FY 25/26 Budget Performance

Exchequer releases August 2025

Two months into the financial year, Kenya recorded a modest 5 percent growth in tax revenues, a sharp rise in domestic borrowing, and notable declines in development spending and non-tax revenues relative to the same period last year.

In August 2025, tax revenues grew by 5 percent to KSh 329 billion, up from KSh 313 billion in August 2024

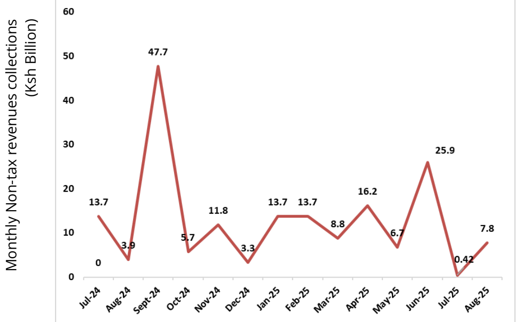
TAX REVENUES

+5%

- GOK met 12 percent of the annual revenue target by August 2025 with a total revenue collection (tax + non tax) of Ksh 337 billion, compared to Ksh 331 billion collected in the first two months of FY 2024/25.

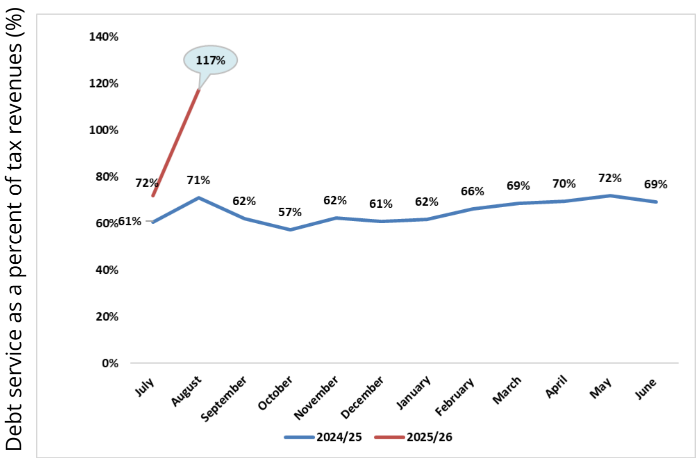
Although tax revenues grew modestly, non-tax revenues declined significantly in August 2025 relative to last year in the same period

-53%

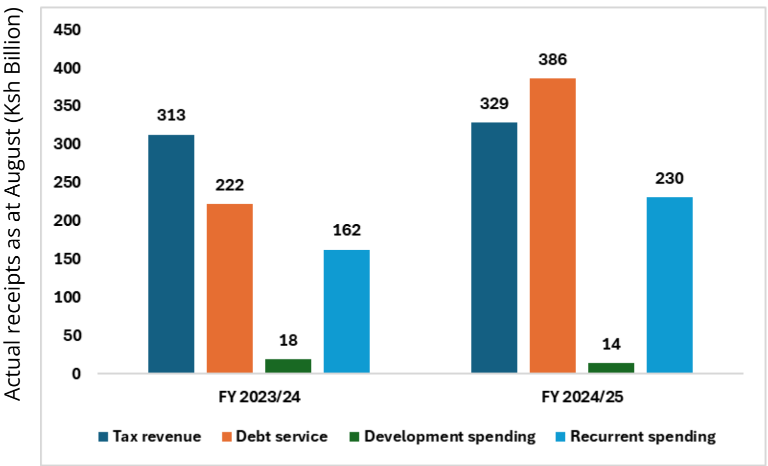


- The FY 2025/26 annual non-tax revenue target was cut by 33 percent, from Ksh 191 billion to Ksh 128 billion.
- Monthly collections have fluctuated over the past year, peaking in September 2024.
- In July 2025, revenues hit a low of Ksh 415 million, compared to an average of Ksh 14 billion per month in FY 2024/25.

more than 100 percent of tax revenues was used to service debt



The implication is that the government is funding recurrent expenditure from borrowing



And this is the case because we are seeing a significant increase in both external and domestic borrowing in the first two months of FY 2025/26

EXTERNAL BORROWING

+53%

- **External borrowing increased significantly** compared to last year in the same period. In August 2025, Kenya signed a yen-denominated loan (or at least a term sheet) with Japan, backed by Nippon Export and Investment Insurance (NEXI). This loan is likely part of the external financing inflows in that month that contributed to increased external borrowing.
- Externally, GOK through FY 2025/26 Annual Borrowing Plan, intends to mobilize cheaper concessional loans and reduce the use of expensive commercial borrowing.

