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A Mid-Year Diagnostic of Kenya's Crossroads in 2025

"Declining Growth Optimism, Abandoned Austerity, Disconnect in the Fiscal Framework and Hurdles to Attainment of UHC"

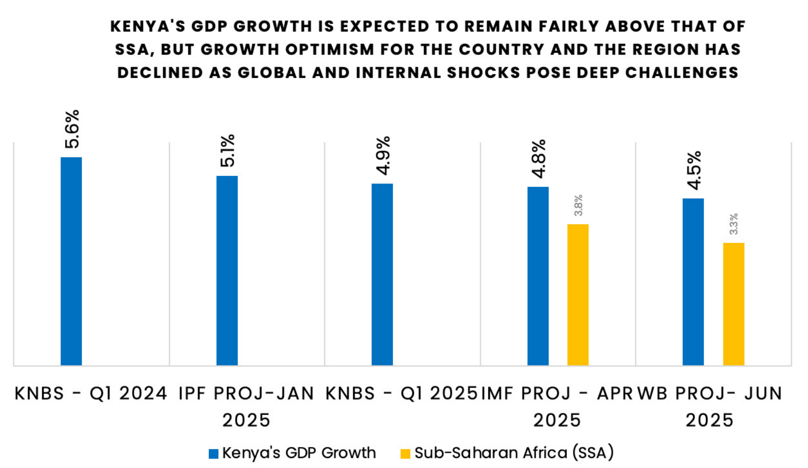
This report reflects on Kenya's Macro Fiscal situation up to mid-2025, six months since the Institute of Public Finance released a Macro Fiscal Analytic Snapshot for Kenya. The mid-year review also comes one year after the government outlined several austerity measures following the rejection of the 2024 Finance Bill.

Therefore, it is imperative to monitor how the government is doing in implementing much-needed austerity measures, as well as the following:

- Revenue reforms and commitment to cut the expenditure side of the budget
- Fiscal deficit and debt sustainability
- Social Health Insurance Fund (SHIF) implementation
- Disbursements of fiscal transfers to the counties

