Institute of Public Finance

Fiscal Analytics Series (FAS)

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Beyond Budget Promises: How well did the government implement the FY 2025/26 budget?

IPF
INSTITUTE OF PUBLIC FINANCE

1. Overview

This analysis examines how well the government implemented the FY 2025/26 budget against the original approved budget. Findings reveal significant budget credibility gaps, with revenue falling below target, while both expenditure and the fiscal deficit were above target. Also worth noting is that at the sector level, relatively high absorption, particularly in social sectors, did not consistently translate into achievement of Key Performance Indicators (KPIs).

Key Findings:

i. **Total revenue was below target despite recording 9 percent year-on-year growth, confirming our earlier assessment that the projected revenue growth target of 15 percent over the previous year was overly optimistic.**
ii. **iTotal expenditure was above target on account of significant in-year upward revision to KSh 4,484 billion (23.2 percent of GDP) from KSh 4,270 billion (22.1 percent of GDP).**
iii. **With revenue under-performance and expenditure above target, the fiscal deficit also exceeded target at KSh 1,285.4 billion (6.9 percent of GDP) compared to an original target of KSh 948.0 billion (5.0 percent of GDP).**
iv. **Whereas both recurrent and development spending were revised upwards, development spending bore a disproportionate share of under-execution of the revised budget. Ministries, Departments and Agencies (MDAs) absorbed 81 percent of their development budget compared to 90 percent for recurrent expenditure.**
v. **The financing mix shifted toward higher-than-target domestic borrowing as external financing fell short of target. Because domestic debt typically carries higher interest costs and shorter maturities than external financing, this shift adds directly to debt servicing costs and reinforces the debt-sustainability pressures: 41 percent of ordinary revenue was spent on interest payments.**
vi. **IPF's application of the PEFA methodology rated aggregate expenditure outturn 'A' while expenditure composition remained broadly aligned with the approved budget.**
vii. **Social sectors were relatively protected in budget execution, but high absorption did not consistently translate to achievement of Key Performance Indicators (KPIs).**

2. Assessing Fiscal Performance and Budget Credibility

2.1 Total revenue collection was below target, continuing recent trends

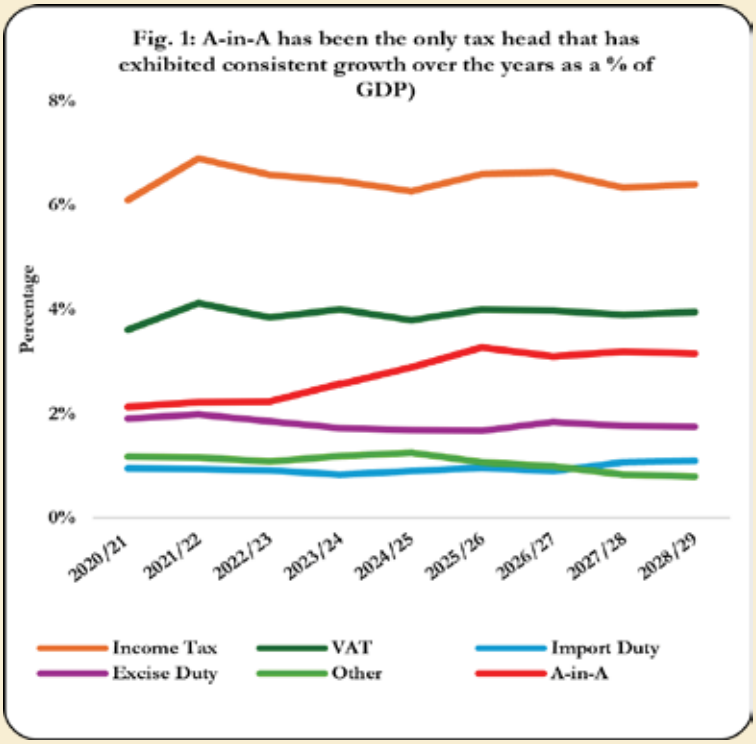
Total revenue fell short of target despite recording a higher year-on-year growth, reaffirming our earlier assessment that a target of KSh 3,322 billion (18.5 percent of GDP) was overly ambitious. Total revenue, including Appropriations-in-Aid (AiA), amounted to KSh 3,199 billion 17.2 percent of GDP) in FY 2025/26, translating to a growth of 9 percent. Ordinary revenue grew by 7 percent, with all major tax heads contributing to this growth (Table 1).

