IPF
INSTITUTE OF PUBLIC FINANCE

FY 25/26 Budget Performance

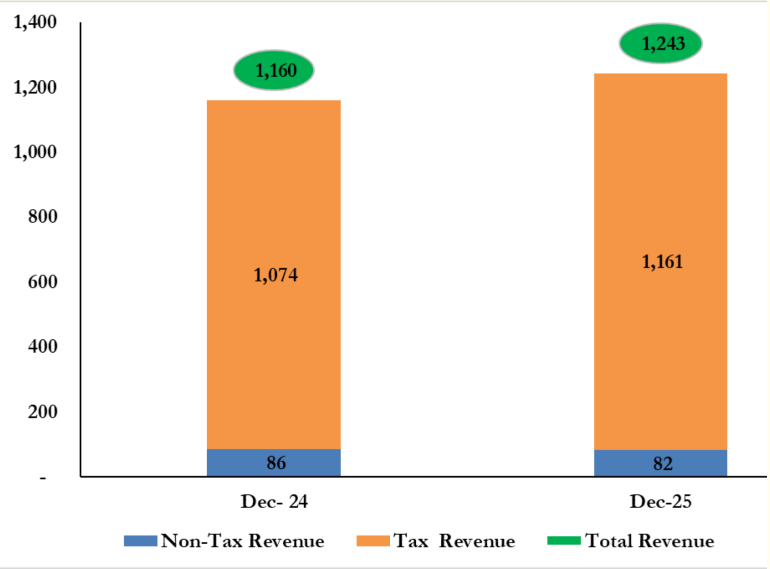
Exchequer releases December 2025

Key developments in the first half of the FY 2025/26

- **Revenue growth is slowing:** While revenue is still rising in the first half of FY 2025/26, the pace is weaker than last year.
- **Liquidity concerns are emerging:** The slower growth raises worries about potential cash flow challenges ahead.
- **Counties are under strain:** Sub-national governments are receiving a smaller share of funds compared to national spending. This imbalance is widening disparities and putting pressure on county budgets.
- **Debt service is consuming needed resources:** Rising debt repayments are crowding out funds that could support other priorities.
- **Borrowing is escalating:** Short-term borrowing is increasing at an alarming rate, mainly to cover immediate gaps.

Revenue performance still falls short of targets

Total Revenue recorded modest year-on-year growth in the first half of FY 2025/26

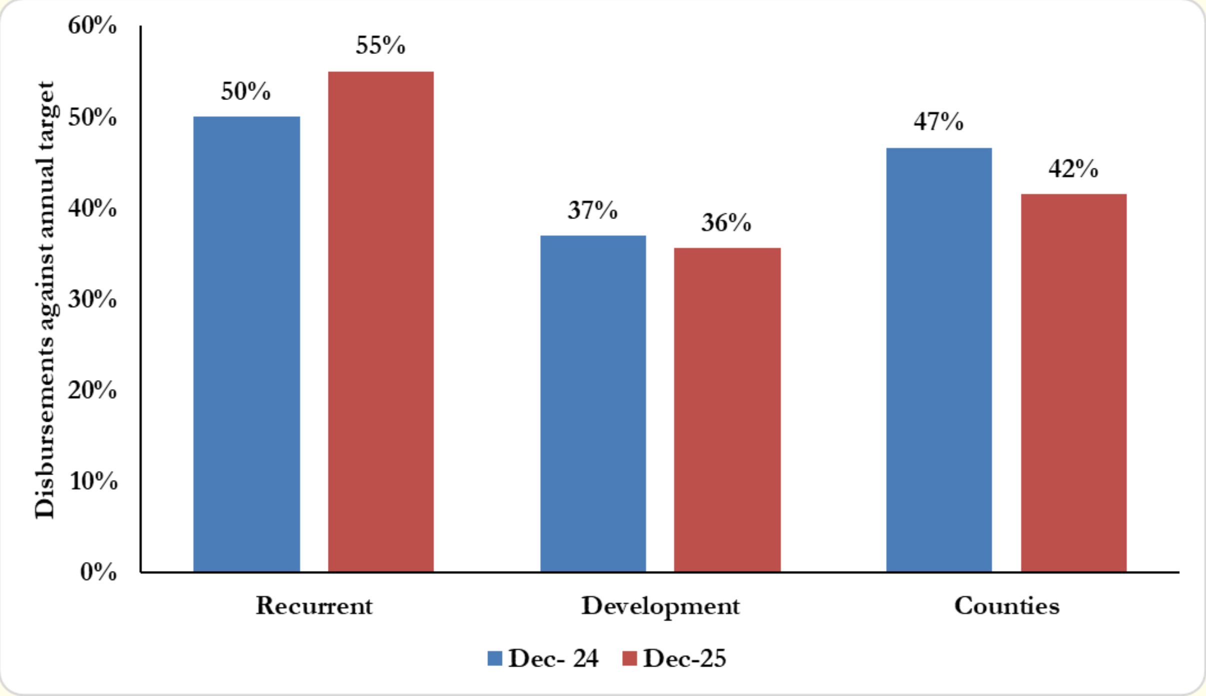


Tax revenue increased from KSh 1,074 billion to KSh 1,161 billion for the first half of the year, an 8 percent rise. This was due principally to:

- **The rollout of the Electronic Rental Income Tax System in September 2025.**
- **Tighter Tax Compliance Certificate requirements linked to eTIMS and the VAT Special Table from October 2025.**
- **Automated tax debt payment plans introduced in November 2025.**

