IPF
INSTITUTE OF PUBLIC FINANCE

Macro Fiscal Analytic Snapshot

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2026 Brief for Kenya

1. Kenya's Economy: Growth Without Shared Prosperity

Kenya's economy remains resilient, with medium-term growth projected at around 5%, supported by agriculture, services, and easing inflation. However, this stability has not translated into improved living conditions for most Kenyans. Real wages have fallen-declining by 4% between 2022 and 2024- while job creation remains concentrated in the low-productivity informal sector. Even with inflation declining from an annual average of 7.7% in 2022 to 4.5% in 2024, food prices remain elevated and household purchasing power is depressed.

Fig. 1: GDP growth (annual % change)

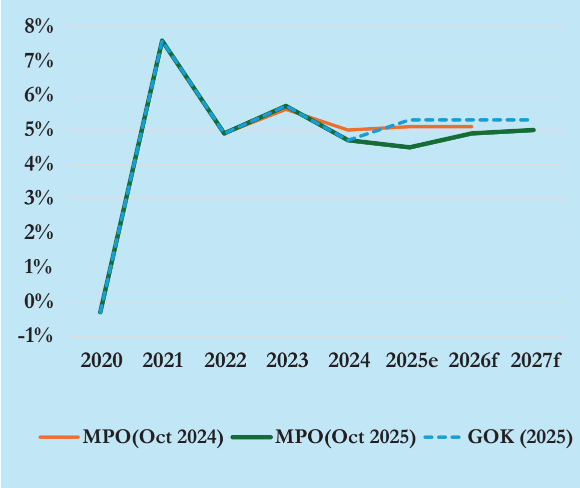
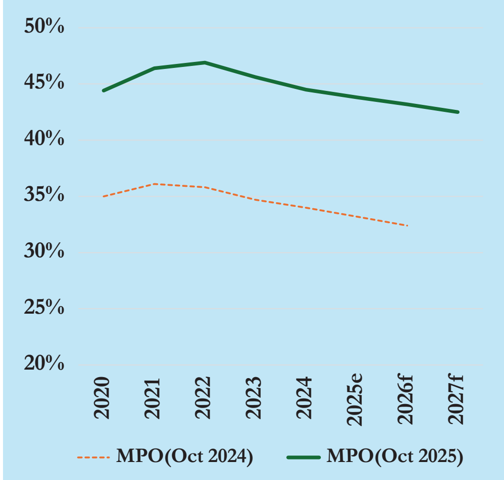


Fig. 2: Poverty rate (%)

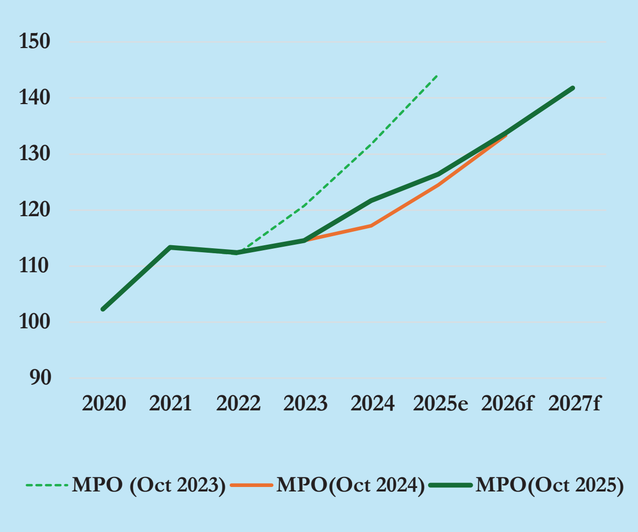


Poverty remains high, estimated at 43% in 2025, and is projected to decline slowly in the medium term - underscoring the structural constraints limiting the translation of macroeconomic stability into welfare gains for low-income households.

Government's failure to fully disburse allocations and increase expenditure at the rate of increase of the number of beneficiaries has reduced the effectiveness of cash transfers as a social protection tool for reducing poverty and vulnerability to the people living with disabilities (PWDs), orphans and vulnerable children (OVC) and the elderly. Therefore, targeted measures to enhance productivity, resilience, and social protection are needed so that the benefits of economic growth do not continue to bypass the majority at the bottom of the pyramid.

