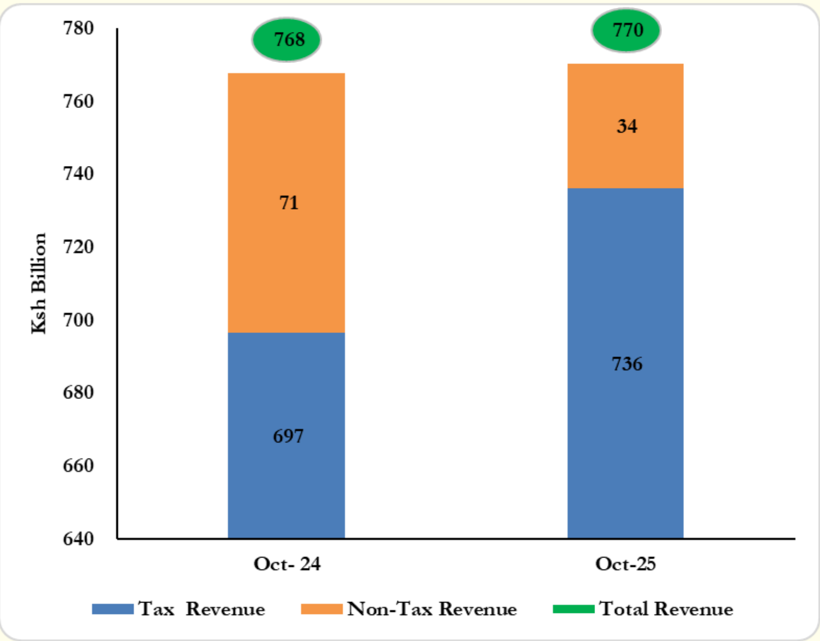
FY 25/26 Budget Performance

Exchequer Releases October 2025

Total revenues (tax+non-tax) barely grew, debt service surged to account for nearly all tax revenue, domestic borrowing more than doubled, and external borrowing increased in the first four months compared to the same period in the last financial year

