IPF
INSTITUTE OF PUBLIC FINANCE

Macro Fiscal Analytic Snapshot

2026 Brief for Kenya

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About the Institute of Public Finance

The Institute of Public Finance (IPF) is an independent, non-partisan, and non-profit think tank established in 2013 to advance the principles and practice of public finance management. Based in Nairobi, Kenya, IPF provides policy research and advocacy, technical assistance, and capacity strengthening for various stakeholders such as public sector leaders at both the county and national level, development partners, civil society organizations, and oversight agencies.

Our mandate is to enhance the efficiency, responsiveness and sustainability of public financial systems across countries, counties, institutions and citizens. Over the years, IPF has evolved and now has expertise and partnerships that extend to the African region and beyond.

IPF combines research with proactive policy engagement and inclusive stakeholder collaboration to support both state and non-state institutions in shaping public finance systems that are equitable, transparent and results driven both locally and internationally

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Disclaimer: Errors and interpretations remain the sole responsibility of the authors.

Table of Content

List of Abbreviations

GF	Gates Foundation
BoP	Balance of Payments
CABRI	Collaborative African Budget Reform Initiative
CBK	Central Bank of Kenya
DLI	Disbursement Linked Indicator
DSA	Debt Sustainability Analysis
EU	European Union
FDI	Foreign Direct Investment
FX	Foreign Exchange
GDP	Gross Domestic Product
GHE	Government Health Expenditure
IBP	International Budget Partnership
IMF	International Monetary Fund
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
MPO	Macro poverty outlook
NHA	National Health Accounts
ODA	Official Development Assistance
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
TFP	Total Factor Productivity
THE	Total Health Expenditure
WASH	Water, Sanitation and Hygiene
WB	World Bank

Key Messages & Key Issues to Monitor

Key Messages

The reality behind the numbers: Growth without shared prosperity

Kenya's economy has been resilient and is projected to grow at around 5 percent in the medium term with a stable macro environment if political campaigns in the electioneering year do not turn into adverse shocks. However, this growth and macro stability did not in the past translate into improved living standards for most citizens.

For many Kenyans, macroeconomic stability has meant coping with higher costs, weaker incomes, and declining access to essential public services.

The overview of realities facing majority of Kenyans:

- **Erosion of household incomes:** Total real wage earning per employee dropped by 4% from KSh 696,817 in 2022 to KSh 665,418 in 2024, sharply reducing purchasing power even as inflation eased from 7.7% in 2022 to 4.5% in 2024.
- **Poor job growth:** Economic expansion is concentrated in services and agriculture, sectors characterized by informality, low wages, and limited employment security, while manufacturing continues to decline.
- **Government faces shrinking fiscal space for people-centred services:** Rising debt interest, salaries, and pensions dominate public spending, leaving less funding for health, food security, WASH, nutrition, social protection, and gender equality.

The cost of inaction: Why the economy must deliver urgently

Fiscal choices are not neutral. They shape who bears the burden of adjustment and who benefits from recovery. If current fiscal and policy trajectories continue, we shall experience profound consequences like:

- Deepening poverty and inequality: Economic growth will continue to bypass informal workers, women, youth, and climate-vulnerable communities.
- Reversal of human development gains: Underfunding and under-execution in health, nutrition, WASH, and agriculture threaten hard-won progress toward Universal Health Coverage and food security.
- Increased household vulnerability: High out-of-pocket health costs, declining social protection benefits, and delayed insurance reimbursements expose families to catastrophic shocks.
- Democratic and social risks: Recurrent tax changes, declining service delivery, and austerity without protection erode public trust and fuel social unrest.
- Gender regression: Inconsistent financing of gender-responsive programmes risks widening economic and social gender gaps, undermining constitutional and global commitments.

Government fiscal performance and policy reforms: The hits, misses and opportunities

The Government of Kenya has introduced several reforms aimed at restoring fiscal stability, but many remain partial, uneven, or insufficiently pro-poor.

The Hits: Positive steps

Shift toward **tax administration reforms** rather than aggressive new taxes following public resistance to the Finance Bill 2024.

A milestone has been made in the funding of **Social Health Insurance** especially for the Primary Health Care and Emergency, Critical and Chronic Illness funds.

Legal reforms to strengthen public finance management, including **Zero-Based Budgeting** and enactment of the Privatization Act, 2025.

Adoption of the **National Policy on Women's Economic Empowerment**, signalling renewed policy commitment to gender equality.

The misses: Persistent gaps

Budget credibility remains weak, with repeated revenue overestimation and frequent supplementary budgets.
Fiscal consolidation is poorly sequenced, cutting or constraining development and social spending while protecting rigid recurrent costs.
Health financing reforms are undermined by delayed reimbursements, transparency gaps, and declining donor support.
Gender and social programmes lack protection, making them easy targets during fiscal tightening.

The opportunities: The desired policy actions to bring sustainable change for citizens

1. Put People at the Centre of Fiscal Consolidation. The Government should explicitly protect social and development spending during austerity. Policy should guide minimum spending benchmarks in health, social protection, nutrition, WASH, and gender equality.
2. Restore Budget Credibility and Accountability. There should be realistic revenue targets grounded in economic reality, not political pressure. We should have strict limits on supplementary budgets and stronger parliamentary oversight and strengthen public access to budget execution and audit information.
3. Fix Health Financing Before It Breaks. Government should ensure timely and transparent reimbursement of Social Health Insurance claims. In the medium-term we should see increased domestic financing to replace declining donor support, with a clear focus on Primary Health Care. There should be strong oversight of the Social Health Authority to protect public funds and provider confidence.
4. Invest in Inclusive and Job-Creating Growth. Kenya should have a clear industrial and agro-processing strategy linked to decent job creation. Policies should create an enabling environment for stable, well-executed agricultural financing focused on productivity, climate resilience, and smallholders.
5. Make Gender Commitments Count. The National Policy on Women's Economic Empowerment should be backed by dedicated budgets, targets, and reporting. Across government, we should strengthen gender-responsive budgeting and ring-fence funding for GBV response, care services, and women's economic programmes.

Issues to monitor

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.

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.

Summary Table of Macro and Fiscal Indicators

(% GDP except where indicated)	Estimate	Forecast			Extended Forecast
Economy	**2024**	**2025**	**2026**	**2027**	**2028**
GDP (US$bn, 2024 prices)	120.3	125.7	131.9	138.5	145.4
Change in GDP	4.7%	4.5%	4.9%	5.0%	5.0%
Change in Agriculture	4.6%	4.1%	4.5%	4.8%	4.8%
Change in Industry	0.8%	2.9%	3.6%	3.9%	3.9%
Change in Services	6.1%	5.0%	5.4%	5.4%	5.4%
Change in gross investment	6.2%	3.9%	5.8%	6.0%	6.0%
Change in gross exports	7.5%	6.2%	8.4%	8.6%	8.6%
Current Account Balance	-3.7%	-3.9%	-4.0%	-4.0%	-4.0%
Fiscal	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Gross Revenue	18.2%	18.6%	18.6%	18.6%	18.6%
Gross Public Expenditure	24.5%	24.4%	23.6%	23.5%	23.5%
Public Investment	3.8%	4.0%	4.5%	4.8%	5.1%
Recurrent expenditure (excl. interest)	14.6%	14.1%	13.5%	13.0%	12.8%

Debt Interest	6.1%	6.4%	5.6%	5.7%	5.7%
Fiscal Balance	-6.3%	-5.8%	-5.0%	-4.9%	-4.9%
Public Debt	72.8%	74.1%	75.4%	77.0%	77.0%
Memo items					
Headcount Poverty (Int'l poverty rate ($3.00 in 2021 PPP))	44.5%	43.8%	43.2%	42.5%	

Note: The Headcount Poverty (Int'l poverty rate) was adjusted from ($2.15 in 2019 PPP)) to ($3.00 in 2021 PPP) to account for changes in global consumer prices

1. Macroeconomic context & outlook

Kenya's economy is holding steady in line with resilient growth in Sub-Saharan Africa, but in the medium-term, growth could be slowed down by disruptive political campaigns, weak global demand, elevated trade policy risk and increased geopolitical tensions in the Middle East and the ongoing Russia–Ukraine conflict. The country exhibited improvement in several macroeconomic indicators but the growth momentum slowed down in 2024 due to multiple challenges including floods, high interest rates and a tense business environment following the 2024 Anti-Finance bill protests.[i] There was a slight dip in GDP growth to 4.7% in 2024 and a further drop to 4.5% in 2025 is projected before a recovery to around 5% by 2028. The 2027 general election presents a notable downside risk to the medium-term outlook. Historically, Kenya's election cycles often bring increased uncertainty, postponements in investment and slower economic growth, which could hinder overall momentum. Overall, the economy is forecasted to grow, supported by ongoing resilience in agriculture, which depends on the successful expansion of climate-smart farming and investments in irrigation, along with reliance on the services sector and a gradual recovery in industry.

While the economy has demonstrated resilience, macroeconomic stability dictates prudent fiscal and monetary management, enhanced domestic revenue mobilization, deepening of structural reforms to boost productivity and sustained investment in resilient sectors to cushion the economy against future shocks and minimize the need for borrowing. Also, macroeconomic stability is still at risk should the disruptions caused by fluctuations in commodity prices and shrinking exports exert pressure on the balance of payments and exchange rate. Adverse pressure on the Kenya Shilling will drive the country into more external debt servicing. Any further spike in debt would be detrimental to the economy, with debt levels already beyond the ceiling of 55% of GDP at net present value and the nominal ratio projected to be above 70 percent of GDP in 2025.

On the monetary side, it appears that CBK has been using moral suasion on banks to keep spreads narrow, moderating volatility (by maintaining narrow bid–ask spreads, slowing the pace of depreciation and minimising speculative positioning) to avoid imported inflation and taking advantage of increased FX inflows (Eurobond issuance, concessional loans, diaspora remittances) to build reserves without letting the shilling appreciate too quickly. Market behaviour shows unusually stable spreads even during periods of monetary tightening while CBK has been making public statements emphasizing "responsible pricing" and meeting heads from the banking sector. There has also been concern over the exchange rate. While no public statements explicitly confirm a target band KES-USD exchange rate, recent consultation by the IMF raised concerns about limited FX flexibility that does not fully reflect market conditions. It will be of interest whether the government will allow the shilling to float freely or cautiously manage short-term volatility which may increase uncertainty for importers, investors, and debt servicing costs.

2.1 The economy – inflation, growth and investment

Kenya's economic trajectory shows gradual stabilization in GDP growth alongside a steady recovery in investment. Fig. 1 shows that after the sharp rebound in 2021, GDP growth moderates and converges across the projections by the World Bank and government at a stable medium-term growth path of around 5 percent. The slight dip in 2024 reflects the disruption in the business environment due to Gen-Z protests, tightening global conditions and domestic fiscal consolidation, before growth stabilizes in 2025–2027. The close alignment of World Bank and Government of Kenya forecasts suggests shared expectations of macroeconomic stability, driven by improved agricultural performance, easing inflationary pressures, and gradual recovery in private sector activity.

Fig. 1: GDP growth (annual % change)

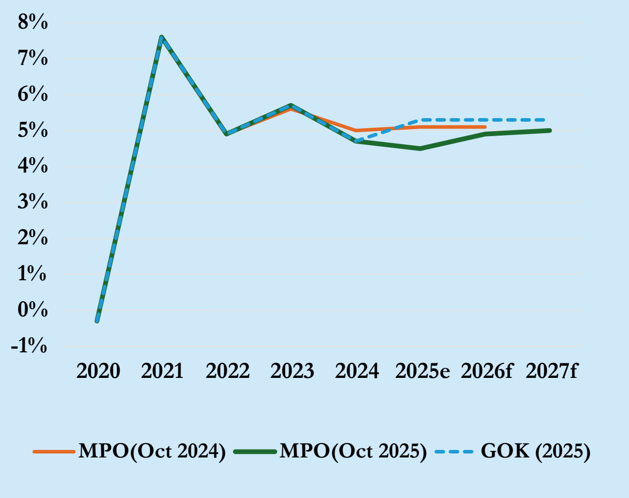
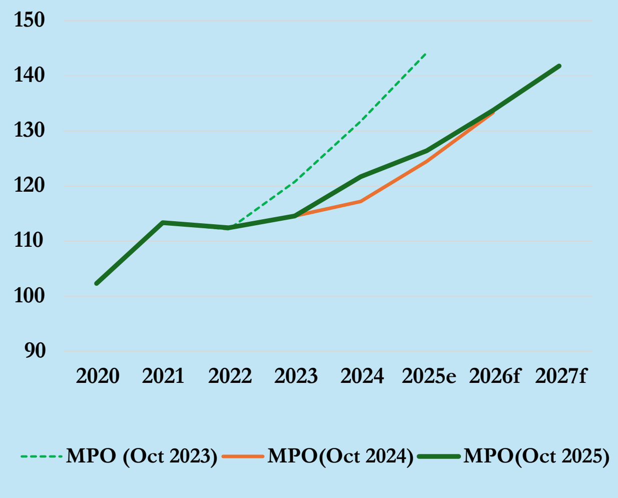


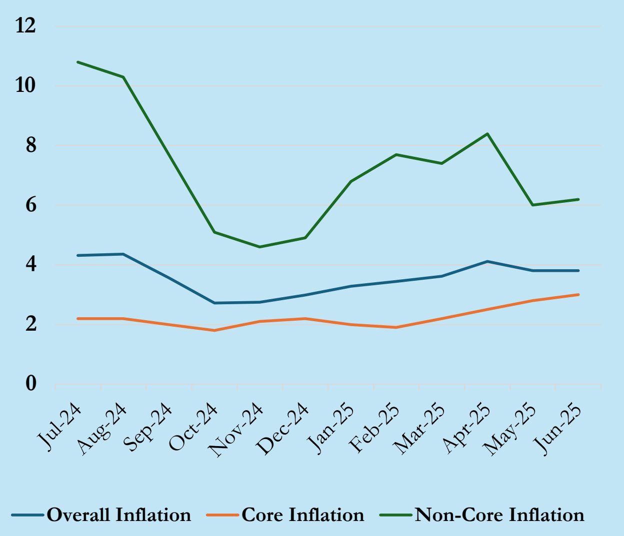
Fig. 2: Investment (index)



Source: World Bank MPO, BROP

Latest estimates for investment growth present an upward trend but paced, suggesting a more cautious but stable outlook, likely reflecting tighter financing conditions, rising debt service costs, and global uncertainties. The investment trends in Fig. 2 underscores improving 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: Inflation(%)



Source: KNBS

Building on the recovery in investment, the inflation trends in Fig. 3 suggest a more stable, but still fragile, macroeconomic environment that has not yet translated into stronger household purchasing power. While non-core inflation falls sharply between mid-2024 and late-2024, largely due to easing food and fuel pressures, this relief is partially reversed by early 2025 as seasonal food price increases and supply disruptions re-emerge. The rising cost of basic food commodities including cabbages, carrots, sifted maize floor, kales and tomatoes drove the high non-core inflation.[ii] Core inflation (calculated by excluding volatile food and energy prices from the Consumer Price Index (CPI) remains relatively stable, indicating contained demand-side pressures, but overall inflation significantly strain real incomes. In short, inflation volatility has eased compared to 2022–2023, but price levels remain high, meaning households continue to experience pressure on their disposable incomes despite the macro-level stability.

