



PRESENTATION TO THE PUBLIC SECTOR HEARINGS ON:

MACROECONOMIC OUTLOOK FOR FY 2026/27 AND THE MEDIUM-TERM BUDGET

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PRESENTATION OUTLINE

1. Introduction
2. Macroeconomic Environment Supporting the Budget
3. Implementation of FY 2025 Budget
4. FY 2026/27 Proposed Budget
5. Medium Term Outlook: Shrinking Fiscal Space
6. Medium Term Outlook: The Case for More Fiscal Reforms
7. Pending Bills
8. Conclusion

1.1: Introduction

❑ In, pursuant to Section 26 of the PFM Act, CAP 412A, the 2025 Budget Review and Outlook Paper (BROP) was submitted to Cabinet and subsequently approved by **Cabinet on 30th September 2025.**

❑ Following this approval and as per the law, the 2025 BROP was submitted to **Parliament on 3rd October 2025.**

❑ In line with the legal requirements, the 2025 BROP:

- Reviews fiscal performance for FY 2024/25 budget: The Fiscal deficit inclusive of grants for FY 2024/25 was **5.9% of GDP**
- Presented **recent economic developments** and provides updated **macroeconomic and fiscal outlook** for FY 2026/27 and medium term; and
- Sets **indicative sector ceilings** for FY 2026/27 and the medium-term budget.

❑ **The ministerial budget ceiling** for the FY 2026/27 is projected at **KSh 2,818.6 billion**. This comprises of KSh 1,992.9 billion in recurrent expenditure and KSh 825.7 billion in development expenditure.

1.2: Introduction

❑ The 2025 BROP, therefore, forms the basis for the:

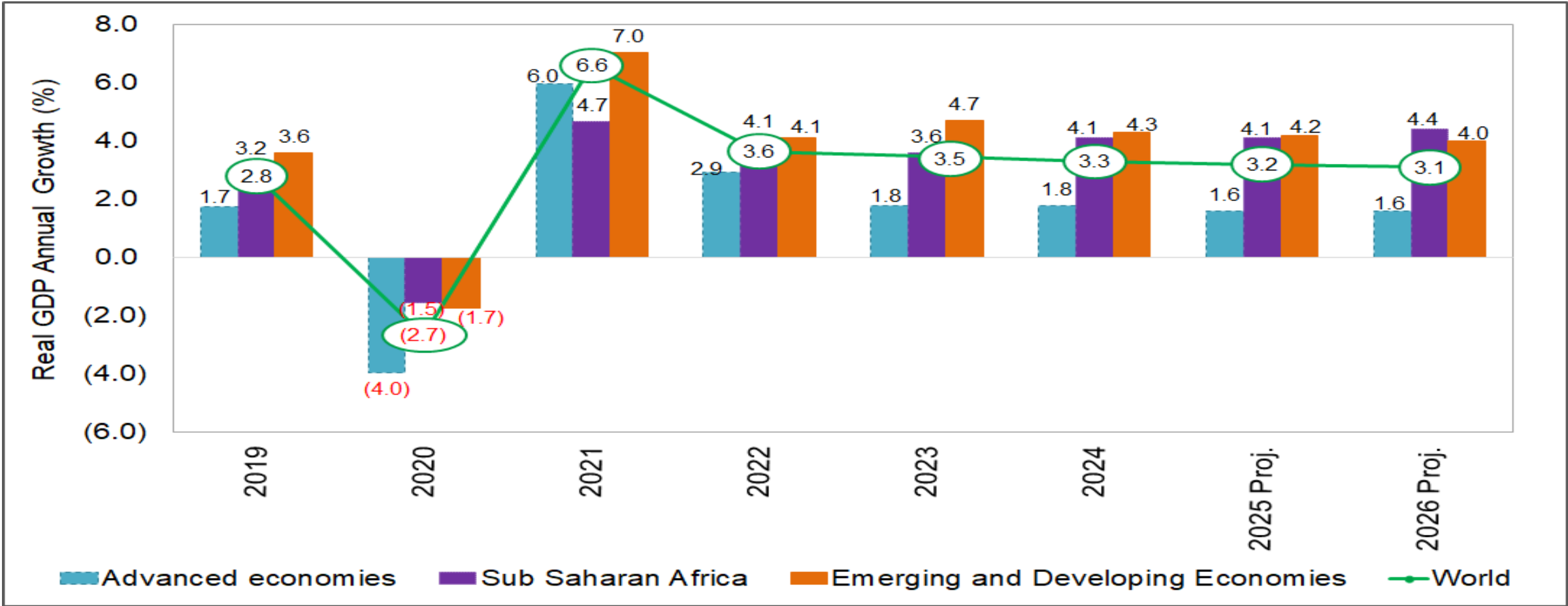
- **Development of the 2026 Budget Policy Statement (BPS)** that will detail the progress in the implementation of Government policy priorities anchored on the Bottom-Up Economic Transformation Agenda (BETA)
- Preparation of the 2026 BPS will be informed by the budget proposals from the Sector Working Groups and feedback from the public; and
- **Preparation of the FY 2026/27 and the medium-term budget.** The sector ceilings in the 2025 BROP are based on the medium-term macro-fiscal projections and are aligned to the priorities of the Government.

2.0: MACROECONOMIC ENVIRONMENT SUPPORTING THE BUDGET



2.1: Global Economic Growth has averaged 3.5% for the past three years (2022-2024)

□ The global economy over 2020–2024 moved from a deep COVID-19 recession (2020) to a strong but uneven recovery (2021), then slowed by Russia–Ukraine war (2022), inflation, and high interest rates (2023), before settling into modest yet resilient growth amid rising debt, trade tensions, and geopolitical risks (2024).



2.2: Global economic growth is projected at 3.2% in 2025 and 3.1% in 2026

□ Global growth in 2025 is supported by front-loading of exports to the United States ahead of implementation of higher tariff rates on trade, improved financial conditions, and strong consumer spending. In 2026, growth is projected to slow down on account of higher effective tariff rates and elevated trade policy uncertainty.

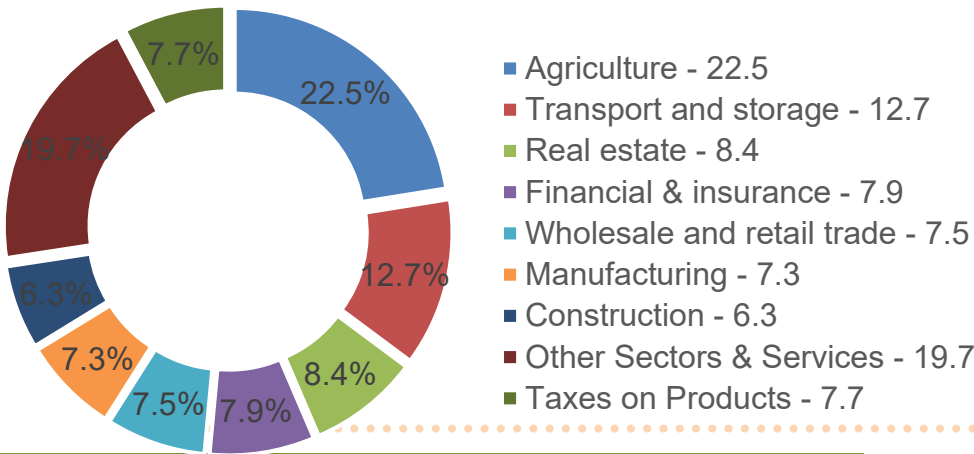
Economy	Actual		Projections	
	2023	2024	2025	2026
World	3.5	3.3	3.2	3.1
Advanced Economies	1.8	1.8	1.6	1.6
<i>Of which: USA</i>	2.9	2.8	2.0	2.1
<i>Euro Area</i>	0.5	0.9	1.2	1.1
<i>Japan</i>	1.4	0.1	1.1	0.6
Emerging and Developing Economies	4.7	4.3	4.2	4.0
<i>Of which: China</i>	5.4	5.0	4.8	4.2
<i>India</i>	9.2	6.5	6.6	6.2
Sub-Saharan Africa	3.6	4.1	4.1	4.4
<i>Of which: South Africa</i>	0.8	0.5	1.1	1.2
<i>Nigeria</i>	2.9	4.1	3.9	4.2

- At the regional level, growth in **Sub-Saharan Africa** is expected at **4.1% in 2025 and 4.4% in 2026.**
- This outlook reflects modest optimism that improved global financial conditions and easing trade tensions, may support gradually stronger momentum into the medium term.

