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INSTITUTE OF PUBLIC FINANCE

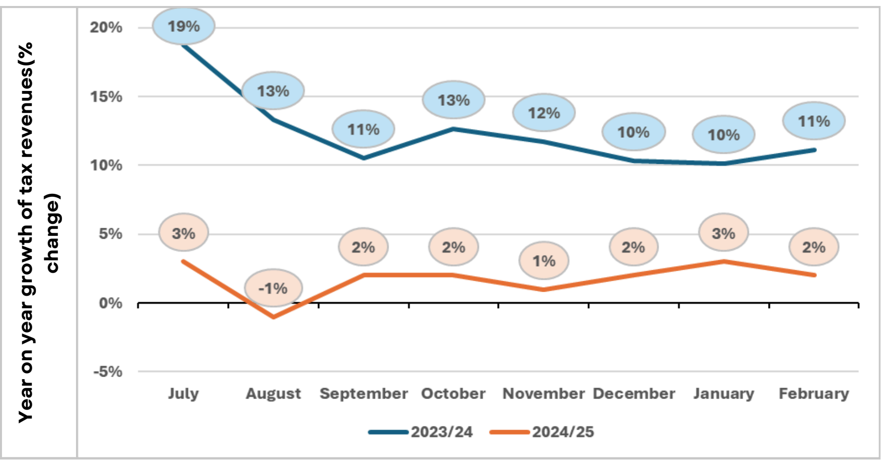
FY 24/25 Budget Performance

Exchequer releases February 2025

Four months to the end of the FY 2024/25, Kenya recorded a modest 2 percent growth in tax revenues, in spite of the rejection of the 2024 Finance Bill, which was predicted to weaken revenue collection. Both external borrowing and debt service reduced.

However, it seems unlikely that the government will meet its revenue targets this year

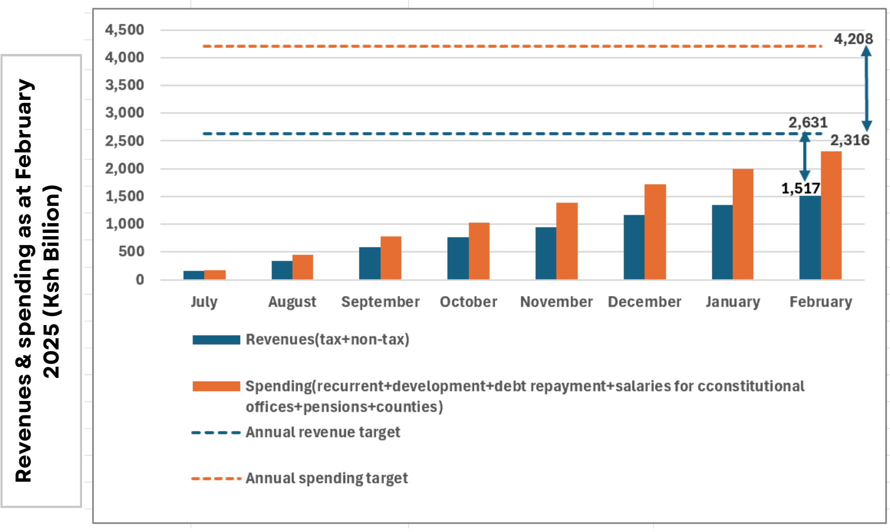
Overall growth in tax revenues weakened substantially in FY2024/25



- Revenues(tax+ non-tax) grew by 7 percent relative to the same period last year.
- Most of this growth is coming from non-tax revenue: tax revenues have grown by just 2 percent compared to last year, which is far below the targeted annual growth of 15 percent in FY 2024/25.
- With only four months left in the financial year, the government has collected 57% of its annual tax revenue target, approximately Ksh 1,404 billion. To meet the target, it must still collect the remaining 43%, equivalent to about Ksh 1,071 billion, within this period.
- The increase in non-tax revenues has been driven by higher administrative fees and charges, including those for immigration visas, work permits, and other services.

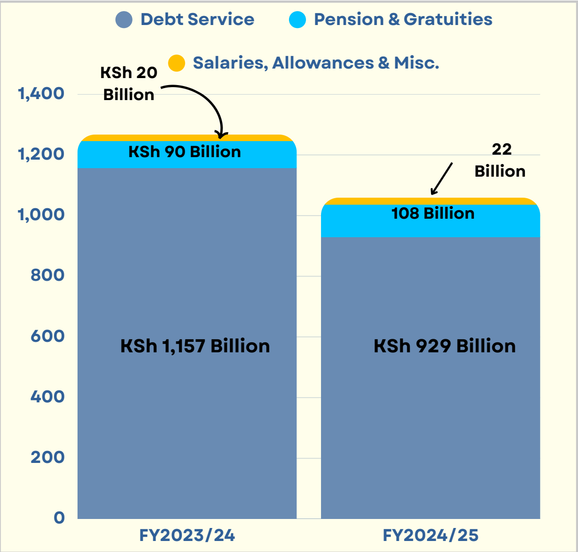
While revenues grew modestly, spending dropped slightly compared to last year

- This was mainly due to a drop in debt repayment. With an annual target of Ksh 1,910 billion, the government was expected to have serviced around Ksh 1,274 billion(Ksh 159 billion per month on average) by February 2025.
- However, the government had repaid Ksh 929 billion while last year it repaid Ksh 1,157 billion in the same period.