2.2 Consumption and Poverty

Fig. 4: Consumption per capita (% change)

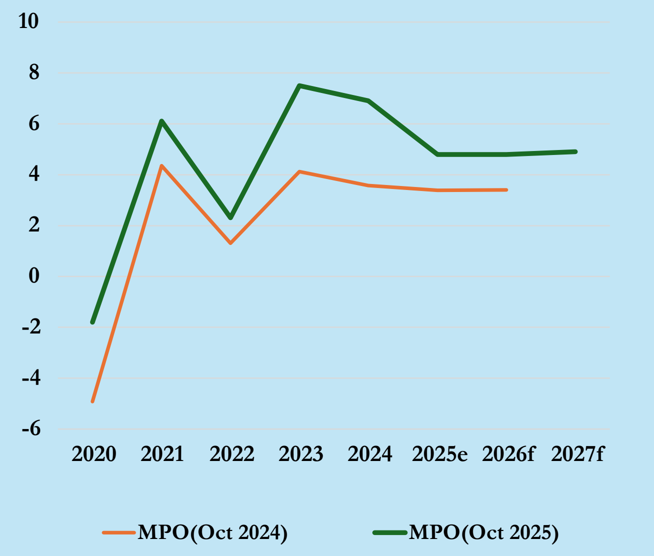
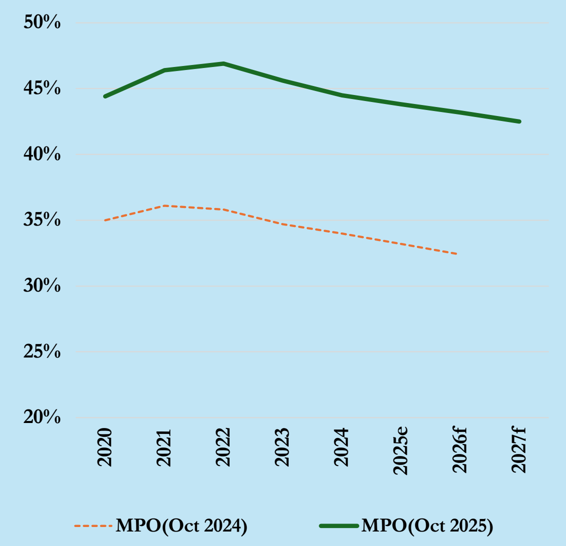


Fig. 5: Poverty rate (%)



Source: World Bank MPO

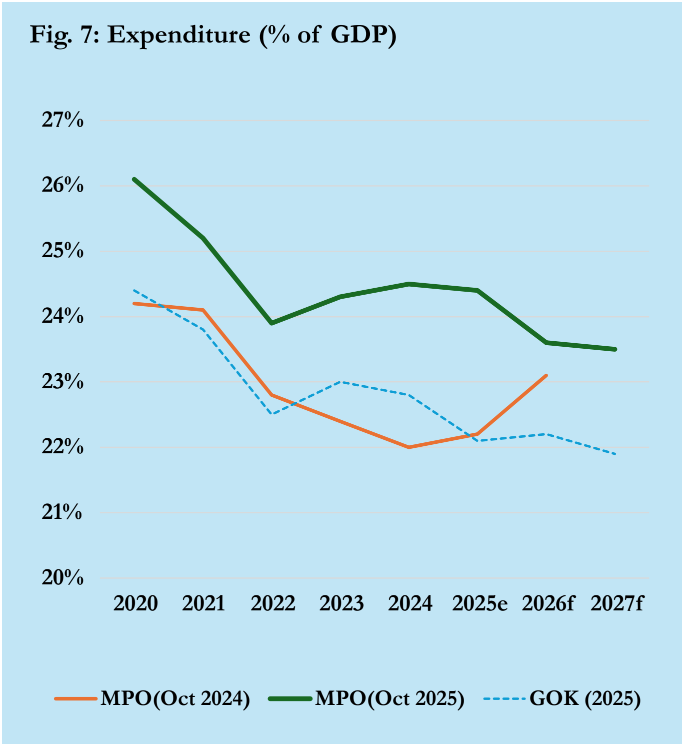
Although inflation has come down from 7.7% in 2022 to 4.5% in 2025, the stability in price levels has not translated into stronger household welfare as observed in the declining consumption per capita from 2023. Real average wage earnings per employee have dropped by 4% in the private and public sector over 2022-2024 meaning a decline in purchasing power[1] while formal employment growth remains weak. A decline in real wages indicates that most households are participating in low-productivity, informal work where income growth does not keep up with aggregate output. As seen in Fig. 4, consumption per capita is rising from a low base (that is, increasing from a very low starting post-Covid point) such that even modest improvements can look large in percentage terms without representing meaningful improvements in living standards in real terms.

The slowing down of the pace of growth in consumption per capita despite a stable 5% GDP growth can also be explained by Kenya's economic structure, particularly the effects of stagnation in manufacturing that is indicative of gradual movement toward de-industrialization. Over the past decade, the percentage of value added by the manufacturing sector has fallen from 10% in 2014 to 8% in 2024. It has also been fluctuating significantly despite various industrial policy commitments, including the Big Four Agenda, Kenya Industrial Transformation Programme (KITP), and Vision 2030 targets. Growth increasingly comes from lower-productivity sectors such as agriculture, forestry and fishing whose value addition as a percentage of the total for all the sectors has grown from 18% in 2014 to 21% in 2024 while the services sector's contribution to total value addition stood above 56% over the period.[iii] Growth in services and agriculture alone deepens the disconnect between macro-level indicators and household welfare because these sectors generate less formal employment, lower wages, and weaker links to household incomes than manufacturing.[iv]

[1]*According to the 2025 Economic Survey by Kenya National Bureau of Statistics (see Table 3.9 in the Employment, Earnings and Consumer Price Indices). Total real wage earning per employee dropped by 4% from KSh 696,817 in 2022 to KSh 665,418 in 2024 even if inflation has dropped from 7.7% in 2022 to 4.5% in 2024.*

Depressed household welfare is further confirmed by the rise in the poverty rate following adjustment of the international poverty line by the World Bank from $2 to $3.00[2] PPP (purchasing power parity) to account for high commodity prices. The World Bank's Macro Poverty Outlook projects a gradual decline over the medium term (see Fig. 5) – an observation that underscores the structural constraints limiting the translation of macroeconomic stability into welfare gains for low-income households.** Poverty reduction remains sluggish despite GDP growing steadily due to high food inflation, vulnerability to climate shocks, unemployment, and the ongoing pressures of fiscal consolidation. 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.

Government's failure to fully disburse allocations and increase expenditure at the rate the number of beneficiaries is increased is another factor that reduces 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. Disbursement per capita in real terms halved from Kshs. 23,954 in FY2021/22 to Kshs. 12,000 in FY2024/25 thus severely constraining poor and vulnerable families from meeting immediate needs such as food, shelter, healthcare, education, and transport. Kenya's social protection system should be



Source: World Bank, BROP

comprehensively strengthened to reflect current socio-economic realities, improve targeting and adequacy of support and safeguard vulnerable populations as the demand for assistance continues to rise.[3]

[2]*The poverty rate in the 2025 MPO is higher than as predicted in the 2024 MPO mainly due to the adjustment of purchasing power parity (PPP) from ($2.15 in 2019 PPP) to ($3.00 in 2021 PPP) to account for changes in global consumer prices. Link*

[3]*According to the Economic Survey 2025 , the number of OVC beneficiaries increased from roughly 294,000 in FY2021/22 to nearly 444,000 in FY2024/25 but the amount disbursed reduced from about Kshs. 7 billion to Kshs. 5.3 billion. Similar trends were observed with older persons and PWDs. In FY2021/22, Kshs. 18 billion was disbursed to 763,553 older persons only for the number of beneficiaries to increase to 1,252,428 in FY2024/25 against a reduced disbursement of Kshs. 15 billion. Similarly, PWDs increased from 33,948 in FY2021/22 to 62,335 in FY2024/25 but the amount disbursed declined from Kshs. 814 million to Kshs. 748 million.*

Fig. 6 and Fig. 7 together highlight a fundamental shift in Kenya's fiscal stance, showing a gradual strengthening of revenue performance contrasted with a more constrained expenditure path - reflecting the government's commitment to reduce deficits amid mounting debt-service pressures. In Fig. 6, revenue as a share of GDP rises modestly across all projections, with the MPO (Oct 2025) forecast showing a more stable and realistic increase toward 18% of GDP, although this may be overly optimistic given historical underperformance. Meanwhile, GoK projection (2025) around 17% reflects long-standing revenue stagnation while the downward revision divergence in MPO (Oct 2025) compared to MPO (Oct 2024) underscores reassessment of the feasibility of aggressive tax targets in a context of weakening consumption, high informality, and slow job growth.

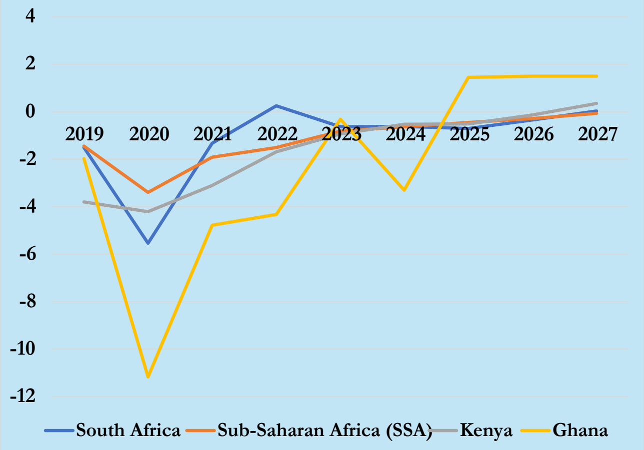


Fig. 8: Primary Balance (General government, Percent of GDP)

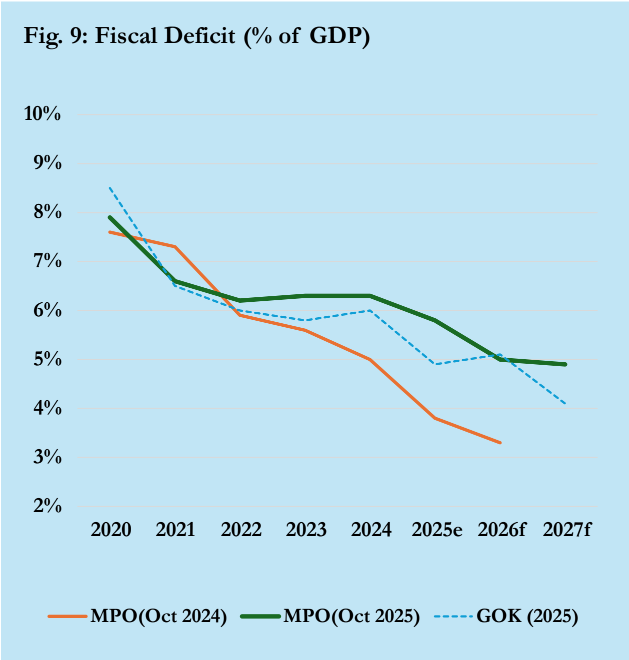
Source: IMF, WEO Oct 2025

Given the dominance of wages, pensions, and debt service in Kenya's budget, the extremely austere target by the government to reduce expenditure below 22% of GDP by 2027 calls for a deliberate action and good will in cutting wasteful expenditure flagged each financial year by the Controller of Budget. If wasteful expenditure is not addressed and every coin fails to be accounted for, any other way of achieving such a reduction in expenditure would target slashing of development and social spending as has been the trend in the previous budgets.

