

GOVERNMENT

BUDGET

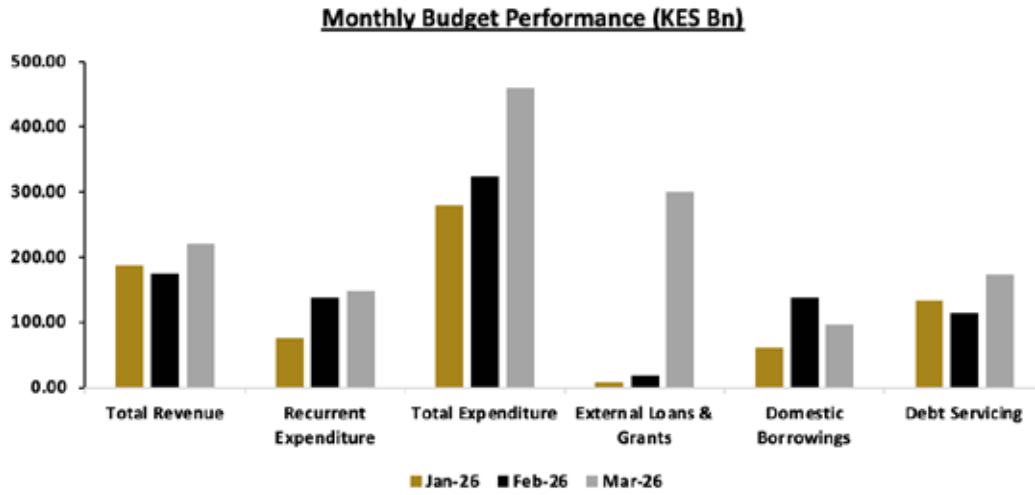
FISCAL LANDSCAPE

**Exchequer Releases March 2026 Analysis**  
**Fragile Stability: Testing the Limits of Fiscal Resilience**

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This fiscal update provides an in-depth look at Kenya's financial position at the close of the third quarter (Q3) of the 2025/2026 fiscal year. The data reveals a government balancing significant debt obligations against a resilient, though slightly under-target, revenue performance.

The FY 2025/26 period represents Kenya's first post-pandemic fiscal year without an active **IMF program**, essentially internalizing the country's financing requirements. This shift is highlighted in the first supplementary budget, which projects that **71%** of total funding will now be sourced from **domestic borrowing**.



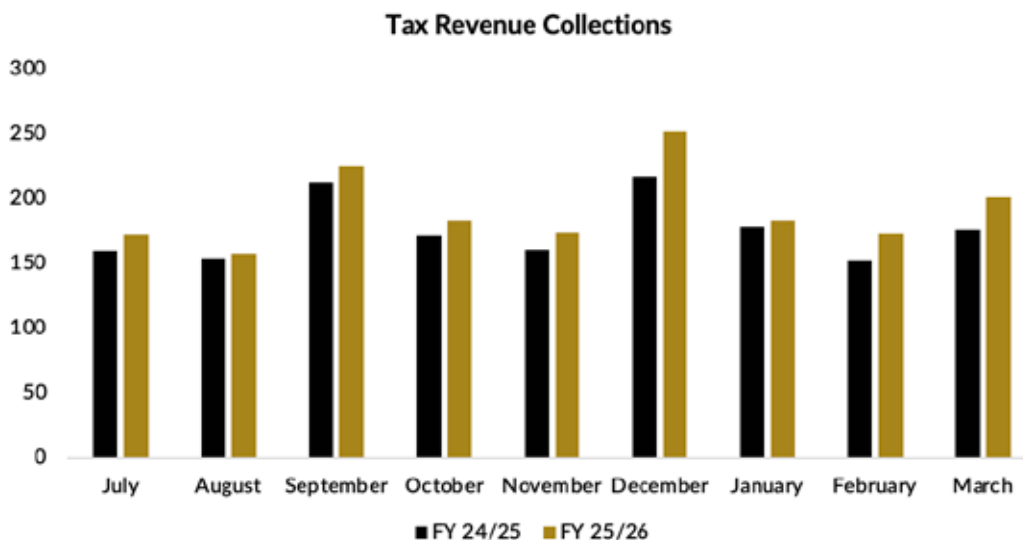
Source: Kenya Gazette, Chart: SIB

### Revenue Performance & Receipts

Total receipts reached a record KES 3.4Tr by the end of the third quarter. While tax collections have seen a moderate improvement, the record figure is heavily supported by aggressive domestic borrowing and a focus on digital tax integration.

