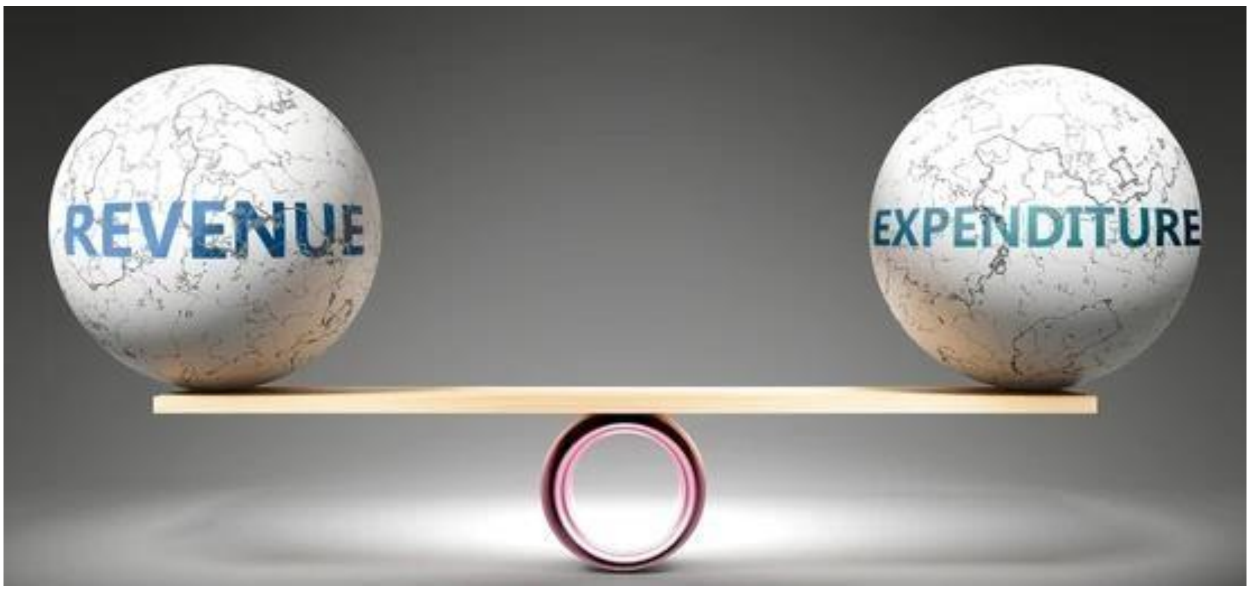
KINGDOM SECURITIES

Actual Revenues and Exchequer Issues for the Fiscal Year 2025/2026

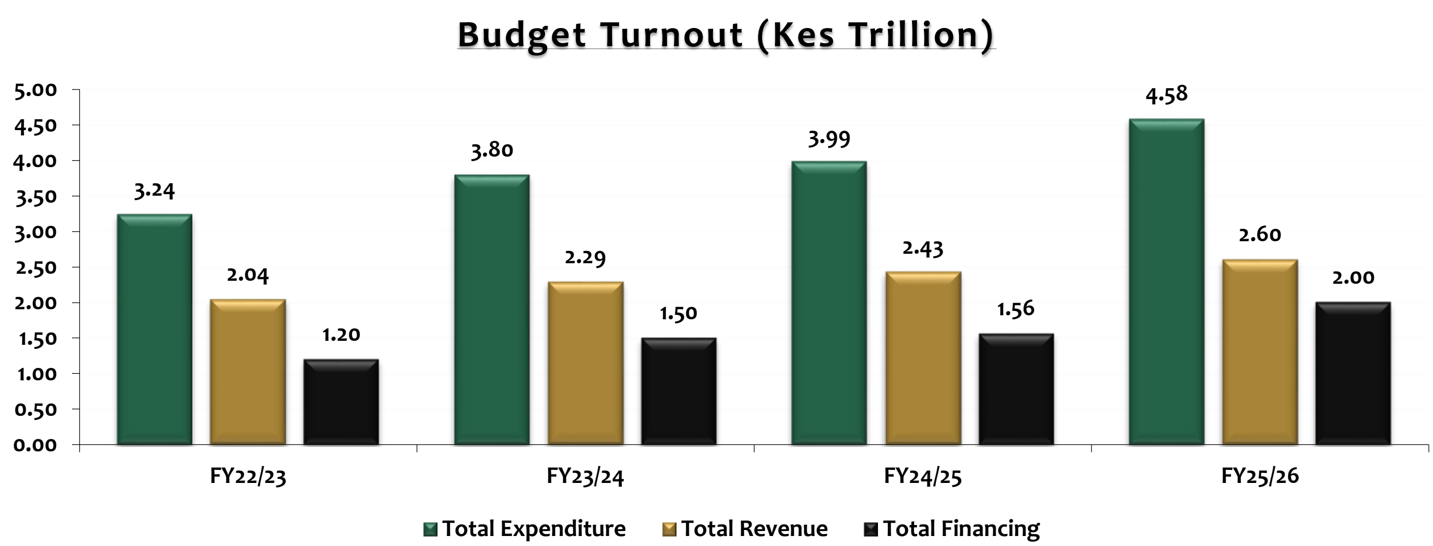


Fiscal Consolidation Mirage

23rd July 2026

Preface

The 2025/26 fiscal year was characterized by significant fiscal and financial developments, including the government's increased reliance on privatization and securitization initiatives to mobilize resources. It also marked the first fiscal year since the COVID-19 pandemic in which Kenya operated without an active IMF programme, placing greater pressure on domestic resource mobilization. With a relatively lean Finance Bill that introduced limited tax measures, the government increasingly relied on alternative financing mechanisms to bridge the fiscal gap. Consequently, total expenditure rose by 14.9% to KES 4.58Tn from KES 3.99Tn in FY2024/25. Meanwhile, exchequer revenues grew at a slower pace of 7.1% to KES 2.60Tn from KES 2.43Tn in the previous fiscal year. The resulting