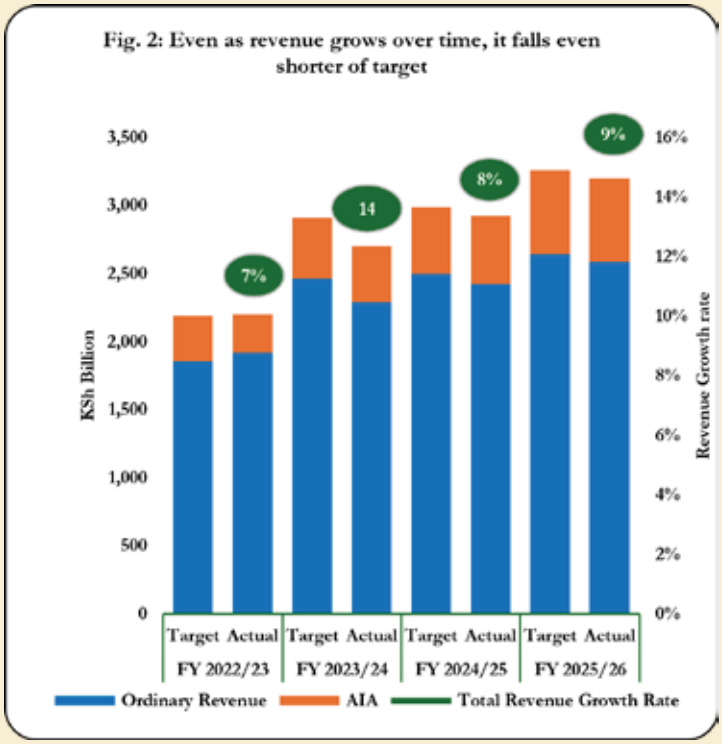
Table 1: Revenue underperformed against target across most tax heads, even where year-on-year growth was positive

Tax Heads (Ksh Billion)	Original Target	Revised Target	Actual	Y-O-Y Growth	Deviation (Actual vs Original Target)
Total Revenue (A+B)	**3,321.7**	**3,259**	**3,198.8**	**9.4%**	**(122.9)**
Ordinary Revenue (A)	**2,754.7**	**2640.6**	**2,588.4**	**7.0%**	**(166.3)**
Income Tax	1,284.8	1169.4	1,175.6	7.6%	(109.2)
Import duty	162.9	176.5	180	14.6%	17.1
Excise duty	335.5	313.3	312	6.7%	(23.5)
Value Added Tax	771.7	721.4	722.4	9.3%	(49.3)
Investment Income	69.6	150.2	84.8	0.0%	15.2
Other	130.2	109.8	113.2	-14.2%	(17.0)
AIA (B)	**566.9**	**618.3**	**610.4**	**21.3%**	**43.5**

Data Source: 2026 BROP

Despite this growth, revenue fell short of the original approved target by KSh 122.9 billion, translating to performance of 96 percent against target. Even after in-year downward revision, revenue collection still fell below the revised target of KSh 3,259 billion by KSh 60.2 billion. Ordinary revenue accounted for most of this underperformance, reaching KSh 2,588.4 billion, translating to a shortfall of KSh 166 billion below the original target and Ksh 52 billion below the revised target. This underperformance was observed across most tax heads (table 1). Investment income, however, was above its original target but below the revised target, mainly due to lower Safaricom dividend receipts following Government's partial divestiture of its stake.





Data Source: Various BROPs

Ministerial AiA recorded a growth of 21.3 percent and a more modest shortfall of KSh 7.9 billion. The Budget Review and Outlook Paper (BROP) attribute this performance broadly to revisions in fees and charges by MDAs, without disaggregating which specific charges were revised. [2]

Applying the Public Expenditure and Financial Accountability (PEFA) [3] assessment methodology, the observed revenue performance translates to a score of D[i], reflecting revenue collection of less than 92 percent of the original approved budget. Revenue performance averaged 91 percent of the original approved budget over the period FY 2023/24 to FY 2025/26. The three-year performance therefore points to persistent weaknesses in revenue forecasting and mobilization. Because revenue has been overestimated more often than not, expenditure plans built on those projections are exposed to the same fragility.