While latest estimates for investment present an upward growth, a more cautious but stable outlook is evident, likely reflecting tighter financing conditions, rising debt service costs, and global uncertainties. The investment trend signals improvement in investor sentiment and the expectation that structural reforms, public infrastructure commitments, and private sector participation will drive capital formation in the medium term. However, private investment is still lagging due to investors' risk aversion and reduced credit availability as the government dominates domestic borrowing.

Fig. 3: Investment (index)



Election-year risks (2027) remain significant: Kenya's past electoral cycles have slowed investment, increased uncertainty, and temporarily weakened growth, a trend that is also likely to be observed in the upcoming 2027 elections.

2. Fiscal Trends: Revenue Pressure, Rigid Expenditure, Persistent Deficits

Kenya's fiscal deficit has been on a downward trajectory since 2020 but it exposes significant optimism bias with repeated revisions illustrating credibility challenges and implementation risks facing Kenya's medium-term fiscal strategy. The government should therefore strengthen fiscal discipline by enforcing borrowing limits, improving revenue forecasting and curbing the use of supplementary budgets to align actual borrowing with planned targets.

Fig. 4: Ever moving fiscal deficit targets raise credibility questions and implementation challenges

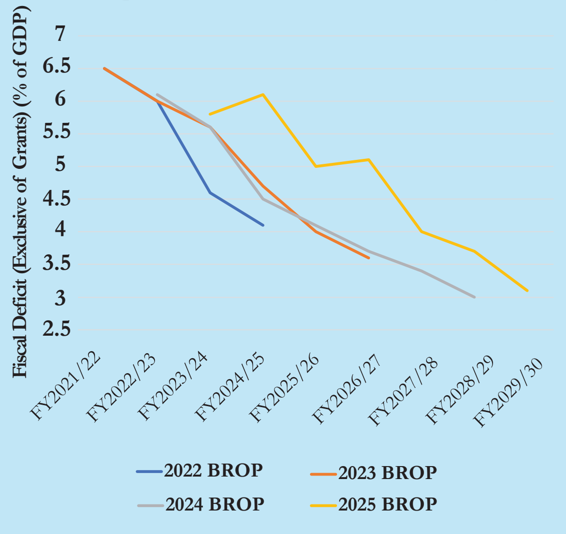
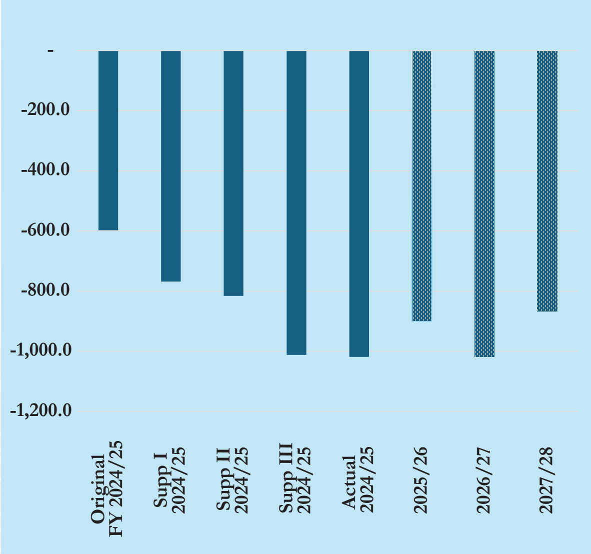


Fig 5: Fiscal Deficit Ksh Billion

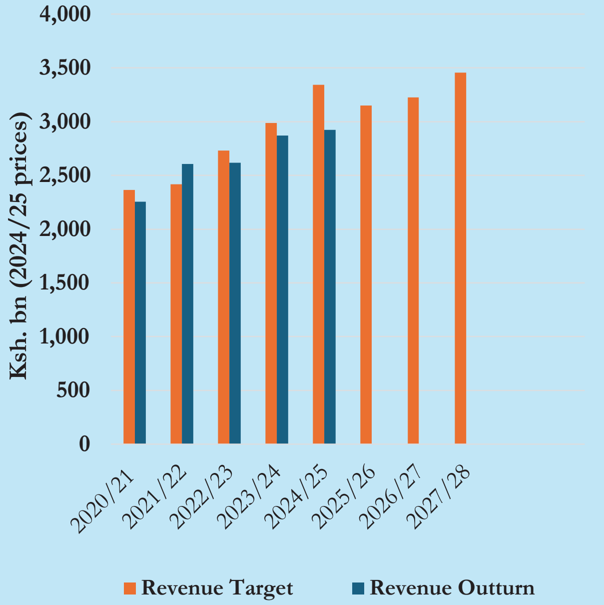


2.1 Revenue performance

Kenya continues to struggle with credibility in its revenue forecasts. Despite modest improvement in FY2024/25, revenue collections have consistently fallen below target. In FY 2024/25, only import duty and VAT on imports were above target, with corporate tax, PAYE, excise and domestic VAT below target due to: high informality, slow formal employment growth, administrative inefficiencies, and overly optimistic annual targets.

