



**PARLIAMENT OF KENYA**  
**PARLIAMENTARY BUDGET OFFICE**

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**IMPROVING EXPENDITURE EFFICIENCY FOR  
ECONOMIC GROWTH**

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**Budget Options for FY 2026/2027 and the Medium Term**

**FEBRUARY 2026 (EDITION NO. 17)**

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## Acronyms and Abbreviations

AfDB	African Development Bank
AiA	Appropriation in Aid
ALP	Accruals Liquidation Plan
ASAL	Arid and Semi-Arid Lands
BROP	Budget Review and Outlook Paper
CAADP	Comprehensive Africa Agriculture Development Program
CBR	Central Bank Rate
CEF	County Emergency Fund
CoB	Controller of Budget
CFS	Consolidated Fund Services
DREF	Disaster Response Emergency Fund
EAC	East African Community
FAO	Food and Agriculture Organization
FY	Fiscal Year
GDP	Gross Domestic Product
ILO	International Labour Organization
IPSAS	International Public Sector Accounting Standards
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KSh	Kenya Shilling
KNBS	Kenya National Bureau of Statistics
MDAs	Ministries, Departments and Agencies
MPC	Monetary Policy Committee
MTP	Medium Term Plan
NCPB	National Cereals and Produce Board
NPL	Non-Performing Loans
OECD	Organisation for Economic Co-operation and Development
OVC	Orphans and Vulnerable Children
PBO	Parliamentary Budget Office
PFM	Public Finance Management
SAGA	Semi-Autonomous Government Agencies
SME	Small and Medium Enterprises
TFP	Total Factor Productivity
UK	United Kingdom
USD	US Dollar
USA	United States of America
VAT	Value Added Tax

## Foreword

The Kenyan economy has remained resilient, with key macroeconomic indicators pointing to a positive outlook. Real Gross Domestic Product growth has averaged 4.5 percent over the past five years, reflecting sustained economic activity. Inflation has declined and remained within the Central Bank's target range of  $5 \pm 2.5$  percent, supporting price stability. Interest rates have also trended downward following the Central Bank's accommodative monetary policy stance, with the Central Bank Rate declining from 13 percent in June 2024 to 9.0 percent in December 2025. The exchange rate has remained relatively stable, while the current account deficit has narrowed significantly from -5.2 percent of GDP in 2019 to -1.3 percent in 2024.

Despite these positive macroeconomic trends, the economy continues to grapple with a range of structural and emerging challenges that could dampen growth prospects if not adequately addressed. These include persistent revenue underperformance relative to expenditure needs, rising public debt and associated servicing pressures, and the accumulation of pending accruals that constrain liquidity within the private sector.

In addition, inefficiencies in public investment management continue to weaken the quality and timeliness of infrastructure delivery, while increasing vulnerability to climate change-related shocks such as droughts, poses risks to agriculture, food security, and overall economic stability. These pressures are further compounded by growing unemployment, particularly among the youth, which limits household incomes, suppresses domestic demand, and heightens social and fiscal pressures on government support programmes.

The 17<sup>th</sup> edition of the Budget Options is therefore anchored on confronting these challenges in a more targeted and strategic manner. In particular, it emphasizes the urgent need to clear and prevent the accumulation of government pending accruals to ease liquidity constraints in the private sector. The edition also underscores the importance of strengthening domestic revenue mobilization to support fiscal sustainability. In addition, it highlights the need to strengthen the public investment management framework for counties to enhance project execution and value for money. Collectively, these priorities are aimed at promoting sustainable economic growth, improving fiscal resilience, and fostering job creation and productivity across key sectors of the economy.



**FA (Dr). Martin Masinde**  
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## Acknowledgments

The 17<sup>th</sup> edition of the Budget Options was prepared by a team led by **Dr. Benjamin Ng'imor, Dr. Abel Nyagwachi** and **Ms. Julie Mwithiga**. The team consisted of **Dr. Evans Kiganda, Ringine Mutwiri, Loice Olesia, Onyango Adera, Judith Kiprop, George Ndenjeshe, Nancy Chamunga, Collins Namulen, Cyrille Mutali, Terry Ondiko, Kiminza Kioko, Robert Ngetich,** and **Joseph Ndirangu**.

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## SUMMARY OF BUDGET OPTIONS FOR FY 2026/27

This edition of the Budget Options presents alternative policy measures aimed at addressing the accumulation of pending bills through strengthened domestic resource mobilization, to unlock private sector investment and stimulate economic growth.

**Table 1: Summary of Budget Options for FY 2026/27**

S/No.	Option	Impact on Revenues (Kshs. blns)	Impact on Expenditures (Kshs. blns)	Impact on GDP (%)
1	<b>Reducing VAT Tax Expenditure to Strengthen Fiscal Sustainability</b>	100.0	-	0.2
2	<b>Mandatory 10 percent Annual Budgetary Provision by MDAs and County Governments with Outstanding Government Pending Accruals</b>	-	-	0.5
3	<b>Additional Budget Allocations for MDAs with significant Government Pending Accruals</b> – The funds will be utilized to supplement efforts by MDAs and County Governments in settling government arrears in FY 2025/26 while it will be used to support other public investment initiatives in subsequent years. Kshs. 75 billion will go to settle arrears for 10 MDAs, while Kshs. 12 billion will go to settle arrears for Nairobi County Government as discussed in Section 3.2.	-	100.0	
4	<b>Restructuring of Funding to Counties</b> – Through administrative and legislative measures, the Senate should ensure that a substantial amount of resources from the equitable share be channelled directly to sectors that are devolved but essential in the delivery of the MTP IV plan to ensure National Government interventions are effective and the country achieves its expected growth target.	-	-	0.1
<b>Total</b>		<b>100.0</b>	<b>100.0</b>	<b>0.8</b>



