

REPUBLIC OF KENYA
Parliamentary Budget Office

UNPACKING OF THE SUPPLEMENTARY I ESTIMATES OF FY 2025/26

MARCH, 2026

Disclaimer

Pursuant to Section 10 of the Public Finance Management Act, as a **Fiscal Council**, the Parliamentary Budget Office (PBO) is a non-partisan professional office of the Parliament of the Republic of Kenya. The primary function of the Office is to provide professional advice to the legislature with respect to budget, finance, and economics.

© Parliamentary Budget Office, 2026

For more information, contact:

The Director,

Parliamentary Budget Office

Parliament of the Republic of Kenya

Protection House, 10th Floor

P.O. Box 41842 – 00100 GPO

NAIROBI, KENYA

Tel: +254-20-284-8810

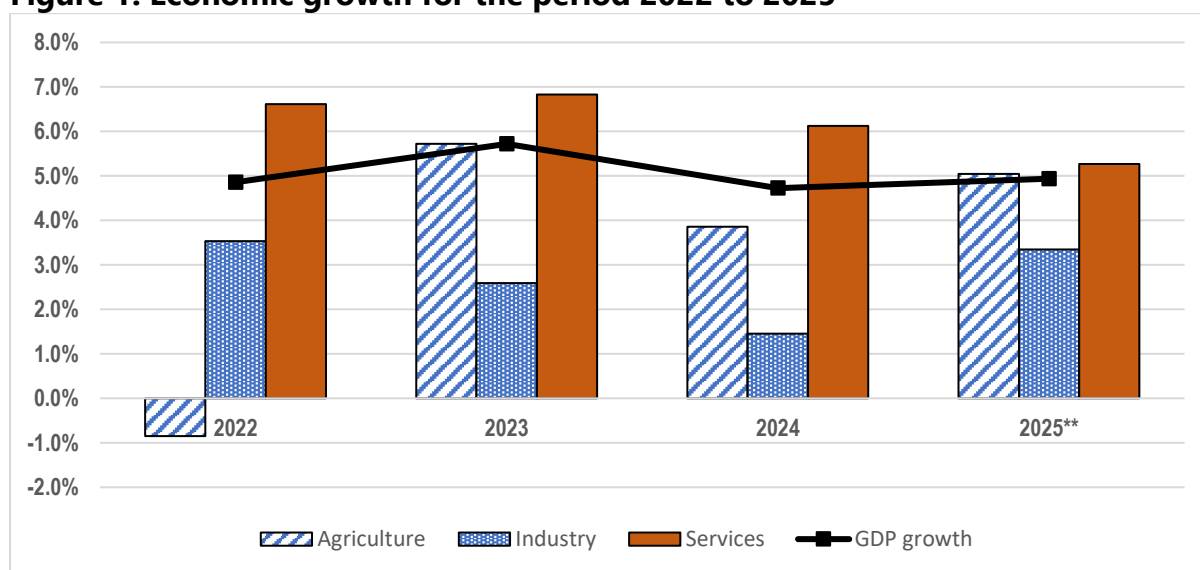
Email: pbo@parliament.go.ke

1.0 MACROECONOMIC PERFORMANCE AND OUTLOOK

1.1 Economic growth

1. The National Treasury forecasts GDP growth to rise from 4.7 percent in 2024 to 5 percent in 2025 and 5.3 percent in 2026, driven by recovery in agriculture due to climate-smart investments and favourable weather. Construction is also expected to recover as pending bills are paid and production costs decline, supporting manufacturing. However, the Parliamentary Budget Office projects lower growth at 4.9 percent for 2025 and 5 percent for 2026, citing ongoing climate risks in agriculture and slower services subsectors. Achieving these targets will depend on weather, fiscal space for infrastructure, and private sector credit growth. Geopolitical tensions may further impact the 2026 outlook by disrupting supply chains and increasing goods and services prices.

Figure 1: Economic growth for the period 2022 to 2025



Data Source: Kenya National Bureau of Statistics
2025** Average for the first three quarters

2. Kenya's third-quarter 2025 growth shows stronger sector performance than in the same period of 2024, though risks from new vulnerabilities remain. The primary sector rose to 4.0 percent, driven by increased mining activity due to government infrastructure projects and supportive policies, but agriculture slowed to 3.2 percent because of unpredictable weather. The industry sector grew to 4.1 percent, aided by construction recovery, road bill settlements from securitizing the Roads Maintenance Levy Fund, affordable housing efforts, and modest manufacturing gains. Services eased slightly to 5.4 percent amid softer demand in

accommodation, food, finance, real estate, and ICT, despite better wholesale trade and transport. The improved sectors point to greater credit uptake as interest rates decline.

Table 1: Quarterly GDP growth rates for the period 2023 to 2025

	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3
1. Primary	2.9%	3.9%	6.2%	4.9%	4.0%
<i>Agriculture</i>	4.0%	4.3%	6.0%	4.4%	3.2%
<i>Mining and quarrying</i>	-12.2%	-2.3%	10.8%	15.3%	16.6%
2. Industry	0.3%	3.4%	2.6%	3.3%	4.1%
<i>Manufacturing</i>	2.3%	3.9%	2.1%	1.0%	2.5%
<i>Electricity and water supply</i>	0.9%	2.7%	3.6%	5.7%	3.6%
<i>Construction</i>	-2.6%	2.9%	3.0%	5.7%	6.7%
3. Services	5.7%	5.8%	4.8%	5.5%	5.4%
<i>Wholesale and retail trade</i>	2.6%	6.4%	5.4%	4.1%	4.8%
<i>Accommodation and food services</i>	22.9%	10.9%	4.1%	7.8%	17.7%
<i>Transport and storage</i>	4.6%	5.6%	3.7%	5.4%	5.2%
<i>Information and communication</i>	6.9%	5.6%	5.8%	6.0%	4.5%
<i>Financial & insurance</i>	7.3%	6.0%	5.2%	6.7%	5.4%
<i>Public administration</i>	7.3%	9.2%	6.5%	6.0%	5.1%
<i>Professional admin and support services</i>	4.5%	4.7%	4.6%	8.5%	6.1%
<i>Real estate</i>	4.8%	3.6%	5.3%	5.5%	5.7%
<i>Education</i>	4.8%	5.4%	2.9%	3.2%	3.4%
<i>Health</i>	6.2%	5.6%	4.8%	6.8%	4.1%
<i>other services</i>	4.9%	4.0%	3.0%	1.8%	6.2%
<i>FISIM</i>	11.0%	0.7%	2.4%	1.8%	3.6%
GDP at market prices	4.2%	5.1%	4.9%	5.0%	4.9%

Data Source: Kenya National Bureau of Statistics

- 3. Downside risks to growth projections arise from factors such as geopolitical tensions and weather-related disruptions.** These include shocks to agriculture, infrastructure delays, fiscal constraints limiting construction, domestic demand concerns, and volatility in global commodity prices. Maintaining growth will require climate resilience, expanded fiscal capacity, greater private sector credit, and stable macroeconomic conditions. Unpredictable weather and flooding could impact agriculture, infrastructure, transport, and business activity in 2026, diverting resources to emergency response and reconstruction. The FY 2025/26 Supplementary 1 budget revision does not alter the macroeconomic framework.

