



IPF

INSTITUTE OF PUBLIC FINANCE

Assessment of the National Assembly's Review of the FY 2026/27 Budget Estimates





1 Key messages

This analysis examines the extent to which the Budget and Appropriations Committee (BAC) Report on the Estimates of Revenue and Expenditure for FY 2026/27 and the Medium Term aligns with the fiscal framework and policy priorities outlined in the 2026 Budget Policy Statement (BPS). It also takes into account the changes that the National Treasury made between the BPS and the budget estimates that were submitted to Parliament. The final approved budget reflects changes made by both the NT and the BAC to the original framework agreed in the BPS.

Article 221 of Kenya's 2010 Constitution authorizes the National Assembly to amend the Budget Estimates submitted by the National Treasury. This authority is further guided by Section 39 of the Public Finance Management (PFM) Act, 2012, which requires that amendments remain consistent with the approved fiscal framework and fiscal responsibility principles. Any increase in expenditure should be accompanied by corresponding expenditure reductions or credible financing measures so that parliamentary amendments do not increase the overall fiscal deficit.

From the analysis we find that;

1 The National Treasury revised revenue projections upward by KSh 96 billion and increased total expenditure and net lending by KSh 82 billion between the approved BPS and the submitted Budget Estimates. The National Assembly approved these changes and added another KSh 25 billion to expenditure. As a result, the final approved Budget Estimates has an increase of KSh 96 billion in revenue and KSh 107 billion in expenditure and net lending relative to the approved BPS.

2 Parliamentary amendments increased total expenditure by approximately KSh 25 billion without corresponding reductions elsewhere or increases in revenue, resulting in a higher fiscal deficit than originally proposed and contradicting the PFM Act's requirement that amendments must be fiscally neutral.

3 The National Assembly largely maintained the sectoral priorities set out in the BPS. However, there were significant cuts to the Energy, Infrastructure and ICT (EIICT) sector relative to the BPS, suggesting that the government is shifting towards reliance on alternative infrastructure financing mechanisms such as privatization and Public-Private Partnerships.

The National Treasury increased the total expenditures and net lending estimates from KSh 4.74 trillion in the approved BPS to KSh 4.82 trillion in the submitted budget estimates. The National Assembly approved these revised estimates and introduced further upward adjustments bringing total expenditure and net lending

to KSh 4.84 trillion. This heightens the financing pressures and moves away from fiscal consolidation. Additionally, it reinforces the budget's orientation towards recurrent spending, as recurrent allocations have increased by KSh 56.5 billion, while development decreased by KSh 2.9 billion.

Table 1: While there is a small change in the fiscal deficit, overly ambitious revenue target threatens fiscal consolidation

Ksh Billion	FY 2026/27			Deviation
	Approved BPS 2026	Submitted Budget Estimates	Approved Budget Estimates	Approved Budget estimates vs Approved BPS 2026
Total Revenue	3,533.7	3,629.7	3,629.7	96.0
Total Expenditure & Net Lending	4,737.6	4,819.9	4,844.8	107.2
National Government Spending (A+B+C)	2,867.4	2,898.6	2,923.5	56.1
A. Ministries, Departments & Agencies (MDAs)	2,788.7	2,817.4	2,842.3	53.6
<i>Recurrent</i>	1,946.6	1,976.8	2,003.1	56.5
<i>Development</i>	842.1	840.6	839.3	(2.9)
B. Parliament	48.8	50.8	50.8	2.0
<i>Recurrent</i>	47.2	48.9	48.9	1.7
<i>Development</i>	1.6	1.9	1.9	0.3
C. Judiciary	29.9	30.4	30.4	0.5
<i>Recurrent</i>	27.3	27.8	28.1	0.8
<i>Development</i>	2.6	2.6	2.3	(0.3)
Consolidated Fund Services (CFS) Excluding Debt Redemption	1,450.2	1,501.3	1,501.3	51.1
<i>Public Debt interest</i>	1,203.1	1,254.2	1,254.2	51.1
<i>Other CFS</i>	247.1	247.1	247.1	0.0
Counties' Equitable Share	420.0	420.0	420.0	0.0
Grants	54.4	43.6	43.6	(10.8)
Fiscal Balance (Inclusive of Grants) ¹	(1,149.5)	(1,146.6)	(1,171.5)	(22.0)
GDP	20,947.50	20,816.80	20,816.80	(130.7)