## I. RECENT ECONOMIC DEVELOPMENTS

### 1.1. Global Economic Performance

- 1. Global growth is projected to slow from 3.3% in 2024 to 3.2% in 2025 and 3.1% in 2026 due to waning short-term drivers, higher tariffs, policy uncertainty, and weak demand.** Advanced economies are expected to grow by 1.6% (USA 2%, Euro area 1.2%, UK 1.3%, with slower rates for Canada and Japan). Growth in emerging markets will decline from 4.3% in 2024 to 4.0% by 2026; Emerging Asia's rate will fall to 4.7% (China 4.2%, India 6.2%). Latin America and the Caribbean will grow by around 2.4% in 2025 and 2.3% in 2026. Emerging Europe's growth drops to 1.8% in 2025, then slightly recovers. The Middle East and Central Asia should see growth rise from 2.6% in 2024 to 3.8% in 2026 as oil issues ease. Sub-Saharan Africa's growth is forecast at 4.1% in 2025, rising to 4.4 percent in 2026, despite regional challenges. East Africa leads with growth increasing from 4.3% in 2024 to 5.9% for 2025–26, driven by strong performance in Ethiopia, Rwanda, Djibouti, Uganda, and Tanzania, supported by public investment in agriculture and energy.
- 2. Global inflation declined from 6.7% in 2023 to 5.7% in 2024, with projections of 4.2% in 2025 and 3.7% in 2026.** The drop is due to falling commodity prices and better labour supply. By 2026, advanced economies expect 2.2% inflation, while emerging markets aim for 4.6%. Policy uncertainty, trade barriers, and geopolitical issues are slowing disinflation, and OECD warns that higher tariffs could raise inflation by 0.5 percentage points annually. Sub-Saharan Africa's inflation outlook remains mixed. The median inflation rate declined from 7.1 percent in 2023 to 4.5 percent in 2024 and projected at 4.6 percent in 2025–26<sup>1</sup>. Disinflation across countries in the region is attributed to monetary policy tightening, ongoing fiscal consolidation and decline in commodity prices. In Eastern Africa inflation is projected to fall from 20.9 percent in 2024 to 14.9 percent in 2025, and then to 10.5 percent in 2026<sup>2</sup>. Stronger food production and more stable supply chains are expected to help reduce inflation more quickly.
- 3. Global current account imbalances are expected to rise above 0.6% of GDP in 2025, up from 2024. In Africa, the imbalance is projected to increase from**

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<sup>1</sup> World Bank. (2025). *Africa's pulse: An analysis of issues shaping Africa's economic future*. Washington, DC: International Bank for Reconstruction and Development/World Bank.

<sup>2</sup> Afreximbank. (2025). *African trade and economic outlook (ATEO): African resilience in a changing world order*. Cairo: African Export-Import Bank.

**1.8% of GDP in 2024 to 2.6% in 2025–26.** This trend is mainly driven by a widening trade deficit, as export demand is expected to decrease due to a weaker global economy and possible tariffs. In Sub-Saharan Africa, Kenya's current account deficit grew from 2.7% of GDP in 2023 to 3.2% in 2024, due to imports outpacing exports and greater net income outflows from repatriated profits and higher interest payments on external debt.

- 4. Global employment grew by 13.2 percent from 2014-2024 but is projected to slow to 1.5 percent growth in 2025<sup>3</sup>.** This slowdown highlights economic weaknesses and lower demand. Productivity was the main driver of global performance, as output per worker rose by 17.9 percent—indicating that efficiency improved faster than job creation. Informal employment remains widespread, growing by 13.7 percent and outpacing formal job growth at 12.6 percent. High rates of informality limit the impact of productivity gains on secure income, pointing to continued issues with job quality. The Asia-Pacific region led in productivity growth due to a shift toward higher-skilled, capital-intensive industries and fast GDP growth, with moderate employment gains largely in formal, technology-based sectors. In the Arab States, employment grew strongly but productivity fell, since most new jobs were in less productive roles. Europe and Central Asia saw improvements in both productivity and reduced informality, while the Americas experienced steady, balanced gains in employment, productivity, and GDP.

**Figure 1: Employment, Productivity and GDP Growth Rates (2014-2024)**



Region	Total Employment	Informal Employment	Formal Employment	Output Per Worker	GDP
WORLD	13.2%	13.7%	12.6%	+17.9%	33.5%
AFRICA	28.6%	29.3%	24.8%	+2.6%	32.1%
AMERICAS	11.6%	12.0%	11.4%	+6.8%	19.2%
ARAB STATES	28.4%	36.1%	22.3%	-9.3%	16.5%
ASIA & THE PACIFIC	10.9%	10.0%	12.6%	+39.8%	55.0%
EUROPE & CENTRAL ASIA	7.4%	-11.3%	10.5%	+11.5%	19.7%

Source, ILO (2025)