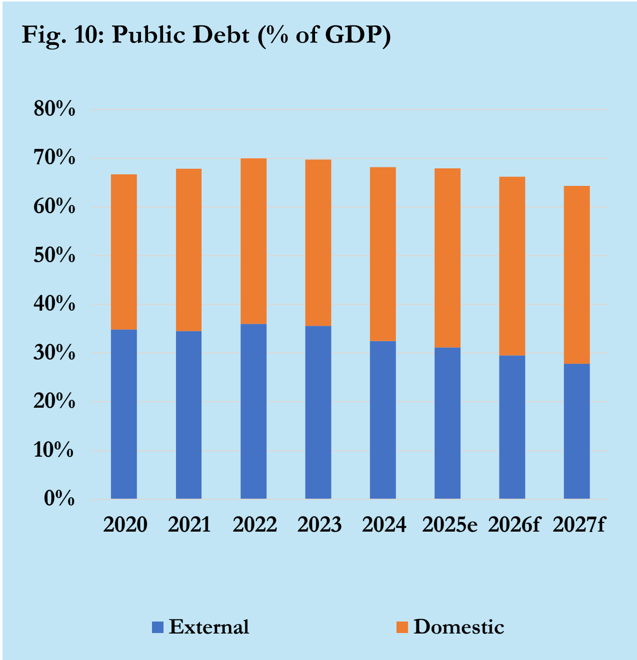
Compared to her peers and regional performance, Kenya exhibits a clear tightening of fiscal stances with a shifting from large primary deficits toward near balance, reflecting deliberate consolidation efforts. South Africa and Ghana have the largest adjustments, moving from deep deficits in 2020–2021 as governments cut spending and raise revenues to restore debt sustainability. Kenya's consolidation path is more gradual but still indicates a steady effort to reduce discretionary fiscal expansion.

2.3 The fiscal balance, debt sustainability and vulnerability to future shocks

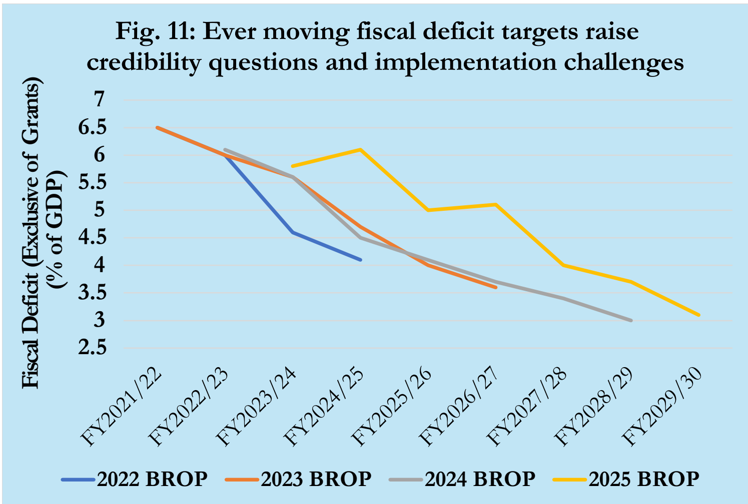
Kenya's fiscal deficit has been on a downward trajectory since 2020 but concerns about debt sustainability persist. Fiscal consolidation has proceeded slower than earlier projections and is expected to continue over the medium term. Rising debt service costs and persistent fiscal pressures temper this progress. The 2024 refinancing of Kenya's USD 2 billion Eurobond helped stabilize the shilling against the U.S. dollar but at the cost of higher interest obligations which intensify the debt servicing burden. Moreover, significant loan repayments are due in the next few years and while both external and domestic debt carry rollover risks, rollover pressures are increasingly driven by the structure and maturity profile of domestic debt, thus constraining fiscal flexibility. The recurrent use of supplementary budgets further undermines deficit reduction efforts as upward revision of expenditure that is not matched by equal revenue growth creates a need for more borrowing. The Government of Kenya and the World Bank both project a continued decline in the fiscal deficit but the World Bank has a more conservative outlook.



Data source: World Bank



Data source: BROP 2025



Data source: BROP

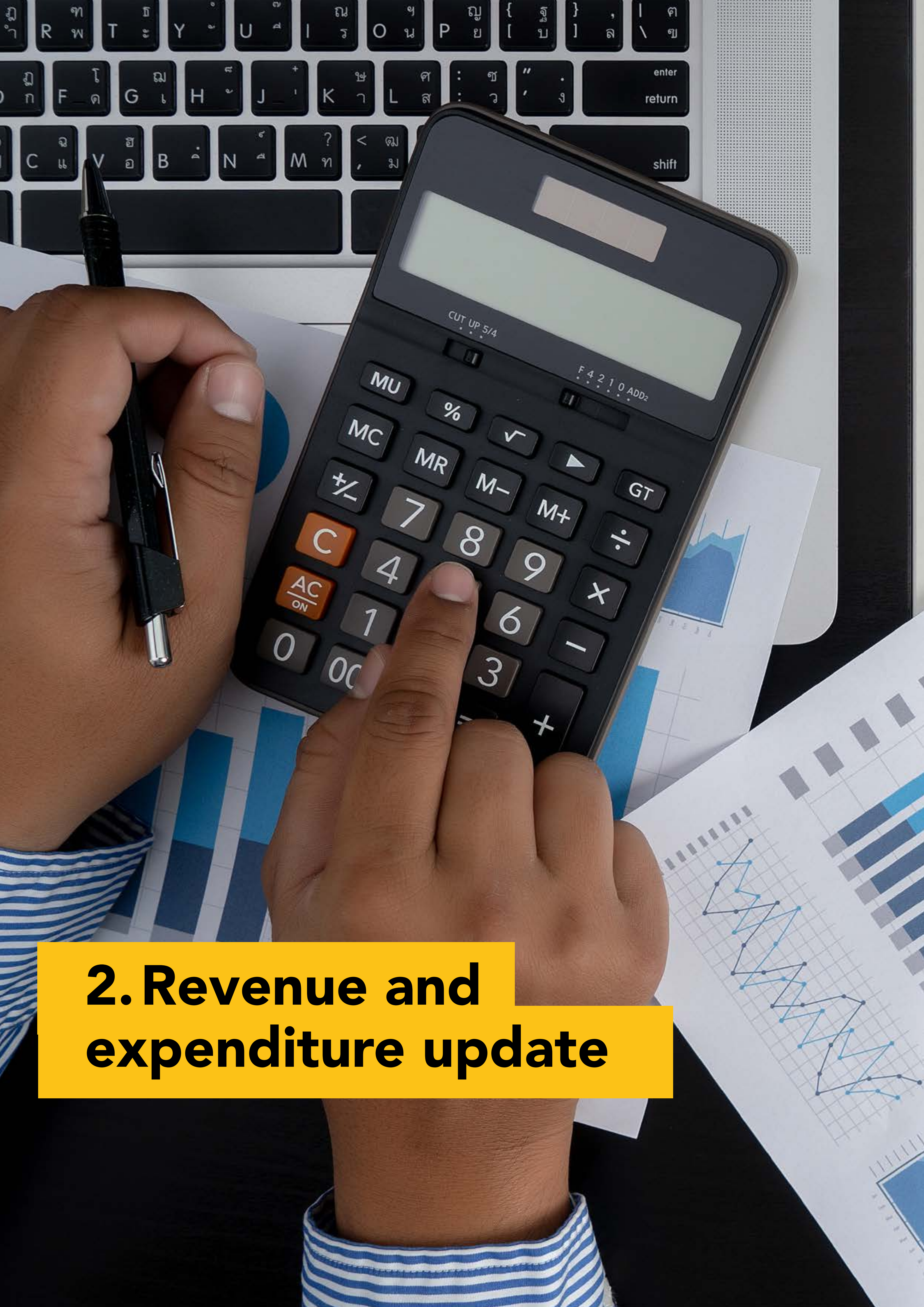
Whereas fiscal deficit trajectories support a consistent narrative of tightening fiscal policy, they also expose significant optimism bias with repeated revisions illustrating credibility challenges and implementation risks facing Kenya's medium-term fiscal strategy. As shown in Fig. 11, projections in the 2022 Budget Review and Outlook Paper (BROP) were much steeper than subsequent projections leading to a deficit of about 4 percent by FY2024/25. Later BROPs show progressively flatter consolidation paths, signalling the government's recognition of more difficult macro-fiscal realities, including revenue underperformance, high debt service, and expenditure rigidities. 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.

Anchoring fiscal policy to clearer and externally monitored targets, for example by entering another IMF program, Kenya could address persistent credibility and implementation gaps if it could strengthen reforms in revenue mobilization, debt management, and expenditure controls. IMF programs typically improve the predictability of macroeconomic policy, enhance investor confidence, and create discipline around fiscal consolidation - particularly in environments where oversight institutions, accountability and governance are weak. The Fund's technical assistance can also support improvements in public financial management, tax administration, and state-owned enterprise oversight, helping align annual budgets with medium-term fiscal frameworks.

However, IMF programs carry significant trade-offs. Conditionalities that come with the Fund's program may require rapid fiscal tightening, constraining social spending, restricting development expenditure, and fomenting political resistance. Also, front-loaded austerity can suppress household welfare and slow economic growth. Moreover, over-reliance on IMF signalling can weaken domestic policy ownership, making reforms harder to sustain once the program ends.

2.4 Summary of near future economic and fiscal outlook

Kenya's economy continues to exhibit resilience in the face of both domestic and external shocks. There is however a slowdown in the pace of growth in comparison with previous projections. In addition, the pace at which poverty rate is reducing reveals structural constraints (such as high fiscal rigidity limiting pro-poor spending, heavy reliance on low-productivity informal employment, climate vulnerability, low budget execution and declining real wages and limited labour absorption) limiting the translation of macroeconomic stability into welfare gains for low-income households. Looking ahead, growth is projected to recover gradually in the medium term supported by improvements in key sectors and stabilizing macroeconomic indicators. This forecast is, however, threatened by fiscal indiscipline characterized by frequent use of supplementary budgets which raises the fiscal deficit as well as the rising accumulation of public debt. Moreover, fiscal consolidation efforts are not fully supported by as the fiscal practice where actual fiscal deficits and expenditures keep exceeding original estimates. As shocks from both domestic and external sources intensify, the government must deliberately take a stance towards maintaining fiscal discipline ensuring growth is shared equitably and reinforcing its social protection measures.



2. Revenue and expenditure update

3.1 Revenue overview:

Kenya's revenue performance continues to signal persistent forecasting weaknesses, underscoring the gap between targeted and actual collections. Although revenue outturns for FY 2024/25 increased slightly, annual forecasts have repeatedly fallen short despite downward revisions following the rejection of the Finance Bill. Ordinary revenue grew by 5.7 percent, with all major tax heads posting growth and import duty and VAT on imports exceeding their targets. Ministerial AIA also rose by 22 percent, driven mainly by higher fees and charges introduced by MDAs. In addition to setting more realistic and credible revenue targets that reflect underlying economic there is a need for effective enforcement that would make new digital systems and broadened tax bases to fully materialise while addressing implementation lags for new tax measures, tax exemptions and compliance challenges.

Fig. 12: Revenue Outturns & Forecast (% of GDP)

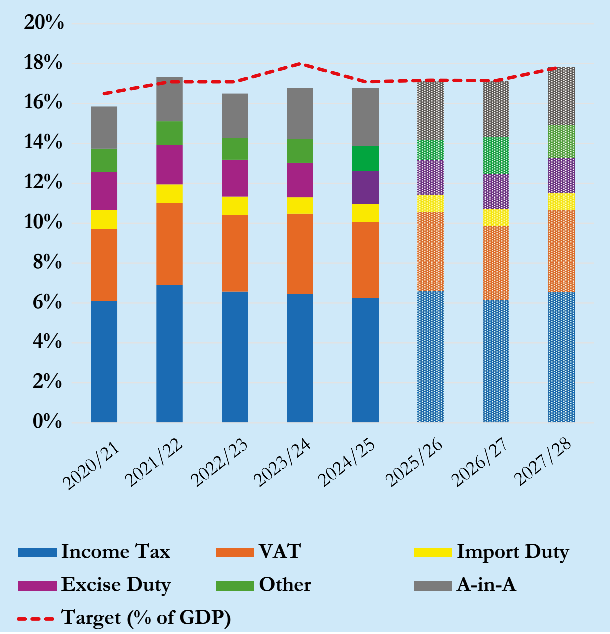


Fig. 13: Revenue Outturn & Forecast (Ksh.bn)

Source: BROP

Kenya's 2024 fiscal strategy illustrates a deliberate shift toward strengthening revenue administration rather than expanding the tax base, highlighting both progress and uncertainty in the medium-term outlook. Instead of introducing new tax measures, the government relied on administrative reforms through the Tax Laws (Amendment) Act 2024 and the Tax Procedures Act 2024. A key provision was the introduction of the Significant Economic Presence (SEP) tax, replacing the digital services tax, which generated KSh 14.3 billion in collections, a 32 percent increase from the previous financial year. While this performance is encouraging, these significant gains remain too early to assess for long-term sustainability. Continued reforms and monitoring will be essential building a resilient and predictable revenue administration system.