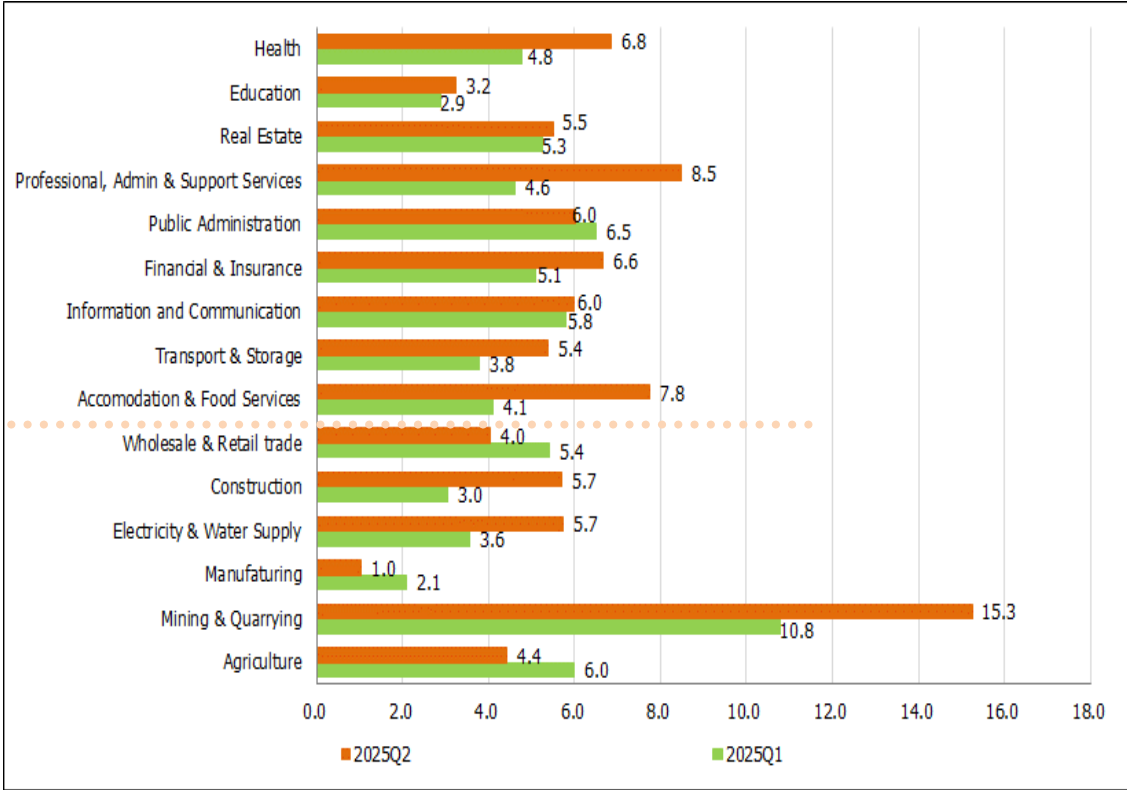
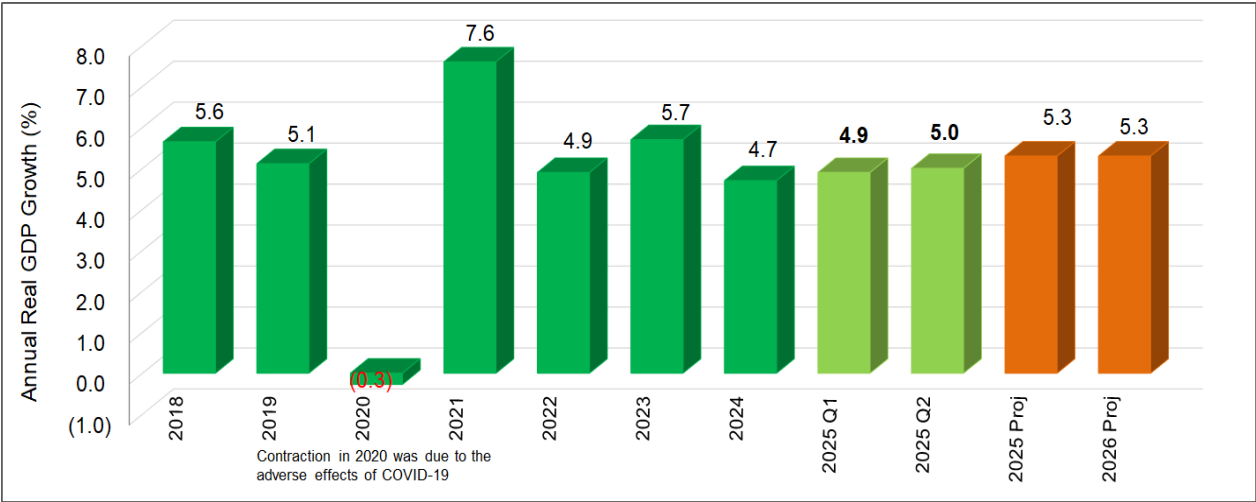
2.3: Kenya's economy continues to record strong and resilient Growth

Kenya's highly diverse economy with a growth of 4.7% in 2024...(% of total, 2024)

...Economic growth of 4.9% and 5.0% in first and second quarters of 2025, respectively, supported services sector, (Fastest Growing Sectors, % Growth)



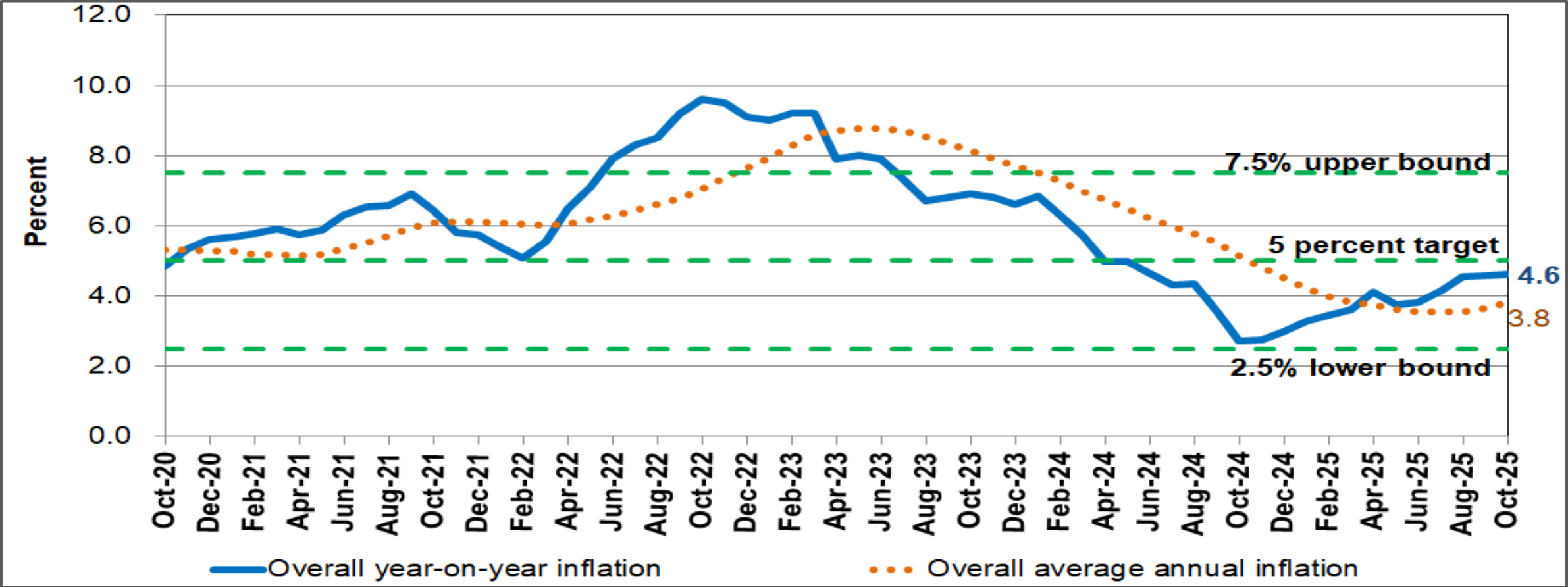
Real GDP Growth Rate (%)



- ❑ All economic sectors recorded positive growth rates in the first half of 2025 but with varying magnitudes.
- ❑ Growth in the first half of 2025 was also supported by rebounds in Construction and Mining activities after contracting in 2024

2.4: Inflation remained below the mid-point of the policy target range at 4.6% in October 2025 - a decline from a peak of 9.6% in October 2022.

- ❑ Decline mainly reflects the lagged impact of tight monetary policy, significant declines in energy prices and continued easing of food prices.
- ❑ CBK has gradually eased monetary policy by lowering the CBR from 13% in July 2024 to 9.25% in October 2025.



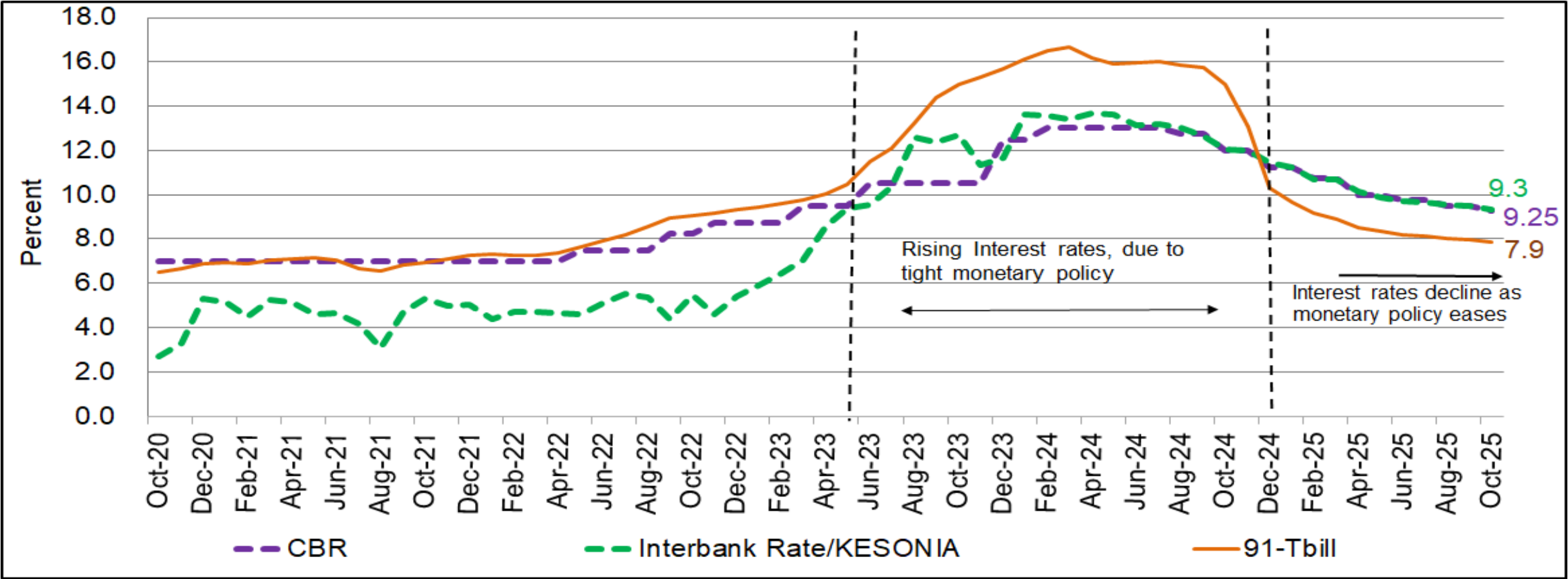
2.5: Both Energy and Food prices declined in October 2025 as compared to November 2023.