Domestic borrowing increased drastically to KSh 293 billion in August 2025, compared to KSh 92 billion last year in the same period

DOMESTIC BORROWING

+252%

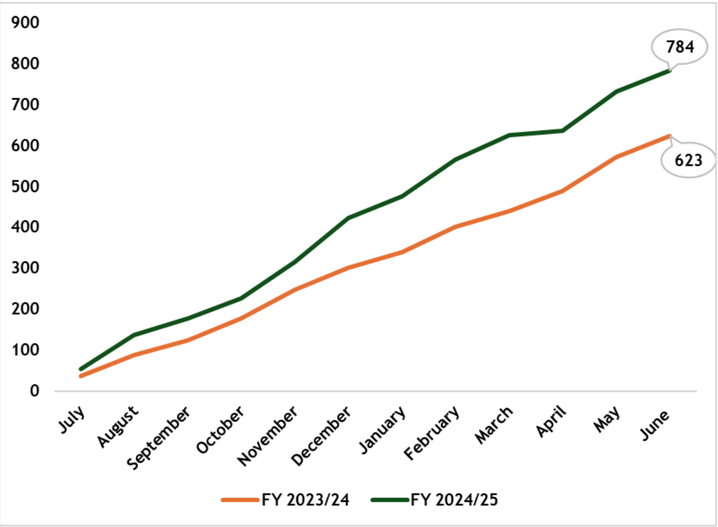
From Commercial banks, Insurance companies, Pension trusts, and others

- The National Treasury, through the FY 2025/26 Annual Borrowing Plan, projects a net borrowing mix of 65 percent domestic and 35 percent external.
- Most of the domestic borrowing will come from Treasury bonds and infrastructure bonds, while Treasury bills will mainly cover short term cash needs.

While increased domestic borrowing reduces currency risk, it is often more expensive, with higher interest rates than external concessional finance

- **In FY 2024/25, Interest payments on domestic debt increased compared to FY 2023/24, pointing to a heavier and growing repayment burden.** By June 2025, domestic interest payments amounted to Ksh 784 billion, a 26 percent increase from June 2024.

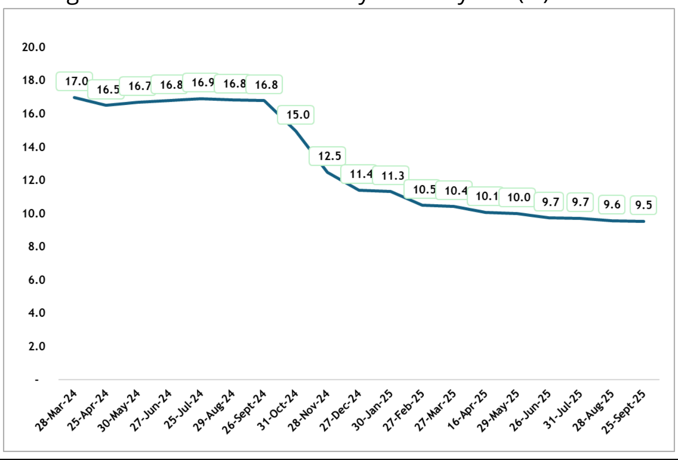
Interest payments on domestic debt(Ksh Billion)



Nonetheless, the cost of domestic borrowing has gradually dropped

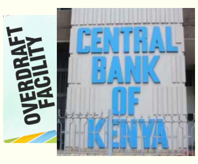
- By end of June 2025, the 364-Day treasury bills had an average interest rate of 10 percent compared to 17 percent recorded in the same period last year.
- This follows the monetary policy committee's decision to lower the Central Bank Rate, citing stable core inflation, low energy prices, and exchange rate stability, which reduced the government's risk premium.