Fig. 14: Fiscal Balance- Planned vs. Actual

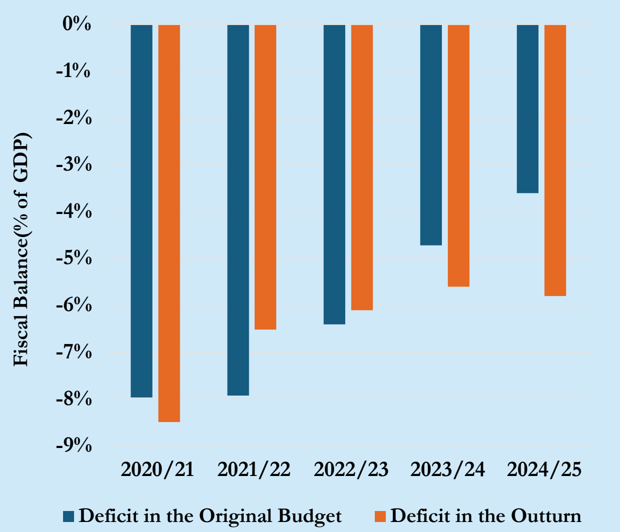
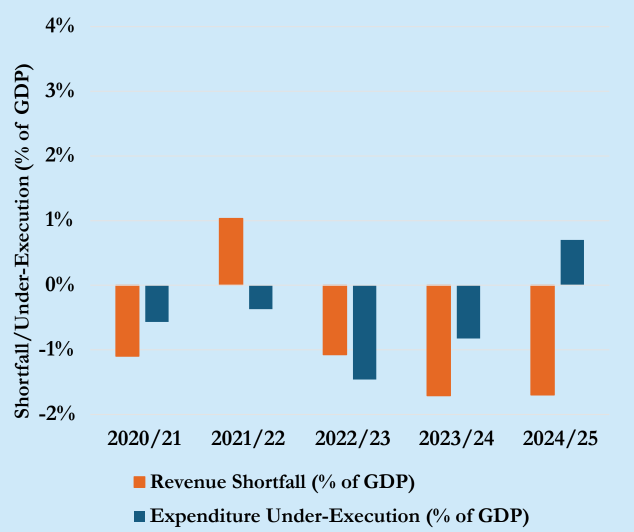
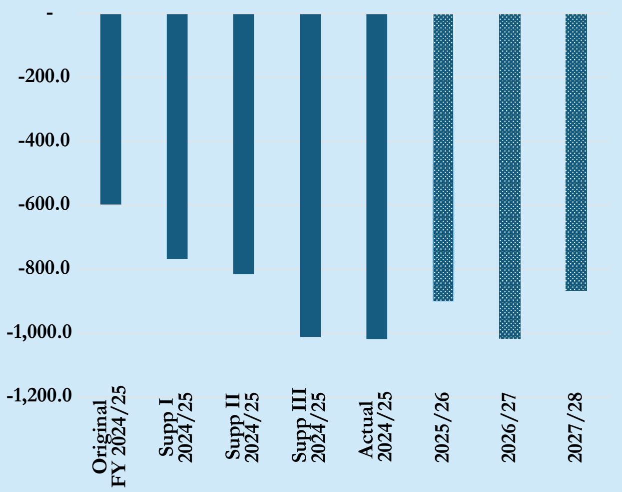


Fig 15: Revenue & Expenditure Execution



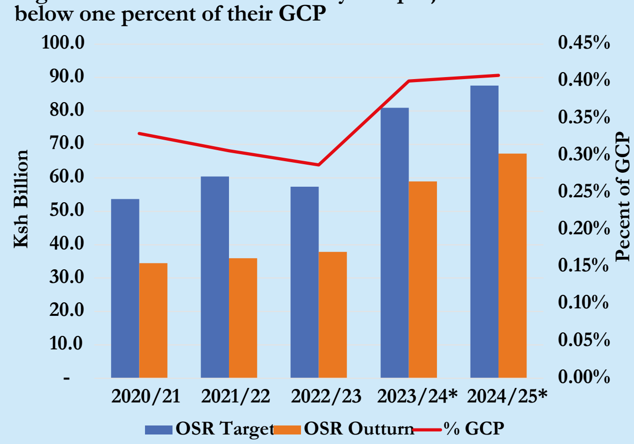
Source: BROP

Fig 16: Fiscal Deficit Ksh Billion



Source: BROP, QEBR

Fig. 17: Counties' OSR is not only overprojected but also falls below one percent of their GCP



Data source: OCoB and KNBS.

Note: GCP for 2023/24 and 2024/25 is estimated by IPF assuming the historical growth rate of 12% will hold.

Kenya's fiscal health continues to show budget execution weaknesses, with fiscal deficits persistently overshooting targets over the last five years despite stated commitments to consolidation. The projected fiscal deficit in FY 2024/25 underwent several revisions from an initial estimate of KSh. 597 billion to KSh. 1012 billion in supplementary budget III. Despite the revisions, actual outcomes still exceeded the revised target, underscoring difficulties in aligning spending with revenue realities.

The fiscal deficit averaged 6.5 % of GDP over the last five fiscal years. In FY 2024/25, the fiscal deficit was 5.8 percent against a target of 3.8 percent, up from 5.6 percent in the previous year, driven largely by a 1.7 percent revenue shortfall and partly by a 0.7 percent over-execution in spending. The consistent widening of the fiscal deficit has contributed to more borrowing in an environment where debt service is already crowding out development spending. In FY 2025/26, the government aims for a moderate deficit of 4.9 percent of GDP, which heavily depends on improved revenue collection, realistic revenue projections, and strict expenditure control measures including the proposed zero-based budgeting approach.

At the subnational level, counties rely overwhelmingly on equitable transfers from the national government thus limiting fiscal autonomy. Counties consistently over-project their Own-Source Revenue (OSR) while actual collections remain far below targets and critically low relative to county economic activity. Despite modest growth in OSR outturns, counties still collect less than 1% of their Gross County Product (GCP) while their potential as projected by the Commission on Revenue Allocation is 2 % (KSh. 260 billion). In FY 2024/25 Counties collected KSh 67 billion (77 percent) of their annual revenue target with standout performances in Kisii (178%), Tana River (133%), and Mandera and Wajir (123%). This relatively strong performance by these three counties is reported in the 2025 BROP as a result of enactment of Finance and Fiscal Acts, strengthened revenue collection measures and digitization of revenue streams which curbed leakages and improved compliance. Conversely, Nairobi posted the weakest performance against target despite generating the highest OSR. 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.

3.2 Expenditure overview:

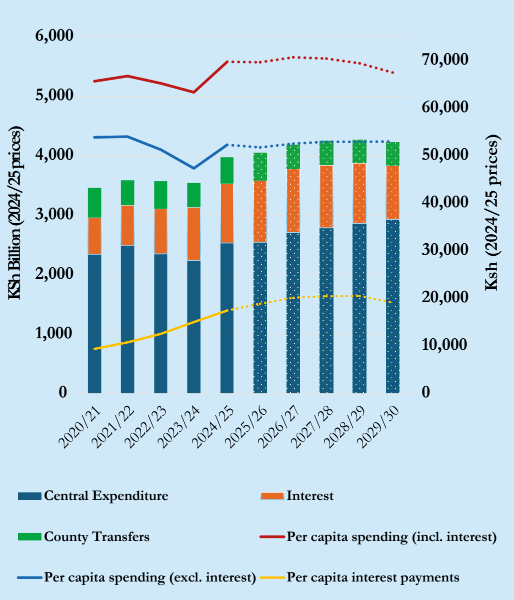
Kenya's expenditure composition over the past five years reveals a rigid fiscal framework increasingly dominated by non-discretionary spending, leaving limited room for policy flexibility and investment-driven growth. Government expenditure has averaged about 22–24% of GDP, with recurrent components, 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.[v]

Transfers to counties have maintained a modest and stable share, while pensions and related transfers are gradually expanding, adding to the recurrent burden. That is, Kenya's fiscal space is largely absorbed by fixed obligations such as debt service, wages, and pensions, crowding out productive spending. Should any shock that would further constrain the fiscal space hit, it would disproportionately affect development expenditure based on historical experiences.

Kenya's 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. Total spending is expected to rise gradually in nominal terms but remain broadly stable as a share of GDP, reflecting fiscal consolidation that is however

Fig 18: Expenditure (% of GDP)

Fig. 19: Total (LHS) & per capita (RHS) Expenditure



Source: BROP

moving at a speed slower than expected due to revenue outturns that are consistently exceeded by expenditure outturn. Recurrent expenditure will continue to dominate, driven by wage obligations, pensions, and rising interest payments linked to growing debt service costs. Conversely, development expenditure is projected to expand marginally, underscoring its vulnerability to in-year budget adjustments and limited fiscal space for new investment projects. County transfers are expected to shrink modestly from 2.5% to 2.1% as a share of GDP (Figure 18), offering no boost to devolved functions. Overall, the projections point to a tightening fiscal environment where non-discretionary spending increasingly crowds out development priorities, necessitating expenditure rationalization and improved fiscal discipline to sustain growth momentum.

Government expenditure continues to be dominated by general public services (Key governmental administration, management, and essential cross-cutting functions not tied to a specific sector), driven by the high cost of governance and rising debt servicing, which continues to crowd out priority sectors such as health and education. From FY 2020/21 to 2024/25, spending on general public services has consistently taken the largest budget share, highlighting persistent fiscal pressures. Economic affairs and education also absorb substantial expenditure portions, signalling the government's effort on economic recovery and human capital development, while defence records a notable contraction in FY 2024/25 in line with fiscal consolidation efforts. In contrast, housing and community amenities and recreation, culture, and religion record the sharpest increases in percentage terms, indicating renewed attention to social infrastructure and community wellbeing. However, Exchequer spending on housing should decline since the housing levy now provides a dedicated funding source for the sector. Meanwhile, marginal increases in health, social protection, and environmental protection risk constraining resilience and social welfare. Generally, the expenditure pattern shows a cautious fiscal stance, with the government balancing debt obligations and essential public services delivery amid tight budget conditions.

Fig. 20: Government Expenditure (by-function (2024/25 prices))

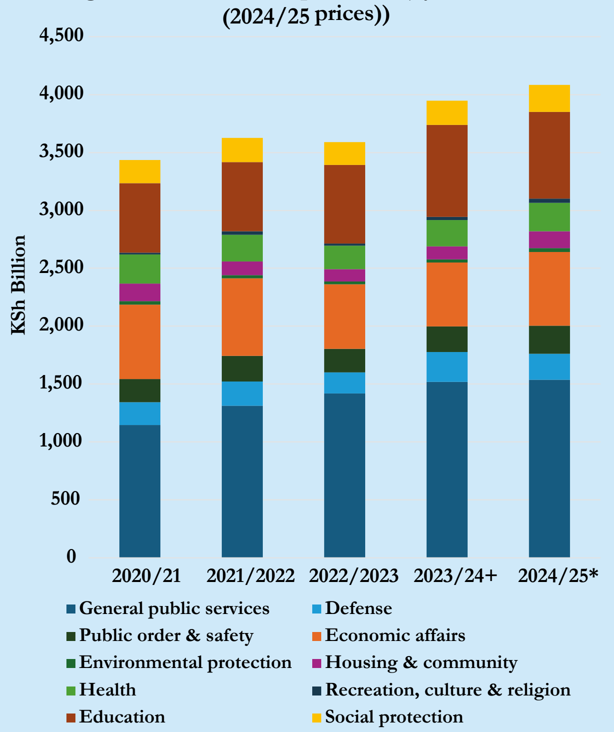
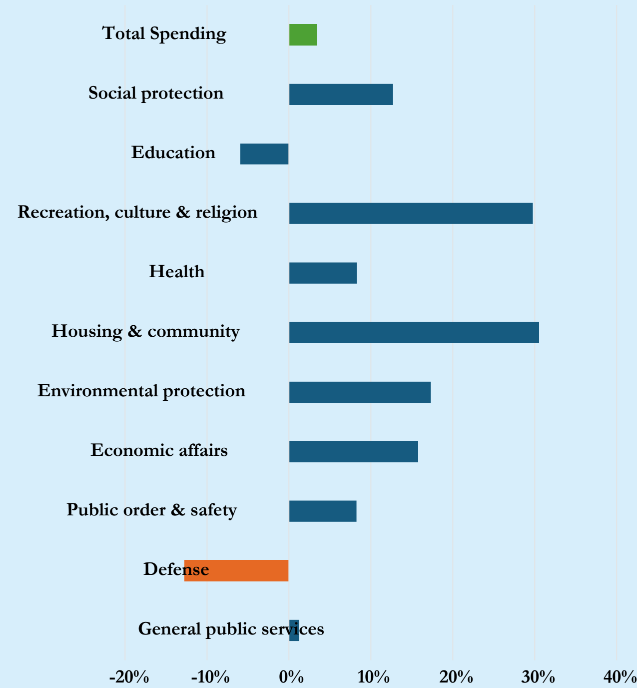


Fig. 21: % change in spending (2023/24-24/25)



*Notes: * Provisional + Revised estimates*

Source: Economic Survey

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%. The pattern suggests that even if expenditure cuts are planned, historical trends make full implementation unlikely, undermining fiscal consolidation. The shortfalls are largely driven by revenue optimism and limited absorptive capacity, especially in development and non-salary recurrent spending.

