



The 2026 Budget Policy Statement Note

The National Treasury released the [2026 Budget Policy Statement](#) (BPS) in line with Section 25 of the Public Finance Management (PFM) Act, CAP 412A, which states that the National Treasury shall prepare and submit the BPS to the cabinet for approval. Subsequently the approved BPS is submitted to the parliament, by the 15th of February each year. The statement outlines priority economic policies, structural reforms and sectoral expenditure programs to be implemented under the Medium-Term Expenditure Framework (FY'2025/26–2027/28).

As such, this review focuses on the following:

- i. A comparison of FY'2025/26 Supplementary budget and the projected FY'2026/27 budget as per the 2026 BPS,
- ii. Our analysis and assessment of key aspects of the budget,
- iii. Recovery strategy and measures to enhance fiscal performance, and
- iv. Conclusion and key areas for improvement.

Section I: A Comparison of the FY'2025/26 Supplementary Budget and the Projected FY'2026/27 Budget as per the 2026 BPS

Below is a summary of the major changes as per the BPS 2026 from the expected FY'2025/2026 budget performance:

Comparison of 2025/26 and 2026/27 Fiscal Year Budgets as per the 2026 Budget Policy					
Statement	FY'2024/2025 Budget Outturn	FY'2025/2026 Original Budget	FY'2025/26 Supplementary Budget	FY'2026/2027 BPS	% change Supp.2025/26 to 2026/27
Total revenue	2,923.6	3,321.7	3,352.1	3,533.7	5.4%
External grants	33.3	47.2	39.9	54.4	36.3%
Total revenue & external grants	2,956.9	3,368.9	3,392.0	3,588.1	5.8%
Recurrent expenditure	2,948.4	3,134.1	3,338.7	3,456.9	3.5%
Development expenditure & Net Lending	582.9	649.0	707.3	749.5	6.0%
County governments + contingencies	444.6	484.8	484.8	495.5	2.2%
Total expenditure	3,975.9	4,269.9	4,532.8	4,703.9	3.8%
Fiscal deficit excluding grants	1,052.3	901.0	1,140.7	1,115.8	(2.2%)
Deficit as % of GDP	5.9%	4.7%	6.0%	5.3%	(0.7%)
Net foreign borrowing	179.7	287.4	254.8	225.5	(11.5%)
Net domestic borrowing	854.5	613.5	885.9	890.4	0.5%
Total borrowing	1,034.2	901.0	1,140.7	1,115.8	(2.2%)
GDP Estimate	17144.0	19272.8	19003.2	20947.4	10.2%

Key take-outs from the table include:

- i. Total revenue, is projected to increase by 5.4% to Kshs 3,533.7 bn in FY'2026/27 from Kshs 3,352.1 bn in FY'2025/26. External grants are expected to rise by 36.3% to Kshs 54.4 bn, bringing total revenue and grants to Kshs 3,588.1 bn, a 5.8% increase.
- ii. Total expenditure is projected to increase by 3.8% to Kshs 4,703.9 bn in FY'2026/27 from Kshs 4,532.8 bn in FY'2025/26.
- iii. Development expenditure & net lending is set to rise by 6.0% to Kshs 749.5 bn, while recurrent expenditure is projected to increase by 3.5% to Kshs 3,456.9 bn. Recurrent expenditure remains the largest share of total spending accounting for 73.5%, while development expenditure will be allocated 15.9%.
- iv. The fiscal deficit (including grants) is projected to decrease by 2.2% to Kshs 1,115.8 bn in FY 2026/27 from Kshs 1,140.8 bn in FY'2025/26, with the deficit as a share of GDP declining to 5.3% from 6.0%.
- v. Total borrowing is projected to decline to Kshs 1,115.8 bn from Kshs 1,140.7 bn in FY'2025/26. This comprises net foreign borrowing of Kshs 225.5 bn and net domestic borrowing of Kshs 890.4 bn, reflecting the government's continued preference for domestic financing amid constrained access to external markets and efforts to manage foreign exchange risk.
- vi. GDP is projected to grow by 10.2% to Kshs 20,947.4 bn in FY 2026/27 from Kshs 19,003.2 bn in FY 2025/26, providing some fiscal space for the planned expenditure increase.

Section II: Analysis and House-view on Key Aspects of the BPS:

Below we give our analysis and view on various aspects of the Budget Policy Statement:

1. Revenue

In FY'2026/27, revenue collection including Appropriation-in-Aid (A.i.A) is projected to increase by 5.4% to Kshs 3,533.7 bn, up from Kshs 3,352.1 bn in FY'2025/26, mainly underpinned by ongoing tax policy reforms and revenue collection measures aimed at expanding the tax base and improving compliance. Ordinary revenues are projected to increase proportionally, contributing to total revenue growth.