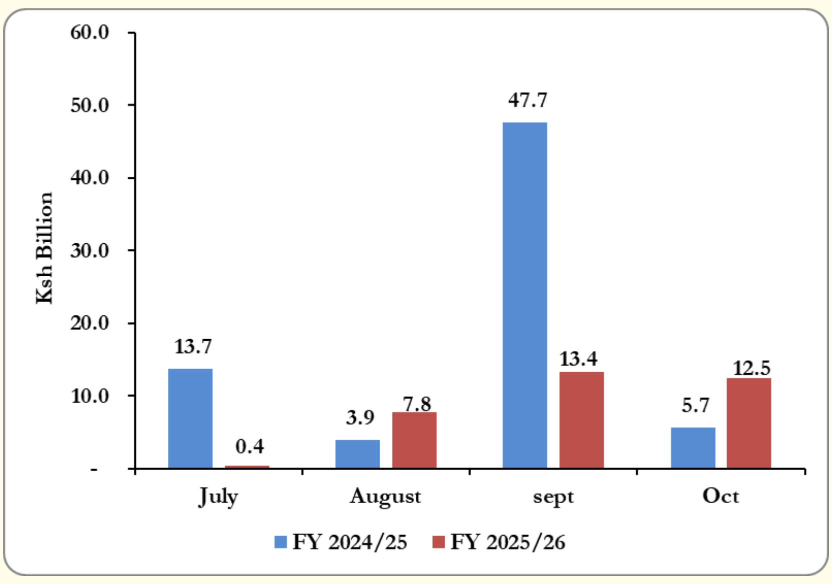
The Good

In the first 4 months total revenue saw a slight year-on-year growth



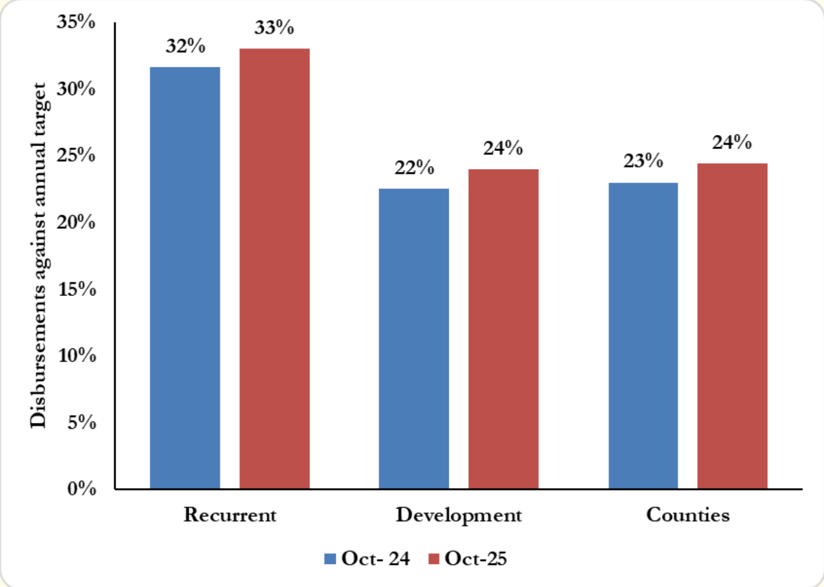
- Compared to the first four months of the last financial year, tax collections rose from KSh 697 billion to KSh 736 billion, a 6 percent increase.
- Tax revenue in October 2025 was KSh 183 billion, up from KSh 171 billion in October 2024, a 7 percent year-on-year increase.
- Despite the weak performance of non-tax revenue by the end of October 2025, total revenue collections reached Ksh 770 billion, a slight increase of 0.3 percent compared to the same period in the previous financial year.

Non-tax revenue rebounded sharply in October, showing strong year-on-year growth despite a weak Q-1 performance



- Although non-tax revenue underperformed at the start of this financial year, October 2025 saw a strong rebound, rising by 120 percent compared to October 2024. Could this rise be due to payment timing or delayed receipts from earlier months, or was there a one-off payment from state corporations?

Recurrent, development, and transfer to counties recorded a year-on-year growth



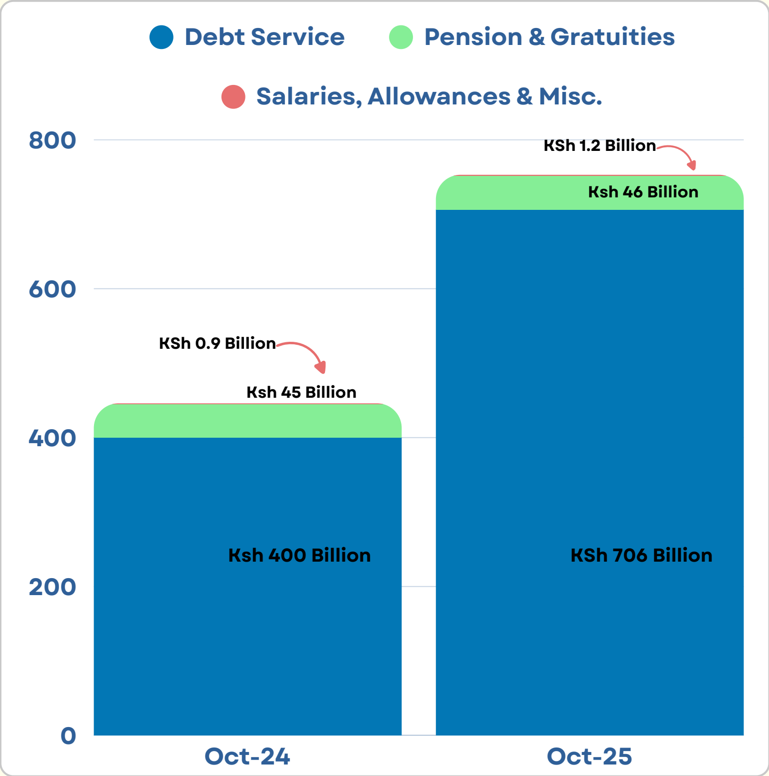
- Recurrent issues to MDAs increased from Ksh 413 billion to Ksh 486 billion, a 17 percent rise by the end of October 2025 compared to the same period in the previous financial year.
- Development issues to MDAs grew from Ksh 79 billion to Ksh 98 billion, reflecting a 24 percent increase over the same period.
- Overall funding to MDAs expanded by 18 percent, indicating continued support for both day-to-day operations and development activities despite the tight fiscal environment.
- In the first four months of FY 2025/26, counties received a higher share of transfers totaling Ksh 101 billion, up from Ksh 94 billion in the previous financial year, a 7 percent increase.

