

The National Treasury and Economic  
Planning  
P.O. Box 30007- 00100,  
Nairobi, Kenya  
**Tel: +254202252299**  
**Email:** [communications@treasury.go.ke](mailto:communications@treasury.go.ke)  
[www.treasury.go.ke](http://www.treasury.go.ke)



# BUDGET STATEMENT

**FY 2025/26**

***Theme: "Stimulating Sustainable Economic Recovery for Improved Livelihoods, Job Creation, and Business and Industrial Prosperity in line with the Bottom-Up Economic Transformation Agenda"***

**STATEMENT DELIVERED TO THE NATIONAL ASSEMBLY ON 12<sup>TH</sup> JUNE, 2025 BY HON. FCPA JOHN MBADI NG'ONGO, EGH, CABINET SECRETARY FOR THE NATIONAL TREASURY AND ECONOMIC PLANNING, REPUBLIC OF KENYA, WHILE PRESENTING THE BUDGET POLICY HIGHLIGHTS AND REVENUE RAISING MEASURES FOR THE FINANCIAL YEAR 2025/26 BUDGET**

**1<sup>ST</sup> JULY, 2025 TO 30<sup>TH</sup> JUNE, 2026**

© Budget Statement 2025

To obtain copies of this Statement, please contact:

The National Treasury and Economic Planning

Treasury Building

P.O. Box 30007-00100

**NAIROBI, KENYA**

Tel: +254-20-2252-299

Fax: +254-20-341-082

The statement is available on the website:

[www.treasury.go.ke](http://www.treasury.go.ke)



## **I. INTRODUCTION**

**1. Mr. Speaker,** it is with great honour and privilege that I present to this esteemed House and the people of Kenya the Budget Statement for the FY 2025/26 Budget. I make this Statement in compliance with Section 40 of the Public Finance Management Act, CAP 412A and the Standing Order Number 241 of the National Assembly.

**2. Mr. Speaker,** these legal provisions give life to the binding constitutional requirements of good governance to which the President and certainly the National Treasury and Economic Planning remain fully committed to.

**3. Mr. Speaker,** at the outset, allow me to express my sincere gratitude to His Excellency Honourable Dr. William Samoei Ruto, the President of the Republic of Kenya and

Commander in Chief of the Defence Forces, for the trust he bestowed upon me by appointing me as the Cabinet Secretary for the National Treasury and Economic Planning, to provide leadership in economic and financial affairs of the country. I remain mindful of the aspirations and high expectations of the Kenyan people as I serve in this office.

**4.** The Constitution protects realization of economic, social and cultural rights (ESCR) which include the rights to adequate food; to adequate housing; to education; to health; to social security; to take part in cultural life; to water and sanitation; and to work. This budget, **Mr. Speaker**, speaks to these rights and reaffirms the priority policies and strategies aimed at stimulating economic recovery articulated in the Bottom-Up Economic Transformation Agenda

[BETA], while highlighting the achievements over the past two-and-a-half years in enhancing the livelihoods of Kenyans.

**5.** At its core, BETA has adopted a value chain approach, focusing on strategic investment in areas that generate the highest impact, particularly in job creation and income generation at the grassroots level.

**6. Mr. Speaker,** significant successes have been achieved through targeted interventions and structural reforms. These measures have laid a solid foundation for economic recovery and set us on a path towards long-term growth and stability.

**7. Mr. Speaker,** let me mention a few achievements under BETA:

- i) **First,** the Kenyan economy has remained resilient and registered an average growth of

**5.2 percent** for the period between 2023 and 2024 outpacing both global growth of **3.3 percent** and **3.8 percent** for the sub-Saharan Africa region, over the same period. Other macroeconomic fundamentals such as inflation and exchange rate have strongly rebounded and are projected to remain stable;

- ii) **Second**, the Government has rolled out fertilizer and seed subsidies to farmers across the country that has boosted production in key food value chains and revived underperforming or collapsed export crops such as pyrethrum. Since February 2024, a total of **6.5 million registered farmers** have benefited from the Fertilizer Subsidy Programme. As a result of these initiatives: the cost of fertilizer has declined by 67

percent, from Ksh 7,500 in 2022 to Ksh 2,500 in 2025; while maize production has increased by **38.9 percent**, from **61.7 million** bags in 2022 to **85.7 million** bags in 2024. This is a clear demonstration of the positive impact of our agricultural reforms towards food security and improved household incomes;

- iii) **Third**, to support livelihoods and small businesses, the Government has disbursed loans amounting to over **Ksh 71 billion** by the end of May 2025 through the Financial Inclusion Fund, popularly known as the Hustler Fund. This initiative has provided access to affordable credit to over **26 million customers**, with a strong base of **9 million** repeat borrowers and a repayment rate of **79 percent**. A total of 4.5 million borrowers are eligible to be graduated to the mainstream

financing institutions. To build a culture of savings for the future, the Fund has also successfully mobilized **Ksh 4.5 billion** in savings from its beneficiaries;

- iv) **Fourth**, to enhance the attainment of Universal Health Coverage, the Government has expanded social health insurance. As of May 2025, more than **22 million Kenyans** were registered with the Social Health Authority (SHA), representing a remarkable **175 percent** increase in membership compared to the **8 million** previously enrolled under the defunct National Hospital Insurance Fund (NHIF). This marks a major milestone in our health sector reforms and brings us closer to our goal of equitable, affordable, and accessible healthcare for all;

v) **Fifth**, in fulfilment of the commitment to deepen home ownership and close the housing gap, the Government has facilitated the construction of affordable housing units across the country. Since September 2022, 2,379 affordable housing units have been completed across **four counties** with another 11,000 units in the last stages of completion. The units have been advertised for sale to the public through the Boma Yangu platform. In addition, there are **148,465 units** under active construction across the remaining **43 Counties**. As part of the Program, the Government is also supporting the development of institutional housing for the uniformed services and students. **Mr. Speaker**, these efforts have created **over 250,000** direct and indirect jobs for Kenyans.

In addition, over **Ksh 11 billion** has been ringfenced for Jua Kali and MSMEs to support local fabrication of steel doors, windows, and other construction materials;

- vi) **Sixth**, to drive digital transformation and inclusion, the Government has: i) expanded last-mile fibre-optic connectivity to **13,590 kilometers** in 2025 up from **8,900 kilometers** in 2022, an increase of 53 percent; ii) established **282 digital hubs** across the country; and iii) increased the number of **digitized government services** from **350 in 2022** to **20,985 in 2025**, through integration with the eCitizen and mobile platforms, ensuring seamless access for all Kenyans;
- vii) **Seventh**, to promote access to reliable and competitive energy, the Government has



expanded energy generation by installing an **additional 167 megawatts** of electricity from **3,076 megawatts** in **2022** to **3,243 megawatts** in **2025**. This has enabled connection of **932,839 more customers** to electricity; the system peak has increased from **2,149 megawatts** of electricity in July 2022 to **2,316 megawatts** of electricity in February 2025. The total number of customers connected to electricity has increased to **10 million in 2025** from **8.9 million in 2022**;

- viii) **Eighth**, to boost education and training outcomes in the country as a tool of creating equality in the society, the Government has invested significant resources and implemented radical changes in the education sector, including: i) resolving the uncertainty

around the Competency Based Curriculum; ii) launching of the **Kenya Education Management Information System** to consolidate all existing student registers from early childhood development to institutions of higher learning into a single centralized database; and iii) rolling-out of a new student-focused higher education funding model, with special emphasis for students from vulnerable families. Additionally, in order to improve the teacher-student ratio, the Government has recruited 76,000 teachers, including Junior Secondary School teachers;

- ix) **Ninth**, to enhance domestic and regional connectivity, boost rural productivity, improve urban informal settlements and reduce urban congestion, this Government has **constructed** an additional **1,574 kilometres**

of roads and **129 bridges** from 2022 to April 30<sup>th</sup> 2025. Further, the Government has **rehabilitated** an additional **212 kilometres** of roads and periodically **maintained 126,177 kilometres** of roads; and

- x) **Tenth**, the Government has made significant progress in expanding social protection through the Inua Jamii cash transfer program. From 2022 to 2025, the number of households with orphans and vulnerable children (OVCs) receiving support increased by **65 percent to 428,421**. Additionally, Persons living with Disabilities registered for support grew by **34 percent to 59,637**. The number of senior citizens aged 70 years and above registered for social protection also rose by **66 percent to over 1.2 million**. These efforts have provided stable incomes to the beneficiaries

and reduced their dependency on relatives, enhancing their dignity and quality of life.

**8. Mr. Speaker,** notwithstanding these achievements, we are aware that a lot remains to be done in order to address the pressing challenges facing Kenyans.

**9. Mr. Speaker,** in this year's budget making process, we accorded Kenyans an opportunity to share their views on how to address the economic challenges facing the country. In my various engagements at open Barazas and in the media, Kenyans have been very resolute in voicing their concerns that include: over taxation and high cost of living; unemployment; need for protection of the poor and vulnerable; and more importantly, the need to reduce Government expenditure and wastage of resources across the National and County Governments.

**10. Mr. Speaker,** I am alive to these domestic challenges facing Kenyans and the external factors such as geopolitical tensions, and shifting global trade dynamics that lead to escalation of the cost of essential commodities in the country requiring comprehensive responses by Government.

**11.** As you may recall, the social unrest precipitated by the Finance Bill, 2024, brought to the fore the import of values and principles of governance as enshrined in the Constitution of Kenya. In response and to win public trust, we have strengthened public participation in all policy formulation including budget making process. Indeed, **Mr. Speaker,** I have actively engaged Kenyans in various social forums in an effort to promote inclusive dialogue on the challenges facing our economy. As a result of these

consultations, we have focused on the following broad areas:

- **First, easing tax burden on Kenyans** by increasing the pool of taxpayers and enhancing tax compliance. In this respect, the ongoing work on the digitization and automation at the Kenya Revenue Authority in line with Kenya's Medium-Term Revenue Strategy. Thus, all who are able, shall henceforth contribute to financing the operations of Government and development of our country.
- **Second**, to enhance liquidity in the economy and support small businesses, we have started the process of settling pending bills that have been validated, particularly those related to road construction which has resulted in resumption of road construction projects across the country. **Mr. Speaker**, the Pending

Bills Verification Committee will share their final report by the end of June 2025. This report will be analyzed and recommendations tabled in Cabinet for approval after which we shall embark on the process of clearing the eligible bills starting with those related to individuals, businesses and the Micro, Small and Medium Enterprises, majority of whom have borne the brunt of non-payment.

- **Third,** promotion of good governance on public finance matters. **Mr. Speaker,** Kenyans have expressed concerns about the public debt. Indeed, there is a perception of lack of transparency in the management of public debt. In this regard, I requested the Auditor General to conduct a comprehensive audit of public debt. This audit is currently ongoing and

once completed, the report will be shared with this House.

- **Fourth,** there has been public perception and concerns in the past that our budgets tend to be unrealistic. To address these concerns, we took a two-pronged approach. **First,** we adopted the zero-based budgeting where every budget item has to be justified at the beginning of every financial year. This process was used in the preparation of the FY 2025/26 budget, which I submitted to this House on 30<sup>th</sup> April 2025. **Second,** in response to concerns on unrealistic revenue projections, we have reduced revenue projections to be in line with trends. Therefore, **Mr. Speaker,** revenue projections in the FY 2025/26 budget and over the medium term are consistent with the growth of the economy.



