2026 BPS ANALYSIS: CREDIBILITY AND POLICYSHIFT ASSESSMENT

April 2026

The Budget Policy Statement (BPS) is Kenya's most consequential fiscal policy document. Once approved by Parliament, it defines the macroeconomic framework, fiscal strategy, sector ceilings, and borrowing path for the medium term. While public debate often centers on the Appropriations Act, the major strategic choices are made in the BPS, which should justify changing sector priorities, and the government's approach to deficits and borrowing. This analysis by the Institute of Public Finance reviews the 2026 BPS to assess the **credibility and realism of revenue, expenditure, and fiscal deficit targets, shifts in sector priorities and the division of revenue between levels of government.**

Key Messages:

Revenue Overestimation

Kenya's fiscal credibility is undermined by persistent overestimation of revenue rather than the ambition to increase it. Although higher year-on-year targets like Ksh 3,534 billion in FY 2026/27 from Ksh 3,322 billion in 2025/26 are standard, actual collections have consistently fallen short, even where modest growth occurs. **This points to weaknesses in forecasting and tax administration that risk widening financing gaps and deepening reliance on borrowing.**

Shrinking investment in critical sectors

Without stronger revenue growth and measures to rein in recurrent spending, Kenya risks losing the fiscal space needed for long-term development. Revenue shortfalls have led to under-execution of the development budget, while recurrent expenditures have remained unaffected. **This imbalance shrinks investment in critical sectors such as infrastructure, health, education, and social protection.**

Spending is not aligned to policy commitments

Budget cuts to key programmes are undermining service delivery, as allocations fall short of policy commitments, evidenced by reduced funding for gender equality programmes, declining preventive health spending, and social protection. **Protecting key social programmes and institutionalizing gender and programme-level budgeting is needed to align spending with policy priorities.**

Government must ease debt service pressure and adhere to austerity

Kenya's expenditure structure is increasingly rigid, with debt interest payments and recurrent costs accounting for over 80% of spending. The government must ease debt service pressures through refinancing of the existing debt, shift to concessional borrowing and adhere to the austerity measures pronounced (such as restructuring of state-owned agencies) to create the much-needed fiscal space to fund critical development priorities.

Pending bills require urgent action

Rising pending bills, especially in state corporations, signal growing fiscal risks. **The government should ensure stronger oversight and enforcement of arrears clearance rules preventing further accumulation.**

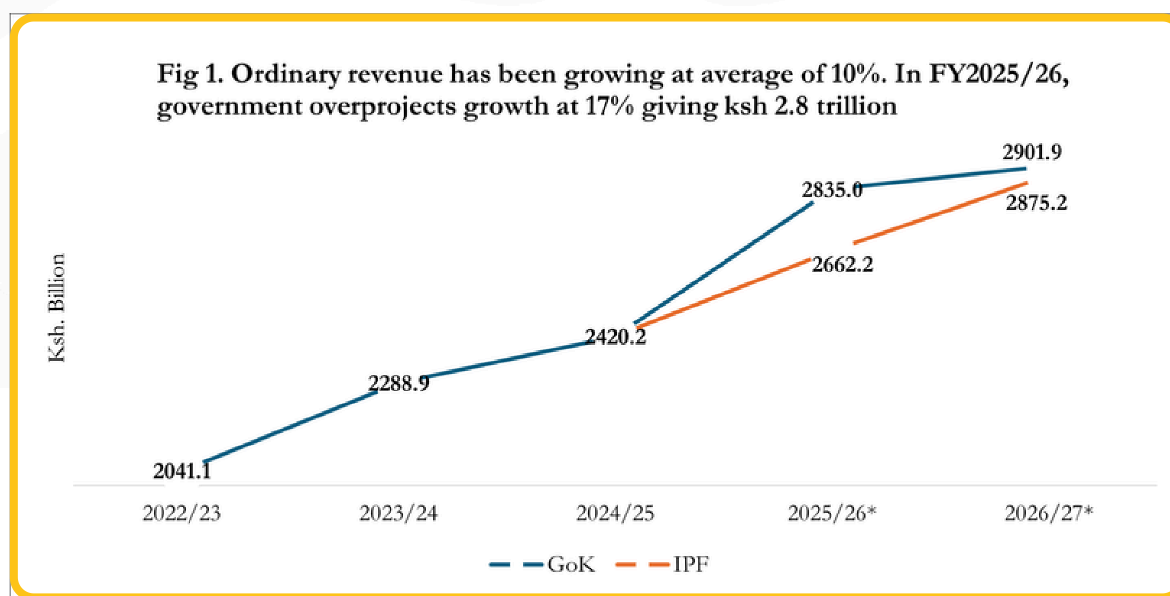
Align county allocations with devolved functions

The declining share of county equitable transfers relative to ordinary revenue risks weakening devolved service delivery, particularly in health; aligning county allocations with devolved functions and resolving delays in approval of audited accounts is essential to strengthen intergovernmental fiscal balance.

