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FY 25/26 Annual Budget Performance

Exchequer releases June 2026

Key developments in the FY 2025/26

- FY2025/26 total revenue was 98 percent of the revised target despite two downward revisions, reinforcing concerns that optimistic revenue forecasting continues to undermine budget credibility and increase reliance on in-year fiscal adjustments.
- Total MDAs spending reached KSh 2,131 billion, equivalent to 98 percent of the revised allocation and 20 percent higher than the previous financial year.
- Development spending grew faster than recurrent spending for the first time in three financial years, but several MDAs continued to record low development budget absorption, pointing to persistent implementation constraints.
- Although counties received the full KSh 415 billion equitable share allocation, the release of two months' disbursements in June reduced the time available for effective utilisation.
- Government borrowed KSh 2,005 billion in FY2025/26, a 28 percent increase over FY2024/25, underscoring the continued dependence on debt to finance the gap between expenditure commitments and revenue shortfalls, increasing public debt and future debt-servicing obligations.
- Debt service increased by 17 percent outpacing revenue growth and continuing to reduce fiscal space for development spending.

FY 2025/26 Supp II revised total revenue targets still proved optimistic, with collections falling 2 percent short of the revised target

Ksh Billion	Original Estimates	Supp I	Supp II	Actual Receipt	Actual Receipts as Percentage of Supp II
Total Revenue (Tax revenue + Non -tax revenue)	2,754.8	2,784.2	2,640.6	2,600.8	98%
Tax revenue	2,627.1	2,600.8	2,457.4	2,450.5	100%
Non-tax revenue	127.7	183.7	183.2	150.3	82%
Domestic Borrowing	1,098.3	1,669.7	1440.5	1,297.6	90%
External Borrowing	569.8	694.3	831.0	697.5	84%
Other Domestic Financing	10.8	10.8	10.8	8.7	80%
Total MDAs spending	1,877.6	2,159.6	2,171.8	2,130.7	98%
Recurrent Spending (MDAs)	1,470.5	1,676.6	1,684.3	1,673.4	99%
Development Spending (MDAs)	407.1	483.0	487.5	457.2	94%
Total Consolidated Fund Services (CFS) (A+B+C)	2,141.0	2,584.6	2,336.1	2,036.2	87%
Debt repayment (A)	1,901.4	2,344.6	2,096.1	1,826.5	87%
Pension and Gratuities (B)	234.9	234.9	234.9	206.4	88%
Salaries & allowances to constitutional officeholders and miscellaneous (C)	4.7	5.2	5.1	3.4	67%
County Governments Equitable share	415.0	415.0	415.0	415.0	100%

- Tax revenue collection of KSh 2,450 billion in FY 2025/26 fell short of the revised Supplementary Budget II target of KSh 2,457 billion by about KSh 7 billion, despite the target having already been reduced from the original estimate of KSh 2,627 billion.
- Treasury shifted its financing strategy toward external borrowing in supplementary II, reducing domestic borrowing by KSh 229 billion while increasing external borrowing by KSh 137 billion, indicating shift in government's financing mix.
- Compared to Supplementary I, the Supplementary II budget for MDAs and CFS shrank by Ksh 236 billion overall, driven primarily by lower debt repayment provisions rather than cuts to ministerial expenditure.

Source: Kenya Gazette(Vol. CXXVIII—No. 120)

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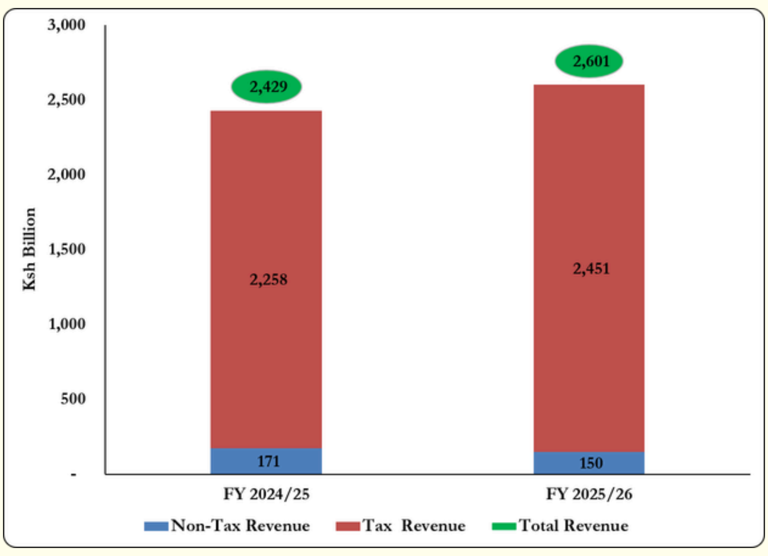
Total revenue (Tax+ non-tax) collection recorded a 7 percent growth in FY 2025/26 compared with the last financial year