The standout headline is the **Kenya Revenue Authority (KRA)** crossing the **KES 2.0Tr** mark.

- **Cumulative Collections:** KRA reported cumulative revenue of **KES 2Tr** as of March 31, 2026. This represents an **11.4% y/y growth**, though it remains roughly **KES 84Bn (4%) below** the ambitious internal target of KES 2.3Tr putting the tax collector under pressure to bridge the shortfall in the final quarter amid global economic uncertainties and moderating import demand.
- **The "Surprise" Outturn:** The April 7th announcement highlighted that while consumer demand remains cautious, digital initiatives like **eTIMS** and improved compliance in domestic taxes (KES 1Tr) and Customs (KES 734Bn) have kept the exchequer afloat.



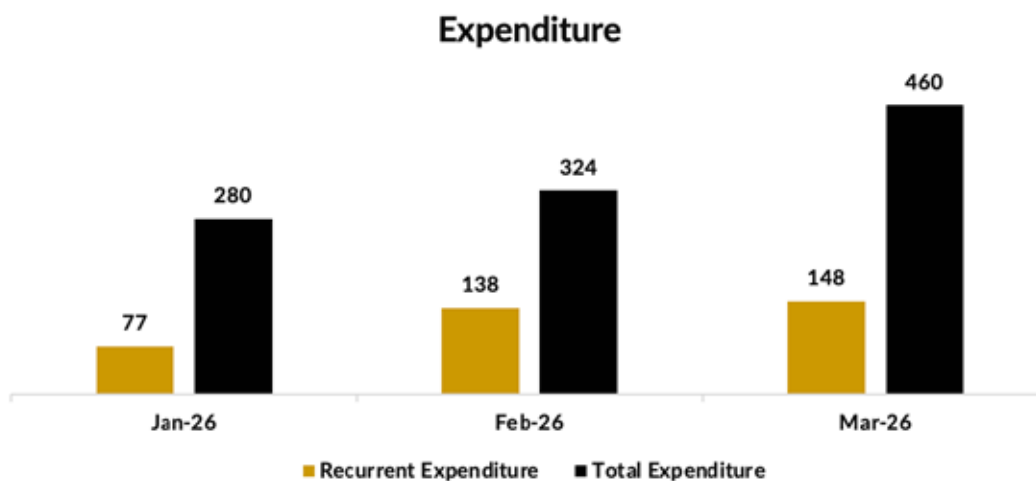
Source: Kenya Gazette, Chart: SIB

## Borrowing is Escalating

Domestic borrowing has surged, increasing the reliance on debt to finance the budget.

During the seven-month period, government gross borrowing surged by **45.4%**, rising from KES 1,050.12 billion in FY24/25 to **Kes 1,527.40 billion**.

**External Financing: The KES 299.75 billion** in external loans is heavily weighted by the successful **US\$2.25 billion Eurobond** issued in February 2026. This dual-tranche note (maturing in 2034 and 2039) was a strategic move to manage near-term liquidity and buy back older debt maturing in 2028 and 2032



*Source: Kenya Gazette, Chart: SIB*

Government demand for domestic borrowing is set to rise following the fuel VAT cut.

Kenya's fiscal strategy is shifting toward increased domestic borrowing following the government's decision to reduce fuel VAT - a policy designed to mitigate consumer inflation that has inadvertently widened the fiscal deficit. With a projected budget gap of KES 1.1Tr and tightening international credit markets, the National Treasury plans to secure up to KES 980Bn from the local debt market.

However, this heavy reliance on domestic credit may trigger a 'crowding out' effect, driving up interest rates and restricting credit access for the private sector, particularly within the agriculture, manufacturing, and construction industries.

## The Spending Surge.

The **FY 2025/26 Supplementary I Estimates** suggest raising the national budget by **KES 287 billion**, with **30%** of that additional funding dedicated to development projects.

Most sectors' budget increases in Supplementary I FY 2025/26 are concentrated in recurrent expenditure. The **Public Administration and International Relations (PAIR)** sector leads the budget hike with an additional **KES 57Bn (18%)**, primarily due to a **30% surge** in operating costs. Most of this growth (**83%**) is concentrated within the **National Treasury, the State Department for Special Programmes, and State House**.