❑Energy and food prices increased slightly in the year to October 2025

No.	Commodity	Nov 2023	Oct. 2024	Oct. 2025	%Change (Nov.2023- Oct. 2025)	%Change (Oct.2024- Oct.2025)
1	1 kg of sugar	217.96	150.33	184.35	-15.42	22.63
2	1 kg Maize Grain-loose	71.98	59.84	68.05	-5.46	13.72
3	2 Kg Fortified maize Flour	182.66	144.64	168.56	-7.72	16.54
4	1 Kg Potatoes(Irish)	103.62	94.90	92.69	-10.55	-2.33
5	13 Kg Gas/LPG	3,031.82	3,183.29	3,133.49	3.35	-1.56
6	50 KWh of electricity	1,372.64	1,278.43	1,315.80	-4.14	2.92
7	200 kWh of electricity	6,620.68	5,728.40	5,764.15	-12.94	0.62
8	1 litre of petrol	217.97	181.33	185.59	-14.86	2.35
9	1 litre of diesel	204.21	168.82	172.64	-15.46	2.26

2.6: Interest rates continue to declined in line with easing of the monetary policy

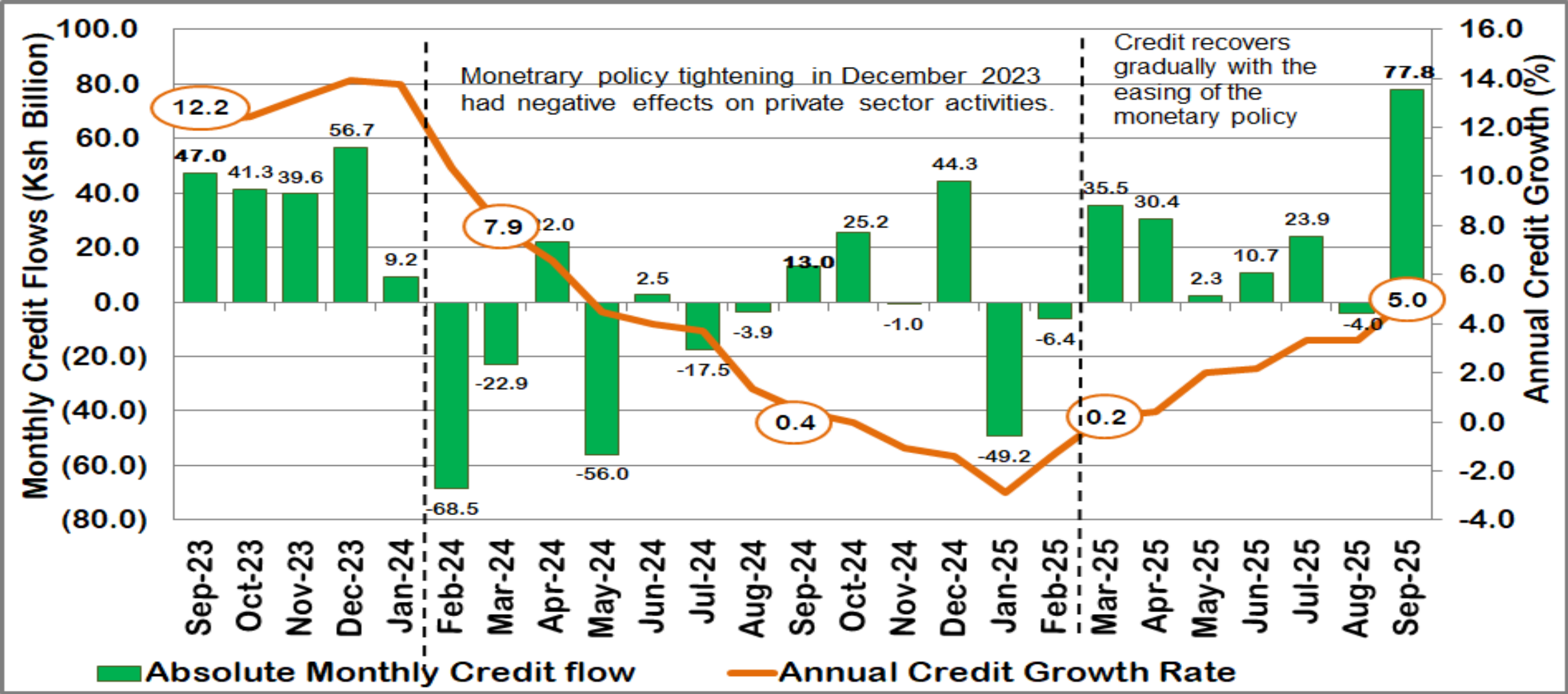
- ❑ **KESONIA** (interbank rate) declined to 9.3% in October 2025 compared to 12.1% in October 2024 while the **91-day Treasury Bills** rate declined to 7.9% from 15.0% over the same period.



- ❑ Lending Rates declined to **15.1 percent** in **September 2025** from a peak of **17.2 percent** in **November 2024** and are expected to decline further.

2.7: Credit to the private sector is gradually recovering with decline in lending rates....

- Growth in private sector credit from the banking system continued to improve and stood at **5.0% in September 2025** compared to -2.9% in January 2025

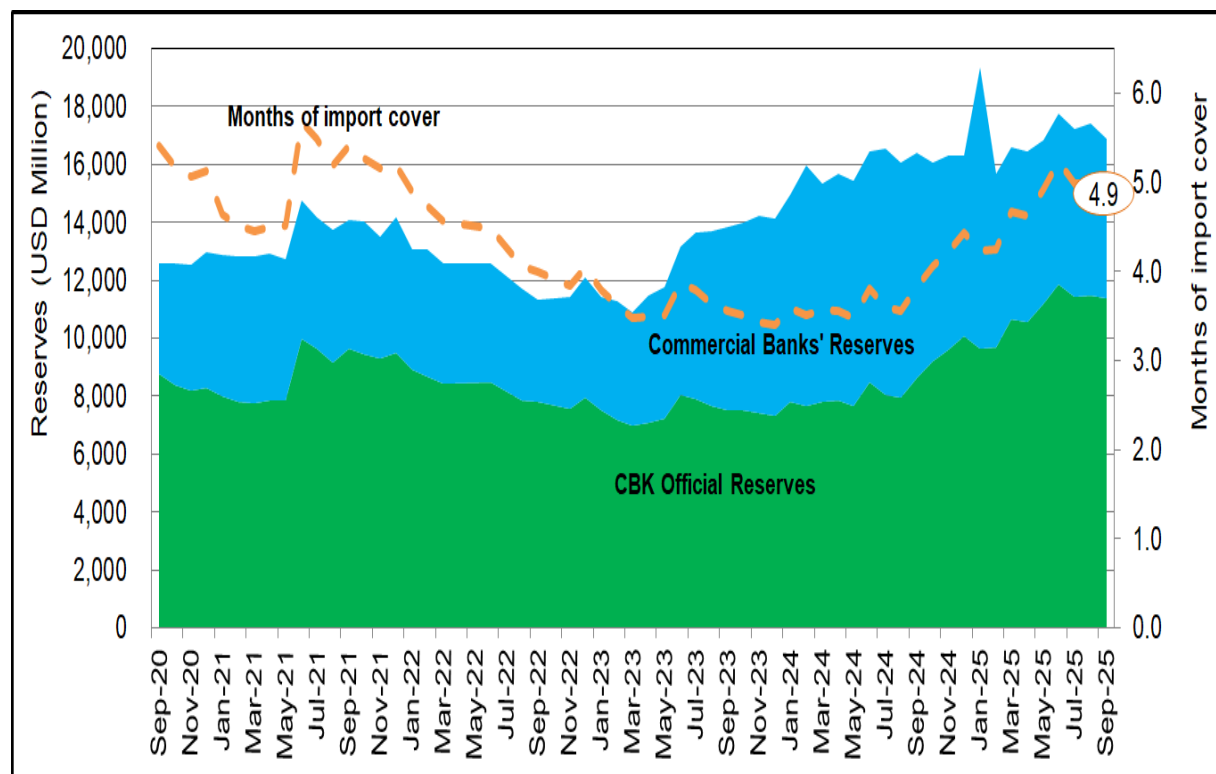


2.8: Resilient external sector and stability in the foreign exchange market

Current account deficit remained stable at 2.5% of GDP by September 2025 compared to 1.4% in September 2024:

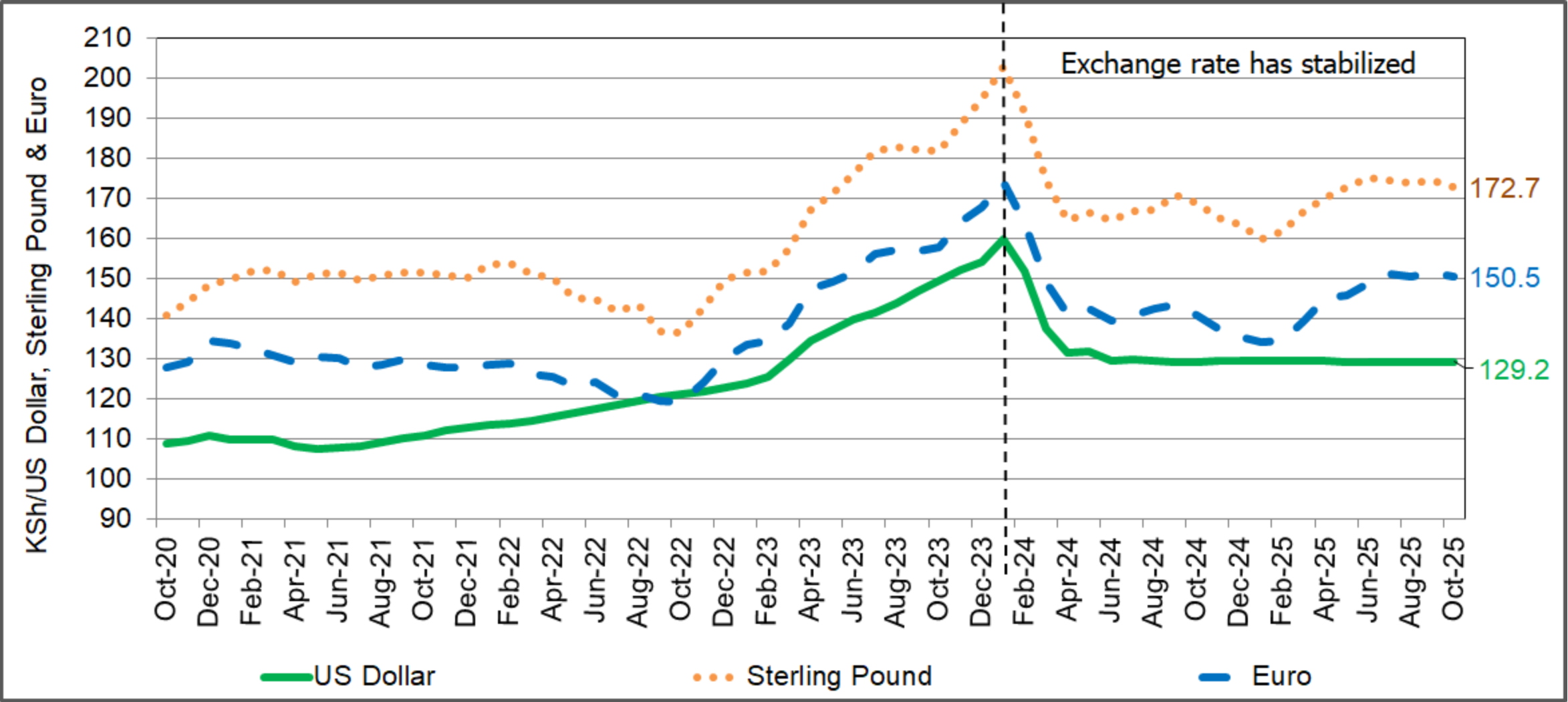
- **Goods exports** increased by 4.0% due to higher domestic exports, driven by horticulture, coffee, manufactured goods, and apparel.
- **Services receipts** increased by 7.6%, mainly supported by increased receipts from travel services,
- **Diaspora remittances** increased by 7.6 percent to USD 5,080 million.
- **Goods imports** rose by 10.9%, reflecting increases in intermediate and capital goods imports.