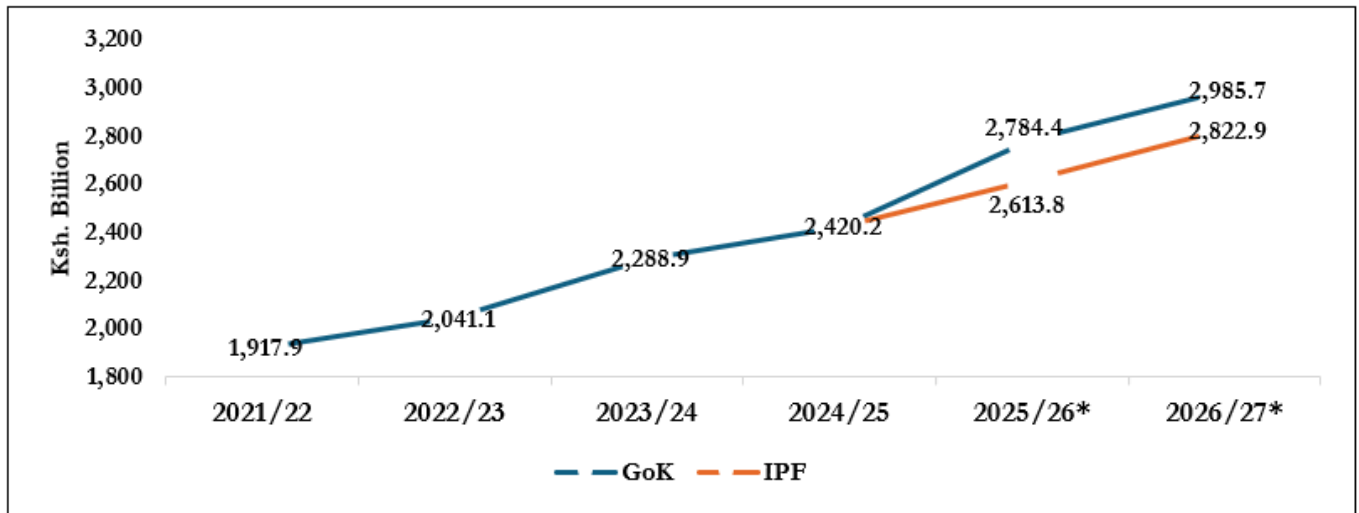
At the same time, the National Treasury revised the projection for total revenues upwards from KSh 3.534 trillion to KSh 3.63 trillion, representing a 3 percent rise relative to the BPS targets, and Parliament approved the revised estimates without amendments. However, this target is unrealistic given Kenya's persistent historical underperformance in revenue collection, with current FY 2025/26 projections already falling short of targets

(Table 1). In particular, an ordinary revenue target of KSh 2,986 is overly ambitious; assuming 8 percent average growth over the past three years and a more realistic outturn for the FY 2025/26 of KSh 2,613.8 yields a more realistic target of KSh 2,822.9 (figure 1). Surprisingly, BAC views the revenue target as realistic, ignoring underperformance in revenue observed since FY 21/22 (Pg 27).

These post-BPS revisions raise concerns about compliance with the principles governing parliamentary budget amendments. While Article 221 of the Constitution authorises Parliament to amend the Budget Estimates, Section 39 of the Public Finance Management (PFM) Act requires such amendments to align with the approved fiscal framework and fiscal responsibility principles. Specifically, any increase in spending should be matched by cuts elsewhere or by credible financing measures to prevent an overall rise in the fiscal

deficit. In this case, Parliament approved the National Treasury's upward revisions to the Budget Estimates and further revised budget estimates upwards, raising total expenditure and net lending to KSh 4.84 trillion while keeping total revenue unchanged at KSh 3.63 trillion, thereby widening the fiscal deficit by KSh 24.9 billion. This conflicts with the fiscal responsibility principles of the PFM Act, as the amendments widened the fiscal deficit rather than offsetting additional spending with reductions or other financing strategies.