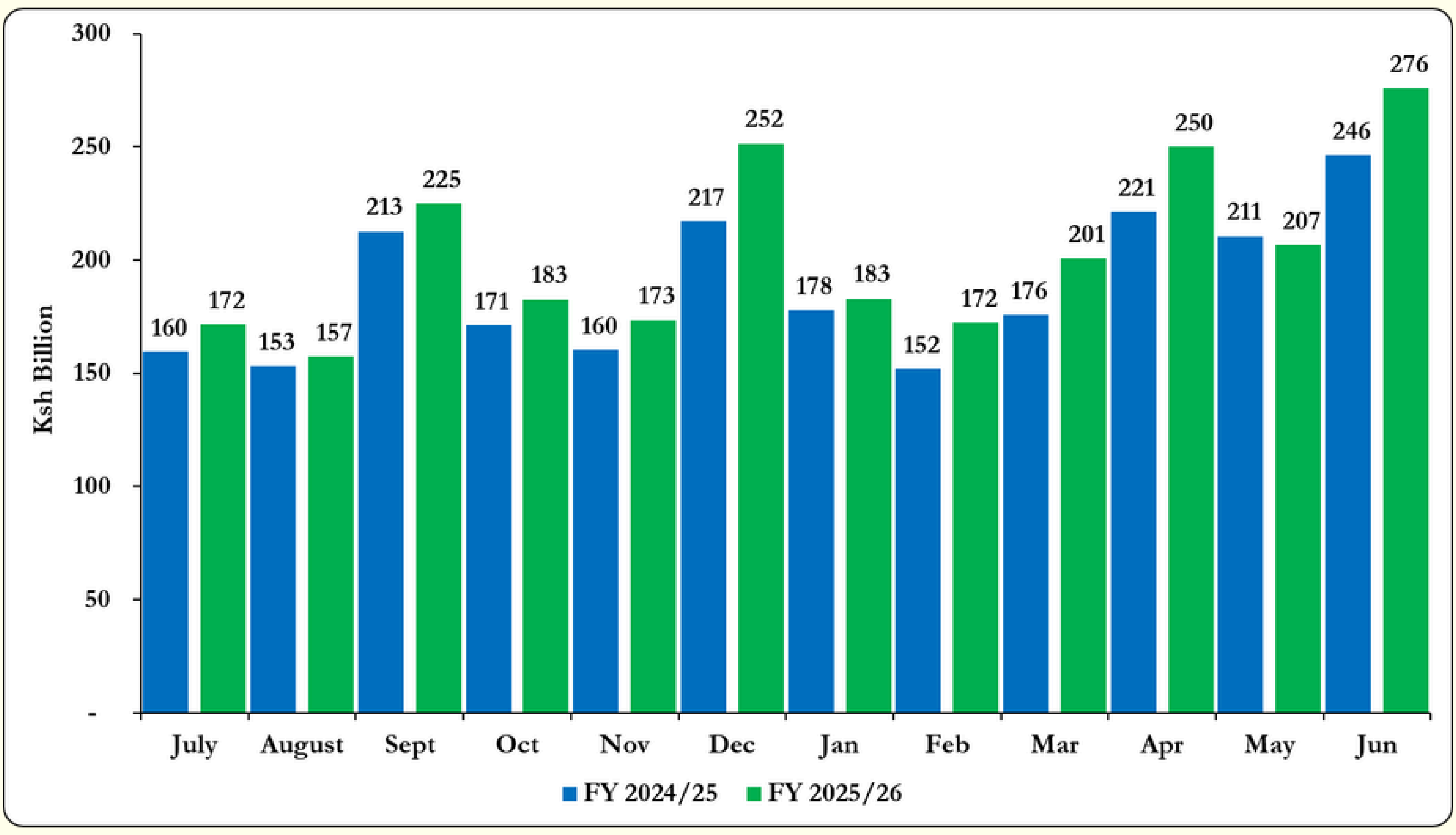


Total revenue amounted to KSh 2,601 billion, falling KSh 40 billion short of the revised target and KSh 154 billion below the original estimate, reinforcing concerns over the realism of revenue forecasting and budget credibility.