1. Credibility concerns in revenue, expenditure, and targets

1.1 Kenya's fiscal framework has been undermined by unrealistic revenue targets that consistently result in significant shortfalls

Revenue projections in the 2026 Budget Policy Statement appear overly optimistic and warrant a more cautious, evidence-based adjustment. The ordinary revenue path should be revised downward from Ksh 2.9 trillion to a more realistic Ksh 2.8 trillion, particularly in an election period when administrative focus may shift, and tax compliance could weaken. IPF's proposal reflects a more credible outlook, grounded in historical revenue growth of about 10 percent annually consistent with what KRA has achieved rather than the government's ambitious 17 percent growth target. This caution is reinforced by persistent revenue shortfalls, averaging about 0.5 percent of GDP in recent years, driven by weaker-than-expected growth, delays in implementing new tax measures, tax exemptions, and compliance challenges. In addition, projected gains from digital tax systems and efforts to broaden the tax base have typically materialized more slowly than anticipated, especially in the early phases of reform.

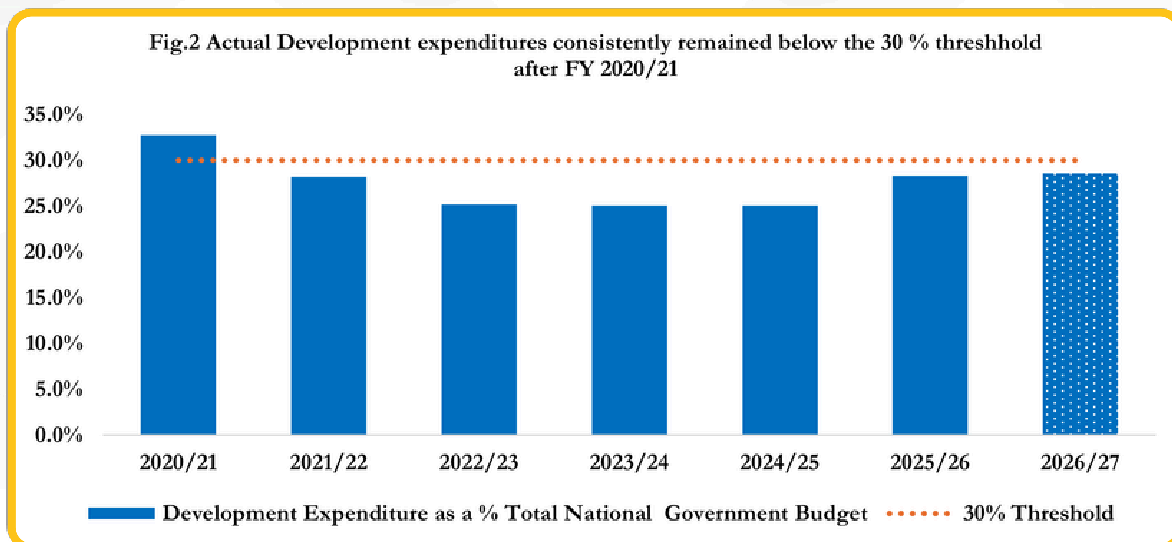


1.2 Expenditure imbalances risk undermining pro-poor services

With below target revenue performance, development spending is increasingly facing pressure as recurrent expenditures are largely unaffected by revenue shortfalls. Between FY 2021/22 and FY 24/25, the share of development spending in total expenditures has decreased from 20% to 15%. Half-year fiscal performance shows that development spending was Ksh 33 billion below target, the outcome being reduced spending in critical areas such as infrastructure, health, education, and social spending. This pattern is already evident in the first six months of FY 2025/26 from the Controller of Budget Annual Reports. At the sector level, exchequer releases for development expenditure were particularly low in Health (25 percent of annual net estimates), Energy, Infrastructure and ICT (30 percent), Social Protection (32 percent), and Education (34 percent). Notably, all four sectors fell below the 50 per cent mid-year absorption benchmark used by the Controller of Budget, while recurrent expenditure achieved 50 percent, underscoring that development spending is bearing a disproportionate burden of in-year fiscal adjustment.