Zooming in on macroeconomic performance

Figure 1: GDP Growth

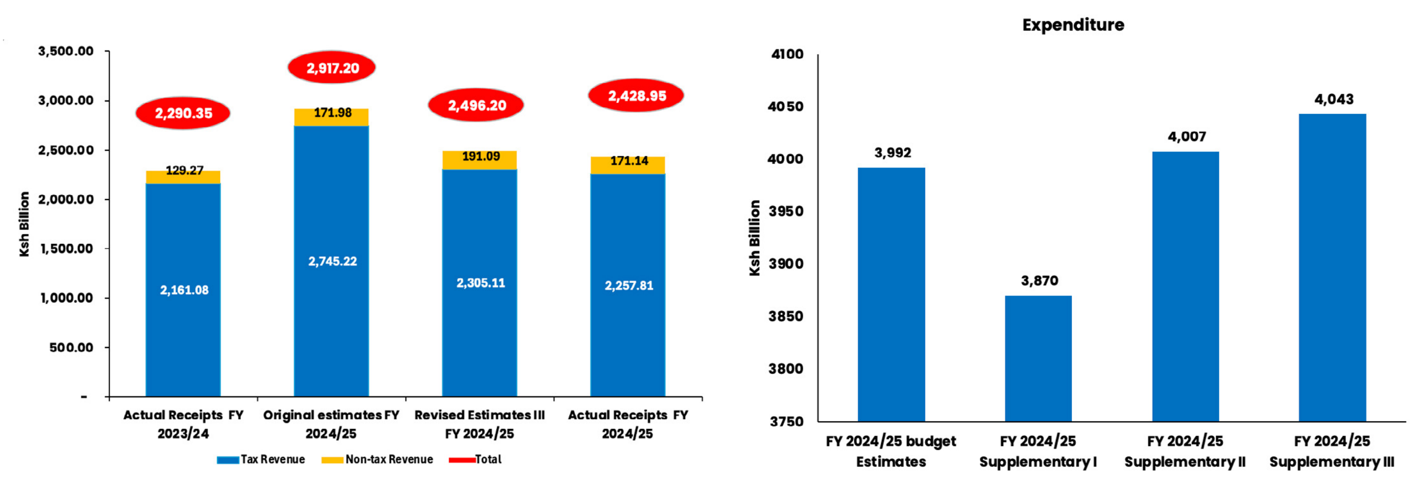


Kenya's GDP growth continues to outpace the regional average, but optimism in economic growth is falling, underscoring the adverse impact of mounting macroeconomic headwind. The impact of nationwide protests, fiscal stress, early exit from the IMF program, and policy uncertainty appears to be weighing heavily on investor confidence and domestic productivity. Households continue to battle with the high cost of living and reduced disposable income. Furthermore, all institutions had projected at least 5% growth earlier in January 2025, but they have revised it downwards, signaling a deterioration in the economic outlook (see Figure 1). To restore optimism in the economy, the government must prioritize spending in sectors that can significantly reduce poverty and deliver economic stability. For example, priorities should include education to reduce inequality in the access to quality education thus making better economic opportunities accessible to all, social protection (e.g., cash transfers, social safety nets) to reduce poverty and inequality by protecting low-income households from economic shocks, and health to cushions the poor from not only the financial risks of illness but also empower them with the physical and mental capacity to escape poverty and participate meaningfully in economic activities. This will win back public trust in national budgets. Moreover, entering another IMF program would reassure investors that the government is committed to macroeconomic stability, fiscal discipline, and reforms, hence maintain economic momentum.

Revenue reforms and commitments to cut expenditures

Withdrawal of the 2024 Finance Bill resulted in a downward revision of revenue targets in FY2024/25 from KSh. 2.9 trillion to KSh. 2.4 trillion, as expenditure increased by KSh. 51 billion. This put the credibility of fiscal consolidation efforts in question (evidently shown in Figure 2). Citizen resistance to additional taxation measures prompted a budget cut of KSh. 122 billion in FY 2024/25 in the Supplementary I Budget estimates. The government even outlined several austerity measures and later adopted a piecemeal approach to revenue reform. However, this has not significantly impacted revenue growth even after the passing of the Tax Amendment Laws in 2024. The government revised revenue targets from KSh. 2.91 trillion down to KSh. 2.49 trillion in Supplementary III and still missed the target revised downward by KSh. 67 billion.

Fig 2: Revenue and expenditure. Downward revision of revenue while raising expenditure portrays a disconnect in the fiscal framework



Although slight growth in revenue was realized in FY2024/25 compared to the previous year, failure by the government to adhere to austerity measures while at the same revising revenue downwards increased fiscal deficits - a backtrack on fiscal consolidation. Failing to address the expenditure side of the budget (see Figure 3) has led to an upward revision of the projected fiscal deficit from KSh. 769 billion in Supplementary I Budget estimates to Ksh 999.9 billion in Supplementary III Budget estimates in FY 2024/25.

Figure 3: Score card on achievement of austerity measures the government outlined following the rejection of 2024 Finance Bill by the citizens

Austerity measure	Achieved	Not Achieved
Dissolve 47 state corporations with overlapping mandates and functions. Respective line ministries to take over the functions.		
Suspend chief administrative secretary (CAS) positions		
Reduce number of advisors by 50%		
No budget for the Office of the First Lady and spouses of the Deputy President and Prime Cabinet Secretary		
Remove budget provisions for confidential budgets in executive offices		
Reduce budgets for renovations by 50%		
Suspend purchase of new motor vehicles except for security agencies		
Suspend non-essential travel by state officers		
Propose to Parliament a budget cut of KSh. 177 bn instead of KSh. 346 bn that the 2024 Finance Bill targeted to raise		
Ban participation of public officers from participating in contributions or Harambees to prevent misuse and loss of public resources		

Abuse of Article 223 (that allows the national government to spend money that has not been formally appropriated under specific circumstances) and misuse of Supplementary Budgets has not only given room for rechanneling of public resources away from priority areas, but have also facilitated expenditure that is not appropriated. During the first nine (9) months of FY2024/25, the government used Article 223 to spend KSh.11.9 billion out of which KSh. 6.7 was spent without approval by CoB.[1] The KSh 11.9 billion comprises KSh. 1.5 billion for State House, KSh. 523 million for the State Department for Foreign Affairs, KSh. 1.3 billion for the National Police, KSh. 6.9 billion for the State Department for Internal Security and KSh. 1.7 billion for health. In-year changes to resource allocations, even for reasons not qualified as "unforeseen/emergency," not only undermine budget execution but also raise credibility and integrity issues.