In FY 2025/26, revenue growth was mainly driven by tax revenue, which recorded a 193 billion increase, translating to 9 percent growth.

Despite overall total revenue growth, non-tax revenue recorded a 12 percent decline compared with the last financial year.

Monthly tax revenue collections remained above FY 2024/25 levels throughout FY 2025/26, with June 2026 recording the highest monthly collection over the two-year period

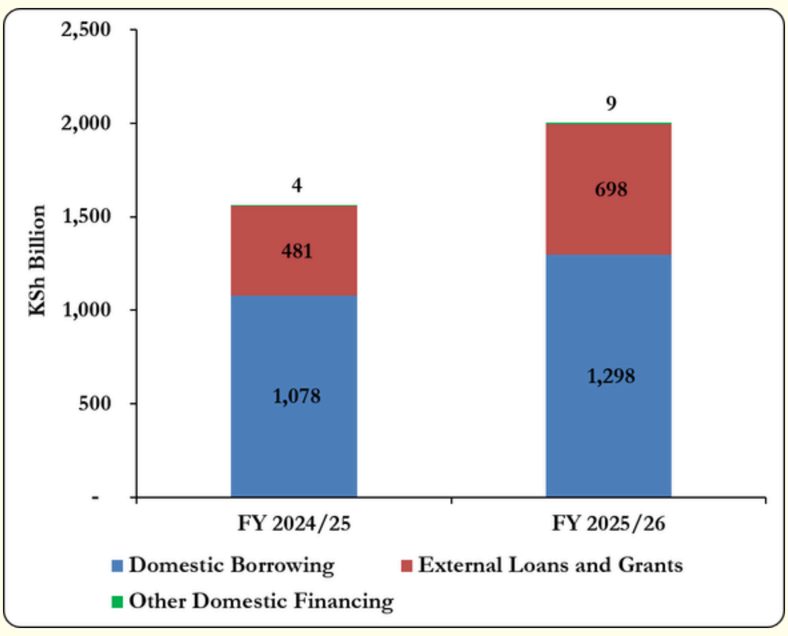


Tax revenue collected met the revised annual target, recording a 9 percent year on year increase, more than double the 4 percent growth recorded in FY 2024/25.

The Kenya Revenue Authority (KRA) attriuted growth in tax revenue collection to:

- **Use of technology:** KRA expanded digital systems to improve transaction visibility and reduce tax leakage, for example through eTIMS and data analytics.
- **Simplified tax compliance:** Tax registration, filing and payment were made easier through services such as pre-filled returns, the KRA chatbot and the *222# USSD platform.
- **Improved taxpayer support:** KRA brought services closer to taxpayers through initiatives such as Ushuru Mashinani and county taxpayer forums.
- **Expansion of the tax base:** KRA identified and registered individuals and businesses operating outside the tax system, including landlords and inactive taxpayers.
- **Collection of tax at source:** System integrations enabled taxes to be deducted and remitted directly, such as the 0.5 percent withholding tax on goods supplied to government.
- **Enhanced tax debt recovery:** KRA increased follow-up on unpaid taxes through demand notices and negotiated instalment payment plans.
- **Improved customs administration:** Customs systems and cargo-scanning technologies were strengthened to speed up clearance and reduce revenue leakages.
- **Faster resolution of tax disputes:** Alternative Dispute Resolution was used to settle tax cases more quickly and unlock outstanding revenue.
- **Intelligence-led enforcement:** KRA used data analysis, taxpayer profiling and public reporting platforms such as iWhistle to identify tax evasion and fraud.

