

KENYA

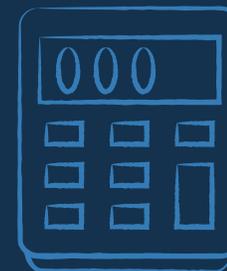
BUDGET

2025-2026

A CareEdge Analysis



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Kenya Budget 2025-2026: Sustaining Bottom-up Economic Transformation Agenda, Fiscal Consolidation and Investing in Climate Change Mitigation and Adaptation for Improved Livelihoods

Introduction

The Kenya FY2025/26 Budget, presented on 12 June 2025, outlines the government's fiscal and policy priorities for the year ahead against a backdrop of significant domestic and external challenges. With total spending projected at KES 4.3 trillion, the budget seeks to strike a balance between stimulating economic growth and ensuring fiscal sustainability. Anchored on the theme "Accelerating Economic Recovery and Inclusive Growth", it emphasizes enhanced revenue mobilization, rationalization of expenditures, and investments in key sectors such as infrastructure, education, health, and social protection.

Key Strategic Interventions and Priorities of the FY2025/26 Budget



Macroeconomic Stability and National Security:

Upholding a stable macroeconomic environment and enhancing national security are paramount to fostering a predictable and supportive climate for investment and business growth.



Infrastructure Development:

Significant investments are earmarked for critical infrastructure, including roads, railways, energy, and water systems. This is intended to reduce the cost of doing business and improve the movement of people and goods across the country.



Sectoral Growth and Diversification:

The Budget prioritizes increased investments in key sectors such as agriculture, manufacturing, environmental conservation, climate change mitigation, tourism, and sustainable land use. This focus aims to drive broad-based and resilient economic growth.



Social Inclusion and Welfare:

To uplift vulnerable populations and promote social and economic transformation, the government will boost investments in health, education, and social safety nets. There's a strong emphasis on inclusive growth through targeted programs supporting youth, women, and persons with disabilities, complemented by strategic partnerships with the private sector.



Devolution and Governance:

The Budget enhances county-level capacity and service delivery by allocating shared revenues to County Governments. Furthermore, reforms are planned to strengthen public institutions, improve governance, and enhance the efficiency and effectiveness of public service delivery.

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Fiscal Outlook and Debt Management



The government's expenditure for FY2025/26 is projected at KES 4.2919 trillion. Of this, KES 3.1344 trillion is allocated for recurrent expenditures, while development expenditures, including allocations for domestic and foreign-financed projects, the Contingency Fund, and the Equalization Fund, amount to KES 693.2 billion. County Governments are projected to receive a total allocation of KES 474.9 billion, with an equitable share of KES 405.1 billion.

Total revenue collection for FY2025/26, including appropriation-in-aid, is projected at KES 3,321.8 billion. This comprises KES 2,754.7 billion from ordinary revenue, KES 567.0 billion from Ministerial Appropriation-in-Aid, and KES 46.9 billion from grants.

Given the projected revenue and expenditure, the fiscal deficit for FY2025/26, including grants, is projected at KES 923.2 billion. This deficit will be financed by net external borrowing of KES 287.7 billion and net domestic borrowing of KES 635.5 billion.

A core element of the 2025-2026 budget is the government's commitment to fiscal consolidation. The aim is to reduce the fiscal deficit from 5.7% of GDP in FY2024/25 to 4.8% of GDP in FY2025/26. Kenya's public debt is anticipated to remain sustainable in the medium term, with the debt-to-GDP ratio projected to decline from 63.0% in 2024 towards the target range of 55% ± 5% by 2028. This reflects ongoing efforts to slow public debt growth, improve debt sustainability, and safeguard essential services and priority programs.

Overall, the Kenya Budget FY2025/26 lays out a clear and strategic path towards economic resilience and inclusive growth, driven by the Bottom-Up Economic Transformation Agenda and a firm commitment to fiscal prudence.

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Budget Overview

The FY2025/26 Budget sets forth an ambitious agenda focused on strengthening revenue collection, implementing critical expenditure reforms, investing in priority sectors, and enhancing resilience to climate change. The plan also emphasizes streamlining public institutions for greater efficiency.

Strengthening Revenue Collection



The government will adopt a comprehensive, multi-pronged strategy to boost revenues:

- **Policy & Strategy Implementation:** Full rollout of the National Tax Policy and Medium-Term Revenue Strategy (MTRS) to guide tax administration.
- **Tax Base Expansion:** Enhancing Non-Tax Revenue: Ministries, Departments, and Agencies (MDAs) will identify new opportunities to generate revenue from public services.
- **Unlocking Non-Tax Revenue:** Ministries, Departments, and Agencies (MDAs) will focus on identifying and harnessing additional revenue potential from services they offer to the public.