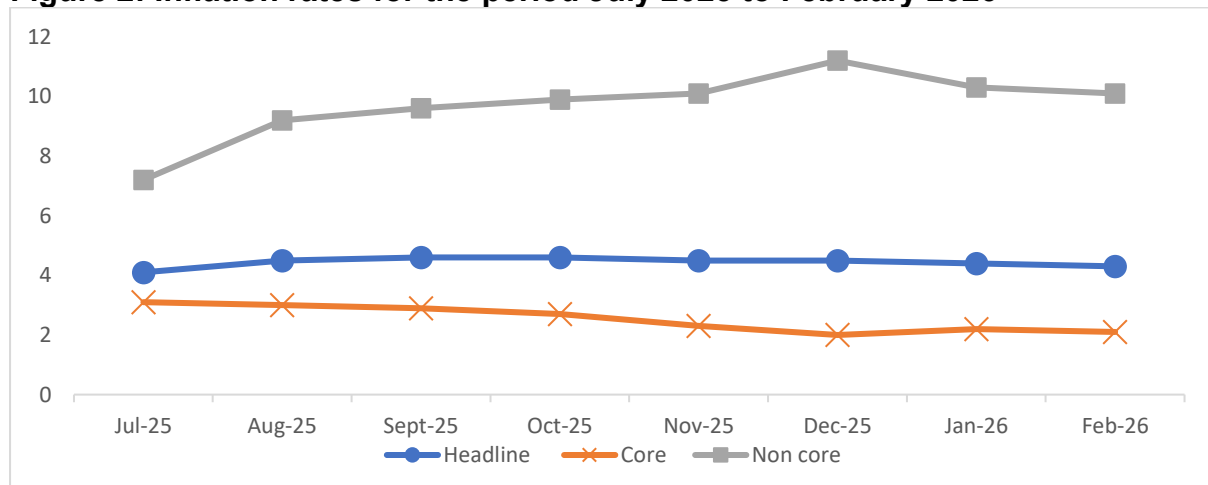
1.2 Inflation

- 4. Although downside risks to inflation are increasing, recent data for FY 2025/26 shows that inflation has remained generally stable and within the Central Bank’s target range of 5 percent ± 2.5 percent.** Headline inflation increased gradually, rising from 4.1 percent in

July 2025 to 4.6 percent in September and October, then easing to 4.3 percent in February 2026, suggesting that overall prices are growing, but at a moderate rate. Core inflation, which excludes volatile food and fuel prices, remained low at 3.1 percent in July 2025 and dropped to 2.1 percent by February 2026 (see Figure 2). This pattern indicates that domestic demand pressures are modest, and monetary policy has effectively anchored inflation expectations so far. On the other hand, non-core inflation, driven by changes in food and energy prices, increased from 7.2 percent in July 2025 to 10.1 percent in February 2026. This points to supply-side factors, especially food and energy production, as the primary sources of inflationary pressures.

5. Inflation is primarily driven by food and fuel prices, which are sensitive to shocks like unpredictable weather, global commodity volatility, and higher import costs. These factors often arise from external events such as supply chain issues, geopolitical tensions, and wars impacting oil prices are beyond the reach of monetary policy. While monetary policy is key for stabilizing inflation, it cannot fully address price spikes caused by food shortages or external shocks; thus, fiscal measures like targeted support for agriculture and supply chains are crucial for food security and reducing price volatility. Price shocks in food and fuel quickly affect transport and basic household goods.

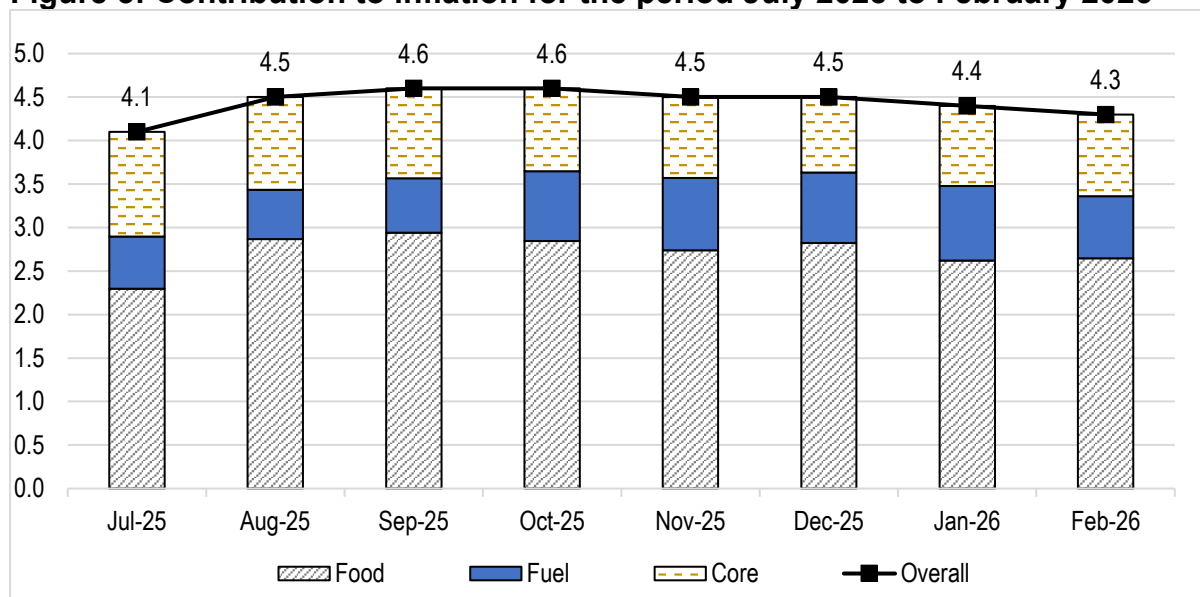
Figure 2: Inflation rates for the period July 2025 to February 2026



Data Source: Kenya National Bureau of Statistics

6. Food inflation had the highest contribution to inflation from July 2025 to February 2026 (Figure 3). Supply-side pressures, including weather disruptions, contributed to inflation. Fuel costs remained high due to global oil price spikes, such as Murban Adnoc prices. Core inflation decreased, indicating moderate demand and minimal impact from consumer spending or credit growth. Climate shocks and geopolitical tensions are expected to affect global commodity prices, leading to imported inflation.

Figure 3: Contribution to inflation for the period July 2025 to February 2026



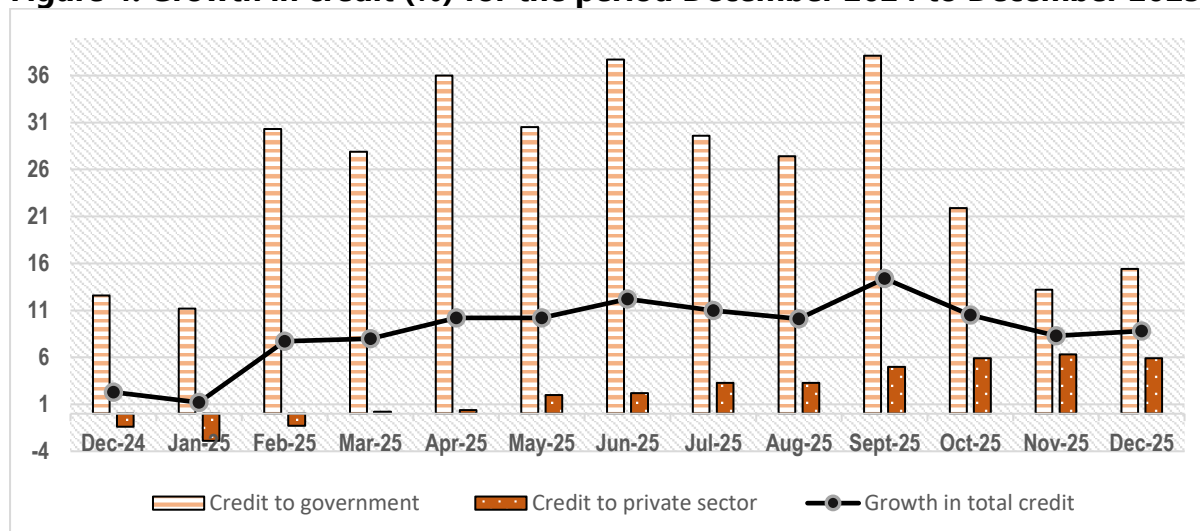
Data Source: PBO Macroeconomic diagnostics