2.2 Total expenditure was above target following multiple-in-year adjustments

Total expenditure was KSh 214.2 billion above target, following multiple-in-year upward revisions through supplementary budgets. Total expenditure and net lending amounted to KSh 4,484 billion, against the original approved target of KSh 4,270 billion. These in-year upward revisions came even after revenue targets were revised downwards, resulting in above-target net borrowing. However, the in-year revisions benefited recurrent expenditure, resulting in above-target recurrent spending of KSh 151.2 billion while development spending was below target by KSh 82.5 billion. Interest spending fell below target by 2 percent, while Pension and Other CFS[ii] was 19 percent below target.

i A 'C' score under PEFA requires actual revenue to be between 92% and 116% of budgeted revenue in at least two of the last three years and D score if Performance is less than required for a C score. Revenue performance was 87 percent, 96 percent, and 91 percent of the target for the FYs 2023/24, 2024/25, and 2025/26, respectively.

ii Other CFS includes Salaries for heads of constitutional and independent offices

Table 2: Expenditure was above target in FY 2025/26 following two in-year reviews

FY 2025/26(KSh Billion)	Budget			Expenditure	Deviation	Absorption Rate	
	Original	Sup I	Supp II	Actual	Actual Vs Original	Actual Vs Supp II	Actual Vs Original
Expenditure and Net Lending(A+B+C)	**4,269.9**	**4,638.4**	**4,656.5**	**4,484.2**	**214.3**	**96%**	**105%**
A. Recurrent expenditure	**3,134.1**	**3,393.2**	**3,400.7**	**3,285.3**	151.2	97%	105%
MDAs Recurrent	1,831.2	2,061.1	2,072.3	2,044.7	213.5	99%	112%
Interest payments	1,097.7	1,126.5	1,126.8	1,074.4	(23.3)	95%	98%
Pension & Other CFS	205.2	205.6	201.6	166.2	(39.0)	82%	81%
B. Development and Net lending	**649.0**	**758.4**	**771.0**	**731.5**	**82.5**	**95%**	**113%**
C. County transfers	**484.8**	**484.8**	**484.8**	**467.3**	**(17.5)**	**96%**	**96%**
Equitable share	415.0	415.0	415.0	415.0	-	100%	100%
Conditional Allocation	69.8	69.8	69.8	52.3	(17.5)	75%	75%
Total Financing	**901**	**1,199.4**	**1357.7**	**1251.0**	**350.0**	**92%**	**139%**

Data Source: BROP and Budget Summary FY 2026/27

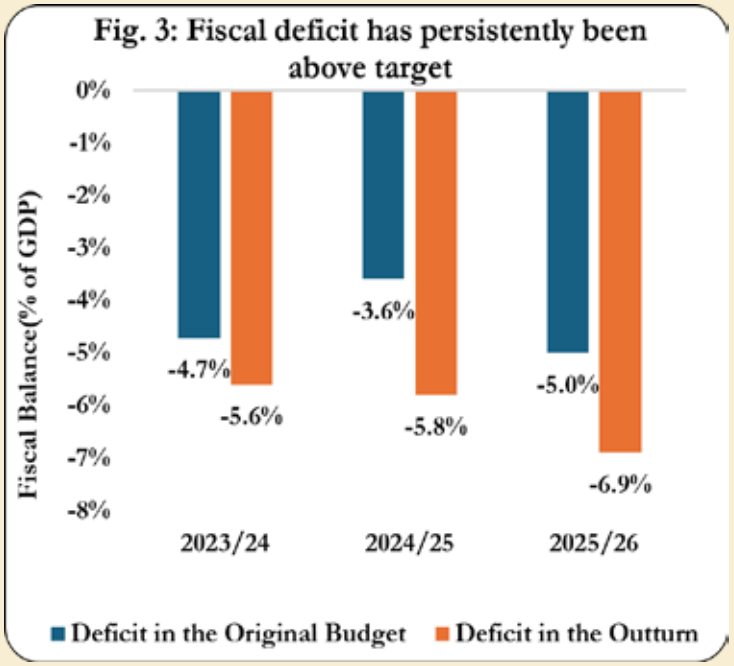
Recurrent spending, including interest spending, recorded a high absorption rate, meaning that Ministries, Departments and Agencies (MDAs) development spending bore the costs of in-year budget adjustments and revenue underperformance. Aggregate spending was 96 percent of the revised target and 105 percent of the revised target, meaning revenue under-performance and expenditure over-execution were met through additional borrowing. Net borrowing was 39 percent above its original target, further delaying fiscal consolidation (Table 2).

