Article | 30 October, 2025

Taxwise

2025 Budget Review and Outlook Paper

Fiscal Consolidation And Economic Resilience

In this edition

Amid a modest global economic recovery, easing inflation, and ongoing fiscal challenges, Kenya's economy has shown resilience through prudent fiscal and monetary policies, strong agricultural output, and a vibrant services sector. Real GDP growth is estimated at 4.7 percent in 2024, with projections rising to 5.3 percent in both 2025 and 2026.

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A. Background

The 2025 Budget Review and Outlook Paper (BROP) has been prepared in accordance with the Public Finance Management (PFM) Act, CAP 412A and its Regulations. It provides a comprehensive review of the fiscal performance for the FY 2024/25, macroeconomic developments, and projections for the FY 2026/27 and the medium-term budget. The BROP forms the basis for the development of the 2026 Budget Policy Statement and guides the formulation of the FY 2026/27 budget under the Fourth Medium Term Plan (MTP IV) of Kenya Vision 2030.

The BROP has been developed against a backdrop of modest global recovery, easing inflationary pressures and persistent fiscal challenges. Domestically, Kenya's economy has demonstrated resilience, supported by prudent fiscal and monetary policies, strong agricultural performance, and a robust services sector. Real GDP growth is projected at 5.3 percent in 2025 and 2026, up from 4.7 percent in 2024. This growth is expected to be reinforced by strategic interventions under the Bottom-Up Economic Transformation Agenda (BETA), which focuses on five key pillars: Agricultural Transformation; Micro, Small and Medium Enterprises (MSME) Economy; Housing and Settlement; Healthcare; and the Digital Superhighway and Creative Economy.

B. Fiscal Performance And Policy Measures

The fiscal performance for the FY 2024/25 was marked by revenue shortfalls and expenditure rationalization. Total revenue including Appropriations-in-Aid (AiA) amounted to KES 2,923.6 billion, equivalent to 17.0 percent of GDP. This was below the target of KES 2,985.6 billion, largely due to the withdrawal of the Finance Bill 2024 and public protests that disrupted economic activity.

Ordinary revenue collection stood at KES 2,420.2 billion against a target of KES 2,496.2 billion, reflecting a shortfall of KES 76.0 billion. The underperformance was mainly attributed to lower collections in income tax, particularly PAYE, and other income tax categories. Ministerial AiA, however, exceeded the target by KES 14.0 billion, driven by revised fees and charges by MDAs.

On the expenditure side, total expenditure and net lending amounted to KES 3,975.9 billion against a target of KES 4,045.1 billion, resulting in an under-expenditure of KES 69.1 billion. Recurrent expenditure was KES 2,948.4 billion, while development expenditure stood at KES 582.9 billion. The fiscal deficit including grants was KES 1,019.1 billion, equivalent to 5.9 percent of GDP.

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Pending bills remained a key concern, with the total outstanding National Government pending bills amounting to KES 525.9 billion as at 30th June 2025. Of this, KES 404.3 billion was owed by State Corporations and KES 121.6 billion by MDAs. The National Treasury is currently developing a comprehensive strategy to clear the verified stock of pending bills over the medium term.

C. Macroeconomic Outlook and Budget Framework

Kenya’s macroeconomic outlook remains cautiously optimistic. The global economy is projected to grow by 3.1 percent in 2026, up from 3.0 percent in 2025, driven by easing monetary policy, stronger domestic demand in emerging markets, and a gradual recovery in global trade. However, risks from geopolitical tensions, debt vulnerabilities, and climate-related shocks remain significant.

Domestically, Kenya’s economy is projected to grow by 5.3 percent in 2025 and 2026. This growth is supported by a stable macroeconomic environment, strong performance in agriculture, recovery in industrial activities and resilience in the services sector. The implementation of BETA is expected to further reinforce this growth by lowering the cost of living, eradicating hunger, creating jobs, expanding the tax base and promoting inclusive development.

Inflation has remained within the target range of 5.0 ± 2.5 percent since June 2024, supported by favorable weather conditions, stable exchange rates, and lower international oil prices. In September 2025, inflation stood at 4.6 percent.

The Central Bank of Kenya (CBK) has eased monetary policy by reducing the Central Bank Rate (CBR) from 13.0 percent in August 2024 to 9.5 percent in August 2025. Additionally, the Cash Reserve Ratio (CRR) was lowered to 3.25 percent in February 2025 to support lending to the private sector.

The Kenya Shilling remained stable against the US Dollar, averaging KES 129.2 in September 2025. Foreign exchange reserves increased to USD 17.76 billion, providing 5.2 months of import cover. The Nairobi Securities Exchange (NSE) also recorded strong performance, with the NSE 20 Share Index rising by 67.4 percent and market capitalization expanding by 66.1 percent.

D. Resource Allocation Framework

The FY 2025/26 budget implementation remains on track. Total revenue amounted to KES 419.2 billion in August 2025 against a target of KES 495.8 billion, recording a shortfall of KES 76.6 billion. Despite this, the Government remains committed to fiscal consolidation and prudent expenditure management.

In FY 2026/27, total revenue including AiA is projected at KES 3,583.4 billion, while total expenditure and net lending is projected at KES 4,649.8 billion. The resulting fiscal deficit including grants is projected at KES 1,017.6 billion, equivalent to 4.9 percent of GDP. This will be financed through net external financing of KES 241.8 billion and net domestic financing of KES 775.8 billion.

The Government will continue implementing its fiscal consolidation plan aimed at reducing the fiscal deficit and containing growth in public debt. Key revenue measures will focus on reducing tax expenditures, expanding the tax base, improving compliance, and streamlining the tax structure. On the expenditure side, reforms will include rationalization of non-essential spending, prioritization of ongoing projects, and scaling up the use of Public-Private Partnerships (PPPs).

The Zero-Based Budgeting (ZBB) approach will guide the prioritization and allocation of resources. Ministries, Departments, and Agencies (MDAs) will be required to reassess all planned and existing programmes to ensure resources are focused on high-impact initiatives aligned with BETA and MTP IV. Sector Working Groups are expected to adhere to the sector ceilings provided in the 2025 BROP and focus on interventions that improve livelihoods, create employment, support business recovery, and drive overall economic growth.

Conclusion

The 2025 Budget Review and Outlook Paper sets the foundation for the development of the FY 2026/27 budget and medium-term planning. It reflects the Government's commitment to fiscal discipline, economic resilience, and inclusive growth. Through strategic interventions under BETA, enhanced revenue mobilization and prudent expenditure management, Kenya is well-positioned to navigate fiscal challenges and achieve sustainable development.

As the country prepares for the FY 2026/27 budget, the focus will remain on strengthening public financial management, promoting transparency and accountability, and ensuring that resources are allocated to programmes that deliver tangible benefits to citizens. The Government calls upon all stakeholders to support the implementation of the budget and contribute to building a prosperous, resilient, and inclusive Kenya.

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