Expenditure Reforms For Fiscal Discipline



On the expenditure side, the government is introducing significant reforms to enhance financial management

- **Treasury Single Account (TSA):** A phased rollout of the TSA will centralize government banking, starting with national entities in FY2024/25, counties in FY2025/26, and other bodies in FY2026/27, improving cash management and transparency
- **Transition to Accrual Accounting:** Over three years, Kenya will shift from cash-based to accrual accounting. All financial assets will be recognized in the first year, with additional assets, including natural resources, incorporated in subsequent years in line with the IPSAS 33 standards.

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Building Resilience Against Climate Change



Kenya is prioritizing robust frameworks to strengthen climate finance and unlock investment opportunities in response to the escalating threat of climate change:
Strategic Frameworks:

- **Strategic Frameworks:** Major initiatives include the Climate Finance Mobilization Strategy, National Policy Frameworks on Green Strategy and Green Fiscal Incentives, a Carbon Market Framework, and a National Green Taxonomy.
- **Sustainable Financing:** The government is developing a Sustainability-Linked Bond Framework to address fiscal deficits and expand financing options.
- **Disaster Preparedness:** Finalization of the Public Finance Management (Disaster Risk Management Fund) Regulations, 2025, aims to establish a fund supporting all phases of disaster risk management, bolstering national preparedness and response.

Strategic Sectoral Allocations



The budget underscores a strong commitment to five priority sectors, with a total allocation of KES 334.0 billion for FY2025/26:

- **Agricultural Transformation and Inclusive Growth:** KES 47.6 billion
- **Transforming Micro, Small and Medium Enterprises (MSMEs):** KES 2.458 billion
- **Housing and Settlement:** KES 128.3 billion
- **Universal Healthcare Coverage:** KES 138.1 billion
- **Digital Superhighway and Creative Industry:** KES 17.6 billion

These allocations exemplify the government's focus on areas crucial for job creation, economic diversification, and improved livelihoods.

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State Corporation Reforms



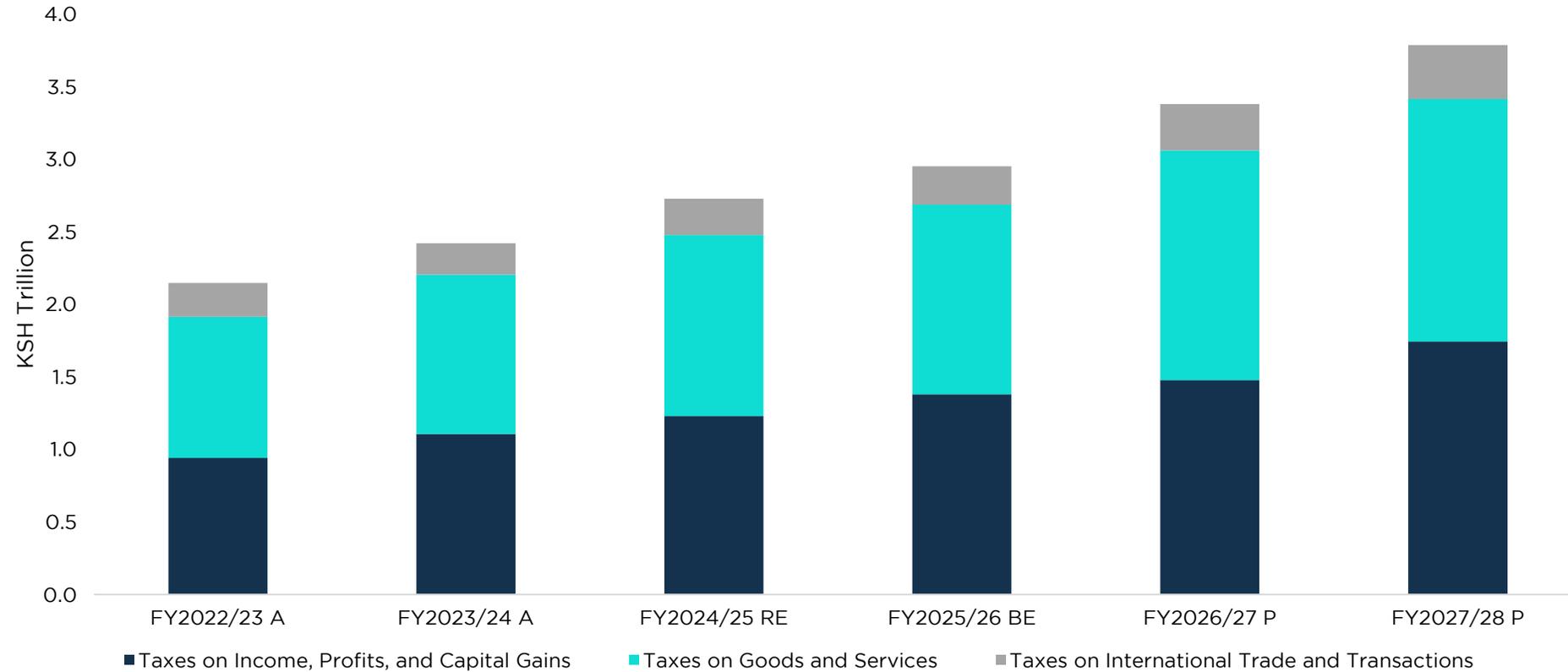
- **Streamlining & Restructuring:** In January 2025, the Cabinet approved reforms to merge 42 state corporations into 20, dissolve 25, restructure 6, and declassify others.
- **Legal Framework:** The Government-Owned Enterprises Bill, 2024, provides the legal foundation for these changes.
- **Commercialization & Leasing:** Rivatex East Africa Limited is being commercialized, while four state-owned sugar factories are undergoing competitive leasing.