However, **there is a notable shift toward administrative reforms** (Tax Laws Amendment Act 2024, Tax Procedures Act 2024) **rather than new taxes** signals a more sustainable approach, but collections remain fragile. The Significant Economic Presence (SEP) tax generated KES 14.3 billion, yet remains too early to judge long-term gains.

Fig. 6: Revenue Outturn & Forecast (Ksh.bn)



2.2 Expenditure patterns

Kenya's expenditure composition over the past five years reveals a rigid fiscal framework increasingly dominated by non-discretionary spending, leaving limited room for policy flexibility and investment-driven growth. Government expenditure has averaged about 22–24% of GDP, with recurrent components, particularly salaries and operational costs taking the largest share. Interest payments have risen steadily while development expenditure accounted for only 3.3% of GDP in the FY 2024/25, reflecting mounting public debt obligations and further constraining fiscal manoeuvrability.

In the medium-term, expenditure outlook reveals a persistently rigid fiscal structure, with limited room for growth-oriented spending despite projected increases in overall expenditure over the period FY 2025/26 - 2028/29.

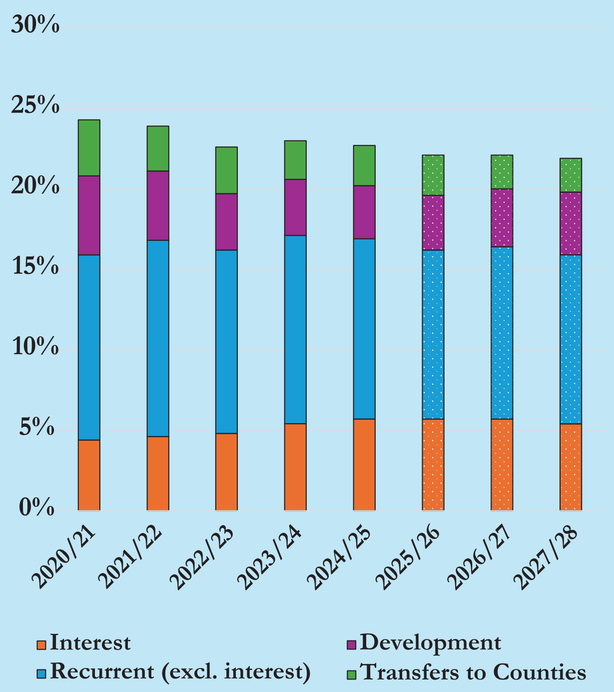
2.3 Fiscal Deficit and debt

Despite consolidation efforts, the fiscal deficit averaged 6.5% of GDP over five years. In the FY2024/25, the fiscal deficit overshot the revised target due to revenue shortfalls and spending overruns. Consequently, **debt levels remain above sustainability thresholds - over 70% of GDP (nominal).** Rollover risks have increased, particularly in domestic debt, due to shorter maturities and high refinancing needs.

2.4 Counties Revenue and Expenditure Performance

Counties remain heavily dependent on national transfers, with Own Source Revenue stuck below 1% of Gross County Product, far short of the estimated 2% potential. Underperformance in OSR continues to undermine their ability to fund development priorities, deliver essential services, or respond to local needs. Addressing these gaps will require counties to broaden OSR through realistic revenue strategies, strengthen collection of outstanding revenues, manage pending bills, and enhance fiscal accountability.

Fig 7: Expenditure (% of GDP)



Moreover, **persistent gaps between planned and actual county expenditures, coupled with recurring revenue shortfalls, underscore weak budget credibility.** This is reinforced by the underperformance of development expenditure, averaging just 25% of total spending between FY2020/21 and 2024/25 against the legal threshold of 30%.

