

# Kenya Budget 2025-2026 Highlights



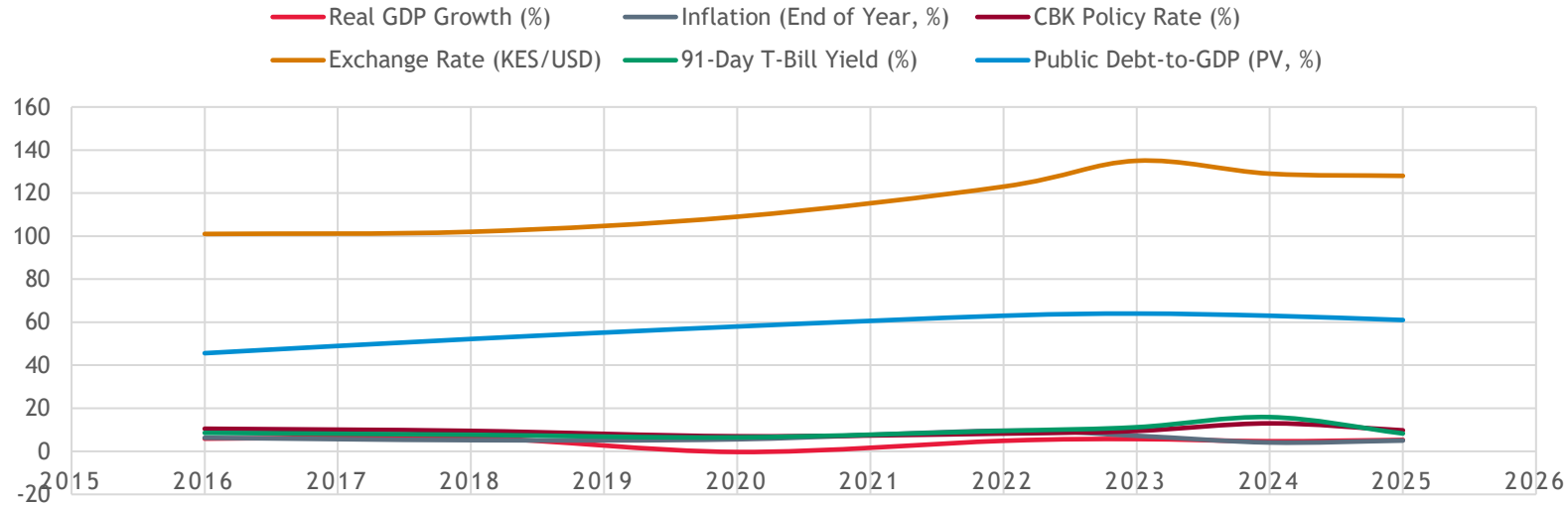
# Economic Outlook - Kenya, FY 2025/2026

Kenya is an English-speaking democracy with a population of 57 million people. The median age is 20 and 75% of the population falls between 18-35 years. The USD 132 Billion GDP is known for resilience and innovation. The country has preferential market access under EAC, COMESA, AfCTA, AGOA, EU-EAC EPA, EAC-UK FTA among others.

The Global growth is projected to decline from **3.3% in 2024** to **2.8% in 2025**, with only a modest recovery to **3.0% by 2026**. These international challenges pose potential threats to Kenya's external sector, especially through reduced export demand, volatile commodity prices, and fluctuations in remittances and tourism revenues.

Despite the global headwinds, Kenya's domestic economy has demonstrated resilience. Between 2023 and 2024, the country recorded an average GDP growth of **5.2%**, outperforming both the global average and the Sub-Saharan Africa regional benchmark.

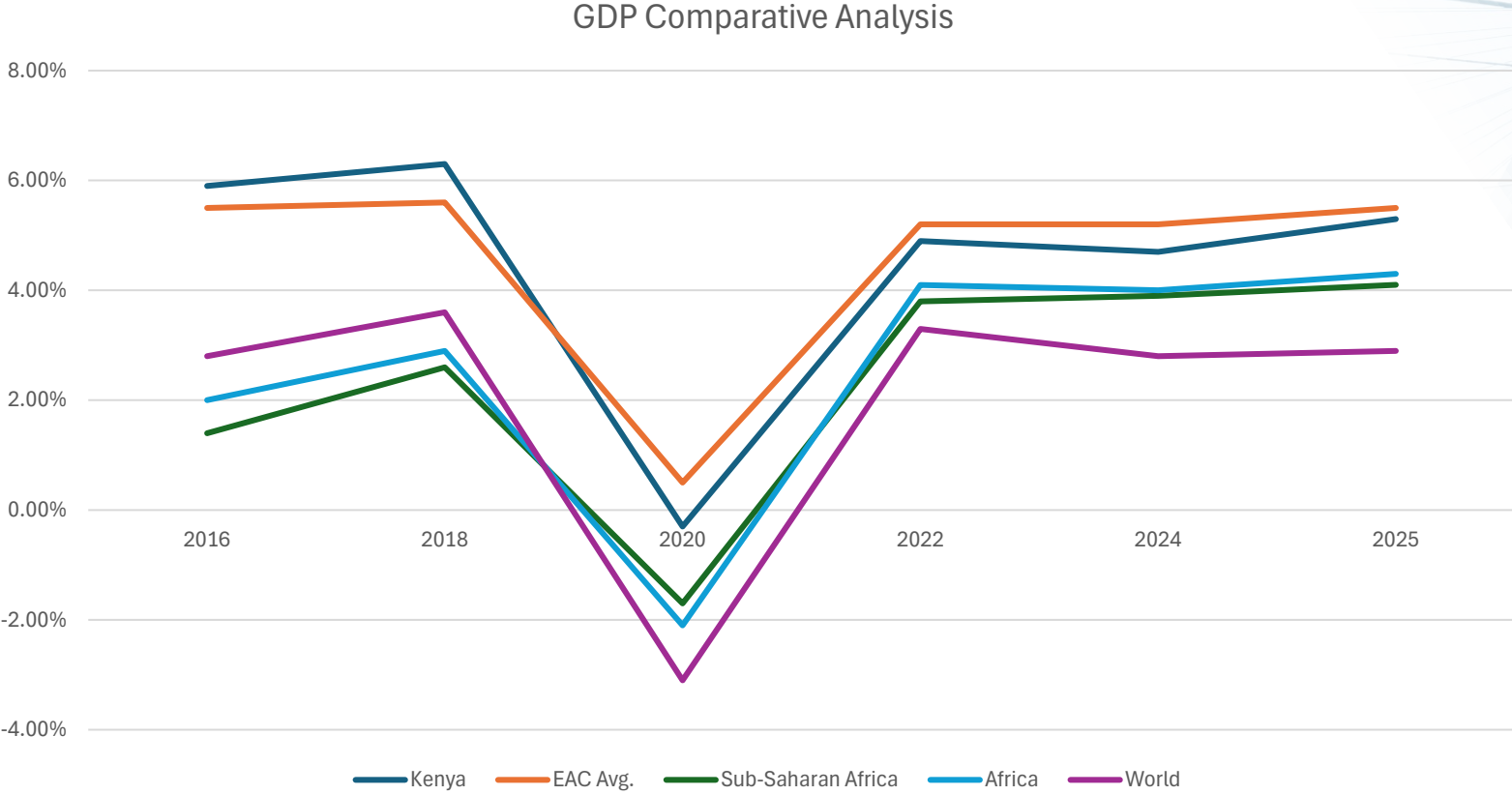
## Microeconomic Dashboard



# Global Trends Impacting Kenya (2023-2026)

Global Trend	Description	Kenya Exposure	Sectoral Impact
High global interest rates	Tight global liquidity, strong USD	High	FX, debt, private capital flows
Geopolitical instability (Red Sea, Russia-Ukraine conflict, US Economic Policy, China)	Freight and food price volatility	Medium	Logistics, food processing
Climate-related shocks	Floods/drought, crop damage	Very High	Agriculture, insurance, energy
AI & automation acceleration	Shift in service job locations	Medium	BPO, telcos, fintech
Green finance & ESG-linked capital	Shift in investor mandates	Opportunity	Infra, agritech, banking

# Kenya vs EAC, Africa, and World GDP Growth (2016-2026F)



# KEY FISCAL NUMBERS AT A GLANCE

The 2024/25 Budget Statement reflects Kenya's bid to drive growth while committing to fiscal restraint and institutional reforms. With GDP growth projected at 5.3% in 2025, the Government is leaning on the Bottom-Up Economic Transformation Agenda (BETA) to sustain economic momentum. However, persistent revenue shortfalls, high recurrent expenditure, and rising domestic borrowing signal a need for business caution and adaptability.

