Institute of Public Finance Fiscal Analytics Series

November 2026

FY 2027/28 Budget Outlook

The FY 2027/28 budget coincides with an electioneering period, a period that has, in the past, been marked by subdued growth, revenue underperformance, increased expenditure pressures and higher borrowing.

As such, it is critical for the government to account for these risks in making its macroeconomic and fiscal projections, and in setting sector allocations to effectively sustain public services, advance development priorities and manage fiscal uncertainty.

1 Key Findings:

- The 5.1 percent economic growth forecast in 2027 is ambitious as it fails to sufficiently account for election-related pressures, climate risks and external price risks. By accounting for these risks, the International Monetary Fund (IMF) and the World Bank project lower growth of 4.7 percent and 4.4 percent, respectively.

- The revenue projection for FY 2027/28 is equally ambitious. The government targets total revenue of KSh 4.0 trillion in FY 2027/28, a 10 percent growth from the FY 2026/27 target of KSh 3.63 trillion. This translates to a growth of 10 percent if the government meets its FY 2026/27 target, and is higher than the 9.6 percent average growth recorded in the past 7 years.

- Total expenditure is projected to increase to KSh 5.4 trillion, translating to a growth of 12 percent, driven mainly by an increase in recurrent spending, which is projected to increase from KSh 3.6 trillion in FY 2026/27 to KSh 4.0trillion in FY 2027/28. Development expenditure is projected to increase by a much lower margin from KSh 750.8 billion to KSh 915.8 billion.

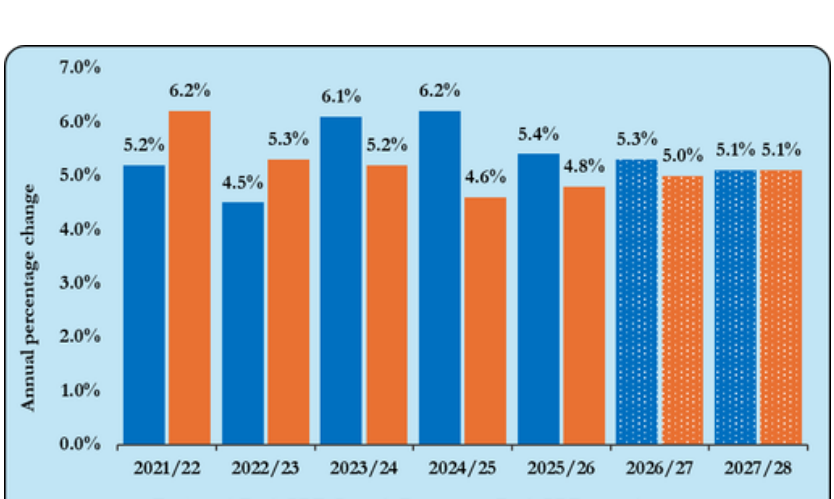
- There is limited fiscal headroom to include new infrastructure projects without increasing borrowing, as recurrent expenditure is projected to take up 74 percent of total spending, while development expenditure remains below the 30 percent PFM Act threshold.

- With expenditure projected to grow faster than revenue, the fiscal deficit will widen to KSh 1.35 trillion (5.9 percent of GDP); further slowing fiscal consolidation

- With interest costs rising to KSh 1.46 trillion, nearly KSh 1 in every KSh 2 of ordinary revenue in FY 2027/28 is projected to go to interest payments, significantly constraining resources available for development and other government priorities.

2 Stronger growth expectations underpin the FY 2027/28 revenue and expenditure outlook, but significant risks undermine the credibility of both macro and fiscal targets

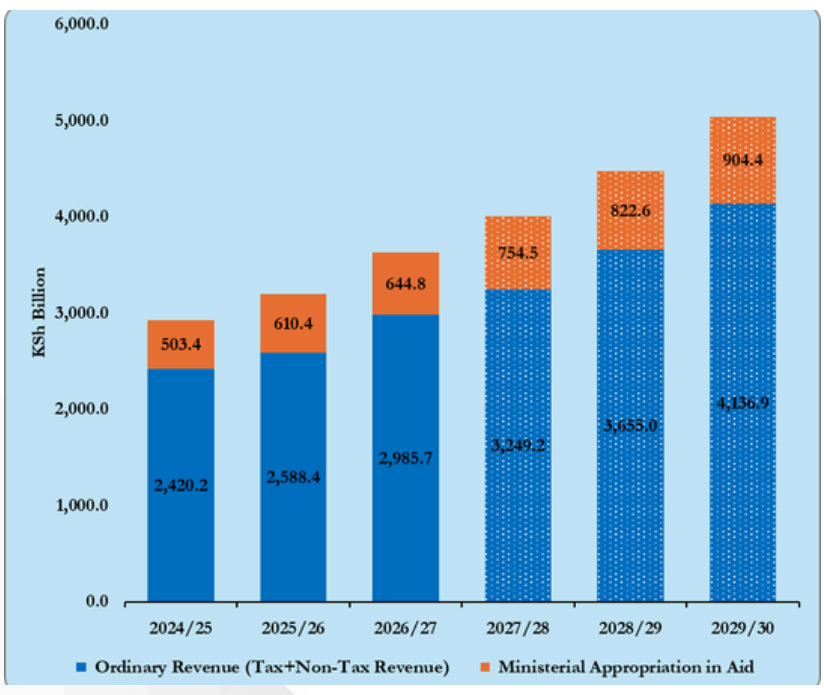
Real GDP Growth has consistently fallen short of the projected levels since FY 2023/24