Gross external borrowing increased by 45 percent, while domestic borrowing recorded 20 percent growth



- **Gross borrowing rose by 28 percent year-on-year from KSh 1,563 billion in FY 2024/25 to KSh 2,005 billion in FY 2025/26, reflecting increased reliance on debt financing amid persistent revenue shortfalls and sustained expenditure pressures**

Source: Kenya Gazette(Vol. CXXVIII—No. 120)

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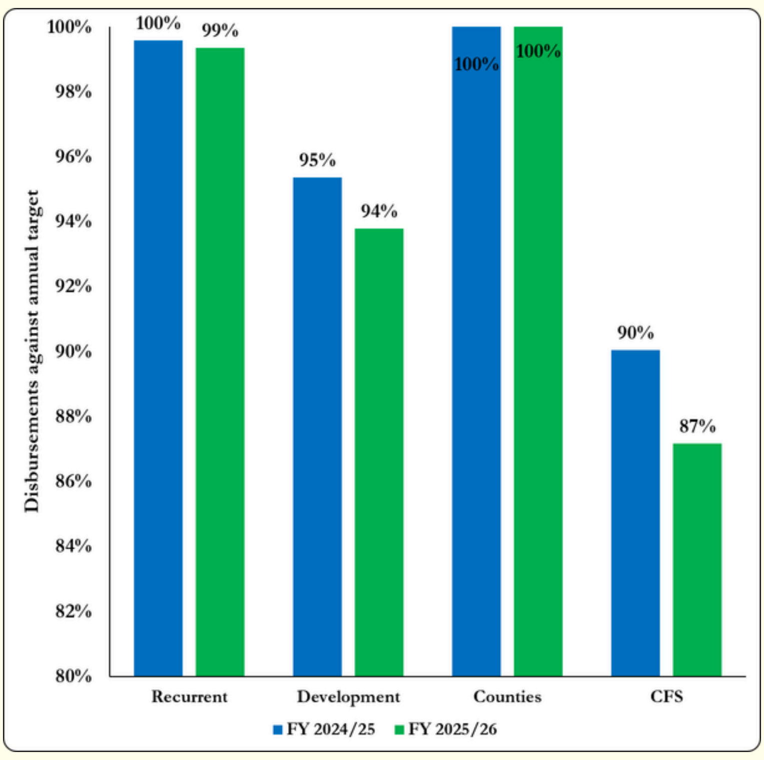
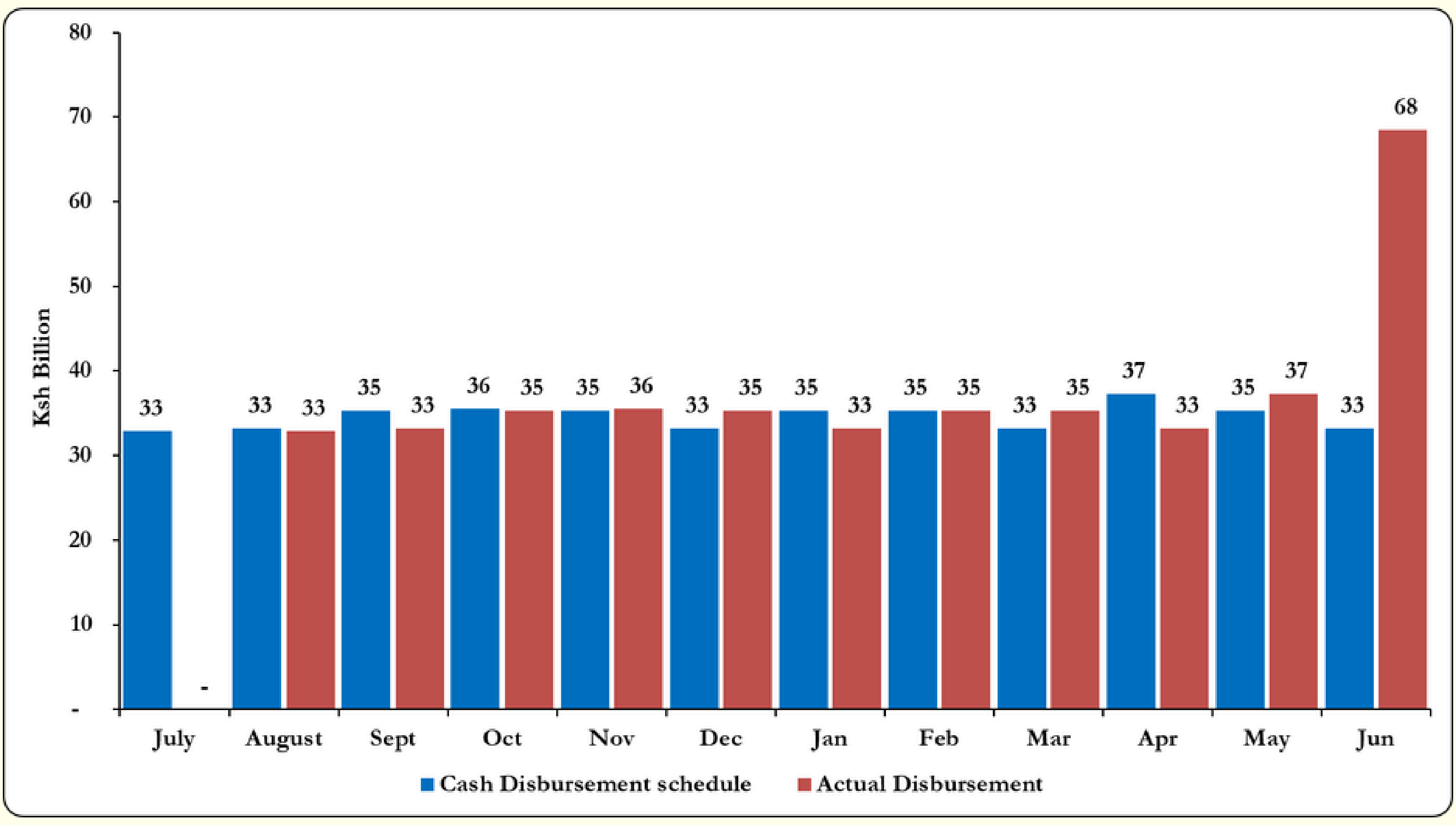
MDAs' development, recurrent disbursements, and CFS disbursements declined slightly year on year, while transfers to counties were fully disbursed.