Indicator	FY 2024/25 (KES)	FY 2025/26 (KES)	% Change
Total Expenditure	3.98 trillion	4.29 trillion	↑ 7.8%
Total Revenue (incl. grants)	3.07 trillion	3.32 trillion	↑ 8.1%
Fiscal Deficit (% of GDP)	5.7% (997.5B)	4.8% (923.2B)	↓ 0.9%
Recurrent Expenditure	2.94 trillion	3.13 trillion	↑ 6.5%
Development Expenditure	727 billion	693.2 billion	↓ 4.6%
Pending Bills Allocation	10 billion	2.7 billion	↓ 73%

Given the numbers tell a deeper story – of rising domestic borrowing, constrained development spending, and a shifting tax enforcement landscape. Here's what you need to know:

## 1. Economic Outlook: Aiming for Growth Amid Constraints

- ▶ Growth projection: 5.3% in 2025, driven by food security, services, and BETA investments.
- ▶ Inflation: Down to 3.0% in Dec 2024, from 6.6% the previous year, aided by improved food supply and a stable exchange rate.
- ▶ Interest rates: CBK eased the Central Bank Rate to 11.25%, but lending rates remain stubbornly high, limiting private sector benefit.

Takeaway : While the macro-environment is improving, liquidity remains tight. Caution on leverage is key, especially for capital-intensive businesses.

# KEY FISCAL NUMBERS AT A GLANCE

## 2. Government Revenue and Spending: A Tightrope Act

- ▶ **Expenditure:** Grows from KES 3.98T (2024/25) to KES 4.29T (2025/26)
- ▶ **Revenue:** Expected to rise to KES 3.32T, up from KES 3.07T – but this follows an **8% revenue collection shortfall** in 2024
- ▶ **Fiscal deficit:** Targeted to shrink to **4.8% of GDP** (KES 923.2B) from **5.7% (KES 997.5B)**

*Insight:* Expect **tighter tax enforcement**, especially in the informal sector and high-revenue industries, as KRA works to bridge the deficit.

## 3. Borrowing Strategy: Domestic Market in Focus

To fund the deficit, the Government is shifting its financing mix:

- ▶ **Domestic borrowing:** Increases by KES 138.4B to KES 635.5B
- ▶ **External borrowing:** Drops by KES 66.9B to KES 287.7B

*Implication:* This could raise competition for credit, potentially pushing interest rates up and crowding out the private sector.

## 4. Spending Priorities: Recurrent vs. Development Trade-Off

- ▶ **Recurrent expenditure:** Rises to KES 3.13T (↑ 6%)
- ▶ **Development expenditure:** Shrinks to KES 693.2B (↓ 4.6%)
- ▶ **Ordinary revenue (KES 2.75T) is not enough to cover recurrent costs**, indicating a structural imbalance.

*Recommendation:* Businesses in infrastructure, manufacturing, and public contracts should anticipate **slower disbursements and fewer new tenders**.

## 5. Pending Bills: Businesses Still in Limbo

- ▶ **Only KES 2.7B** allocated for pending bills in 2025/26 – down from **KES 10B**
- ▶ Meanwhile, counties reported **KES 181.98B** in pending bills as of June 2024

*Warning:* Cash flow risk is real. Suppliers to Government should **reassess exposure** and limit further credit without clear settlement timelines.

## 6. Institutional Reforms: Leaner, Fewer, Hopefully Better

- ▶ **42 state corporations** to be merged into 20
- ▶ **25 to be dissolved, 6 restructured, and 13 professional bodies declassified**
- ▶ Part of the Government's broader efficiency and cost-cutting initiative

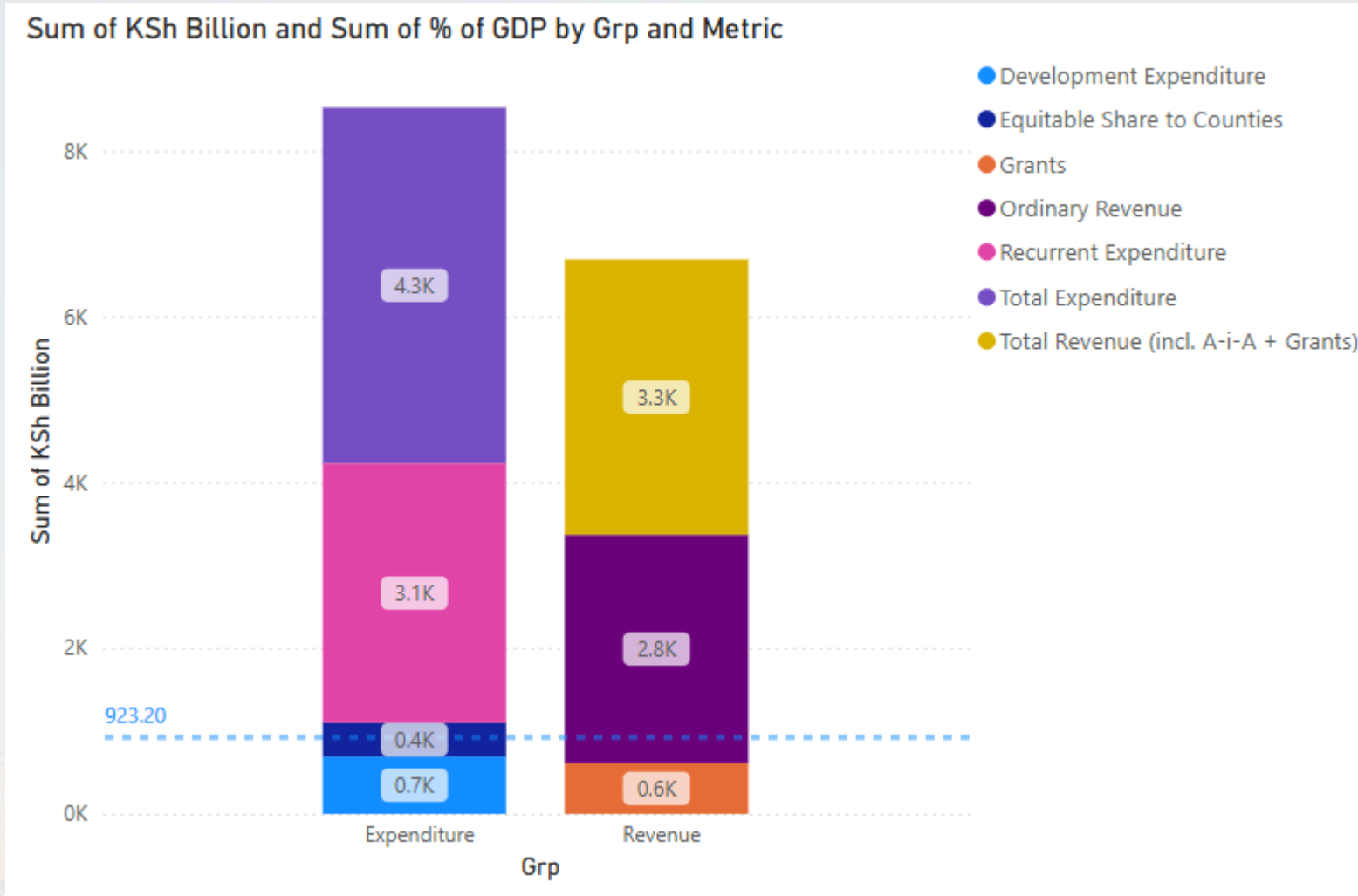
*Opportunity:* These changes could open up **outsourcing and PPP** opportunities, especially in technology, energy, and logistics.