1.3 Interest rates and credit

7. Monetary sector developments suggest that monetary conditions continued to ease in 2025, as evidenced by declining interest rates throughout the period. The Central Bank reduced the Central Bank Rate from 9.75 percent in July 2025 to 8.75 percent in February 2026. Short-term Treasury bill rates also decreased, signalling lower borrowing costs for the government and reduced returns for investors in government securities. Commercial lending rates experienced a gradual decline, reflecting banks' cautious approach to lending due to considerations such as profitability and risk assessment. Despite these trends, the spread between lending and deposit rates remained elevated at over 7 percentage points during 2025, indicating ongoing structural rigidities within the banking sector that limit the responsiveness of lending rates to changes in the central bank rate.

8. Private sector credit in Kenya started to recover in late 2025, rising from 3.3 percent in July to 5.9 percent in December as lower interest rates reduced borrowing costs. Credit had contracted by -1.4 percent in December 2024. Decreased interest rates are encouraging investment-related borrowing, which may boost economic growth. While government credit remains higher than that to the private sector, its growth dropped from 29.6 percent in July to 15.4 percent in December 2025, lowering the risk of crowding out private lending. The earlier rise in government borrowing was due to limited access to international markets. Maintaining macroeconomic stability will require fiscal consolidation, diversified financing, and continued monetary easing.

Figure 4: Growth in credit (%) for the period December 2024 to December 2025



Data Source: Central Bank of Kenya

9. The private sector’s credit recovery is driven primarily by mining and quarrying, building and construction and agriculture sub-sectors. Most sectors except transport, real estate and business services experienced positive growth by December 2025 as shown in Table 2 indicating even monetary transmission across the various sectors. Improvements in credit to the private sector also indicates an improvement in bank lending behavior which also targets individuals and firms. This is also a likely indication of the effects of KESONIA, however, the impact of KESONIA is yet to be fully felt in the economy, and its implications for liquidity and borrowing costs in the banking sector may be gradual.

Table 2: Growth in credit to the private sector for the period December 2024 to December 2025

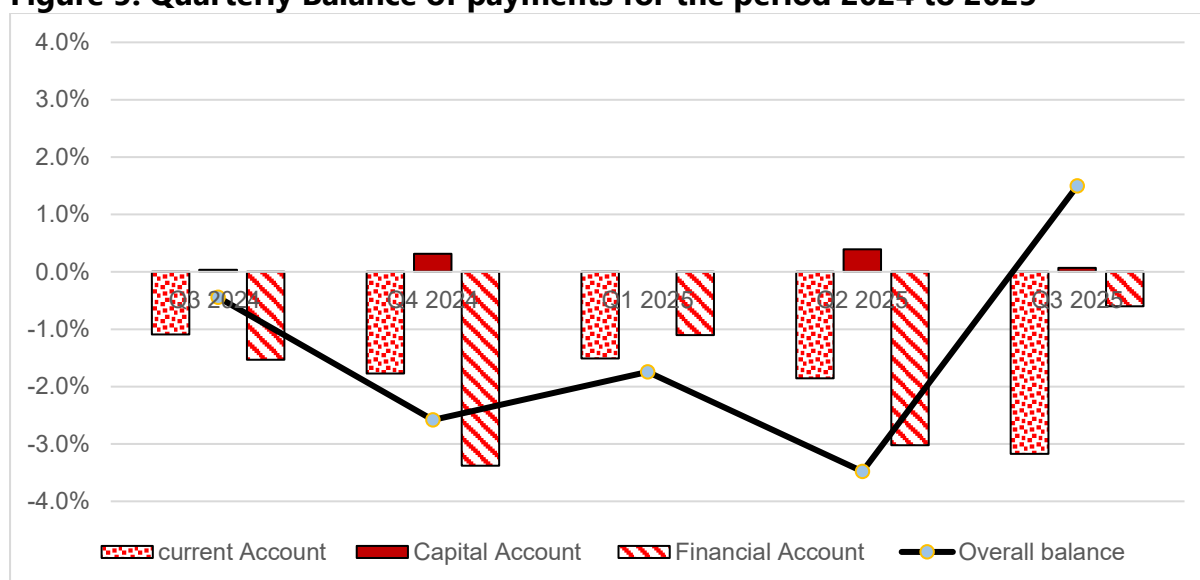
% growth in credit	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
Credit to private sector	-1.4	-2.9	-1.3	0.2	0.4	2	2.2	3.3	3.3	5	5.9	6.3	5.9
Agriculture	5.1	-1.1	2.6	8.4	12.1	9.7	12.6	10.3	10.2	12.7	16.2	22.1	28.8
Manufacturing	-9.4	-10.7	-5.1	-6.3	-0.9	1	3.1	2.4	1.7	11.1	10.7	7.9	1.2
Trade	2.3	1	2.4	5.8	5.6	7.7	10.1	12	10.1	3.9	4.5	6.2	8.9
Building and construction	-6.1	-0.2	-3.4	12	6.1	19.8	25	38.8	49.6	52.9	54.8	43.8	37.1
Transport & communications	1.6	3.2	6.5	4.8	-0.7	1.3	-2	-0.6	0.4	-1.3	-6.6	-9.5	-10.1
Finance & insurance	-21.2	-9.4	-14.9	-18.8	-8.3	-6.3	-6.7	0.2	-3.3	-1.3	4.4	14.5	6.6
Real estate	1.3	-0.1	1.4	2.4	1.8	0.1	1.6	2.1	2.8	1	3.3	2.5	-2.1
Mining and quarrying	-22.9	-25.1	-26.5	-44.3	-39.5	-38.4	-47.1	-55.2	-59	-56.3	-17.8	12.1	41.5
Private households	9.2	0.2	-2.1	-0.9	-1.6	-0.4	-0.2	0.8	-0.3	-0.7	1.6	1.6	2.1
Consumer durables	3.3	3.8	5.2	8.1	7.9	8.7	9.6	10.3	9.1	12.2	7.1	8.3	11.8
Business services	-4.5	-5.8	-1.8	-13.1	-7.1	-9	-10	-8.9	-5.1	-4.2	-1.8	-3.2	-3.9
Other activities	-18.2	-30	-26.5	-0.8	-20.6	-12.6	-24.8	-27.8	-20.3	11.4	13.5	23.3	35.6

Data Source: Central Bank of Kenya

1.4 Balance of payments

- 10. Recent balance of payments data show ongoing external deficits.** The current account remained negative in Q3 2024 and Q3 2025, with imports outpacing exports and transfers like remittances. The deficit grew from –1.1 percent to –3.2 percent of GDP, largely due to higher imports of industrial machinery, iron, steel, and motor vehicles, as well as reduced donor support and foreign investment. This signals rising import demand or weaker exports, increasing reliance on foreign financing and pressuring external sustainability. The capital account has consistently posted small positive inflows, reaching only 0.1 percent of GDP in Q3 2025, reflecting limited capital transfers. The financial account showed more volatility, with decreased net investment and inflows before Q3 2025, further straining Kenya’s foreign exchange reserves. Overall, external financial flows remain insufficient to fully cover the current account deficit without drawing down reserves.