- **Fifth, Mr. Speaker,** in order to improve governance in the public procurement process, I launched the "e-procurement" system in April 2025 and beginning 1<sup>st</sup> July 2025, all procurement by Ministries, Departments and Agencies will be done through the "e-procurement" system. This will reduce the opaqueness and save Government resources estimated at 10 percent of procureable budgets.
- **Sixth,** we have taken deliberate efforts to enhance transparency and promote inclusive policymaking and deepen public understanding of Government economic priorities. We have not only intensified media engagement through the TV Stations and Radios, but have also engaged the public in open places like Jevanjee Garden "**Bunge la Mwananchi**" and

Mombasa County, Swahilipot Amphitheatre. Similar engagements have taken place in other locations in Nairobi, Mombasa, Eldoret and Nyeri thereby providing valuable insights and lessons which have been taken into consideration while preparing this Budget.

- **Seventh, Mr. Speaker,** in order to create additional jobs for the youth, the Government has begun rolling out Climate WorX, a nationwide program that will engage over 110,000 youth across all 47 counties. The program started last year in Nairobi's informal settlements and has been a great success. Now, it is being expanded to the rest of the country. Climate WorX is designed as a social support program that gives young people paid work to improve their communities. The youth will help build roads, plant trees, and clean up

the environment in their neighborhoods. Thus, through Climate WorX, the Government is not only providing a paycheck to help young people meet their immediate needs but also offering financial support to help them develop themselves and their families. Indeed, the program enables them to save money and prepare for their next steps, including starting businesses, continuing their education, or finding long-term jobs. I encourage all our youth to register ahead of the registration deadline.

**12. Today, Mr. Speaker,** having heard Kenyans **loud and clear,** we have accommodated their diverse concerns in the FY 2025/26 budget. In this regard, this budget, provides highlights of the measures the Government has taken to **stimulate economic recovery, strengthen**

**macroeconomic stability and enhance resilience** of our economy.

**13. Mr. Speaker,** achieving these strategic objectives will require that we pull in the same direction. It is in this context, that H.E. the President has urged us to put our differences aside, build bridges and focus on implementation of strategic interventions for a better Kenya.

**14. Mr. Speaker,** in this respect, the theme for this year's budget is "***Stimulating Sustainable Economic Recovery for Improved Livelihoods, Job Creation and Business and Industrial Prosperity in line with the Bottom-Up Economic Transformation Agenda***".

**15. Mr. Speaker,** as we move forward in the implementation of the Government's Agenda, we are also conscious of the fiscal constraints that

demand our collective attention and thoughtful action:

- i) **One**, rising demands for increased public spending which could lead to either higher debt or the need to raise taxes, both of which require careful consideration and balanced decision making given current public concerns;
- ii) **Two**, we face constraints on account of public debt accumulation. Progressively, our debt carrying capacity has narrowed. This calls for prudence and discipline on how we manage and take on new debt; and
- iii) **Finally**, we face the challenges of mobilizing higher tax revenues as we must balance the need for increased revenues with the need to

keep the cost of doing business low to stimulate economic growth.

**16. Mr. Speaker,** these constraints are interlinked, and addressing them effectively require strategic planning, fiscal discipline, and a commitment to long-term sustainability. In this regard, this budget will continue to implement a fiscal consolidation plan designed towards slowing down the growth of public debt while protecting service delivery to citizens.

**17.** Given the limited resources, we have made tough choices by curtailing funding to lower-priority areas. This has allowed us to redirect our scarce resources towards the **BETA core pillars** and enablers, accelerating outcomes for citizens, while maintaining **pro-poor spending** in **health, education** and **vulnerable groups**.

**18. Mr. Speaker,** the rest of my Statement will present the economic context around which this budget is prepared, policy priorities and structural reforms under BETA, the proposed resource allocations as well as revenue raising measures that the Government will implement in the FY 2025/26 budget.

## **II.ECONOMIC POLICY CONTEXT**

### **Global Context**

**19. Mr. Speaker,** the FY 2025/26 budget has been prepared in the context of heightened uncertainty due to recent tariff wars and the intensification of geopolitical tensions which continue to pose significant risks to global economies. In this respect, global economic growth is expected to slow down from 3.3 percent

in 2024 to **2.8 percent** in 2025 and to **3.0 percent** in 2026.

## **Domestic Economy**

**20. Mr. Speaker,** on the domestic front, the economy has remained resilient, recording an average growth rate of 5.2 percent for the years 2023 and 2024. This performance is higher than the global average of 3.3 percent and the 3.8 percent average for the sub-Saharan Africa region over the same period.

**21.** This strong growth reflects the impact of sound and deliberate policies as well as the resilience of our well diversified economy. These factors have enabled us to withstand significant domestic and external shocks while maintaining a steady path of progress.



**22.** In 2024, the economy grew by 4.7 percent supported by positive growths in all sectors except construction and mining. This growth was lower compared to 5.7 percent in 2023 mainly due to adverse effects of floods in the second quarter and the anti-Finance Bill protests in the third Quarter of 2024 that disrupted economic activities.

**23. Mr. Speaker,** the Government's policy interventions have strengthened the macroeconomic indicators as reflected in the following achievements:

- i) **First,** inflation rate has declined to 3.8 percent in May 2025 from a peak of 9.6 percent in October 2022. The prices of essential food items including sugar, milk, maize flour, wheat flour, bread and rice, among others, have eased. For example, the price of 2 kilograms of sifted maize flour has

declined to Ksh 156.9 in May 2025 from Ksh 177.7 in October 2022. Similarly, cost of energy and power has come down over the same period;

- ii) **Second**, in response to the decline in inflation, the Central Bank of Kenya has gradually eased monetary policy, lowering the Central Bank Rate from 13.0 percent in August 2024 to 9.75 percent in June 2025;
- iii) With the easing of monetary policy stance, interest rates have been declining. For example, the 91-day Treasury bills rates have declined from an average of 15.9 percent in May 2024 to 8.3 percent by May 2025. In addition, the average commercial bank lending rates that peaked at 17.2 percent in November 2024 have since declined to 15.7 percent in April 2025 and are expected to

decline further. This decline has not only reduced the cost on government debt but is also expected to stimulate lending by banks to the private sector and support economic activity; and

- iv) **Third**, foreign exchange market has remained stable supported by a narrowing in the current account deficit, and improved investor sentiment and confidence in the economy. The current account deficit narrowed to an all-time low at 1.3 percent of GDP in 2024 from 2.5 percent of GDP in 2023 supported by exports of goods, resilient tourism and remittance inflows, and a contraction in food imports. As a result, foreign exchange reserves have increased to their highest levels and stood at USD 10.5 billion (4.7 months of import cover) by 30<sup>th</sup> May 2025, and continue to provide

adequate cover and a buffer against any short-term shocks in the foreign exchange market. The exchange rate against the US dollar has appreciated from Ksh 159.7 in January 2024 to stabilize at Ksh 129.3 by 30<sup>th</sup> May 2025.

**24. Mr. Speaker,** the economy is expected to sustain growth momentum in 2025 and 2026 with growth projected at 5.3 percent per year. **Mr. Speaker,** this growth outlook is premised on a stable macroeconomic environment over the medium-term. To foster macroeconomic stability, the Government will continue to uphold prudent monetary and fiscal policies, ensuring that our actions remain aligned with the evolving needs of the economy and of the Kenyan people.

**25.** As part of the process, the Government will work to ensure that inflation remains within the

targeted range, maintain a competitive exchange rate to the dollar, and deliver stable interest rates.

**26.** Fiscal policy stance over the medium term will continue to support the Government's priority programmes under BETA through a growth-oriented fiscal consolidation plan. As such, the fiscal deficit is projected to decline from 5.3 percent of GDP in the FY 2023/24 to 2.7 percent of GDP in the FY 2028/29.

**27. Mr. Speaker,** Kenya's economic outlook faces both external and domestic risks. Globally, trade tensions, financial markets volatility, and geopolitical conflicts could reduce Kenya's export, tourism and remittances as well as raise cost of essential commodities. In the domestic scene, extreme weather may impact agriculture, infrastructure, and food security.

**28.** The Government is monitoring these risks closely and will take necessary measures to safeguard macroeconomic stability.

**29. Mr. Speaker,** let me now expound on the policy priorities and structural reforms that the Government is implementing to sustain economic growth and improve livelihoods of Kenyans.

### **III. POLICY PRIORITIES AND STRUCTURAL REFORMS FOR SUSTAINABLE ECONOMIC RECOVERY AND IMPROVED LIVELIHOODS**

#### **The Bottom – Up Economic Transformation Agenda**

**30. Mr. Speaker,** as I have already affirmed earlier in my Statement, Government's initiatives under BETA over the last two-and-a-half years have resulted in significant successes,

notwithstanding a challenging domestic and external landscape.

**31.** Over the medium term, the Government will consolidate the gains realized to stimulate sustainable economic recovery for improved livelihoods. Towards this end, the Government will continue to implement policies, programs, projects and the interventions geared towards: i) bringing further down the cost of living; ii) ensuring food security; iii) creating jobs; iv) expanding the tax base; v) improving foreign exchange balances; and vi) fostering inclusive growth.

**32.** Priority will be given to attracting strategic investment across BETA's five core pillars and their enablers, using a value chain approach to enhance production, add value, and improve

market access. This will be supported by a 'Whole-of Government-Approach' to service delivery.

**33. Mr. Speaker,** the Government will also implement the following interventions to support and accelerate economic recovery:

- i) **First,** continue to **uphold macroeconomic stability** and **strengthen security** to ensure a safe and supportive business environment;
- ii) **Second,** accelerate the development of key infrastructure including roads, railway, energy and water systems to lower the cost of doing business, and ease the movement of people and goods;
- iii) **Third,** boost investment in key economic sectors to drive broad based sustainable growth by advancing agricultural transformation, strengthening manufacturing, promoting environmental conservation and



climate change mitigation, revitalizing tourism, and ensuring sustainable land use and management;

- iv) **Fourth,** strengthen human capital development by increasing investment in health, education, and targeted social safety nets for vulnerable populations to achieve both social and economic outcomes;
- v) **Fifth,** promote empowerment of youth, women and persons living with disability through Government funded programs complemented by strategic partnerships with private sector organizations;
- vi) **Sixth,** facilitate fiscal decentralization by allocating sharable revenues to County Governments to bolster institutional capacity and improve service delivery; and

- vii) **Lastly,** undertake policy, legal and institutional reforms to improve efficiency and effectiveness in public service delivery.

## **Building Resilience against Climate Change**

**34. Mr. Speaker,** climate change is now a global crisis, and Kenya remains vulnerable to the impacts of climate change, which pose both economic and fiscal risks. In response, the Government is taking proactive steps to align with the global transition toward a low-carbon, climate-resilient future.

**35.** To address the challenges and opportunities in climate finance and investments, the Government has developed a number of frameworks including Climate Finance Mobilization Strategy, National Policy Framework on Green Fiscal Incentives, Carbon Market Framework as

well as the National Green Taxonomy. To diversify our financing sources, address budget deficits, and fund social and environmental sustainability projects, the Government is developing a Sustainability Linked Bond Framework that will allow the issuance of a bond. We reaffirm our dedication to protecting our environment, safeguarding livelihoods, and building a climate-resilient Kenya for current and future generations.