## 7. PPP Acceleration: Private Sector, Step In

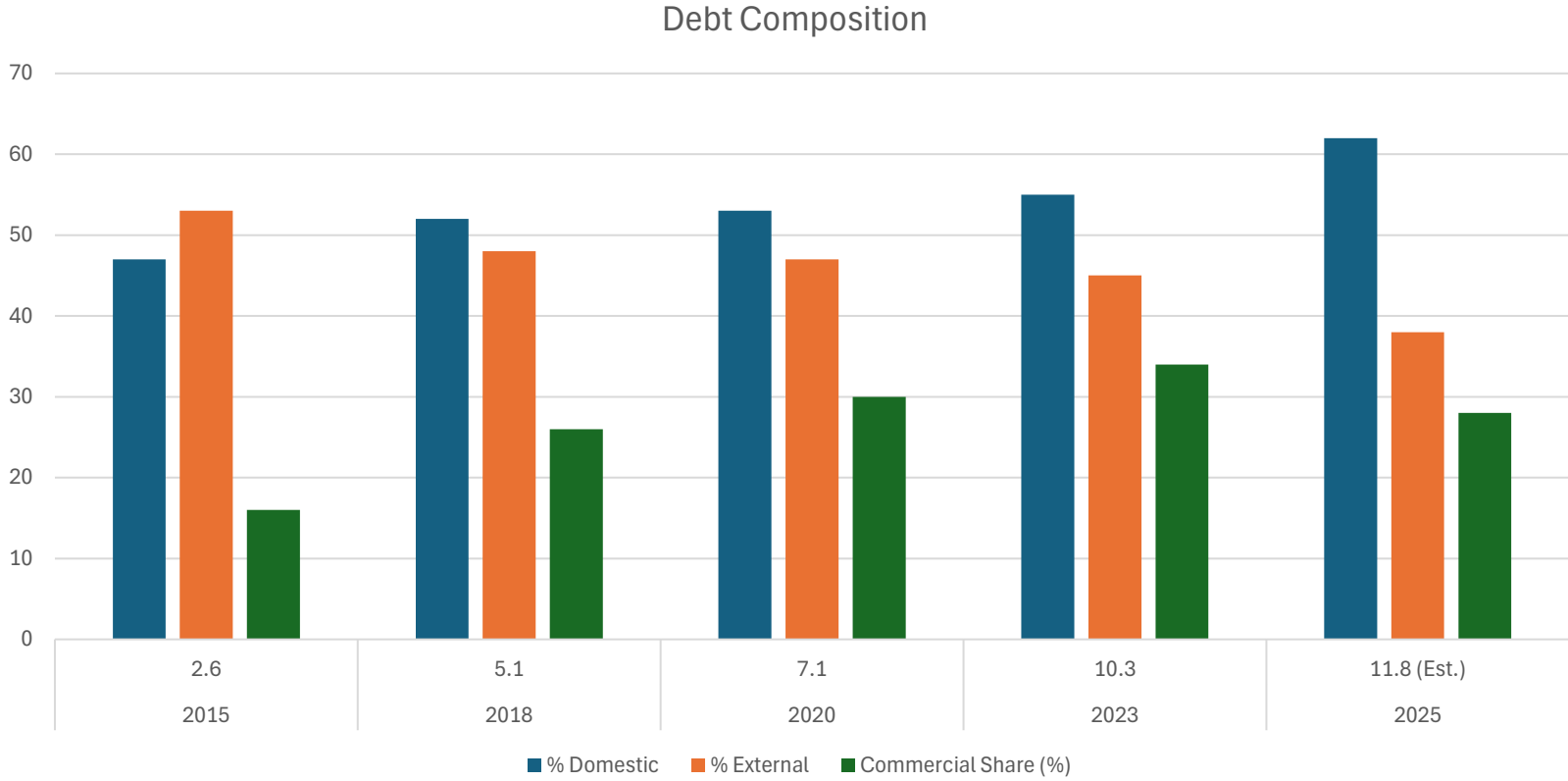
- ▶ Government targets to raise **KES 70B via Public-Private Partnerships**
- ▶ Priority sectors: **Healthcare, transport, and energy**

*CEO Watchlist:* Monitor PPP frameworks and project pipelines closely. Early engagement with ministries will give you a competitive edge.

# Fiscal Framework Summary FY 2025/26

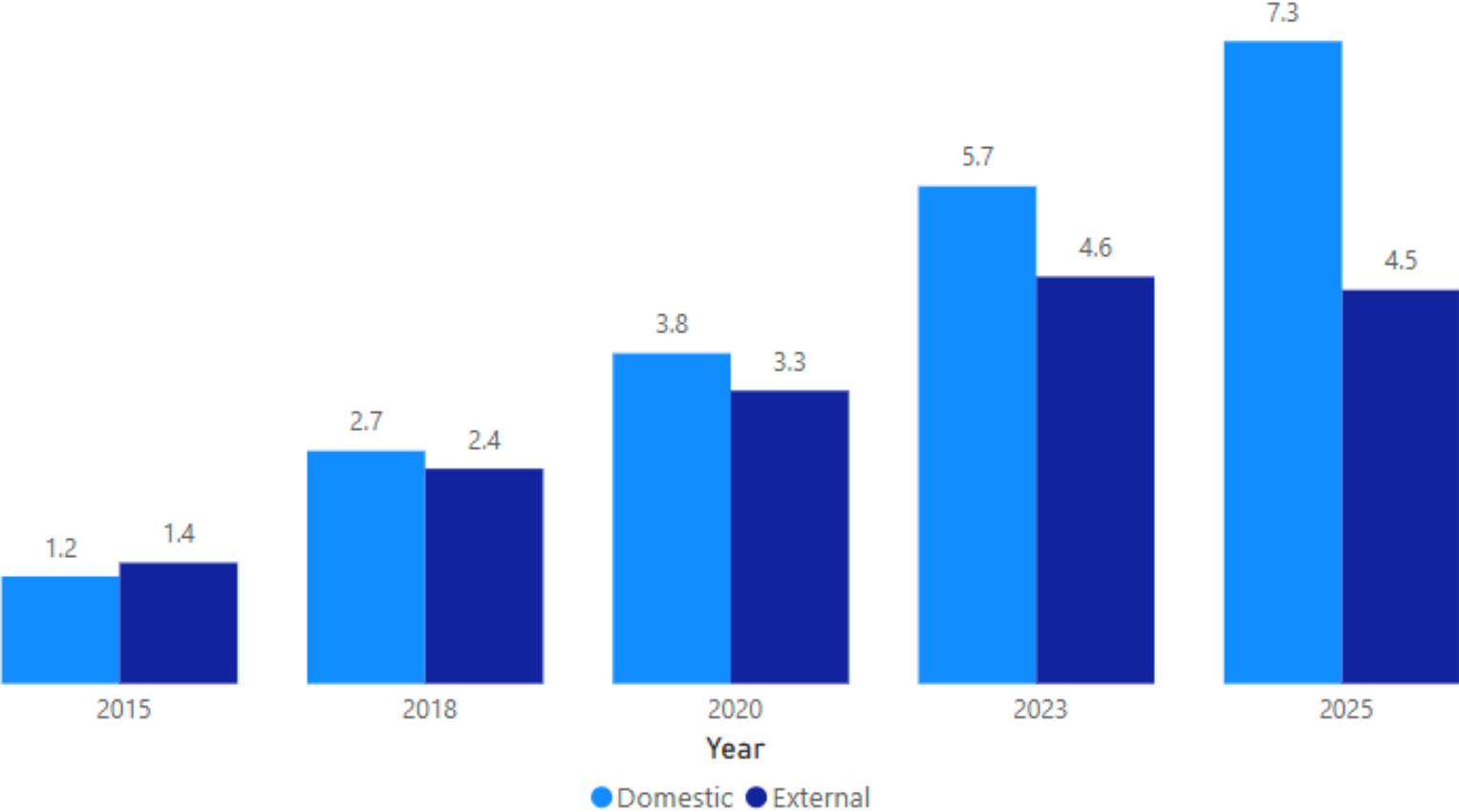


# Public Debt Composition (2015-2025)



# Public Debt Composition (2015-2025)

Domestic and External Debt(Trillions)



# Sectoral Budget Allocations (FY 2025/26)

The FY 2025/26 budget totals **KSh 4.29 trillion**, prioritizing Education, county devolution, security, and infrastructure. The table below highlights the top ten sector allocations by amount and share of the budget:

Sector	Allocation (KSh Bn)	% of Total Budget
Education (Ministry + TSC)	702.7	~16.4%
County Governments (Transfers)	474.9	~11.1%
National Security (Defense, Police, Intelligence)	464.9	~10.8%
Transport & Energy Infrastructure (Roads, Rail, Air, Energy)	318.1	~7.4%
Health (Ministry, UHC, hospitals)	133.4	~3.1%
Housing & Urban Development	120.2	~2.8%
Agriculture (Food & Farming)	47.6	~1.1%
Social Protection (Cash transfers)	41.3	~0.96%
General Public Services (Gov't administration, pensions)**	~40 (est.)	~0.9% (est.)
Environment & Water (incl. climate programs)	~30 (est.)	~0.7% (est.)