Financial Sector Reforms



- **Banking Sector:** The Central Bank lifted the moratorium on new commercial bank licenses in April 2025 and introduced new guidelines for liquidity, stable funding, and leverage ratios.
- **Green Finance:** The Kenya Green Finance Taxonomy and Climate Risk Disclosure Framework are guiding banks in integrating climate risks and advancing the green economy.
- **Financial Inclusion:** The National Financial Inclusion Strategy (2025–2028) is being finalized to expand access to affordable financial services.
- **Digital Finance Modernization:** The Central Bank is updating the national payment system’s legal framework, implementing a fast payment solution, and transitioning to a 24/7 settlement system from July 2025.
- **Anti-Money Laundering (AML):** In response to Kenya’s grey listing, regulatory gaps have been addressed. The Virtual Assets Service Providers Bill, 2025, has been developed to regulate digital assets and enhance AML safeguards.

Government Tax Revenue



Source: The National Treasury, Kenya; Note: A=Adjusted; RE=Revised Estimates; BE=Budgeted Estimates; P=Projections



Preferential Corporate Tax for NIFC Certified Companies

- Reduced corporate tax rates for companies certified by the **Nairobi International Financial Centre (NIFC) Authority**.
Tax Rates: **15%** for the first 10 years of operation; **20%** for the subsequent 10 years.
- **Conditions:**
- Minimum investment of **KES 3 billion in Kenya** within the first 3 years.
- **Holding Companies:** At least 70% Kenyan senior management.
- **Regional Headquarters:** At least 60% Kenyan senior management.
- **Dividend Exemption:**
Dividends paid by NIFC-certified companies are **tax-exempt** if **KES 250 million is reinvested in Kenya** in the same income year.
- **Start-up Concession:** **15%** for the first 3 years; **20%** for the next 4 years.

Digital Asset Tax Reduction

- Proposed Change: Digital Asset Tax reduced to 1.5% (from 3%) of transfer/exchange value.
- Impact: Stimulates growth and innovation in Kenya's digital asset sector.

Retirement Benefits: Clearer Exemptions

- Proposed Amendment: Explicitly distinguishes tax-exempt retirement benefits under **Paragraph 53 (First Schedule, ITA)**:
- **Exempt Categories:**
"Payment of gratuity."
"Other allowances paid under a public pension scheme."
Purpose: Resolves ambiguity and aligns the treatment of retirement benefits.

Reintroduction of Diminution Allowance

- Proposed Change: Reinstates diminution allowance for items like loose tools, utensils, linens, and industrial tools.
- Deduction Period: Full deduction in the **first year of purchase** (reduced from 3 years).
- Benefit: Enhances cash flow for affected businesses (e.g., hospitality, manufacturing).

Minimum Top-Up Tax Due Date

- Proposed Due Date: Payable by the end of the fourth month after the financial year-end.
- Alignment: Consistent with standard tax payment timelines under the Tax Laws Amendment Act 2024 and OECD guidelines



Expanded Mortgage Relief

- **Current:** Relief limited to loans for **purchase/improvement** of owner-occupied homes (max KES 360,000 p.a.).
- **Proposed:** Extend relief to include mortgages for the **construction** of residential premises.
- **Impact:** Directly supports home ownership goals under Kenya's **Affordable Housing Pillar (BETA)**, making financing new builds more accessible.