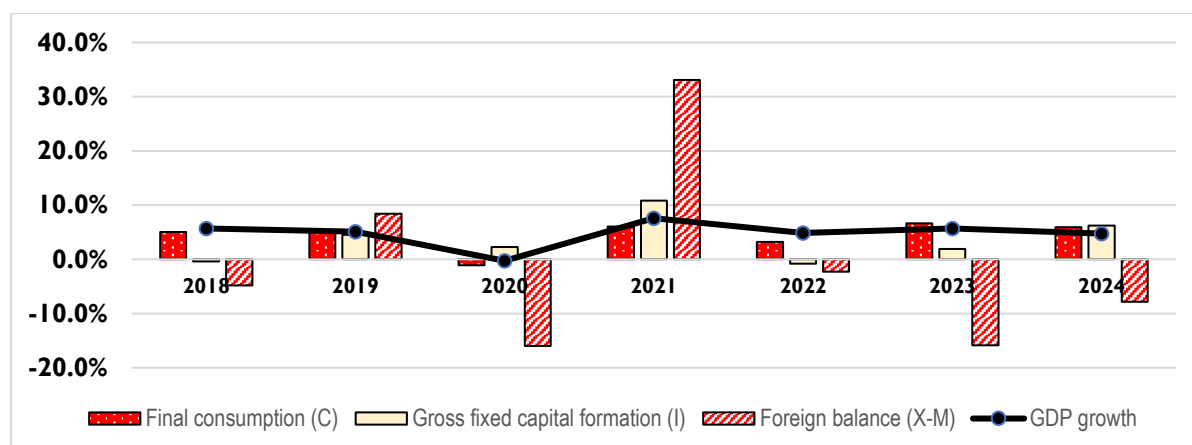
<sup>3</sup> ILO. (2025). *World employment and social outlook: May 2025 update*. Geneva, Switzerland : International Labour Organization .

## 1.2. Domestic Growth

### 1.2.1 Economic Growth

5. **Economic growth averaged 4.5 percent in the past five years (2020 to 2024), supported by high private consumption driving aggregate demand.** Public and private investment also supported growth, and this is likely to have resulted to the expansion in the country's productive capacity. Growth in exports narrowed the foreign balance deficit however imports also grew in the period. The growth in exports indicates growing foreign demand for domestic goods. Notably, the economy's performance recorded a decline from 5.7 percent in 2023 to 4.7 percent in 2024 on account of declining consumption. Investments recorded significant improvement in 2024 compared to 2023 as shown in figure 1.
6. **Growth in consumption has been driven by private consumption in the past five years.** Public consumption has been declining indicating that the government has been consuming less compared to households and firms. This signals that Kenya's economic expansion relied heavily on households and firms rather than government stimulus. It reflects government austerity measures and the crowding of government expenditures by interest payments amid debt pressures. It also indicates potential of the private sector in driving the economy.
7. **Consumption majorly supports growth compared to investments, and private consumption is the larger component compared to public consumption.** Notably, consumption led growth often results from household spending. Growth patterns supported largely by consumption, are more likely to be less sustainable compared to investment led growth. Long term growth prospects are attributable to investments since investments result to increased capital stock in the long run.

**Figure 2: GDP growth rates for the period 2018 to 2024**

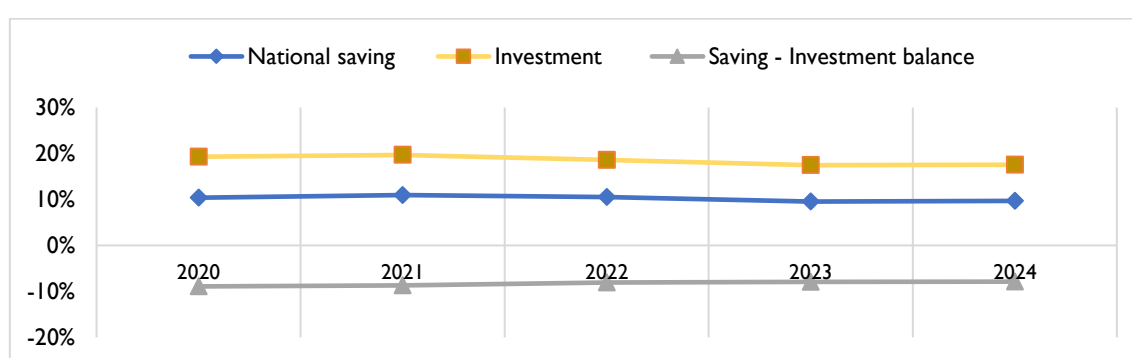


**Data Source: KNBS**

**8. National savings as a share of GDP has been lower than investments as a share of GDP indicating a persistent savings investments gap in the past five years.**

Figure 2 implies that domestic savings are insufficient to meet investments needs, which ultimately drive capital formation and subsequently promote economic growth. Investments drive productivity and long-term growth; however, it requires adequate financing from savings and foreign inflows. The savings investments gap may result to an increase in the demand for foreign capital for investments to increase capital stock. Notably, foreign capital has a risk exposure to external shocks, and it may also result to rising external debt burdens.

**Figure 3: Savings – Investments gap as a share of GDP, 2020 to 2024**



Data Source: KNBS & PBO

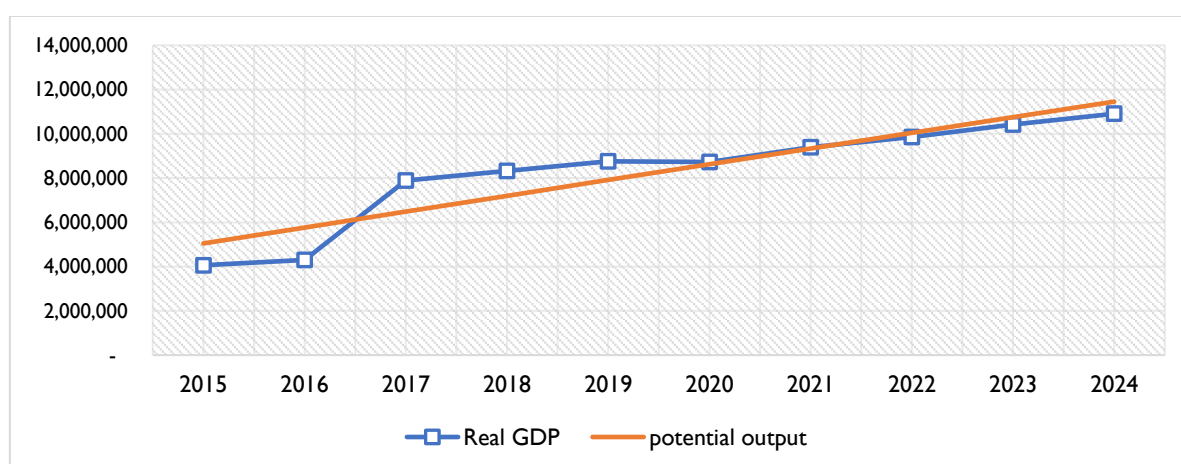
**9. Real GDP was closer to potential output past 2020, compared to prior years; between 2015 and 2019, indicating a narrowing output gap as shown in figure 3.**