- The government projects real GDP growth of 5.1 percent in 2027, higher than the IMF's 4.7 percent forecast and the World Bank's estimate of 4.4percent.

- This stronger growth assumption should be reviewed to better account for elections, climate and external price shocks.

Both Ordinary revenue and ministerial appropriations in aid are projected to increase over the medium term, although downward risks constrain the growth

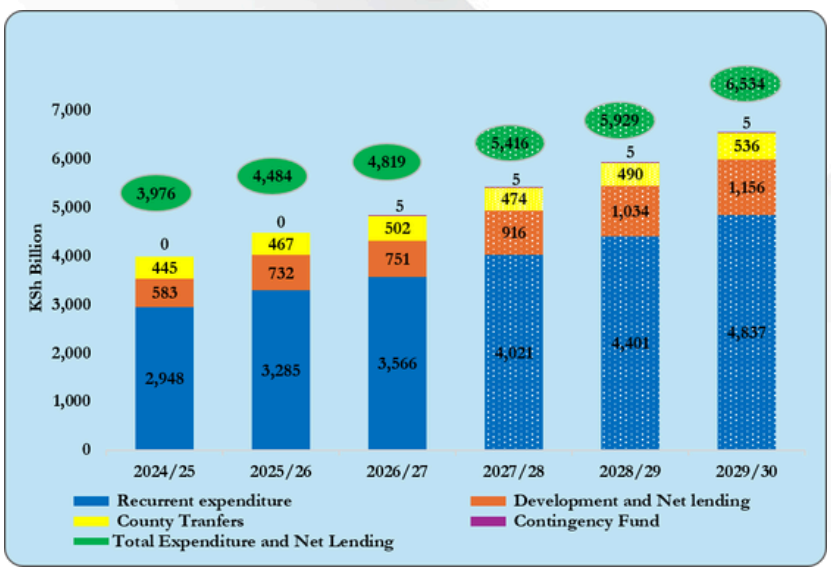


- The FY 2027/28 revenue target of KSh 4.0 trillion may be difficult to achieve if the stronger economic growth underpinning the projection does not materialise.

- Geopolitical tensions, higher energy prices, adverse weather conditions and election-related uncertainties could weaken economic activity and revenue collection while simultaneously increasing expenditure pressures in FY 2027/28.

- In addition, the projected growth of 10 percent is higher than the average growth of 9.6 percent for the past 7 years, yet revenues have recorded lower growth around elections.

Development spending falls below the 30 percent PFM ACT, 2012 requirement in the medium term, despite a slight increase in the budget share from 16 percent in FY 2026/27 to 18 percent in FY 2027/28



- Total expenditure and net lending is projected to increase to KSh 5.42 trillion from KSh 4.82 trillion in FY 2026/27.

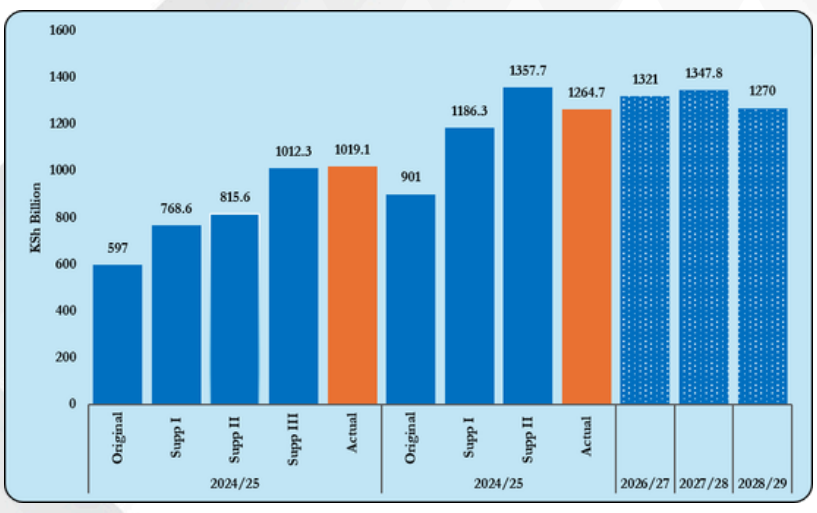
- The increase will be primarily driven by increased recurrent spending, reinforcing a spending structure that leaves limited fiscal space for development and falls substantially short of the PFM Act's requirement that 30 percent of total spending should be on development spending.