1.3 Is fiscal consolidation constrained by expenditure rigidity?

Kenya's expenditure structure is increasingly rigid, limiting meaningful fiscal consolidation. Non-discretionary spending on interest payments, wages, county transfers, and other recurrent obligations as a percentage of total expenditure rose from 80% in FY2020/21 to about 85% in FY2024/25 and remains high at 84% and 83% in FY2025/26 and FY2026/27 projections. The main driver is rising interest payments (which rose from 18% of total expenditure in FY 2020/21 to 25% in FY 2024/25 and are projected to rise to 26% in FY 2026/27), reflecting increasing debt service pressures. Other recurrent spending remains high at 28% in FY 2024/25 and is projected to decrease to 27% in FY 2026/27, with only marginal declines in wages and none in county transfers. These figures suggest fiscal consolidation is occurring mainly through reduction of development spending, as it remained below the 30 % threshold over the past years and is projected to remain below 30 % in FY 2026/27.



Data source: BPS

The government should therefore pursue structural expenditure reforms which include reducing debt service pressures through actions such as wage bill rationalization, broadening of the revenue base and execution of the proposed merging of 42 and dissolution of 9 other State Corporations to reduce duplication of administrative functions across ministries[i], thereby constraining long-term growth and weakening service delivery. As of June 2025, the proportion of public debt maturing within one year increased to 13.5 percent compared to the target of 12.4 percent outlined in the 2024 Medium-Term Debt Strategy, signaling elevated refinancing pressure.

Table 1: IPF's proposals on revenue, expenditure and deficit targets

	Draft 2026 BPS	IPF Proposed Scenario (Evidence-Based)
Revenue (% of GDP)	16.7%	16.2% (after adjusting optimism down by 0.5 percentage points. On average, the government has been missing targets by 0.5 (taken as the error adjustment term) in a FY when political campaigns are heightened)
Expenditure (% of GDP)	22.2%	20.7%
Overall Deficit (% of GDP)	5.3%	4.5% (credible, sustainable, election-year appropriate)

