PRESS RELEASE

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IPF urges Treasury and Parliament to restore budget credibility before 2027 BPS is approved

The Institute of Public Finance (IPF) today has launched the seventh edition of its flagship product- the Annual National Shadow Budget. The Annual National Shadow Budget is an independent review of the national budget. This launch comes at a timely moment when Parliament is considering the 2027 Budget Policy Statement. Our analysis of the FY 2027/28 budget finds that it is based on overly optimistic growth and revenue projections in light of elections, external prices and climate risks.

The National Treasury projects that Kenya's economy will grow by 5.1% in 2027, a much higher growth rate compared to the World Bank's growth projection of 4.4% and the African Development Bank's projection of 4.7 percent. Our analysis notes that growth has generally dipped around election years, making the projected growth too high.

Similarly, the National Treasury is projecting revenue at Ksh 3,923.1 billion out which Ksh 3,139.0 billion is expected to come from taxes. While this is a downward revision from an initial target of Ksh 4003.7 billion presented in the Budget Review and Outlook Paper and draft 2027 Budget Policy Statement, it remains overly optimistic in light of historical performance and election-related risks. IPF's analysis shows that if tax revenue maintains its ten-year average growth rate, the government would collect about KSh 2.9 trillion, roughly KSh 235 billion short of the KSh 3.1 trillion in the plan. One key thing to note is that growth and revenue growth have also both dipped in past election years.

> "*Treasury is asking Parliament to approve spending that rests on growth and revenue figures above what independent forecasters and Kenya's own record would support. In an election year, that is a risk MPs should not sign off without hard questions.*" said Daniel Ndirangu, Chief Executive Officer of IPF

This optimism is particularly concerning in light of debt servicing pressures.

Interest on Public Debt Should be a Concern for Parliament

When revenue targets are missed, it is delivery of public services that pay the cost. The ANSB traces how over-optimistic projections end up delaying service delivery. The FY 2025/26 deficit reached about 6.9 % of GDP against an original target of 5.0 %. Public debt stood at KSh 13.1 trillion, or 70.4 % of GDP, by June 2026, and has since increased to KSh 13.5 trillion, according to Central Bank of Kenya Data. Interest payments alone are projected at KSh 1,314.9 billion in FY 2027/28, about 40% of projected ordinary revenue, meaning that for every KSh 100 the government expects to collect, KSh 40 will go to settling interest payments.

More worrying still, the government continues to borrow to finance recurrent spending. IPF's analysis shows that about 21% of the KSh 983.7 billion borrowed in FY 2025/26 paid for recurrent rather than development expenditure. Recurrent spending also continues to dominate the budget, taking more than 70% of allocations, against a Public Finance Management Act requirement that at least 30% go to development over the medium term.

Growing Number of Incomplete Projects

Meanwhile, our review of the Auditor-General reports identified 219 stalled, incomplete or delayed national government projects worth KSh 291.2 billion in FY 2024/25, up from 188 projects worth KSh 240.5 billion a year earlier, with another 77 delayed projects worth KSh 136.8 billion. These delays are not free; for example, on the Thwake dam alone, avoidable interest costs reached KSh 569 million and total project cost was revised upwards by about 32%.

Funding Social Sectors

Our analysis highlights that the Social Health Insurance scheme is under strain. In FY 2024/25, benefit claims on the Social Health Insurance Fund (SHIF) exceeded contributions by 59%, and the Emergency, Critical and Chronic Illnesses Fund received just 4 % of its estimated requirement in FY 2025/26. The Health Insurance Subsidy Programme, which pays premiums for poor households, was allocated about KSh 310 million against an estimated KSh 37 to 39 billion needed. The gap is reaching health facilities: only 63 % of approved county-hospital claims were settled in FY 2024/25, and by the third quarter just 27 % of private and 36 % of faith-based facility claims had been paid.

The State Department for Basic Education's budget fell from KSh 155.4 billion in FY 2023/24 to KSh 132.7 billion in FY 2025/26. The Free Primary Education rate of KSh 1,420 per learner would need to rise to about KSh 1,833 by FY 2027/28 just to match its FY 2022/23 value. Households already carry an estimated 31 per cent of education spending, and the burden is heaviest where poverty is deepest: only 10 per cent of children from the poorest households complete secondary school, compared with 70 per cent from the richest.

Kenya's National Safety Net Programme expanded from about 1.1 million beneficiaries in FY 2022/23 to about 1.8 million in FY 2024/25. Despite the expansion, its allocation has since dropped from KSh 42.7 billion to KSh 29.2 billion in FY 2026/27 and is projected at KSh 27.9 billion in FY 2027/28, even as planned coverage is maintained.

"Behind each of these numbers is a county hospital waiting to be paid, a school asking parents to cover the shortfall, a household that needed health cover and was not enrolled." Mr Ndirangu said.

What IPF is asking Parliament to do

1. Parliament should revise growth towards the 4.4 to 4.7 per cent range, set tax revenue nearer KSh 2.9 trillion, and require a revenue-shortfall contingency plan before approving the FY 2027/28 estimates by the National Treasury.
2. To protect public service delivery, Parliament should adjust education capitation for inflation, fold scattered bursary funds into capitation and move to a need-based formula that includes undisbursed ASAL school funds.
3. On stalled projects, the focus should be to finish existing projects before starting new ones. Parliament should fund viable stalled projects and allow new project s into the budget only where ongoing ones are adequately financed.

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