# Multi-Year Allocation Trends (2020-2025) for Key Sectors

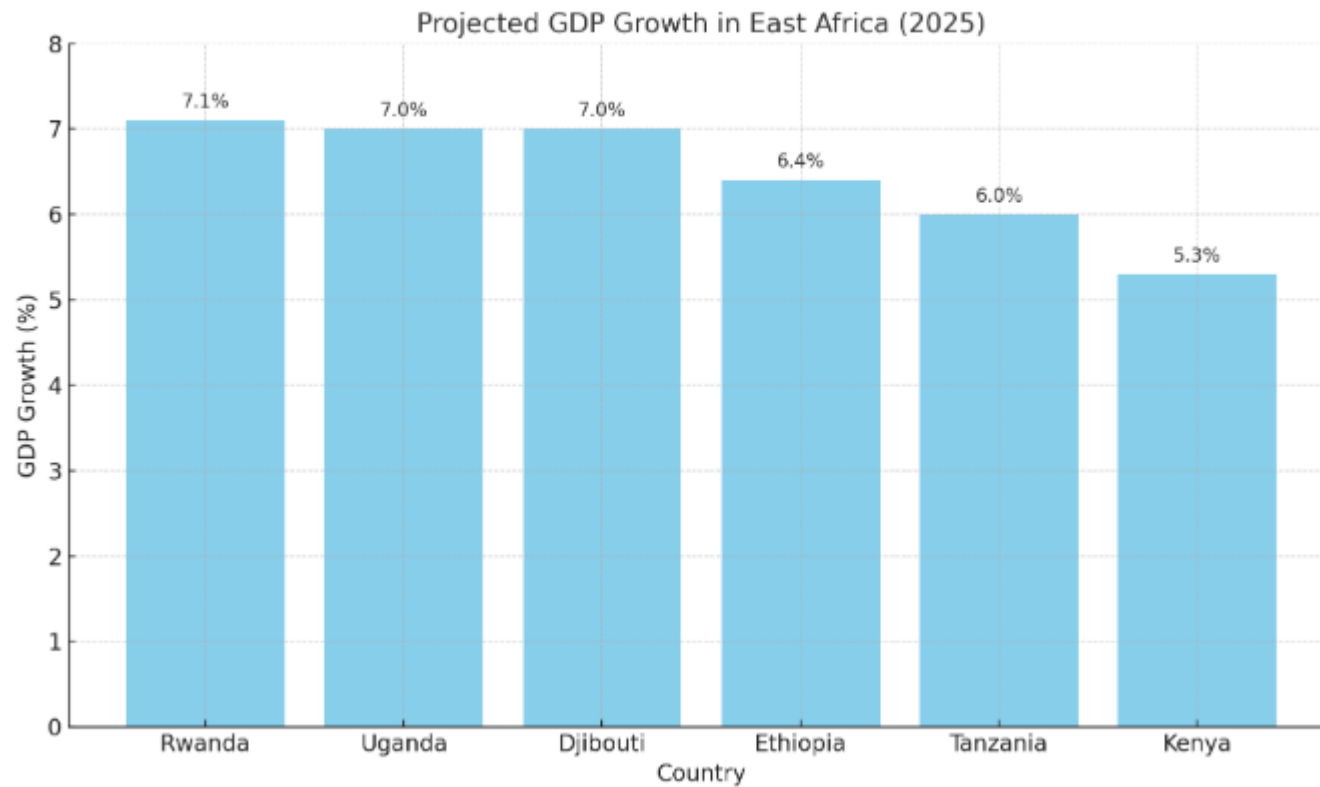
Major social and economic sectors have seen shifting budgetary trends from 2020 to 2025, reflecting policy priorities like the Bottom-Up Economic Transformation Agenda. The table below summarizes **national government allocations** for five key sectors over recent years (FY 2020/21 through FY 2024/25), illustrating growth or declines leading into 2025/26:

Sector	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	% Change (2020→2025)
Education	~480 (est.)	~500 (est.)	544.4	628.6	656.6	~+37% (est.)
Health	~90 (est.)	~100 (est.)	~105 (est.)	~108 (est.)	122.0	~+35% (est.)
Infrastructure (Transport & Energy)	~250 (est.)	~260 (est.)	~280 (est.)	~300 (est.)	~318 (dev.)	~+27% (est.)
Agriculture	~50 (est.)	~55 (est.)	~55 (est.)	60.4	~60 (est.)	~+20% (est.) / then -20% FY26
Housing & Urban Dev.	~20 (est.)	~30 (est.)	~50 (est.)	~80 (est.)	~100 (est.)	↑ (surge in 2023- 25)

# Regional Summary Comparison

Country	GDP Growth (2025)	Inflation	Key Drivers
Rwanda	7.1% (→7.5% 2026)	~11.5%	Private investment, stable macro policy
Uganda	6-7% (oil boost)	~5.2%	Oil production, World Bank/IMF resumption
Tanzania	~6.0%	~3.8%	Natural gas, infrastructure, logistics
Ethiopia	~6.4-6.5%	High	Large domestic market, reform rebound
Djibouti	~7.0%	—	Port investments, strategic logistics
Kenya	~5.2-5.4%	~7.5%	Diversified export services, stable FX

# Regional comparison of Projected GDP growth



# Sectoral Analysis - Budget Allocation

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# Sectoral Analysis

## Agricultural Sector

The 2025/26 budget demonstrates a strong commitment to revitalizing Kenya's agriculture through input subsidies, value chain investments, and climate resilience. The government is focusing on a value chain approach to drive job creation, increase productivity, and reduce food insecurity.

Key allocations include:

- ▶ Fertilizer and subsidy program: **KES 8 billion**
- ▶ National Agricultural Value Chain Development Project: **KES 10.2 billion**
- ▶ Irrigation, value addition, food security and crop diversification: **KES 7.8 billion**
- ▶ Livestock Development and value chain support: **KES 4 billion**
- ▶ Blue economy and fisheries: **KES 8.2 billion**
- ▶ Climate resilience and risk management: **KES 1.5 billion**
- ▶ Land reforms: **KES 6 billion**
- ▶ Sugar reforms: **KES 1.5 billion**

If effectively implemented, it can significantly enhance food security, rural income, and export earnings, while addressing long-term structural challenges such as land ownership and registration, reducing climate change impacts.



Job Creation.

Increased Productivity.

Food Security.



# Sectoral Analysis

## Education Sector

Education takes a large budget share, reflecting the focus on human capital. The Teachers Service Commission (TSC) - which pays teachers - has a significant budget (not quoted here, but historically one of the largest votes). Notably, **KES 7.2 billion is allocated for the recruitment of new teachers** (targeting hiring of 8,000 teachers to support 100% transition and CBC rollout).

## Proposed Allocation

- ▶ KES 980 million will fund teacher training on the Competency-Based Curriculum (CBC).
- ▶ KES 7 Billion for free basic education
- ▶ KES 28.9 billion for junior secondary capitation
- ▶ KES 51.9 billion for Free Day Secondary Education
- ▶ KES 1.7 billion is set for primary and secondary school infrastructure (classrooms, etc.)
- ▶ KES 1.4 billion for constructing and equipping TVET institutions
- ▶ There is also KES 3 billion for the school feeding programme
- ▶ Higher Education Loans Board (HELB) gets KES 41.5 billion (up from KES 35 billion last year).
- ▶ KES 16.9 billion is allocated for university scholarships (targeting bright needy students) and
- ▶ KES 7.7 billion for TVET student bursaries/scholarships