Universal Gratuity Tax Exemption

- **Current:** Ambiguity regarding the tax status of gratuity from **private employers**
- **Proposed:** Amend the **Income Tax Act (ITA)** to explicitly exempt **all gratuity payments** (public and private employers) from taxation.
- **Impact:** Ensures equitable, significant financial relief for **all retirees** by protecting full terminal benefits.

Mandatory Employer Deduction of Employee Reliefs

- **Current:** Employers often fail to apply eligible reliefs (personal, insurance, etc.) during PAYE calculation, forcing employees to seek refunds.
- **Proposed:** Legally **require employers** to deduct all applicable reliefs when computing monthly PAYE.
- **Impact:**
 - **Simplified Compliance:** Reduces employee paperwork.
 - **Increased Cashflow:** Boosts employees' monthly take-home pay.
 - **Reduced KRA Burden:** Lowers the volume of individual refund claims.

Increased Tax-Free Per Diem Allowance

- **Current:** Private sector per diem tax exemption capped at KES 2,000/day.
- **Proposed:** Raise tax-free daily per diem rate to KES 10,000 for private sector employees.
- **Impact:** Substantially eases travel expense burden on employees, reflecting modern cost realities and reducing out-of-pocket expenses.



Reclassification: Zero-Rated to Exempt Supplies

- **Government Rationale:** Reduce administrative burden and costs associated with VAT refund claims.
- **Key Change:** Shift specified goods/services from **zero-rated** to **exempt** status:
 - **Zero-Rated:** 0% VAT charged; businesses **can claim refunds** for input VAT.
 - **Exempt:** No VAT charged; businesses **cannot recover** input VAT.
- **Impact & Concerns:**
 - **Increased Consumer Prices:** Unrecoverable input VAT becomes embedded in production costs, likely passed to consumers.
 - **Targeted Sectors (Examples):**
 - Raw materials for Kenyan pharmaceutical manufacturing.
 - Supply of electric bicycles.
 - Transportation of sugarcane to milling factories.
 - Locally assembled/manufactured mobile phones.
 - **Competitiveness Risk:** Higher production costs may weaken local industries against imports, undermining "Buy Kenya, Build Kenya" initiatives.

Accelerated Bad Debt VAT Refunds

- **Proposal:** Shorten the window to claim VAT refunds on bad debts from **3 years** → **2 years**.
- **Impact:** Improves business cash flow by enabling faster recovery of VAT tied to irrecoverable debts.

Enhanced VAT Recovery for SEZ Non-Compliance

- **Proposal:** Grant KRA authority to **reclaim VAT** from Special Economic Zone (SEZ) entities that abuse tax exemptions or zero-rated supplies.
- **Rationale:** Strengthen enforcement and safeguard revenue against SEZ regime misuse.
- **Impact:** Stricter oversight of SEZ operations to ensure tax benefits align with intended economic goals.



Industry Competitiveness & Protection Measures

- **Tea Packaging Cost Reduction**
 - **Proposal:** Apply a **10% import duty** (reduced rate) on tea packaging materials.
 - **Impact:** Lowers production costs for local packers, enhancing **Kenyan tea's global competitiveness**.
- **Food Security: Rice & Wheat Imports**
 - **Rice:** "Stay of application" at **35% or USD 200/MT** (vs. planned 75% or USD 345/MT).
 - **Wheat: 10% duty remission** (vs. standard 35%).
 - **Impact:** Stabilizes prices and ensures an **affordable supply of staple foods** for local consumption.
- **Leather Sector Support**
 - **Protection:** Maintain "stay of application" at **35% duty** on finished leather imports (vs. 25%).
 - **Production Incentive: 0% duty remission** on imported tannery chemicals.
 - **Impact:** Shields local manufacturers from cheap imports while **cutting domestic processing costs**.
- **Local Tech Manufacturing Boost**
 - **Proposal:** Extend **0% duty remission** on inputs for assembling Mobile phones, Laptops & tablets
 - **Impact:** Accelerates **tech manufacturing**, creates jobs, and promotes digital adoption.
- **Livestock & Feed Affordability**
 - **Proposal:** Continue **0% duty remission** on raw materials for animal feed production.
 - **Impact:** Reduces livestock farming costs, supporting **agricultural sustainability & food security**.
- **Infrastructure Development Enabler**
 - **Proposal: 0% duty remission** on crane manufacturing inputs.
 - **Impact:** Lowers heavy machinery production costs, **stimulating roads/energy/construction projects**.
- **Regional Transformer Manufacturing**
 - **Proposal:** EAC-approved tariff split for **assembled** vs. **unassembled** electric transformers.
 - **Impact:** Incentivizes **local assembly** within Kenya/EAC, reducing import dependency.