Fig. 22: Counties Revenue & Expenditure Execution

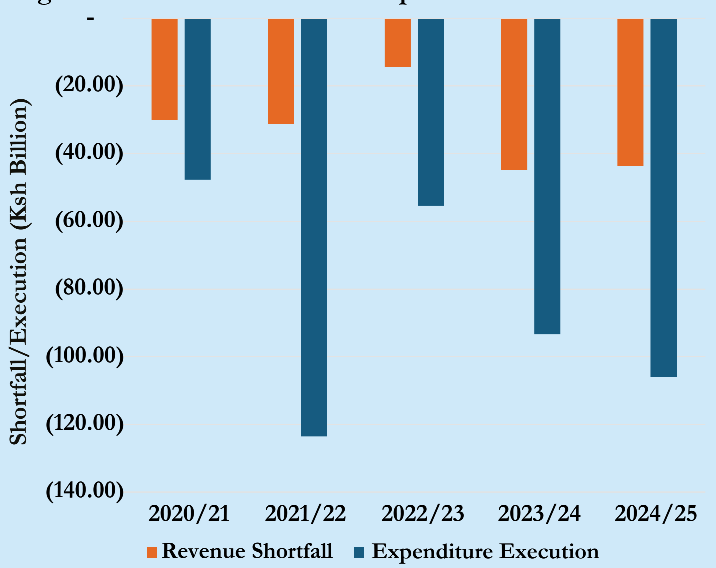
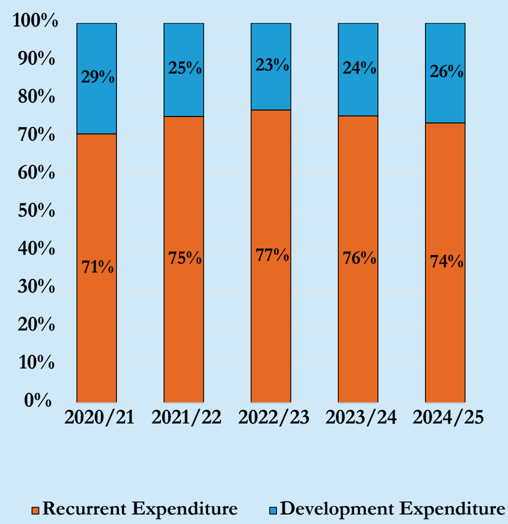


Fig 23: % of Total Expenditure



Source: OCOB Reports

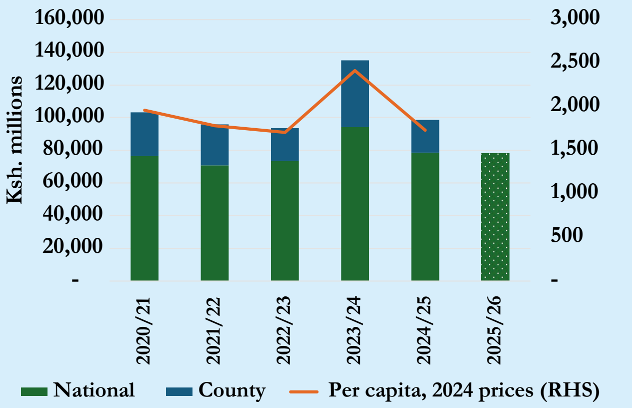
3.3 Zooming in into select sectors: Agriculture, Gender, WASH and Nutrition

The first budget to be formulated and approved by the Kenya Kwanza administration, that is FY2023/24, 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.

Zoom into Agriculture

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. Such abrupt fiscal contractions erode medium-term planning and reduce the effectiveness of investments in critical

Fig 24: Agriculture Expenditure (2024 prices)



Source: Agriculture Rural and Urban Development (ARUD) sector reports inputs like irrigation, extension, and mechanization. They also risk widening county-level disparities in food security and stalling progress on Kenya's Agriculture Sector Transformation and Growth Strategy (ASTGS), especially in marginal counties.[vi]

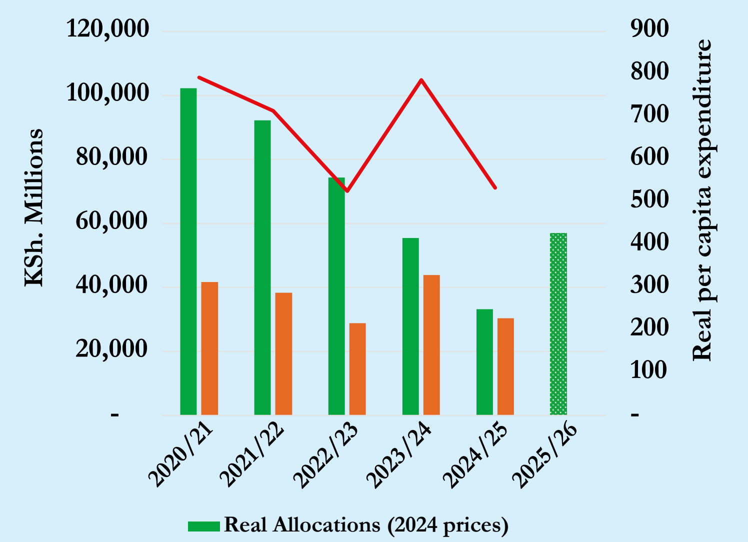
The decline in allocations is exacerbated by low and uneven execution, amplifying the gap between budget intent and sector outcomes. Real expenditures consistently lag behind planned allocations, with under-execution particularly severe at the county level, where political and capacity constraints further weaken delivery. For example, despite being a budget priority, allocations intended for agricultural mechanization and irrigation often remain underutilized due to weak institutional capacity and insufficient county counterpart (co-financing) contributions – whether through formal matching requirements or operational and complementary spending needed to utilise national or donor-funded investments.[vii] Spending shortfalls are occurring at a time when key productivity levers, such as input subsidies, market support, and climate adaptation investments, need better targeting rather than deeper cuts. The existing fertilizer subsidy program is aimed at improving short-term yields but lacks integration with extension services, climate-smart practices, and post-harvest support.[viii] As a result, productivity among smallholders remains low and vulnerable to shocks, limiting income diversification and export competitiveness[ix].

Despite these fiscal and execution challenges, the sector demonstrated notable progress in FY 2023/24, reflecting partial achievement of BETA priorities. Tea production rose by 17%, from 273.64 million kg to 321.09 million kg, contributing to increased export earnings, with tea and flowers generating KSh 54.7 billion, up from KSh 44.6 billion the previous year. Marketed milk increased by 6.9% from 754.3 million litres in 2022 to 806.6 million litres in 2023 while maize production expanded to 2.35 million hectares under food security and crop diversification interventions. The coffee revitalization program distributed 49,000 seedlings across four counties, and rice production reached 24,404 ha, supported by Thiba Dam irrigation. Input support benefited over 1.43 million farmers through subsidized fertilizer and the e-voucher system, and agricultural insurance covered 647,017 farmers across 41 counties. Infrastructure and value chain development included two potato cold storage facilities, two rice milling and packaging facilities, and 18 County Aggregation Industrial Parks (CAIPs). Additional interventions covered agricultural mechanization, technology innovation centers, pest and disease management, agro-processing, and the revitalization of the miraa industry. While these outputs indicate progress in key commodities and service delivery, the Annual Progress Report (APR) does not consistently report planned versus achieved targets for many BETA indicators, limiting the ability to fully evaluate sectoral performance relative to strategic objectives such as yield improvements, post-harvest loss reduction, and county-level implementation.[x]

High-level zoom into WASH

While there is general improvement with access to WASH services, significant regional disparities persist, with parts of the country still lagging behind. Real expenditures in the WASH sector have since 2020/21 been declining except for 2023/24, representing a total decline of about 54.6% over a three-year period. Moreover, actual (real) expenditures have consistently lagged behind allocations, showing that while allocations dropped steadily, spending has remained erratic and well below the budgeted amounts. This steep decline may, in part, reflect government efforts to align future allocations with historical

Fig 25: WASH Expenditure (2024 prices)

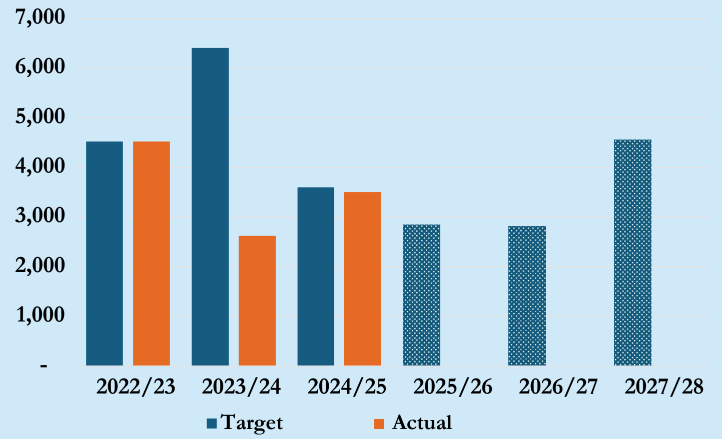


Source: Office Of the Controller of Budget (OCOB) reports spending capacity, as budget execution rates in the WASH sector have consistently been low. According to the UNICEF Kenya Annual Report 2024[xi], progress has nonetheless been recorded, with 677,060 people gaining access to hand hygiene facilities and 375,103 people gaining basic access to safe water. However, the Joint Monitoring Programme for Water Supply, Sanitation and Hygiene report[xii], also notes that WASH insecurity is still higher in northern and eastern zones of Kenya. It is recommended that the government places greater priority in equitable investment and upscaling interventions targeting underserved regions. Strengthening budget execution mechanisms and fostering county-level capacity for project implementation will be essential to translating allocations into tangible service delivery.

High-level zoom into Nutrition

There is still a great need to strengthen nutrition interventions, especially in ASAL areas where vulnerability remains highest. According to the 2025 Analysis of Food System for Children in Kenya by UNICEF, Kenya continually faces a triple burden of malnutrition, that is under-nutrition (stunting/wasting), over-nutrition (obesity/overweight) and micronutrient deficiencies. Data showed that levels of stunting were at 18 percent, wasting at 5 percent, and underweight at 10 percent in children under age 5. It is also notable that in ASAL (arid and semi-arid lands) counties, wasting rates exceed 20% in some counties, for example, Marsabit recorded 20.4%, Turkana 22.6%, and Wajir 22.8%. These figures exemplify the urgent need for targeted, context-specific nutrition and food security interventions to address persistent inequalities and improve child health outcomes across Kenya.

Fig. 26: Nutrition Expenditure (2024 prices)

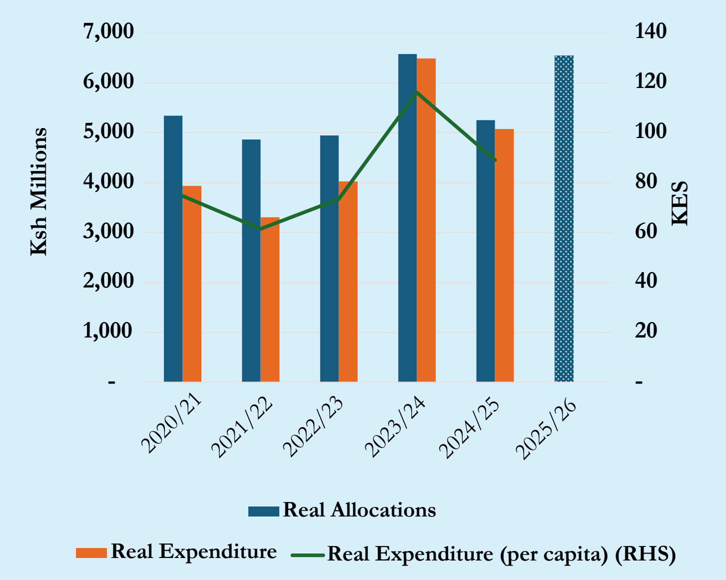


Source: Programme Based Budget (PBB) & OCOB Reports

High-level zoom into gender

Gender-related funding in Kenya increased temporarily in FY2023/24 but subsequently declined in both real allocations and real expenditure, raising concerns about the consistency, prioritization of gender-responsive budgeting across MDAs and vulnerability of gender programs to fiscal consolidation pressures. Surprisingly the little commitment to gender programs as reflected through inconsistent expenditure patterns shown in Fig. 27 contrasts numerous government's gender priorities usually highlighted in Budget Policy Statements (BPS). These priority areas include women's economic empowerment through the Hustler Fund and Women Enterprise Fund, expanded affirmative action

Fig 27: Gender Expenditure (2024 prices)



Source: OCOB Reports

Note: The graph presents data for the State Department for Gender, covering programmes such as Gender and Affirmative Action and the National Gender and Equality Commission financing, efforts to eliminate gender-based violence (GBV), and provision of sanitary towels and GBV survivor services.[xiii] To protect the gains made through gender-targeted programs, there is a need for predictable, ring-fenced, and performance-linked financing to safeguard gender outcomes in a tightening fiscal environment.

The observed deprioritization of gendered programs in resource commitments can be linked to the stalled progress in closing economic and political gender gaps that has resulted in Kenya slipping from 75th in 2024 to 98th out of 148 countries in the 2025 Global Gender Gap Index. The drop reflects widening disparities in economic participation, particularly in labour force participation, wage equality, and access to productive assets, despite gains in education and partial improvement in political representation[xiv]. Persistent underfunding of gender-responsive programs, such as care services and Gender Based Violence response, coupled with weak execution at county level, has constrained the conversion of policy ambition into measurable outcomes for women. Without predictable financing and clear performance incentives for counties, Kenya risks further deterioration in global gender rankings and undermining commitments under SDG 5(Achieve gender equality and empower all women and girls) and Vision 2030 which aims for a Kenya 'in which equality is entrenched, irrespective of one's race, ethnicity, religion, gender or socio-economic status'.