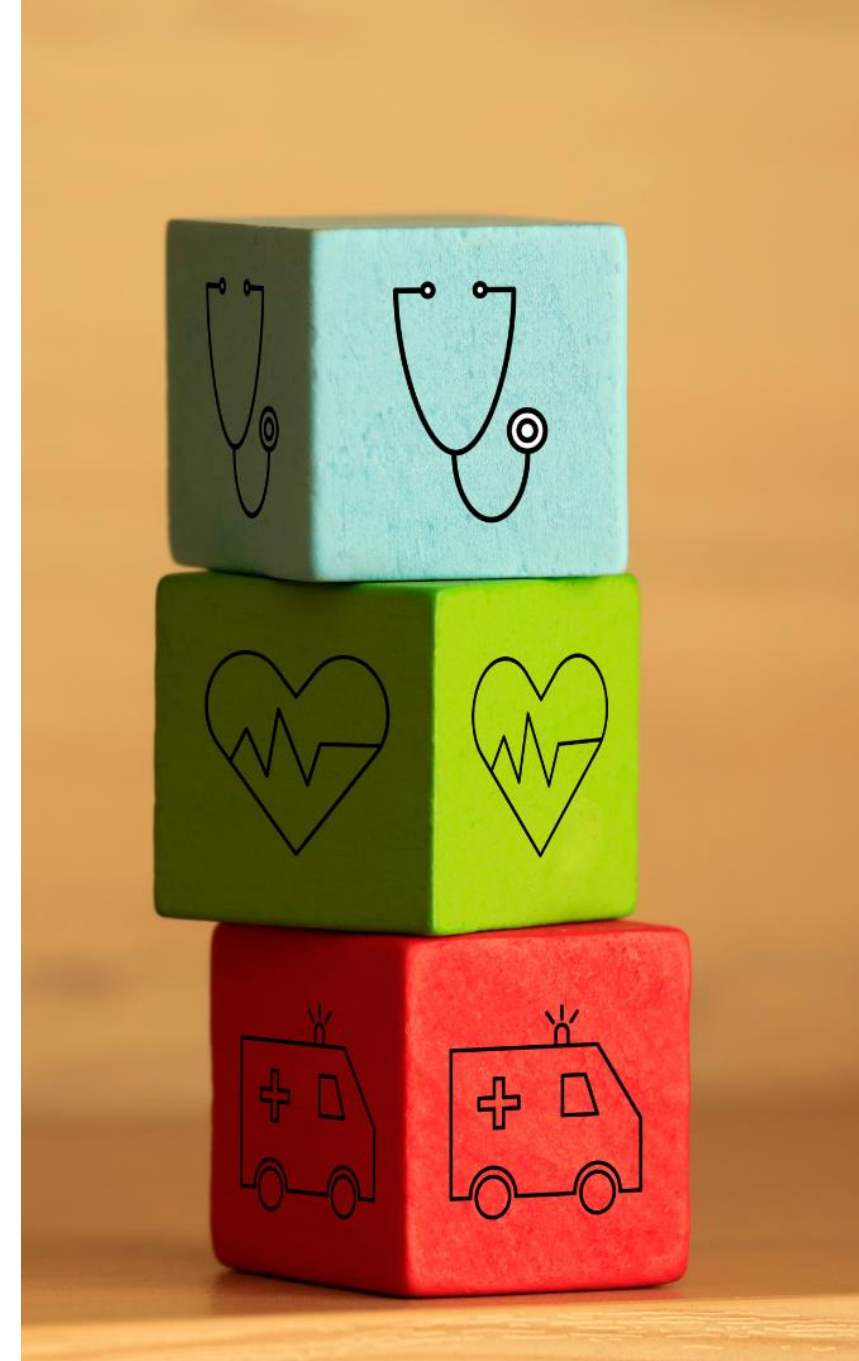
# Sectoral Analysis

## Health Care Sector

In line with the quest for Universal Health Coverage (UHC), the health sector budget sees significant enhancements. Primary healthcare is a big winner - KES 13.1 billion is allocated for primary health care programs, up sharply from KES 7.1 billion previously.

Additionally KES 6.2 billion is provided to UHC coordination and management. This suggests funding for community health, preventive care, and service delivery at the dispensary/health center level. The budget also allocates KES 430 million to extend medical insurance cover to orphans, the elderly and persons with disabilities, ensuring vulnerable groups can access care (likely via the NHIF or a new scheme). To strengthen immunizations, KES 4.6 billion is set for vaccines and related programs, alongside KES 17.3 billion from global funds (e.g. GAVI, Global Fund) for HIV, malaria, TB and immunization support.

- ▶ KES 1.0 billion for constructing additional cancer centres at Level 5 hospitals, KES 100 million to upgrade Kenyatta National Hospital's cancer center, and KES 100 million for Kenyatta University Hospital's cancer treatment center. Moreover, the government will continue upgrading major referral hospitals countrywide; KES 42.4 billion is allocated for national referral hospitals including Kenyatta National Hospital, Moi Teaching and Referral (Eldoret), Kenyatta University Teaching & Referral, and others.
- ▶ Part of this likely goes to completion of ongoing projects (like the Kenyatta University Children's Hospital, whose mention appears as "Kenya International Hospital for Paediatrics" with KES 1.3 billion).
- ▶ KES 5.2 billion is given to Kenya Medical Supplies Agency (KEMSA) to recapitalize and restock which is critical in ensuring drugs and medical supplies availability. The Kenya Medical Research Institute (KEMRI) receives KES 2.7 billion for research in health innovations. There's also support for health workforce: KES 4.3 billion for internship of medical graduates (house officers), KES 3.2 billion for community health promoters (CHWs) stipends, and funds for training health personnel.
- ▶ Collectively, these health allocations aim to improve both access and quality of healthcare, reduce out-of-pocket costs for citizens, and open opportunities for private sector collaboration (pharmaceuticals, medical equipment, etc.).
- ▶ Private health investors may particularly note the government's commitment to equip hospitals and expand health insurance coverage, which could increase demand for health services and supplies. However, as later noted, some proposed taxes (like VAT on hospital equipment) may counteract these benefits if not reviewed.





# Sector Analysis

## Manufacturing

### Sector Performance Highlights

Kenya's manufacturing sector grew by 4.4% in 2024, marking a strong rebound from the 2.1% growth recorded in 2023. Employment in the sector surged by 15.2%, the highest among all productive sectors. Export Processing Zones (EPZs) recorded a 2.6% increase in enterprise numbers, reinforcing their contribution to job creation and export earnings. Notably, sugar production jumped by 72.5%, signaling a robust recovery in agro-processing.

### Finance Bill 2025 - Key Policy Proposals

- ▶ Introduction of miscellaneous levy reductions on raw materials such as nails, fencing wire, and bolts, expected to lower manufacturing input costs.
- ▶ Allocation of KES 11 billion to support the Jua Kali sector, particularly in local fabrication of construction inputs.
- ▶ Continued exemption from import duties on aircraft spare parts to boost the aviation maintenance industry.
- ▶ Introduction of excise duty on imported plasticware to support domestic packaging manufacturers.
- ▶ Withdrawal of corporate tax incentives from vehicle assemblers and real estate developers, potentially shifting investment dynamics.
- ▶ Rollout of a nationwide electronic procurement system from July 2025 to enhance transparency and local manufacturer participation.
- ▶ Commitment to settling pending bills owed to MSMEs, injecting critical liquidity into the manufacturing ecosystem.

# Sectoral Analysis

## Housing and Settlement

The 2025/26 budget showcases a significant dedication to transforming Kenya's housing and settlement sector through substantial allocations for affordable and social housing, alongside vital infrastructure development and slum upgrading initiatives. If these plans are effectively executed, they can drastically reduce the housing deficit, improve living standards, and stimulate widespread job creation across the entire construction value chain.

key issues with the proposed measure and budget allocation

- ▶ Increasing the supply of affordable homes. Measure: Construction of Affordable Housing Units. Budget: KES 64.5 billion.
- ▶ Providing housing for vulnerable populations. Measure: Construction of Social Housing Units. Budget: KES 10.5 billion.
- ▶ Enhancing essential urban and social amenities. Measure: Development of social and physical infrastructure. Budget: KES 16.5 billion.
- ▶ Improving conditions in informal settlements. Measure: Implementation of Kenya Informal Settlement Improvement Project Phase Two. Budget: KES 7.2 billion.
- ▶ Housing national security personnel. Measure: Construction of housing units for National Police and Kenya Prison. Budget: KES 3.5 billion.
- ▶ Strengthening the construction sector. Measure: Regulation and development of the construction industry. Budget: KES 2.6 billion.

The government's total proposed allocation for Housing and Settlement is KES 128.3 billion. The budget aims to tackle the persistent housing deficit through ambitious construction of affordable and social housing units, while simultaneously improving living conditions in informal and rural settlements by investing in crucial social and physical infrastructure.

This comprehensive approach not only seeks to fulfill the constitutional right to adequate housing for all Kenyans but also strategically leverages the sector to stimulate economic growth, create widespread job opportunities across the construction value chain, and ensure inclusive green development nationwide.