The Bad

- Despite a strong recovery in October, non-tax revenue collections in the first 4 Months of FY 2025/26 declined sharply by 52 percent relative to the same period last financial year , mainly due to the low outturn in July and September.
- Despite the overall increase in MDA spending, 12 MDAs had not received any of their allocated development funds for the FY 2025/26, slowing project execution.
- Debt service consumed 96 percent of tax revenue collected so far, up from 57 percent last financial year, leaving the government with almost no fiscal space to fund essential services or development priorities.

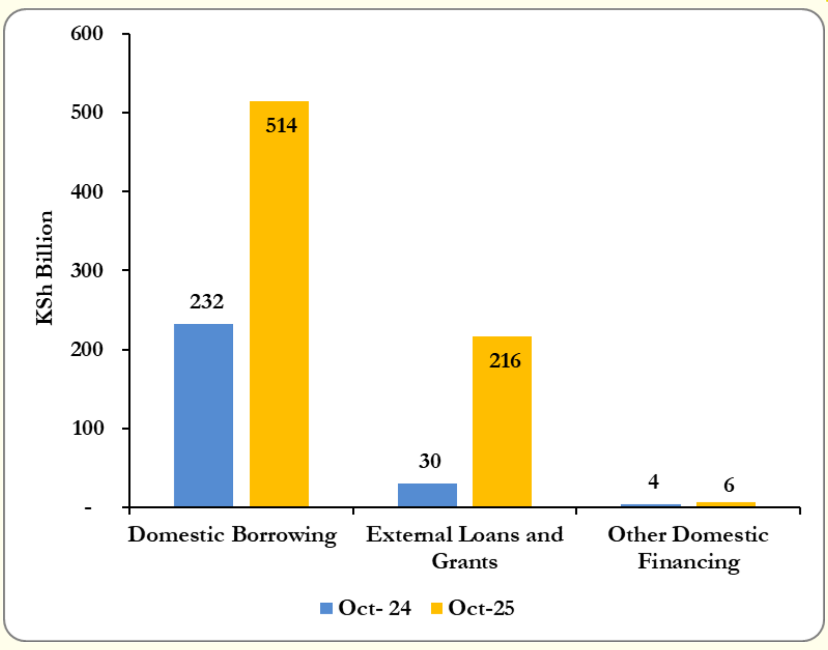
Source: Kenya Gazette(Vol. CXXVII-No. 231)

By October 2025, debt service increased sharply compared to same period last year and accounted for 37 percent of the annual estimates



- Public debt spending surged from KSh 400 billion to KSh 706 billion, a 77 percent increase compared to the same period last financial year, mainly due to the Government's early repayment of USD 1 billion from the 2028 Eurobond using part of the USD 1.5 billion raised in October.
- Salaries and allowances rose by 29 percent by October 2025 relative to the same period last financial year, increasing spending pressure as these obligations must be paid before other government expenditures.
- Pension and gratuities spending increased by 2 percent in the first 4 months of FY 2025/26 relative to the same period last financial year, accounting for 20 percent of the annual estimates.

Kenya's borrowing escalated sharply in the first four months of FY 2025/26, with domestic borrowing rising by 120 percent and external borrowing surging by 623 percent compared to the same period last financial year



- External loans and grants rose sharply from KSh 30 billion to KSh 216 billion, a six-fold increase, largely driven by the Government's successful issuance of a USD 1.5 billion (about Ksh 194 billion) international bond in early October 2025.
- Domestic borrowing rose from Ksh 232 billion to Ksh 514 billion, a 122 percent increase.
- Heavy reliance on domestic borrowing is tightening liquidity in financial markets, increasing yields on government securities, crowding out private sector credit, and heightening rollover risk due to short-term maturities.

Key Developments

Rising debt service is squeezing fiscal space

- Debt service is rising sharply, consuming nearly all tax revenue and leaving the government with limited room to fund programmes, county transfers, or development priorities. Accounting for 96 percent of tax revenue in the first 4 months of FY 2025/26, this is the highest level recorded over the same period in the past three years, up from 62 percent in FY 2022/23 and 57 percent in FY 2023/24.
- Unless revenue performance improves significantly, more expenditure pressure and payment delays may occur later in the year.

Heavy reliance on borrowing raises sustainability concerns

- Both domestic and external financing have increased sharply in the first four months relative to the same period last year. While external disbursements are easing short-term pressure, the long-term cost of debt continues to rise.
- A clearer medium-term borrowing strategy is needed to balance liquidity needs with debt sustainability.

Source: Kenya Gazette (Vol. CXXVII—No. 231)