Unlike health or education, gender programs lack statutory budget floors, and their fragmented placement across ministries leaves them vulnerable to discretionary cuts[xv]. Moreover, under-execution at the county level, especially for GBV response, care services, and women's enterprise support, has weakened the case for higher allocations, as observed in IPF's 2025 analysis of county budgets[xvi] Persistent gaps in gender tagging, budgeting practices, and policy follow-through further limit the absorption and visibility of funds, an issue flagged in recent reviews of the national budget's gender responsiveness[xvii].

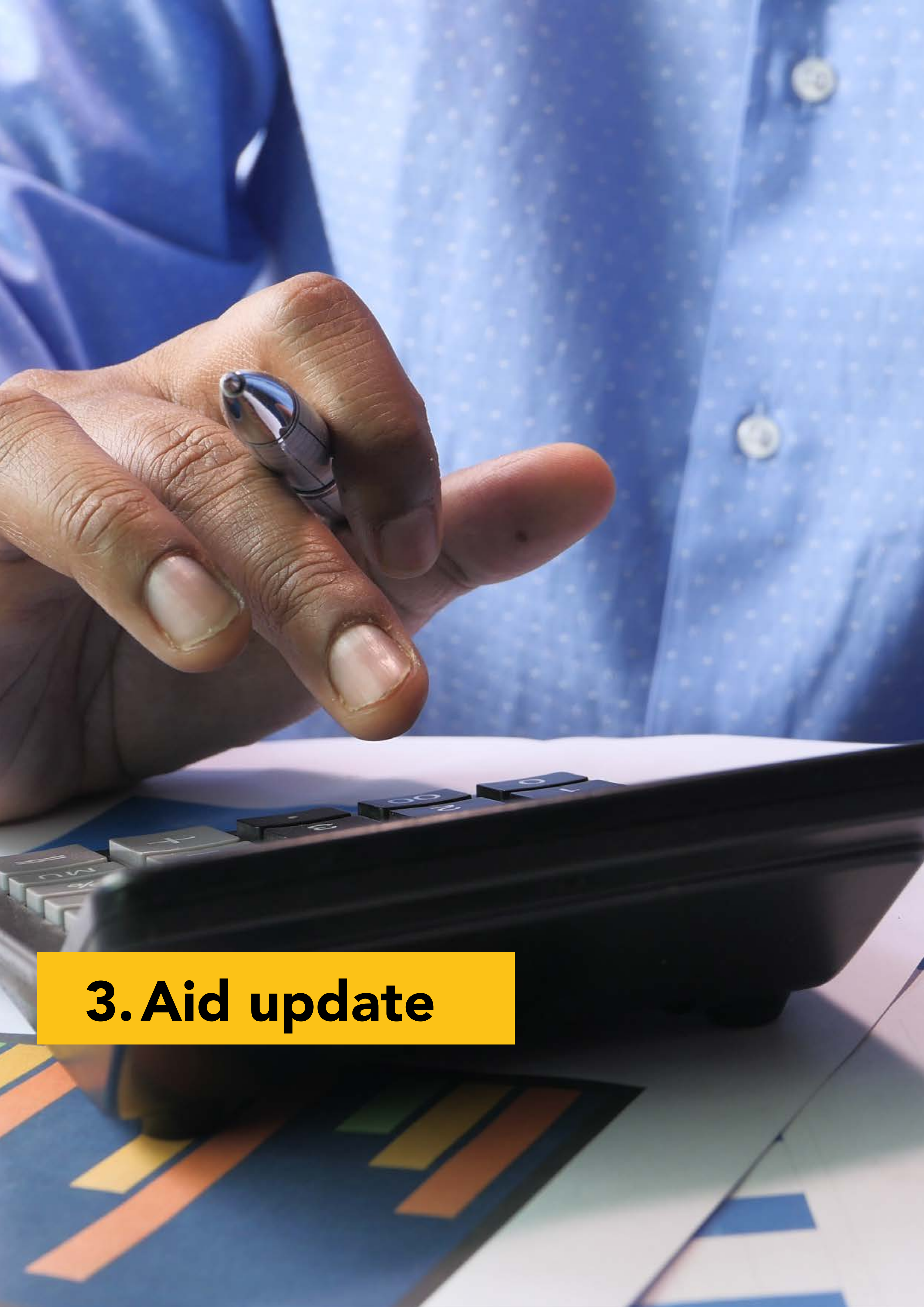
3.4 PFM performance

Privatization of non-performing SOEs did not take off despite a Cabinet memo being dispatched in early 2025, but now with the Privatization Act 2025, the government is expected to move forward in a transparent and open manner. In 2023, the Government of Kenya developed the 2023 Privatization Act, with the goal of facilitating privatization of SOEs. However, in January 2025, the High Court declared the 2023 Act unconstitutional and void. The decision was based on procedural grounds, in particular grossly inadequate public participation, which violated Article 118 of the Constitution. However, in October of 2025, the country saw the signing into law of the Privatization Act, 2025.[xviii]

Despite the move by the executive to establish the National Infrastructure Fund (NIF) as a legal entity within Government Enterprises Fund, its establishment under the Government Owned Enterprise Act is mischievous in that it avoids legislative scrutiny and oversight while channelling proceeds from privatization to the Fund does not align with the requirement of the Privatization Act that stipulates such proceeds to be deposited into the Consolidated Fund. The resulting inconsistency raises concerns regarding legal coherence, transparency, and the lawful sourcing of the Fund, notwithstanding the legal validity of the Fund's establishment. **to receive proceeds from the privatization of SOEs with no clarity if this will be done by amending the Privatization Act.** The real test still lies in the extent to which it translates from legislative intent into tangible progress within the government's privatisation agenda.[4] These concerns relate to legality, transparency, accountability, and alignment with constitutional and PFM frameworks. It is not enough for the government to just mention that the fund will be sustained through resources from the national budget, private sector investments, and proceeds from privatisation while there is no clarity on the timelines for the fund's operationalisation and the potential strain it may place on the national budget. Additionally, the fund may face opposition owing to historical malpractices, such as diversion of funds, that have been flagged by the OAG.

[4]*The Privatization Act, 2025* link.

While eyes remain on Parliament to provide effective oversight of privatization of SOEs and operationalization of NIF, the scrutiny of audit reports by the legislative arm in Kenya has serious gaps. The law requires the Public Accounts Committee (PAC) to examine the audit findings from the Office of Auditor General, and consequently summon accounting officers, and prepare reports with recommendations for corrective action. However, the process of legislative scrutiny is riddled with weaknesses. Notably, despite the PAC's mandate to summon any public officer to account, there is normally very little compliance from those summoned, as key officers frequently fail to appear before the committee or submit the requested documentation. Additionally, although the legislative scrutiny process involves the airing of the hearings to the public, there is limited publication of final reports and no structured mechanism for public or civil society engagement during audit hearings[xix]. To strengthen this process, Parliament should enforce stricter compliance measures for summoned officials and institutionalize public and civil society participation in audit hearings.



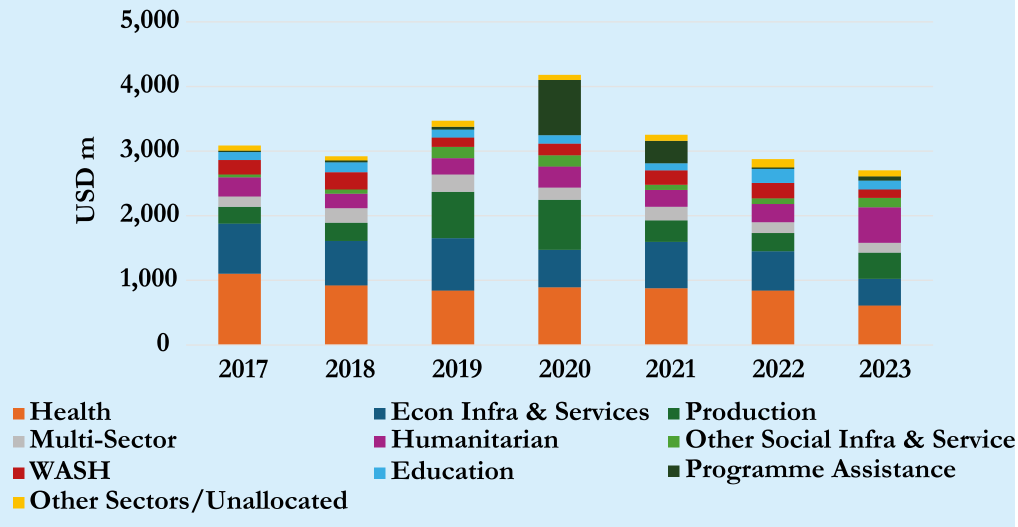
3. Aid update

Kenya's declining Official Development Assistance (ODA) reflects both structural economic transformation and the global re-prioritisation of concessional finance toward more fragile economies. Over the period 2017-2019, ODA disbursements have remained broadly stable at about USD 3 billion annually (equivalent of 2.5 percent of GDP and 15 percent of total revenues), spiked during Covid in 2020 after which it has been on a decline by 2023. Most assistance continues to be delivered through project-based modalities, limiting fiscal flexibility and integration into the budget framework. While concessional aid remains important in health, education, and social protection, reduced access to soft financing has prompted greater recourse to commercial borrowing, raising debt-service pressures and underscoring the need to mobilise domestic revenues.

Remittances have now overtaken ODA as Kenya's largest source of external financing, highlighting a structural shift toward private, market-driven inflows. Since 2021, remittances have consistently exceeded ODA, surpassing it by more than USD 1 billion in 2023, while ODA's temporary spike in 2020, driven by pandemic-related programme assistance, has since normalised. The United States and the World Bank together account for about half of Kenya's total ODA disbursements. However, a further decline is expected following announced cuts by France, Germany, the United Kingdom, and the United States in 2024. This decline, coupled with the reallocation of aid toward low-income and fragile countries, reinforces the need to broaden Kenya's tax base, enhance collection efficiency, and strengthen debt management to sustain critical programmes such as Universal Health Coverage (UHC).

The 2023 sectoral composition of ODA indicates a shift from health and infrastructure toward humanitarian and resilience-oriented support. Humanitarian assistance rose sharply to USD 553 million, the highest in recent years, reflecting donor responses to food insecurity and climate-related shocks. ODA to the health sector declined to USD 614 million as emergency pandemic funding tapered off, while allocations to economic infrastructure fell further to USD 409 million. By contrast, production-sector funding increased to USD 404 million, signalling renewed investment in agriculture and other productive activities. Education and WASH remained modest at USD 131 million and USD 133 million, respectively. Overall, Kenya's aid landscape demonstrates a pivot toward short-term welfare and resilience priorities, reinforcing the importance of aligning external support with the country's medium-term plan (IV).

Fig. 28: ODA by sector



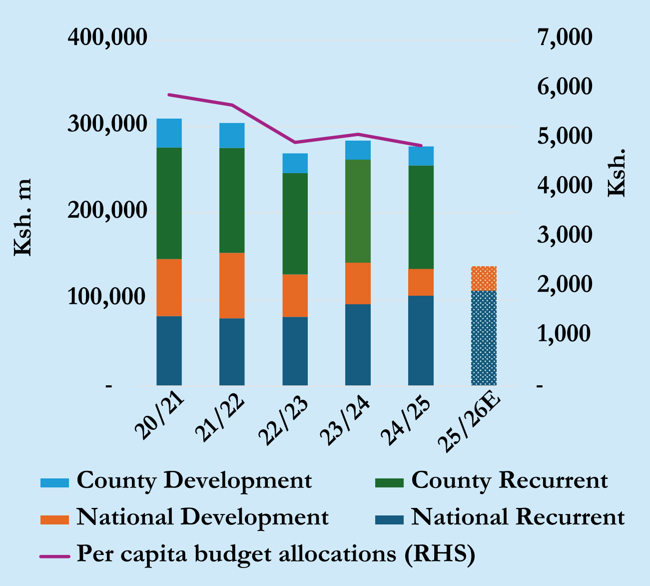
Source: OECD Creditor Reporting System

4. Health drill down

5.1 Government health expenditures

Kenya's total health budget allocations at both levels of government have continued to decline, reflecting a clear and concerning de-prioritization of the health sector at both levels of the government. There was a 9 % decrease in the overall health budget between FY 2021/22 and FY 2024/2025, despite a brief increase in FY 2023/24, with allocations now reverting to pre- COVID 19 levels. The downward trend is more pronounced at national level, where allocations declined by 12%, compared to a 6% decline in the county governments allocations over the same period. This pattern raises concerns on the sufficiency and sustainability of healthcare financing in Kenya.

Fig 29: Health Budget (2024 prices)



Source: BROP; BIRR; QEBR; Health Sector Reports

For the period FY 2020/21 to FY 2024/25, total health expenditure (both national and county) has declined, both as a share of GDP (from 1.8% to 1.3%) and on a per capita basis (from Ksh. 4,852 to Ksh. 4,311). There was an increase at the national level (4%) compared to the county level which decreased by (10%), partially consistent with the trends observed in health sector allocations.