A narrower output gap indicates a gradual return to sustainable growth levels a likely indication of recovery from shocks or structural improvements. Notably, although the output gap narrowed between 2020 and 2024, real GDP was below potential output. This implies the need to boost investments and to improve productivity to stimulate the economy.

**10. Kenya's growth pattern results from output from the primary, industry and services sectors which continue to support economic growth.**

More recently, the primary sector grew by 4 percent in the third quarter of 2025 compared to 2.9 percent in the same period in 2024. Growth in the primary sector was supported by a rebound in mining and quarrying which had decelerated. Recovery in the construction sector led to demand for construction materials supporting growth in mining and quarrying. Notably, agriculture which significantly relies on weather patterns, slightly declined in the period.

**Figure 4: Real GDP and Potential Output, 2015 to 2024**



Data Source: KNBS & PBO

- 11. The industry sector improved from 0.3 percent growth in the third quarter of 2024 to 4.1 percent in the same period in 2025, on account of recovery in construction.** Construction rebounded, supported by growth in credit to the private sector and accelerated implementation of road projects by the government. The government securitized a bond to facilitate payment of pending bills in the roads sector which had slowed down the implementation of the projects. Electricity and water supply also improved in the same period and manufacturing slightly improved.
- 12. Performance in the services sector declined in the third quarter owing to a significant decline in the performance of accommodation and food services.** Services declined from 5.7 percent in the third quarter of 2024 to 5.4 percent in the third quarter of 2025, an indication of declining demand. Notably, some services such as wholesale and retail trade and transport and storage grew in the same period, a likely indication of transmission of credit to the private sector on account of declining interest rates.

**Table 2: Sectoral GDP growth rates, 2015 to 2025**

Details	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>1. Primary</b>	<b>3.0%</b>	<b>0.8%</b>	<b>-1.1%</b>	<b>5.2%</b>	<b>2.8%</b>	<b>4.7%</b>	<b>0.5%</b>	<b>-0.8%</b>	<b>5.7%</b>	<b>3.9%</b>	<b>5%</b>
Agriculture, forestry and fishing	4.4%	1.4%	-1.3%	5.7%	2.7%	4.6%	-0.4%	-1.5%	6.6%	4.6%	4.5%
Growing of crops	3.6%	0.0%	-1.0%	6.4%	3.0%	5.7%	-1.4%	-2.7%	6.5%	2.7%	-
Animal production	15.0%	6.8%	-6.9%	4.6%	1.9%	3.3%	4.0%	-1.0%	9.7%	9.4%	-
Support activities to agriculture	12.3%	-7.2%	12.8%	13.4%	5.5%	2.8%	1.9%	-1.8%	1.0%	18.4%	-
Forestry & logging	-1.9%	6.9%	3.3%	-1.0%	0.1%	-2.0%	-3.1%	8.8%	3.4%	5.8%	-