Official FX reserves was **USD 11.4 billion (4.9 months of import cover)** by end September 2025 compared to USD 8.6 billion (3.8 months of import cover) over the same period in 2024

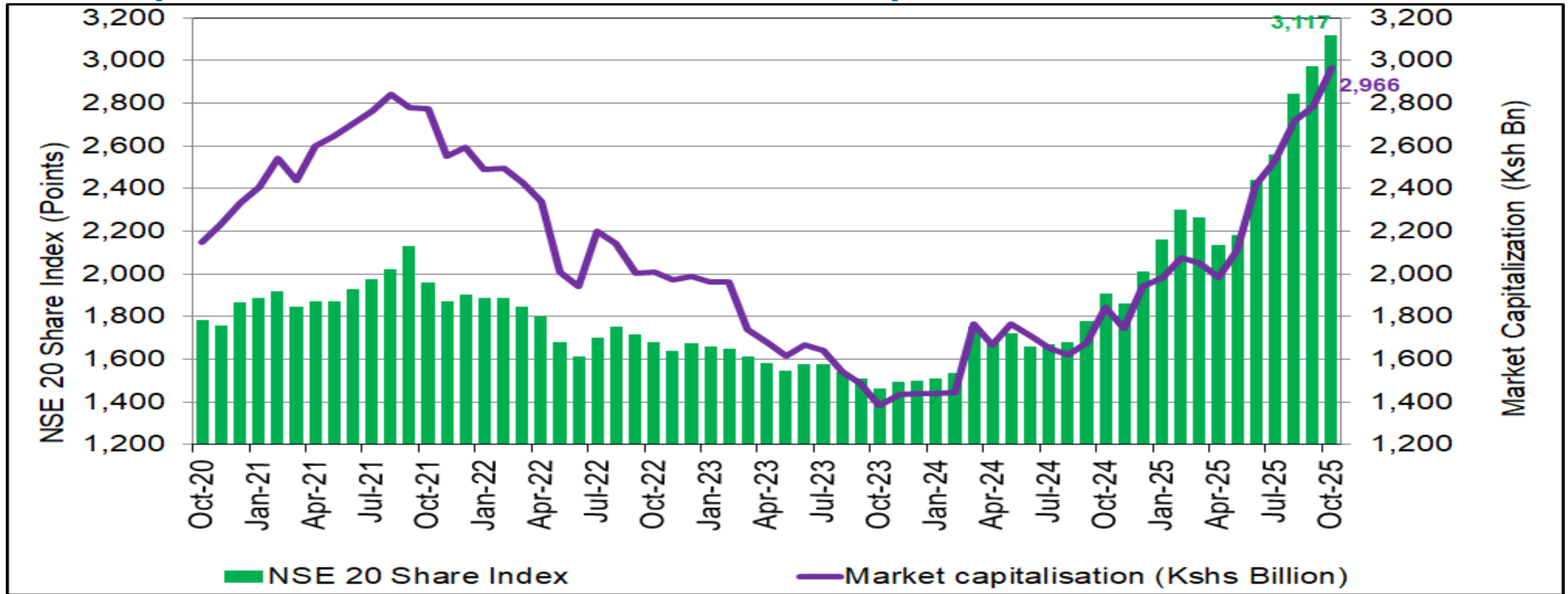


2.9: Kenya Shilling to the US Dollar rate has remained stable

❑ The exchange rate stabilized at **Ksh 129.2** to the dollar in **October 2025** same as in October 2024 and a peak of Ksh 160.8 by end January 2024.



2.10: Capital market indicators continue to improve



- ❑ Investor confidence has strengthened thereby improving activities in the Nairobi Securities Exchange (NSE).
- ❑ **The NSE 20 Share Index** improved by **63.6%** to **3,117 points** in **October 2025**, up from 1,906 points in October 2024. Similarly, **market capitalization** expanded by **61.1%** to **KSh 2,966 billion** from KSh 1,841 billion over the same period.

3.0:IMPLEMENTATION OF FY 2025/26 BUDGET

A decorative graphic consisting of a horizontal dotted line and a vertical dotted line intersecting at the center of the word 'BUDGET'.

3.1: FY 2025/26: Summary of Budget Performance by end September 2025

- ❑ Budget execution in FY 2025/26 has progressed well but constrained by slow adoption of e-procurement, revenue shortfalls against targets as well as expenditures pressures.
- ❑ By end September 2025, revenue collection was below target by **Ksh 83.6 billion** comprising a shortfall in **ordinary revenue** of **Ksh 90.0 billion** and a slight over collection of **ministerial appropriation in aid of Ksh. 6.4 billion**.
 - Total revenues grew by **1.7%** by end September 2025 compared with a growth of **10.8%** by end September 2024 while ordinary revenues contracted by **2.9%** compared with a growth of **10.1%** over the same period.
- ❑ **Expenditures** were above target by **Ksh 5.9 billion** largely on account of above target disbursement of development expenditure (Ksh 28.1 billion), recurrent expenditure (Ksh 25.2 billion). Transfer to counties recorded a shortfall of Ksh 47.4 billion.
- ❑ **Fiscal deficit inclusive of grants for the first quarter of FY 2025/26 was Ksh 280.4 billion (1.5% of GDP) against a target of Ksh 189.5 billion (1.1%).**
- ❑ The deficit was financed by net foreign borrowing amounting to Ksh 98.1 billion (0.5% of GDP) and net domestic financing of Ksh 339.7 billion (1.8% of GDP).

3.2: Total revenues by end September 2025, amounted to Ksh 709.6 billion resulting to an underperformance of Ksh 83.6 billion

	September 2024			September 2025				
	Actual	% of GDP	% Growth	Target	Per. Act.	Deviation	% of GDP	% Growth
A. Total Revenue (1+2)	697.5	3.9	10.8	793.2	709.6	(83.6)	3.7	1.7
1. Ordinary Revenue	590.9	3.3	10.1	663.5	573.5	(90.0)	3.0	-2.9
Import Duty	34.6	0.2	6.7	41.2	40.5	(0.8)	0.2	16.9
Excise Duty	68.1	0.4	(0.6)	81.8	73.9	(7.9)	0.4	8.4
Income Tax	258.6	1.4	6.0	317.7	252.6	(65.1)	1.3	-2.3
PAYE	136.3	0.8	10.8	148.8	136.6	(12.1)	0.7	0.2
Other Income Tax	122.3	0.7	1.2	168.9	116.0	(52.9)	0.6	-5.2
VAT	151.3	0.8	(1.1)	186.6	173.4	(13.3)	0.9	14.6
VAT Local	74.4	0.4	(1.9)	92.4	87.3	(5.1)	0.5	17.4
VAT Imports	77.0	0.4	(0.3)	94.2	86.0	(8.2)	0.4	11.8
Other Revenue	78.1	0.4	101.5	36.1	33.1	(3.0)	0.2	-57.6
2. Appropriation In Aid	106.6	0.6	14.8	129.8	136.1	6.4	0.7	27.7
B. External Grants	1.4	0.0	(60.4)	4.4	2.9	(1.5)	0.0	0.0
Total Revenue and External Grants (A+B)	698.8	3.9	10.4	798	713	(85.1)	3.7	2.0

- The underperformance was mainly on account of **shortfall** registered in **ordinary revenue of Ksh 90.0 billion (All major tax heads underperformed)**.
- Ministerial Appropriation-in-Aid collection at Ksh 136.1 billion was above target by **Ksh 6.4 billion**

3.3: Total expenditure by end September 2025 at Ksh 993.0 billion was above target by Ksh 5.85 billion

- Above target disbursements in: **Recurrent expenditure-Ksh 25.2 billion, Development expenditure - Ksh 28.1 billion. County Allocation below target by Ksh 47.4 billion.**

	2024/2025 Actual	2025/2026		Deviation	% Growth
		Actual*	Targets		
1. RECURRENT	678,110	785,685	760,476	25,209	15.9
Domestic Interest	176,834	201,010	196,235	4,775	13.7
Foreign Interest	72,269	71,990	80,034	(8,044)	(0.4)
Pensions & Other CFS	59,515	29,961	44,192	(14,231)	(49.7)
Contribution to Civil Servants' Pension	10,622	9,683	8,611	1,072	(8.8)
Wages and Salaries	143,459	152,138	164,321	(12,184)	6.0
Operation and Maintenance	215,411	320,904	267,083	53,820	49.0
O/W: Appropriation-in-Aid	71,843	82,012	81,835	177	14.2
2. DEVELOPMENT	136,767	141,189	113,106	28,083	3.2
Development Projects (Net)	98,559	76,994	52,010	24,984	(21.9)
Payment of Guaranteed Loans	-	-	-	-	-
Appropriation-in-Aid	38,207	64,196	61,096	3,100	68.0
3. County Governments	63,595	66,131	113,574	(47,443)	4.0
4. Parliamentary Service	7,420	10,287	47,967	(37,680)	38.6
5. Judicial Service	4,214	6,550	26,867	(20,316)	55.4
6. Equalization Fund	-	-	4,236	(4,236)	-
7. CF	-	-	-	-	-
TOTAL EXPENDITURE	890,106	993,005	987,155	5,850	11.6

3.4: The major challenges in the implementation of the Budget for FY 2025/26

Implementation of the FY 2025/26 budget has faced a number of challenges, notably:

- ❑ **Revenue Shortfalls:** There has been persistent underperformance in ordinary revenue collection amounting to **Ksh 90.0 billion**. This reflects slower-than-projected tax receipts largely due to compliance gaps, administration challenges and the impact of revenue-reducing measures introduced by the National Assembly in the Finance Act 2025.
- ❑ **Implementation of Collective Bargaining Agreements:** The settlement of pending and newly negotiated CBAs for public sector employees are likely to increase the wage bill beyond initial budget allocations, limiting fiscal flexibility.
- ❑ **Other additional expenditure requests** have put additional pressures on the already constrained fiscal space and we expect to cut spending significantly in the upcoming supplementary budget.
- ❑ **Emergency interventions for floods:** Unanticipated flooding in several parts of the country has prompted requests for emergency funding to support disaster response. However, these interventions are yet to be fully costed but are additional spending pressures that cannot be ignored.