Figure 5: Quarterly Balance of payments for the period 2024 to 2025



Data Source: Kenya National Bureau of Statistics

1.5 Exchange rates

- 11. Exchange rate data shows the Kenyan Shilling remained steady against the US Dollar at KSh 129 from July 2025 to February 2026.** However, it weakened against both the Pound and Euro, increasing import costs from Europe. Regionally, the shilling gradually lost value against currencies like the South African Rand, while staying mostly stable against the Ugandan and Tanzanian shillings with only minor changes (see Table 3). It also slightly depreciated against the Rwandan Franc, which could hinder Kenya’s regional export competitiveness. These currency movements may make Kenyan exports more expensive and imports from neighbours cheaper, posing risks for trade balances and export earnings. Ongoing geopolitical conflicts, including the Russia-Ukraine War and tensions involving Israel and Iran, are disrupting supply

chains and energy markets, potentially raising fuel and commodity prices, import costs, and exchange rate volatility. For Kenya’s import-dependent economy, this can lead to higher inflation, a larger current account deficit, and underscores the need for prudent fiscal policy and support for exports.

Table 3: Exchange rates for the period July 2025 to February 2025

	USD	pound	Euro	South Africa Rand	Uganda shilling	Tanzania shilling	Rwanda Franc
Jul-25	129.24	174.56	151	7.28	27.76	20.19	11.15
Aug-25	129.24	173.82	150.45	7.3	27.59	19.56	11.19
Sep-25	129.24	174.58	151.63	7.4	27.15	19.18	11.22
Oct-25	129.24	172.68	150.53	7.49	26.79	19.05	11.24
Nov-25	129.48	170.06	149.65	7.52	27.59	18.92	11.23
Dec-25	129.13	172.63	151.08	7.66	27.69	19.07	11.27
Jan-26	129.02	174.32	151.37	7.91	27.62	19.49	11.28
Feb-26	129.02	175.26	152.54	8.05	27.62	19.99	11.28

Data Source: Central Bank of Kenya

2 UNPACKING THE FISCAL FRAMEWORK

2.1 The Proposed Supplementary No. 1 Budget for FY 2025/26

12. Total budget is proposed to increase by Ksh 316.7 billion (7 percent), rising from Ksh 4,301.9 billion in the approved estimates to Ksh 4,618.6 billion. The proposed significant upward revision of the national government budget reflects emerging fiscal pressures during the financial year.
13. The national government budget expands by Ksh 287.4 billion, including recurrent expenditure, which rises by Ksh 201.1 billion (11 percent) and capital expenditure which increases by Ksh 86.3 billion (12 percent). Consolidated Fund Services on the other hand increases by Ksh 29.3 billion, mainly reflecting higher debt servicing obligations.
14. In contrast, transfers to counties remain unchanged at Ksh 415.0 billion, indicating that the adjustments are concentrated within the national government's expenditure framework.

Table 4 Budget for FY 2025/26 Supplementary No. 1

Budget for FY 2025/26 Supplementary No. 1 (Ksh. Billion)							
Item	2022/23	2023/24	2024/25	2025/26			
	Prel Actual	Prel Actual	Prel Actual	Approved Budget (A)	Supp No. 1 (B)	Change (B-A)	% Change
Recurrent Estimates	1,474.3	1,659.6	1,742.2	1,804.7	2,005.8	201.1	11%
Capital Estimates	497.5	554.7	589.6	744.8	831.1	86.3	12%
National Government	1,971.8	2,214.4	2,331.8	2,549.5	2,837.0	287.4	11%
o/w Parliament	41.2	37.3	41.6	48.0	28.2	(19.8)	(41%)
o/w Judiciary	19.8	21.0	23.0	27.8	27.8	-	0%
Pensions & Other CFS	120.4	143.9	176.8	205.2	201.7	(3.5)	(2%)
Interest	687.3	840.7	995.1	1,097.7	1,126.5	28.8	3%
Contribution to pension fund	29.6	34.2	34.3	34.4	38.4	4.0	12%
Net lending	12.3	17.4	19.7	-	-	-	-
Consolidated Fund Services	849.6	1,036.3	1,225.9	1,337.3	1,366.6	29.3	2%
County Equitable Share	399.6	354.6	418.3	415.0	415.0	-	0%
Total	3,221.0	3,605.2	3,975.9	4,301.9	4,618.6	316.7	7%

2.2 Highlights of the Fiscal Framework 2025/26

15. As of December 2025, total revenue and grants collected stood at Ksh. 1,530.8billion, falling short of the targeted Ksh. 1,654.6 billion. **This resulted in a shortfall of Ksh. 123.7 billion**, primarily driven by underperformance in key revenue streams: income tax was Ksh. 84.5 billion below target, VAT short by Ksh 28.4 billion, and excise duty missed the mark by Ksh. 13.9 billion.
16. This revenue shortfall suggests that the National Treasury may have overestimated revenue potential during the preparation of the FY 2025/26 budget. Without corresponding downward adjustments to spending, the fiscal deficit for FY 2025/26 is projected to widen beyond the initial projections.
17. On the expenditure side, actual spending in the first half of FY 2025/26 was **Ksh. 77.1 billion below target**. Despite this underspending, the fiscal deficit for the period was **Ksh. 46.6**

billion higher than anticipated, reflecting the combined impact of revenue shortfalls outweighing the expenditure restraint.

18. Given the proposed increase in expenditure of approximately **Kshs. 316 billion** through the Supplementary Budget and the relatively **modest upward revision in projected revenue**, there is a heightened risk that the **overall fiscal deficit for FY 2025/26** will expand beyond the originally projected levels. If expenditure rationalization measures are not implemented during the supplementary budget process, the deficit by the end of the fiscal year is **projected to exceed the Kshs. 1 trillion** mark, reflecting growing fiscal pressures.