**36. Mr. Speaker,** as a country, we continue to experience challenges of disaster occurrences mainly due to weather variability and climate change. These pose significant fiscal disruptions while at the same time affecting lives and livelihoods of millions of Kenyans.

**37. Mr. Speaker,** in order to have a financing framework to manage disaster risks, the Government is finalizing the development of the

**Public Finance Management (Disaster Risk Management Fund) Regulations, 2025.** The Regulations seek to establish a dedicated Fund for addressing four cycles of disaster risk management namely preparedness, mitigation, response and recovery.

### **Policy, Legal and Institutional Reforms**

**38. Mr. Speaker,** recognizing that sustainable economic recovery depends on the timely implementation of effective policy, legal, and institutional reforms, the Government is implementing the following interventions to enhance the business environment, improve efficiency in public service delivery, and bolster accountability and transparency in the management of public finances.

## **Public Procurement Reforms**

**39. Mr. Speaker,** to streamline public procurement, we developed the Public Procurement and Asset Disposal (Amendment) Bill, 2024 which is currently in Parliament for enactment. The Bill seeks to enhance transparency and accountability; strengthen the role of the Regulator to enforce standards, compliance and sanctions for noncompliant Procuring Entities; promote the use of local content; and align with international best practices. I urge the Honorable Members to fast track its enactment.

**40. Mr. Speaker,** in order to fully automate public procurement and asset disposal processes I launched the end-to-end e-Government procurement system in April 2025. The e-Government procurement system is a departure

from the manual processes and will lead to increased bidder participation, enhanced efficiency in processing of procurement requests, and increased authenticity of procurement documents through integration with various Government systems.

**41. Mr. Speaker,** the roll out of the e-procurement system is scheduled for July 2025. In order to ensure effective use of the system, the National Treasury rolled out the training of end-users from procuring entities in both the National and County Governments on the e-Government procurement system Phase I modules that cover procurement planning to contract management. We have since trained suppliers, and to date 400 e-Government procurement system end-users comprising Public Finance Management staff and suppliers from both the National and County

Governments have been trained in readiness for full rollout in July 2025.

## **Restraining Growth of Public Sector Wage Bill**

**42. Mr. Speaker,** the Government continues to implement measures aimed at reducing the ratio of the government wage bill as share of tax revenue with a view to free much-needed resources for priority social and development spending. The Government will implement the following initiatives to control the wage bill:

- i) **First,** the Government will fully implement the Unified Human Resource Management System across all Public Sector entities by July 2025. This initiative is part of broader efforts to enhance Public Sector efficiency, improve management of wage bill and ensure the effective utilization of public funds; and

- ii) **Second,** the Salaries and Remuneration Commission continues to substantially reduce the number of allowances in the public service through a phased approach aimed at streamlining allowances to improve transparency, accountability, equity, and fairness thereby ensuring total public compensation bill is affordable and fiscally sustainable. To this end, the Salaries and Remuneration Commission will progressively review allowances and benefits in the future Collective Bargaining Agreements, aligning them to the Allowances Policy Guidelines for the Public Service.

## **State Corporations Reforms**

**43. Mr. Speaker,** State Corporations are a major source of fiscal risks to public finances due to



management and operational inefficiencies. An assessment conducted by the National Treasury to determine viability of State Corporations identified critical gaps and vulnerabilities.

**44. Mr. Speaker,** to address the vulnerabilities, the Cabinet in January 2025 approved reforms to streamline State Corporations and enhance governance and accountability of the Corporations. The reforms target to address operational and financial inefficiencies, enhance service delivery and reduce over reliance on exchequer support by State Corporations. The approved reforms include:

- i) **First,** merger of 42 State Corporations into 20 entities to improve operational efficiency and eliminate redundancy as some have duplicating and or overlapping mandates;

- ii) **Second**, dissolution of 25 State Corporations and their functions transferred back to their parent ministries or other State Corporations;
- iii) **Third**, restructuring six State Corporations to align their mandates for improved performance;
- iv) **Fourth**, declassification of four public funds currently categorized as State Corporations and transferring their functions back to the relevant ministries; and,
- v) **Fifth**, declassification of 13 professional bodies currently categorized as State Corporations to private entities with no exchequer budget.

**45. Mr. Speaker,** in order to enhance the operational efficiency, improve governance and ownership of State Corporations, the Government

developed the Government-Owned Enterprises Bill, 2024. The Bill is part of broader efforts by the Government to streamline public enterprises, reduce fiscal risks, and enhance service delivery to citizens. The Bill is currently before this august House for consideration. I urge Honourable Members to favorably consider the Bill to enable its enactment.

**46. Mr. Speaker,** in order to secure the uptake of cotton production while also providing alternative lint supplies for local apparel manufacturers, the Cabinet approved the revival and commercialization of Rivatex East Africa Limited by onboarding non-equity strategic partners.

**47. Mr. Speaker,** on sugar sector reforms, H.E. The President reaffirmed his commitment, during this year's Madaraka Day celebrations, to ensure the prompt payment of sugarcane farmers. The

Government has also taken practical steps to deliver its promise to modernize the mills and transform these once-struggling factories into productive, sustainable enterprises.

**48.** Currently, four state-owned sugar factories: Chemelil Sugar Company, Muhoroni Sugar Company, Nzoia Sugar Company and South Nyanza Sugar Company (SONY) have been placed under competitive leasing arrangements. This initiative is expected to enhance efficiency, restore profitability and protect the livelihoods of farmers.

## **Pending Bills**

**49. Mr. Speaker,** the Government remains committed to resolving the long-standing issue of pending bills, as part of broader efforts to strengthen public financial management and

restore confidence in Government processes. In this respect, the Pending Bills Verification Committee that was appointed in September 2023 is currently finalizing its report for submission by end of this month.

**50.** Since its inauguration, the Committee received a total of 65,627 pending bills claims valued at Ksh 571.6 billion. The Committee has analysed **57 percent** of the bills received, valued at **Ksh 522.9 billion**. Out of this, a total of **Ksh 229 billion** has been recommended for settlement. Once the Committee submits its report, we shall submit the recommendations to Cabinet for approval to settle the pending bills.

## **National Assets and Inventory Management Reforms**

**51. Mr. Speaker,** in order to promote prudent management of public assets and liabilities, the

National Treasury digitized assets in the Assets and Inventory Management modules in the IFMIS for use by both National and County Governments.

**52.** Already, 52 State Departments have gone live on the IFMIS Asset module and are at various stages of uploading their registers for six asset categories namely; Land, Buildings, Motor Vehicles, ICT Equipment, Office Equipment, and Furniture and Fittings. In addition, a roadmap is in place to rollout the module to the County Governments. This reform will enable Accounting Officers have visibility of all assets and inventory under their control and facilitate optimal assets utilization.

**53. Mr. Speaker,** to enhance the management and utilization of public assets, the Government is developing a policy on public sector asset

valuation. The policy will support accurate financial reporting, strengthen fiscal discipline and inform evidence based public investment decision.

**54.** In addition, the Government will develop framework to facilitate identification of Public Sector assets. This will ensure accuracy and completeness of assets registers which are critical for transition to accrual basis of accounting.

## **Financial Sector Reforms**

**55. Mr. Speaker,** the banking sector has remained stable and resilient with a strong asset base; which grew by 1.5 percent from Ksh 7.6 trillion in April 2024 to Ksh 7.7 trillion in April 2025. To anchor the banking sector to continue playing its role in Kenya's social economic transformation, various reforms have been implemented which include:

- i) **First,** the Central Bank of Kenya lifted the moratorium on licensing of new commercial banks in Kenya in April 2025. This is expected to attract Foreign Direct Investment in the sector resulting in competition and consequently reduced lending rates;
- ii) **Second,** to promote the greening of the banking sector, Central Bank of Kenya in April 2025, issued the Kenya Green Finance Taxonomy and the Climate Risk Disclosure Framework for implementation by the sector. The Kenya Green Finance Taxonomy is a tool to classify whether particular economic activities are 'green' or environmentally sustainable and promote the transition to a low-carbon economy. The Climate Risk Disclosure Framework is aimed at enabling banks to integrate climate-related risks into



their governance, strategy, risk management and disclosure frameworks. It is also intended to enable banks to leverage on business opportunities from efforts to mitigate and adapt to climate change; and

- iii) **Third,** issuance of Guidelines on Global Liquidity Standards and Leverage Ratio. The Central Bank of Kenya, in April 2025, issued Guidelines on Liquidity Coverage Ratio, Net Stable Funding Ratio, and Leverage Ratio for the banking sector. These guidelines will enhance the banking sector's liquidity and capital frameworks to promote greater financial stability and resilience thereby ensuring that banks have the ability to withstand unexpected shocks, maintain stable funding, and manage their risk profiles effectively.

**56. Mr. Speaker,** the Central Bank of Kenya in collaboration with the National Treasury and other stakeholders are developing the National Financial Inclusion Strategy for the period 2025 to 2028. The Strategy provides a coordinated framework for advancing financial inclusion agenda to meet the needs of all Kenyans through deepening access and usage of financial services, enhancing quality of affordable financial products that meet consumer needs.

**57. Mr. Speaker,** to strengthen digital finance in Kenya, the Government will continue to implement the National Payment Strategy for the period 2022 to 2025 and fast-track finalization of a National Policy on Digital Finance. In order to reform and modernize the national payment system Central Bank of Kenya is:

- i) **First**, undertaking a comprehensive review of the National Payment System's legal and regulatory framework;
- ii) **Second**, implementing a fast payment system that seeks to address persistent challenges in interoperability, affordability, and the high cost of digital transactions; and
- iii) **Third**, effective 1<sup>st</sup> July 2025, the Kenya Electronic Payment and Settlement System will transition to a 24/7 settlement capability. This will support round-the-clock trade, enable faster clearing of government payments, facilitate real-time business-to-business transactions, and provide greater flexibility for consumers and financial institutions.

**58. Mr. Speaker,** following the grey listing of the Republic of Kenya by the Financial Action Task Force in February, 2024, the Government has continuously addressed the technical deficiencies identified in Kenya's Mutual Evaluation Report, which was published by the Eastern and Southern Africa Anti-Money Laundering Group in September 2024.

**59. Mr. Speaker,** as you are aware, one of the technical deficiencies identified in the Kenya's Mutual Evaluation Report was lack of a Policy and Regulatory Framework to the Virtual Assets and Virtual Assets Service Providers. In order to regulate this sector, the Government has developed the Virtual Assets Service Providers Bill, 2025 which is currently before Parliament. I urge Honourable Members to fast track its enactment.

## **Capital Markets Developments**

**60. Mr. Speaker,** to further deepen the capital markets, the Government continues to review the legal and regulatory framework to address emerging issues in the sector. In particular the Government overhauled the Public Offers Regulations and the Collective Investment Schemes Regulations to spur uptake of products while ensuring that investors are protected. The Government has also approved new regulatory frameworks to support credit ratings and alternative investment funds, which have attracted a lot of interest from investors.

**61.** Further, the Government is in the process of reviewing the regulatory frameworks for licensing, margin trading, conduct of business for market intermediaries and mergers, acquisitions, and takeovers. Once in place, these Regulations will

reinvigorate capital markets activity and make our capital markets more facilitative and efficient.