financing gap was met through KES 2.00Tn in domestic and external borrowing, representing a 28.2% increase from KES 1.56Tn in FY2024/25, as illustrated below;



Data: National Treasury | Chart: KSL

In June 2026, the government tabled the second supplementary budget, lowering the total expenditure target by 4.6% to Kes 4.92Tn, from Kes 5.16Tn in Supplementary Budget I. Even so, the revised expenditure remained 11.0% higher than the original budget estimate of Kes 4.43Tn. On the revenue side, the target was revised downwards by 5.2% and 4.1% to Kes 2.64Tn, from Kes 2.78Tn in Supplementary Budget I and Kes 2.75Tn in the original budget, respectively.

Consequently, the financing requirement was also revised. The borrowing target was reduced by 3.9% to Kes 2.28Tn, from Kes 2.37Tn in Supplementary Budget I.

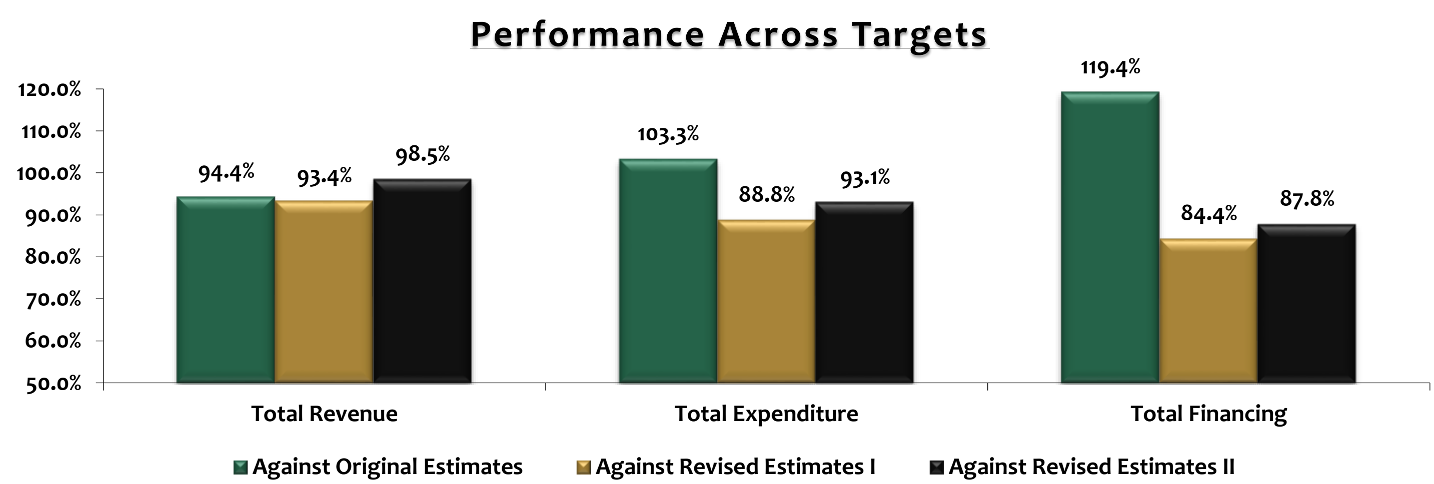
However, compared to the original budget estimate of Kes 1.68Tn, the revised borrowing target was still significantly higher, reflecting a 35.9% increase.