Table 5 Fiscal Performance as of December 2025

First Half of FY 2025/26 Fiscal Performance (Kshs. Billion)					
	FY 24/25-Dec 24	FY 25/26-Dec 25			
	Pre. Act	Target	Pre. Act.	Dev.	% Growth
Total Revenue and Grants	1,376.2	1,654.6	1,530.8	(123.7)	11.2%
Total Revenue	1,368.7	1,636.7	1,525.1	(111.6)	11.4%
Ordinary Revenue	1,157.7	1,351.9	1,241.2	(110.6)	7.2%
Import Duty	71.5	83.7	84.7	1.0	18.5%
Excise Duty	141.3	167.6	153.6	(14.0)	8.7%
Income Tax	530.8	626.9	542.4	(84.5)	2.2%
VAT	304.1	379.4	351	(28.4)	15.4%
Other Revenue	110.0	94.3	109.5	10.5	(4.7%)
AiA	210.9	284.9	283.8	(1.0)	35.2%
External Grants	7.5	17.9	5.8	(12.1)	(22.7%)
Total Expenditure and Net Lending	1,894.7	2,097.0	2,019.8	(77.1)	6.9%
Recurrent Expenditure	1,400.7	1,541.3	1,470.6	(38.9)	5.0%
Development	271.9	325.7	337.9	12.3	27.1%
County Allocation	191.6	229.9	179.5	(50.4)	(6.3%)
Contingency fund	-	1	-		
Balance Exclusive of Grants	(526)	(460.3)	(494.7)	(34.4)	4.9%
Balance inclusive of Grants	(518.5)	(442.4)	(489)	(46.6)	4.6%
Discrepancy	(41.8)		(20.0)	(20.0)	(148%)
Total Financing	391.2	442.4	509.0	66.6	30.1%
Net Foreign Financing	(8.1)	(43.2)	7.8	51.0	(195.7%)
Net Domestic Financing	399.4	485.6	501.3	15.6	25.5%
Nominal GDP	18,054.3	19,272.8	19,272.8		

19. The National Treasury projects that ordinary revenue (primarily tax collections) will rise by 1 percent, or Ksh 29.7 billion, from Ksh 2,754.7 billion in the approved FY 2025/26 budget to Ksh 2,784.4 billion in Supplementary Estimate I of FY 2025/26.
20. This modest adjustment reflects mixed performance across tax heads: Import Duty increases by Ksh 4.1 billion (3 percent) and Other Tax Revenue rises significantly by Ksh 56.0 billion (28 percent), while key revenue drivers such as Income Tax decline by Ksh 18.0 billion (1 percent) and Excise Duty fall by Ksh 12.4 billion (4 percent), with VAT remaining unchanged at Ksh 771.7 billion.
21. Overall, the moderate upward revision in ordinary revenue contrasts sharply with the Ksh 316.7 billion increase in total expenditure, suggesting that revenue performance may not be keeping pace with rising spending pressures. This imbalance contributes to the widening of the overall fiscal deficit to Ksh 1,186.3 billion, highlighting continued fiscal pressures during the fiscal year.

Table 6 Fiscal Framework for the FY 2026/27 budget

Fiscal Framework in Ksh. Billion							
	2022/23	2023/24	2024/25	2025/26	2025/26		
	Prel Actual	Prel Actual	Prel Actual	Appr Budget (A)	Supp No. 1 (B)	Change (B-A)	% Change
Revenue and grants	2,383.6	2,724.7	2,956.9	3,368.6	3,432.3	63.7	2%
Total Revenue	2,360.5	2,702.7	2,923.6	3,321.7	3,392.3	70.7	2%
Ordinary Revenue	2,041.1	2,288.9	2,420.2	2,754.7	2,784.4	29.7	1%
Income tax	941.6	1,043.1	1,093.0	1,284.8	1,266.8	(18.0)	(1%)
VAT	550.4	645.5	660.7	771.7	771.7	-	0%
Import duty	130.1	133.9	157.1	162.9	167.0	4.1	3%
Excise duty	264.5	276.7	292.5	335.5	323.1	(12.4)	(4%)
Other tax revenue	154.5	189.7	216.8	199.9	255.9	56.0	28%
Appropriation-in-Aid	319.4	413.7	503.4	566.9	607.9	41.0	7%
Grants	23.1	22.0	33.3	46.9	39.9	(7.0)	(15%)
Total expenditures & net lending	3,221.0	3,605.2	3,975.9	4,301.9	4,618.6	316.7	7%
Recurrent expenditure	2,311.6	2,678.5	2,948.4	3,134.1	3,364.5	230.4	7%
Wages & salaries National gvt	539.6	575.3	624.7	657.3	689.3	32.0	5%
Pensions & Other CFS	120.4	143.9	176.8	205.2	201.7	(3.5)	(2%)
Interest	687.3	840.7	995.1	1,097.7	1,126.5	28.8	3%
On domestic debt	533.1	622.5	784.1	851.4	883.8	32.3	4%
On foreign debt	154.2	218.2	211.0	246.3	242.8	(3.5)	(1%)
O&M and other recurrent	873.7	1,026.1	1,053.0	1,055.8	1,244.6	188.9	18%
Contribution to pension fund	29.6	34.2	34.3	34.4	38.4	4.0	12%
Development & net lending	493.7	546.4	578.4	681.0	767.3	86.3	13%
Development expenditure	481.3	528.9	570.4	671.4	757.7	86.3	13%
Net lending	12.3	17.4	19.7	-	-	-	-
Contingency Fund	-	-	-	2.0	2.0	-	0%
Transfer to Counties	415.8	380.4	444.6	484.8	484.8	-	0%
Equitable Share	399.6	354.6	418.3	415.0	415.0	-	0%
Conditional Allocation	16.2	25.8	26.3	69.8	69.8	-	0%
Parliamentary service	41.2	37.3	41.6	48.0	28.2	(19.8)	(41%)
Judicial Service	19.8	21.0	23.0	27.8	27.8	-	0%
Equalization Fund	-	-	-	9.6	9.6	0.0	0%
Overall balance, including Grants	(837.4)	(880.6)	(1,019.1)	(933.3)	(1,186.3)	(253.0)	
Overall balance excluding grants	(860.5)	(902.6)	(1,052.4)	(980.2)	(1,226.2)	(246.0)	
Adjustment to cash basis	37.0	45.4	-	-	-	-	
Deficit incl grants cash basis	(800.4)	(835.2)	(1,019.1)	(933.3)	(1,186.3)	(253.0)	
Revenue and grants	16.7%	17.4%	17.2%	17.5%	18.1%		
Total Revenue	16.6%	17.3%	17.1%	17.2%	17.9%		
Ordinary Revenue	14.3%	14.6%	14.1%	14.3%	14.7%		
Total expenditures and net lending	22.6%	23.1%	23.2%	22.3%	24.3%		
Overall balance including grants	(5.9%)	(5.6%)	(5.9%)	(4.8%)	(6.2%)		
Overall balance excluding Grants	(6.0%)	(5.8%)	(6.1%)	(5.1%)	(6.5%)		
Primary Balance incl grants	(0.8%)	(0.3%)	(0.1%)	0.9%	-0.3%		
Nominal GDP	14,262	15,629	17,144	19,273	19,003		

Source: National Treasury

22. The Supplementary Estimates 1 of FY 2025/26 project a significant widening of the fiscal deficit. As shown in Table 7, the fiscal balance (including grants) on a cash basis is revised from a deficit of Ksh 933.3 billion in the approved budget to Ksh 1,186.3 billion, reflecting a substantial deterioration in the fiscal position during the financial year.
23. To finance this larger deficit, total financing is projected to increase by Ksh 221.0 billion, from Ksh 933.3 billion to Ksh 1,154.3 billion. This financing will largely come from net domestic borrowing, which rises sharply by Ksh 323.1 billion to Ksh 947.8 billion, while net foreign financing declines by Ksh 60.0 billion to Ksh 227.7 billion, indicating a shift toward greater reliance on domestic sources.
24. The increased dependence on domestic borrowing to finance the widened deficit raises important macro-fiscal concerns. Heavy domestic borrowing may place pressure on local financial markets and potentially crowd out private sector access to credit, thereby constraining investment and economic activity in the medium term.
25. Whereas the revenues have been revised upward in the supplementary by Kshs 63 billion, given the historical tendency for revenue projections to be overly optimistic, and the possibility of revenue losses if some of the proposed tax relief measures are implemented, there remains a risk that actual revenue outturns may fall short of expectations, potentially placing further strain on the fiscal framework.