The government should also target to reduce total expenditure and net lending to 20.7 percent of GDP to match a more realistic revenue projection of 16.2 percent of GDP. Recurrent spending remains high (fig 3) driven by wages, interest and transfers while development expenditure risks being the adjustment margin during execution. Interest payments already absorb a large share of ordinary revenue, and the wage bill remains rigid. In the immediate term, the government should (i) cut on non-priority recurrent spending like allowances, and (ii) target budget lines where there is room to cut administrative overheads.
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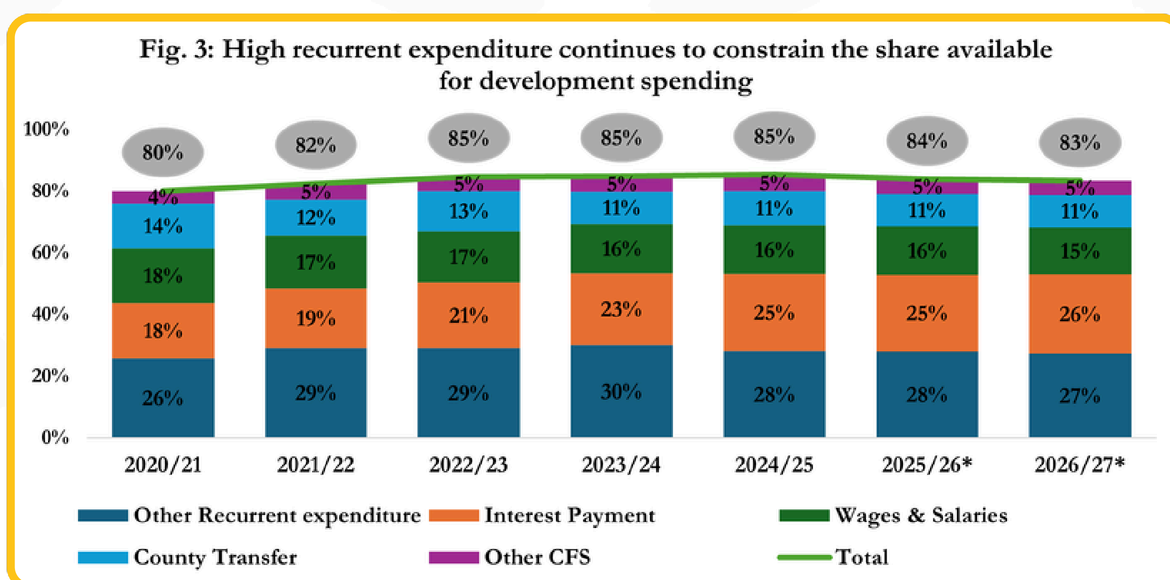
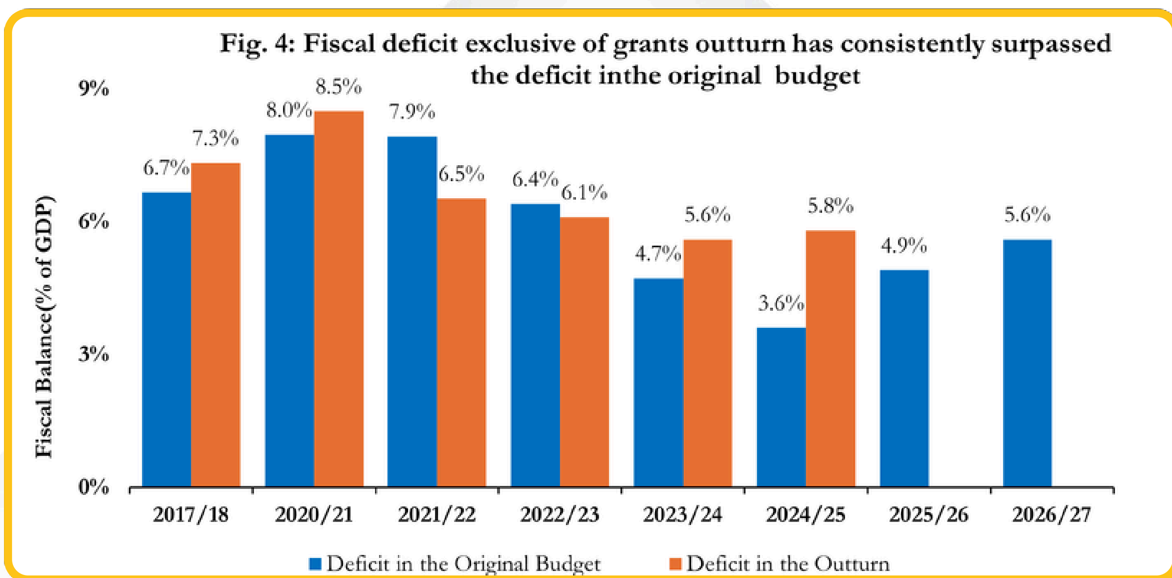


Data Source: Various BROPs and BPS

1.4 Is the government still committed to fiscal consolidation?

Kenya's fiscal consolidation path remains fragile, shaped by the combined effect of persistent revenue shortfalls and expenditure overruns. Revenues have consistently fallen below targets while recurrent spending has remained relatively stable as a share of total expenditure (figure 3), suggesting limited flexibility to adjust spending in response to fiscal pressures. This dual pressure has kept the fiscal deficit above target, forcing increased reliance on domestic borrowing to finance the gap. The consequences are compounding: each missed consolidation target narrows the fiscal space available in the following cycle, as a larger share of revenue is consumed by debt service obligations. With the Debt Sustainability Analysis (DSA) flagging Kenya's high risk of debt distress, and the debt service-to-revenue ratio already breaching recommended benchmarks, debt sustainability is now in question. It is conditional on reversing deficit overruns, capping domestic financing, and bringing debt service within manageable bounds. Until these conditions are met, there remains a risk of a self-reinforcing cycle where borrowing to cover shortfalls generates further debt service pressures that crowd out productive spending.