Disbursements of fiscal transfers to the counties

As the fiscal space is squeezed by rising expenditure without sufficient revenue growth, county governments experience delayed disbursement of the equitable share, crippling the delivery of critical services. Within the first nine months in FY2024/25, exchequer issues to county governments stood at 58 percent of the budget (KSh. 225 bn of KSh. 388, excluding KSh. 30 bn arrears for FY2023/24). This suggests that counties struggled to absorb the remaining 42 percent (KSh. 163 bn) of their transfers in the last quarter of the year.

Fiscal Deficit and Debt Sustainability Concerns

Given the explosion in debt interest payment and disproportionate growth in revenue, it is extremely crucial for the government to cut non-priority spending. Debt to GDP is 64 percent (above the 55 percent anchor). Stabilizing debt in 2024/25 requires a primary surplus (total revenue minus expenditure excluding interest payment on debt) of two (2) percent of GDP as opposed to the current deficit of four (4) percent (shown in Figure 4). [2]

Figure 4: Debt stabilizing primary balance

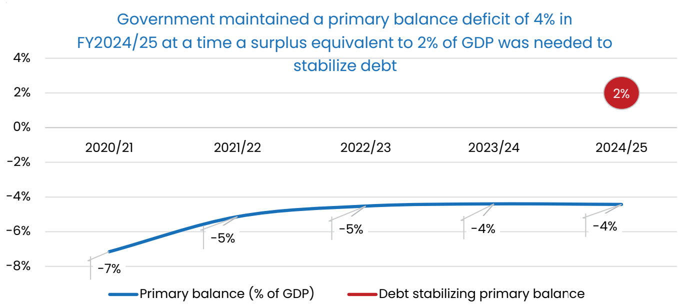
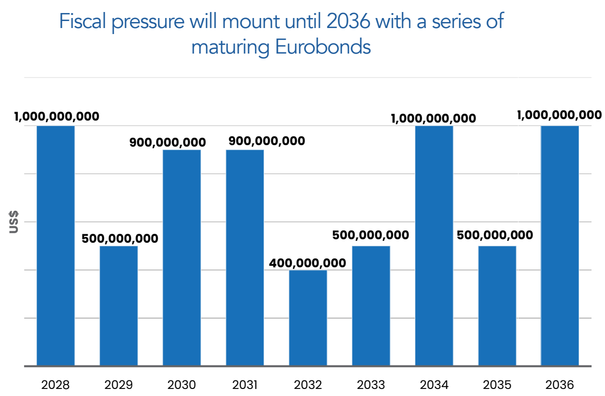


Figure 5: Maturing Eurobonds starting 2028



Moreover, **due to large maturing Eurobonds starting 2028, Kenya will face recurrent external debt refinancing needs over the next decade, compounding rollover risk and increasing exposure to global interest rate and currency volatility.** Large peaks are visible in 2028, 2034, and 2036, each with a US$1 billion obligation, alongside smaller but still significant maturities in intervening years (see Figure 5). This pattern implies that without proactive fiscal consolidation, credible refinancing strategies, or effective debt reprofiling, these maturities could crowd out spending on development and social sectors, elevating both sovereign risk and borrowing costs.

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[1] *National Government Budget Implementation Review Report - First Nine Months FY2024/2025. Link*

[2] *Debt stabilizing primary balance is derived from the standard debt dynamics equation.* $pb_t = \frac{(r-g)}{(1+g)} d_{(t-1)}$

Aggressive Domestic Borrowing, Pending Bills, and Private Investment

Suppliers' operations, especially SMEs, struggle with cash flow problems as both the national government and county governments fail to clear pending bills. Pending bills have increased from KSh. 639 billion in March 2024 to KSh. 684 billion in March 2025 (see Figure 6). Seeing pending bills rise contradicts government's stance in the 2024 Budget Policy Statement that stated payment of verified pending bills were to guide allocation of resources. [3]