Table 7 Financing of the Fiscal Deficit (Ksh. Billion)

	2023/24	2024/2025	2025/26		
	Prel Actual	Prel Actual	Appr Budget	Sup No.1	Change
Fiscal Balance (incl. grants) Cash Basis	(835.2)	(1,019.1)	(933.3)	(1,186.3)	
TOTAL FINANCING	818.3	1,034.6	933.3	1,154.3	221.0
NET FOREIGN FINANCING	222.7	179.7	287.7	227.7	(60.0)
Disbursements	760.5	527.0	627.9	903.5	275.7
Commercial Financing	286.9	253.1	221.2	540.1	318.9
o/w Export Credit- Commercial Financing	-	-	-	-	-
Sovereign Bond, other Commercial Financing	286.9	64.7	221.2	331.4	110.3
External Debt Operations - Refinancing	-	188.3		143.6	143.6
Sustainability-linked bond				65.0	65.0
Semi-Concessional Loans					
Project Loans AIA	68.3	65.6	86.5	100.5	13.9
Project Loans Revenue	87.4	85.8	124.9	123.7	(1.2)
Project Loans SGR _Phase I_ AIA				-	
Project Loans SGR _PHASE 2A_ AIA				-	
Use of IMF SDR Allocation	-	-		-	
Opec Funds				8.5	8.5
Programme Loans	317.8	113.7	195.3	130.9	(64.4)
O/W P for R Programme Loans	18.2	-	3.5	3.5	-
IMF - RCF/ECF/EFF	135.1	-	-	-	-
Development Policy Operations - WB	154.1	-	170.5	101.4	(69.1)
Support for COVID-19 Vaccine Purchase	-	-	-	-	-

Development Policy Operations - ADB	10.4	-	21.3	26.0	4.7
Debt repayment - Principal	(537.8)	(347.3)	(340.2)	(675.8)	
NET DOMESTIC FINANCING	595.6	854.9	645.6	947.8	323.1
Discrepancy	(16.8)	15.6			

3.0 Key Highlights of Supplementary Estimates I for FY 2025/26

- 26. Emergency Relief Programmes:** The State Department for Special Programmes received an additional KShs. 12.8 billion to support emergency relief interventions across the country. The additional allocation is primarily intended to finance food assistance and cash transfers to vulnerable households affected by prolonged drought conditions. The funding will support humanitarian response efforts aimed at addressing food insecurity and providing immediate relief to affected communities.
- 27. Education and Training:** Increased allocations have been provided to support the education sector. This includes KShs. 21.2 billion to the Teachers Service Commission to address personnel emoluments shortfalls and employer contributions to compulsory health insurance schemes; KShs. 15.4 billion to the State Department for Higher Education, mainly to support the Higher Education Loans Board, the University Funding Board, and Moi University; and KShs. 6.8 billion to the State Department for Technical and Vocational Education and Training, largely arising from additional Appropriations-in-Aid collected by TVET institutions.
- 28. Health Sector Interventions:** Additional resources have been allocated to strengthen health sector service delivery and support ongoing health reforms. This includes KShs. 6 billion to the Primary Health Care Fund to enhance access to essential health services at the community and primary care levels. KShs. 1.28 billion has been provided to support the coordination and implementation of Universal Health Coverage initiatives. In addition, KShs. 5.4 billion has been allocated to cater to health sector interns, and KShs. 3.6 billion SHIF payments for indigents.
- 29. Agricultural Support Programmes:** The State Department for Agriculture received increased funding to strengthen agricultural productivity and enhance food security in the country. This includes KShs. 10 billion to support the fertilizer subsidy programme, KShs. 7.8 billion to support reforms in the sugar sector, including KShs. 5.8 billion arising from AIA collected through the sugar levy. Further allocations include KShs. 2 billion for the production and distribution of seeds and seedlings to support crop diversification and increased farm productivity, and KShs. 1 billion to the Agricultural Finance Corporation (AFC) to enhance access to affordable credit for farmers and agribusiness enterprises across the country.
- 30. Increased Allocations to the Presidency:** The revised estimates reflect increased funding to the Presidency, mainly to address shortfalls in personnel emoluments, operations and maintenance, and other operational expenditures. This includes an

additional KShs. 1.8 billion to the Executive Office of the President and KShs. 1.8 billion to the Office of the Deputy President to support administrative and operational requirements. Further, KShs. 8.4 billion has been allocated to State House to cater for operational expenditures, including hospitality, domestic travel, and vehicle operations.

- 31. Security Operations Funding:** Additional resources have been allocated to various security agencies to support enhanced national security operations and address operational requirements. This includes KShs. 24.4 billion to the Ministry of Defence, mainly for salary adjustments and strengthening defence operations. KShs. 10 billion to the National Intelligence Service to enhance intelligence gathering and security coordination. KShs. 7.5 billion to the National Police Service to cater for operational needs, including insurance costs, KShs. 8.5 billion to the State Department for Internal Security and National Administration to address personnel emoluments, operations, and maintenance, and other security-related expenditures.
- 32. Transport and Infrastructure Development:** The revised estimates allocate additional resources to enhance road, rail, and marine transport projects. Specifically, KShs. 23 billion has been earmarked for the roads subsector to expand major road networks, KShs. 14.9 billion for rail transport, including the Nakuru–Kisumu–Malaba Standard Gauge Railway extension, and KShs. 6.3 billion for marine transport, with a focus on the Dongo Kundu Special Economic Zone.
- 33. Development Partner Programmes:** Some development partner-funded initiatives recorded reductions in funding due to adjustments in donor contributions and project reprioritization. Specifically, KShs. 4 billion was reduced for ICT infrastructure, KShs. 3.9 billion for water and sanitation projects, and KShs. 3.5 billion for energy sector programmes.
- 34. Appropriations-in-Aid (AIA):** Several government institutions are projecting higher collections of Appropriations-in-Aid (AIA) to support operational activities and enhance service delivery. AIAs are funds generated by institutions from their own sources, including fees, charges, and service revenues, which supplement budgetary allocations from the national government. This amounts to KShs. 27 billion in development expenditure and 22 billion in recurrent expenditures.

Major Changes in Recurrent Expenditure

Vote	State Department	Programme	Approved Estimates	New Allocation	Amount Increased / Reduced	% Change	Reason/Implication
1011	Executive Office of the President	General Administration Planning and Support Services	4,535,303,961	6,410,143,497	1,874,839,536	41%	PE and O&M shortfalls (400K), NMS pending bills (639K), National Lottery Board (425K), Gambling Regulatory Authority (200K)
1012	Office of the Deputy President	Deputy President Support Services	2,972,134,559	4,867,645,253	1,895,510,694	64%	0.3B PE shortfalls, 0.88B OOE, 0.7B O&M
1013	Office of the Prime Cabinet Secretary	Government Coordination and Supervision	356,636,938	628,940,537	272,303,599	76%	PE and O&M shortfalls
1014	State Department for Parliamentary Affairs	Liaison and Parliamentary Affairs Division	363,508,889	439,536,645	76,027,756	21%	O&M shortfalls
1016	State Department for Cabinet Affairs		228,723,204	235,174,899	6,451,695	3%	PE shortfalls
1017	State House	State House Nairobi	7,684,001,432	16,103,888,246	8,419,886,814	110%	4B OOE, 1.2B Hospitality, 1.75B Domestic Travel, 0.95B purchase, maintainance and fuel of vehicles
1023	State Department for Correctional Services	Prison Services	37,844,201,992	38,701,895,333	857,693,341	2%	Prison staff training college expenses and PE shortfalls in the Regional Command Centers.
1024	State Department for Immigration and Citizen Services	General Administration and Planning	11,704,434,808	14,028,540,334	2,324,105,526	20%	1.7B increase in AIA
1025	National Police Service	Policing Services	125,378,559,155	132,892,959,155	7,514,400,000	6%	4.1 B Insurance Costs shortfall, 1.4B for DCI, 0.6B DIG KPS, 1.7B Office of IG, and a reduction of 1.36B from Ward Police Services
1026	State Department for Internal Security & National Administration	General Administration and Support Services	31,864,535,087	40,367,473,633	8,502,938,546	27%	5.4B OOE, 1.4B O&M, and 1.2 PE shortfalls.