On the development side, the **Energy, Infrastructure, and ICT (EIICT)** sector received the largest boost, signalling a continued priority on infrastructure. However, execution remains a challenge; by the seventh month of the fiscal year, the sector had only accessed **31%** of its allocated development funds.

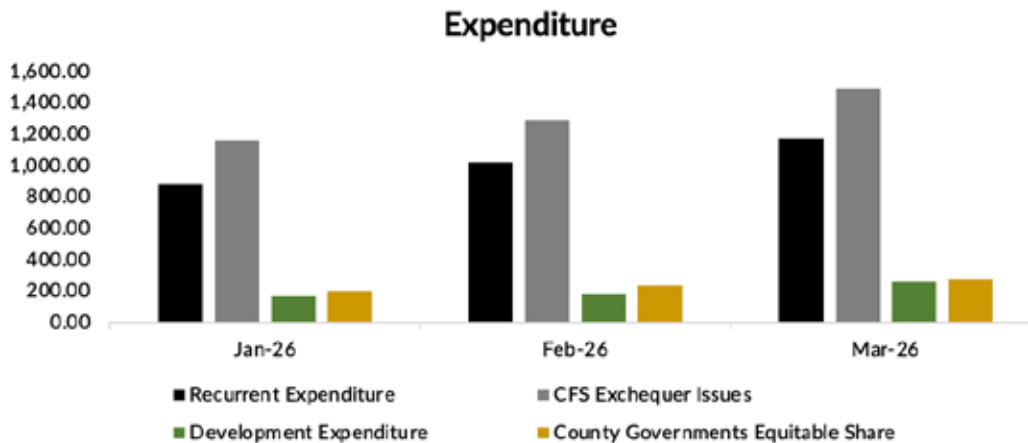
The budget adjustments prioritize massive scaling in social relief and agricultural subsidies, alongside a notable surge in administrative spending.

**State Department for Special Programmes:** This department sees the most significant proportional surge, increasing by **1,969% (KES 12.6 Bn)**. These funds are primarily allocated to the Special Initiatives program, which aims to provide relief food to **3.4 million households** and essential non-food items to **200,000 families**.

**State House:** The budget has nearly doubled, rising **98% to KES 17 Bn**. This adjustment follows a period where the department had already spent **126%** of its original allocation by the seventh month. Because official performance targets remain unchanged, the justification for this substantial increase has come under scrutiny.

**National Treasury:** This sector receives the highest absolute increase at **KES 26 Bn**, despite a mid-year absorption rate of only **46.8%**. The additional funds are tied to aggressive new ICT targets, including increasing Government Data Centre completion to **80%** and reaching **100%** installation for both the Disaster Recovery Centre and broader ICT infrastructure.

**State Department for Agriculture:** A proposed **KES 22 Bn** increase focuses on doubling the fertilizer subsidy program, aiming to reach **832,904 farmers** with **374,807 MT** of fertilizer. The budget also targets youth and women’s empowerment through the distribution of **1,667 MT of certified seeds** and the provision of modern equipment to **50 schools**. However, persistent distribution delays raise doubts about the timely delivery of these resources.



Source: Kenya Gazette, Chart: SIB

### VAT Cut to Offsets Global Oil Price Increases Magnify Vulnerability to External Shocks

Energy and Petroleum Regulatory Authority (EPRA) adjusted April–May 2026 fuel prices following emergency government sponsored legislation to reduce Value Added Tax (VAT) on petroleum products. The rate was lowered from 13% to 8% for a three-month period, following an earlier reduction from 16% by the National Treasury. The tax adjustment triggered a downward revision of pump prices just a day after an earlier increase had reflected elevated global oil costs and supply disruptions linked to the Middle East conflict and tighter shipping flows through key routes such as the Strait of Hormuz.

### Kenya Re-engages with the IMF Amidst Iran-Linked Shocks

Kenya has moderated its previous stance on fiscal independence in response to escalating geopolitical tensions in the Middle East, which have triggered severe global economic disruptions. To counter the impact of rising oil prices, exchange-rate volatility, and shrinking foreign-exchange reserves, the National Treasury and the Central Bank of Kenya (CBK) have transitioned back to IMF support as a necessary stabilizing backstop.