3.5: FY 2025/26 Budget Outlook

	FY 2023/24	FY 2024/25			FY 2025/26
	PREL	BUDGET	SUPP III	PREL	BUDGET
TOTAL REVENUE	2,702.7	3,343.2	2,985.6	2,923.6	3,321.7
<i>% of GDP</i>	<i>17.3</i>	<i>18.5</i>	<i>17.1</i>	<i>17.0</i>	<i>17.5</i>
Ordinary revenue	2,288.9	2,917.2	2,496.2	2,420.2	2,754.7
<i>% of GDP</i>	<i>14.6</i>	<i>16.2</i>	<i>14.3</i>	<i>14.1</i>	<i>14.5</i>
Ministerial Appropriation in Aid	413.7	426.0	489.4	503.4	566.9
Grants	22.0	51.8	47.2	33.3	47.2
TOTAL EXPENDITURE	3,605.2	3,992.0	4,045.1	3,975.9	4,269.9
<i>% of GDP</i>	<i>23.0</i>	<i>22.1</i>	<i>23.2</i>	<i>23.2</i>	<i>22.5</i>
Recurrent Expenditure	2,678.4	2,841.9	2,989.1	2,948.4	3,134.1
of which CFS	1,018.8	1,213.5	1,224.1	1,206.2	1,337.3
Ministerial Net	1,372.7	1,344.8	1,443.5	1,441.5	1,462.5
Development	546.4	705.5	602.1	582.9	651.0
County Transfer	380.4	444.5	454.0	444.6	484.8
BALANCE INCLUSIVE OF GRANTS	(880.5)	(597.0)	(1,012.3)	(1,019.1)	(901.0)
<i>% of GDP</i>	<i>(5.6)</i>	<i>(3.3)</i>	<i>(5.8)</i>	<i>(5.9)</i>	<i>(4.7)</i>
TOTAL FINANCING	818.3	597.0	1,012.3	1,034.2	901.0
NET FOREIGN FINANCING	222.7	333.8	186.5	179.7	287.4
NET DOMESTIC FINANCING	595.6	263.2	825.8	854.5	613.5
PRIMARY BALANCE	22.4	412.9	(15.5)	(39.1)	196.7
<i>% of GDP</i>	<i>0.1</i>	<i>2.3</i>	<i>(0.1)</i>	<i>(0.2)</i>	<i>1.0</i>
Nominal GDP	15,666.6	18,054.3	17,434.5	17,157.3	19,006.2

In FY 2025/26

- ❑ Revenues are projected at Ksh 3,321.7 billion (17.5% of GDP). Of this, ordinary revenue is Ksh 2,754.7 billion (14.5% of GDP).
- ❑ Expenditures are projected at KSh 4,269.9 billion (22.5% of GDP) of which transfers to **County Governments** is projected at **Ksh 484.8 billion**
- ❑ Fiscal deficit is projected at Ksh 901.0 billion (4.7% of GDP).

4.0:FY 2026/27 PROPOSED BUDGET



4.1: FY 2026/27 Proposed Budget

- ❑ In the FY 2026/27, **total revenue** including Appropriation-in-Aid (AiA) is projected at **KSh 3,583.4 billion (17.1 percent of GDP)**.
 - Of this, ordinary revenue is projected at **KSh 2,998.3 billion** (14.3 percent of GDP). This revenue performance will be underpinned by the on-going reforms in policy and revenue administration.
- ❑ **The overall expenditure and net lending** is projected at **KSh 4,649.8 billion (22.2 percent of GDP)** comprising:
 - recurrent expenditure of **KSh 3,437.2 billion** (16.4 percent of GDP);
 - development expenditure of **KSh 761.0 billion** (3.6 percent of GDP);
 - **transfer to Counties of KSh 446.6 billion and Contingency Fund of KSh 5.0 billion.**
- ❑ **The resulting fiscal deficit** including grants of **KSh 1,017.6 billion (4.9 percent of GDP)** in FY 2026/27 will be financed by:
 - a net external financing of KSh 241.8 billion (1.2 percent of GDP) and a net domestic financing of KSh 775.8 billion (3.7 percent of GDP).

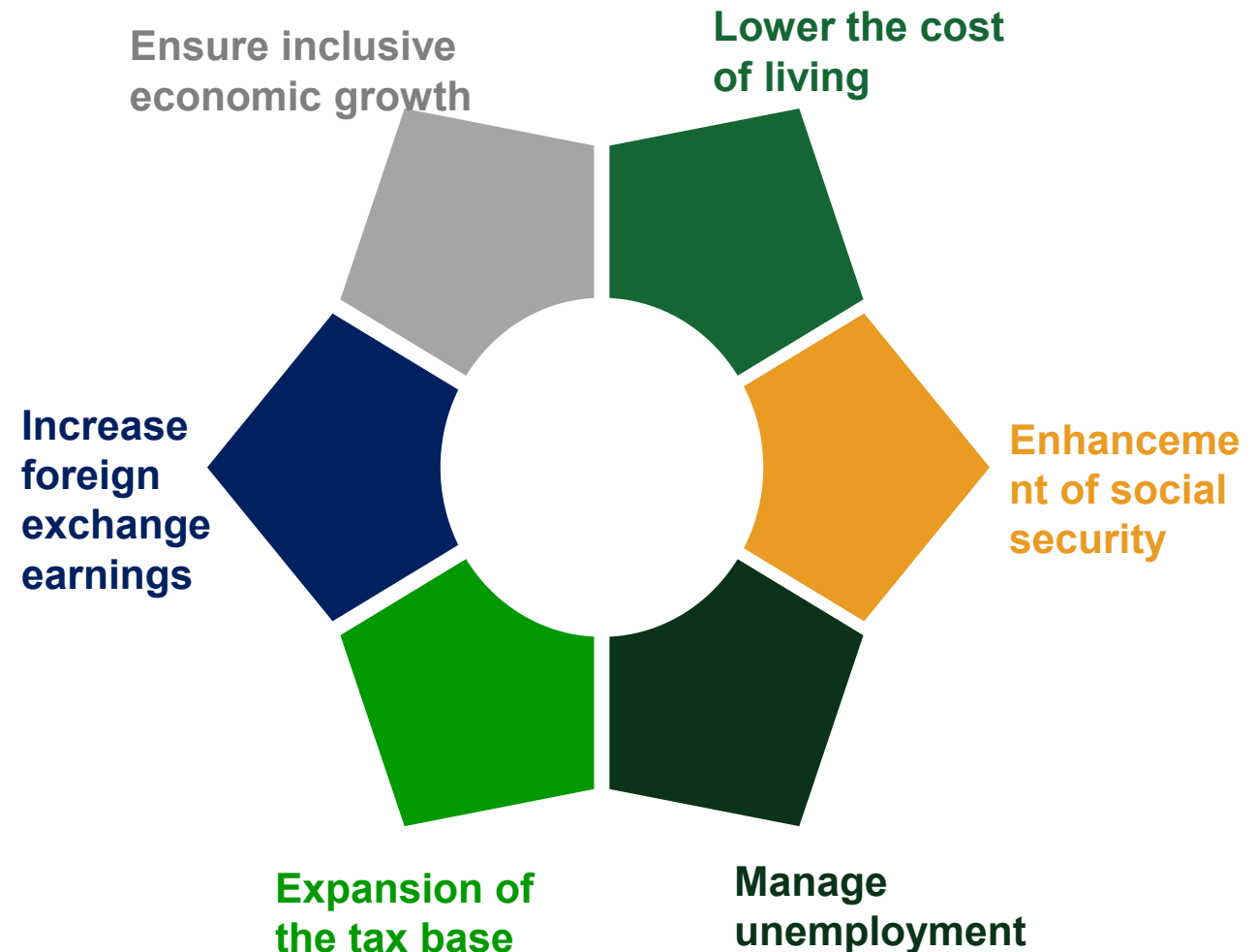
4.2: Resource Allocation for FY 2026/27 and Medium Term Budget

- ❑ Resource allocation for the BETA priority programmes continue to be undertaken through a value chain approach under **five sectors namely:**

- **Finance and Production; Infrastructure; Environment and Natural Resources; Social Sectors; and Governance and Public Administration.**

- ❑ **The nine (9) identified key value chain areas** for implementation include: Leather; Cotton; Dairy; Edible Oils; Tea; Rice; Blue Economy; Natural Resources (including Minerals and Forestry); and Building Materials.

Through the priority strategy, the following objectives will be achieved



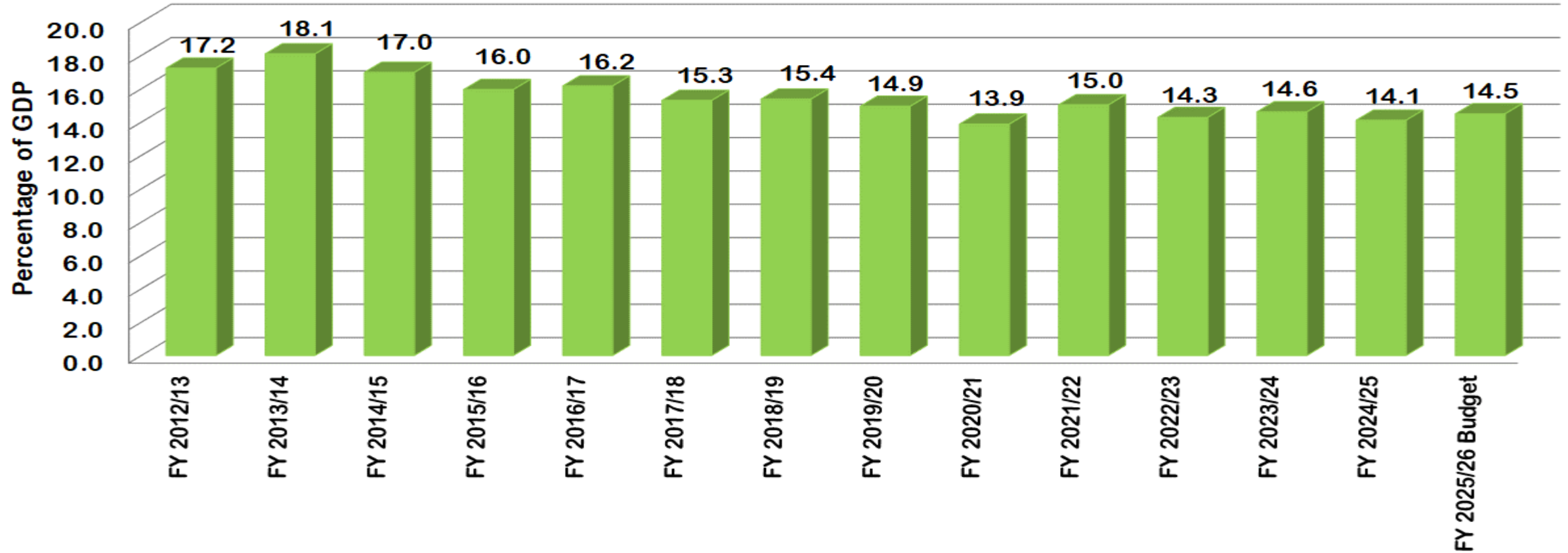
4.3: The ministerial budget ceiling for the FY 2026/27 is projected at KSh 2,818.6 billion. This comprises of KSh 1,992.9 billion in recurrent expenditure and KSh 825.7 billion in development expenditure. Sectoral allocations are as follows:

- i. Education: KSh 767.2 billion (27.2%)**
- ii. Energy, Infrastructure & ICT: KSh 566.4 billion (20.1%)**
- iii. Public Administration: KSh 380.9 billion (13.5%)**
- iv. Governance, Justice, Law & Order: KSh 330.6 billion (11.7%)**
- v. National Security: KSh 284.3 billion (10.1%)**
- vi. Health: KSh 146.8 billion (5.2%)**
- vii. Environment, Water & Natural Resources: KSh 104.7 billion (3.7%)**
- viii. Agriculture & Rural Development: KSh 89.7 billion (3.2%)**
- ix. Social Protection, Culture & Recreation: KSh 87.2 billion (3.1%)**
- x. General Economic Affairs: KSh 60.8 billion (2.2%)**

☐ **Zero-Based Budgeting approach** should guide prioritization and allocation of the scarce resources to programmes and projects in the FY 2026/27.

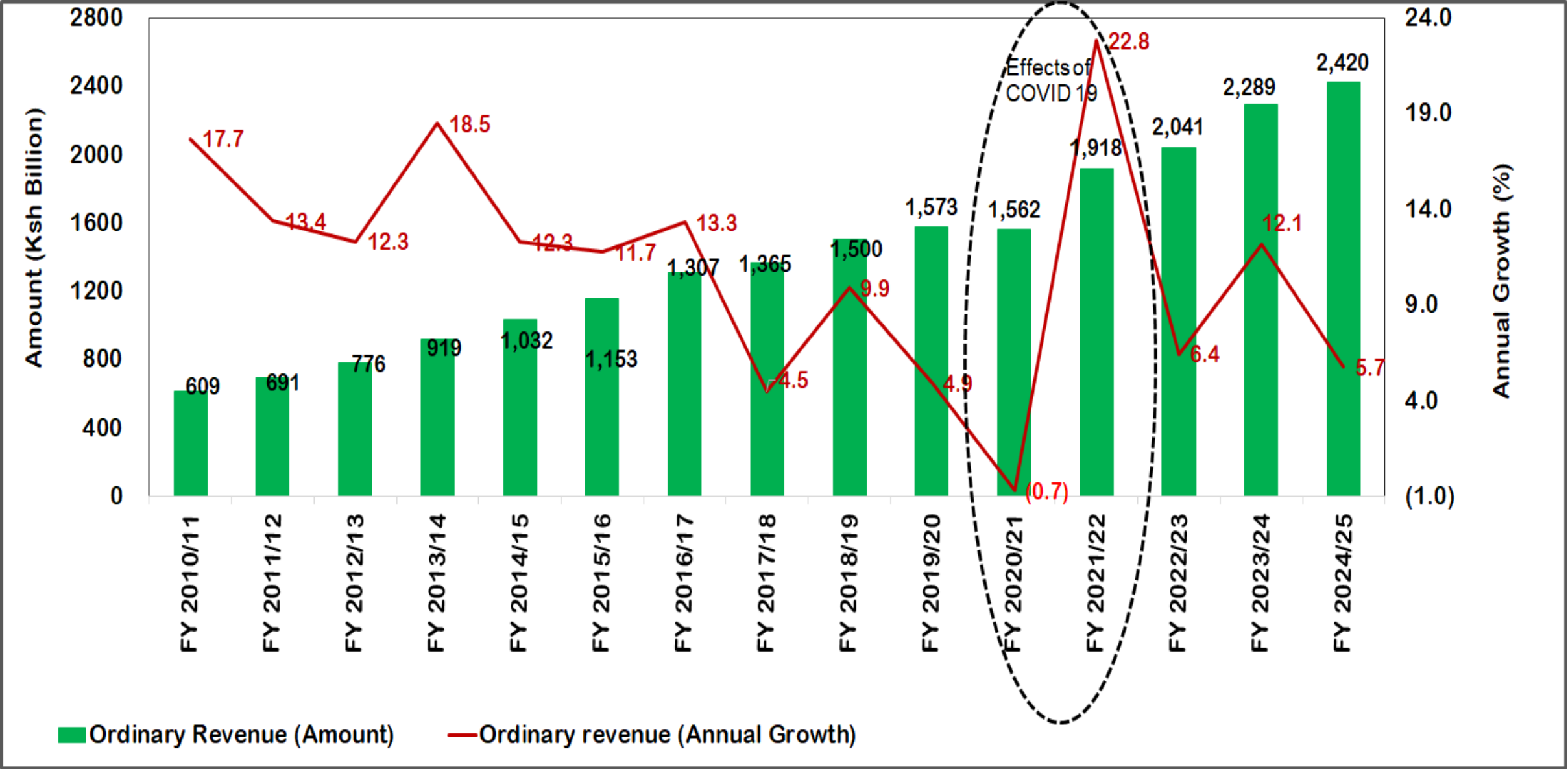
5.0:MEDIUM TERM OUTLOOK: SHRINKING FISCAL SPACE

5.1: Declining ordinary revenue as a percent of GDP indicates that Revenue collection is not keeping pace with Economic Growth.



- Ordinary Revenue has declined as a share of GDP from a high of 18.1% in FY 2013/14 to 14.5% in FY 2025/26 Budget.
- This is attributed to tax compliance gaps, increase in tax expenditure, higher growth in low tax yielding sector (agriculture).

5.2: Revenues continue to rise each year but at a slowing pace, highlighting the need to strengthen revenue mobilization and improve collection efficiency.



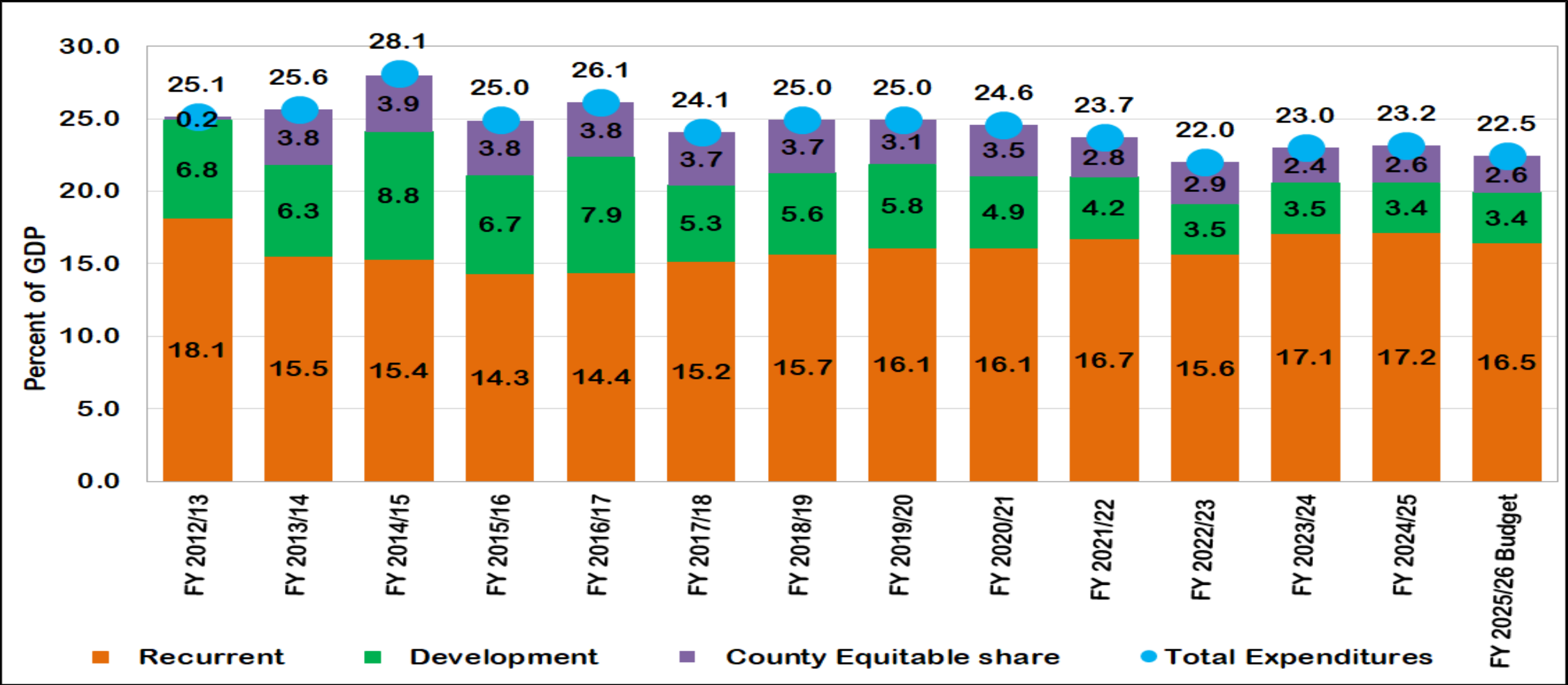
5.3: Exchequer Funded Spending accounts for the largest share of ordinary revenue.

