

# KENYA
# The National Budget Overview 2025/26


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## FOREWORD

*This update presents an exhaustive analysis of the Kenya National Budget for the Financial Year 2025/26. Prepared by the Tax and Business Advisory Team at Anant Bhatt LLP, the document aims to provide a granular and interpretative overview of fiscal policies, sectoral allocations, legislative reforms, economic performance, and structural changes, as outlined in the National Budget Statement.*

Presented by
**Anant Bhatt LLP**

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# PART 1
# Macroeconomic Framework

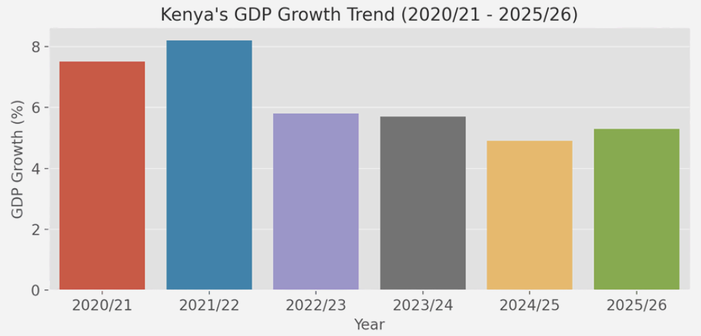


# Part 1 - Macroeconomic Framework

**1.1 Global and Regional Context**
The global economy in 2025 remains under pressure from geopolitical tensions, residual effects of pandemic recovery, and monetary tightening by major central banks. Africa’s growth is expected at 3.8%, constrained by food insecurity, climate shocks, and debt vulnerabilities. Kenya’s projection of 5.3% GDP growth situates it ahead of regional and global averages, reflecting resilience and strong policy frameworks.

**1.2 Domestic Economic Performance**
Kenya's economy posted a real GDP growth of 4.7% in 2024, mainly due to agriculture recovery from favourable rainfall, a rebound in tourism, and public investment in infrastructure. Two sectors —construction and mining—recorded contractions due to input shortages and delayed projects. Monetary policy has eased cautiously, with the Central Bank Rate reducing to 11.25%. This has not yet translated into lower commercial lending rates, indicating challenges in monetary transmission.

**1.3 Inflation, Exchange Rate and Foreign Reserves**
Inflation has decelerated sharply to 3.8%, driven by food prices, energy cost declines, and currency stability. The Kenya Shilling stabilised against major currencies, partly due to diaspora remittances and support from the IMF Extended Credit Facility. Foreign exchange reserves are at 4.4 months of import cover—adequate, though below the 6-month optimal threshold.



# PART 2
# Fiscal Planning & Budgetary Architecture



# Part 2 - Fiscal Planning and Budgetary Architecture

**2.1 Fiscal Strategy Statement**
The FY 2025/26 Budget is shaped by the third Medium-Term Plan (MTP IV), anchored in the Bottom-Up Economic Transformation Agenda. It prioritises fiscal consolidation without compromising essential services. Total government expenditure stands at KES 4.29 trillion (22.3% of GDP), with projected revenues at KES 3.32 trillion (17.2% of GDP). The fiscal deficit of KES 923.2 billion is expected to decline to 4.8% of GDP, financed through:

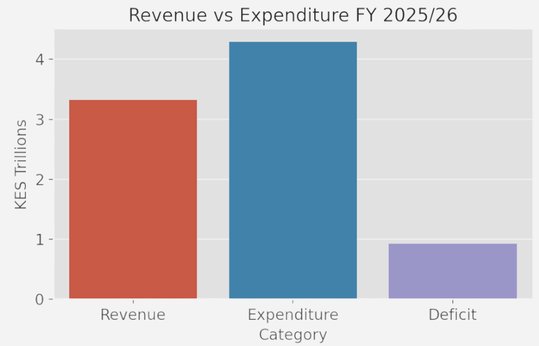
- Domestic borrowing (KES 635.5 billion)
- External borrowing (KES 287.7 billion)

The shift from foreign to domestic borrowing reflects increased risk aversion by lenders and the maturity of external debt. However, domestic borrowing raises concerns about interest rate hikes and crowding out private investment.

**2.2 Recurrent vs. Development Spending**
Recurrent expenditure comprises KES 3.13 trillion, or 73% of total spending, indicating a structural imbalance where operational costs dominate. Salaries, pensions, and interest payments leave limited fiscal room for development initiatives.

Development expenditure is budgeted at KES 693.2 billion, down from KES 727 billion in 2024/25. The reduced allocation affects long-term projects and may delay the attainment of Vision 2030 infrastructure goals unless supplemented by PPPs and donor-funded programs.