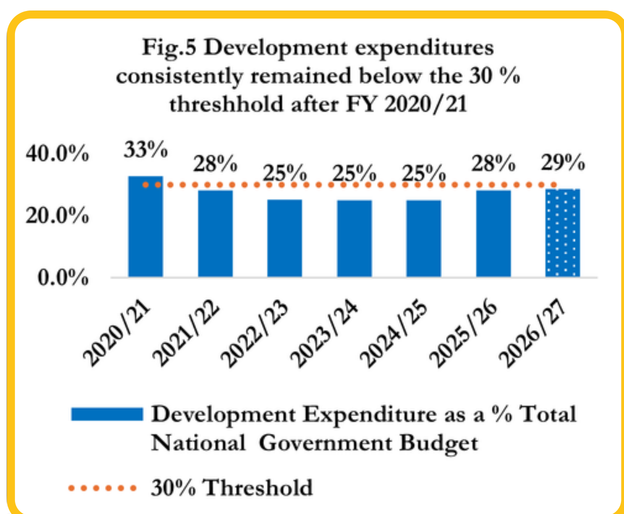


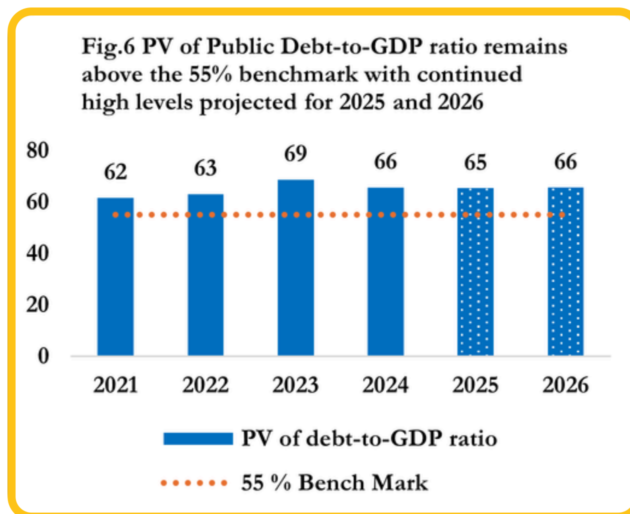
Source: Various BROPs and BPS

1.5 Are both levels of government complying with principles of fiscal responsibility?

The national government and the county governments are falling short on adherence to principles of fiscal responsibility. The national government has been compliant regarding the wage bill, keeping it below the required threshold of at most 35 percent of revenues. However, development spending has been consistently falling below the legal benchmark of 30% of total expenditure. County spending on development has consistently been below 30% and averaged 26% in FY 2024/25. County wages were also well above the 35 percent ceiling. Therefore, both levels of governments should work towards bringing spending to the set statutory thresholds.

The national government has also failed in ensuring debt sustainability as the Present Value (PV) of total public debt-to-GDP ratio has remained above the 55 percent benchmark.