FY	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	FY 2024/25	FY 2025/26
	Prel Act	Prel Act	Prel Act	Prel Act	Prel Act	Prel Act	Prel Act	Prel Act	Prel Act	Prel Act	Prel Act	Supp III	Budget
						% of Ordinary Revenue							
Ordinary Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Consolidated Fund Services	16.4	20.5	23.5	25.8	28.7	29.9	33.5	39.1	37.9	41.6	45.3	50.0	48.5
Interest Payments	13.2	16.7	18.7	20.8	23.7	25.1	27.8	31.7	30.1	33.7	36.7	40.1	39.8
Pensions	3.0	3.6	4.6	4.9	4.8	4.7	5.7	7.4	7.8	7.3	7.8	9.1	8.7
Guaranteed Loans	0.2	0.2	0.2	0.2	0.2	0.2	0.0	-	-	0.6	0.8	0.8	-
2. National Government	85.9	85.1	86.4	88.0	79.7	81.3	87.2	87.9	78.3	73.4	70.9	66.7	62.5
a. Recurrent	65.1	61.7	61.1	60.1	62.7	62.8	64.6	67.7	63.1	60.5	60.0	58.0	53.3
Wages & Salaries	30.6	28.9	26.7	25.8	28.5	27.8	28.6	31.6	27.4	26.4	25.1	25.1	23.8
Free Day Secondary education	2.3	2.7	2.6	2.2	3.9	3.9	3.7	3.8	3.3	3.3	3.1	2.2	1.9
Free Primary Education	1.1	1.3	1.1	0.9	1.0	1.1	0.9	0.8	0.6	0.7	0.5	0.3	0.5
Junior Secondary School	-	-	-	-	-	-	-	-	-	-	1.3	1.2	1.0
HELB	-	0.7	0.8	0.7	0.7	0.7	1.1	0.9	0.8	0.8	1.6	1.5	1.5
Social Protection	-	-	-	1.2	1.3	1.8	1.6	1.7	1.4	1.3	1.2	1.6	1.3
Defense and NIS	10.2	9.1	9.9	10.0	9.2	9.0	8.8	10.1	9.2	8.4	9.0	9.3	8.7
Others	20.9	19.0	20.0	19.4	18.0	18.6	20.0	18.9	20.5	19.5	18.2	16.8	14.6
b. Domestic funded Development	20.8	23.4	25.3	27.8	16.9	18.5	22.6	20.2	15.1	13.0	10.9	8.8	9.2
4. County Equitable Share	20.7	22.0	21.4	21.5	22.1	20.9	18.2	22.2	17.7	19.6	15.5	16.8	14.7

❑ CFS is taking **about 48.5%** of ordinary revenue in the FY 2025/26, up from just **16.4%** in 2013/14, pensions and interest payments tripling their share of revenues to **8.7%** and **39.8%** by FY 2025/26 from FY 2013/14.

❑ In the same period the share of GoK funded development projects has declined from **21%** to **9.2%**

5.4: Recurrent spending takes the lion's share of total expenditures



❑ Expenditure has remained elevated in recent years, reflecting sustained government spending pressures despite efforts at fiscal consolidation.

6.0: Medium Term Outlook: The Case for More Fiscal Reforms



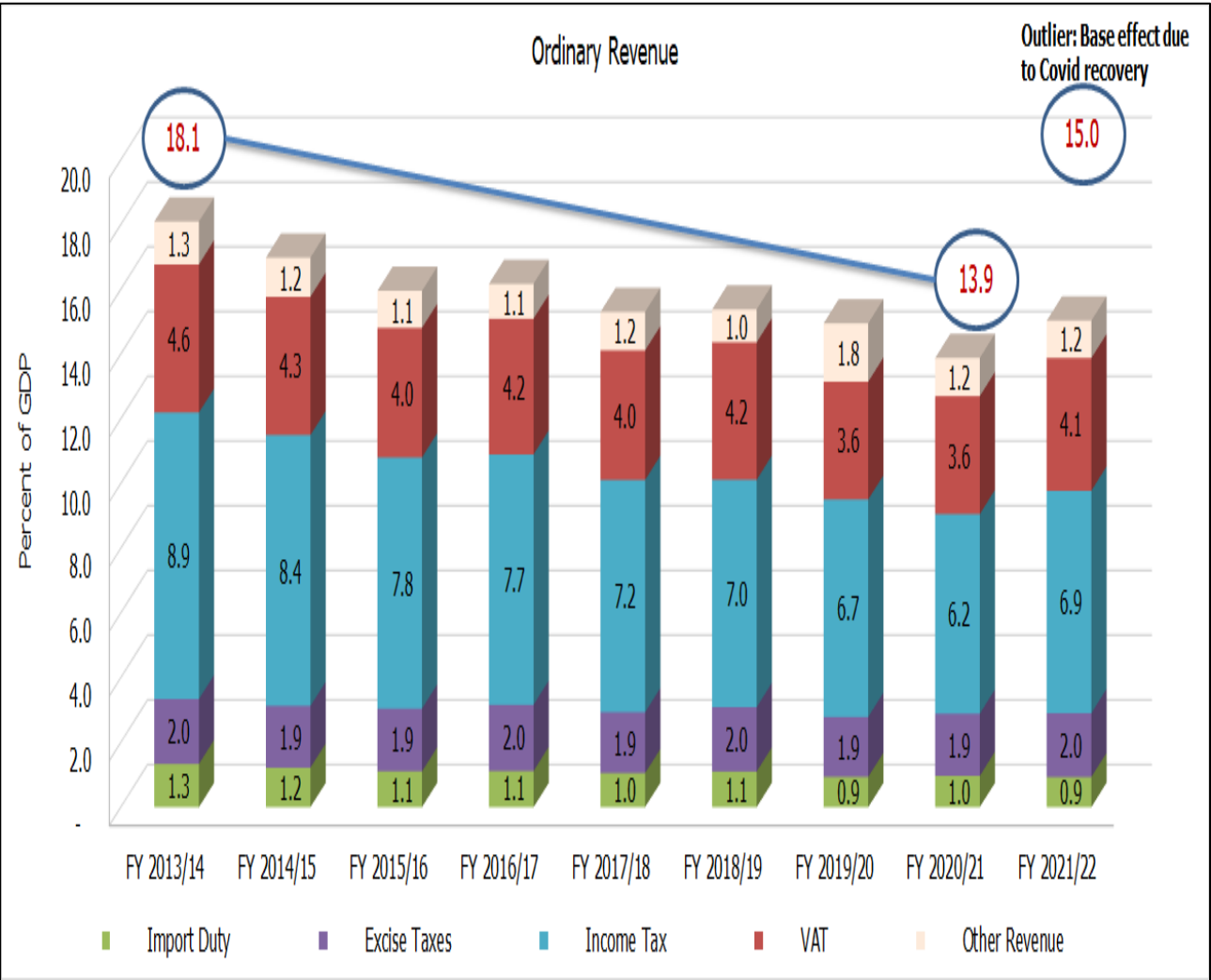
6.1:Reforms on Revenue Mobilization over the Medium Term

- ❑ Both **Tax Policy** and **Tax Administration** measures are important. Implementation of the **Medium Term Revenue Strategy (MTRS)** to progressively strengthen tax revenue mobilization efforts to 20.0% of GDP over the medium term
- ❑ **On Tax Administration:** The focus is to efficiently collect revenue and seal leakages. This will be achieved through **automation and digitalization at KRA** to enhance tax compliance, expand tax base, minimizing tax expenditures, sealing revenue loopholes and enhance the efficiency of tax system
- ❑ Focus on **non-tax revenue** measures by MDAs.

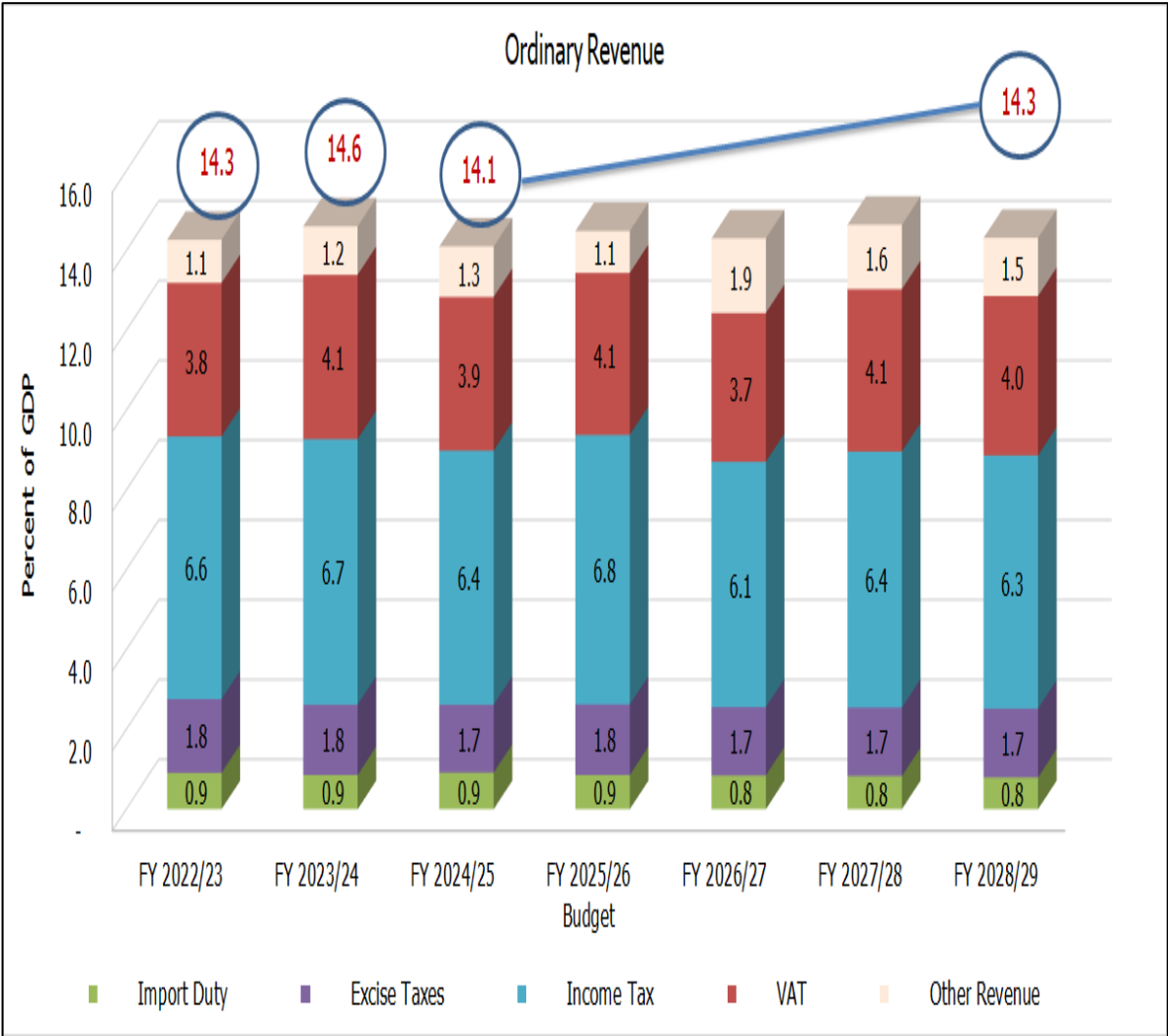
6.2: The targeted revenue reforms will reverse declining trend in revenues as % of GDP

❑ Reduction in fiscal deficit and running of primary surpluses

Declining revenue as % of GDP from FY 2013/14 to FY 2021/22



Reversing the trend from FY 2022/23 to FY 2028/29



6.3: Expenditure reforms to continue reducing total expenditures as a % of GDP over the medium term

- ❑ Focus is on **expenditure rationalization** and **enhancing transparency and accountability** in public spending. To strengthen expenditure control and improve effectiveness in public spending, the Government will:
 - a) Continue to **rationalize and reduce non-essential expenditures**;
 - b) **Prioritize ongoing projects for completion** before introducing any new project;
 - c) Limitation of in-year adjustments to the Budget through re-allocations and additional funding request to enhance budget credibility;
 - d) **Use of end-to-end e-procurement system** to maximize value for money and enhance transparency in procurement processes;
 - e) **Scale up the use of the Public Private Partnerships** framework for commercially viable projects to attract private sector participation in service delivery; and
 - f) **Unified Human Resource/Integrated Payroll System** to consolidate Payroll and HR management across the public sector
 - g) **Ongoing digitization and re-engineering** of the pension management system.

