MACRO & FISCAL CONTEXT

Annual National Shadow Budget 2027/2028

IPF
INSTITUTE OF PUBLIC FINANCE

Kenya enters the FY2027/28 budget cycle with moderating growth, persistent revenue shortfalls, rising debt service and weak public-investment management. The 2027 elections, external price shocks and climate shocks add further downside risk to growth and revenue.

Key Findings

Growth outlook is optimistic

The FY2027/28 growth projection is optimistic in the face of election-related uncertainty. The Government's 5.1% growth projection exceeds the World Bank's (4.4%) projection and the African Development Bank's (4.7%) projections.

Revenue target may be too high

Based on historical trends, the projected total revenue of KSh 4.0 trillion is overly optimistic. Accounting for average tax revenue growth of 9% over the ten years to FY 2025/26, a more realistic tax revenue target would be KSh 2,904 billion, KSh 235 billion below the projected KSh 3,139 billion. Consequently, total revenue would more realistically stand at KSh 3,770 billion.

Spending is heavily recurrent

Spending remains skewed towards recurrent expenditure, which is projected to take up about 74% of total spending in FY 2027/28, leaving development spending well below the 30% threshold set by the Public Finance Management (PFM) Act of 2012.

Deficit and debt pressures are rising

Fiscal deficits have, in the past, overshot targets, and debt pressures are rising. The FY 2027/28 deficit of KSh 1.35 trillion is 69% financed domestically, public debt is expected to reach about 71% of GDP, and domestic debt service alone absorbed 41% of ordinary revenue in FY 2025/26.

Projects Remain Stalled or Incomplete

Stalled, incomplete and delayed projects continue to deny citizens services that would have accrued if these projects were completed.

THE NUMBERS AT A GLANCE

TOTAL REVENUE

KSh 4,003.7 billion

Ordinary revenue	3,249.2
Tax revenue	3,139.0
Non-tax revenue	110.2
Ministerial A-i-A	754.5

TOTAL EXPENDITURE

KSh 5,415.5 billion

Recurrent	4,021.1
Interest spending	1,457.4
Development & net lending	915.8
County transfers	473.5
Equitable share	440.9
Contingency fund	5.0

FISCAL DEFICIT AND FINANCING

KSh 1,352.9 billion

Net domestic financing	929.1
Net external financing	423.8
Domestic share of financing	69%

5.1%
Real GDP growth projection, 2027

74%
Recurrent share of total expenditure

45%
of ordinary revenue goes to interest payments

~71%
Public debt to GDP

01

GROWTH & REVENUE

Forecast Optimism Meets Election Uncertainty and Historical Collection Limits

Growth: The 5.1% Forecast is Above Multilateral Estimates

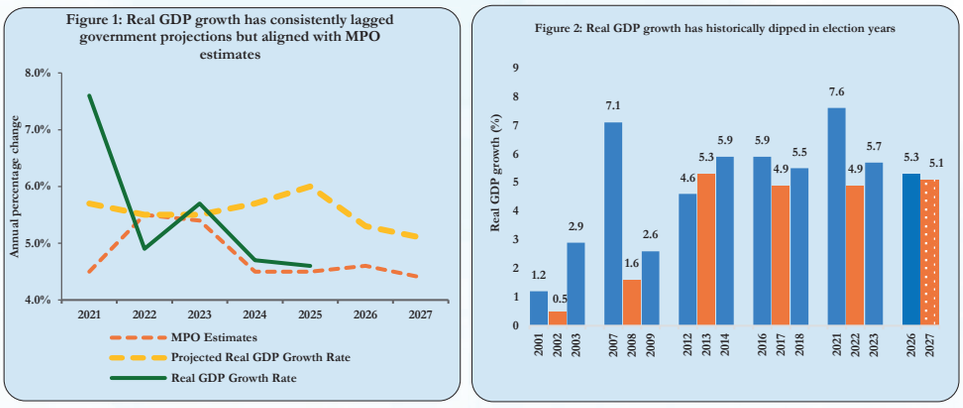
- Treasury projects 5.1% growth in 2027. However, actual growth has repeatedly fallen short of government projections and tracked the World Bank's Macro Poverty Outlook (MPO) estimates instead.
- Past election cycles show that political uncertainty weakens growth. By accounting for election risk, both the World Bank and the African Development Bank (AfDB) project lower growth of 4.4% and 4.7% in 2027.