Details	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Fishing & aquaculture	- 26.0%	-9.9%	24.1%	9.5%	4.2%	0.8%	3.7%	7.6%	-2.9%	10.3%	-
Mining and quarrying	- 15.8%	-9.1%	3.2%	-4.7%	4.3%	5.5%	18.0%	9.3%	-6.5%	-9.2%	14.2%
<b>2. Industry</b>	<b>5.8%</b>	<b>3.3%</b>	<b>2.7%</b>	<b>4.4%</b>	<b>3.9%</b>	<b>3.2%</b>	<b>6.8%</b>	<b>3.5%</b>	<b>2.6%</b>	<b>1.5%</b>	<b>3.3%</b>
Manufacturing	5.9%	1.9%	0.7%	3.6%	2.6%	-0.3%	7.3%	2.6%	2.2%	2.8%	1.9%
Manufacture of food, beverages and tobacco	6.5%	2.2%	1.5%	5.5%	2.9%	-1.4%	4.6%	0.8%	1.5%	4.6%	-
Other manufacturing and repair and installation	5.1%	1.5%	-0.3%	1.2%	2.3%	1.2%	10.7%	4.8%	3.0%	0.8%	-
Electricity supply	2.3%	4.1%	5.6%	4.0%	1.9%	-0.5%	5.3%	5.7%	3.1%	1.9%	-
Water supply; sewerage, waste management	2.1%	2.8%	-3.2%	2.5%	1.3%	3.6%	6.3%	5.0%	3.4%	1.9%	-
Construction	7.8%	5.8%	6.3%	6.1%	7.2%	10.1%	6.7%	4.1%	3.0%	-0.7%	5.1%
<b>3. Services</b>	<b>6.6%</b>	<b>5.9%</b>	<b>5.1%</b>	<b>6.0%</b>	<b>6.7%</b>	<b>-1.8%</b>	<b>9.6%</b>	<b>6.6%</b>	<b>6.8%</b>	<b>6.1%</b>	<b>5.3%</b>
Wholesale and retail trade; repairs	4.3%	2.3%	4.3%	5.9%	5.3%	-0.4%	8.0%	3.5%	3.3%	3.8%	4.8%
Transport and storage	6.1%	8.3%	3.5%	6.0%	6.3%	-8.0%	7.4%	5.8%	5.5%	4.4%	4.8%
Land transport	7.7%	7.0%	6.3%	5.2%	6.4%	-3.2%	6.3%	4.5%	4.7%	4.8%	-
Air transport including support services	-4.9%	22.7%	-16.0%	6.5%	3.7%	-54.3%	29.1%	19.8%	21.0%	1.5%	-
All other transport including postal and courier activities	5.5%	5.5%	3.7%	10.5%	8.0%	-7.1%	7.6%	9.1%	3.8%	3.7%	-
Accommodation and food service activities	5.4%	6.9%	9.4%	15.6%	14.3%	-47.7%	52.6%	26.8%	33.6%	25.7%	9.9%
Information and communication	11.3%	10.2%	8.1%	7.9%	7.0%	6.0%	6.1%	9.0%	10.3%	7.0%	5.4%
Telecommunications	14.1%	13.2%	11.9%	9.1%	8.3%	12.1%	6.1%	10.2%	10.5%	9.5%	-
Publishing, broadcasting, other IT and information activities	6.7%	5.1%	1.0%	5.6%	4.1%	-7.5%	6.3%	6.0%	9.7%	0.4%	-
Financial and insurance activities	11.8%	3.6%	4.1%	2.7%	8.1%	5.9%	11.5%	12.0%	10.1%	7.6%	5.8%
Financial activities	15.8%	3.7%	3.8%	0.8%	7.7%	4.3%	7.0%	11.3%	9.4%	4.5%	-
Insurance activities	-2.4%	3.0%	5.2%	10.6%	9.5%	11.7%	26.9%	14.4%	12.2%	16.3%	-
Real estate	5.5%	9.8%	6.7%	6.5%	6.7%	4.1%	6.7%	4.5%	7.3%	5.3%	5.5%
Professional, scientific and technical activities	3.6%	3.1%	3.7%	5.4%	6.8%	-11.5%	7.9%	5.3%	8.4%	6.3%	-
Administrative and support service activities	1.0%	3.4%	1.6%	9.8%	6.8%	-17.6%	5.6%	18.0%	12.5%	6.1%	-
Public administration and defence	12.5%	6.0%	3.9%	7.9%	8.4%	7.0%	6.0%	5.1%	5.0%	8.2%	-
Education	2.0%	2.2%	8.7%	6.8%	5.7%	-9.2%	22.8%	5.2%	2.9%	3.9%	3.2%
Human health and social work activities	4.9%	9.5%	6.4%	5.4%	5.5%	5.6%	8.9%	3.4%	4.5%	6.3%	5.3%



Details	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Arts, entertainment and recreation	3.8%	14.9%	16.5%	3.7%	8.0%	-28.3%	12.4%	18.4%	16.2%	15.0%	-
Other service activities	3.4%	5.1%	3.9%	4.0%	4.9%	-19.5%	18.9%	7.1%	3.6%	4.1%	3.7%
Activities of households as employers;	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	-
FISIM	12.4%	0.2%	-6.0%	3.7%	9.5%	-1.8%	5.3%	0.2%	2.7%	9.0%	2.6%
GDP at market prices	5.0%	4.2%	3.8%	5.6%	5.1%	-0.3%	7.6%	4.9%	5.7%	4.7%	4.9%

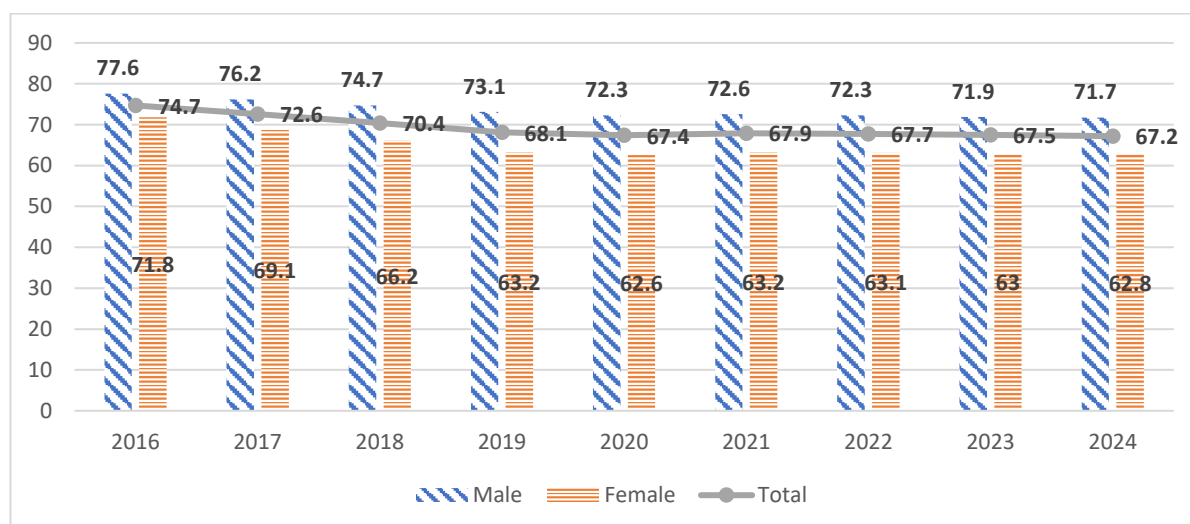
Data Source: KNBS

## 1.2.2 Labour Market

**13. Kenya's labour market continues to grow, with employment divided into formal, informal and small-scale agriculture sectors<sup>4</sup>.** Employment in the formal and informal sectors, excluding small-scale agriculture rose from 20 million in 2023 to 20.8 million in 2024. Most of the growth occurred in the informal sector which added 90 percent of jobs (703,700), with formal sector contributing 10 percent (78,600).