1033	State Department for Special Programmes	Special Initiatives	488,084,242	13,358,627,546	12,870,543,304	2637%	Emergency Relief and Refugee Assistance - food and transfers
1036	State Department for the ASALs and Regional Development	Accelerated ASAL Development	7,073,576,046	9,452,656,046	2,379,080,000	34%	1.95B to NDMA (1.6B food relief and 0.35B for water tracking) and 0.35B to RDAs
1041	Ministry of Defence	Defence	197,388,947,260	221,819,482,898	24,430,535,638	12%	6.4 B for enhanced security operations and 17.9 billion for adjustment for salary review
1064	State Department for Technical Vocational Education and Training	Technical Vocational Education and Training	35,408,430,497	43,736,420,154	8,327,989,657	24%	6.82B increase in AIA for TVETs and 0.47B for scholarships
1065	State Department for Higher Education	University Education	140,953,021,967	156,382,209,069	15,429,187,102	11%	4.1B to HELB, 4B for Moi University, 1.5B University Funding Board, 1.06B AIA by various universities, and 0.6B GoK students in Private Universities.
1066	State Department for Basic Education	Quality Assurance and Standards	109,421,772,577	112,829,115,548	3,407,342,971	3%	3.1B for Secondary Examinations and assessments paid through Article 223
1071	The National Treasury	General Administration Planning and Support Services	64,379,788,911	91,122,736,386	26,742,947,475	42%	17.65B to KRA, 2.2B in PE and O&M Shortfalls, 2.6B OOE Strategic Interventions, 0.2B to Nairobi International Financial Centre Authority
1082	State Department for Medical Services	General Administration	84,017,293,491	90,765,104,178	6,747,810,687	8%	6B PHC, Reduction of 2B from ECCIL, 0.5B AIA, 1.28B UHC coordination Unit, 0.3B Mathari NTRH, 0.3B to JOOTRH
1083	State Department for Public Health and Professional Standards	Health Resources Development and Innovation	26,590,977,650	32,512,554,125	5,921,576,475	22%	5.4 Billion for Health Sector Interns
1109	State Department for Water & Sanitation	Water and Sewerage Infrastructure Development	6,777,942,945	8,316,042,945	1,538,100,000	23%	1.39B AIA (0.78B AWWDA and 0.62B CWWDA)

1169	State Department for Agriculture	General Administration Planning and Support Services	17,792,712,489	24,733,719,705	6,941,007,216	39%	5.8B AIA Kenya Sugar Board, 0.5B KEPHIS.
1174	State Department for Trade	Domestic Trade and Regulation	3,984,058,752	5,033,018,276	1,048,959,524	26%	0.7B to KNTC and 0.3 O&M shortfalls
1175	State Department for Industry	Industrial Promotion and Development	3,579,771,091	4,542,237,400	962,466,309	27%	0.6B AIA from NMC, 130M from ACA, additional 160M to KIRDI)
1185	State Department for Social Protection and Senior Citizens Affairs	National Social Safety Net	29,132,888,798	33,316,872,382	4,183,983,584	14%	3.6B SHIF for indigents, PE and O&M shortfalls
1203	State Department for Wildlife	Wildlife Conservation and Management	11,955,504,637	13,565,797,441	1,610,292,804	13%	1.49B AIA by KWS from Park Entries
1213	State Department for Public Service and Human Capital Development	Public Service Transformation	19,752,441,153	22,416,639,995	2,664,198,842	13%	2.0B insurance for civil servants and balance for PE and O&M shortfalls
1261	The Judiciary	Dispensation of Justice	25,237,400,000	25,537,400,000	300,000,000	1%	O&M shortfalls
1281	National Intelligence Service	National Security Intelligence	51,447,229,480	61,447,229,480	10,000,000,000	19%	Enhanced security operations
1291	Office of the Director of Public Prosecutions	Public Prosecution Services	4,395,631,922	5,310,227,372	914,595,450	21%	PE shortfalls
1311	Office of the Registrar of Political Parties	Registrar of Political Parties	2,486,991,519	2,761,967,519	274,976,000	11%	PE and O&M shortfalls
1332	State Department for Forestry	Forests Development, Management and Conservation	8,932,168,653	11,037,544,588	2,105,375,935	24%	2.0B to KWS for tree growing initiatives
2021	National Land Commission	Land Administration and Management	2,803,230,215	4,303,230,215	1,500,000,000	54%	settlement of pending bills (1b legal and 0.5 other pending bills)
2031	Independent Electoral and Boundaries Commission	Management of Electoral Processes	9,302,347,536	10,190,293,313	887,945,777	10%	To cater for by-elections and preparatory activities for the 2027 General Elections

2091	Teachers Service Commission	Teacher Resource Management	386,510,363,906	407,692,082,376	21,181,718,470	5%	12.8B PE shortfall, 7.5B Employer Contributions to Compulsory Health Insurance Schemes
2111	Auditor General	Audit Services	8,359,032,880	8,779,032,880	420,000,000	5%	to cater for audit of public secondary schools

Major Changes in Development Expenditure

Vote	State Department	Programme	Approved Estimates	New Allocation	Amount Increased / Reduced	% Change	Reason/Implication
1024	State Department for Immigration and Citizen Services	Population Management Services	2,999,200,000	5,291,200,000	2,292,000,000	76.4%	AIA to cater for supplies for ID card materials
1032	State Department for Devolution	Devolution Services	15,915,122,542	14,176,122,542	-1,739,000,000	-10.9%	Donor-funded - KDSP II reduction of level 2 grants by 11.4B and increase in level 1 grant by 9.6B
1036	State Department for the ASALs and Regional Development	Integrated Regional Development	1,749,500,000	3,571,500,000	1,822,000,000	104.1%	650M to Gum Arabic and Resins Integrated Development Programme, 250M to Etio Water Distribution Supply, 600M to KVDA
1064	State Department for Technical Vocational Education and Training	Technical Vocational Education and Training	7,836,323,214	7,086,623,214	-749,700,000	-9.6%	Reduction of 3.4B from GoK-AfDB TVEts programme and increase of 2.6B for Kenya - China TVET Project
1065	State Department for Higher Education	University Education	2,781,974,265	4,041,974,265	1,260,000,000	45.3%	1B infrastructure Improvement at Kabarnet University College
1066	State Department for Basic Education	Primary Education	14,370,800,000	11,219,331,207	-3,151,468,793	-21.9%	Reduction of 4.5B from Kenya Primary Education Equity in Learning Program; increase of 670M in school infrastructure, Nyamira/Borabu, and 300M in Primary Schools