**62. Mr. Speaker,** to diversify the Government's sources of financing, a Sukuk bond has been issued while other Shariah-compliant products are in the pipeline. The first Sukuk bond raised Ksh 3.2 billion, which has been effectively deployed into the Affordable Housing Programme. Pension Reforms

**63. Mr. Speaker,** in the Tax Laws (Amendment) Act, 2024, we introduced a number of incentives aimed at increasing disposable income to our Senior Citizens once they retire. We among others, increased tax-deductible amount, removed tax on all retirement benefits and introduced tax exemption on pensions savings towards post-retirement medical schemes. **Mr. Speaker,** despite the reforms introduced in this

sector, benefit adequacy remains a persistent challenge. Many retirees still find their pensions insufficient to meet basic needs.

**64. Mr. Speaker,** the retirement benefits system predominantly covers the working population in the public and private sector to the exclusion of the unemployed population who are majorly in the informal sector. To address this, the National Treasury in collaboration with key stakeholders is implementing the National Retirement Benefits Policy. This Policy outlines a clear forward looking strategy to address longstanding structural challenges such as fragmented legal frameworks, exclusion of informal sector workers, limited medical cover for the elderly, weak portability mechanisms, and inadequate dispute resolution structures.

**65. Mr. Speaker,** the Government remains committed to fulfilling its obligations to retired public servants while ensuring that our pensions system is modern, inclusive, efficient and sustainable. In this respect, the Government is undertaking reforms aimed at delivering faster, more transparent, and citizen-friendly pension services.

**66. Mr. Speaker,** key among these reforms is the re-engineering of the Pensions Management Information System, which, together with the launch of a pensioner self-registration platform, will significantly improve data accuracy, enhance biometric verification, and reduce pension processing time from several months to less than 30 days. These reforms will also ensure real-time claims tracking and integration with national identification and payroll systems, reducing errors



and potential leakages. The re-engineered Pension Management System is planned for rollout on 1<sup>st</sup> July, 2025 and will transform pension administration by:

- i) **One**, enabling Ministries, Departments, and Agencies (MDAs) to submit pension claims online at source through integration with Government Human Resource systems;
- ii) **Two**, allowing pensioners and beneficiaries to access services remotely and track the status of their claims in real-time; and
- iii) **Three**, providing automated updates to clients on the progress of their claims through system-generated notifications.

## **Insurance Reforms**

**67. Mr. Speaker**, to facilitate the growth of the insurance industry in Kenya, the Government will

speed up the approval of the National Insurance Policy and its implementation. The Policy will guide the review of the Insurance Act which has served its purpose, albeit with progressive amendments, for the last thirty years.

**68. Mr. Speaker,** the Insurance Regulatory Authority is undertaking focused training on livestock and crop insurance, targeting farmers and pastoralist communities. These efforts are aimed at improving understanding and access to agricultural insurance as a tool for mitigating climate-related risks and protecting livelihoods of farmers and pastoralist. The Authority is also conducting a comprehensive money laundering and terrorist financing risk assessment on the vulnerability of the insurance industry. This will aid in the identification of areas of improvement so as to strengthen the supervisory framework.

## **Reforms under the Education Sector**

**69. Mr. Speaker,** the National Treasury is committed to upholding the right to education, including free and compulsory basic education as guaranteed under Article 53 (b) of the Constitution of Kenya.

**70.** While we are cognizant that examinations must be conducted as scheduled later this year, there is need to undertake a critical evaluation on the costing of examinations, assess the sustainability of the Programme in view of the prevailing fiscal constraints and explore optimal options for delivering national examinations in order to ensure economy and value for money in public spending.

**71. Mr. Speaker,** a key consideration is the merits of public funding of examination fees for all

primary and secondary school candidates, including those from well-off households, as opposed to targeting the vulnerable students in our schools. We should also explore options of making the exercise of delivering national examinations simpler and affordable, without compromising on the credibility of the exercise. To this end, the National Treasury is in consultations with the Ministry of Education on how best to achieve this at a minimal cost possible, including evaluating possible cost sharing mechanisms.

**72. Mr. Speaker,** the Government remains committed to ensuring access to quality education for all children. In this regard, I assure the public and the 2025 examination candidates of our commitment to provide adequate funding for 2025 national examinations.

## **IV. FISCAL POLICY FRAMEWORK**

**73. Mr. Speaker,** the implementation of the FY 2024/25 budget has faced notable challenges, primarily following the withdrawal of the Finance Bill 2024. Its withdrawal, alongside the associated public demonstrations, adversely affected economic activity and disrupted business operations across the country, compounding the fiscal pressures facing the Government.

**74.** In response, the Government undertook a revision of the fiscal framework through Supplementary Estimates No. I in August 2024. This revision reflected a lower revenue base following the preliminary outcomes of FY 2023/24, while also addressing immediate cash flow constraints. These adjustments were critical to ensuring the continuity of public service delivery.

**75. Mr. Speaker,** in addition to the mid-year economic disruptions, the budget execution has been further constrained by **shortfalls in revenue** and **emerging expenditure pressures**. Notably, the implementation of **Collective Bargaining Agreements** and funding requirements under the new university education financing model have placed significant demands on the available fiscal space. These challenges have led to cash flow pressures and a build-up of pending obligations, necessitating careful fiscal management and reprioritization.

**76.** To address these evolving dynamics, the Government prepared Supplementary Budget Estimates to accommodate revenue shortfalls experienced during the current fiscal year and accommodated expenditure pressures.

## **Domestic Revenue Mobilization**

**77. Mr. Speaker,** in order to support our economic agenda and sustain key Government programmes, the Government continues to implement a balanced mix of tax policy and administrative measures aimed at significantly boosting revenue collection.

**78.** As part of the process, the Government is focused on broadening the tax base while reducing the burden of compliance. In this regard, we have prioritized sectors such as the digital economy, agribusiness, and Small and Medium Enterprises in tax education and outreach programs.

**79.** In addition, **Mr. Speaker,** Kenya Revenue Authority continues to embrace modern technology to streamline tax processes, facilitate trade, and enhance voluntary compliance. A key

milestone in this journey is the launch of GAVA Connect, an open Application Programming Interface platform that enables Kenyan developers to build home-grown solutions for efficient access to tax services. This platform enhances service delivery, improves transparency, and strengthens our ability to detect tax evasion.

**80. Mr. Speaker,** Kenya Revenue Authority has also introduced several digital tools to simplify compliance and boost operational efficiency:

- i) **One,** auto-populated VAT Returns – for seamless, accurate tax filing;
- ii) **Two,** simplified PAYE Returns – accessible via mobile, web, and Application Programming Interface;



- iii) **Three,** Electronic Rental Income Tax System that has enabled transparent rental income declarations; and
- iv) **Four,** forecourt electronic Tax Invoice Management System integration in the petroleum sector, connecting fuel dispensers to Point of Sale terminals. This enables real-time transmission of sales data to electronic Tax Invoice Management System simplifying compliance and ensuring greater transparency in fuel transactions.

**81. Mr. Speaker,** these solutions are more than just tech upgrades, they are drivers of economic empowerment and accountability. Indeed, by simplifying tax procedures, developing user-friendly digital platforms, and providing on-the-ground support, Kenya Revenue Authority is nurturing a fair and inclusive tax culture, one that

enables businesses to thrive while meeting their obligations.

**82. Mr. Speaker,** building on the progress made, our focus in the FY 2025/26 and over the medium term, will be on strengthening **domestic resource mobilization** through the following key initiatives:

- i) **First,** continue with the implementation of the **National Tax Policy and the Medium-Term Revenue Strategy** to provide a consistent and predictable framework for tax administration and policy formulation;
- ii) **Second,** continue with the automation of tax administration processes to improve the overall efficiency of the tax system; and
- iii) **Third,** enhancing **non-tax revenue** collection by enabling Ministries,

Departments, and Agencies to generate income through the services they provide to the public.

**83. Mr. Speaker,** as part of our broader fiscal reform agenda, the Government is undertaking targeted **tax administrative reforms** aimed at strengthening our revenue base and promoting inclusive economic growth. These reforms will focus on three key objectives:

- i) **First, reducing tax expenditures,** which stood at 3.38 percent of GDP in 2023, to unlock additional revenue for national development;
- ii) **Second, expanding the tax base and enhancing compliance,** in line with the goals set out in the Medium-Term Revenue Strategy; and

- iii) **Third, streamlining the tax structure** to encourage domestic production, attract investment, and stimulate economic activity.

## **Improving Efficiency of Public Expenditure**

**84. Mr. Speaker,** in our continued effort to ensure prudent fiscal management, the Government will sustain and deepen measures aimed at strengthening expenditure control and enhancing the efficiency and effectiveness of public spending. To this end, the Government will implement a series of targeted actions, including:

- i) **One,** utilization of the launched end-to-end e-procurement system to maximize value for money, enhance efficiency and transparency in public procurement processes;
- ii) **Two,** rollout of a Human Resource Management System across all National

Government Ministries and Departments, as well as County Governments, to support better management of the public wage bill;

- iii) **Three**, scaling up the use of the Public Private Partnerships framework for commercially viable projects to attract private sector participation in public service delivery;
- iv) **Four**, improving the public service pension administration through rolling out the pension management information system; and
- v) **Five**, fast-tracking governance reforms in state corporations to strengthen accountability, efficiency, and financial sustainability.

## **Revenue Projections**

**85. Mr. Speaker**, based on the outlined policy measures and structural reforms, total revenue

collection, including Appropriation-in-Aid for the FY 2025/26 budget is projected to be **Ksh 3,321.8 billion** equivalent to **17.2 percent of GDP**. Of this, ordinary revenue is projected at **Ksh 2,754.7 billion** equivalent to **14.3 percent of GDP**, and Ministerial Appropriation-in-Aid is projected at **Ksh 567.0 billion**. Grants are projected at **Ksh 46.9 billion or 0.2 percent of GDP**.

### **Expenditure Projections**

**86. Mr. Speaker,** total expenditure in the FY 2025/26 budget is projected at **Ksh 4,291.9 billion** equivalent **22.3 percent of GDP**. Of this, recurrent expenditures will amount to **Ksh 3,134.4 billion** equivalent to **16.3 percent of GDP** and development expenditures, including allocations to domestic and foreign financed

projects, Contingency Fund and Equalization Fund will amount to **Ksh 693.2 billion** equivalent to **3.6 percent** of **GDP**. Total allocation to County Governments is projected at **Ksh 474.9 billion** of which equitable share is **Ksh 405.1 billion**.

### **Fiscal Deficit and Financing**

**87. Mr. Speaker,** the resultant fiscal deficit including grants is projected at **Ksh 923.2 billion**, equivalent to **4.8 percent** of GDP down from the estimated **Ksh 997.5 billion** or **5.7 percent** of GDP in FY 2024/25. The fiscal deficit for the FY 2025/26 budget will be financed by net external borrowing of **Ksh 287.7 billion** equivalent to **1.5 percent** of GDP and net domestic borrowing of **Ksh 635.5 billion**, which is equivalent to **3.3 percent** of GDP.

## **Public Debt Management**

**88. Mr. Speaker,** Kenya's public debt is projected to remain within sustainable levels over the medium term. In present value terms, the debt to GDP is projected to progressively decline from 63.0 percent in 2024 towards the debt anchor of 55 plus or minus 5 percent of GDP by 2028.

**89.** To support the projected decline in debt levels, the National Treasury will continue implementing various reforms as guided by the Medium-Term Debt Management Strategy including Liability Management Operations, continue pursuing use of concessional loans from multilateral, bilateral and limited commercial sources such as international bond issuances. Additionally, reforms targeted to support domestic market development will eventually reduce the cost of public debt while sustaining fiscal



consolidation efforts to ensure debt remains within sustainable levels.