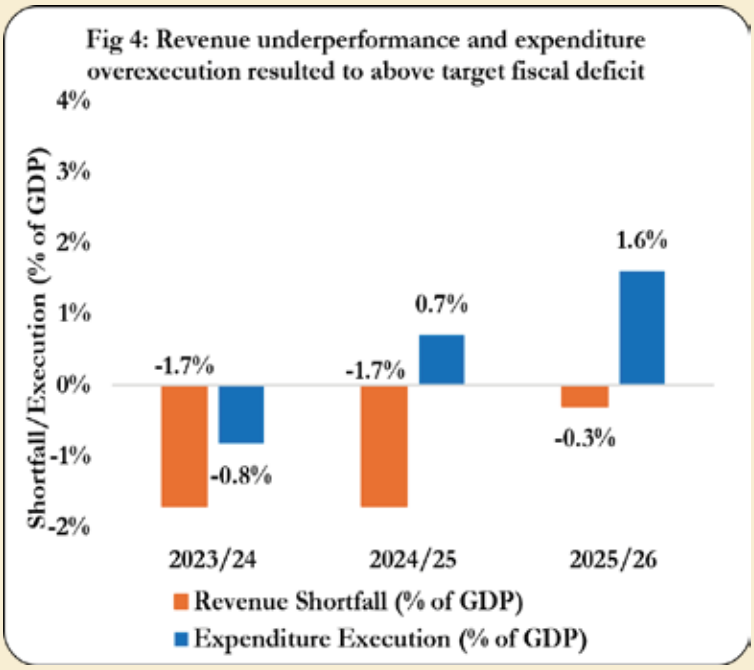
2.3 Counties received 100 percent of their equitable share, but additional allocations were below target

Counties received 100 percent of their equitable share disbursement by the close of the year, but additional allocations fell short of target. The approved equitable share of KSh 415 billion was disbursed fully and was above Article 203 floor of 15% of the most recently audited national revenue. However, the disbursement was below the Commission on Revenue Allocation (CRA) recommendation of KSh 417.4 billion . Counties' additional allocation disbursements were KSh 49.4 billion, well below the approved KSh 70.7 billion, amounting to a 70% disbursement rate. This, however, was a better performance compared to FY 2024/25's 36% disbursement rate. The lower disbursement rate is attributed to the late enactment of the County Governments (Additional Allocations) Act, a persistent problem.

2.4 Consistent with revenue underperformance and expenditure over execution, the fiscal deficit was above target

The FY 2025/26 fiscal deficit was above target by KSh 337.4 billion (1.9% of GDP). The deficit widened from KSh 948.0 billion (5 percent of GDP) in the approved budget to KSh 1,285.4 billion (6.9% of GDP). The above target fiscal deficit was on account of expenditure over-execution of 1.6 percent of GDP, despite revenue underperforming by 0.3 percent of GDP (Fig. 4).





Data Source: Various BROPs

2.5 Government borrowing was above target in line with the above-target fiscal deficit

The fiscal deficit was financed through a shift toward more expensive domestic borrowing, as external financing fell short of target (table 3).