5.1%
Government / Treasury projection

4.7%
African Development Bank projection

4.4%
World Bank projection

Figure 1: Real GDP growth has consistently lagged government projections but aligned with MPO estimates and dipped in election years



Data Source: Various BROPS, MPO and Economic Surveys

02

REVENUE: THE KSh 4,003.7BN TARGET IS TOO AMBITIOUS

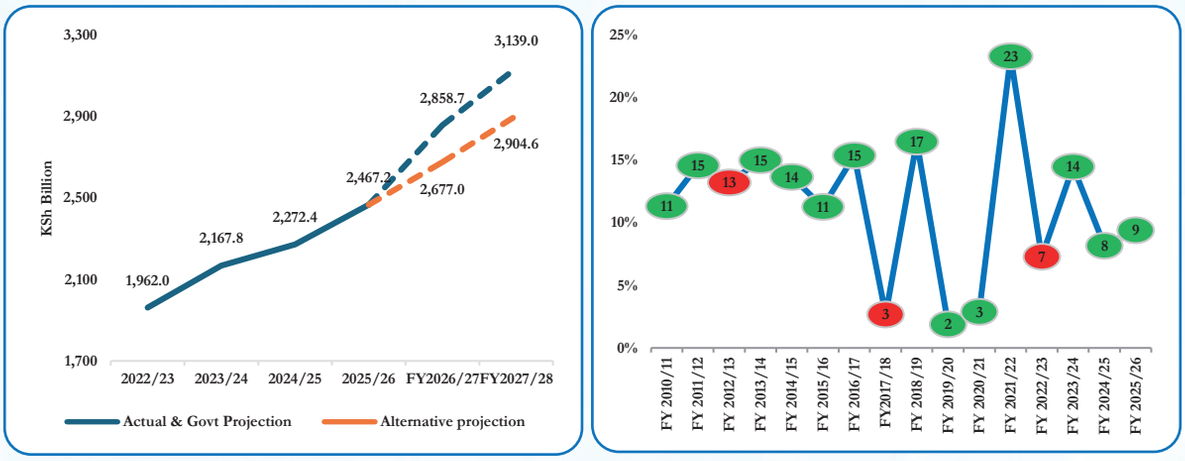
- Tax revenue has grown by an average of about 9% per year over the past ten financial years. Based on this, a lower target of KSh 2,904 billion in tax revenue would be more realistic, which is KSh 235 billion below the target. Consequently, a more realistic total revenue target is KSh 3,770 billion.
- Revenue growth also slows sharply in election years. Ordinary revenue growth fell from 22% in FY 2021/22 to 7% in FY 2022/23, the election year, before recovering to 14% in FY 2023/24. The FY 2027/28 revenue target should be revised downwards to better account for this risk.

4,003.7bn
Government total revenue target

3,770bn
More realistic total revenue

2,904bn
More realistic tax revenue

Figure 3: Applying average revenue growth implies a lower FY 2027/28 target and revenue growth has has declined during election years



Data Source: Various BROPS, IPF's computation

03 EXPENDITURE, DEFICIT & DEBT

The FY2027/28 expenditure framework remains dominated by recurrent spending and constrained development spending

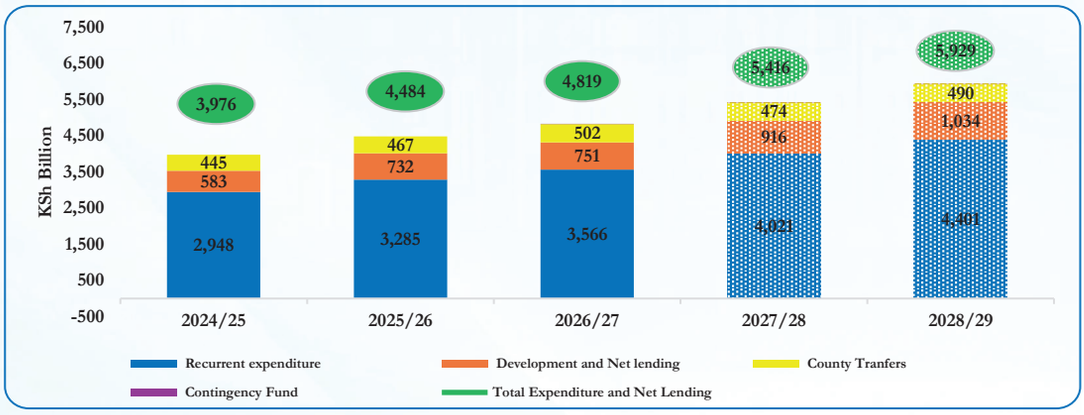
- Total expenditure is projected to rise by 12% to KSh 5,415.5 billion in FY 2027/28, from KSh 4,819.4 billion in FY 2026/27.
- Since FY 2024/25, recurrent spending has taken up more than 70% of total expenditure, leaving development spending below the 30% threshold set by the PFM Act.