Unified Goods Classification System

- **Change:** Mandate the use of the **EAC Common External Tariff (CET)** classification rules for *all* excisable goods (imported & locally manufactured).
- **Purpose:** Eliminate classification inconsistencies and reduce tax disputes.

Expedited Manufacturer Licensing

- **Change:** Require the Commissioner to respond to excisable goods **manufacturing license applications within 14 working days** of receiving complete documents.
- **Impact:** Accelerates business setup and reduces bureaucratic delays.

Lower Input Costs for Industrial Spirits

- **Change:** Reduce excise duty on **high-purity spirits (>90% alcohol)** used as industrial inputs from **KES 1,000/L → KES 500/L**.
- **Purpose:** Lower production costs for pharmaceuticals, cosmetics, and chemical manufacturers.

Digital Services Tax Expansion

- **Change:** Impose excise duty on **digital services** (e.g., streaming, SaaS) supplied by **non-resident entities without a Kenyan physical presence**.
- **Rationale:** Broaden the tax base to capture value from Kenya's digital economy.

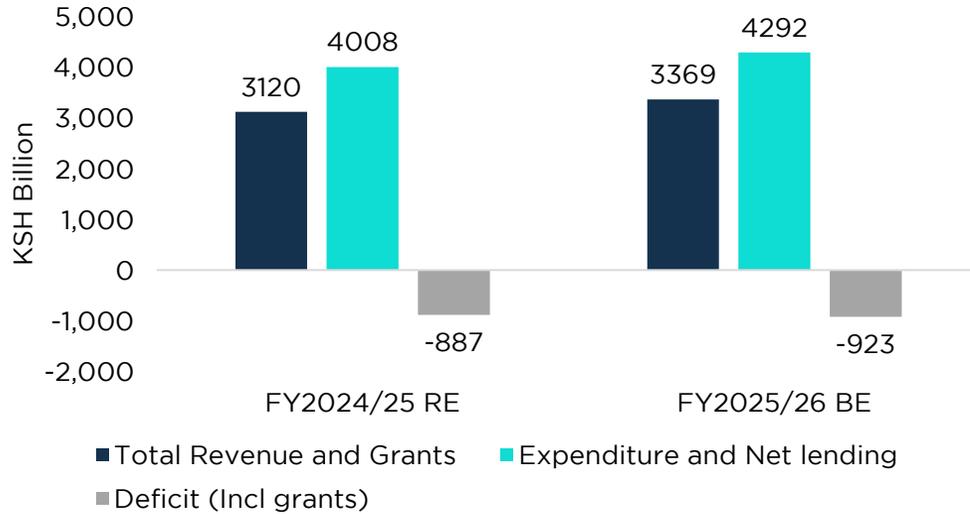
Environmental Levy on Plastic Imports

- **Change:** Apply **25% excise duty** (based on value) **OR KES 200/kg** (whichever is higher) to specified plastic imports: Plates & flatware, Self-adhesive plastics and Printed polymers
- **Purpose:** Discourage non-essential plastic imports and promote local alternatives.

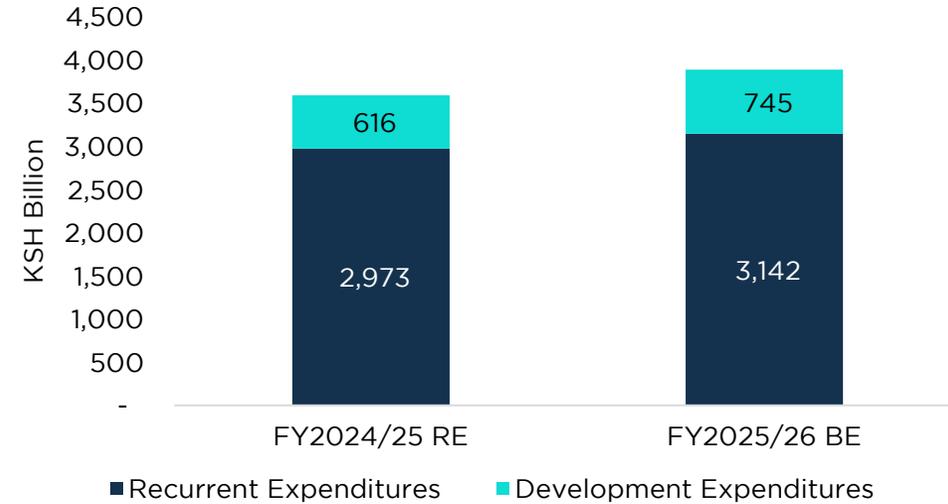
Double Taxation Safeguard for Digital Lenders