							infrastructure Improvement
		Secondary Education	4,094,647,879	6,698,593,879	2,603,946,000	63.6%	Increase of 1.7B for Kenya Secondary Education Equity Improvement and 700M for Secondary School Infrastructure Improvement
1071	The National Treasury	General Administration Planning and Support Services	2,178,000,000	7,049,946,483	4,871,946,483	223.7%	1.86B donor Kenya Affordable Housing Project (Article 223); 2.0B for Disaster Recovery & Upgrade of ICT Infrastructure-KONZA Technopolis.
		Public Financial Management	24,713,592,652	22,944,402,185	-1,769,190,467	-7.2%	0.8M increase for IFMIS licences, 1.9B reduction in Special Global Fund - HIV NFM 4
		Economic and Financial Policy Formulation and Management	15,608,000,000	11,813,000,000	-3,795,000,000	-24.3%	2.3B reduction in FLLCoA; 1.3B reduction from Supporting Access to Financial Access Services to Finance & Enterprise Recovery programme.
1072	State Department for Economic Planning	National Statistical Information Services	399,520,000	2,985,068,247	2,585,548,247	647.2%	East African Regional Statistics Programme for Results - KNBS
1082	State Department for Medical Services	National Referral & Specialized Services	6,449,000,000	7,646,605,217	1,197,605,217	18.6%	2B New 2,000 Bed Multi-Specialty MTRH, 0.5M Completion of Radiotherapy Centre - JOOTRH, reductions in

							AIA for several facilities
		Curative & Reproductive Maternal New Born Child Adolescent Health RMNCAH	15,267,068,600	23,577,068,600	8,310,000,000	54.4%	Donor - Kenya COVID-19 Emergency Response Project
1083	State Department for Public Health and Professional Standards	Preventive and Promotive Health Services	4,346,191,767	2,577,022,823	-1,769,168,944	-40.7%	Reduction in donor funds to building Resilience and Responsive Health System Project (TB) and various Global Special funds for TB and malaria
1091	State Department for Roads	Road Transport	150,253,219,469	173,365,103,248	23,111,883,779	15.4%	10B Horn of Africa Gateway DP (4.5 GoK and 5.5B donor); Kitale-Morpus (KFW); 1.1B for Low Volume Seal Roads; 1.6B Bitumen of Eronge-Kebuse-Borabu TCC-Makara; 2.3B Low Vol seal II and III; 4.8B Nairobi Intelligent Transport System Phase III; 0.9B for Elwak - Rhamu; 0.7B dualling Sagana-Marua section; 0.6B Mombasa-Mtwapa;
1092	State Department for Transport	Rail Transport	36,509,443,854	51,414,281,780	14,904,837,926	40.8%	Additional 13.9B SGR Phase 2B and 2C (Naivasha-Kisumu and Kisumu Malaba); 1.7B Supply & Commissioning of Kenya Railways Rolling Stock; 1.2B to remanufacture of MGR Locomotives; Reduction of

							1.6B construction of SGR overhaul workshop, 1.1B Acquisition of SGR Locomotives Wheelsets and 1.6B from Riruta - Lenana - Ngong Railway Line
		Marine Transport	450,000,000	7,400,000,000	6,950,000,000	1544.4%	6.3B Donor-Berth No.1 Dongo kundu SEZ
1104	State Department for Irrigation	Irrigation and Land Reclamation	6,348,175,736	9,234,130,925	2,885,955,189	45.5%	0.9B NIA Irrigation Projects; 0.8B National Expanded Irrigation Programme II; 0.5B Community Based Irrigation Projects
		Water Harvesting and Storage for Irrigation	245,000,000	978,540,676	733,540,676	299.4%	330M to Micro Irrigation Programme for Schools; 238M Drought Resilience Program in Northern Kenya; other water harvesting initiatives
1109	State Department for Water & Sanitation	Water Resources Management	14,437,000,000	10,478,897,000	-3,958,103,000	-27.4%	2.3B reduction from Horn of Africa Groundwater for Resilience Project; and 0.9B from Kenya Water, Sanitation and Hygiene program;
		Water and Sewerage Infrastructure Development	31,080,475,017	34,468,777,017	3,388,302,000	10.9%	Additional 0.5B National Water Harvesting and Groundwater Exploitation; 0.8B NWWA; 1B to LVNWWDA; 0.2B NRWWDA; 0.8B Water

							Supply Projects; 0.2B NWHSA
		Water Storage and Flood Control	1,543,901,215	2,243,901,215	700,000,000	45.3%	1.1 B to Mwache dam;
1112	State Department for Lands and Physical Planning	Land Policy and Planning	3,805,090,000	6,665,090,000	2,860,000,000	75.2%	Reallocations and 3 billion for the settlement of the landless
1122	State Department for Information Communication Technology & Digital Economy	ICT Infrastructure Development	11,920,014,293	7,869,933,965	-4,050,080,328	-34.0%	Reduction of 1B from Kenya Digital Economy Acceleration Project; 2.8B donor from Konza data Center & Smart City Facilities;
1132	State Department for Sports	Sports	15,835,000,000	20,635,000,000	4,800,000,000	30.3%	1B AIA from SDF; 3.8B land compensation for Talanta Stadium land.
1152	State Department for Energy	Power Generation	10,507,891,458	9,237,891,458	-1,270,000,000	-12.1%	Reduction of 1.5B from OI Karia I Units 1,2,3 Rehabilitation Project;
		Power Transmission and Distribution	38,659,360,539	36,428,178,811	-2,231,181,728	-5.8%	Additional 3.1B to Last Mile Electricity Connectivity; Reduction of 2.9B from National System Control Centre & Makindu SS; 1.6B from Kenya Green & Resilient Expansion of Energy project;
1162	State Department for Livestock Development	Livestock Resources Management and Development	5,076,058,633	7,170,558,633	2,094,500,000	41.3%	Additional 1.2B to Livestock Value Chain Support Project (Coolers); 0.48B Livestock Production Interventions; 0.2B TWENDE

1166	State Department for the Blue Economy and Fisheries	Fisheries Development and Management	5,231,727,099	7,613,727,099	2,382,000,000	45.5%	Additional 1.1B to Aquaculture Business Development Project; 0.9B to Kenya Marine Fisheries & Socio-Economic Development Project.
1169	State Department for Agriculture	General Administration Planning and Support Services	11,035,000,000	23,664,000,000	12,629,000,000	114.4%	10B fertilizer subsidy programme; 2B sugar reforms support; 1B tea reforms programme;
		Crop Development and Management	20,316,811,411	23,377,911,411	3,061,100,000	15.1%	1.1B Food Security and Crop Diversification Project; 1B to AFC; 2B Seeds and Seedlings Production Project
1173	State Department for Cooperatives	Cooperative Development and Management	1,471,377,900	3,471,377,900	2,000,000,000	135.9%	2B Milk powder processing NKCC
1176	State Department for Micro, Small, and Medium Enterprises Development	Promotion and Development of MSMEs	2,711,779,500	5,589,579,500	2,877,800,000	106.1%	An additional 3.7B to Nyota and a reduction of 300M AIA and 200M KCEP
1332	State Department for Forestry	Forests Development, Management and Conservation	3,612,041,057	5,962,041,057	2,350,000,000	65.1%	Tree Growing Campaign and Rangeland Restoration