- County equitable shares are expected to rise to KSh 440.9 billion in FY 2027/28, reaching KSh 554.8 billion by FY 2030/31

Source: BROP and BPS

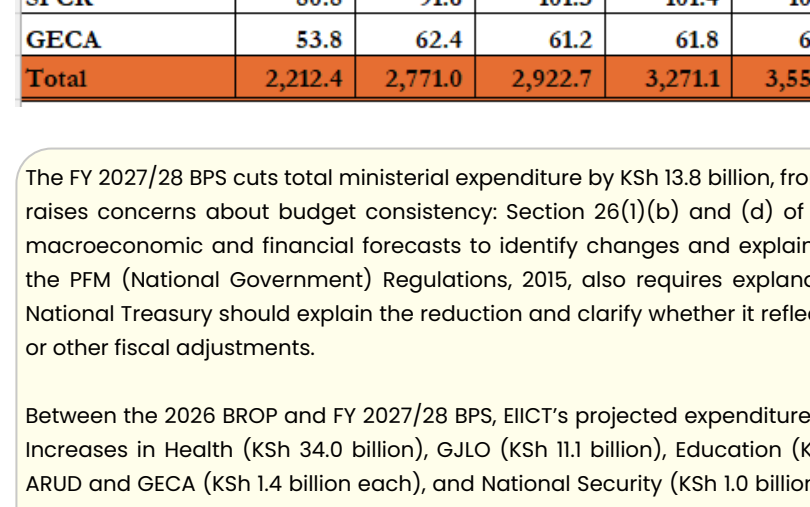
3 Consistent with faster growth in spending than in revenue, the fiscal deficit is projected to widen to KSh 1.35 trillion (5.9 percent of GDP)

The fiscal deficit is projected to widen over the medium term



- With anticipated lower-than-projected revenue performance and growth in expenditure, fiscal outturn is expected to continue a past trend where the fiscal deficit has consistently widened relative to target.
- This points to the increasing importance of expenditure rationalization and credible revenue projections.

The government expects to finance the fiscal deficit through KSh 929.1 billion in domestic borrowing and KSh 423.8 billion in external borrowing.



- Financing requirements are projected to remain high with total financing rising from KSh 1.15 trillion in FY2026/27 to KSh 1.35 trillion in FY 2027/28 and KSh 1.52 trillion by FY2030/31
- Notably, net foreign financing more than doubles from KSh 247.2 billion in FY 2026/27 to KSh 625.4 billion in FY 2030/31.

KEY TAKEAWAY

Overall, the FY 2027/28 expenditure framework points to an increasingly constrained and less flexible budget, as rising debt-service costs compete with resources for counties and development priorities.

The increasing burden of debt servicing on public resources limits the government's ability to shift spending priorities, resulting in a fiscal trade-off between fulfilling debt obligations and safeguarding funds for counties and development spending.

4 The FY 2027/28 sector ceilings is projected to increase by 12% but the additional resources remain concentrated in a few large sectors

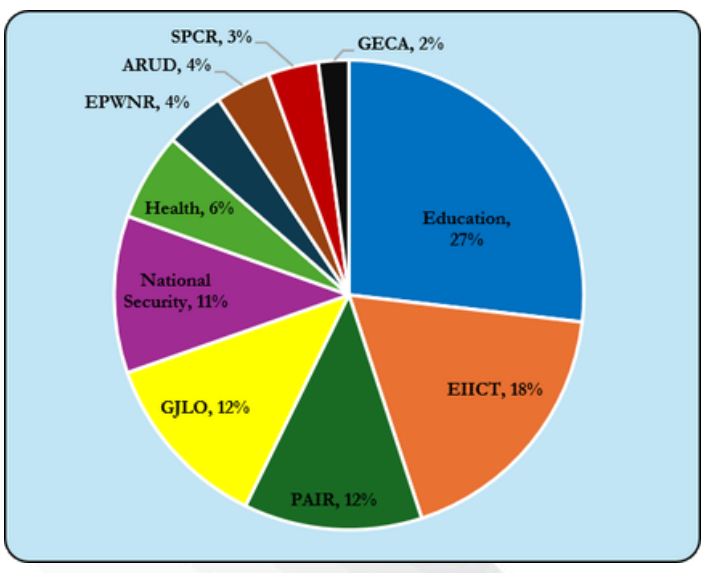
KSh Billion	Outturn		Printed Estimates	2026 BROP Projections			2027 BPS Projections		
Sector	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2027/28	2028/29	2029/30
Education	673.3	745.4	784.5	848.7	931.7	1,003.8	857.3	942.3	1,016.3
EIICT	360.8	546.9	530.3	645.6	701.5	702.6	582.4	704.6	743.9
PAIR	293.5	346.6	358.9	431.8	486.9	598.7	430.2	468.5	575.0
National Security	235.8	289.7	316.2	361.0	390.0	421.2	362.0	402.0	436.8
GJLO	258.5	322.3	361.5	385.2	372.7	408.3	386.3	373.6	409.3
Health	101.2	157.2	176.3	195.2	209.9	212.9	229.2	243.8	239.7
EPWNR	78.0	105.0	121.2	132.3	175.8	181.9	135.0	182.2	190.2
ARUD	76.9	104.0	111.4	108.2	110.8	112.6	108.6	110.8	114.0
SPCR	80.8	91.6	101.3	101.4	106.9	107.3	103.0	108.4	108.7
GECA	53.8	62.4	61.2	61.8	67.8	67.2	63.2	69.3	68.6
Total	2,212.4	2,771.0	2,922.7	3,271.1	3,553.9	3,816.4	3,257.2	3,605.5	3,902.5