6.4: Public Finance Management Reforms

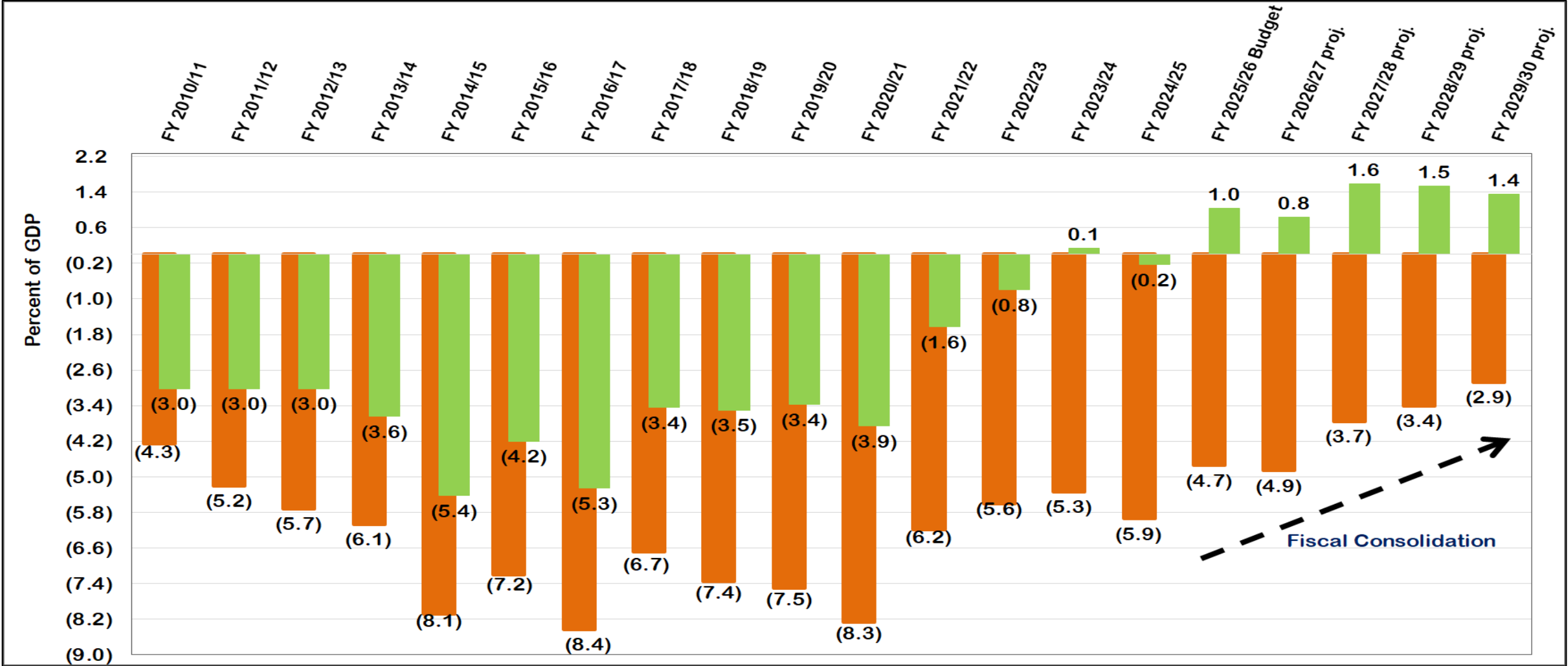
To further strengthen public finance management, we are:

- ❑ Fast tracking migration from **Cash Basis** to **Accrual Basis** of accounting;
- ❑ Entrenching the **Zero-Based Budgeting** to re-orient the budgeting and expenditure framework of the Government;
- ❑ Implementing the **Treasury Single Account** to improve cash management; and
- ❑ Optimal assets utilization through **Assets and Inventory Management** Modules in the IFMIS for all MDAs.

SOE Reforms

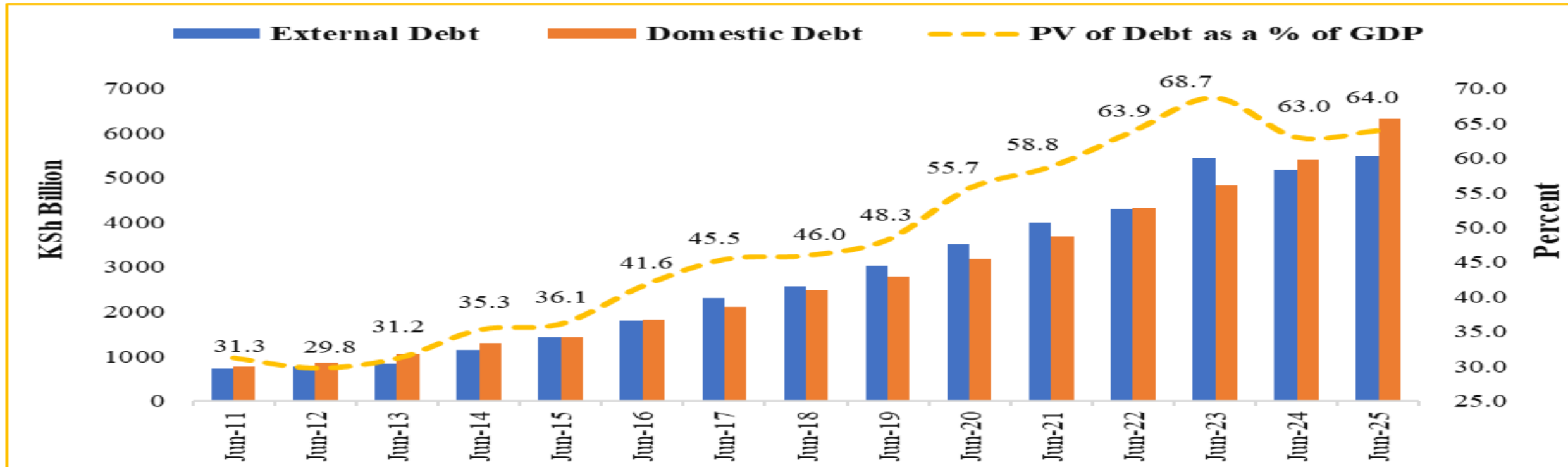
- ❑ Continued implementation of reforms to streamline **State Corporations** by addressing operational and financial inefficiencies, enhancing governance and service delivery, and reducing reliance on exchequer support through measures such as mergers, dissolutions, restructuring, and declassification.

6.5: With the above reforms fiscal position continues to strengthen in line with the Fiscal Consolidation Plan. Fiscal deficit moves from an estimated 5.9% of GDP in FY 2024/25 to 2.9% of GDP over the medium term with strong primary surplus so as to stabilise growth in public debt.



6.6: Public Debt

- ❑ Public debt rose in 2023 amid currency depreciation and higher borrowing costs but had eased by end-June 2024 on exchange rate appreciation. Total Public debt at by end June 2025, was Ksh 11.8 trillion or 67.8% of GDP and was 64.0% of GDP in PV terms. By end June 2025, the public debt stock comprised of 46.5% in external debt and 53.5% in domestic debt.
- ❑ Public debt/GDP ratio is projected to decline to the debt anchor of 55 ± 5 percent of GDP in PV terms by 2028, supported by our medium-term fiscal consolidation efforts



6.7: Strong support by Development Partners for Policies and Structural Reforms under Implementation

- ❑ Kenya continues to work with the **IMF** and the **World Bank** for continued support to policies and structural reforms under implementation.
- ❑ Continued implementation of policies and programmes under the Bottom-Up Economic Transformation Agenda has continued to achieve the desired outcomes. As a result:
 - ▶ **Moody's Ratings Rating Agency** - On 24th January 2025 Rated Kenya as Caa1 and upgraded Kenya's economic outlook from negative to Positive.
 - ▶ **Fitch Rating Agency** – On 25th July 2025 Affirmed Kenya's Rating at 'B-' with a Stable Outlook.
 - ▶ **S&P Rating Agency** – On 22nd August 2025, upgraded Kenya's Rating from 'B-' to 'B' with a Stable Outlook.

These credit ratings are crucial as they influence Kenya's borrowing costs and access to international capital markets.

7.0: Pending Bills



7.1: We plan to pay approved pending bills with proceeds from privatisation: Non debt creating financing

The Pending Bills Verification Committee’s received, a total of 115,617 pending bill claims, valued at **KSh. 664.8 billion**

STATUS	Total Bills Received	
	No. of Bills	Value Ksh. Bn
Total Bids Received	115,617	664.8
Total Bills Analyzed	87,386	609.2
Total Outstanding Bills	28,231	55.6
Total Bills Recommended for Settlement	28,572	235.3
Less Pending Bills related to Road Sector to be Settled through Infrastructure		-80.3
Grand Total Recommended Bills for Settlement		155.0
% of Analyzed Vs Total Bills Received	76%	92%
% of Bills Recommended for Settlement vs Bills Analysed	33%	39%

- 78% of the submitted bills have been analyzed, accounting for 92% of their total value.
- Of these analyzed bills, 33% have been recommended for settlement, representing 38% of the total reviewed value.
- Ksh 155.0 billion recommended for settlement 40

8.0: Conclusion

8.1: CONCLUSION: The Economy remains Strong and Resilient

- ❑ We face a difficult balancing act of boosting domestic revenues to protect critical spending in priority areas while meeting heavy debt service obligations.
- ❑ There is need to strengthen fiscal sustainability through reforms that promote **inclusive growth and job creation**, by:
 - restoring sectors such as manufacturing sector – through interventions to bring down the cost of power, address challenges in some value chains – cement, steel, leather, edible oils, reducing cost of capital and enhance access etc.
- ❑ These reforms will strengthen macroeconomic stability and support the Government's efforts to safeguard livelihoods, create jobs, revive businesses, and drive economic recovery.”

THANK



YOU