# Sectoral Analysis

## Digital Superhighway and Creative Economy

The government acknowledges the rapid global and local evolution of the digital economy, significantly accelerated by the COVID-19 pandemic. The ICT sector has already seen substantial investment, reaching KES 70.9 billion by June 2024 and generating KES 384.4 billion in revenue. Konza Technopolis, a flagship smart city, also received significant investment, growing from KES 10.6 billion in 2023 to KES 13.6 billion in 2024.

Key issues with the proposed measure and budget allocation:

- ▶ Need for Advanced Digital Skills & Research. **Measure:** Kenya Advanced Institute of Science and Technology at Konza Technopolis. **Budget:** KES 2.3 billion.
- ▶ Accelerating Digital Transformation Across Sectors. **Measure:** Kenya Digital Economy Acceleration Project. **Budget:** KES 3.7 billion.
- ▶ Expanding Digital Infrastructure & Access. **Measure:** Digital Superhighway, Government Shared Services and Digital Hubs. **Budget:** KES 1.4 billion.
- ▶ Modernizing Core Connectivity Networks. **Measure:** Maintenance & Rehabilitation Connectivity Networks; Rehabilitation of National Optic Fiber Backbone Infrastructure. **Budget:** KES 1.0 billion + KES 750 million.
- ▶ Developing Smart City & Data Infrastructure. **Measure:** Konza Data Centre and Smart City Facilities. **Budget:** KES 3.1 billion.
- ▶ Enhancing Government Digital Services. **Measure:** Electronic Government Procurement (EGP) system roll-out. **Budget:** KES 700 million.

The 2025-2026 budget's significant allocation to the Digital Superhighway and Creative Economy represents a robust commitment to fostering a dynamic and globally competitive digital landscape in Kenya. This strategic investment in advanced digital skills, expansive infrastructure, and enhanced e-governance creates fertile ground for private sector participation, offering compelling opportunities for investors in areas such as technology development, data centers, digital service provision, and smart city solutions.

# Sectoral Analysis

## Roads and Transport Infrastructure

Upgrading infrastructure remains a top priority as an enabler of economic growth. The transport sector receives one of the largest shares. The substantial allocation underscores the government's commitment to improving connectivity between urban and rural areas, facilitating trade, and reducing logistics costs. Investments in rail infrastructure aim to decongest roads and provide efficient freight and passenger transport.

### Roads and Railway

- ▶ New road and Bridge Construction: KES 30.9 billion
- ▶ Road Rehabilitation: KES 70.8 billion
- ▶ Road Maintenance: KES 115.6 billion (35% increase from KES 85billion. This addresses wear and tear maintenance)
- ▶ Railway Transport: KES 37.1 billion. To fund commuter rail upgrades and potential expansion of the SGR network.

### Implications for Businesses:

- ▶ Reduced transport costs will lower the price of goods and services, benefiting sectors like agriculture, manufacturing, and retail.
- ▶ Improved logistics will enhance supply chain efficiency, particularly for exporters and importers.
- ▶ Construction companies and material suppliers will see increased demand for their services.





# Sectoral Analysis

## Energy

The total allocation for the energy sector amounts to KES 62.8 billion, with key investments directed toward expanding the national grid, supporting rural electrification, and developing geothermal and renewable energy sources. These investments align with Kenya's long-term goal of achieving 100% renewable energy by 2030, positioning the country as a leader in clean energy in Africa.

### Allocations:

- ▶ **National grid expansion:** 31.6 billion. Will ensure better electricity distribution, addressing current challenges in power supply and reducing power outages.
- ▶ **Rural electrification:** 16.3 billion . More remote areas will gain access to electricity, improving living standards and enabling local businesses to thrive.
- ▶ **Geothermal Generation :** 11.5 billion. This will lead to increased energy production contributing to the national grid.
- ▶ **Alternative Energy Technologies :** 2.1 billion. This is focusing on expanding access to clean, decentralized energy solutions across the country such as clean cooking solutions and solar home systems.
- ▶ **Development of Nuclear Energy :** 0.7 billion. Kenya is advancing its nuclear energy program, with a strategic roadmap aiming to commission its first nuclear power plant by 2034.

# Sectoral Analysis

## Social Protection

The 2025/26 budget proposes an increase in Kenya's social protection budget to 41.4 Billion. This represents the Government's commitment to establishing an equitable society.

The budgeted funds are expected to play a crucial role in combating poverty, mitigating inequality, and enhancing socio-economic well-being of the most vulnerable members of society.

The proposed budget allocation are as follows:

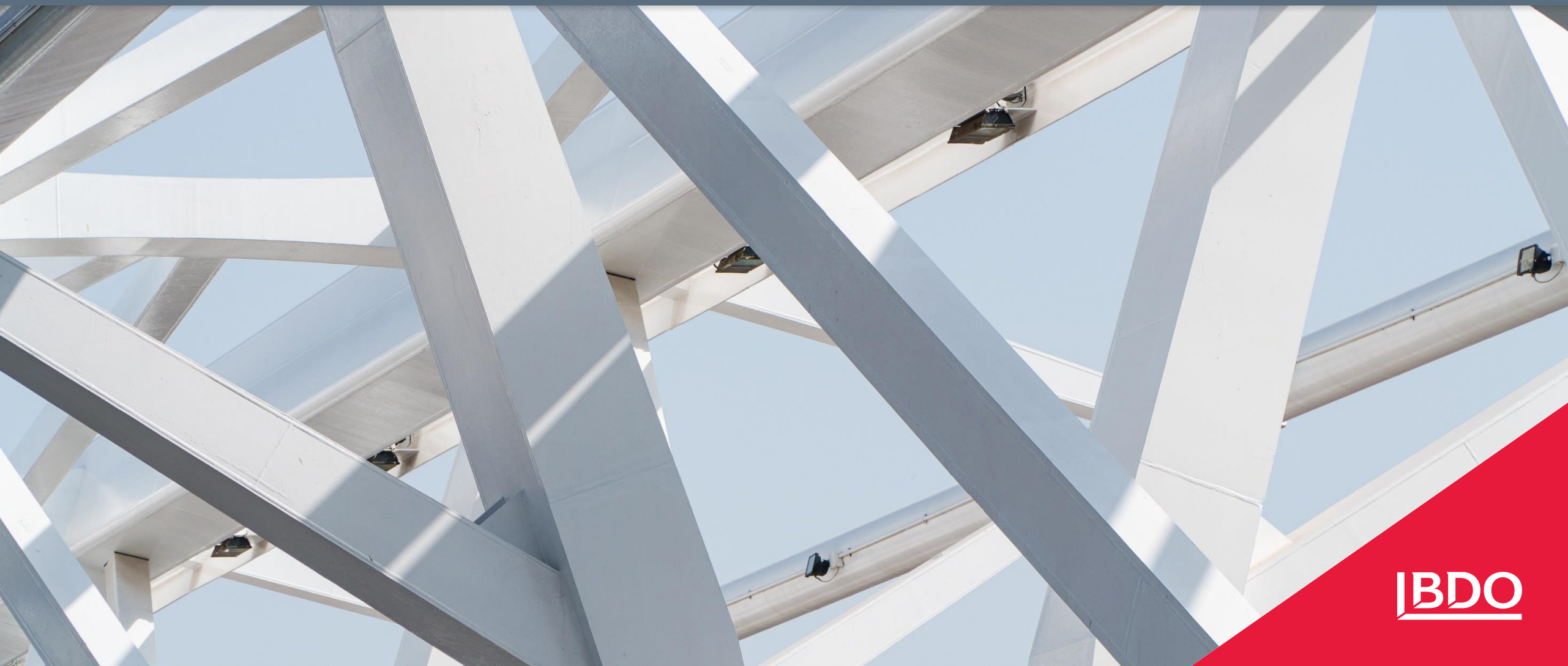
- ▶ Cash transfers to Elderly: **KES 25.1 billion**
- ▶ Cash transfers for orphans & vulnerable children : **KES 8.9 billion**
- ▶ Cash transfers for persons living with disabilities: **KES 1.5 billion**
- ▶ Kenya hunger sentinel program: **KES 3.9 billion**
- ▶ National fund for the disabled of Kenya: **KES 450 million**
- ▶ Child welfare society of Kenya: **KES 600 million**
- ▶ Presidential bursary for orphans: **KES 100 million**
- ▶ Street families rehabilitation trust fund: **KES 180 million**

The increase in social protection has wide-ranging benefits, including reduction in poverty rates, stimulation of the local economy and greater equity in society



# Sectoral Analysis - Legislative Reforms

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# Legislative Reforms

Parallel legislative overhauls in public finance, insurance, digital assets, and governance signal the Government’s broader intention to modernise Kenya’s regulatory architecture. These reforms, though often overlooked, carry significant compliance and opportunity implications – particularly for highly regulated and capital-intensive sectors.