**2.3 Devolution Allocations**
The equitable share to counties has risen modestly to KES 405.1 billion. While this supports decentralised services, absorption capacity remains a challenge. Counties also face over KES 181.9 billion in pending bills, which continue to inhibit local contractors and SMEs.



# PART 3
# Revenue Collection & Tax Policy Evolution



# Part 3 - Revenue Collection and Tax Policy Evolution

**3.1 Overview of Revenue Mobilisation**

Revenue collection fell short of targets in 2024 by 8% (KES 107.6 billion), signalling ongoing challenges with enforcement, economic informality, and litigation delays. The 2025/26 Budget emphasises improving efficiency and compliance rather than increasing rates.

Key strategies include:

- Expansion of e-invoicing and e-TIMS
- Use of Artificial Intelligence for taxpayer profiling
- Real-time monitoring in sectors like petroleum, rentals, and manufacturing

**3.2 Rationalization of Tax Expenditures**

Tax expenditures (incentives and exemptions) accounted for 3.4% of GDP in 2023 (KES 510 billion). The Government plans to reduce this through:

- Repeal of 150% investment allowances
- Limiting tax loss carry forward to 5 years
- Reclassification of zero-rated to exempt status for EVs, solar batteries, and hospital inputs

The goal is to enhance transparency, curb abuse, and align incentives with the green agenda.

**3.3 Tax Reform Highlights**

- Income Tax: Introduction of Advance Pricing Agreements (APAs) aims to enhance transfer pricing certainty for multinationals. Preferential tax rates for NIFCA-certified companies encourage investment.
- VAT: Mandatory invoicing for all VAT-registered businesses, even if supplying exempt goods. This simplifies audit trails and combats revenue leakage.
- Excise Duty: Broadened to include digital services consumed locally by non-residents. Ensures taxation aligns with cross-border digital economy realities.
- Customs Duties: Lowered import tariffs for essential inputs, with local purchase prioritisation (e.g. for wheat), reflecting an agro-industrial policy shift.

# PART 4
# Sectoral Priorities & BETA Framework



# Part 4 - Sectoral Priorities & BETA Framework

The Bottom-Up Economic Transformation Agenda (BETA) is the cornerstone of Kenya's economic revival plan. BETA aims to decentralise economic benefits by focusing public investment in high-impact, labour-intensive sectors that support low-income and informal sector populations.

**4.1 Agricultural Transformation**

With a KES 47.6 billion allocation, agriculture receives targeted interventions aimed at strengthening Kenya's food security, improving rural incomes, and revitalising value chains.

- Fertilizer Subsidy Programme (KES 8 billion): To mitigate rising food prices and reduce reliance on imports. Aims to provide 500,000 tonnes of subsidised fertiliser to 2 million farmers.
- NAVCDP (KES 10.2 billion): Focuses on enhancing post-harvest value addition and expanding farmer linkages to markets and agro-processors.
- Blue Economy (KES 5.2 billion): Funds fishing port upgrades, cold storage chains, and marine aquaculture.
- Sugar and Livestock Reforms: These sectors have been earmarked for revival through debt write-offs, breeding programs, and disease surveillance.

**4.2 MSME Economy**

Micro, Small and Medium Enterprises (MSMEs) represent 85% of employment in Kenya. The budget allocates:

- KES 0.3 billion to Hustler Fund: A revolving credit facility targeting micro-enterprises.
- KES 1.3 billion to Rural Inclusion: Expands digital financial access and capacity-building.
- KES 0.2 billion for Agricultural Credit Access: Aims to formalise access for agro-based MSMEs.

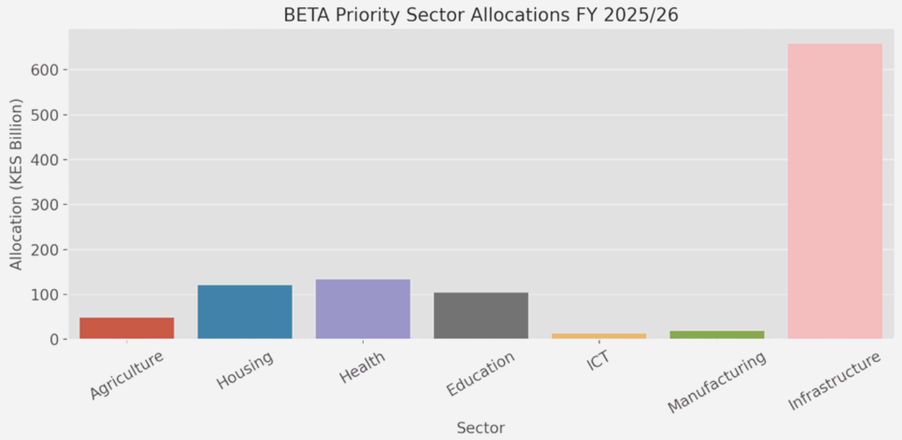
# Part 4 - Sectoral Priorities & BETA Framework