Counties receiving a smaller share which undermines services by the devolved units

First-half releases in FY 2025/26 show higher recurrent execution but lower county disbursements compared to the same period in FY 2024/25



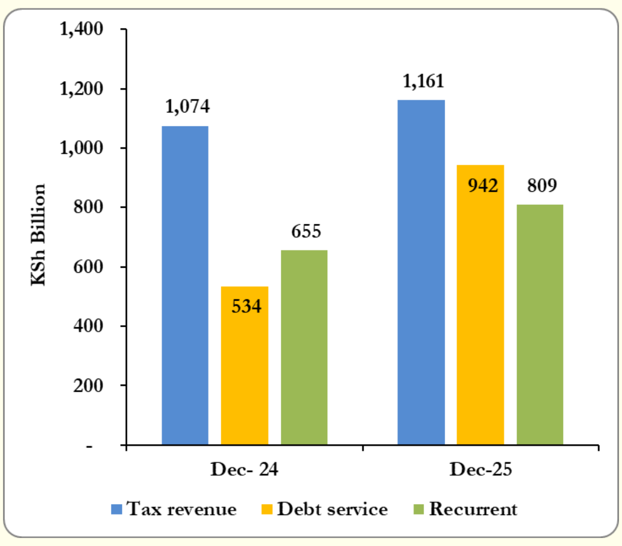
- **Kenya's fiscal disbursements still demonstrate uneven execution. Equitable share to counties yet again is not aligned to the approved schedule, while recurrent allocations to MDAs showing some departments overshooting their full-year targets.**
- **This questions the Government of Kenya's commitment to devolution. At national level development disbursements are weak with wide disparities across MDAs. Government priorities over the period are seen in sectors like fisheries, parliamentary services, and internal security.**
- **As Kenya prepares for the general elections, there is need to adequately fund and release resources to the electoral commission.**

Source: Kenya Gazette(Vol. CXXVIII—No. 10)

Debt and recurrent spending are increasing far faster than revenue

- With fiscal space tightening, Kenya is walking a tight rope as fixed obligations outpace revenue growth. Public debt service, equivalent to about 81 percent of first-half tax revenue and reflecting a 76 percent increase in FY 2025/26, leaves little for development.

Debt service and recurrent spending outpaced tax revenue growth in the first half of FY 2025/26 compared with FY 2024/25

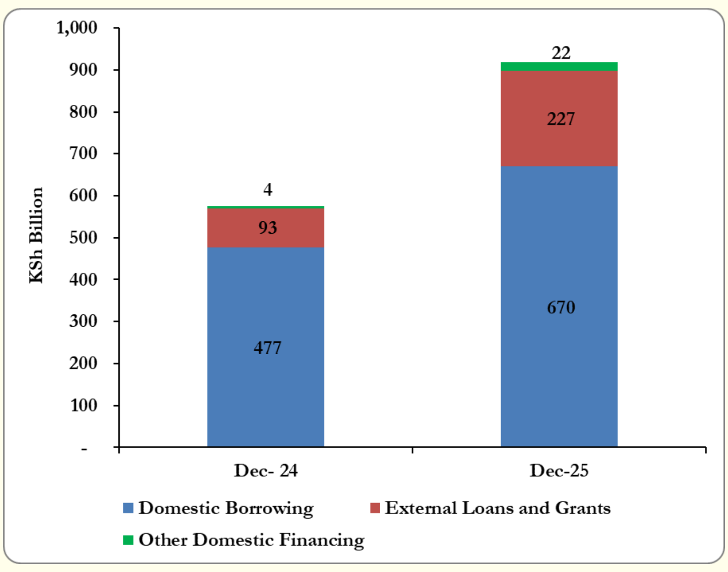


- Between the first half of FY 2024/25 and FY 2025/26, tax revenue increased from KSh 1,074 billion to KSh 1,161 billion, an improvement of about KSh 87 billion, while recurrent spending rose from KSh 655 billion to KSh 809 billion and debt service surged from KSh 534 billion to KSh 942 billion.

- In other words, a revenue gain of under KSh 100 billion is being matched against roughly KSh 150 billion more in recurrent spending and about KSh 400 billion more in debt service, widening the cash gap and intensifying pressure on discretionary spending.

Borrowing is accelerating to cover immediate fiscal gaps

Borrowing increased sharply in the first half of FY 2025/26 compared to the same period in FY 2024/25, driven by higher domestic borrowing and external financing



- Domestic borrowing increased from KSh 477 billion to KSh 670 billion, about 41 percent growth, while external loans and grants increased from KSh 93 billion to KSh 227 billion, about 145 percent growth, partly reflecting the cash impact of the Government's USD 1.5 billion international bond issuance in early October 2025.

Key policy actions for the mid-year outlook

The National Treasury should strictly adhere to the disbursement schedule for the county equitable share. In case of setbacks, the National Treasury should provide the Senate with a justification for deviations and a catch-up plan. This will improve fiscal predictability for counties and spur development.

Parliament, in its oversight role, should require justification from MDAs that exceeded 100 percent of their annual recurrent target by mid-year and for any vote with zero or near-zero development releases. This justification should guide parliamentary approval of reallocations and any supplementary adjustments, so that in-year changes are transparently justified and consistent with implementation readiness in accordance with Article 223

Source: Kenya Gazette(Vol. CXXVIII—No. 10)