Sector	Change	Business Impact	Business strategy
Insurance Sector: Legal Reform to Drive Penetration & Product Relevance	<ul style="list-style-type: none"> <li>▶ The <b>National Insurance Policy</b> is slated for approval and will guide a <b>comprehensive overhaul of the Insurance Act (Cap. 487)</b>.</li> <li>▶ Reform goals include enhanced supervisory powers, product innovation, and alignment with <b>AML/CFT</b> and <b>consumer protection</b> laws.</li> </ul>	<ul style="list-style-type: none"> <li>▶ New compliance obligations expected for insurers, agents, and financial sector intermediaries.</li> <li>▶ Potential for <b>product flexibility</b> (e.g., microinsurance, digital channels) as innovation constraints are relaxed.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Insurers: Prepare for <b>capital, solvency, and product testing reforms</b>.</li> <li>▶ Corporates: Re-evaluate <b>group risk covers</b> – future regulations may enable <b>modular, tech-based coverage</b> options.</li> <li>▶ Brokers &amp; startups: Gear up for sandbox regimes and <b>regulatory tech audits</b>.</li> </ul>
Public Procurement: Transparency Meets Technology	<ul style="list-style-type: none"> <li>▶ The <b>Public Procurement and Asset Disposal (Amendment) Bill, 2024</b> expands enforcement, local content promotion, and sanctions for non-compliance.</li> <li>▶ <b>e-Procurement rollout</b> will digitise workflows and reporting.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Procurement strategies must evolve from price-focused to <b>compliance-centered</b>.</li> <li>▶ <b>Local suppliers may benefit</b> under revised scoring models that reward Kenyan content.</li> </ul>	<ul style="list-style-type: none"> <li>▶ If you bid for public tenders: <b>Train your procurement and legal teams</b> on updated requirements under Article 227 of the Constitution.</li> <li>▶ Begin <b>digitising internal procurement systems</b> for interoperability with e-procurement platforms.</li> <li>▶ Multinationals: <b>Document and localise local content</b> where applicable to remain eligible.</li> </ul>

# Legislative Reforms

Sector	Change	Business Impact	Business strategy
Virtual Assets: Kenya Seeks to Lead the Continent in Digital Finance	<ul style="list-style-type: none"> <li>▶ The <b>Virtual Assets Service Providers (VASP) Bill, 2025</b> creates a <b>licensing and supervision framework</b> for crypto exchanges, wallet providers, and blockchain-based platforms.</li> <li>▶ It will be anchored in <b>AML/CFT, data protection, and financial integrity standards.</b></li> </ul>	<ul style="list-style-type: none"> <li>▶ New entrants into the fintech space face <b>licensing, disclosure, and KYC obligations.</b></li> <li>▶ Financial institutions must <b>update risk assessments</b> to cover virtual asset exposure.</li> </ul>	<ul style="list-style-type: none"> <li>▶ If in fintech, prepare <b>governance, custody, and audit trail protocols.</b></li> <li>▶ Investors and family offices: Review exposure to <b>unlicensed crypto or tokenised assets</b> in your portfolio.</li> <li>▶ Banks: Adapt <b>risk models and client onboarding</b> to account for virtual asset holdings.</li> </ul>
State Corporations: Governance and Consolidation Incoming	<ul style="list-style-type: none"> <li>▶ The <b>Government-Owned Enterprises (GOE) Bill, 2024</b> redefines the legal status and corporate governance framework of state-run entities.</li> <li>▶ Includes mergers, restructurings, and <b>risk containment mechanisms.</b></li> </ul>	<ul style="list-style-type: none"> <li>▶ Partners of parastatals may face <b>contract renegotiations</b>, especially on PPPs and performance-based contracts.</li> <li>▶ Opportunities may arise from <b>outsourcing functions</b> of merged or dissolved corporations.</li> </ul>	<ul style="list-style-type: none"> <li>▶ If engaged with GOEs, <b>review contracts for continuity risk.</b></li> <li>▶ Track GOE reforms for <b>new PPP openings</b> – especially in utilities, transport, and public health.</li> </ul>

# Legislative Reforms

Sector	Change	Business Impact	Business strategy
Asset Valuation: Toward Accrual-Based Public Accounting	<ul style="list-style-type: none"> <li>▶ The Government is developing a policy on <b>public asset valuation</b> to support accrual-based accounting under the Public Finance Management (PFM) Act.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Opportunities for <b>valuation professionals</b>, audit firms, and real estate advisors in asset mapping and appraisal.</li> <li>▶ Likely rollout of <b>IFMIS integration and reporting mandates</b>.</li> </ul>	<ul style="list-style-type: none"> <li>▶ IAudit &amp; Advisory firms: Prepare service offerings aligned with <b>IPSAS-compliant valuations</b>.</li> <li>▶ Construction, real estate &amp; asset-heavy industries: Position for <b>strategic divestments or leases</b> when underutilised state assets are reassessed.</li> </ul>
Disaster Risk Fund: Accountability in Emergency Spending	<ul style="list-style-type: none"> <li>▶ The <b>PFM (Disaster Risk Management Fund) Regulations, 2025</b> will formalise disaster funding with governance, eligibility, and audit standards.</li> </ul>	<ul style="list-style-type: none"> <li>▶ NGOs and private partners in emergency response will need to align with <b>new funding protocols</b>.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Humanitarian/logistics companies: Ensure alignment with eligibility and <b>fund disbursement frameworks</b>.</li> <li>▶ Legal and finance teams: Prepare for <b>auditable use-of-funds reporting</b></li> </ul>

# Legislative Reforms

Sector	Change	Business Impact	Business strategy
County Taxation: Uniformity & Predictability at Subnational Level	<ul style="list-style-type: none"> <li>▶ The <b>County Governments (Revenue Raising Process) Bill, 2023</b> introduces a national process for counties to impose taxes, fees, and charges.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Reduces unpredictability in <b>multi-county operations</b>.</li> <li>▶ Requires closer monitoring of <b>county legislative pipelines</b>.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Businesses with <b>multi-county footprints</b>: Centralise your tracking of local tax changes.</li> <li>▶ Legal teams should build a <b>repository of county finance laws</b> for quick reference and legal challenge where needed.</li> </ul>
Digital Finance & National Payments: A Reset in Transaction Infrastructure	<ul style="list-style-type: none"> <li>▶ The Government will fast-track the <b>National Policy on Digital Finance</b>, alongside amendments to the <b>National Payment System Act (Cap. 491A)</b>.</li> <li>▶ The Central Bank of Kenya (CBK) is separately reviewing laws to enable <b>interoperability, 24/7 settlements, and enhanced consumer protection</b>.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Legal clarity is expected on <b>wallet-to-wallet interoperability</b>, dispute resolution, and <b>data ownership in real-time payments</b>.</li> <li>▶ Upcoming CBK subsidiary legislation may <b>redefine licensing thresholds</b> for fintechs and PSPs.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Fintechs and aggregators: Prepare for <b>platform stress-testing and compliance with expanded operating rules</b>.</li> <li>▶ Large retailers and logistics firms: Consider <b>migrating to systems that enable instant, cross-platform payments</b>.</li> <li>▶ Banks and SACCOs: Expect <b>regulatory convergence across digital wallets, agency banking, and fintech apps</b> – review backend resilience and API readiness.</li> </ul>