**4.3 Housing and Settlement**
KES 120.2 billion is allocated to affordable housing. Flagship projects include:

- KES 64.5 billion: For direct construction of affordable units.
- KES 16.5 billion: For basic urban infrastructure including roads and drainage.
- KES 10.5 billion: For social housing targeting low-income earners.

**4.4 Digital Superhighway and Creative Economy**
The digital economy receives KES 12.7 billion. Strategic goals:

- Broadband and fibre expansion: Aims for 100% county coverage.
- Digital hubs: To be launched in all 290 constituencies.
- Creative economy support: Includes financing local film, music, and digital content creators.



# PART 5
# Social Sector Reforms (Health, Education, Social Protection)



# Part 5 - Social Sector Reforms

**5.1 Universal Healthcare (UHC)**
The healthcare allocation is KES 133.4 billion, structured to actualise the Social Health Authority under the UHC program. Over 22 million Kenyans are now covered.
Breakdown:

- KES 18.7 billion: Kenyatta National Hospital
- KES 13.1 billion: Primary Healthcare Fund for community-level facilities
- KES 8.0 billion: Emergency and critical illness fund
- KES 6.2 billion: UHC coordination and oversight

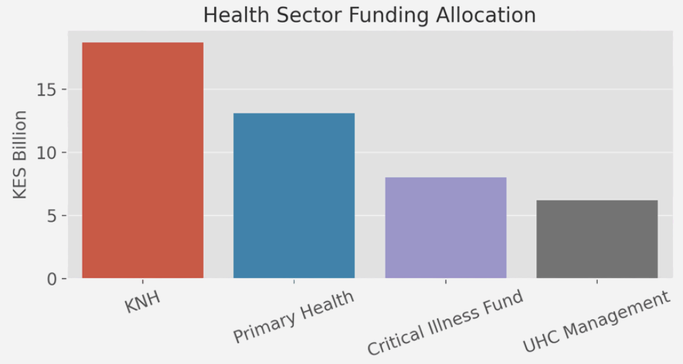
Investments target disease prevention, digitisation of health records, and integration of NHIF into the new model.

**5.2 Education**
Education received KES 103.8 billion for improved learning outcomes:

- Recruitment of 15,000 teachers
- CBC transition infrastructure
- Higher Education Loans Board (HELB) funding reforms

**5.3 Social Protection**
Social security programmes target vulnerable households with cash transfers, nutrition assistance, and skills training. Allocations include:

- KES 29.7 billion: For cash transfers to orphans, elderly, and PWDs
- KES 41.3 billion: For women and youth empowerment initiatives



# PART 6
# Economic Infrastructure & Transformation Projects



# Part 6 - Economic Infra. & Transformation Projects

**6.1 Roads and Bridges**
A total of KES 217.3 billion has been allocated, with key projects including:

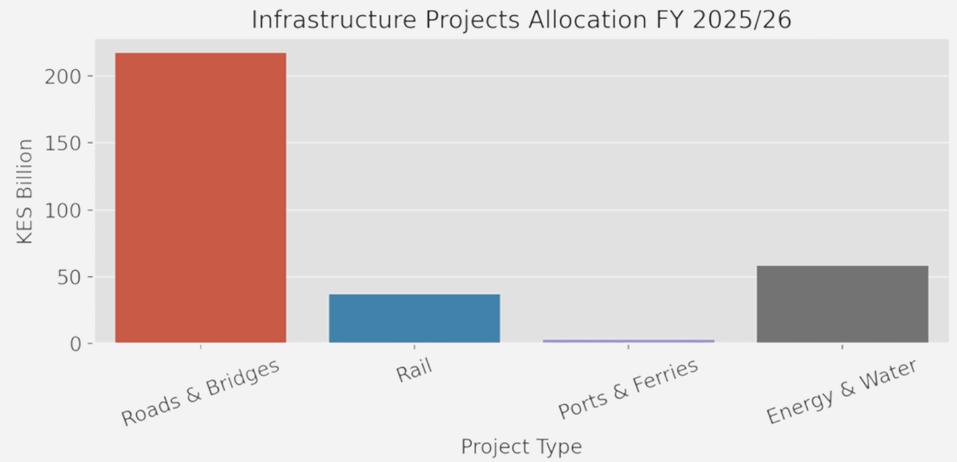
- Upgrading of major highways (e.g., Mau Summit-Kericho)
- County rural access roads
- Urban traffic decongestion programs