Table 3: External financing fell far short of plan, shifting the net financing to more costly domestic debt

Financing	Original Target	Revised Target	Actual
Net domestic borrowing	KSh 613.5 bn	KSh 973.7 bn	KSh 983.7 bn
Net external financing	KSh 287.4 bn	KSh 384.0 bn	KSh 267.3 bn
Development Spending	KSh 649.0 bn	KSh 771.0 bn	KSh 731.5 bn

Data Source: BROP

The observed borrowing outcomes are a direct consequence of the above-target fiscal deficit: financing a wider-than-approved deficit required more borrowing overall, and the shortfall in external financing was met through higher domestic borrowing. Of the KSh 1,206 billion borrowed in FY 2025/26, only 61 percent was matched by development expenditure, leaving KSh 474.5 billion unmatched. This suggests that a significant share of borrowing financed recurrent spending rather than development. This is inconsistent with Section 15(2)(c) of the Public Finance Management Act, which requires that, over the medium term, national

government borrowing be used only to finance development expenditure and not recurrent expenditure.

Consistent with government's borrowing choices, debt sustainability indicators point to a continued high risk of debt distress, with rising debt service and refinancing pressures already constraining fiscal space. Total interest payments consumed 41 percent of ordinary revenue collected, leaving 59 percent of revenue to fund other priorities, including social spending. The Present Value (PV) of the total public debt-to-GDP ratio stood at 65.6% in 2026, against the 55% benchmark and is projected to remain above the threshold through 2029. Similarly, the Public and Publicly Guaranteed (PPG) debt service to exports ratio is expected to stay above the 15% sustainability benchmark through 2030. Debt servicing obligations, elevated refinancing needs, and external vulnerability continue to constrain the fiscal space available for development spending.

2.6 Both MDA's recurrent and development spending were above target

Total MDA spending was KSh 2,776.2 billion against an original target, translating to an absorption rate of 112%. Both recurrent and development for MDAs exceeded the original budget allocations but remained below the revised targets (Table 4).

Whereas development spending was 13 percent above its original target, it was below the statutory threshold of 30 percent of total expenditure. Development expenditure reached KSh 731.5 billion against the original target of KSh 649 billion, translating to an absorption of 113%. However, development expenditure amounted to KSh 731.5 billion, equivalent to just 26 percent of total expenditure, well below the 30 percent statutory threshold. At the same time, recurrent expenditure accounted for 74 percent of spending, indicating a strong tilt towards recurrent expenditure and limiting the resources available for development investment and long-term growth.

Social sectors recorded relatively strong budget absorption compared to agriculture, energy and environment sectors. Health, Education and Social Protection, and Culture and Recreation (SPCR) recorded absorption rates of 95 percent, 91 percent, and 92 percent, respectively. These rates were higher than those in other sectors, particularly Energy, Infrastructure and ICT (EIICT) and Environment Protection, Water and Natural Resources (EPWNR), which recorded rates of 70 percent and 74 percent, respectively.

Table 4: Social sector absorption was substantially better than other sectors such as Energy and Environment

Ksh Billion	Recurrent			Development			Total		
	Actual*	Target	Absorption Rate	Actual*	Target	Absorption Rate	Actual*	Target	Absorption Rate
Social sectors									
Health	122.9	127.0	97%	33.5	37.9	88%	156.4	164.9	95%
SPCR	58.9	63.4	93%	29.5	32.9	89%	88.3	96.4	92%
Education	665.4	726.5	92%	26.8	31.0	86%	692.2	757.5	91%
Other sectors									
GJLO	294.5	301.5	98%	24.6	26.7	92%	319.1	328.2	97%
National Security	278.8	286.8	97%	1.0	4.6	22%	279.8	291.4	96%
PAIR	227.3	250.1	91%	109.7	122.8	89%	337.0	372.9	90%
ARUD	32.4	45.4	71%	68.0	72.0	94%	100.5	117.4	86%
GECA	34.5	46.2	75%	28.8	33.4	86%	63.3	79.5	80%
EPWNR	18.4	40.6	45%	66.4	74.7	89%	84.8	115.4	74%
EIICT	95.5	154.5	62%	333.2	453.7	73%	428.7	608.2	70%
Total	**1,648**	**1,755**	**94%**	**225**	**256**	**88%**	**1,873**	**2,011**	**93%**