To address revenue shortfalls and broaden the tax base in FY'2026/27, the Kenyan government will continue to focus on the following:

- i. **Strengthen Tax Policy and Frameworks:** Continue implementing the National Tax Policy and the Medium-Term Revenue Strategy to simplify and harmonize tax laws, rationalize tax expenditures, and create a fair, predictable, and efficient tax system.
- ii. **Modernize and Deepen Tax Administration:** Invest in technology to improve tax compliance, broaden the tax base, enhance customs valuation, seal revenue leakages, and adopt risk-based, data-driven compliance measures to reduce enforcement costs and increase efficiency.
- iii. **Expand Non-Tax Revenues:** Strengthen the capacity of Ministries, Departments, and Agencies (MDAs) to generate income from public services and improve operational systems to enhance service-based revenue performance.
- iv. **Promote Fairness and Broaden the Personal Income Tax Base:** Improve compliance among the self-employed and informal sector by enhancing income visibility, reducing over-reliance on PAYE contributors, and ensuring tax obligations are applied equitably across all income earners.

2. Expenditure

As per the 2026 BPS, total expenditure is projected at Kshs 4,703.9 bn in FY'2026/27, a 3.8% growth from 4,532.8 in FY 2025/26, with recurrent expenditure projected at Kshs 3,456.9 bn, development expenditure and net lending at Kshs 749.5 bn, and county governments plus contingencies at Kshs 495.5 bn. This reflects faster growth in development expenditure of 6.0% relative to recurrent expenditure of 3.5%, with allocations to county governments and contingencies projected slightly increasing by 2.2%, highlighting the government's focus on development priorities and fiscal consolidation.

The Government is strengthening expenditure control to ensure value for money in public spending by enforcing austerity measures to reduce recurrent expenditure, rolling out end-to-end e-procurement systems to enhance transparency and efficiency, advancing state corporation reforms including privatization, and implementing the Human Resource Management System (HRMS) across National and County Governments to improve wage bill management.

Despite the notable increase in development expenditure, projected recurrent expenditure remains elevated, raising concerns about the quality of fiscal consolidation and its potential implications for long-term economic growth. To reduce government expenditure and, consequently, borrowing requirements, we recommend the following:

- i. **Enhancing Public-Private Partnerships (PPPs)** – The government should involve the private sector in development as this will increase efficiency while reducing pressure on the government. This should be done by removing bottlenecks to PPPs and joint ventures to attract more private investors to attract more development projects especially the infrastructure ones,
- ii. **Reduction of The Public Wage Bill** – This should be done through rationalization of the public office roles we currently have by getting rid of redundancies in the representation of counties and constituencies, and relooking at the salaries, allowances and benefits earned,
- iii. **Privatization of Parastatals** - The government should revive economic performance of parastatals or privatize poorly performing ones to release capital, lower debt and also to prevent the widening of debt from losses and inefficiencies. Fortunately, the government has identified this as a suitable approach and has started the process of privatizing at least 35 state owned firms through the Privatization Commission,
- iv. **Enhancing Efforts to Fight Corruption** – The government should ensure efficiency and advance efforts to fight corruption, as funds lost to corruption are estimated at roughly a third of the national budget (Estimates from the Ethics and Anti-Corruption Commission). Kenya has been engaged in the fight against corruption since the 1960's, without successfully being able to get rid of recurrent scandals involving huge sums of public funds that are inflating the expenditure but not impacting the lives of the common Kenyan, and,
- v. **Prioritizing Impactful Development Projects** – To ensure fiscal consolidation and manage expenditure, the government should give priority to completing ongoing development projects after thorough auditing. Further, it is essential for the government to also concentrate on ensuring that Development budget is more concentrated on projects that have high social benefits and high economic return. Going forward, development budget absorption needs to improve as most fiscal years end in an under-absorbed development budget and an over-spent recurrent budget. Development projects need to be prioritized and better planning incorporated to match fund

availability to project execution, and measures taken to improve the public procurement process; while also being prudent in recurrent spending.

3. Public Debt

As per the 2026 BPS, the total new public debt requirement for FY'2026/27 is projected at Kshs 1,115.8 bn, up from Kshs 1,140.7 bn in FY'2025/26, representing a 2.2% decrease. The composition of borrowing shows a continued emphasis on domestic financing, with net domestic borrowing projected at Kshs 890.4 bn up from Kshs 885.9 bn in FY'2025/26 supplementary budget, while net foreign borrowing is expected to decline to Kshs 225.5 bn down from Kshs 254.8 bn in FY 2025/26, reflecting a marked shift towards domestic sources. The Government plans to continue meeting its borrowing needs through a combination of domestic and external financing, with external borrowing primarily sourced from multilateral and bilateral lenders, alongside limited commercial borrowing, and a strong focus on concessional financing. Non-concessional and commercial borrowing will be strictly restricted to projects aligned with the national development agenda and only where concessional financing options are unavailable.