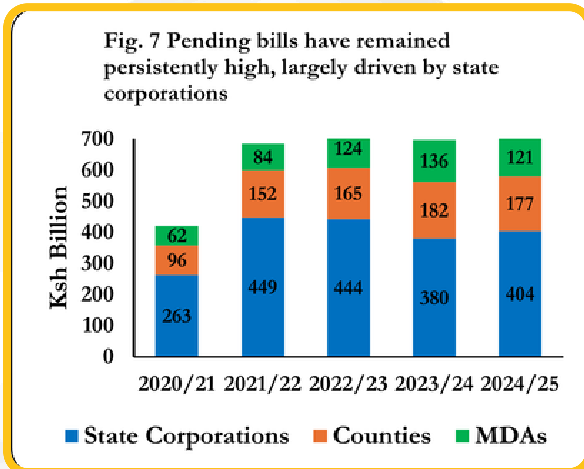


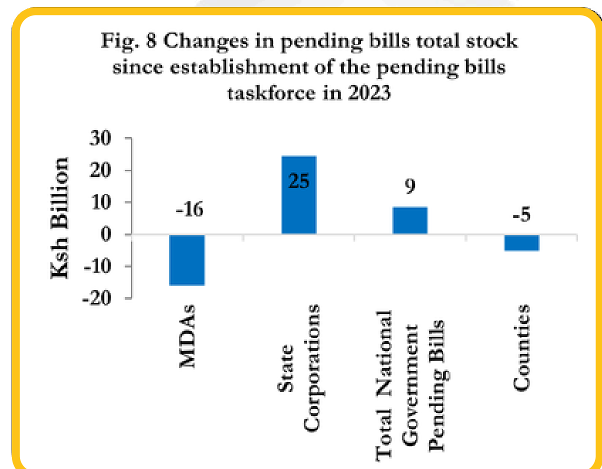


Data Source: BPS

1.6 Is the government committed to settling pending bills?

Pending bills in Kenya continue to pose a fiscal risk with persistent failures to clear arrears. The stock of pending bills increased from Ksh 421 billion in FY 2020/21 to Ksh 702 billion in FY 2024/25, with Ksh 404.3 billion owed by SOEs far exceeding liabilities held by MDAs and counties. Since the government established a pending bills taskforce in 2023, MDAs' and counties' pending bills have declined, while liabilities among state corporations declined in FY 2023/24 before increasing to Ksh 404 billion in FY 2024/25 (figure 7). The Office of the Controller of Budget has called for recognition of pending bills as a first charge on the Consolidated Fund and County Revenue Funds to institute discipline in their clearance.

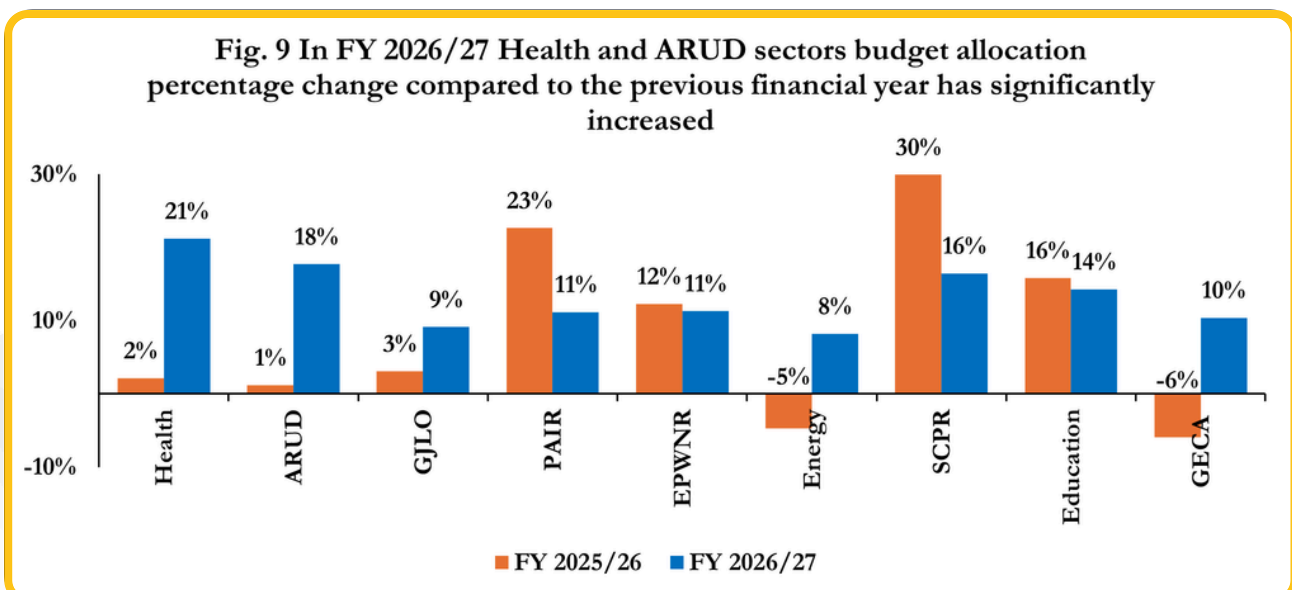




Data Source: Various OCOBs

2. Increases in overall sector allocations mask budget cuts at the subsector level

Most sectors saw an increase in allocation between FY 2025/26 and FY 2026/27 except for Social Protection, Culture and Recreation, Public Administration and Internal Relations, and Environment Protection Water and Natural Resources. The Health Sector and Agriculture, Rural & Urban Development experienced the highest increases, indicating the government's commitment towards the two sectors. However, even with the increased allocations in these sectors, some subsectors such as the State Department for Gender, Preventive and Promotive Services, Social Development and Children Services experienced budget cuts and Social Development and Children Services did not receive any funding at all.