**14. Labour force participation has declined, and unemployment has risen in recent years.** National labour force participation fell from 74.4 percent in 2016<sup>4</sup> to 66.7 percent in 2022Q4<sup>5</sup> and 67.2 in 2024 (Figure 7). Unemployment rate nearly doubled from 2.8 percent in 2016 to 5.4 percent in 2024 (Figure 4), reflecting the effect of economic fluctuations on the labour market.

**Figure 5: Labour Force Participation Rate in Kenya, 2016 to 2024**



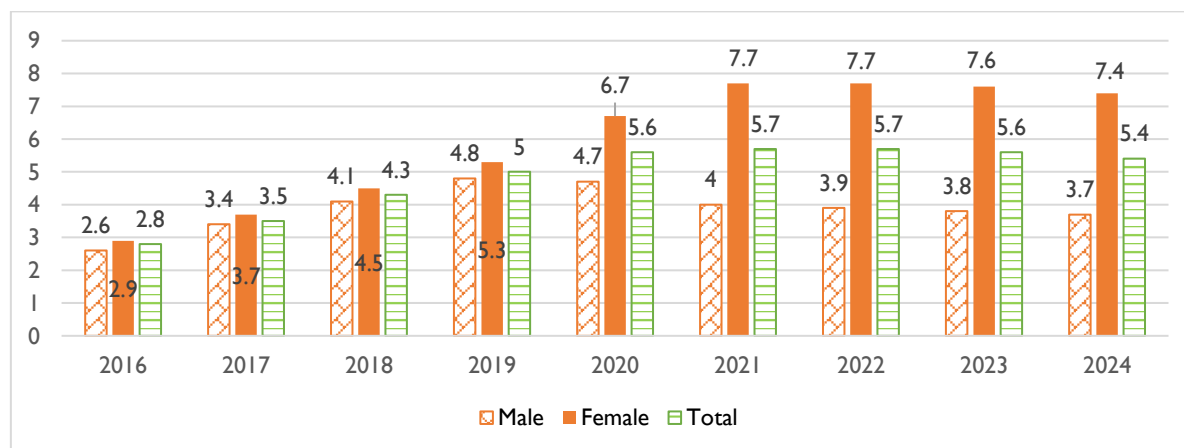
<sup>4</sup> ILO. (2024). *Digital labour platforms in Kenya: Exploring women's opportunities and challenges across various sectors*. Geneva: International Labour Organization.

<sup>5</sup> KNBS. (2023). *Quarterly labour force report: Quarter 4, October – December, 2022*. Nairobi: Kenya National Bureau of Statistics.

Data Source: World Bank

- 15. Gender disparities persist, with women disproportionately affected by unemployment and informal work.** Female labour force participation declined from 71.5 percent in 2016 to 62.8 percent in 2024, widening the gender gap to about 10 percent. Female unemployment has nearly tripled rising from 2.9 percent in 2016<sup>6</sup> to 7.4 percent in 2024 (Figure 5), with urban female unemployment six times higher than rural levels (17.2 percent-urban areas, and 2.7 percent rural areas by 2021). Women are also overrepresented in the informal sector, which accounted for 86.5 percent of employment in 2019, limiting access to social protection and stable incomes. 90.2 percent and 83.1 percent of women and men respectively in the workforce were in informal employment<sup>6</sup>.

**Figure 6: Unemployment Rate in Kenya, 2016 to 2024**



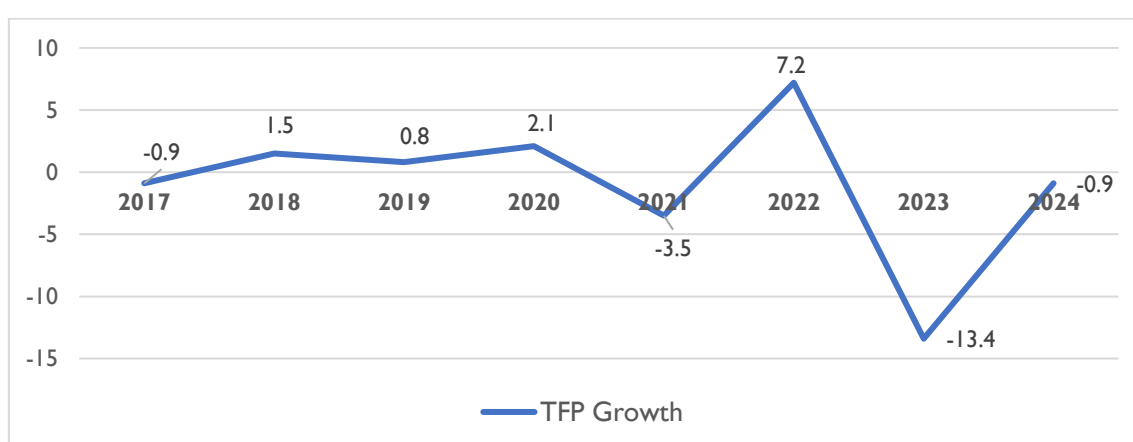
Data Source: World Bank

- 16. Underemployment remains a major concern, highlighting the quality of employment.** By the last quarter of 2022, underemployment stood at 18.6 percent, indicating that many workers are employed part-time or in low-income jobs. Despite the informal sector's key role in job creation, income generation, and participation in digital labour platforms, the challenge remains to increase formal, productive, and decent employment opportunities across all regions and demographic groups.
- 17. The volatility in total factor productivity (TFP) in Figure 6 underscores the structural challenges in Kenya's labour market.** Sharp swings from modest

<sup>6</sup> AfDB. (2025). *African Economic Outlook 2025: Making Africa's capital work better for Africa's development*. Abidjan: African Development Bank Group.

gains in 2018-2020 to deep contractions in 2021 (-3.5 percent) and 2023 (-13.4 percent) reflect the dominance of low-productivity informal employment, rising underemployment, and persistent gender disparities. With most new jobs created in informal, low-efficiency activities, productivity gains remained limited, highlighting the need for policies that strengthen skills, firm competitiveness and creation of higher-quality formal jobs. Further, these wide swings suggest that productivity gains are highly sensitive to economic shocks such as the COVID-19 recovery cycle, supply chain disruptions, and policy uncertainties and that Kenya's growth continues to rely heavily on labour absorption rather than improvements in efficiency.