# Legislative Reforms

Sector	Change	Business Impact	Business strategy
Retirement Sector Reforms: Toward a Sustainable & Inclusive Pension Future	<ul style="list-style-type: none"> <li>▶ The <b>National Retirement Benefits Policy (2023)</b> will now be accelerated to address low savings, inflation exposure, and informal sector exclusion.</li> <li>▶ Proposed reforms include <b>benefit portability, inflation-adjusted instruments</b>, and simplified micro-pension models.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Companies may be expected to <b>reassess pension schemes for alignment with adequacy thresholds</b> and long-term security measures.</li> <li>▶ Informal sector employers (including gig platforms) may face <b>soft-mandates or incentives</b> to onboard workers into portable schemes.</li> </ul>	<ul style="list-style-type: none"> <li>▶ HR &amp; Legal: Review existing retirement plan design for <b>portability, vesting and inflation protection</b>.</li> <li>▶ Financial services: Position for product development around <b>retail micro-pensions, long-dated annuities, and government-backed schemes</b>.</li> <li>▶ Lobby early: Voice sector-specific needs in the formulation of implementing regulations.</li> </ul>
Capital Markets: Rebooting Investor Confidence & Global Alignment	<ul style="list-style-type: none"> <li>▶ The CS outlined a sweeping review of frameworks under the <b>Capital Markets Act (Cap. 485A)</b>, including those governing <b>margin trading, licensing, market conduct, and M&amp;A activity</b>.</li> <li>▶ These reforms seek to align Kenya's capital markets more closely with <b>international investor protection standards</b>.</li> </ul>	<ul style="list-style-type: none"> <li>▶ New obligations are expected on <b>market disclosures, fund governance, and takeovers</b>.</li> <li>▶ More stringent thresholds for <b>margin trades and intermediary capital adequacy</b> are on the horizon.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Listed entities and funds: Prepare for <b>increased scrutiny on insider trading, related party disclosures, and ESG alignment</b>.</li> <li>▶ Private equity: Monitor how <b>M&amp;A rules evolve</b>, especially where ownership thresholds, public disclosures, or competitive conduct are affected.</li> <li>▶ Capital-raising SMEs: Align early with <b>new licensing standards</b> to retain eligibility for public listing or sandbox participation.</li> </ul>

# Fiscal Measures

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# Tax and Fiscal Proposals in the Budget

The 2025/26 National Budget and Finance Bill mark a pivotal moment in Kenya’s fiscal policy direction. The Government has pivoted from introducing new taxes to tightening the screws on tax administration, rationalizing tax incentives, and enforcing compliance.

For decision-makers, this is not a year to merely “observe from the sidelines” – it’s a year to anticipate policy shifts, plug internal risks, and adapt strategy accordingly. Below is a sharp summary of the key tax and fiscal developments, paired with actionable recommendations.

Proposal	Implication	Recommendation
Rationalisation of Tax Expenditures	<ul style="list-style-type: none"> <li>▶ <b>Policy shift:</b> The Government reported a 30% increase in foregone revenue from tax incentives between 2022 (KES 393.1B) and 2023 (KES 510B). In response:               <ul style="list-style-type: none"> <li>• Investment Deductions repealed (except for SEZ/EPZ).</li> <li>• Tax loss carryforward limited to 5 years.</li> <li>• Zero-rated goods reclassified to exempt – impacting input VAT claims.</li> </ul> </li> <li>▶ <b>Implication:</b> Reduced tax shields and cash flow disadvantages, especially for capital-intensive businesses and exporters.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Re-evaluate investment models for capital projects. Consider SEZ registration or leasing structures to preserve capital allowances.</li> <li>▶ Run sensitivity tests on deferred tax assets – especially if your forecasts rely on carryforward losses.</li> <li>▶ Review supply chains for exempt inputs that affect VAT recovery.</li> </ul>
Medium-Term Revenue Strategy (MTRS) + National Tax Policy (NTP)	<ul style="list-style-type: none"> <li>▶ Policy shift: Government is adopting the NTP and MTRS to drive certainty and consistency in tax policy. However:               <ul style="list-style-type: none"> <li>• Advance Pricing Agreements (APAs) will be introduced for Transfer Pricing.</li> <li>• Focus on rationalising incentives, even those aligned with ESG goals (e.g., electric vehicles).</li> </ul> </li> <li>▶ Implication: International businesses must align their intercompany pricing now or face audits later.</li> </ul>	<ul style="list-style-type: none"> <li>▶ For multinationals: Proactively seek APAs to secure pricing certainty over 3-5 years.</li> <li>▶ For ESG-driven businesses: Document the economic case for incentives (e.g., job creation, capex impact) – this will be critical during rationalisation reviews.</li> <li>▶ Align your tax governance with NTP principles: transparency, equity, and efficiency</li> </ul>
Tax Administration Measures	<ul style="list-style-type: none"> <li>▶ <b>Policy shift:</b> The Finance Bill proposes major administrative enhancements:</li> <li>▶ KRA may issue agency notices even during pending appeals.</li> <li>▶ Non-residents now subject to agency notices.</li> <li>▶ Refund claim periods extended, giving KRA more time to audit.</li> <li>▶ <b>Implication:</b> Dispute resolution is no longer a shield against enforcement.</li> </ul>	<ul style="list-style-type: none"> <li>▶ If you have pending disputes or historical exposures, explore Alternative Dispute Resolution (ADR) options early.</li> <li>▶ Reassess your working capital exposure if significant refunds are pending.</li> <li>▶ Cross-border investors should review existing agreements and banking structures in light of the widened agency scope.</li> </ul>

# Tax and Fiscal Proposals in the Budget

Proposal	Implication	Recommendation
<p><b>Digitalisation of Tax Compliance – Ready or Not, Here Comes Real-Time Data</b></p>	<p>Policy shift:</p> <ul style="list-style-type: none"> <li>▶ Full rollout of Forecourt e-TIMS for petroleum – POS directly links to KRA.</li> <li>▶ Electronic rental income declarations now live.</li> <li>▶ KRA to extend digital monitoring to more sectors.</li> </ul> <p>Implication: KRA’s data visibility is increasing – compliance must be watertight.</p>	<ul style="list-style-type: none"> <li>▶ Conduct a compliance simulation – assume KRA can now see 90%+ of your real-time transaction data.</li> <li>▶ For retail, real estate, and fuel: Ensure POS/ERP systems are integrated with e-TIMS.</li> <li>▶ Consider a data-led tax health check to reconcile transaction-level data with declared income.</li> </ul>
<p><b>The upcoming EAC Gazette (due 30 June 2025) outlines wide-ranging customs changes aligned with manufacturing and food security goals:</b></p>	<p><b>Import Tariff Changes:</b></p> <ul style="list-style-type: none"> <li>▶ Rice imports to attract 35% / \$200 per MT (from 75% / \$345).</li> <li>▶ Wheat duty remission at 10% (from 35%) – but only if local wheat is purchased first.</li> </ul> <p><b>Local Assembly Support:</b></p> <p>Duty remission extended for inputs in:</p> <ul style="list-style-type: none"> <li>▶ Telecommunication devices (phones, tablets, laptops).</li> <li>▶ Animal feed production.</li> <li>▶ Leather processing chemicals and cranes.</li> <li>▶ Paper inputs for packaging.</li> <li>▶ Transformers (now tariff-split to distinguish unassembled from fully built).</li> </ul> <p><b>Business Impact:</b></p> <ul style="list-style-type: none"> <li>▶ Importers may benefit from lower landed costs in some food commodities.</li> <li>▶ Local manufacturers gain breathing room via duty remissions and strategic protection.</li> <li>▶ Packaging and electrical assembly industries get targeted reliefs.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Source locally to qualify for wheat remission – structure procurement accordingly.</li> <li>▶ If you’re assembling in Kenya: apply early for remission approvals.</li> <li>▶ If importing rice/leather/chemicals: model the new tariff impact vs. your pricing strategy.</li> <li>▶ Transformer importers should update classification codes immediately to avoid unintended Excise exposure.</li> </ul>

# Tax and Fiscal Proposals in the Budget

Proposal	Implications	Recommendations
Anti-Abuse Provisions for VAT	<p><b>Policy shift:</b> Where zero-rated or exempt supplies are misused, tax will be clawed back. New proposals penalise:</p> <ul style="list-style-type: none"> <li>▶ Diversion of exempt/zero-rated goods for unintended use.</li> <li>▶ Misuse of preferential trade regime incentives.</li> </ul> <p><b>Implication:</b> Misalignment between supply chain use and VAT treatment could result in backdated liabilities.</p>	<ul style="list-style-type: none"> <li>▶ Update internal controls around VAT classification and use.</li> <li>▶ Where incentives are used, maintain clear audit trails on purpose, beneficiaries, and eventual use.</li> <li>▶ For regional suppliers under COMESA/EAC preferences: Track and document compliance meticulously.</li> </ul>
Pension & Gratuity Relief	Relief for employees, payroll savings	Revisit payroll protocols and reconciliations
Per Diems	Increased tax-free allowances	Align per diem policies to reduce the tax burden on employees and simplify payroll administration for businesses
Corporate Incentives	Opportunities via NIFC regime	Evaluate eligibility and application requirements

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