- **Change:** Exclude entities licensed under the **Banking Act, Co-operative Societies Act, or Microfinance Act** from the "digital lender" excise duty definition.
- **Impact:** Prevents dual taxation on fees charged by regulated financial institutions.

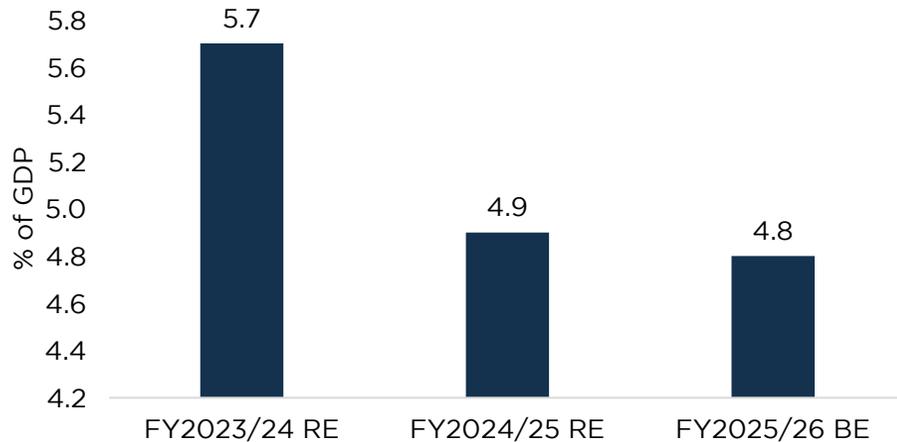
Government Finances



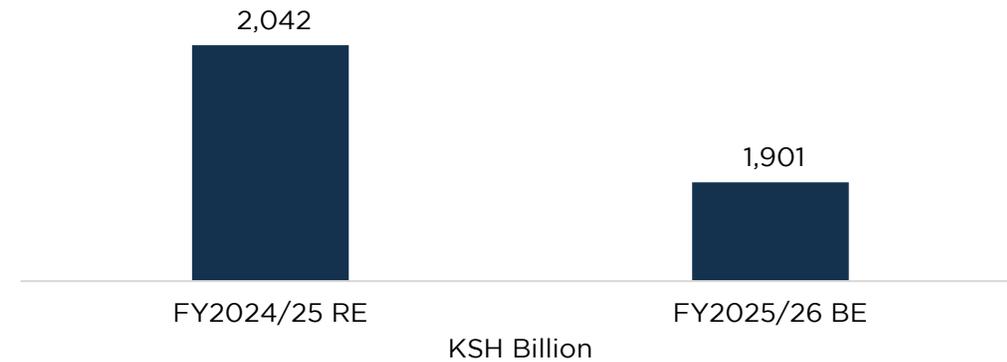
Government Expenditure



Fiscal Deficit



Public Debt



Sectoral Announcements

Allocation to Key Thematic Areas

	FY25 Budget	FY26 Budget	% YoY
	KSH Billion	KSH Billion	
Education	654	660	0.9
Roads	179	190	6.6
Health	129	132	2.8
Environmental Protection, Water and Natural Resources	105	101	-3.5
National Security	374	425	13.9
Housing and Public Works	92	120	30.0
Equity, Poverty Reduction, Women and Youth	90	107	19.7
Energy	64	61	-4.8
Agriculture and food security	47	44	-7.0
Transport	41	38	-8.1
Social Protection	31	43	38.2
Sports, Culture, Recreation and Tourism	24	32	36.3
Manufacturing	22	19	-14.1
Information, Communication and Technology	17	13	-20.5
Governance and Justice	13	41	207.8
Total	1881	2027	7.8

Source: The National Treasury of Kenya

- Estimated allocation to education and national security account for 53.5% of total allocations to key thematic areas

Resource Allocation to the Bottom-Up Economic Transformation Agenda

S/No	Cluster	KSH Billion
1	Finance and Production Economy	46.0
2	Governance and Public Administration	31.6
3	Social Sectors	111.2
4	Land and Natural Resources	25.2
5	Infrastructure	124.3
	Total	338.3

Source: The National Treasury of Kenya

The FY2025/26 Budget prioritizes the execution of Kenya's **Bottom-Up Economic Transformation Agenda (BETA)** – a cornerstone strategy for economic revitalization and inclusive growth.