Figure 6: Pending bills for both levels of government

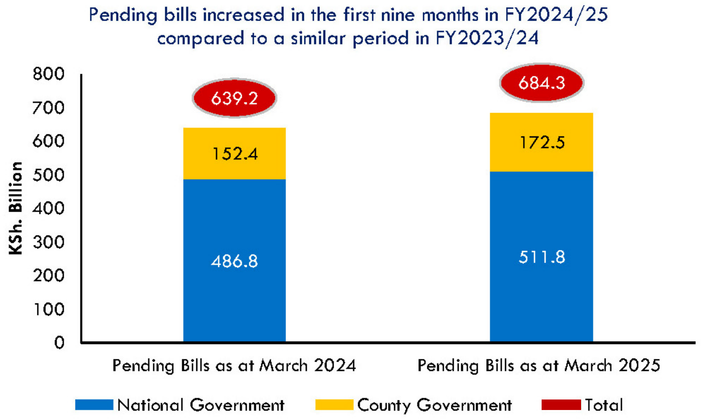
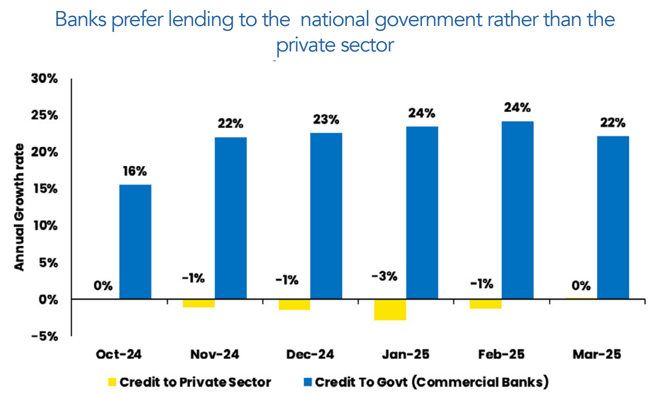


Figure 7: Domestic credit by banks



Aggressive domestic borrowing by the government, higher yields on government securities, tight monetary policy and elevated risk premiums provide disincentives for banks to extend credit to the private sector (see Figure 7). This further exacerbates delayed payments by government to suppliers. Also, commercial banks have been reluctant to lower lending rates despite a decline in Central Bank Rate (CBR) and cash reserve ratios. If unchecked, this will continue to crowd out private investment, undermining job creation and productivity growth.

Social Health Insurance Fund (SHIF) implementation, 2025 Health Reforms and their Impact on Service Delivery

A new Social Health Authority (SHA) was established in 2023 to address inefficiencies under the old National Hospital Insurance Fund (NHIF), but early indications are that SHA is falling short. Unfortunately, delayed payments to facilities which were experienced in NHIF persist under SHA. A report by Rural and Urban Private Hospitals Association (RUPHA) revealed that only 75% of Level 3–5 facilities received some SHIF payments. Of these facilities, 83% reported receiving less than half of the amounts they claimed.[4] To ensure continuity and restore trust, the government must urgently improve SHA's claims system, set clear timelines, and enhance transparency.[5]

[3] *2024 Budget Policy Statement.* Link

[4] RUPHA

[5] *Facility Payment and Financial Wellbeing Report. A Survey of SHA-Contracted Healthcare Providers for the Jan - April 2025 Period.* Link

Concerns over SHA's financial management practices have also emerged. The Controller of Budget and Auditor General have already flagged unlawful SHA fund deductions being made without public participation. SHA has projected to divert KSh. 111 billion into an escrow account over the next 10 years for a healthcare information technology digitization system to improve efficiency, streamline operations, and enhance access to quality medical care across the country[6]. But this financing arrangement lacked evidence of public participation, thereby violating Article 201(a) of the Constitution of Kenya 2010, which upholds the principles of openness, accountability, and citizen involvement in public financial matters. To address this, it is imperative that future financing models involving public funds undergo thorough stakeholder engagement to safeguard public trust.

Another reform that is in the pipeline is the Quality Healthcare and Patient Safety Bill, 2025, which aims to raise the standards of healthcare delivery in Kenya[7]. It focuses on enhancing patient safety, reducing the incidence of medical errors, and promoting a culture of continuous improvement in health services. It also seeks to establish systems for monitoring, reporting, and addressing adverse events and quality lapses in healthcare settings. By strengthening legal frameworks and professional standards, the Bill aims to ensure that all Kenyans have access to safe, reliable, and high-quality healthcare. However, the Bill is vague on how its proposals will be implemented, especially in resource-constrained counties. For example, the bill centralizes broad regulatory powers such as licensing and accreditation of healthcare facilities in a proposed national authority without clearly outlining how these functions will be coordinated with counties. Without adequate funding and alignment with devolved healthcare structures, these intended improvements may face significant challenges.