Figure 1: Accounting for an average growth in revenues of 8%, KSh 2,822.9 is a more realistic ordinary revenue target



Current macroeconomic conditions also threaten revenue performance and the fiscal consolidation plan. Rising global fuel prices linked to Middle East tensions are likely to increase inflation and slow economic activity, while political uncertainties ahead of the elections may weaken reform momentum and revenue management efforts. In addition, recent tax measures, including the reduction of VAT on petroleum from 16% to 8%, are expected to lower VAT collections and constrain overall revenue growth; the Kenya Revenue Authority reported foregone tax revenues of [Ksh 9.1 billion](#) in the month of April alone. Further, there are doubts about the National Treasury's goal of raising an additional Ksh 120 billion from [Finance Bill 2026 proposals](#), some of which have faced opposition from various stakeholders.

The fiscal deficit remains elevated at Ksh 1,171.5 billion (at 5.4 percent of GDP). Moreover, planned national government development expenditure of KSh 843.5 billion remains significantly lower than the planned net borrowing of KSh 1,171.5 billion, implying that approximately KSh 328 billion of borrowed resources will finance recurrent, contrary to the provisions of the Public Finance Management Act, 2012.



An analysis of the BPS, the Executive's Programme-Based Budget (PBB), and the Budget and Appropriations Committee (BAC) Report indicates that the National Assembly largely maintained the sectoral budget shares proposed by the Executive. Most of the changes in expenditure priorities occurred between the BPS and the PBB stages of the budget process, with Parliament subsequently endorsing the Executive's proposed allocation structure.

Notably, the reduction in the Energy, Infrastructure and ICT (EIICT) sector from 21 percent in the BPS to 19 percent in the PBB was introduced by the Executive and retained in the BAC Report. Similarly, the increase

in the National Security sector's share of the total budget from 10 percent to 11 percent originated in the Executive's PBB and was subsequently upheld by Parliament. The Executive's decision to reduce the relative allocation to EIICT suggests a reprioritization of expenditure away from energy, infrastructure, and digital investments towards other competing sectors (table 2). While the executive may have had reasons for making these shifts just a couple of months after the BPS, it is the National Assembly's role to probe such changes, rather than simply approving them. Otherwise, the BPS has little meaning.

Table 2: The EIICT sector had a significant reduction while the ARUD sector recorded a gain in the share of total budget

% share of the total budget	BPS Ceiling	PBB Budget Estimates	BAC Report Estimates
Education	26.8%	27.0%	27.0%
EIICT	20.7%	18.5%	18.5%
PAIR	12.4%	12.4%	12.4%
GJLO	11.5%	12.2%	12.2%
National Security	10.5%	10.7%	10.7%
Health	5.8%	6.1%	6.1%
EPWNR	3.7%	3.9%	3.9%
ARUD	3.4%	3.7%	3.7%
SPCR	3.0%	3.4%	3.4%
GECA	2.2%	2.2%	2.2%

Data source: 2026 BPS, PBB, and BAC Report on FY 2026/27 Budget Estimates

Under the EIICT sector, the State Department for Energy experienced the largest cut, with allocations declining by KSh 42.5 billion (54 percent), primarily due to reductions in funding for power transmission, distribution, and generation projects. These cuts could slow the expansion of electricity connectivity, grid infrastructure, energy access initiatives, and geothermal power development.

Allocations to the State Department for Information, Communications Technology and the Digital Economy declined by KSh 5.3 billion (30 percent), while the State Department for Petroleum recorded a reduction of KSh 8.2 billion (27 percent). These reductions are significant given the critical role that energy,

infrastructure, digital transformation, and petroleum investments play in enhancing productivity, attracting private investment, lowering business costs, and supporting long-term economic growth. Furthermore, the government's continued reliance on borrowing despite reductions in development spending within strategic sectors such as EIICT raises concerns that a growing proportion of public debt may be financing recurrent expenditure rather than productive investments capable of generating future economic returns. This change broadly aligns with government pronouncements that it will fund infrastructure development through privatization and Public-Private Partnerships.

Compared with the BPS, the GJLO sector received an additional KSh 22.37 billion in the submitted budget estimates, and parliament proceeded to add an additional 10.2 billion, raising the total allocation to 32.6 billion. Of the increase, KSh 28.8 billion was allocated to recurrent expenditure. However, the GJLO's allocation as a share of the total budget remained broadly unchanged. Within the sector, the State Department for Internal Security and National Administration recorded the largest increase, with its allocation rising by 48 percent, while the National Police Service allocation increased by 6 percent.