Average interest rates for 364-Day Treasury bills(%)



While ordinary borrowing(domestic & external) has increased in 2025/26, the government is relying less on overdrafts from the Central Bank of Kenya, known as "other domestic financing" in government documents (and known usually as debt monetization).

OTHER DOMESTIC FINANCING

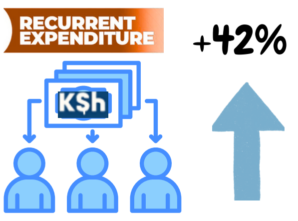


-59%

Usually used to address short-term cash flow challenges especially when tax revenues and external loans fall short.

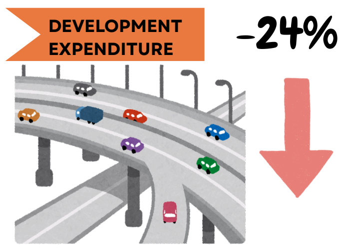
- By August, such financing had reached 16 percent of the annual target and reduced by 59 percent compared to last year.

In the first two months of the financial year, recurrent spending increased by 42 percent compared to last year in the same period



- By August 2025, Ministries, Departments, and Agencies (MDAs) received Ksh 230 billion which was 16 percent of the annual target compared to Ksh 162 billion received in the same period last year.
- Recurrent disbursements are more evenly distributed across MDAs, while development disbursements were received by only a few MDAs in the first two months of FY 2025/26.

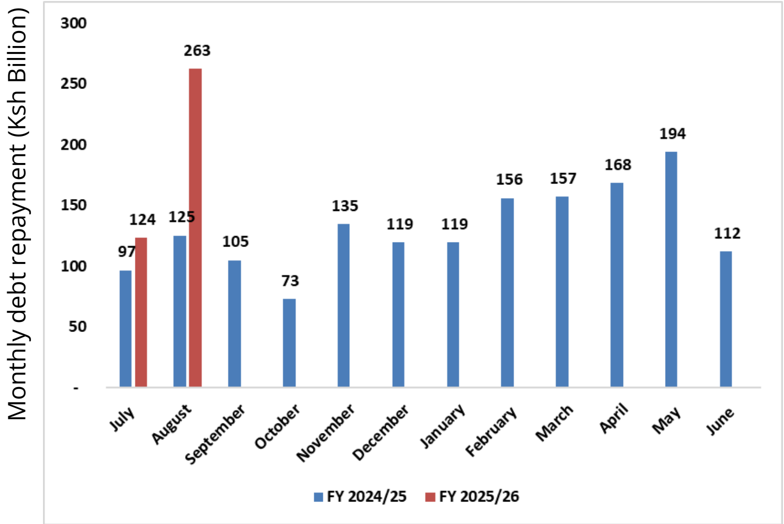
while Spending on development reduced significantly



- By August 2025, GOK only met 3 percent of the annual development allocation target.
- **Some ministries had already received large shares of their annual development allocations**: Internal Security and National Administration (86 percent), Shipping and Maritime Affairs (50 percent), Blue Economy and Fisheries (48 percent), and Sports (40 percent), **while others had yet to receive any funds.**