In response to global challenges such as supply chain disruptions and rising external financing costs, the government will closely monitor macroeconomic conditions before accessing international capital markets through sovereign bonds or liability management operations. Additionally, it will explore innovative financing options, including green and climate-related financing, and expand into new markets with instruments like Panda and Samurai bonds to diversify funding sources.

Domestically, the government recognizes the critical role of local borrowing, which has historically accounted for more than half of its funding needs, and is focused on lengthening the public debt maturity profile through issuance of medium to long-term bonds. To enhance this market, reforms will focus on improving efficiency, diversifying the investor base, and ensuring stability. The M-Akiba bond platform will be revamped to make government securities more accessible to retail investors, fostering financial inclusion and a culture of saving.

Despite the decline in the public debt-to-GDP ratio to 59.7% in December 2025, from 68.9% in September 2025 debt sustainability remains a key concern for Kenya. The International Monetary Fund (IMF) debt sustainability analysis classifies Kenya's public debt as sustainable, with the country rated a medium performer under the Debt Carrying Capacity (DCC) framework. However, debt-servicing pressures remain elevated. As at January 2026, Kenya's debt service-to-revenue ratio [stood](#) at 74.8%, which is well above the IMF's recommended threshold of 30.0%

The persistence of debt service levels above the recommended threshold signals heightened liquidity and refinancing risks, particularly in the event of external shocks such as global supply chain disruptions and tightening global financial conditions. To enhance debt sustainability, the Government intends to prioritize fiscal consolidation measures aimed at moderating debt accumulation, strengthening revenue mobilization, and reducing debt servicing costs over the medium term.

Below are some actionable steps the government can take towards debt sustainability;

- i. **Restructuring of Debt Mix-** The government should prioritize concessional borrowing to reduce the amounts paid in debt service and reduce its dependence on commercial borrowings which are usually expensive and has been increasing debt servicing cost. Further, commercial borrowing should be

limited to development projects with high financial and economic returns, to ensure that more expensive debt is invested in projects that yield more than the market rate charged,

- ii. **Improving Capital Markets** - The government should channel efforts towards strengthening the capital markets structure to ease the pooling of funds by investors to undertake development projects, rather than relying heavily on direct government financing. Key to note, our capital markets remain relatively shallow, with banking deposits having mobilized Kshs 5.8 tn compared to Collective Investment Schemes at only Kshs 0.7 tn, hence the need to increase support to the sector,
- iii. **Fiscal Consolidation** – The main attribute to higher fiscal deficit is higher expenditure compared to lower revenue collections consequently leading to increased borrowing to finance the deficit. However, the government can bridge the deficit gap by implementing robust fiscal consolidation through expenditure reduction by introducing austerity measures and reducing amounts extended to recurrent expenditure and capital-intensive projects but mainly focus on projects with high social impact or a higher economic return. The government can also focus on completing pending projects whose economic benefits will be transmitted into the economy and support overall economic growth instead of starting new ones,
- iv. **Improving the Country's Export**- The government can focus on developing certain sectors to build an export-driven economy by formulating export and manufacturing policies. Encouraging growth in the manufacturing sector will help increase the value of our exports leading to an improved current account, and,
- v. **Improve the Efficiency of Public Debt Management Office** –The directorate was established to minimize the cost of public debt management, promote development of market for government debt securities and ensure sharing of benefits and costs of the debt between different generations. However, the authority should also have a mandate of solving Kenya's debt problems which have been more of a lack of fiscal discipline coupled with the inadequate political will to fight corruption so as to avoid pilferage. The authority should also be given the mandate to monitor expenditure and funds allocation to specific projects.

Section III: Conclusion

The 2026/27 Budget Policy Statement is the fourth to be prepared under the current administration and aims to advance the Bottom-Up Economic Transformation Agenda. The BPS is formulated against a backdrop of moderating economic activity in FY'2026, with estimated GDP growth projected at 5.3% in FY'2026/27. Implementation of the budget will rely heavily on enhanced revenue mobilization, with the Treasury targeting revenues of Kshs 3,533.7 bn. The BPS emphasizes fiscal consolidation through reduced debt accumulation to ease the country's overall debt burden. In line with the administration's manifesto, recurrent expenditure is projected to increase by 10.3% to Kshs 3,456.9 bn, while development expenditure and net lending is set to rise by 15.5% to Kshs 749.5 bn to support key development priorities. The FY'2026/27 fiscal deficit is projected at Kshs 1,115.8 bn, to be financed through a mix of domestic and external borrowing, compared to Kshs 901.0 bn in the FY 2025/26 budget