Although challenges persist, SHIF continues to make significant progress in registering Kenyans, including both formal and informal workers, though this falls short of universal coverage. As of May 13, 2025, the scheme had enrolled approximately 22.7 million citizens[8], yet only about 4 million contributors [9], primarily from the formal sector,were actively remitting their monthly premiums, highlighting a glaring gap in coverage. This indicates that the active formal contributor is bearing the burden of public health service delivery for the entire population. Employees in the formal sector are automatically enrolled as the employers are legally obligated to ensure that their employers are registered and deductions made. One approach that could work is the implementation of pilot programs to test various incentive models aimed at encouraging informal sector enrolment. Effective strategies from these pilots could then be scaled up.[10]

The Proxy Means Test (PMT) for SHIF enrollment has been criticized due to inaccuracies in determining contributions from the informal sector.[11] A recent requirement for members to make annual contributions to reduce adverse selection poses significant affordability challenges.[12,13] This approach risks excluding vulnerable populations who may be unable to afford a lump-sum payment, thereby undermining equitable access to healthcare services. To address this, the government should consider reverting to the initial system of monthly payments.

There are slight increases in Primary Healthcare Fund (PHCF) and Emergency, Chronic, and Critical Illness Fund (ECCIF) in Supplementary Budget III of FY2024/25 aimed to enhance equitable healthcare access, but timely disbursement and accountability are key to sustaining impact. Adjustments in supplementary budgets increased allocations to the PHCF from KSh. 4.1 billion in Supplementary Budget I to KSh. 7.1 billion in Supplementary Budget III, and ECCIF from KSh. 2 billion to KSh. 5 billion over the same period [14,15]. These increases align with the government's aim to promote equity in healthcare

[6] *MOH*

[7] *The quality healthcare and patient safety bill.*

[8] *MOH*

[9] *The national assembly hansard*

[10] *Healthier Debate Needed: Drawing lessons from past experiences to ensure success of Kenya's Social Health Insurance (SHI). Link*

[11] *Social Health Authority website*

[12] *Social health insurance act*

[13] *Economic survey*

[14] *Supplementary budget i*

[15] *Supplementary budget iii*

access by boosting allocations to the Social Health Authority (SHA) and enhancing financial protection for its citizens. While the increased allocations are commendable, timely disbursement is essential to ensure the sustainability of primary, chronic, and emergency care under the SHA. To achieve sustainable impact, these funds should be supported by clear disbursement timelines and robust accountability mechanisms to track utilization and improve service delivery for all Kenyans.

The prolonged strike by UHC health workers exposed the insensitivity of both the national and county governments to service delivery and the well-being of medical practitioners, and weak coordination between the two levels of government.[16,17]. UHC workers were recruited on three-year contracts by the National Government and seconded to counties to support service delivery, particularly during the COVID-19 pandemic.[18] However, disparities in terms of employment compared to their counterparts on permanent and pensionable terms have led to prolonged industrial action. The resulting mismatch severely disrupted health services, particularly in counties heavily reliant on UHC workers. In May 2025, a resolution was made to transfer the UHC workers to the county government payrolls.[19] There have been challenges with the process as counties express concern about the financial burden that the UHC workers' renumeration would place on their budgets. To prevent similar disruptions in the future, there is a need for a well-defined transition framework that will guide orderly transfer of health workers from the national government to county governments. Additionally, sustainable financing mechanisms, such as conditional grants and increased equitable share, will ensure smooth transitions of health workers between the two levels of government and maintain uninterrupted service delivery.

Conclusion

In summary, Kenya's macro-fiscal position at mid-2025 reveals a widening credibility gap between stated policy intentions and actual implementation. Despite attempts at austerity and revenue reform, the continued abuse of supplementary budgets and unsustainable debt accumulation highlight the fragility of the fiscal framework. To regain economic momentum and rebuild public trust, the government must implement predictable reforms, prioritize transparency, and anchor fiscal decisions in public participation. Strengthening intergovernmental fiscal transfers, accelerating pending bills clearance, and safeguarding health sector investments are no longer optional. Another urgency comes in the imbalance between revenue growth that does not keep pace with expenditure expansion. The government needs to counter rising and rigid expenditure, enhance revenue mobilization, and reduce overreliance on consumption taxes (such as VAT), while income and property tax remain underutilized.

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[16] MOH

[17] Auditor general's report on national government ministries, departments and agencies

[18] Report by the Public Petitions Committee. Link

[19] Resolutions on UHC Staff. Link

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