BETA targets five high-impact sectors critical to household welfare and national development:

1. Agricultural Transformation
2. Micro, Small and Medium Enterprise (MSME) Economy
3. Housing & Settlement
4. Healthcare
5. Digital Superhighway & Creative Economy

Implementation Approach:

Value chain focus is organized into five dedicated clusters.

Total Allocation: KSH 338.3 billion for FY2025/26 to drive BETA priorities.

Agriculture and Food Security

Allocation	Description
KSH 8 billion	Fertilizer subsidies
KSH 10.2 billion	To bolster value chains
KSH 800 million	For small scale irrigation and value addition
KSH 1.2 billion	Food security and crop diversification
KSH 5.8 billion	To enhance resilience of food systems
KSH 2.3 billion	Managing risks in pastoral services
KSH 1.6 billion	Commercial livestock initiatives, along with investments in leather and other agro-industrial parks.

Source: The National Treasury of Kenya

- Increased funding for fertilizer subsidies, irrigation, and value chains will boost food production, reduce import dependence, improve farmer incomes, and enhance resilience to climate shocks.



Blue Economy and Fisheries

Allocation	Description
KSH 2.3 billion	Aquaculture Business Development Project
KSH 2.4 billion	Kenya Marine Fisheries & Socio-Economic Development Project
KSH 500 million	Kabonyo Fisheries & Aquaculture Training Center

Source: The National Treasury of Kenya

- The Kenyan government has allocated KSH 8 billion to support the growth of the blue economy and the fisheries sub-sector

Education

The FY2025/26 Budget dedicates **additional funding** to:

Tertiary scholarships & higher education access

TVET infrastructure and programs

School facilities expansion

Examination systems administration

National school feeding initiative

Targeted Outcomes:

Enhanced Teacher Capacity: Professional development and resource support.

Equitable Access: Broader enrolment in primary-to-tertiary education.

Future-Ready Skills: Youth workforce training aligned with market demands.

Learning Foundations: Reliable examinations and student nutrition support.

Ultimate Impact: Driving inclusive growth, elevating national productivity, and accelerating sustainable poverty reduction through human capital investment.

Allocation	Description
KSH 7.2 billion	Intern teacher recruitment
KSH 980 million	Capacity building in competency-based education
KSH 7 billion	Free primary education
KSH 28.9 billion	Junior secondary capitation
KSH 51.9 billion	Free day secondary education

Source: The National Treasury of Kenya

Healthcare

Allocation	Description
KSH 303 million	Health personnel training

Source: The National Treasury of Kenya

Strengthening Healthcare Foundations

Investment Focus: Frontline health workers & primary healthcare infrastructure.

Targeted Outcomes:

Boosted Service Capacity: Enhanced deployment and capabilities of health personnel.

Equitable Access: Prioritized care expansion for underserved/rural communities.

UHC Acceleration: Direct progress toward Kenya's Universal Health Coverage (UHC) goals.

Strategic Impact: Building resilient, accessible primary care as the foundation for inclusive health transformation.



Infrastructure Development

Allocation	Description
KSH 64.5 billion	Construction of affordable housing
KSH 10.5 billion	Construction of social housing units
KSH 16.5 billion	Social and physical infrastructure

Source: The National Treasury of Kenya

Digital economy- Strategic Investments

Infrastructure Expansion: Nationwide broadband rollout; County-level digital hubs & Integrated e-government platforms

Ecosystem Enablers:

- KSH [Amount] for KRA's AI/blockchain tax systems
- ICT innovation grants & regulatory sandboxes

Targeted Outcomes:

- ✓ Job Creation: 250K+ tech/digital roles by 2030
- ✓ Service Transformation: 30% faster public service delivery
- ✓ Regional Leadership: Position Kenya as East Africa's undisputed tech capital

Konza Technopolis: Accelerating Kenya's Digital Economy - Key Advancements Underway:

Smart City Infrastructure: Core digital backbone & urban systems

Innovation Ecosystem: Digital/media hubs and electronics manufacturing cluster

Strategic Connectivity: Konza Corridor road development

• **Targeted Economic Impacts:**

- ✓ Reduced Logistics Costs: An Efficient transport network lowers business expenses
- ✓ Enhanced Productivity: Integrated digital infrastructure enables innovation
- ✓ Private Investment Magnet: World-class tech ecosystem attracts capital
- ✓ Digital Transition Catalyst: Positions Kenya as Africa's "Silicon Savannah"