Data Source: BPS 2026

2.1 Is Kenya's budget aligned with its commitments to women's economic empowerment?

The 2026 BPS reveals a clear misalignment between policy commitments and fiscal prioritization of Women's Economic Empowerment (WEE), as the National Policy approved in March 2025 is not explicitly anchored in budget allocations. Although overall funding for Social Protection, Culture and Recreation sector increased from Ksh 78.9 billion in FY 2025/26 to Ksh 87.22 billion in FY 2026/27, allocations to the State Department for Gender declined slightly from Ksh 6.3 billion to Ksh 6.25 billion, with the Gender Empowerment programme falling from Ksh 1.16 billion to Ksh 1.079 billion. This reduced funding risks entrenching structural inequalities, constraining women's productivity and enterprise development, and weakening compliance with equality and socio-economic rights obligations, while the absence of systematic gender impact analysis limits accountability. Embedding WEE explicitly in the budget through increased allocations, gender budget tagging, and mandatory gender impact reporting would strengthen policy coherence, equity, and inclusive growth outcomes.

2.2 How is Kenya's health spending aligned with its priorities?

A comparison of the health sector's goals with BROP and BPS allocations reveals a clear misalignment between stated priorities and actual spending patterns. Although Universal Health Coverage and primary healthcare are emphasized, the share for Preventive and Promotive Services declined from 7.3% to 5.6% while National and Specialized Services increased from 40% to 45%, signaling a shift toward hospital-based and tertiary care that risks crowding out cost-effective preventive interventions. The planned expansion of Community Health Promoters from 107,831 to 120,000, backed by Ksh 30.4 million, modestly supports primary care but does not reverse the broader decline in prevention, with fiscal pressures and political incentives around specialized care likely driving the shift. To restore alignment with UHC goals, the government should protect and progressively increase preventive care funding, reassess the efficiency of hospital expansion, and institutionalize programme-level expenditure share analysis in the BPS and BROP to promote equity, cost containment, and long-term sustainability.

2.3 Does Kenya adequately fund social protection to match its policy commitments?

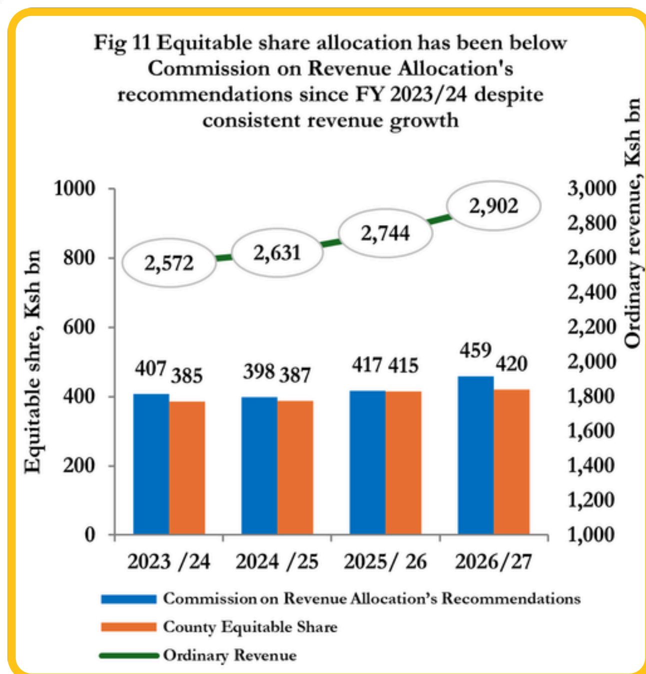
There is a clear gap between the government's strong positioning of social protection as a central pillar of the Bottom-Up Economic Transformation Agenda and the actual fiscal trajectory of the sector. Although allocations increase modestly from Ksh 79.0 billion in 2025/26 to Ksh 87.2 billion in 2026/27, they decline to Ksh 83.4 billion in 2027/28, while the sector's share of total ministerial expenditure falls from 3.1% to 2.5% by 2028/29. Internal programme shifts such as zero allocations for Social Development and Children Services, and the introduction of Social Development and Disability Inclusion indicate reprioritization rather than expansion of safety nets. While fiscal consolidation remains necessary, it should be designed to protect core social protection spending through reprioritizing non-essential expenditures and improving efficiency so that deficit reduction does not erode programmes that cushion the vulnerable during economic shocks. The government should protect core cash transfers, preserve the sector's budget share in real terms, and institutionalize social protection as a fiscal stabilizer within the medium-term expenditure framework.