The detailed breakdown is shown below:

Key Line Items (Kes Billions)	Original Estimates (a)	Revised Estimates I (b)	Revised Estimates II (c)	c against b	c against a
Tax Revenue	2,627.06	2,600.77	2,457.41	-5.5%	-6.5%
Non-Tax Revenue	127.65	183.65	183.21	-0.2%	43.5%
Total Revenue	**2,754.71**	**2,784.41**	**2,640.62**	**-5.2%**	**-4.1%**
Recurrent Expenditure	1,470.45	1,676.57	1,684.32	0.5%	14.5%
CFS Exchequer Issues	2,141.03	2,584.62	2,336.08	-9.6%	9.1%
Development Expenditure	407.10	482.99	487.46	0.9%	19.7%
County Equitable Share	415.00	415.00	415.00	0.0%	0.0%
Total Expenditure	**4,433.57**	**5,159.17**	**4,922.86**	**-4.6%**	**11.0%**
External Loans & Grants	569.81	694.27	830.97	19.7%	45.8%
Domestic Borrowings	1,098.26	1,669.70	1,440.48	-13.7%	31.2%
Other Domestic Financing	10.80	10.80	10.80	0.0%	0.0%
Total Financing	**1,678.87**	**2,374.76**	**2,282.24**	**-3.9%**	**35.9%**
Debt Servicing	1,901.39	2,344.55	2,096.05	-10.6%	10.2%

Data: National Treasury | Table: KSL

Be that as it may, the government still fell short of the second revised estimates. Expenditure recorded a performance rate of 93.1%, while revenues posted a stronger performance at 98.5%. Borrowing, on the other hand, lagged, achieving an 87.8% performance rate. Juxtaposing the performance against the original and first supplementary budgets, expenditure and borrowing outperformed their respective targets, while revenues remained below target. Progressively, the government lowered its revenue targets while increasing expenditure and borrowing. This suggests that, had it stuck to the original budget, maybe, just maybe, we would be making the right steps towards fiscal consolidation efforts. See the performance below;

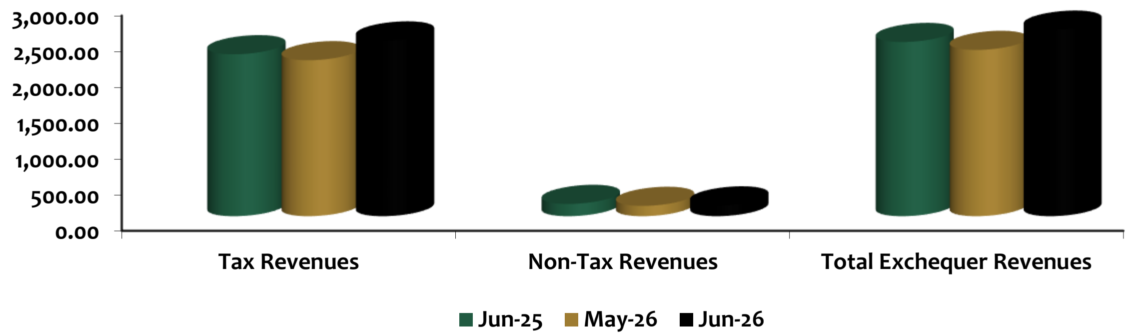


Data: National Treasury | Chart: KSL

Exchequer Revenues – FY25/26:

In FY25/26, cumulative exchequer revenues rose by 7.1% to Kes. 2,600.83Bn, from Kes. 2,428.95Bn recorded in FY24/25. Tax revenues as expected accounted for 94.2% of the ordinary revenues, a marginal increase from 93.0% in FY24/25. The overall performance rate was 98.5% of the second and final revised estimates. See the comparison below:

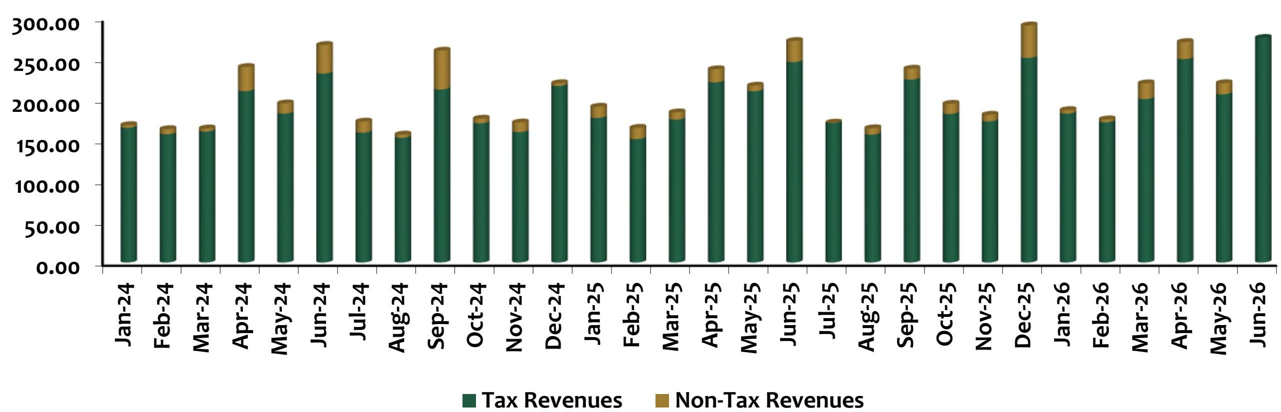
Cumulative Exchequer Revenues (Kes. Bn)



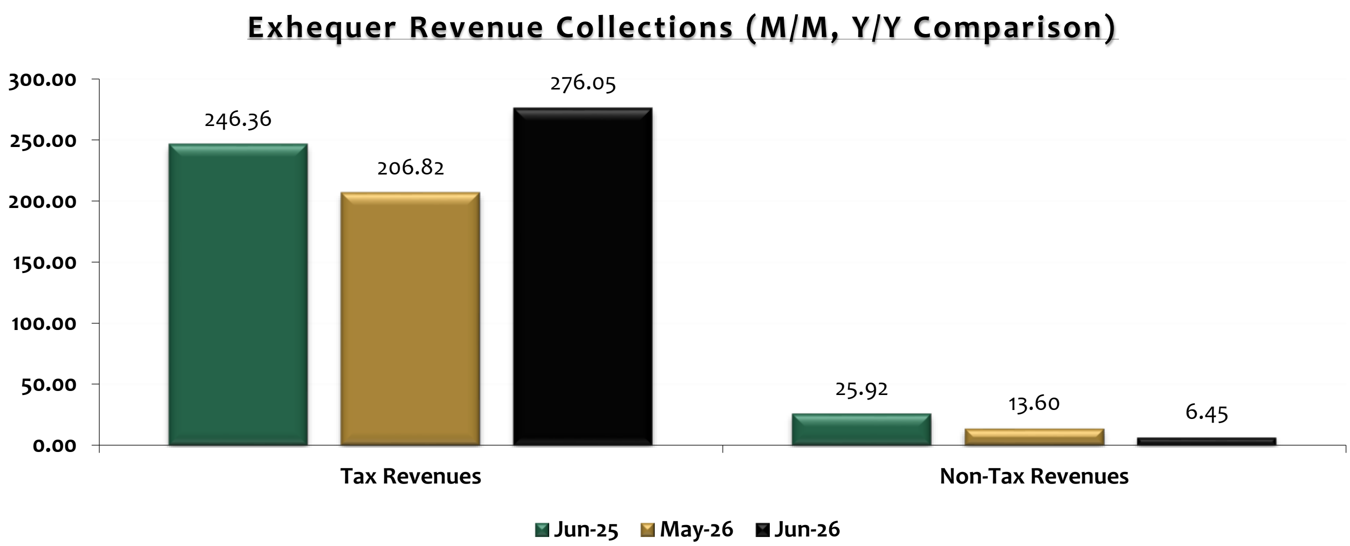
Data: National Treasury | Chart: KSL

Tax revenues grew by 8.5% y/y to Kes. 2,450.53Bn, from Kes. 2,257.81Bn in FY24/25, supported by improved economic activity, enhanced tax administration measures, and sustained compliance efforts. On a monthly basis, tax revenues increased by 12.7% from Kes. 2,174.48Bn in May 2026, reflecting a strong finish to Q4 FY25/26. Performance against target was equally impressive, with tax revenues achieving 99.7% of the second revised estimates. In contrast, non-tax revenues declined by 12.2% y/y to Kes. 150.30Bn, from Kes. 171.14Bn in FY24/25.