- Development spending reached 94 percent of its revised annual target.
- Nonetheless,some MDAs recorded low disbursements, led by the State Department for Mining at 10 percent, State Department for Petroleum (46 percent), the Teachers Service Commission and the State Department for Labour and Skills Development (59 percent), the State Department for Housing and Urban Development (69 percent), and the Ethics and Anti-Corruption Commission (68 percent).
- Recurrent spending reached 99 percent of its revised target, continuing to outperform development spending and ensuring day-to-day government operations were almost fully funded.

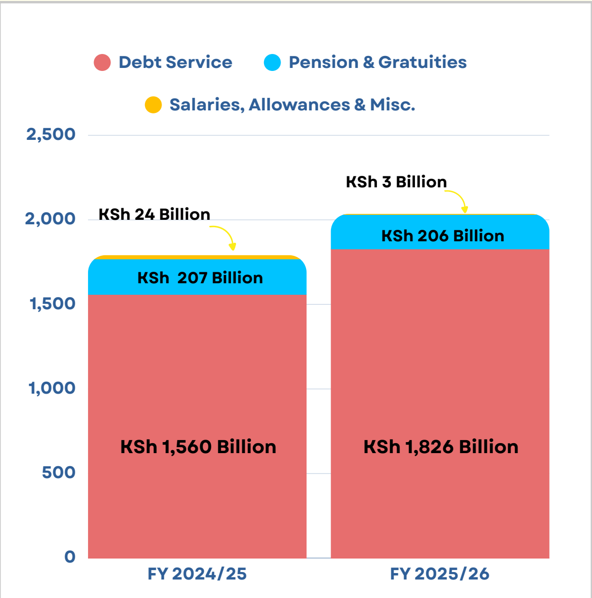
By the end of the FY 2025/26 county governments had received all the allocated equitable share budget of KSh 415 billion



- County disbursements remained broadly aligned with the approved cash disbursement schedule for most of FY2025/26, reflecting relatively predictable monthly transfers despite the delayed start of the financial year.
- The delayed implementation of the Division of Revenue Act 2025 postponed the July 2025 transfer, resulting in an large June 2026 disbursement of KSh 68 billion to clear the accumulated shortfall.
- Although counties ultimately received 100 percent of their equitable share allocation, releasing Ksh 68 Billion (17 percent) of the annual allocation in June 2026 compressed budget execution and limited the time available for effective planning, procurement, and implementation of development programmes affecting service delivery.

consolidated fund services expenditure grew by 14 percent compared to the same period last year largely driven by debt service

- In FY 2025/26 debt service increased to KSh 1,826 billion, up from KSh 1,560 billion recorded in the same period last financial year, representing a 17 percent increase marking the largest increase in the last 3 Financial years.
- Debt service grew nearly twice as fast as tax revenue, indicating that a growing share of government revenue was being absorbed by debt obligations.
- The widening gap between debt service and revenue growth reduces fiscal space for development spending and increases pressure on future budgets.



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