Fig. 8: Counties' OSR is not only overprojected but also falls below one percent of their GCP

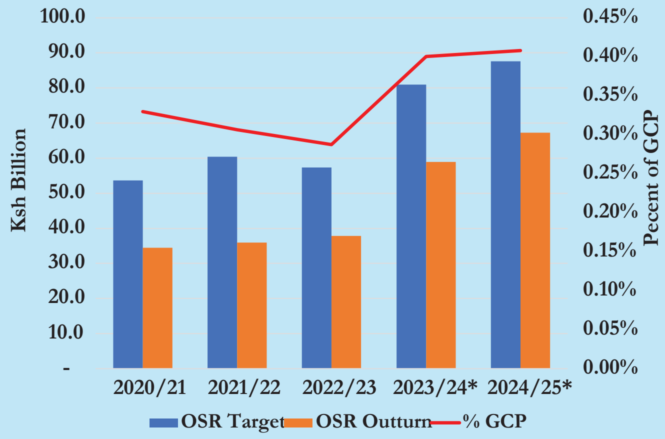
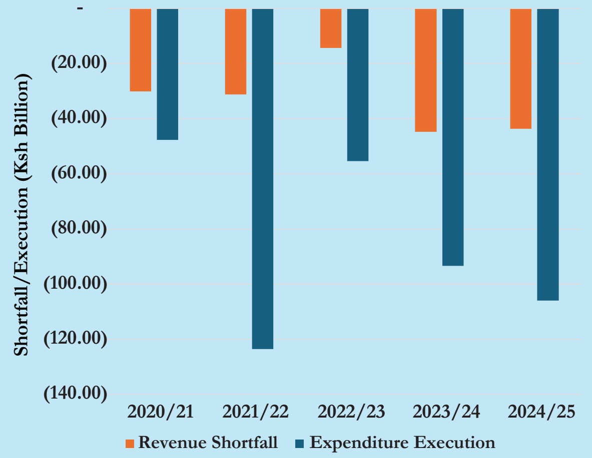


Fig. 9: Counties Revenue & Expenditure Execution



2.5 Human Development Sectors Under Pressure: Health, Agriculture, WASH, Gender and Nutrition

FY2023/24 was the first budget to be formulated and approved by the Kenya Kwanza administration and exhibited larger budget shifts to agriculture, gender, WASH and nutrition - shifts that are not observed in the years before or after. This spike likely reflects the Kenya Kwanza administration's first-year political imperative to signal rapid delivery on its campaign commitments, front-load bottom-up interventions, and to correct perceived underinvestment in these sectors.

Agriculture

Despite high political prioritization under the Bottom-Up Economic Transformation Agenda (BETA), public spending on agriculture has not significantly increased as expected, thus failing to mirror government's policy commitment to boost productivity and resilience to climate risks and in addressing rising food market uncertainties. National allocations to agriculture rose sharply to KSh 94.2 billion in FY 2023/24 but fell by 18.3% to KSh 76.9 billion in 2024/25, while county allocations collapsed by more than half over the same period, from KSh 40.8 billion to KSh 19.9 billion.

WASH

While there is general improvement with access to WASH services, spending has remained erratic and well below the budgeted amounts, significant regional disparities persist, where Northeastern and Eastern Kenya lagging behind the most as per the Joint Monitoring Programme for Water Supply, Sanitation and Hygiene report.[1]

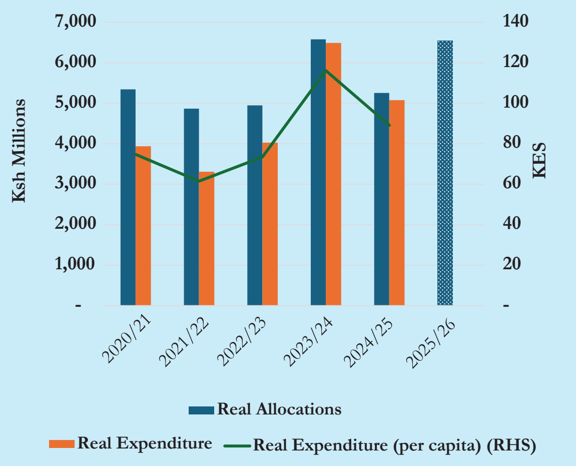
Nutrition

According to the 2025 UNICEF Analysis of Food System for Children, Kenya faces a **triple burden of malnutrition**—stunting, underweight and micronutrient deficiencies. ASAL counties record severe wasting levels above 20%. Vulnerable counties require targeted funding and climate-resilient nutrition programming.