Data Source: 2026 Draft BROP

Applying the PEFA methodology, aggregate expenditure outturn received an A rating while the expenditure composition across the selected social sectors remained broadly aligned with approved budget shares. The FY 2025/26 outturn was at the upper limit of the rating threshold. Aggregate expenditure outturn stood at 96 percent, 100 percent and 105 percent of the originally approved budget in FY 2023/24, FY 2024/25 and FY 2025/26, respectively, which results in an A rating. However, this score should be interpreted alongside the revenue performance score of D. Revenue performance averaged 91 percent of the original budget over the three-year period, compared with the 100 percent for aggregate expenditure outturn. This divergence indicates a misalignment between revenue collection and expenditure execution, with expenditure closer to target even with underperformance in revenue, resulting in increasing reliance on borrowing to finance the resulting fiscal gap.

A similar assessment of social sectors' expenditure composition is necessary to determine whether actual spending followed the priorities reflected in the original budget. The composition-variance calculation for Health, Education and Social Protection, Culture and Recreation (SPCR) yielded variances of approximately 2 percent, 3 percent and 3 percent in FY 2023/24, FY 2024/25 and FY 2025/26, respectively, which corresponds to an A rating under the PEFA PI-2.1 threshold.[iii] These results suggest that expenditure composition across the three selected social sectors remained broadly aligned with their approved budget shares.

iii An A-score requires composition variance of less than 5 percent in at least two of the three years

Table 5: Under PEFA, both aggregate expenditure outturn and selected social-sector composition variance translated to an A score

Indicator	FY2023/24	FY 2024/25	FY2025/26	Average	Assessment
Revenue outturn (% of originally approved budget)	91%	87%	96%	91%	A rating under PI-3.1
Aggregate expenditure outturn (% of originally approved budget)	96%	100%	105%	100%	A rating under PEFA PI-1
Composition variance: Health, Education and SPCR	2%	3%	3%	4%	Below the 5% variance threshold in all three years

Data Source: Authors' calculations using the PEFA methodology and budget outturn data

2.7 Social sectors were relatively protected; however, challenges were present in the achievement of delivery targets

The health sector budget share of the total budget increased from 5% in the original budget for FY 2025/26 to 6% in the revised budget, indicating that health sector spending was not affected by revenue underperformance. This, however, did not eliminate implementation challenges. During FY 2025/26, several planned service delivery targets recorded low levels of achievement, including significant shortfalls in oncology services, HIV prevention and the onboarding of public health facilities onto the digital health information exchange. Delays were also evident in some health projects, indicating that maintaining the sector's budget share did[5] not necessarily translate into timely implementation and achievement of planned outputs. Notably, two KPIs had targets closely similar to those set in FY 2024/25, and their performance was better in that year, with one KPI exceeding the target. This suggests that the FY 2025/26 targets were not inherently unrealistic.

Education's share of the budget for FY 2025/26 declined from 28 percent to 26 percent; however, implementation challenges persisted. There were challenges in higher education, for example, projects such as the construction of the administration and tuition Block at the Technical University of Kenya, which was to be completed by June 2026, had 34% completion by the end of FY 2025/26. Other projects under the higher education programme, such as the construction of an engineering complex at the University of Nairobi and a college of engineering tuition block, experienced delays.

Absorption rates are hindering achievement of KPIs. Low-budget absorption has constrained the implementation of planned activities and undermined progress towards some key performance indicators. For instance, the Financing and Planning subprogramme absorbed only 52% of its allocated budget, while the target for training officers in planning, monitoring and evaluation was not achieved. This reveals a gap between budget allocation and the delivery of planned outputs, which shows that the resources allocated were not fully translated into the intended activities and results. Improving budget execution is therefore essential to ensuring that allocated funds support timely implementation, strengthen institutional capacity and contribute to the achievement of performance targets.