**6.2 Rail and Ports**

- KES 37.1 billion: For rail infrastructure rehabilitation (SGR, Metre Gauge Railways)
- KES 0.6 billion: Kenya Ferry upgrade and acquisition of ferries for Lake Victoria
- KES 2.3 billion: Expansion of Kisumu and Lamu ports

**6.3 Energy, Water and Environment**

- Electrification projects targeting 1 million new households
- Upgrading of 200 boreholes and irrigation schemes
- Afforestation to achieve 30% tree cover by 2032, under the 15 billion tree initiative



# PART 7
# Financial & Insurance Sector Outlook



# Part 7 - Financial & Insurance Sector Outlook

**7.1 Banking and Credit Sector Reforms**
The 2025/26 Budget supports a robust and inclusive financial system. Credit access for MSMEs remains constrained due to high lending rates, despite reductions in the Central Bank Rate. The Government will intensify implementation of the Risk-Based Credit Pricing Model to ensure commercial banks align lending rates with borrower risk profiles. There is also a renewed push for the use of credit scoring systems, digital credit history integration, and improved market transparency to support small borrowers and facilitate financial inclusion.

**7.2 National Retirement Benefits Policy (2023)**
This policy aims to address:

- Pension adequacy: Through mandatory contributions and inflation protection.
- Coverage expansion: Incentivising informal sector enrolment via simplified digital micro-pension schemes.
- Portability: Making benefits transferable across jobs and regions.

**7.3 Insurance Market Reforms**

- The National Insurance Policy, once enacted, will:
- Expand access to micro-insurance products.
- Align insurance regulation with international standards on consumer protection.
- Encourage product innovation, including climate risk insurance and index-based agricultural policies.

# PART 8
# Digital Transformation & ICT Development



# Part 8 - Digital Transformation & ICT Development

The government aims to embed technology in service delivery, governance, and commerce.

**8.1 e-Government Platforms**
The GAVA Connect platform is central to digital service delivery. It consolidates public services—tax, licensing, e-health, and procurement—into one portal. Plans are underway for:

- Full digital identity rollout
- Digital revenue tracking for counties
- E-citizen expansion for business registration and land services

**8.2 Infrastructure and Cybersecurity**
Allocations to Konza Technopolis, digital hubs, and fibre optic networks will enhance nationwide digital access. Cybersecurity initiatives include:

- New data protection protocols aligned with the Data Protection Act
- National Computer Emergency Response Team (CERT) strengthening
- Digital literacy campaigns for civil servants and youth

# PART 9
# Governance, Devolution & Institutional Reforms



# Part 9 - Governance, Devolution & More

**9.1 State Corporation Rationalization**
The Government-Owned Enterprises (GOE) Bill 2024 aims to:

- Merge 42 corporations into 20 entities
- Dissolve 25 underperforming corporations
- Restructure 6 parastatals for performance alignment

These reforms target fiscal discipline and eliminate redundancy.

**9.2 Public Procurement & Asset Disposal (Amendment) Bill, 2024**
This legislation aims to:

- Strengthen enforcement and oversight via the Public Procurement Regulatory Authority
- Introduce mandatory e-procurement for all government entities
- Promote local content and SME participation in public tenders

**9.3 County Government Financial Autonomy**
The County Governments (Revenue Raising Process) Bill, 2023 ensures:

- Transparent public participation before levies are introduced
- Legal clarity and predictability in revenue measures
- Stronger dispute resolution mechanisms

# PART 10
# Legislative Proposals & Policy Reform



# Part 10 - Legislative Proposals & Policy Reform

**10.1 Virtual Assets and Crypto Regulation**
The Virtual Asset Service Providers (VASP) Bill 2025 provides:

- Licensing framework for digital asset exchanges
- Anti-money laundering compliance
- Consumer redress and fraud prevention standards

**10.2 Capital Markets Authority (CMA) Framework**
Reforms under review include:

- Margin trading regulation
- Enhanced disclosure and fund structuring standards
- Improved regulation of mergers and acquisitions

These changes aim to boost investor confidence and deepen capital markets.