The FY 2027/28 BPS cuts total ministerial expenditure by KSh 13.8 billion, from KSh 3,271.1 billion in the 2026 BROP to KSh 3,257.3 billion. This raises concerns about budget consistency: Section 26(1)(b) and (d) of the Public Finance Management Act, 2012, require updated macroeconomic and financial forecasts to identify changes and explain deviations from financial objectives. Regulation 29(1)(d) of the PFM (National Government) Regulations, 2015, also requires explanations for significant fiscal strategy changes. Therefore, the National Treasury should explain the reduction and clarify whether it reflects revised macroeconomic assumptions, spending priorities or other fiscal adjustments.

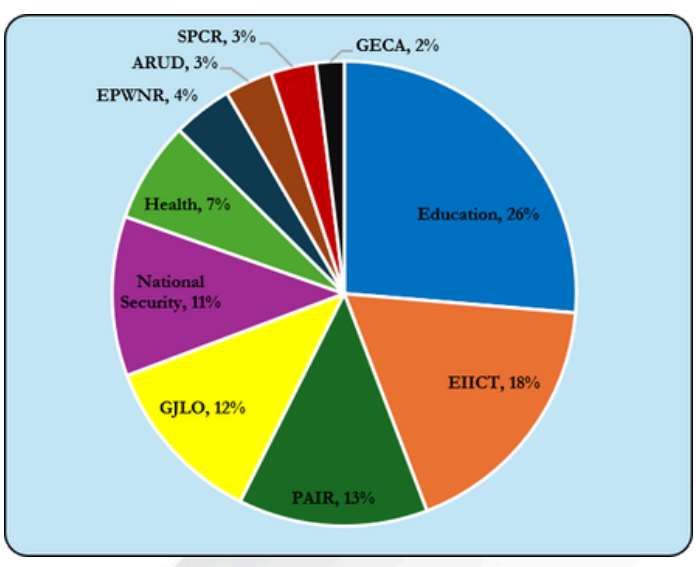
Between the 2026 BROP and FY 2027/28 BPS, EIICT's projected expenditure falls most (KSh 63.2 billion), followed by PAIR (KSh 1.6 billion). Increases in Health (KSh 34.0 billion), GJLO (KSh 11.1 billion), Education (KSh 8.7 billion), EPWNR (KSh 2.7 billion), SPCR (KSh 1.7 billion), ARUD and GECA (KSh 1.4 billion each), and National Security (KSh 1.0 billion) partly offset the cuts. The National Treasury should explain these changes and clarify whether they reflect revised macroeconomic assumptions or spending reprioritisation.

5 Changes in sector budget shares show a shift in spending priorities towards infrastructure under EIICT sectors and recurrent spending under PAIR sector

Sector Share of the FY 2026/27 Budget Estimates



Sector Share of the FY 2027/28 Budget Estimates



Increased shares for these sectors could support infrastructure-led growth but the declining shares of ARUD and Education may constrain the relative resources available for food security, livelihoods and human capital development. However, increased share for the PAIR sector is concerning as spending for the sector is primarily recurrent.

In Summary

The FY 2027/28 budget coincides with an electioneering period, a period that has, in the past, been marked by subdued growth, revenue underperformance, increased expenditure pressures and higher borrowing.

Against this backdrop, the projected 5.1% economic growth and 10% revenue growth is ambitious while expenditure pressures and rising interest costs risk widening the fiscal deficit and further constraining fiscal space.

Source: 2026 BROP 2027 and BPS