However, since the National Security Sector budget is not audited, its justification should be anchored in transparent and quantifiable enhancements in the security sector's performance and institutional capacity. This includes measures of operational readiness, effectiveness in emergency response, intelligence and investigative capabilities and public trust in security services. In the absence of detailed expenditure information, these performance and outcome indicators provide an important basis for evaluating whether the increased allocations are delivering tangible value in security services.

Table 3: The GJLO sector received the highest increase while the EIICT sector experienced the biggest cut in the approved FY 2026/27 BAC report compared to the submitted budget estimates

Ksh Billion	Submitted Budget Estimates	Approved BAC Report	Variation
GJLO	352.4	362.6	10.2
EPWNR	112.4	121.2	8.7
National Security	308.6	316.2	7.6
ARUD	106.8	111.7	4.9
Education	781.3	784.5	3.1
Health	175.5	177.2	1.7
SPCR	99.6	101.3	1.6
GECA	64.9	65.5	0.6
PAIR	358.0	353.3	(4.7)
EIICT	536.0	530.3	(5.7)
Total	2,895.6	2,923.7	28.1

Compared to the BPS, the Education sector allocation increased from KSh 767.3 billion in the BPS to KSh 781.3 billion in the FY 2026/27 budget estimates, and the National Assembly approved a further increase to KSh 784.4 billion; exceeding the BPS ceiling by KSh 17.2 billion. Such significant increases are evidence of poor budgetary planning in the formulation stage, and are indicative of weaknesses in expenditure forecasting, evolving policy priorities, and limited adherence to previously agreed resource ceiling. Major increments compared to the BPS were the State Department for Technical and Vocational Education and Training (TVET), whose allocation increased from KSh 47.0 billion to KSh 58.5 billion, representing a 24 percent increase and signaling a stronger emphasis on technical skills development as a key driver of youth employment and industrialization.

On the other hand, Higher Education allocations increased marginally by 2 percent from KSh 160.1 billion to KSh 163.9 billion. Worth noting is that allocations to the Teachers Service Commission remained unchanged at KSh 424.3 billion, claiming the largest share of sector resources. The government has allocated KSh 30 billion for Junior Secondary School (JSS) capitation aimed at supporting the rollout of the CBE curriculum by covering essential learning resources and operational costs. This is a positive step, despite ongoing concerns about the late disbursement of capitation funds to schools. Additionally, concerns persist regarding (JSS) intern teachers whose contracts have yet to be converted into permanent and pensionable terms, with many citing repeated contract renewals and the absence of long-term employment security.

The FY 2026/27 budget estimates by the National Treasury revised the total expenditures and net lending upwards from the BPS ceilings. Similarly, the BAC Report further diverges from the fiscal consolidation path outlined in the BPS by increasing expenditure while relying on optimistic revenue projections that face significant implementation risks. Although additional resources have been directed towards sectors like security and education, the budget remains heavily

skewed towards recurrent spending, while allocations to growth-enhancing sectors such as Energy, Infrastructure and ICT have been reduced. This expenditure composition raises concerns about the sustainability and quality of public spending, particularly as the fiscal deficit remains high and borrowing continues to exceed development expenditure. Going forward, we recommend that:

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1

The National Treasury and the National Assembly should uphold the BPS as the primary instrument for locking in fiscal aggregates and sector resource allocations. Material changes to expenditure, revenue, fiscal deficit targets or sector ceilings after BPS approval should only be allowed in exceptional cases with transparent justification.

2

The government should rebalance budget cuts away from excessive development expenditure cuts toward rationalization of recurrent and administrative spending to protect growth-enhancing investments.

3

The National Treasury and the National Assembly should strengthen the credibility of the budget by aligning revenue projections with historical revenue performance and macroeconomic conditions

4

The government needs to reinforce adherence to the Public Finance Management (PFM) Act, 2012, especially Section 15(2)(c) which specifies that borrowing should only fund development expenditure. Therefore, borrowing for recurrent expenses is illegal, weakens fiscal discipline and damages public confidence in financial governance.

5

The substantial increase in allocations to security agencies should be accompanied by clear performance indicators such as improvements in public safety, responsiveness of security services and resilience against emerging threats and regular monitoring to ensure that additional resources translate into improved public safety, reduced crime and enhanced service delivery.