**90.** Further, the Government will explore emerging funding instruments such as debt swaps, diaspora bonds, sustainability linked bonds and Environmental, Social and Governance debt instruments to fund budget deficit and manage public debt. This strategic approach will not only diversify our financing options but also strengthen international partnerships and promote sustainable growth.

**91. Mr. Speaker,** the Government is keen on sustaining transparency and improving efficiency on public debt service. To this end, the National Treasury is in the process of integrating the Commonwealth Meridian Debt Management system with the Integrated Financial Management

Information System (IFMIS) and the core banking systems of Central Bank of Kenya.

## **Public Private Partnerships Framework**

**92. Mr. Speaker,** the Government continues to strengthen the role of Public-Private Partnerships (PPPs) in financing our development agenda. Currently, there are 32 PPP projects at various stages which are targeted to mobilize **Ksh 70 billion** in the FY 2025/26 through private investments in priority sectors including energy, water, housing, health and transport.

**93. Mr. Speaker,** to enhance transparency and accountability at all stages of project lifecycle, I recently issued a Circular on mandatory disclosure requirements for all Privately Initiated Proposals. This measure is part of our broader effort to strengthen the integrity of the PPP program and

to ensure that private sector participation in public projects fosters public trust.

**94. Mr. Speaker,** the National Treasury in May 2025, received the final Report of the Committee of Experts on Leveraging Local Financial Markets for Investment into Public Private Partnerships Implementation. The Committee recommended the establishment and operationalization of PPP Implementation Trust Fund (PPP-ITF) as the central mechanism for enhancing private sector participation in PPPs particularly through institutional and retail entities.

**95. Additionally, Mr. Speaker,** the PPP regulations under consideration by Parliament will enhance clarity around PPP processes thereby enhancing efficiency and project delivery. This will also unlock a pipeline of County level specific PPP

projects in partnership with development partners.

## **Strengthening Public Finance Management Reforms**

### **Migration to Accrual Accounting**

**96. Mr. Speaker,** to strengthen management of public resources, all Government Ministries, Departments and Agencies adopted accrual accounting as of 1<sup>st</sup> July 2024. The first accrual based financial statements are expected for the Financial Year ending 30<sup>th</sup> June, 2025. The accrual accounting will enable the Government to account for all assets and liabilities including all Government assets.

### **Treasury Single Account**

**97. Mr. Speaker,** to enhance cash management, the migration of Ministries, Departments, and Agencies to the Treasury Single Account is

progressing well. The Central Bank of Kenya is scheduled to go live with its T-24 system upgrade in July 2025. This upgraded platform will support the implementation of Treasury Single Account core functionalities and facilitate the National Treasury to roll out the key elements of the Treasury Single Account system. Concurrently, the National Treasury is on track to onboard County Governments in 2026. The final phase will involve integrating all remaining National Government entities into the Treasury Single Account by FY 2026/27.

## **Zero-Based Budgeting**

**98. Mr. Speaker,** to re-orient the budgeting and expenditure framework, the Government adopted the Zero-Based Budgeting approach while finalizing the FY 2025/26 budget. To implement this approach, the National Treasury developed a

Budget Costing Tool that was integrated into the IFMIS Budget Module for the National Government.

**99.** The Zero-Based Budgeting Approach compels all Ministries, Departments and Agencies to justify expenditures from scratch thus ensuring resources are allocated to high impact activities. It promotes transparency and efficiency by requiring clear justification and critical assessment of spending.

## **V. RESOURCE ALLOCATIONS**

**100. Mr. Speaker,** let me now highlight the Government's spending priorities for FY 2025/26. Expenditures for the FY 2025/26 will consolidate the gains realized under the Bottom-Up Economic Transformation Agenda with special focus placed

on promoting investment in core pillars and their enablers through a value chain approach.

## **Agricultural Transformation and Inclusive Growth**

**101. Mr. Speaker,** the Government will continue to transform the agriculture sector, by increasing productivity in key value chain such as; fisheries and aquaculture, horticulture, food crops, livestock and rangeland development. The Government will scale up support to farmers through input financing, subsidies and extension services. This will move the country from food deficit to food surplus, reduce reliance on food imports and revamp export crops.

**102. Mr. Speaker,** in this respect, I have proposed an allocation of **Ksh 47.6 billion** for various programs under this sector. These include: **Ksh 8.0 billion** for the Fertilizer Subsidy

Programme; **Ksh 10.2 billion** for the National Agricultural Value Chain Development Project; **Ksh 800.0 million** for Small Scale Irrigation and Value Addition Project; **Ksh 1.2 billion** for Food Security and Crop Diversification Project and **Ksh 5.8 billion** for the Food Systems Resilience Project.

**103. Mr. Speaker,** to promote livestock production, I have proposed: **Ksh 2.3 billion** for De-Risking, Inclusion and Value Enhancement of Pastoral Economies Programme; **Ksh 1.6 billion** for Kenya Livestock Commercialization Programme (KeLCoP) and **Ksh. 280 million** for the Livestock Value Chain Support Project. I have also proposed **Ksh 340 million** for the Development Leather Industrial Park at Kenanie.

**104. Mr. Speaker,** to support the growth of the blue economy, I have proposed a total of **Ksh**



**8.2 billion** to the Blue Economy and Fisheries sub sector. This includes: **Ksh 2.3 billion** for Aquaculture Business Development Project; **Ksh 2.4 billion** to the Kenya Marine Fisheries & Socio-Economic Development Project and **Ksh 500 million** for Kabonyo Fisheries & Aquaculture Training Center.

**105. Mr. Speaker,** to raise agricultural productivity and enhance resilience to climate change risks in targeted smallholder farming and pastoral communities, I have proposed an allocation of **Ksh 318 million** for Towards Ending Drought Emergencies project and **Ksh 1.3 billion** to Resilience for Food & Nutrition Security Program in Horn of Africa project.

**106. Mr. Speaker,** the Government is committed to land reforms to address historical inequalities, promote equitable access, and

ensure sustainable land management. To this end, I have proposed a sum of **Ksh 3.8 billion** for Settlement of the Landless. I have also proposed **Ksh 1.1 billion** for Processing and Registration of Title Deeds; **Ksh 712 million** for Digitization of Land Registries; **Ksh 200 million** for Geo Referencing of Land Parcels; and **Ksh 220 million** for Construction of Land Registries to safeguard legitimacy of land ownership.

### **Transforming the Micro, Small and Medium Enterprise (MSME) Economy**

**107. Mr. Speaker,** the Government recognizes the challenge of accessing affordable credit by most Micro, Small and Medium Enterprises (MSMEs) and Kenyans at the bottom of the pyramid. To address this challenge, I have proposed an additional allocation of **Ksh 300 million** to the Financial Inclusion Fund, popularly

known as the ***Hustler Fund***, to scale up access to credit for households and MSMEs. I have also proposed an additional **Ksh 308 million** for the Youth Enterprise Development Fund; **Ksh 550 million** for the Centre for Entrepreneurship Project; and **Ksh 1.3 billion** for Rural Kenya Financial Inclusion Facility.

## **Housing and Settlement**

**108. Mr. Speaker,** the Government is committed to facilitating the construction of decent, safe and affordable houses for Kenyans. Through the Affordable Housing Programme, the Government is creating jobs for the youth directly in the construction sector and indirectly through the production and supply of building products.

**109.** To continue supporting this initiative, I have proposed an allocation of **Ksh 128.3 billion**

for the Housing, Urban Development and Public Works sub sectors. This includes: **Ksh 13.4 billion** under the Kenya Urban Programme (KenUP); **Ksh 64.5 billion** for construction of Affordable Housing Units; **Ksh 10.5 billion** for construction of Social Housing Units; and **Ksh 16.5 billion** for social and physical infrastructure.

**110. Mr. Speaker,** other proposed allocations to the Housing, Urban Development and Public Works interventions include: **Ksh 7.2 billion** for the Kenya Informal Settlement Improvement Project Phase II; **Ksh 3.5 billion** for the construction of Housing Units for the National Police and Kenya Prison; **Ksh 500 million** for Building Climate Resilience of the Urban Poor Programme (BCRUP); **Ksh 184 million** for construction of foot bridges; and **Ksh 454 million**

targeted to support construction of County Headquarters.

**111. Mr. Speaker,** to ensure the safety of Kenyans through compliance with building codes and standards, as well as other industry regulations, I have proposed an allocation of **Ksh 2.6 billion** for the Regulation and Development of the Construction Industry.

### **Universal Health Coverage**

**112. Mr. Speaker,** access to quality and affordable healthcare through the Universal Health Coverage Programme is central to this Government. Towards this end, **Mr. Speaker,** I have proposed an allocation of **Ksh 138.1 billion** to the health sector to support various activities and programmes. This includes: **Ksh 6.2 billion** for Universal Health Coverage Coordination and

Management; **Ksh 13.1 billion** for Primary Healthcare Fund; and **Ksh 430 million** to provide medical cover for the orphans, elderly and severely disabled persons in our society.

**113. Mr. Speaker,** to lower cases of HIV/AIDS, malaria and tuberculosis, and enhance vaccines and immunization programme in the country, I have proposed **Ksh 17.3 billion** for the Global Fund; and **Ksh 4.6 billion** for Vaccines and Immunization Programme, respectively.

**114. Mr. Speaker,** to enhance early diagnosis and management of cancer, and reduce the burden of treatment of chronic and critical illnesses among Kenyans, I have proposed an allocation of **Ksh 8.0 billion** to the Emergencies, Chronic and Critical Illness Fund; **Ksh 1.0 billion** for Construction of a Cancer Centre at Kisii Level 5 Hospital; **Ksh 100 million** to strengthen Cancer

Management in Kenyatta National Hospital; and **Ksh 100 million** for Expansion of Comprehensive Cancer Treatment at Kenyatta University Teaching Referral & Research Hospital.

**115. Mr. Speaker,** to improve health service delivery, I have proposed a sum of **Ksh 42.4 billion** for our Referral Hospitals including Kenyatta National Hospital, Moi Teaching and Referral Hospital, Kenyatta University Teaching Referral & Research Hospital, Mwai Kibaki Teaching & Referral Hospital Othaya, Jaramogi Oginga Odinga Teaching and Referral Hospital and Mathari National Teaching and Referral Hospital. Other allocations include **Ksh 1.3 billion** for the construction of Kenyatta National Hospital Burns and Pediatrics Centre.

**116. Mr. Speaker,** I have also proposed: **Ksh 5.2 billion** for Kenya Medical Supplies Agency;

**Ksh 2.7 billion** for the Kenya Medical Research Institute; **Ksh 500 million** for procurement of family planning and reproductive health commodities; and **Ksh 300 million** for procurement of equipment at the National Blood Transfusion Services. Further, to strengthen the capacity of medical personnel, I have proposed an allocation of **Ksh 4.3 billion** for Medical Interns; **Ksh 3.2 billion** for Community Health Promoters; **Ksh 303 million** for training of Health Personnel; and **Ksh 8.9 billion** for the Kenya Medical Training Centres.

### **Digital Superhighway and Creative Economy**

**117. Mr. Speaker,** the Government continues to invest in Digital Superhighway to improve ICT infrastructure and expand internet access nationwide.



**118.** The creative industry is a significant source of employment, particularly for the youth, and has the potential to address high unemployment rates through promotion of music, theatre, graphic design, digital animation, fashion and craft, among others.