**Figure 7: Total Factor Productivity (TFP) Growth Rate, 2017 to 2024**



**Data Source: PBO**

### 1.2.3 Inflation

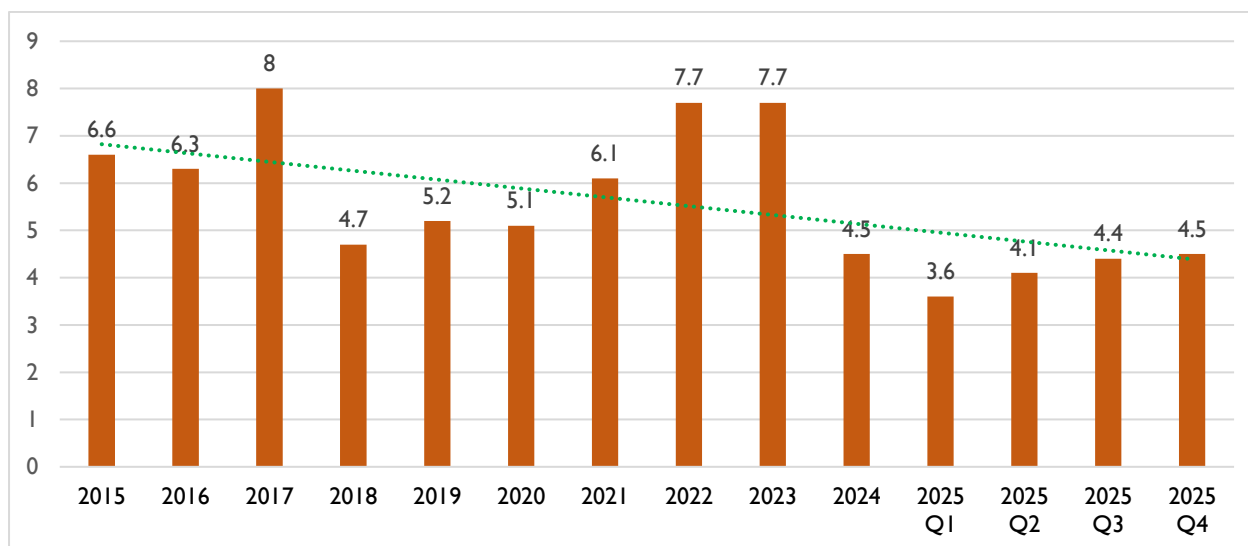
**18. Kenya's inflation remained broadly within the Central Bank's target range.**

From 3.6 percent in March 2025, inflation rose to 4.1 percent in April through to July 2025, driven by increases in food, transport and housing (electricity, gas, water) costs.

**19. Inflationary pressures intensified slightly in the second half of 2025, with the rate rising to 4.5 percent in December 2025.** Kenya's average inflation for 2025 was 4.1 percent, a significant drop from 7.7 percent in 2023 (Figure 7). This reflects improved food supply conditions and relatively stable fuel prices.

**20. Inflation risks for Kenya remain tilted to the upside.** However, the Central Bank expects that easing global commodity prices and stronger domestic food production will support a gradual return to lower inflation over 2025-26.

**Figure 8: Inflation rates, 2015 to 2025**



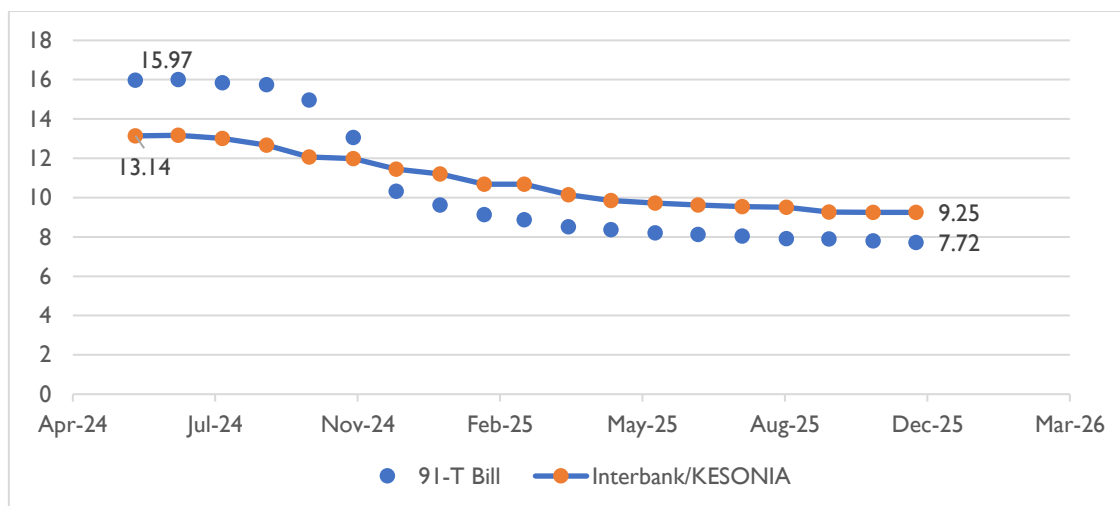
Data Source: KNBS

### 1.2.4 Interest Rates

**21. Short-term interest rates have adjusted sharply, with the 91-day Treasury bill yield declining from about 16 percent in Mid-2024<sup>7</sup> to below 8 percent by December 2025 (Figure 8).** This reflects improving investor confidence and lower domestic borrowing pressures, reducing the government's cost of short-term financing. Interbank rates have similarly eased from above 13 percent in early 2024 to about 9 percent by December 2025, indicating healthier liquidity in the banking sector.