Current domestic investments in health sector development are insufficient to offset the declining external support. The share of development budget financed through ODA decreased from 45% in FY 2021/22 to 25% FY 2023/24. While the government has attempted to bridge the gap left by declining donor funding, these efforts have not effectively filled the gap. Over the past four years, ODA financing for development in the health sector has decreased by an average of 7%, a much steeper reduction compared to the 2% average increase in the domestic allocations towards development.

Similarly, cuts in county health allocation are disproportionately directed towards development expenditures (23%) compared to recurrent expenditures (1%) for the period FY 2021/22 to FY 2024/25. Over the past 5 years, counties have allocated an average of 83% of their health budgets to recurrent expenditures, with approximately 77% of this directed toward personnel emoluments. While this heavy prioritization reflects an effort by counties to respond to the existing Human Resources for Health (HRH) gaps, it leaves minimal fiscal space for other essential needs, such as medical commodities, that are equally critical for effective service delivery.[xx]

Budget execution in Kenya's health sector remains low, indicating persistent spending inefficiencies, particularly for development spending. Between FY 2020/21 and FY 2024/25, recurrent budget execution averaged 92% at the national level and 93% at the county level, while development budget execution lagged significantly at 71% and 56% respectively. The 2025 Budget Review and Outlook Paper (BROP) outlines administrative inefficiencies, delayed project implementation, late disbursements and limited institutional capacity as possible challenges contributing to implementation gaps.[xxi]

Fig 30: Health Expenditure (2024 Prices)

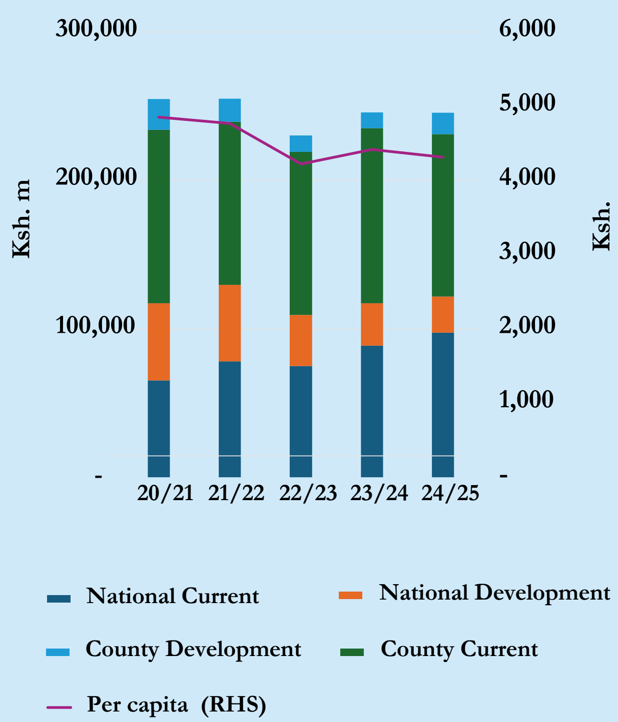
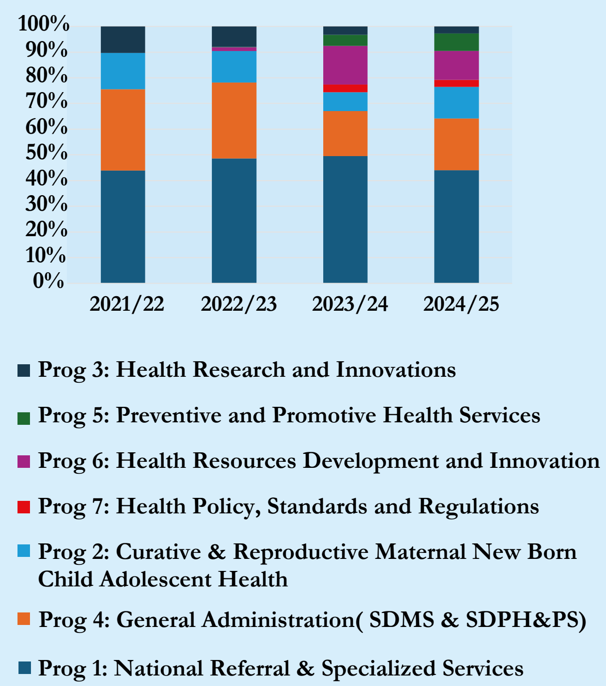


Fig 31: MOH Expenditure by program (share)



Source: Health Sector Reports

While the government has repeatedly emphasized its commitment to prioritizing Primary Health Care (PHC), 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%[5] directed toward 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.

5.2 Foreign aid for health

External financing for health has declined significantly over the past four years, accounting for much of the overall reduction in government health spending. External on- budget support increased from 14% of the national health budget in FY 2019/20 to 22% in FY 2021/22, reflecting heightened donor contributions during COVID- 19 pandemic. However, it subsequently dropped back to 14% in FY 2022/23 and further to 8% in FY 2024/25, with loans accounting for less than 1% of the total spending.

Kenya's health financing landscape faces growing uncertainty, with significant gaps anticipated due to shifting donor dynamics. The government's lack of systematic tracking for off budget ODA makes it difficult to fully assess the health sector's financial vulnerabilities. However, the anticipated end of specific donor programs in the coming years, combined with the recent withdrawal of the United State Agency for International Development (USAID), which supported multiple health initiatives,

[5] 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%).

Fig. 32: ODA to Health (Budget)

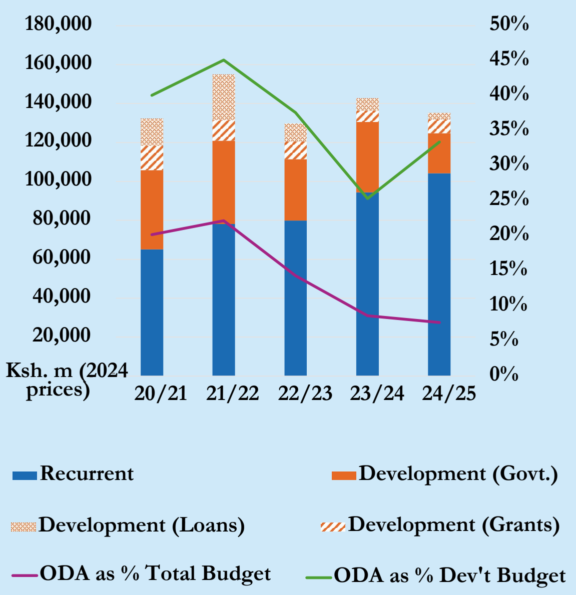
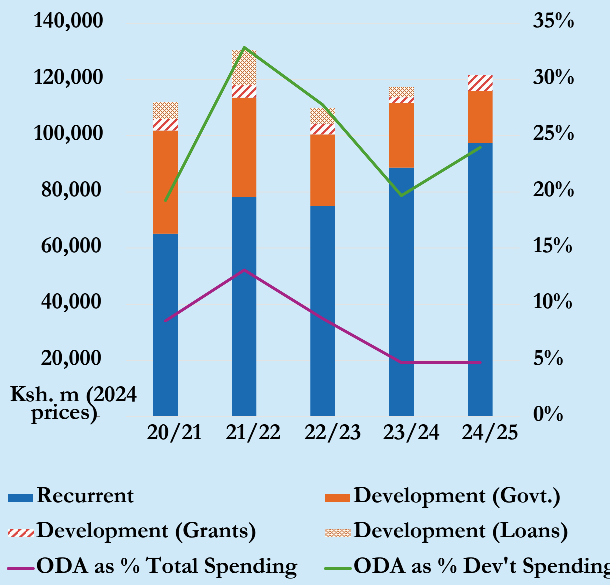


Fig. 33: ODA to Health (Expenditure)



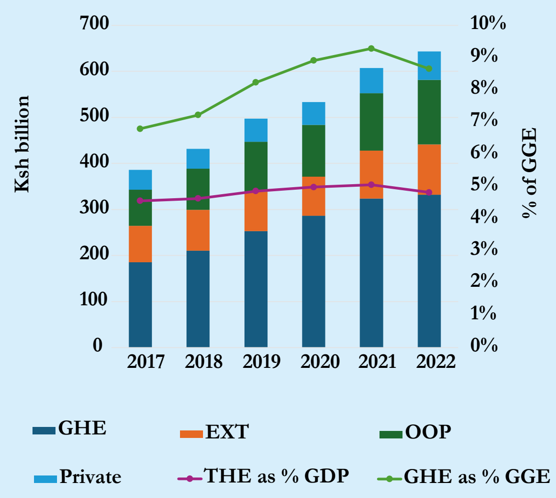
Source: Health Sector Reports

risks leaving substantial gaps in service delivery and funding. For example, four counties had benefited from health workers contracted under the USAID-funded Tujenge Jamii Project, whose exit now threatens continuity of care in those regions.[6]

5.3 National Health Accounts

Kenya's public health expenditure remains below international benchmarks. In 2022, government health spending accounted for just 8.7% of the total government expenditure, a decline from 9.3% in 2021, and well below the 15% target outlined in the Abuja Declaration. External sources accounted for 18% of the health spending.

Fig 34: Total Health Expenditure by Source



Out-of-pocket (OOP) expenditures have remained significantly high, accounting for 22 percent of the Total Health Expenditure (THE) in 2022. This exceeds the recommended threshold of 15-20%, indicating that financial protection mechanisms remain inadequate.[xxii] For example, the National Health Insurance Fund (NHIF), covered only about 29 percent of the population, leaving most households exposed to direct healthcare costs.[xxiii]This implies that many households continue to face a significant financial burden when seeking healthcare, increasing the risk of catastrophic health expenditures or the likelihood of foregoing treatment altogether. A 2021 survey revealed that more than half of Kenyan had foregone medicine/medical care, an increase from 36 percent in 2019.[xxiv] This highlights a troubling trend in access and affordability.

[6] *USAID Tujenge Jamii (UTJ) was a five- year (2021- 2026) project funded by USAID and PEPFAR. The project supported county- led delivery of integrated HIV, RMNCAH, WASH, and nutrition services in Baringo, Laikipia, Nakuru and Samburu counties, strengthening health systems and human capacity.*

5.4 Social Health Insurance (SHI)

The government introduced two tax funded schemes, the Primary Health Care Fund (PHCF) and Emergency, Critical and Chronic Illness Fund (ECCIF) and has demonstrated a commitment to strengthening them through significant budgetary increases. In the FY 2025/26, allocations to the Primary Health Care Fund, which enables registered members to access essential primary care services, increased by 85% compared to the previous year. Similarly, the Emergency, Critical and Chronic Illness Fund (ECCIF), which supports access to specialized tertiary care, received a 60% increase in funding.

These substantial increases in the PHC Fund are likely due to the transition from a capitation-based reimbursement model to a Global Budget Model introduced in January.[xxv] Under the previous capitation system, health facilities received a fixed amount for each enrolled individual, regardless of the type or cost of services provided. While this approach promoted cost control, it often limited flexibility and failed to account for variations in patient volumes and service demand across different facilities.

The new Global Budget Model shifts funding from a per-person rate to lump-sum allocation based on projected patient numbers and anticipated service utilization. This gives facilities greater autonomy to plan and manage resources according to actual needs and priorities. However, it also requires a larger funding envelope, as reimbursements now reflect the complexity and cost of service delivered, meaning that more resource intensive care attracts higher compensation.[xxvi], [xxvii]

A significant portion of claims under Social Health Insurance Fund (SHIF) remains unreimbursed, straining the financial stability of health care providers. As of August 2025, health facilities had submitted SHIF claims totalling to Ksh 82.7 billion to Social Health authority (SHA), of which Ksh 53 billion was paid.[xxviii] This indicates that approximately 64 percent of the submitted claims had been settled, leaving a significant portion pending reimbursement. Moreover, facilities are still owed Ksh. 5.3 billion from NHIF, further compounding the strain. [xxix] The delayed payments risks disrupting service delivery, as facilities struggle to maintain operations without timely financial support.

The 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. The changes in allocations coincide with a proposed plan to standardize the monthly contributions by indigents to a flat rate of Ksh. 660 per month.[xxx] While this may ease enrolment, it risks excluding the poorest households who cannot afford the contributions.

Overall, Kenya is making slow progress towards achieving its UHC goals, particularly in protecting citizens from the financial risks associated with ill health. While Kenya's SHI coverage has increased, it still falls significantly below the target set in the Kenya Universal Health Coverage Policy 2020–2030.[xxxi] As of September 2025, about 54.0% of the total population had enrolled in the Social Health Authority.[xxxii] This figure falls short of the 80% coverage target for 2025 and highlights the need for continued efforts to expand health insurance coverage and enrolment, particularly among underserved and vulnerable populations.

5. Institutional update

This section concerns main stages/dates in the budget process, and the key players (individuals or institutions) which determine the content of the approved budget, as well as key facets of the legal framework which determine how public resources are spent.

1. The budget process

Table 2: Key dates and budget processes at the national level for 2026/27

Timelines	Activity / Document expected
30th August	Release of Formulation Circular
30th Sep. 2025	Budget Review and Outlook Paper (BROP)
20th – 22nd Nov. 2025	Public Sector Hearings
28th Nov. 2025	Submission and review of Sector Budget Proposals
15th Feb. 2026	Submission of Budget Policy Statement (BPS) to Parliament
29th Apr. 2026	Submission of draft Budget Estimates to Parliament
30th June 2026	Approval of Appropriation Bill
30th Dec 2026	Audit report of the previous financial year

Source: National Treasury

Although this schedule captures only the expenditure side, revenue estimates are tabled in the National Assembly as per Article 221(1) of the constitution that requires the Cabinet Secretary responsible for finance to submit estimates of the revenue and expenditure of the national government for the next financial year to the National Assembly at least two months before the end of each financial year.