**10.3 Public Sector Asset Valuation Policy**
A policy under development will:

- Enable accrual-based accounting in line with IPSAS
- Inform public investment decisions
- Ensure accurate financial reporting by Ministries and Counties

# PART 11
# Climate Change & Environment

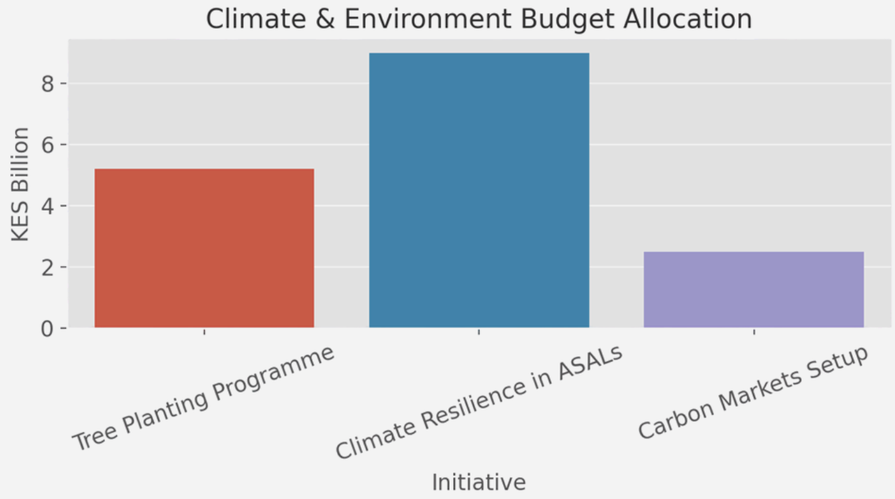


# Part 11 - Climate Change & Environment

Kenya’s response to climate change is anchored in:

- Tree planting: A 15 billion tree goal by 2032.
- Carbon markets: Development of a national carbon trading registry.
- Resilience programs: Targeting arid and semi-arid lands with climate-smart agriculture.

Incentives are also being aligned to green investments via green bonds, tax reliefs for renewable technologies, and climate-linked insurance



# PART 12
# Public Debt & Fiscal Sustainability



# Part 12 - Public Debt & Fiscal Sustainability

**12.1 Debt Stock and Structure**
Public debt stood at KES 11.14 trillion as of June 2024. The PV of debt to GDP remains below the 55% threshold but close to the ceiling. The shift from external to domestic borrowing has stabilized forex pressures but increased local interest rates.

**12.2 Fiscal Consolidation Targets**
The government aims to reduce the fiscal deficit from 5.3% (2023/24) to 2.7% (2028/29). Key enablers include:

- Enhanced revenue mobilisation (3-year MTRS roadmap)
- Rationalisation of non-core expenditures
- Debt service restructuring and concessional financing

# PART 13
# Public Sector Efficiency and Pending Bills



# Part 13 - Public Sector Efficiency and Pending Bills

As of June 2024, counties owed KES 181.98 billion in pending bills. Only KES 2.747 billion was allocated in FY 2025/26 to settle these—a sharp drop from KES 10 billion previously.

The Government established a Pending Bills Verification Committee, which found that of KES 571.6 billion reviewed, only KES 229 billion was valid. However, lack of funding and enforcement raises concerns for suppliers, especially MSMEs.

To address this, the Government is:

- Digitising procurement and payment processes
- Imposing penalties for contract inflation
- Linking bill clearance to budget disbursement

# PART 14

# Risks, Assumptions & Medium-Term Projections



# Part 14 - Risks, Assumptions & Projections

**Risks:**

- Global commodity price volatility
- Drought and climate shocks
- Debt service overhang
- Revenue underperformance
- Delays in legal and institutional reform implementation

**Assumptions:**

- Continued IMF and World Bank support
- Successful rollout of tax digitalisation
- Stability in political and security environments

**Projections (2025–2028):**

- Average growth: 5.5%
- Inflation: maintained under 5%
- Public debt to GDP: declining to 50% (PV)
- Revenue to GDP: increasing to 19.5% by 2028

# PART 15
# Conclusion & Strategic Outlook



# Part 15 - Conclusion and Strategic Outlook

The 2025/26 Budget reflects a deliberate effort by the Government of Kenya to strengthen fiscal discipline while promoting social equity and productivity. It emphasizes continuity in key development priorities under BETA and a gradual shift toward sustainability and efficiency.

To succeed, the Budget's ambitious reforms must be paired with timely implementation, stakeholder coordination, and firm political will. Kenya's private sector, counties, development partners, and civil society must align efforts to ensure inclusive recovery and resilience.

# *Thank You*

Presented by