Gender

Gender funding increased temporarily in FY2023/24 but declined thereafter. It will be of interest to monitor whether spending will rise significantly after the adoption of the **National Policy on Women's**

Fig 10: Gender Expenditure (2024 prices)



[1]*Joint Monitoring Programme (JMP)* *link*

Economic Empowerment (NPWEE). Gender budgets remain: inconsistent, poorly ring-fenced, and highly vulnerable to fiscal tightening. Kenya slipped from **75th to 98th** in the Global Gender Gap Index (2025), largely due to declining economic participation of women.

3. Public Finance Management and Governance Challenges

3.1 Privatization and National Infrastructure Fund

The establishment of the **National Infrastructure Fund (NIF)** under the Government Owned Enterprises Act bypasses Parliament and contradicts the **Privatization Act**, which requires proceeds of privatization to be deposited into the **Consolidated Fund**.

This weakens transparency and accountability mechanisms.

3.2 Audit and oversight weaknesses

Parliament's Public Accounts Committee faces:
- low compliance from summoned officers,
- delayed or missing reports,
- weak public participation in audit hearings.

4. Health Sector

Public investment in the health sector is on a concerning downward trajectory. Health spending as a share of GDP decreased from 1.8% to 1.3%. with per capita spending decreasing from Ksh. 4,852 to Ksh. 4,311. This decline is worrisome, given Kenya's rising population and an increasing disease burden, which necessitate upward trend in financing.

Fig 11: Health Expenditure (2024 Prices)

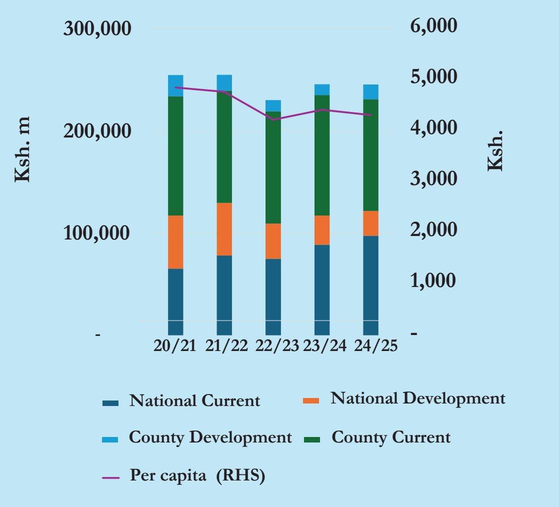
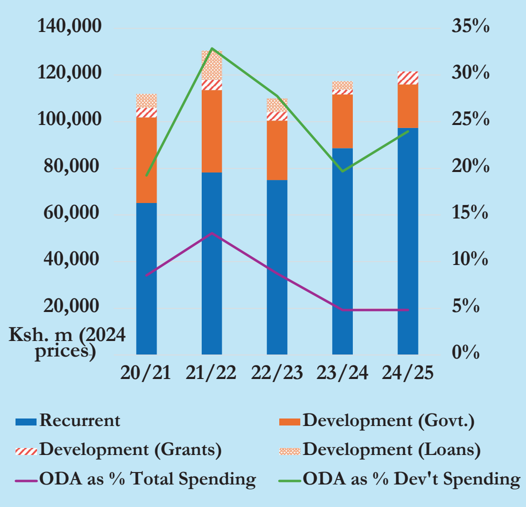


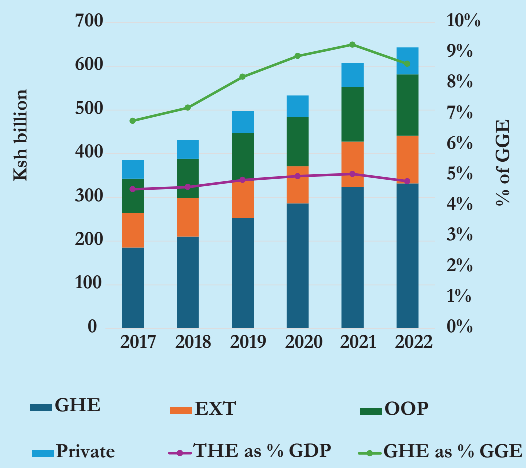
Fig. 12: ODA to Health (Expenditure)



Kenya's health system has also historically relied heavily on external financing, creating heightened vulnerability amid shifting donor dynamics. Current levels of domestic health investment remain insufficient to offset declining external support. For example, on budget external support for development has declined by an average of 7 percent annually over the past four years, significantly outpacing the modest 2 percent average annual growth in domestic health allocations. With the anticipated end of several externally funded programs, and the recent withdrawal of USAID support, the health system faces increasing fiscal uncertainty and heightened risk to service delivery.