**119. Mr. Speaker,** to support growth in the digital superhighway, I have proposed an allocation of **Ksh 12.7 billion** to fund initiatives in the Information, Communication and Technology sector. Specifically, this proposed allocation includes: **Ksh 2.3 billion** for the Construction of Kenya Advanced Institute of Science and Technology at Konza Technopolis; **Ksh 3.7 billion** for Kenya Digital Economy Acceleration Project; **Ksh 333.2 million** for Government Shared Services; **Ksh 382 million** for the Digital Superhighway; **Ksh 689 million** for

the establishment of Digital Hubs; and **Ksh 750 million** for Maintenance & Rehabilitation of National Optic Fiber Backbone Infrastructure.

**120.** In order to fast track the development of the Konza Technopolis City, I have proposed an allocation **Ksh 3.1 billion** for Konza Data Centre and Smart City Facilities.

**121.** The Government is committed to enhance transparency, accountability, and efficiency in public procurement. I have in this regard proposed an allocation of **Ksh 700 million** for rolling out the implementation of the Electronic Government Procurement (e-GP) system.

## **Other Key Allocations to Critical Sectors Supporting BETA**

### **Investing in Critical Infrastructure**

**122. Mr. Speaker,** the Government will continue to invest in transportation networks including roads, railways and air travel to reduce travel time and logistics costs, making markets more accessible and facilitating the movement of goods and people.

**123.** Towards this end, I have proposed an allocation of **Ksh 217.3 billion** for development of Roads. This includes: **Ksh 30.9 billion** to support construction of roads and bridges; **Ksh 70.8 billion** for rehabilitation of roads; and **Ksh 115.6 billion** for road maintenance.

**124. Mr. Speaker,** to expand railway transport and its infrastructure, I have proposed an allocation of **Ksh 38.0 billion**. I have also

proposed an allocation of **Ksh 450 million** for the Kenya Ferry Ramp in Mombasa; **Ksh 331.2 million** for Nairobi Bus Rapid Transport Project; and **Ksh 298.7 million** for Promotion of E-Mobility Project. To facilitate movement of goods and people in our inland waters, I have proposed an additional **Ksh 110.4 million** for Acquisition of Ferries for Lake Victoria.

**125. Mr. Speaker,** to scale up production of reliable and affordable energy, I have also proposed an allocation of **Ksh 62.8 billion** to cater for key energy interventions. This includes: **Ksh 31.6 billion** for the National Grid System; **Ksh 16.3 billion** for Rural Electrification; **Ksh 11.5 billion** for development of geothermal energy; **Ksh 2.1 billion** for Alternative Energy Technologies; and **Ksh 743.8 million** for development of nuclear energy.

## **Improving Education Outcomes**

**126. Mr. Speaker,** the education sector plays a vital role in economic development by enhancing human capital, driving innovation and improving productivity. To this end, the Government continues to invest in education to raise learning outcomes and ensure equal opportunities for all.

**127. Mr. Speaker,** I have proposed a total allocation of **Ksh 702.7 billion** to the Education Sector. This includes: **Ksh 387.2 billion** to the Teachers Service Commission (TSC). The allocation for TSC includes: **Ksh 7.2 billion** for recruitment of intern teachers; and **Ksh 980 million** for capacity building of teachers on Competency Based Education.

**128.** Further, I have proposed an allocation of **Ksh 7.0 billion** for Free Primary Education; **Ksh**

**28.9 billion** for Junior Secondary School Capitation; and **Ksh 51.9 billion** for Free Day Secondary Education. In addition, **Mr. Speaker**, I have proposed an allocation of **Ksh 5.9 billion** for administering the National Examinations; **Ksh 3.0 billion** for the School Feeding Programme; **Ksh 7.2 billion** for the recruitment of Intern Teachers; and **Ksh 4.0 billion** for the Technical, Vocational Education Training & Entrepreneurship project.

**129. Mr. Speaker**, to enhance infrastructure development and provide a safe learning environment in our schools, I have proposed an allocation of: **Ksh 1.7 billion** for Primary and Secondary Schools' infrastructure; and **Ksh 1.4 billion** for construction and equipping of Technical Training Institutes and Vocational Training Centres. In addition, I have proposed **Ksh 13.3 billion** for the Kenya Primary Education Equity in

Learning Program; and **Ksh 2.3 billion** for Kenya Secondary Education Quality Improvement Project.

**130. Mr. Speaker,** other proposed allocations to the education sector include: **Ksh 993 million** for Research, Science, Technology and Innovation; **Ksh 41.5 billion** to the Higher Education Loans Board for provision of loans to University and TVET students; **Ksh 16.9 billion** for Scholarship for University Students; and **Ksh 7.7 billion** Capitation and Scholarship for TVET students.

### **Supporting Manufacturing for Job Creation**

**131. Mr. Speaker,** to continue promoting local industries, I have proposed an allocation of **Ksh 18.0 billion** under various implementing Ministries, Departments and Agencies. Out of this,

**Ksh 4.5 billion** will support establishment of County Integrated Agro-Industrial Parks; **Ksh 2.8 billion** for Supporting Access to Finance & Enterprise Recovery (SAFER) Project; **Ksh 602 million** for development of Athi River Textile Hub; **Ksh 705 million** for establishment of flagship Export Processing Zones Hubs; **Ksh 504 million** for the development of Special Economic Zone Textile Park Naivasha; and **Ksh 798 million** for Kenya Jobs and Economic Transformation.

**132. Mr. Speaker,** in order to revitalize and maximize the benefits from our cash crops, I have proposed **Ksh 2.0 billion** for Coffee Cherry Revolving Fund; **Ksh 2.0 billion** for Coffee Debt Waivers; **Ksh 1.5 billion** for sugar sector reforms; **Ksh 120 million** for Modernization and Revitalization of Cotton Ginneries; and **Ksh 245**



**million** for Horticultural Produce Compliance Enhancement Project.

**133. Mr. Speaker,** to support local production and processing of edible oils, I have proposed an allocation of **Ksh 300 million** for the National Edible Oil Crops Promotion Project.

**134. Mr. Speaker,** to enhance milk processing, I have proposed an allocation **Ksh 400 million** for excess milk mop-up and **Ksh 150 million** for modernization of milk processing factories in Runyenjes and Narok.

**135. Mr. Speaker,** to equip our youth with essential training and internship opportunities in trade and industry, I have proposed an allocation of **Ksh 330 million** for the Kenya Industry and Entrepreneurship Project; **Ksh 500 million** for the Construction of Industrial Research

Laboratories; and **Ksh 109.0 million** for Constituency Industrial Development Centers.

### **Improving Security**

**136. Mr. Speaker,** a stable and secure environment fosters investment, trade, and overall economic growth. In this regard, I have proposed an allocation of **Ksh 202.3 billion** for Defence; **Ksh 125.7 billion** for the National Police Service; **Ksh 51.4 billion** for the National Intelligence Service; **Ksh 32.5 billion** for Internal Security and National Administration and **Ksh 38.1 billion** for Prisons Services.

**137.** I have also proposed an additional allocation of **Ksh 10.0 billion** to cater for leasing of police motor vehicles and **Ksh 3.6 billion** for Police Modernization Programme. **Mr. Speaker,** to combat crime and enhance administration of

justice, I have proposed **Ksh 1.2 billion** for construction and modernization of National Forensic Facilities.

### **Protecting the Vulnerable Groups**

**138. Mr. Speaker,** Social protection services are crucial for building more equitable and resilient societies by reducing poverty, inequality, and vulnerability, as well as promoting economic growth and social cohesion.

**139.** I have in this regard proposed an allocation of **Ksh 41.4 billion** in this budget to protect the vulnerable members of our society and promote affirmative action. Out of this allocation: **Ksh 25.1 billion** will cater for cash transfers to elderly persons; **Ksh 8.9 billion** for cash transfers to Orphans and Vulnerable Children; and **Ksh 1.5**

**billion** for cash transfers to persons living with severe disabilities.

**140. Mr. Speaker,** the proposed allocation also includes **Ksh 3.9 billion** for the Kenya Hunger Safety Net Programme; and **Ksh 450 million** for the National Fund for the Disabled of Kenya. In addition: **Ksh 600 million** will go to the Child Welfare Society of Kenya; **Ksh 100 million** for the Presidential Bursary for the orphans; **Ksh 180 million** for the Street Families Rehabilitation Trust Fund; **Ksh 90 million** for the National Albinism Support Programme; and **Ksh 90 million** for the National Autism Support Programme.

### **Equity, Poverty Reduction, Women and Youth Empowerment**

**141. Mr. Speaker,** unemployment remains one of the most persistent and challenging issues

facing the Country today. The challenge is not only about job creation but also bridging the critical gap between education and employment, and developing relevant skills for the modern economy.

**142.** In order to empower the youth and support businesses owned by youth and women and promote development in the constituencies, I have proposed **Ksh 105.6 billion** for these initiatives. This allocation includes: **Ksh 10.0 billion** for the National Youth Service; **Ksh 3.6 billion** to National Youth Opportunity Towards Advancement (NYOTA) and **Ksh 318 million** for the Youth Enterprise Development Fund. In addition, I have proposed **Ksh 990 million** for Film Development Services.

**143. Mr. Speaker,** to further empower our women and girls, I have proposed **Ksh 353**

**million** for the Women Enterprise Fund; **Ksh 940 million** for provision of sanitary towels to school going girls; **Ksh 254 million** for Strengthening Prevention & Response to Gender Based Violence in Kenya; **Ksh 110 million** for eradication of Female Genital Mutilation; and **Ksh 4.0 billion** for the National Government Affirmative Action Fund.

**144. Mr. Speaker,** to promote regional equity, reduce poverty and enhance social development across the country, I have proposed **Ksh 58.8 billion** for the National Government Constituency Development Fund; **Ksh 9.6 billion** for the Equalization Fund to finance programmes in identified marginal areas; and **Ksh 15.9 billion** for the Kenya Devolution Support Programme No. II.

## **Stimulating Tourism Growth, Sports, Culture, Recreation and Arts**

**145. Mr. Speaker,** in order to harness national pride, empower our youth and position Kenya as regional beckon of talent and heritage, I have proposed an allocation of **Ksh 29.7 billion** to support Sports, Culture and recreation as well as Tourism. This proposed allocation includes: **Ksh 13.5 billion** for the Sports, Arts and Social Development Fund; **Ksh 2.3 billion** to establish an Automation and Digitalization System for the Sports Registrar; **Ksh 241 million** for the Anti-Doping Agency of Kenya; **Ksh 402 million** for Sports Kenya; **Ksh 245 million** for the Kenya Academy of Sports; **Ksh 8.2 billion** for the Tourism Fund; and **Ksh 4.8 billion** for Tourism Promotion Fund.

## **Environmental Protection, Water and Natural Resources**

**146. Mr. Speaker,** to safeguard natural ecosystems, ensure sustainable water use and tackle the impact of climate change, I have proposed an allocation of **Ksh 10.7 billion** for Forests Resources Conservation and Management; **Ksh 1.6 billion** for Forests Research and Development; **Ksh 3.7 billion** for Environment Management and Protection; **Ksh 11.5 billion** for the Kenya Financing Locally Led Climate Action Project; **Ksh 1.6 billion** for Meteorological Service; and **Ksh 13.2 billion** for wildlife security, conservation and management, **Ksh 953 million** for wildlife research and development. In addition, I have proposed; **Ksh 1.1 billion** for Human Wildlife Conflict



Compensation; and **Ksh 950 million** for Wildlife Insurance.