5,415.5bn
FY2027/28 total expenditure

4,819.4bn
FY2026/27 total expenditure

+12%
Projected increase

Figure 5: Expenditure trends reveal a persistent dominance of recurrent spending



Data Source: Various BROPs

04 DEFICIT & FINANCING: DOMESTIC BORROWING CARRIES MOST OF THE LOAD

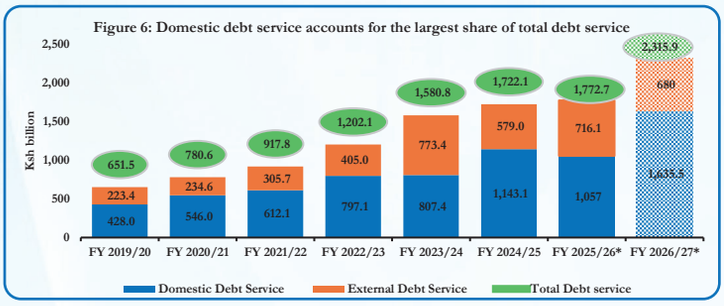
The fiscal deficit is projected at KSh 1,352.9 billion in FY2027/28, financed through KSh 929.1 billion in domestic borrowing and KSh 423.8 billion in external financing. This is expected to push public debt to about 71% of GDP. Reduced access to concessional and external financing has increased debt-servicing pressures.

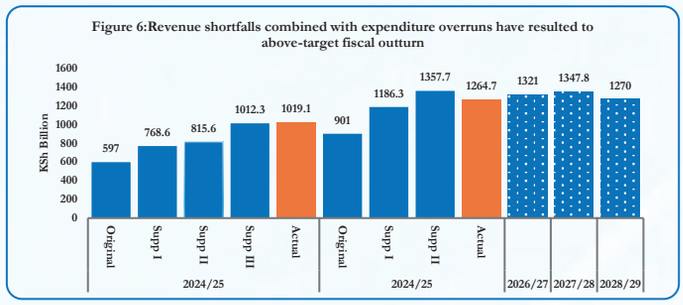
1,352.9bn
Projected fiscal deficit

929.1bn
Net domestic financing

423.8bn
Net external financing

~71%
Public debt to GDP





Data Source: Various BROPs

An additional concern is that borrowing is also financing recurrent spending, contrary to the PFM Act. Of the KSh 983.7 billion borrowed in FY 2025/26, 79% went to development and 21% to recurrent expenditure, contrary to Section 15(2)(c) of the PFM Act, which requires that, over the medium term, national government borrowing be used only to finance development. The Treasury's debt sustainability analysis continues to classify Kenya at high risk of debt distress, with the present value of public debt projected at 65.6% of GDP in FY 2026/27, above the 55% benchmark until 2029.

05

STALLED & INCOMPLETE PROJECTS

A GROWING STOCK OF LOG POINTS TO FINANCING AND MANAGEMENT FAILURES

THE BACKLOG IS GROWING

The Auditor-General lists 219 stalled or incomplete projects worth KSh 291.2 billion in FY2024/25, up from 188 projects worth KSh 240.5 billion a year earlier. The OAG notes various reasons for delayed or stalled projects, including delayed payments and contracting gaps.

219
Projects - FY2024/25

KSh 291.2bn
Net domestic financing

188
Project - FY2023/24

KSh 240.5bn
Contract Value-FY2023/24

Table 1: Distribution of stalled and incomplete projects across sectors

Sector	Projects 2023/24	Projects 2024/25	Contract value 2023/24	Contract value 2024/25	Amount paid 2023/24	Amount paid 2024/25
National Security	3	3	21.9	106.6	3.2	6.4
EPWNR	64	66	72.3	79.5	40.1	22.3
EIICT	39	45	108.5	76.7	82.3	31.6
Health	7	8	3.1	10.0	4.2	2.7
ARUD	23	42	9.1	5.6	1.6	2.1
PAIR	6	5	11.2	4.7	1.4	1.1
GJLO	24	35	2.2	4.2	1.2	1.9
Education	20	10	11.6	3.3	5.7	1.2
SPCR	2	3	0.6	0.6	0.5	0.3
GECA		2				
TOTAL	188	219	240.5	291.2	139.9	69.7

Data Source: Auditor-General's Reports on National Government for FY 2023/24 and FY 2024/25

Recommendations



01 Revise growth projections downward Account for election-related economic uncertainties and risks.

02 Set a credible revenue target Align tax revenue projections with historical collection trends.

03 Borrow within the PFM Act; protect development Strengthen National Assembly and Controller of Budget oversight so borrowing finances development; reduce non-essential recurrent and administrative spending.

04 Complete viable stalled projects Enforce Public Investment Management Guidelines; prioritise viable ongoing