Recent data from the WHO National Health Accounts (NHA) indicates that Out-of-Pocket (OOP) expenditures remain high, accounting for 22% of the Total Health Expenditure (THE) in 2022, exceeding the 15-20% threshold. This points to an inadequacy of the existing financial protection mechanisms. As of September 2025, about 54% of the total population had enrolled in the Social Health Authority which falls significantly below the 80% coverage target for 2025 set out in the Kenya Universal Health Coverage Policy 2020–2030.[ii,iii] This highlights the need for continued efforts to expand health insurance coverage and enrolment, particularly among underserved and vulnerable populations.

Fig 13: Total Health Expenditure by Source



Despite Primary Health Care (PHC) being recognized as the most effective and cost efficient path to UHC, national level spending continues to disproportionately favour secondary and tertiary care services. In FY 2024/25, PHC accounted for only 8% of the total health expenditure, compared to 49%[iv] on secondary and tertiary care. The PHC share doubled from 4% in FY 2023/24 to 8% in FY 2024/25, which indicates some progress towards improving investments in PHC. The key question, however, is whether this marks the beginning of a sustained shift in priorities or is simply a temporary adjustment.

Social Health Insurance

The tax funded schemes managed by SHA, the Primary Health Care Fund (PHCF) and Emergency, Critical and Chronic Illness Fund (ECCIF), received significant budget increases. In FY 2025/26, allocations to the PHCF and ECCIF increased by 85% and 60% respectively, compared to the previous years. These increases signal the government's commitment to strengthening the sustainability of these schemes and expanding financial protection for Kenyans.

However, FY 2025/26 budget trends show a mixed and uneven commitment by the government to health insurance coverage for vulnerable populations. Between FY 2024/25 and FY 2025/26, the allocated budget for health insurance subsidy program for vulnerable children and orphans increased by 92.2%, while that of the older people and persons with disability decreased 20%. Despite the net increase in allocations for the Health Insurance Subsidy program, the target number of indigent households whose contributions will be supported by the government has decreased from 147,393 in FY 2024/25 to 126,725. This reduction suggests that the increased funding is not translating into broader coverage and may instead reflect rising costs of care for a smaller pool of high-need beneficiaries.

Reimbursement of health service providers remains a significant challenge. As of August 2025, 64% of the claims submitted by facilities had been settled.[v] In addition, health facilities are still owed Ksh. 5.3 billion from NHIF, further compounding their financial strain.[vi] Delays in provider payments risk disrupting service delivery, as facilities struggle to sustain operations in the absence of timely and predictable reimbursements.

5. Key Issues to Monitor in 2026

Privatization agenda and return on investments: Why the National Infrastructure Fund (NIF) was established through the Government Owned Enterprise Act, which effectively bypasses parliamentary scrutiny and weakens public oversight, and whether privatization proceeds that will be channelled to NIF contrary to the Consolidated Fund will finance viable and clearly verifiable projects.

[ii] *Kenya Universal Health Coverage Policy 2020 – 2030: Link*
[iii] *Kenya Records Major Milestones in Universal Health Coverage Under BETA Agenda: Link*
[iv] *The share of expenditure on secondary and tertiary care comprises allocations to two programs: National Referral and Specialized program (33%) and the Curative and RMNCAH program (16%).*
[v] *Ministry of Health, Office of the Cabinet Secretary: Link*
[vi] *Health CS Duale engages private providers on strengthening service delivery under taifa care: Link*

Debt securitization: Whether there will be legislation and enactment of an Act that will unify governance of asset-backed securities (ABS), special purpose vehicles (SPVs), true sale requirements and investor protections specific to debt securitization.

Operationalization of Zero-Based Budgeting following its introduction in the Public Finance Management (PFM) Act through an amendment and the National Treasury's subsequent development of a budget costing tool within the Integrated Financial Management Information System (IFMIS) to harmonize costing methodologies, integrate inflation adjustments, and provide credible expenditure baselines.

Government health sector budget: Close monitoring is needed to assess whether government funding to the health sector will increase to offset the gap left by declining external financing.

Social health insurance (SHI) reform: It will be important to track beneficiary coverage trends, allocations to tax-funded schemes (PHCF and ECCIF) and the pooling of the contributory scheme (SHIF). At the same time, continuous evaluation is required to determine whether SHI reforms are effectively strengthening health system performance and advancing progress towards UHC.

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