Exchequer Revenues (Kes. Bn)

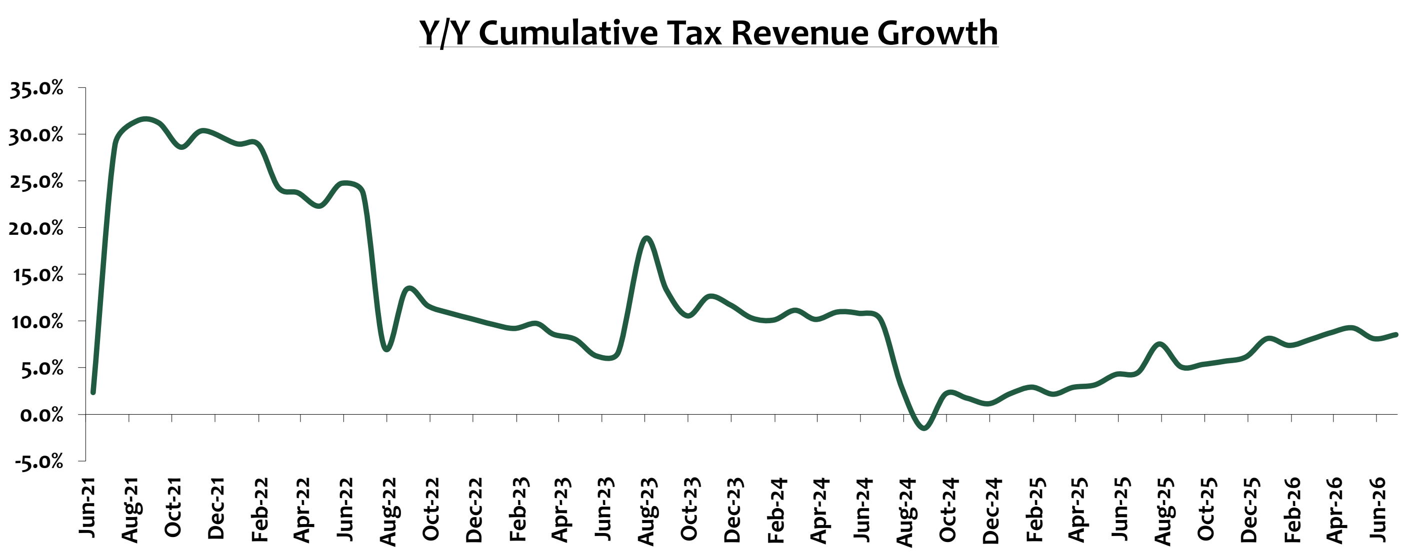


Consequently, total revenues in June 2026 amounted to Kes. 282.50Bn, marking a 28.2% m/m and 3.8% y/y rise, from Kes 220.42Bn in May 2026 and Kes 272.28Bn in June 2025, respectively. Tax revenue rose by 12.0% to Kes 276.05Bn, from Kes 246.36Bn, over the same period. See the chart below:



Data: National Treasury | Chart: KSL

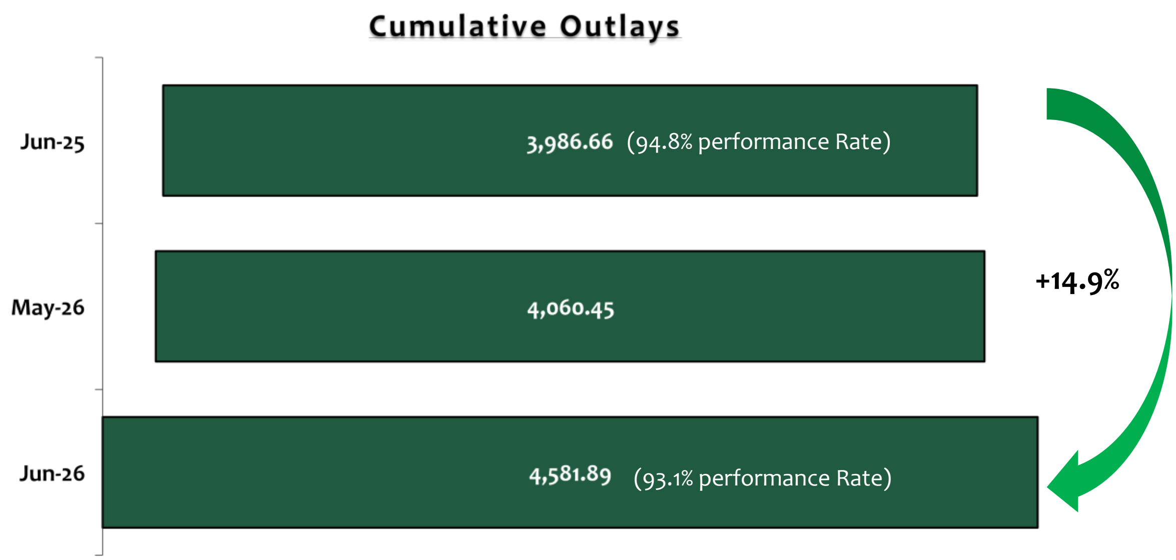
In FY25/26, cumulative tax revenues grew at an average rate of 7.3%, with the strongest growth recorded in the second half of the year. While the improved performance was partly supported by a lower base, it also reflects stronger revenue collection. As such, growth in FY26/27 is likely to moderate unless the authority adopts more aggressive revenue mobilization measures. See the trend below;