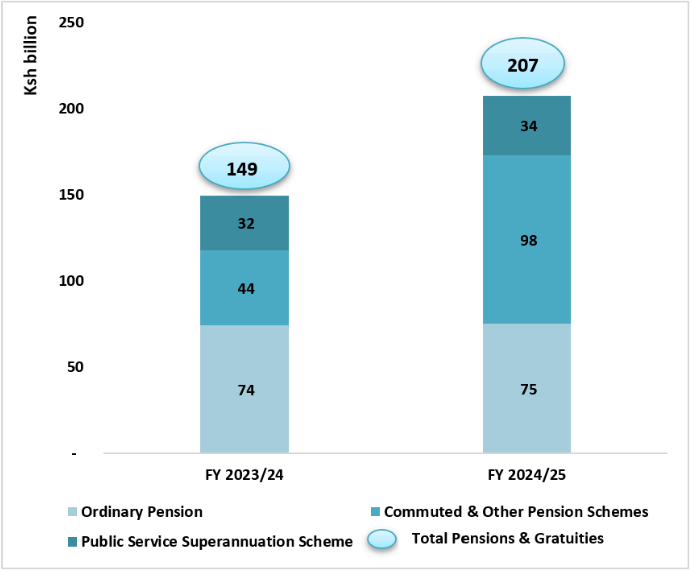
In FY 2024/25, there was an overall increase in Consolidated Fund Services (CFS) payments over the period, and this was attributed mainly to growth in interest payments on domestic debt, and expenditure on commuted pension and other pension schemes

- These expenditures are projected to increase in FY 2025/26 driven by higher debt interest payments.



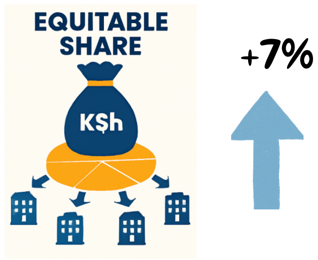
- In the first two months of FY 2025/26, **Pensions & Gratuities have increased significantly compared to the same period last year.** The annual target has also been revised upwards slightly from Ksh 223 billion last year to Ksh 235 billion.
- Whereas a 59 percent **increase in Pensions & Gratuities comes as a relief for pensioners**, there was a notable increase in exchequer issues of 110 percent for Salaries & Allowances to constitutional officeholders and Miscellaneous expenditure.

Pensions & Gratuities increased by 39 percent from Ksh 149 billion in FY 2023/24 to Ksh 207 billion in FY 2024/25



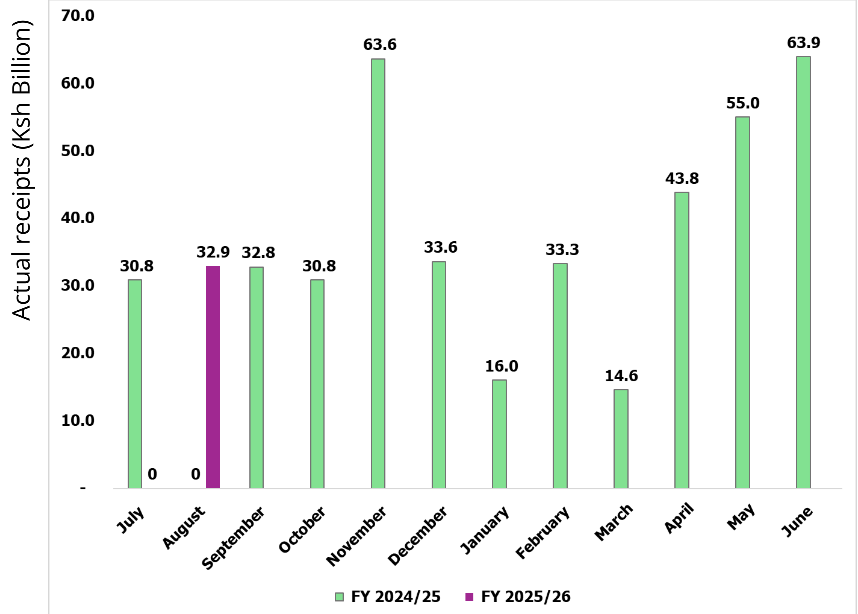
Consolidated Fund Services (CFS) = **Repayment of Public Debt (domestic and foreign) and government-guaranteed loans to parastatals** + **Pensions and Gratuities** + **Salaries & Allowances and Miscellaneous Services (including Guaranteed Debt)**

Counties had received 8 percent of their equitable share allocation by August 2025



Counties

- Following a missed transfer in July 2025, county governments received Ksh 32.9 billion in August, representing a 7 percent increase compared to the same month last year.



Source: Kenya Gazette(Vol. CXXVII-No. 195)