Table 6: Health sector's high absorption rate did not consistently translate into achievement of planned targets

Service delivery indicator	FY 2024/25			FY 2025/26			Absorption Rate for the subprogramme
	Target	Outturn	% Achieved	Target	Outturn	% Achieved	
Oncology sessions (chemotherapy/radiotherapy)	40,574	22,873	56%	47,646	9,173	19%	100%
HIV prevention through condom distribution in non-healthy settings	6,692,400	7,135,484	107%	6,786,094	723,706	11%	95%
Digital health information exchange services in public health facilities	-	-	-	80%	10%	13%	100%
Planning and Monitoring and Evaluation services (Target officers trained)	-	-	-	50	0	0%	52%
Planning and Monitoring and Evaluation services (M&E exercises conducted)	-	-	-	3	0	0%	52%
Records management services (percent digitalization of departmental records)	-	-	-	20%	0%	0%	97%

Data Source: NGBIRR

Table 7: Social Sector share of total budgets remained largely unchanged

	% share of Original Total budget 2025/26	% share of Revised Total budget 2025/26	% share of Actual Total Expenditure
Health	5%	6%	6%
SPCR	3%	3%	3%
Education	28%	26%	27%

Data Source: BROP

The SPCR budget share remained unchanged at 3% between approval and execution in FY 2025/26. Despite no change in allocation, implementation challenges persisted within some programmes, particularly under the State Department for Labour and Skills Development. For example, only 1,411 youths participated in dialogue forums. Further, despite targeting 10,000 youths, no youths accessed subsidized Sexual and Reproductive Health services, and no film catalogues were produced against a target of 500. This indicates that the relatively stable allocation to SPCR did not fully shield all programmes within the sector from implementation constraints.

Overall, social sectors' budget shares remained the same between approval and execution. The relatively limited changes suggest that social sectors remained an important component of government spending, although the reduction in some sectors raises the question of whether declining budget shares could constrain the achievement of sector priorities.

3. Conclusion and Policy Recommendations

Overall, the FY 2025/26 budget was not implemented as planned, with significant gaps between the original fiscal commitments and the eventual outturn. Revenue collection remained below the approved target despite high growth, while expenditure exceeded the original budget following substantial in-year upward revisions. Revenue underperformance and expenditure over-execution widened the fiscal deficit by 35 percent against target. Domestic borrowing rose as external financing fell short of plan, further intensifying debt-servicing pressures. Applying the PEFA methodology to aggregate expenditure execution yields an "A" performance, however, our analysis indicates weaker execution across some MDAs and Programmes, particularly in development spending, which recorded lower absorption than recurrent expenditure.

At the sector level, relatively high absorption in social sectors did not consistently translate into the achievement of planned outputs, pointing to persistent implementation constraints despite limited changes between the original and actual budgets. This suggests that the challenges were not primarily driven by budget reallocations, but by weaknesses in implementation, efficiency and the conversion of financial resources into planned results.

Overall, the FY 2025/26 outturn suggests that while the government was able to sustain relatively high levels of expenditure execution, budget credibility remains constrained by optimistic revenue projections, significant in-year adjustments, under-execution of development spending, increased reliance on domestic borrowing, and a weak link between financial execution and service delivery.

Based on the observed performance gaps, we recommend:

i. Strengthen revenue forecasting reliability: The National Treasury should adopt more conservative, evidence-based targets grounded in historical growth trends rather than aspirational ambition consistent with PEFA good practice on forecasting reliability.
ii. The National Treasury should adjust expenditure to align with the revenue performance and the fiscal consolidation goals to avoid over borrowing.
iii. Strengthen borrowing and financing management: Treasury should reduce reliance on costlier domestic financing to cover external shortfalls by strengthening the concessional financing pipeline; that is, opting for cheaper, external debt and addressing disbursement delays, while continuing to lengthen debt maturity through liability management operations.
iv. Improve predictability of county disbursements: Treasury should move toward full, predictable disbursement of additional allocations and align the equitable share more closely with CRA recommendations. The proposed FY 2026/27 equitable share of KSh 428 billion already falls KSh 31 billion short of CRA's recommended KSh 459 billion.
v. Improve budget absorption to support KPI achievement: Low-budget absorption has hindered progress on some key performance indicators (KPIs). For example, the Financing and Planning subprogramme absorbed only 52% of its budget, while the target for training officers in planning, monitoring and evaluation was not achieved. Improving budget execution is therefore critical to delivering planned outputs and meeting performance targets.

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