**147. Mr. Speaker,** I have also proposed an allocation of **Ksh 26.8 billion** for water and sewerage infrastructure development; **Ksh 16.5 billion** for water resources management; and **Ksh 1.9 billion** for water storage and flood control. In addition, I have proposed **Ksh 15.0 billion** for irrigation and land reclamation; and **Ksh 266 million** for water harvesting and storage for irrigation.

### **Improving Governance and Sustaining the Fight against Corruption**

**148. Mr. Speaker,** to enhance good governance, intensify the fight against corruption and entrench integrity and accountability in public service delivery, I have proposed **Ksh 4.5 billion** for the Ethics and Anti-Corruption Commission;

**Ksh 4.5 billion** for the Office of the Director of Public Prosecutions; **Ksh 5.3 billion** to the State Law Office; and **Ksh 8.7 billion** for the Office of the Auditor General.

**149.** In addition, **Mr. Speaker**, to enhance the oversight and legislative role of Parliament, I propose an allocation of **Ksh 48.0 billion** for Parliament. To enable administration of justice, I propose an allocation of **Ksh 27.8 billion** for the Judiciary.

### **Allocations to County Governments**

**150.** **Mr. Speaker**, to support devolution, County Governments will receive **Ksh 405.1 billion** in the FY 2025/26 as an equitable share of revenue raised nationally, an increase of **Ksh 17.6 billion** from Ksh 387.4 billion in FY 2024/25. The Ksh 405.1 billion represents 25.8 percent of the most recently audited revenues for FY

2020/21, way higher than the minimum of 15 percent prescribed in Article 203(2) of the Constitution.

**151.** In order to ensure food and nutrition security, infrastructure development, improved water and sanitation systems among others, County Governments will receive **Ksh 69.8 billion** as additional allocations.

### **Equalisation Fund**

**152. Mr. Speaker,** to support implementation of projects in the marginalized areas, **Ksh 7.85 billion** has been proposed as an allocation to the Equalization Fund in the FY 2025/26 and an additional **Ksh 2.74 billion** to settle outstanding arrears owed to the Fund.

## **Measures to Enhance County Governments' Own Source Revenue**

**153. Mr. Speaker,** the Own Source Revenue Policy recommended the development of a National Framework Legislation to regulate the introduction of taxes, fees, and charges by County Governments. Consequently, the National Treasury and other stakeholders developed the County Governments (Revenue Raising Process) Bill, which is currently before Parliament for consideration. I urge this Honourable House to consider the Bill and prioritize its enactment.

## **VI. TAXATION MEASURES**

**154. Mr. Speaker,** I will now turn to tax policy measures supporting the FY 2025/26 budget. These measures include proposals contained in the Finance Bill, 2025, as well as the customs duty measures agreed upon by the East African

Community (EAC) Ministers for Finance during the EAC Pre-Budget meeting held in May this year. These measures are set to take effect from 1st July 2025.

**155. Mr. Speaker,** the freedoms we enjoy in this country have not come easy. In the last couple of years Kenyans have spoken clearly and loudly on the desired direction in development of policy and governance of taxation. In 2023 the Minority side in Parliament supported by the efforts of the then ODM Chairman, protested against the Finance Act, 2023. Last year, some provisions in the Finance Bill 2024 triggered protests across the country. These actions in the two years, regrettably resulted in the loss of lives and destruction of property and adversely impacted economic lives of many. In remembrance of our fellow Kenyans who lost their

most precious lives during these protests, allow **Mr. Speaker, we observe a minute of silence** in their remembrance **(pause for a minute of silence)**. May their souls continue resting in eternal peace. Thank you.

**156. Mr. Speaker,** no life should be lost and no property should be destroyed again. The message from Kenyans was clear. Since I took office at the National Treasury and Economic Planning, I assured Kenyans that we shall strive to reduce tax burden. In this respect, the Finance Bill 2025, has neither proposed new taxes nor raised any tax rates. Instead, we have chosen to enhance tax revenue collection through administrative reforms by simplifying and streamlining tax laws to make them clearer and easier to implement, thereby improving taxpayer compliance. The process also involves

rationalization of tax expenditure to enhance equity and fairness.

**157. Mr. Speaker,** the revenue forgone through tax incentives (tax expenditures) has increased significantly, rising from **Ksh 393.1 billion** which is equivalent to **2.9 percent of GDP** in 2022 to **Ksh 510.6 billion** which is equivalent to **3.4 percent of GDP** in 2023. To reverse this trend, the Finance Bill, 2025 proposes reforms to rationalise tax expenditures so as to promote equity, fairness, efficiency and reduce distortions within the tax system. The proposed reforms are in line with the National Tax Policy and the Medium-Term Revenue Strategy. **Mr. Speaker,** from the proposed reforms, we expect to raise **Ksh 30 billion** as additional revenue.

**158. Mr. Speaker,** customs measures agreed upon by EAC Ministers during the Pre-Budget

Meeting, are intended to protect our industries and ensure they access raw materials and inputs at affordable prices. The meeting allowed Kenya to import tea packaging materials at a lower duty rate of 10 percent. In addition, Kenya was granted an extension of duty remission to import wheat at the rate of 10 percent. These measures will support our wheat and tea farmers.

**159. Mr. Speaker,** I will begin with the customs measures and later provide highlights on the proposed amendments of tax laws in the Finance Bill, 2025.

### **Custom Measures**

**160. Mr. Speaker,** to meet the local demand of rice, Kenya was allowed to extend the stay of application on the EAC Common External Tariff, and import rice at the rate of 35% or USD 200 per



metric tonne—whichever is higher—instead of the CET rate of 75% or USD 345 per metric tonne. Mindful of wheat farmers in Kenya, EAC Ministers agreed on duty remission of wheat at a rate of 10%, instead of the CET rate of 35%, provided the millers who intend to import wheat under the duty remission must first purchase locally produced wheat.

**161. Mr. Speaker,** to promote local assembly of telecommunication equipment, Kenya was granted an extension of duty remission on inputs for assembly of telecommunication devices including mobile phones, laptops and tablets.

**162. Mr. Speaker,** in order to reduce the production cost of animal feeds, Kenya requested for an extension to import inputs for production of animal feeds duty-free under the EAC Duty Remission Scheme which was granted. We urge

the producers of animal feeds to apply for the remission.

**163. Mr. Speaker,** the leather sector is one of the priority value chains under BETA. To support local producers of leather and leather products, Kenya was allowed to extend the stay of application on the CET rate, and apply import duty rate of 35% on leather products. To promote tanneries to supply local manufacturers with high quality leather, Kenya was allowed to import chemicals for leather processing under duty remission.

**164. Mr. Speaker,** to support local assembly of transformers which is critical to energy distribution; the EAC Ministers approved Kenya's request for a tariff split on transformers to provide for a distinction between fully built and unassembled transformers.

**165. Mr. Speaker,** to support the local assemblers of cranes, Kenya was granted approval to import inputs for assembly of cranes duty free under duty remission.

**166. Mr. Speaker,** last year Kenya was granted a stay of application on the EAC Common External Tariff to apply a higher duty rate ranging from 25% to 35% on certain types of paper used in manufacturing packaging materials. This action adversely affected exporters, particularly in tea sector. To address this, Kenya opted not to request for an extension of the stay of the CET. This decision will not affect local manufacturers of packaging materials, as they will continue importing raw materials under duty remission.

## **Finance Bill, 2025**

**167. Mr. Speaker,** let me now highlight some of the proposals contained in the proposed Finance Bill 2025: -

### **Income Tax Act**

**168. Mr. Speaker,** to enable faster recovery of investment by businesses on loose items such as utensils, linen and industrial tools, the Bill proposes to amend the Income Tax Act to allow for a full cost deduction of these items in the first year of purchase as opposed to the current three years. This will improve cashflows of the relevant businesses.

**169. Mr. Speaker,** we have noted increased tax disputes arising from audits carried on cross border transactions. These disputes could have been avoided if the multinational companies had

Advance Pricing Agreements with the Commissioner at KRA. To address this gap, the Bill proposes to amend the Income Tax Act to empower the Commissioner to enter into Advance Pricing Agreements with multinational companies.

**170. Mr. Speaker,** the Tax Laws (Amendment) Act, 2024 introduced the Minimum Top-Up Tax in line with global best practices. The Act inadvertently omitted the due date for payment of the tax, thus creating enforcement challenges. To address this, I have proposed an amendment to the Income Tax Act to clarify that the due date will be the end of the fourth month following the close of a company's accounting period.

**171. Mr. Speaker,** the Tax Laws (Amendment) Act, 2024, exempted gratuity payments from income tax. However, the

provision is not clear whether all gratuity, including from private pension schemes is exempted from tax. In this respect, the Bill proposes to amend the Income Tax Act to clarify that all gratuity payments, whether from public or private sources, are exempt from tax.

**172. Mr. Speaker,** to encourage wider participation in virtual assets transactions, especially among the youth, the Bill proposes to reduce the digital asset tax rate from **3 percent** to **1.5 percent**.

**173. Mr. Speaker,** to ensure consistency and effective administration of the law, the Bill proposes to amend the Third Schedule to the Income Tax Act to clarify that fringe benefit tax is payable by the employer at the corporate tax rate and that withholding tax on qualifying dividends and qualifying interests are final.

**174. Mr. Speaker,** under the current Income Tax Act, individuals with mortgages for purchasing or improving residential houses can claim tax relief on interest payment on the mortgage. However, those who take up a mortgage to construct their own residential houses are excluded from this relief. To ensure fairness, the Bill proposes to extend this benefit to interest on mortgages taken for construction of residential houses. This will support home ownership and align with the BETA Pillar on Affordable Housing.

**175. Mr. Speaker,** the current tax-free daily subsistence allowance of Ksh 2,000 for private sector employees on official duties outside their usual workplace is lower than that of the public sector employees. To enhance equity, the Bill proposes to increase the tax-free **daily**

**subsistence allowance** for private sector employees from **Ksh 2,000** to **Ksh 10,000**.

**176. Mr. Speaker,** Kenya has an opportunity to strengthen its position as a regional financial hub. In this respect, the Bill proposes amendment to the Income Tax Act to provide that:

- i) companies certified by the Nairobi International Financial Centre Authority that invests new capital of at least Ksh 3 billion over a period of three years to pay a reduced corporate tax rate of **15%** for the first **10 years** and **20%** for the **subsequent 10 years**. The companies qualifying for this will be required to employ Kenyans at senior management level.
- ii) the start-up companies that are certified by Nairobi International Financial Centre



Authority will enjoy a **15% tax rate** for the **first three years** and **20%** for the **subsequent four years**; and

- iii) dividends earned by certified Holding Companies and regional headquarters will be exempted from tax provided that at least Ksh 250 million is reinvested annually in Kenya.

**177. Mr. Speaker,** we have noted that some employees seek refunds from KRA on reliefs or deductions that ought to have been deducted by their employers. To address this challenge, the Bill proposes to amend the Income Tax Act to make it mandatory for employers to consider all eligible tax reliefs and deductions when computing employees' income tax.

## **Value Added Tax**

**178. Mr. Speaker,** while a supplier is required to issue a tax invoice at the point of sale, there is currently no definition of Tax Invoice under the VAT Act. This creates ambiguity on what constitutes a Tax Invoice. To resolve this ambiguity, the Bill proposes to amend the VAT Act to define a Tax Invoice.