Data: National Treasury | Chart: KSL

Expenditure:

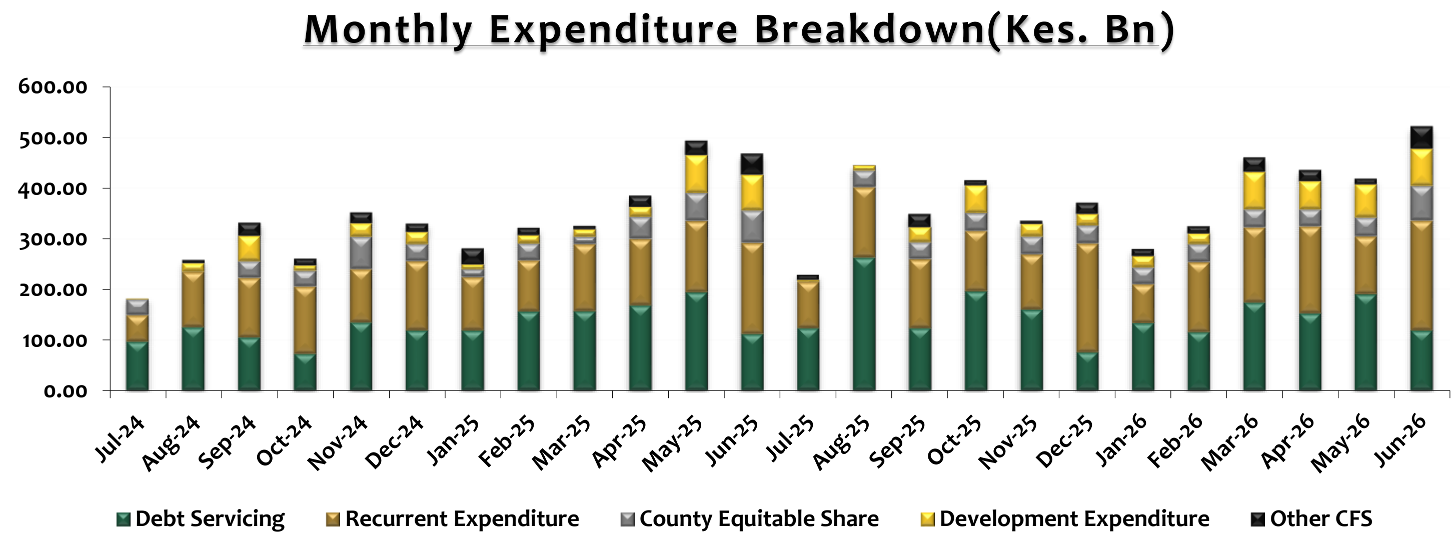
Cumulative expenditure for FY25/26 came in at Kes. 4,581.89Bn, representing a 14.9% y/y increase from Kes. 3,986.66Bn recorded in a FY24/25. This translates to a 93.1% performance rate, lower than the 94.8% recorded in FY24/25. See the chart below;



Recurrent expenditure increased by 16.0% y/y to Kes. 1,673.49Bn, while development expenditure surged by 36.5% y/y to Kes. 457.17Bn, indicating a stronger implementation pace for infrastructure and development projects compared to the previous fiscal year. County equitable share disbursements dropped marginally by 0.8% y/y to Kes. 415.00Bn and recorded a 100% absorption rate.