2. Key institutions

The key PFM institutions involved in the budget making process, implementation and oversight include:

Ministry of Finance and Economic Planning: is responsible for managing the process of budget preparation, developing a national development plan which guides the sectoral allocation of funds and through the Cabinet Secretary submit the proposed budget to Parliament.

Ministries, Departments and Agencies (MDAs): are expected to provide the budget baseline that comprise requirements for ongoing policy, new approved policy and verified pending bills. It is done through the IFMIS system in line with the Budget Calendar. MDAs further submit Programme Performance Review Reports to the National Treasury, prepare draft Sector Budget Proposals and hold public sector hearings.

Sector Working Groups (SWGs): comprise of a chairperson who can be a Principal Secretary/ Accounting Officer chosen by consensus by other Principal Secretaries, a Sector Convenor appointed by the National Treasury, a Technical Working Group appointed by individual MDAs, representatives from Development Partners, Civil Society and Community Based Organizations to represent the public, and representatives from the Private Sector.

The Cabinet: there is no legal power to approve the budget prior to submission to Parliament.

Parliament: Under the constitution, the National Treasury is required to submit budget and revenue estimates to the National Assembly at least two months before the financial year ends for approval. The National Assembly has the authority to approve these estimates through two main bills: the Appropriation Bill, which outlines expenditure, and the Finance Bill, which details revenue projections. The **Budget and Appropriations Committee** within the National Assembly is tasked with examining, overseeing, and reporting on all matters related to the coordination, control, and monitoring of the national budget. This committee reviews and makes recommendations on the budget estimates, which are then voted on by the National Assembly.

Conversely, the **Finance and National Planning Committee** is responsible for discussing and reviewing revenue-raising measures presented in the Finance Bill to meet the set revenue target for the financial year. Notably, the National Assembly, based on recommendations from the Budget and Appropriations Committee, can adjust allocations within the budget estimates to address areas it deems in need of increased funding.

While the Senate does not participate in approving the budget estimates or the Finance Bill, it collaborates with the National Assembly to determine and approve the division of revenue between the national and county governments, through the Division of Revenue Bill. The Senate also determines the distribution of revenue among counties via the County Allocation of Revenue Bill.

Media: The Constitution guarantees the media the right to inform the citizens and express their views including, on matters of national interest. The budget making process elucidates great interest among Kenyans and is thus widely covered by both mainstream and social media. During the budget speech, all mainstream media houses conduct live broadcasts and engage in debates concerning the budget, analysing its contents and identifying areas that have seen increased funding (budget winners) and those that have faced cuts (budget losers). Moreover, experts and citizens engage in debates on taxation through social media, especially on those related to the Finance Bill, which in the past 2 financial years in Kenya has sparked considerable debate on platforms such as X and TikTok, as well as through the mainstream media.

3. Key individuals: Kenya's Fiscal Policy Transition Under Treasury CS John Mbadi

Following the Finance Bill 2024 protests, the Ministry of Treasury and Economic Planning experienced a leadership change, with John Mbadi appointed as Cabinet Secretary, signalling the government's broader effort to restore public confidence in fiscal governance. In the aftermath of the protests, there was widespread anticipation that the new leadership would ease the tax pressures that had provoked public discontent. While some measures reappeared in a modified form in the Tax Laws Amendment Act, 2025, they were less punitive and framed within a broader administrative reform agenda. The Finance Bill 2025, under Mbadi's stewardship, has thus far focused primarily on enhancing tax administration, compliance efficiency, and rationalisation of existing incentives, rather than introducing new or distortionary levies.

4. PFM legal framework

The implementation of the SHIF has shown enduring structural fragilities in Kenya's health financing architecture, notably delays in fund disbursements, persistent accountability gaps, and limited absorptive capacity among healthcare providers. Despite the Ministry of Health's reform momentum, including the rollout of an online hospital payment portal, a claims tracking dashboard to monitor reimbursements in real time, and the reduction of reimbursement timelines from the statutory 90 days to a 30-day target, systemic inefficiencies persist.[7] The Auditor-General's 2025 report highlights persistent gaps in transparency where SHA funds are being held in an escrow account and controlled by a private agent with no disclosure on the identity of signatories, and, inconsistencies in claims verification and reporting.[8] Moreover, private and faith-based hospitals, which form nearly 40% of Kenya's inpatient care network, continue to experience liquidity strain due to delayed remittances, constraining service delivery.[9]

While the SHA reforms, such as the expansion of ICU/HDU and oncology coverage and the establishment of a 24-hour call center for health insurance inquiries, signal commendable administrative progress, the broader fiscal and governance test lies in whether these reforms can translate into predictable financing flows, strengthened provider confidence, and a transparent claims ecosystem.

The recurrent cycle of annual tax amendments in Kenya reflects an enduring structural tension between fiscal reform and the equally critical objective of maintaining predictability in the country's tax governance landscape. Despite the rejection of the Finance Bill 2024, the FY 2024/2025 showed the enactment of two major pieces of tax legislation, the Tax Laws (Amendment) Act, 2024 and the Finance Act, 2025, raising important questions about the prudence and frequency of tax law revisions. The Tax Laws (Amendment) Act, 2024 reintroduced several non-contentious measures within the rejected Finance Bill such as the Significant Economic Presence Tax and the Minimum Top-Up Tax.[10] Meanwhile, the Finance Act, 2025 focused on administrative efficiency and structural refinement rather than new taxes.[11] Notably, it proposed a comprehensive clean-up of the VAT Act, an increase in the tax-free per diem allowance from KES 2,000 to KES 10,000, and the expansion of personal income tax deductions to include expenditures on residential housing, all intended to enhance disposable income and compliance simplicity. However, persistent inconsistencies in VAT classification, where goods are periodically shifted between exempt, zero-rated, and standard-rated categories without clear justification, continue to undermine the predictability and coherence of Kenya's tax regime. This pattern of ad hoc adjustments risks eroding taxpayer confidence and complicating long-term fiscal planning.

The Cabinet's adoption of the National Policy on Women's Economic Empowerment (NPWEE) marks a significant milestone in reinforcing the government's commitment to advancing gender equality and inclusive economic growth. Nonetheless, the NPWEE's aspirations need to be linked to measurable outcomes that require sustained fiscal commitment and institutional alignment.[12] The NPWEE provides a comprehensive policy framework to address structural barriers that limit women's participation in and benefit from economic activities. It focuses on enhancing access to productive resources such as land, finance, markets, and skills development; promoting women's inclusion in trade and enterprise development; strengthening social protection systems; and ensuring that legal and policy environments are gender responsive. When fully implemented, the NPWEE promises to expand women's economic opportunities, increase household incomes, and reduce gender disparities across sectors. However, achieving these outcomes will depend on deliberate and consistent government action, particularly the integration of the NPWEE priorities into national and county budgets, the establishment of dedicated financing mechanisms, and the mobilization of both public and private sector partnerships.

[7] *Ministry of Health, "Taifa Care Media Update" Office of the Cabinet Secretary (26th February 2025) pg 5 link.*

[8] *The Auditor General Reports, "Auditor General's Report on National Government, Ministries, Departments and Agenceis FY 2023/2024" Pg 205 link.*

[9] *Ministry of Health, "Taifa Care Media Update" Office of the Cabinet Secretary (26th February 2025) pg 10 link.*

[10] *The Tax Law Amendment Act, 2024 link.*

[11] *The Finance Act, 2025 link.*

[12] *State Department for Gender and Affirmative Action, "National Policy on Women's Economic Empowerment" (June 2024). The Policy has been approved by Cabinet and is now pending approval by Parliament.*

In FY 2024/2025, Kenya amended its Public Finance Management (PFM) Act to introduce ZBB, but without sufficient capacity building and technical training across government institutions, its full and effective implementation remains uncertain. Anchored in the BPS 2025 and the 2026/2027 Budget Circular, the reform aims to replace the traditional cash-based, incremental budgeting approach with a performance-oriented, evidence-driven model that compels MDAs to justify every program from the ground up each financial year.[13] The objective is to strengthen fiscal discipline, transparency, and allocative efficiency amid growing debt and limited fiscal space. To operationalize the reform, the National Treasury has developed a Budget Costing Tool within the Integrated Financial Management Information System (IFMIS) to harmonize costing methodologies, integrate inflation adjustments, and provide credible expenditure baselines.[14] However, progress remains largely procedural due to challenges such as inadequate training of the personnel, data reliability, and institutional coordination required for effective implementation. Critically, while ZBB is conceptually promising, its annual re-justification requirement may strain administrative systems and delay budget preparation if not matched with comprehensive capacity building and enforcement mechanisms.

[13] *The National Treasury and Economic Planning, "2025 Budget Policy Statement: Consolidating Gains Under Bottom-Up Economic Transformation Agenda for Inclusive Green Growth" (2025) p 3 & 47 link; The National Treasury, "Guidelines for the Preparation of the Financial Year 2026/27 and Medium-Term Budget FY 2026/2027" p 8 para 22 link.*

[14] *The National Treasury and Economic Planning, "2025 Budget Policy Statement: Consolidating Gains Under Bottom-Up Economic Transformation Agenda for Inclusive Green Growth" (2025) p 160 link.*

6 Conclusion

Kenya's macroeconomic outlook remains broadly stable, and the external position has improved with the stabilization of the domestic currency (Kenya Shilling) after the severe depreciation period over 2022–2024. While exchange-rate pressures have moderated substantially, the IMF has flagged concerns that the shilling may not be fully market-determined, citing reduced FX volatility and patterns inconsistent with a freely floating regime. This signals that although stability has returned, the credibility of Kenya's monetary and exchange-rate framework still requires strengthening to assure markets of policy consistency. At the same time, household welfare remains weak, with consumption per capita falling, poverty levels elevated, and although inflation has moderated it is still eroding real incomes. The recovery is therefore not yet inclusive; job creation remains weak and macro-level improvements are not fully translating into improved living standards.

On the fiscal front, rising interest payments, wage obligations, and rigid recurrent spending continue to crowd out essential development priorities—including health, agriculture, WASH, and social protection—leading to under-execution, reduced allocations, and widening equity gaps. The sharp decline in real funding for gender equality, reduced ODA for health, and falling per-capita social protection disbursements all point toward deteriorating welfare conditions for vulnerable populations. Yet there are opportunities to improve outcomes through targeted fiscal reforms, strengthened PFM systems (such as effective implementation of Zero-Based Budgeting), and enhanced accountability in SHIF reimbursements and county execution.

Over the next 12 months, key issues to monitor include revenue credibility, execution of austerity measures, the government's engagement with IMF-supported programs, the operationalization of the Privatization Act and National Infrastructure Fund, progress in health insurance reforms, and funding trends across gender, WASH, health, and agriculture sectors. Collectively, these dynamics underscore the need for vigilant tracking of policy implementation and sustained support for evidence-informed decision-making to ensure that fiscal consolidation does not undermine hard-won gains in human development.

End Notes

[i] The World Bank Group Kenya Economic Update. Link

[ii] KNBS. Link

[iii] The World Bank. Link

[iv] KIPPRA. Link

[v] Supplementary Appropriation Bill https://parliament.go.ke/node/23496

[vi] Agricultural Sector Transformation and Growth Strategy link

[vii] Kenya Agriculture Sector Opportunities and Challenges link

[viii] Evaluating Kenya's National Fertilizer Subsidy Program: Implementation, Crowding-out, and Benefit-Cost Analysis link

[ix] Mechanization of Agricultural Production in Kenya: Current State and Future Outlook link

[x] First Annual Progress Report, 2023/24 link

[xi] UNICEF Kenya Annual Report 2024 link

[xii] Joint Monitoring Programme (JMP) link

[xiii] 2025 Budget Policy Statement. The National Treasury and Economic Planning, Republic of Kenya. Link

[xiv] Global Gender Gap Report 2025 link

[xv] National Treasury, Budget Policy Statement (2024) link

[xvi] Institute of Public Finance (2025) Re-Imagining Gender Responsive Budgeting for More Inclusive County Budgets

[xvii] ICJ Kenya (2025). The 2025 Budget: Is it Gender Responsive Enough?

[xviii] Privatization Act 2025 link

[xix] OBS 2021 link

[xx] National and County Health Budget Analysis FY 2023/24. Link

[xxi] 2025 Budget Review and Outlook Paper. Link

[xxii] Exploring the Thresholds of Health Expenditure for Protection against Financial Risk. Link

[xxiii] Report of the auditor-general on National Health Insurance Fund: Link

[xxiv] 2021 FinAccess Household Survey. Link

[xxv] Taifa Care Media Update. Link

[xxvi] From Capitation to Competition: Rethinking the PHC Global Budget Framework in Kenya. Link

[xxvii] Financing Primary Care through Primary Care Networks in Kenya: Considerations for Policy Makers. Link

[xxviii] Ministry of Health, Office of the cabinet secretary: Link

[xxix] Health CS Duale Engages Private Providers on Strengthening Service Delivery under Taifa Care: Link

[xxx] CS Duale Appears before National Assembly Health Committee on SHA. Link

[xxxi] Kenya Universal Health Coverage Policy 2020 – 2030: Link

[xxxii] Kenya Records Major Milestones in Universal Health Coverage Under BETA Agenda: Link

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