#### Key Implications for Public Finance:

- **Fiscal Backstop and Credibility:** Renewed engagement provides a critical buffer against balance-of-payments stress and grants access to concessional financing that is currently unavailable in the high-interest international market.
- **External Shock Absorption:** The IMF framework serves as a defence against surging energy costs—with Brent crude exceeding **USD 120 per barrel**—which threaten to derail domestic price stability.

- **Sectoral Risks:** High energy costs have doubled freight rates for key exports like floriculture and increased imported fertilizer prices by nearly **40%**, necessitating strict oversight on debt sustainability.
- **Policy Trade-offs:** While providing essential stability, this shift reduces the government's discretionary spending flexibility, as IMF conditions prioritize debt management and revenue mobilization over flexible tax policies.

By April 2026, the disruption of oil supply routes in the Middle East has made independent fiscal management nearly impossible for oil-importing emerging markets like Kenya, necessitating a return to institutional support.

## Conclusion

In summary, Kenya's fiscal landscape at the close of March 2026 presents a study in **fragile resilience**. While the KRA's milestone of KES 2.0Tr reflects a digitizing and maturing tax base, this progress is being shadowed by an escalating reliance on domestic credit and the sobering reality of geopolitical volatility.

The pivot from post-IMF independence back to institutional support—necessitated by the twin pressures of Brent crude surging past \$120 and the fiscal deficit widened by the fuel VAT cut—signals that the era of "going it alone" has hit its ceiling.

Already, inflation has ticked up, with April 2026 inflation climbing to 5.6%. The Central Bank of Kenya (CBK) projects inflation could rise to 6.2% in July if the ongoing Iran conflict persists over the next three months.

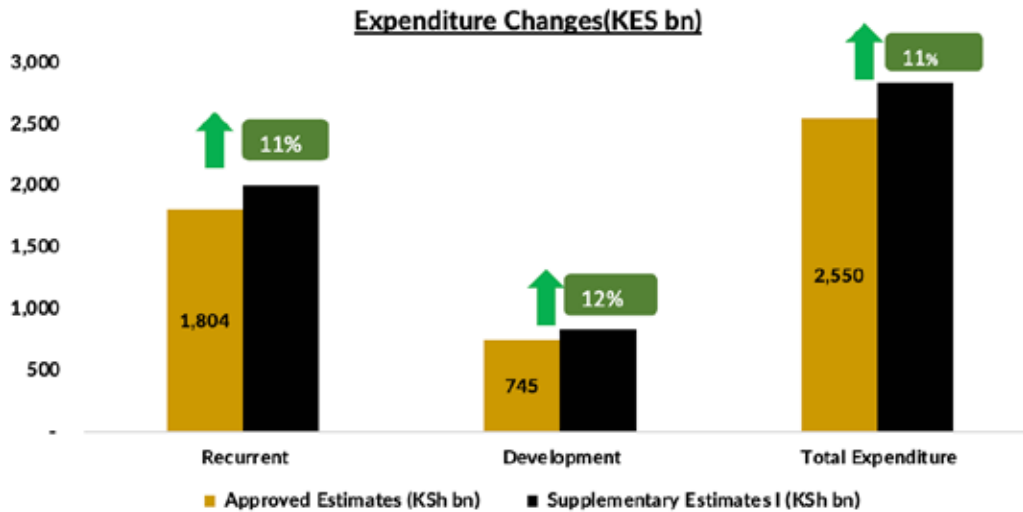
Kenya's 2026 growth outlook has been revised lower across major institutions amid rising energy costs linked to the Middle East conflict, weaker exports, and softer remittance inflows. The IMF now forecasts 4.5% (from 4.9%), the World Bank 4.4% (from 4.9%), Fitch 5.0% (from 5.2%), and the CBK 5.3% (from 5.5%). If realised, IMF and World Bank projections would mark Kenya's weakest growth since 2013, excluding the 2020 COVID contraction.

Kenya's economy expanded by 4.6% in 2025, largely in line with the 4.7% growth recorded in 2024 but falling short of the finance ministry's projection, according to official data released by KNBS. The growth was broadly driven, with key contributions from sectors such as agriculture, construction, and mining and quarrying.