Ultimate Goal: Transforming Konza into an engine for sustainable, tech-driven growth under Kenya's BETA framework

Micro, Small and Medium Enterprise (MSME) Economy

Allocation	Description
KSH 300 million	Financial Inclusion Fund
KSH 308 million	Youth Development Fund
KSH 500 million	Centre for Entrepreneurship Project
KSH 1.3 billion	Rural Financial Inclusion Fund

Source: The National Treasury of Kenya

- Over KSH 2 billion has been allocated to address the challenge of accessing affordable credit by most Micro, Small and Medium Enterprises (MSMEs) and Kenyans at the bottom of the pyramid.

Environmental Conservation & Climate Action

1. Forest Restoration & Clean Energy (KSH 103.8 Billion)

Flagship Initiative: Plant 15 billion trees by 2032 to increase forest cover.
Scope: Large-scale afforestation, conservation, and renewable energy projects.

2. Water Security (KSH 47.3 Billion Total)

Conservation: KSH 10.7B for forest/water tower protection.
Access: KSH 36.6B to expand domestic & agricultural water supply.

3. Disaster Resilience

Early Warning Systems: 5% of national disaster risk budget dedicated to sub-county/ward-level flood/drought forecasting.

4. Climate Governance & Green Finance

Policy Implementation: KSH 35M for the National Climate Change Action Plan (GHG inventories, coordination).
Green Economy Catalysts: Funding for renewable energy, smart agriculture, decarbonization, and forest carbon projects.



Environmental Conservation & Climate Action

Area	Impact
Agricultural Resilience	Climate-smart practices reduce crop/livestock losses
Disaster Cost Reduction	Proactive warnings lower emergency response spending
Ecosystem Restoration	Rehabilitated watersheds & biodiversity hotspots
National Goals	Direct contribution to Vision 2030 sustainability targets
Economic Opportunity	Green job creation + revenue from carbon trading and eco-levies



Risks to the 2025-2026 Budget

- **Internal, External Shocks & Global Slowdown:**

Kenya's FY2025/26 Budget is significantly vulnerable to external shocks and a global economic slowdown. Factors like ongoing trade tensions, geopolitical conflicts (e.g., in the Middle East and Ukraine), and tighter global financing conditions threaten Kenya's external sector. This could lead to reduced export demand, volatile commodity prices (especially oil, increasing import costs), and fluctuations in crucial tourism and remittance revenues. Furthermore, climate-related shocks such as floods and droughts continue to pose a high risk to Kenya's vital agricultural sector. The combined effect could lead to reduced foreign exchange earnings, weakening the shilling, fuelling inflation, and ultimately decreasing foreign direct investment (FDI) and official development assistance.

- **Political Unrest & Economic Confidence:**

The recent wave of riots and protests across Kenya poses a serious threat to investor confidence and economic stability. Disruptions, ranging from road blockages to property damage, can discourage both domestic and foreign investment, slow business operations, and dampen tourism flows. Such instability may reduce government revenues and make it harder to meet the budget's fiscal deficit targets. Moreover, increased security spending to manage unrest could divert funds away from development priorities, further straining public finances and undermining the broader goals of inclusive growth and recovery.

- **Persistent Revenue Shortfalls:**

Kenya has a history of missing revenue targets, and the ambitious FY2025/26 budget projections risk widening the fiscal deficit if the KRA underperforms. This challenge is exacerbated by a difficult economic environment, high existing taxes, and a surging cost of living, which collectively dampen economic activity and tax compliance. Consequently, the government would be forced to increase borrowing (domestically and internationally), pushing up public debt and hindering debt servicing. Increased domestic borrowing can also crowd out the private sector by driving up interest rates and limiting credit access for businesses, ultimately forcing cuts in essential development spending and slowing long-term growth.

- **High Recurrent Expenditure:**

Compared to previous years, the FY2025/26 budget continues to show a skewed allocation towards high recurrent expenditure (salaries, operations, and debt servicing) over crucial development projects. This creates a structural imbalance that is unsustainable in the long run. The persistent prioritization of recurrent costs will inevitably lead to slower economic growth by hindering job creation (a factor in recent public unrest) and limiting vital infrastructure development. Moreover, to manage the high recurrent burden, the government will likely implement cuts in other essential areas, leading to a noticeable decline in the quality of public services.

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