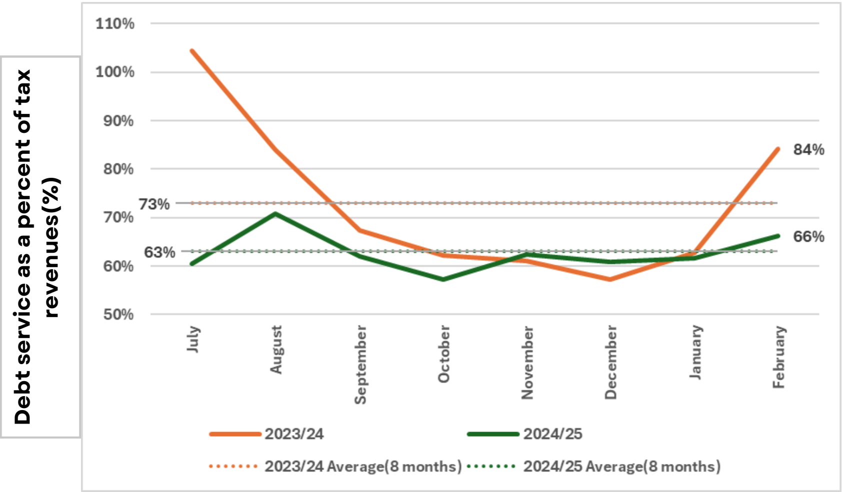


- The lower debt service is not likely to endure. Debt service is likely to surge in the last few months of the year due to the maturity of a significant portion(18.6% of domestic debt) by June 2025, as indicated in the 2025 draft Medium Term Debt Management Strategy.

- Consolidated Fund payments were down 16 percent compared to last year

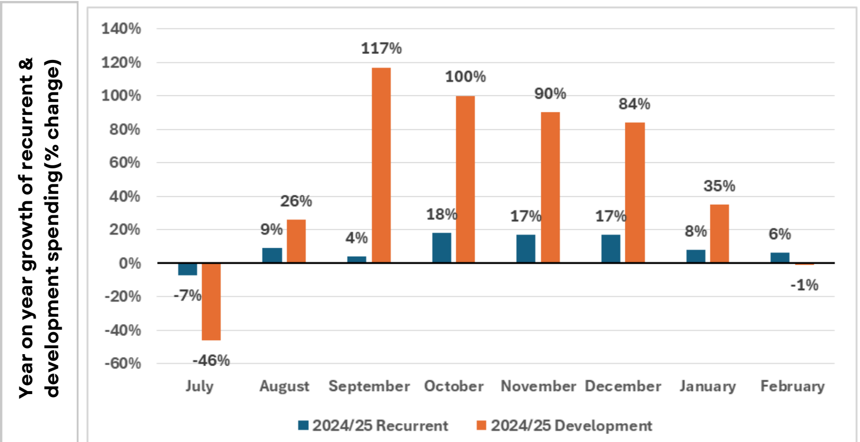


- Debt service dropped substantially, but continues to draw away a significant share of financing from other government spending. During the period under review, debt service reduced from 84 percent of tax revenue in February 2024 to 66 percent in February 2025. Only 34 percent of tax revenue was left for the rest of the government spending, both recurrent and development.



- Notably, the budget for salaries & allowances to constitutional officeholders and miscellaneous appears highly unrealistic, given the drastic reduction from Ksh 24 billion last year to Ksh 4 billion in FY 2024/25, only for actual spending to surge to Ksh 22 billion just eight months into the year. This represents 523% of the revised estimates.

- Ministries, Departments, and Agencies(MDAs) recurrent spending grew by 6 percent compared to the same period last year, reaching Ksh 860 billion, which was 66 percent of the revised target of Ksh 1,308 billion.
- On the other hand, development spending reduced by 1 percent compared to the same period last year.



Counties might not receive their money in time to spend it

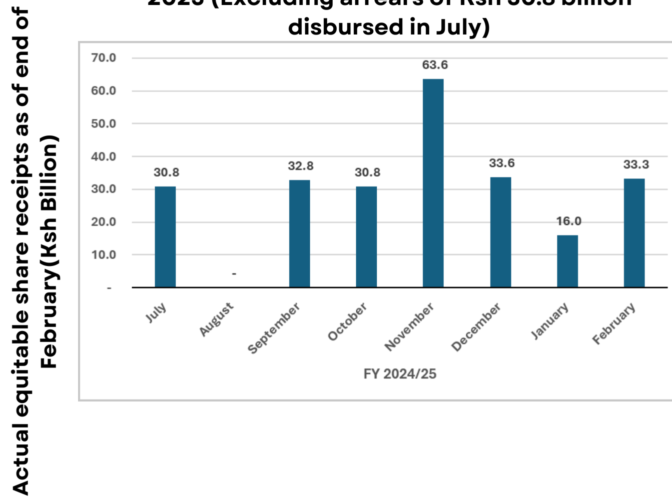
- **By February, FY 2024/25 disbursements were at 59% of the revised budget(including arrears) compared to 53% last year, highlighting improved performance despite slower early months.**

- **However, with just four months in the financial year remaining, National Treasury will need to fast-track the remaining Ksh 170 billion to ensure counties are able to spend the funds before the close of the financial year.**

- **While shortfalls in national revenue affect disbursements, procedural issues also contribute significantly. These include delays in providing the required documentation to the Office of the Controller of Budget (OCOB), as well as the submission of incomplete or non-compliant documents, which hinder or delay OCOB's approval of fund transfers to County Revenue Fund (CRF) accounts.**

- **The government should publish the approved cash disbursement schedule for FY 2024/25, which is still pending release, as mandated by law.**

Counties had received Ksh 210 billion by February 2025 (Excluding arrears of Ksh 30.8 billion disbursed in July)



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