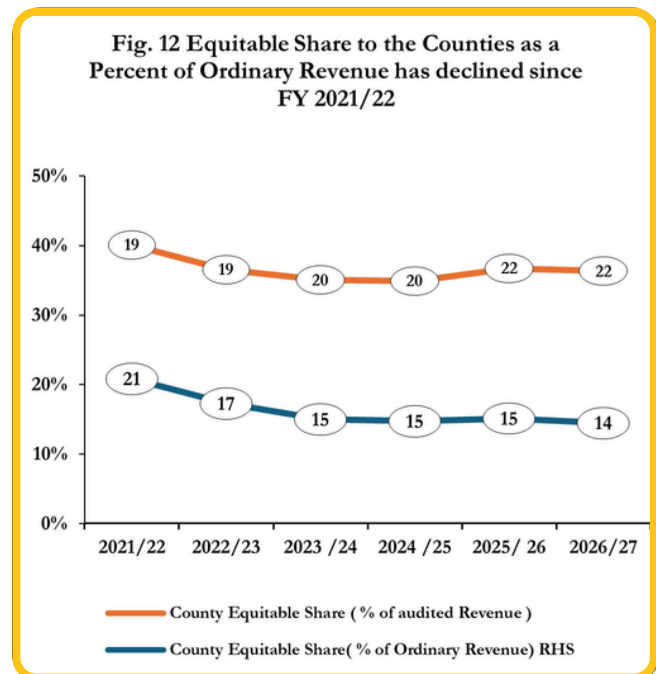
2.4 Are increasing climate allocations balanced with broader fiscal priorities?

The climate and environment agenda is clearly aligned with budget allocations, confirming the sector as a strategic priority, with the State Department for Environment and Climate Change's programme funding rising from Ksh 5.8 billion in 2025/26 to Ksh 6.7 billion in 2026/27, and projected to reach Ksh 8.2 billion by 2028/29. Its share of total ministerial expenditure is also set to increase from 3.8% to 4.7%, reflecting recognition of climate change as a fiscal risk and supporting commitments on energy security, natural capital restoration, and NDC implementation. However, while this expansion is justified, it must be carefully balanced with complementary investments in social protection, which is itself a critical pillar of climate adaptation by enhancing household resilience to climate shocks. Without this alignment, increased climate spending could create trade-offs with already constrained social protection programmes and pose sustainability risks. The government should therefore ensure a balanced mix of capital and recurrent allocations, while strengthening oversight and integrating social protection within the broader climate adaptation framework to secure long-term value from these investments.

3. Division of revenue: Evaluating intergovernmental transfers

The growth in county equitable share allocations has been outpaced by the overall increase in ordinary revenue, highlighting a mismatch that may hinder equity and service delivery at the county level. Between FY 2021/22 and FY 2026/27, the county's Equitable Share allocation recorded a 14 percent growth while the total shareable revenue grew by 63 percent. At the same time, Equitable Share as a percentage of ordinary revenue declined from 20.8 percent to 14.5 percent. This mismatch implies a relatively slow growth in the county's equitable share allocation compared to the overall increase in ordinary revenue collected by the government. This could also be attributable to the parliament's delay in the approval of the audited revenue account, undermining equity, inclusiveness, and effective service delivery at the county level.





Data Sources: BPS and CRA

Further, the proposed equitable share of Ksh 420 billion for FY 2026/27 falls below the recommendation of the Commission on Revenue Allocation of Ksh 459 billion, raising concerns about the adequacy of resources for county service delivery despite meeting constitutional thresholds. Notably since FY 2023/24 the government has continually disregarded the Commission on Revenue Allocation's recommendations, which are grounded in a comprehensive assessment of revenue performance, constitutional obligations, and the functional requirements of county governments. Aligning county allocations with devolved responsibilities and resolving delays in audited revenue data remains critical for improving the adequacy and credibility of intergovernmental fiscal transfers.

4. Conclusion

The 2026 Budget Policy Statement reveals growing fiscal pressures that could undermine fiscal sustainability and the financing of critical services. Revenue projections remain optimistic despite repeated shortfalls, while rising debt service and rigid recurrent spending particularly interest payments, wages, and statutory transfers now absorb about 85% of total expenditure limiting fiscal space for development spending and social sectors. At the same time, persistent under-execution of development budgets and delayed transfers to counties weaken service delivery, especially in health, infrastructure, and social protection. The declining share of county equitable transfers relative to ordinary revenue further constrains devolved service provision. Overall, these trends indicate that fiscal consolidation risks being achieved mainly through compressing development and social spending, threatening long-term growth, county service delivery, and the sustainability of public finances.

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