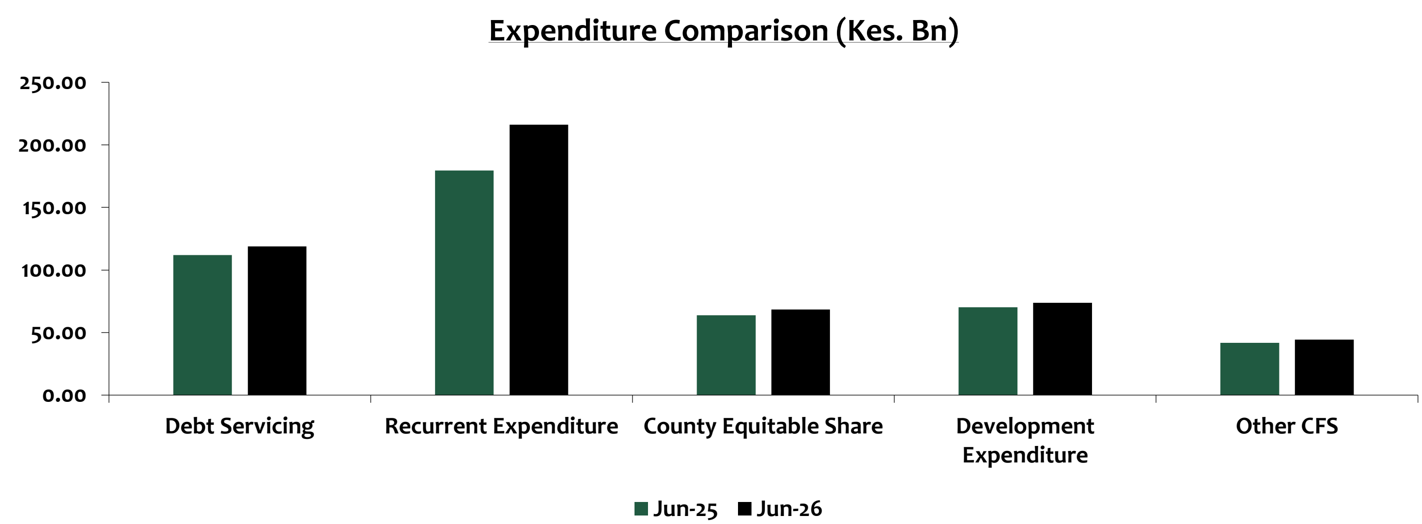
Debt servicing remained one of the largest expenditure components, increasing by 17.1% y/y to Kes. 1,826.46Bn from Kes. 1,559.95Bn in FY24/25. Overall, Consolidated Fund Services charges rose by 13.7% to Kes 2,036.22Bn, from Kes 1,790.70Bn in FY24/25. Of the total, debt servicing gobbled 89.7% and consumed approximately 70.2% of total revenues collected during the period, significantly constraining fiscal flexibility and limiting allocations toward productive sectors of the economy. it is however important to note that part of the external debt was refinanced through new debt issuance and that should reduce the percentage of refinancing from revenues.

In June alone, a total of Kes 521.44Bn was spent, marking an 11.6% y/y increase from Kes 467.42Bn recorded in FY24/25. This is also the highest expenditure ever in a month. See the chart below for:



Data: National Treasury | Chart: KSL

The June performance was largely driven by a 20.35y/y gain in the monthly recurrent expenditure to Kes 216.08Bn, from Kes 179.58Bn spent in the previous year. See the summary below:

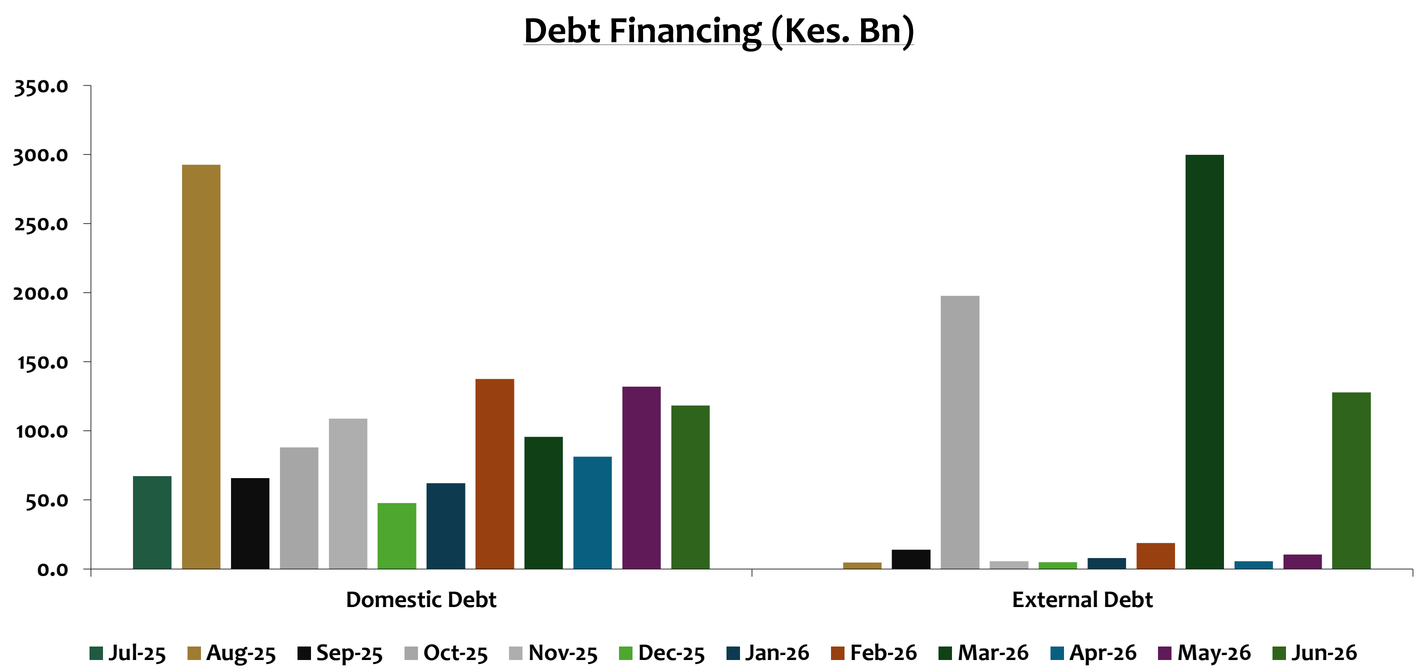


Data: National Treasury | Chart: KSL

Financing:

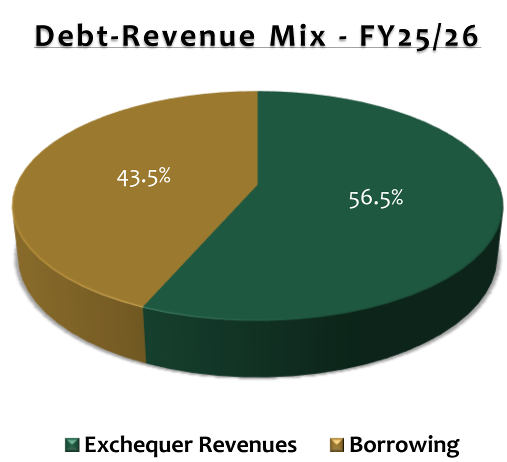
To finance the fiscal deficit, total financing during for FY25/26 increased by 28.2% y/y to Kes. 2,003.83Bn from Kes. 1,563.01Bn recorded in FY24/25. Domestic financing remained the dominant source of financing, at Kes. 1,306.31Bn, equivalent to 65.2% of total financing. Domestic borrowing rose by 20.4% y/y, reflecting the government's continued preference for the domestic market amid constrained external funding conditions.

External loans and grants increased sharply by 45.0% y/y to Kes. 697.52Bn, largely supported by renewed external inflows and multilateral financing. October, March and June stood out as the months with the largest external inflows reflecting funding from Eurobonds and the World Bank. See the summary below:



Data: National Treasury | Chart: KSL

Nevertheless, exchequer revenues financed only 56.5% of total expenditure during the year, underscoring the government's continued reliance on debt financing to bridge the fiscal gap. This marked a deterioration from the 60.9% recorded in FY24/25. See the summary of FY25/26 mix:



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Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited. Co-operative Bank House- 5th floor, P.O Box 48231 - 00100 Nairobi, Kenya

Office: 0711049016 Email: info@kingdomsecurities.co.ke

Research Department		
Stellah Swakei	sswakei@co-opbank.co.ke	+254711049152
Chrisanthus Lunani	clunani@co-opbank.co.ke	+254711049973
Sales and Dealing Team		
Moffat Asena	amoffat@co-opbank.co.ke	+254 711049663
Gloria Ohito	gohito@co-opbank.co.ke	+254711049993
Client Service and Operation		

info@kingdomsecurities.co.ke