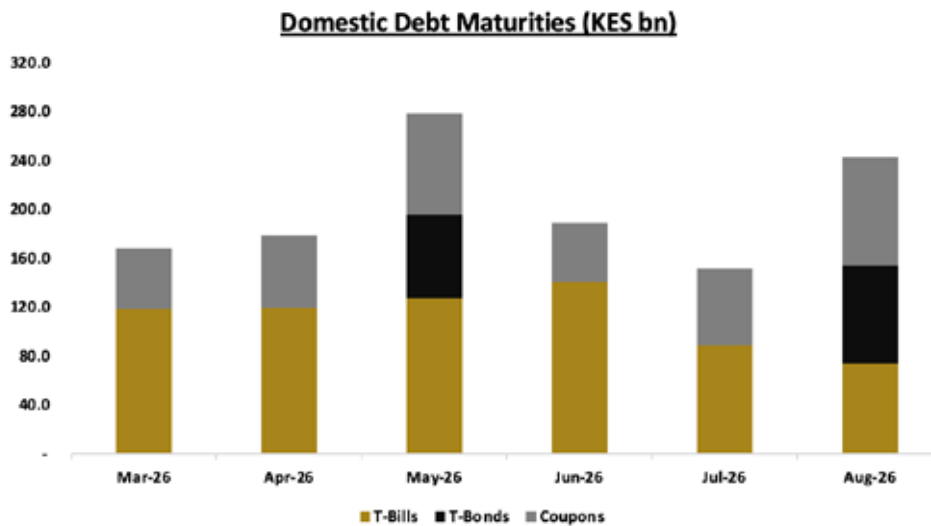
As the government navigates the final quarter, the core challenge will be balancing the ambitious expansion of social safety nets and infrastructure against the risk of "crowding out" the private sector. Success will depend not just on hitting revenue targets, but on the disciplined execution of the Supplementary I budget and the strategic absorption of external shocks that remain beyond Nairobi's control.



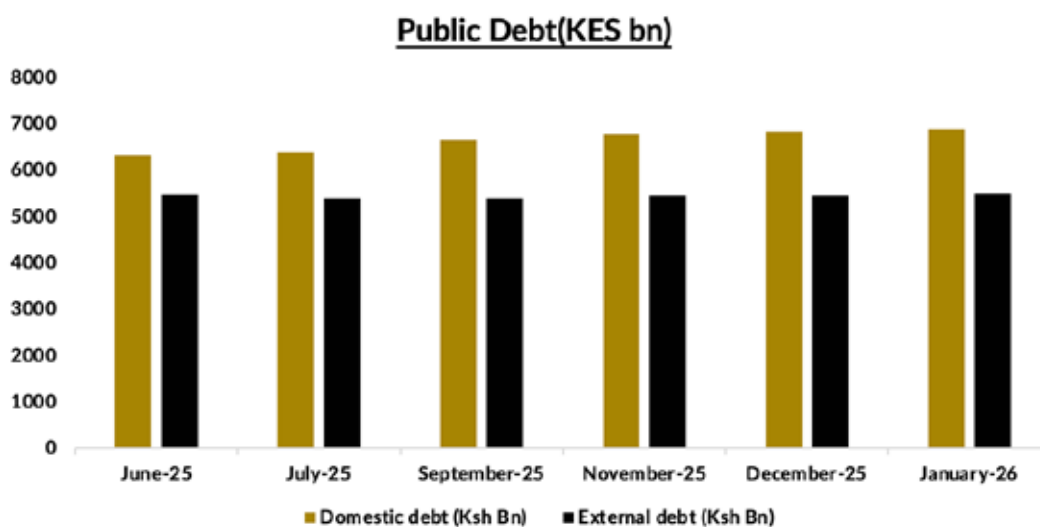
## Background Charts:



*Source: National Treasury, Chart: SIB*

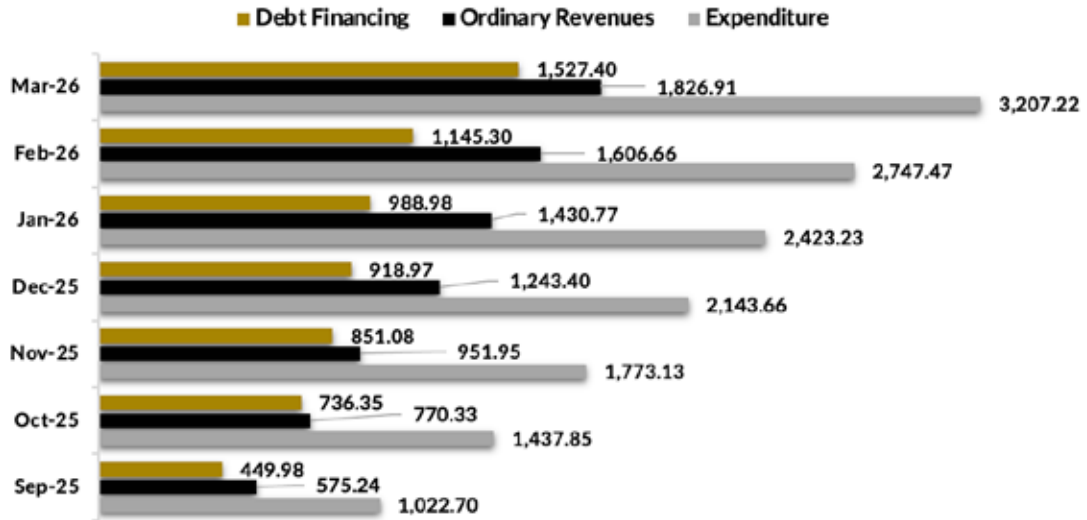


*Source: NSE, Chart: SIB*



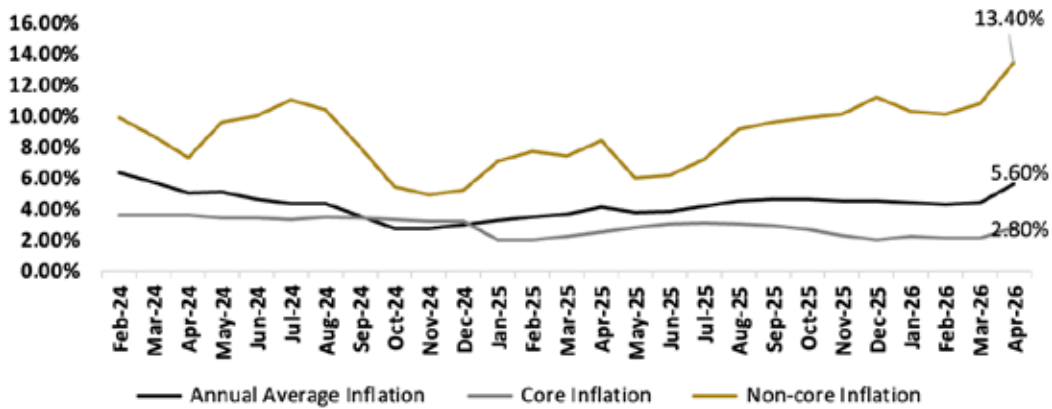
*Source: The National Treasury and Central Bank of Kenya, Chart: SIB*

## Actual Budget Performance (KES Bn)



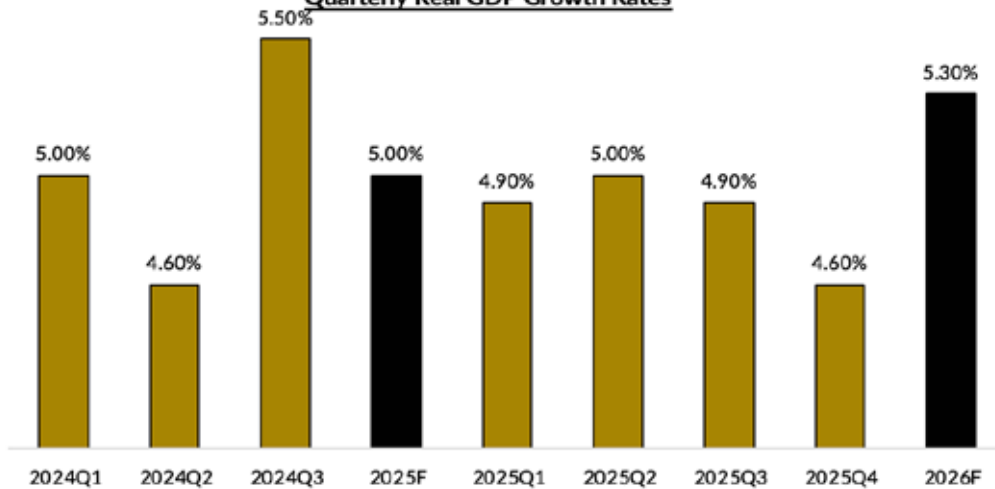
Source: The National Treasury, Chart: SIB

## Consumer Prices



Source: KNBS, Chart: SIB

## Quarterly Real GDP Growth Rates



Source: KNBS, CBK, Chart: SIB

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