**179. Mr. Speaker,** to strengthen tax administration and enhance compliance, the Bill proposes to require the issuance of tax invoices for all supplies whether taxable or exempt. This amendment will support better record-keeping by taxpayers and facilitate the pre-population of returns.

**180. Mr. Speaker,** to support business operations, the Bill proposes to shorten the period

for claiming refunds on bad debts from three years to two years, and to allow taxpayers to either request for a refund or offset it against future VAT liabilities.

**181. Mr. Speaker,** entities in Special Economic Zones currently benefit from VAT exemptions and zero-rating, but there is no provision to recover tax when these benefits are misused. To safeguard revenue and promote accountability, the Bill proposes to recover VAT where exempted or zero-rated goods or services are used for purposes other than those intended.

**182. Mr. Speaker,** to prevent revenue leakages, strengthen tax administration, and promote equity across sectors, the Bill proposes to move some zero-rated goods and services that are consumed locally to exempt status. Further, **Mr. Speaker,** some of the goods exempted from

VAT have multiple uses making it difficult to effectively monitor whether they are finally used for the intended purpose. In this respect, the Bill proposes to amend the VAT Act to remove such exemptions.

### **Excise Duty**

**183. Mr. Speaker,** to minimize tax disputes relating to classification of locally produced excisable goods, the Bill proposes an amendment to the Excise Duty Act to clarify that the East African Community Common External Tariff and its classification rules shall apply to all excisable goods, both imported and locally manufactured.

**184. Mr. Speaker,** to streamline the processing of applications for licenses to manufacture excisable goods by the Commissioner, the Bill proposes to amend the

Excise Duty Act to require the Commissioner to provide feedback on the application within 14 working days from the date of receipt of all valid documents.

**185. Mr. Speaker,** the Excise Duty Act provides for taxation of alcoholic beverages based on pure alcohol content, which increased cost for producers using spirits over 90 percent alcohol content as raw materials from Ksh 356 to about Ksh 1,000 per litre. Since undenatured extra neutral alcohol is a key input in the manufacturing of spirituous beverages, the Bill proposes to amend the Excise Duty Act to provide an excise duty rate of Ksh 500 per litre for undenatured extra neutral alcohol above 90 percent strength supplied to licensed spiritous beverage manufacturers.

**186. Mr. Speaker,** to promote equity and fairness in taxation of excisable services offered through the internet or electronic network, the Bill proposes to amend the Excise Duty Act to bring non-resident persons without a physical presence in Kenya into the tax net when they supply excisable services through these mediums.

**187. Mr. Speaker,** to avoid double taxation of fees charged by digital lenders, the Bill proposes to amend the definition of "digital lender" under the Excise Duty Act to exclude entities licensed under the Banking Act, the Co-operative Societies Act, and the Microfinance Act.

**188. Mr. Speaker,** to enhance clarity and consistency in the administration of excise duty legislation, the Bill proposes to amend the Excise Duty Act to clarify that imported plastic products, including plates, self-adhesive plastics, and

printed polymers, will be subject to excise duty at 25% of the excisable value or Ksh 200 per kilogram, whichever is higher.

## **Miscellaneous Fees and Levies**

**189. Mr. Speaker,** the Export and Investment Promotion Levy on billets and wire rods, which are raw materials in the manufacture of nails, fencing wires, gabions, bolts, and nuts, has raised production costs of these products. In this respect, the Bill proposes to amend the Miscellaneous Fees and Levies Act to review the Levy downwards.

**190. Mr. Speaker,** to promote Nairobi as regional aircraft maintenance hub, while managing tax expenditures, the Bill proposes to amend the Miscellaneous Fee and Levies Act to introduce Import Declaration Fee and Railway

Development Levy on small aircrafts and helicopters but retain the exemption on spare parts for all aircrafts.

### **The Tax Procedures Act, 2015**

**191. Mr. Speaker,** to enhance the Commissioner's ability to recover unpaid taxes from non-residents, the Bill proposes to amend the Tax Procedures Act to expand the scope of agency notices to include non-resident persons.

**192. Mr. Speaker,** to close a loophole that hinders enforcement of tax compliance and ensure timely revenue collection, the Bill proposes to amend the Tax Procedures Act to clarify that enforcement of tax collection when a Tax Appeals Tribunal or a court judgment on tax dispute is in favour of the Commissioner shall only be suspended where a stay order has been granted.



**193. Mr. Speaker,** to remove financial and legal barriers that may hinder effective enforcement of recovery of unpaid taxes, the Bill proposes to amend the Tax Procedures Act to provide that property transfers made by or to the Commissioner in recovery of tax liabilities be exempted from stamp duty.

**194. Mr. Speaker,** to promote transparency, uphold fair administrative action, and strengthen trust in tax administration, the Bill proposes to amend the Tax Procedures Act to require the Commissioner to provide reasons when issuing amended tax assessments to a taxpayer.

**195. Mr. Speaker,** to address taxpayers' concerns regarding penalties and interest arising from system-related delays or administrative errors beyond taxpayers' control, the Bill proposes to amend the Tax Procedures Act to allow the

Cabinet Secretary to grant waivers on penalties and interest arising from such circumstances, upon recommendation by the Commissioner.

## **VII. CONCLUSION**

**196.** In conclusion, **Mr. Speaker** and fellow Kenyans, we have experienced a wide range of challenges as a nation in the past two years. In navigating these trying times, we have demonstrated exceptional resilience and remained steadfast in our development and democratic journey.

**197.** Kenyans have demonstrated commendable patience and resilience as the Government continues to fulfill its commitments to improve livelihoods through the implementation of BETA. Under the leadership of His Excellency the President Dr. William Samoei

Ruto, we have made meaningful progress in advancing our development agenda, promoting inclusion, fostering national unity, and working together to build our nation and renew the spirit of patriotism.

**198. Mr. Speaker,** the budget I have presented today has been thoughtfully prepared to navigate the delicate balance of competing needs while adhering to our fiscal consolidation plan.

**199. Mr. Speaker,** I am confident that the policies and structural reforms I have outlined provide a solid foundation for sustaining our socio-economic transformation. These measures are designed to stimulate job creation, strengthen our economic recovery and ease the cost of living. I therefore call upon Honourable Members and all Kenyans to support the implementation of this

Budget, as we work together in pursuit of shared prosperity.

**200.** Finally, **Mr. Speaker**, the journey to a prosperous Kenya calls for leadership and collective commitment of all Kenyans. Last year, the Orange Democratic Movement joined hands with the United Democratic Alliance to form a broad-based Government. This unity has brought renewed peace and stability to Kenya and fostered inclusive development beyond tribal lines.

**201.** I wish to acknowledge with gratitude the unwavering leadership and vision of His Excellency the President, Dr. William Samoei Ruto and His Excellency the Deputy President Professor Kithure Kindiki.

**202.** I also wish to recognize the invaluable efforts of the Prime Cabinet Secretary, the

Attorney General, my fellow Cabinet Secretaries, Principal Secretaries, Accounting Officers, and all personnel across Government Ministries, Departments and Agencies who have diligently contributed to the development of the FY 2025/26 budget.

**203. Mr. Speaker,** I sincerely thank "**Baba**", Rt. Hon. Prime Minister Raila Amollo Odinga and the entire Orange Democratic Movement fraternity for their invaluable mentorship as well as trusting me with party leadership positions in my political journey.

**204. Mr. Speaker,** I have served the people of Suba South Constituency as their elected representative for a record of 15 years and a further 2 years as nominated Member of Parliament before my appointment to the Cabinet. I truly appreciate the people of Suba South

Constituency for the opportunity they gave me to serve them and I will remain forever grateful. In addition, I served in the leadership of Parliament as the minority leader, and equally I appreciate the support accorded to me by this House and its leadership during my tenure.

**205.** My sincere appreciation also goes:

- **First**, to you, **Honourable Speaker** of the National Assembly and your counterpart in the Senate, the Majority and Minority Leaders and the entire House Leadership including respective Clerks for supporting the approval process of the FY 2025/26 budget;
- **Second**, to Honourable Chairs and Members of both the Budget and Appropriations Committee and the Finance and National Planning Committee and all the other Departmental

Committees of this House as well as the staff of the Parliamentary Budget Office, for their constructive inputs and leadership during the approval process of this budget;

- **Third**, my colleagues at the National Treasury and Economic Planning led by Dr. Chris Kiptoo, the Principal Secretary for the National Treasury, Dr. Bonface Barasa Makokha, the Principal Secretary for the State Department for Economic Planning and Mr. Cyrell Wagunda Odede, the Principal Secretary for Public Investments and Assets Management for their commitment, dedication and support in the preparation of this budget;
- **Fourth**, special appreciation goes to Mr. James Muhati, the former Principal Secretary for the State Department for Economic Planning for his unwavering commitment and invaluable support

during the first half of the financial year. His dedication and strategic leadership greatly advanced the Ministry's mandate and played a pivotal role in shaping key national economic planning initiatives;

- **Fifth**, my appreciation goes to the Governor of the Central Bank of Kenya, the Commissioner General of the Kenya Revenue Authority, as well as the management and staff of both institutions, the Financial Sector Regulators, and other MDAs for their valuable contributions to the budget process;
- **Sixth**, my gratitude goes to our Multilateral and Bilateral Development Partners for their continued technical and financial support;



- **Seventh,** I thank the private sector for their participation and contribution in the budget process; and
- **Eighth,** I wish to appreciate the media and non-state actors for their active engagement and participation in the FY 2025/26 budget process.

**206. Mr. Speaker,** I forever remain indebted to my beloved wife Madam Roda Mbadi and my children for their support and inspiration as I execute my duties at the National Treasury and Economic Planning. Their prayers and guidance gave me the zeal to proceed even during my lowest moments. I remain deeply grateful to my siblings for raising me, paying my school fees and supporting me throughout my journey.

**207. Mr. Speaker,** I am sure that my late parents, **Jaduong Stanslaus Ng'ongo Omoth**

and his **babe, Slermina Yambo Ng'ongo** are smiling down from above as they see their youngest son perform this great service for the great people of Kenya today. God is truly faithful.

**208.** Lastly, **Mr. Speaker,** my utmost gratitude goes to all Kenyans for their contributions during the budget process.

**Thank You and May God Bless Kenya.**

**Pause**

**209. Mr. Speaker,** before I resume my seat, you will recall that I have already submitted to this House the budget estimates and the Finance Bill, 2025, together with the accompanying documents as required by the Public Finance Management Act, 2012. Today, I further submit the following documents to this august House and request that you graciously receive them:

- i) Budget Statement for the FY 2025/26;
- ii) The 2025 Budget Policy Statement;
- iii) Estimates of Revenue, Grants and Loans for the FY 2025/26 Budget;
- iv) Financial Statement for the FY 2025/26 Budget;
- v) Medium Term Debt Management Strategy 2025;
- vi) Budget Highlights – The “Mwananchi” Guide for the FY 2025/26 Budget; and
- vii) Statistical Annex to the Budget Statement for the FY 2025/26.

**THANK YOU, HONOURABLE SPEAKER**

O\_\_\_\_\_ O

**THE NATIONAL TREASURY AND ECONOMIC  
PLANNING  
JUNE 12, 2025**

© Budget Statement 2025  
The statement is available on:  
[www.treasury.go.ke](http://www.treasury.go.ke)