**Figure 9: Short Term Interest Rates, 2024 to 2026**

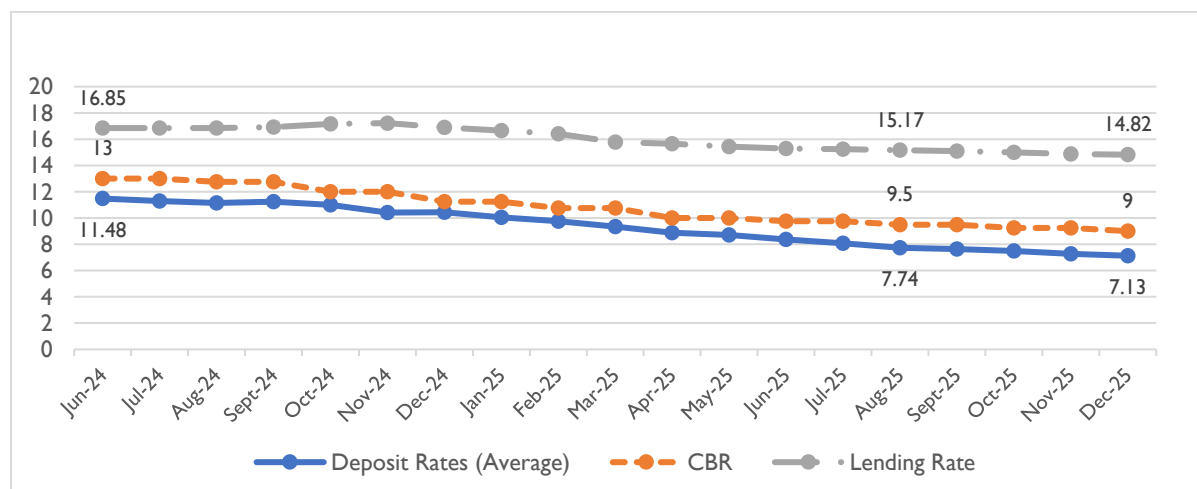
<sup>7</sup> CBK. (2025). *Statistical bulletin June 2025*. Nairobi, Kenya: Central Bank of Kenya



Data Source: CBK

22. Deposit rates have also trended downward from 11.5 percent in June 2024 to 7.8 percent in August 2025 (Figure 9), consistent with reduced competition for funds and the broad repricing of instruments following CBK's reductions in the policy rate. The Monetary Policy Committee (MPC) has implemented a steady easing path, lowering the Central Bank Rate (CBR) from 13 percent in June 2024 to 9.0 percent by December 2025. The stance has shifted from fighting inflation to supporting domestic demand and reducing the cost of credit. However, lending rates remain sticky, falling only modestly from about 16.8 percent in June 2024 to around 14.8 percent in December 2025. This limited pass-through reflects structural constraints including elevated Non-Performing Loans (NPLs), wide risk margins under risk-based pricing, and banks' continued preference for government securities.

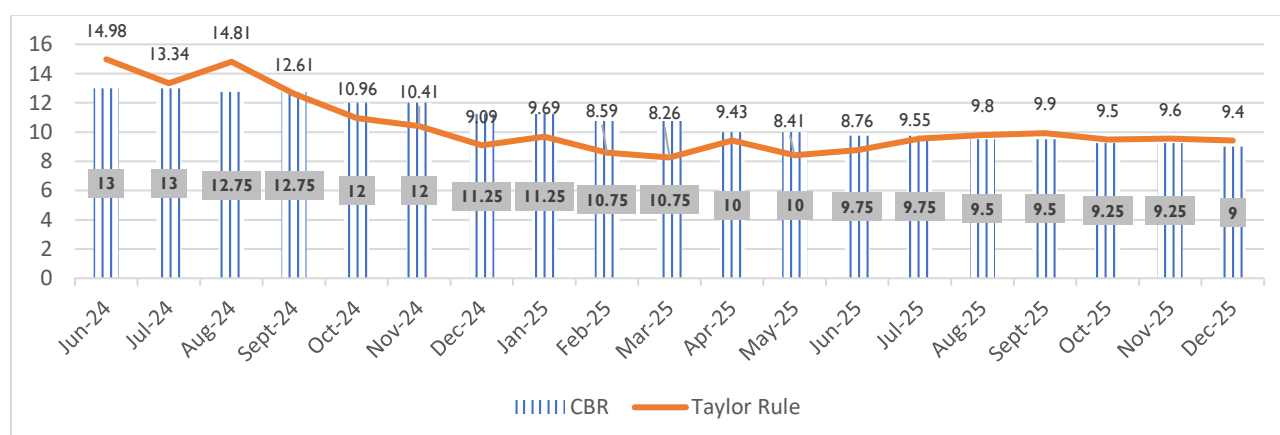
Figure 10: Central Bank, Deposit and Lending Rates, June 2024 to December 2025



Data Source: CBK

- 23.** The decline in CBR by 225 basis points (bps) from December 2024 to December 2025, about 260 and 220 basis points for 91-day T-bill yields and interbank respectively, indicates effective money-market transmission within the whole markets, with banks facing lower funding costs and improved liquidity conditions. However, there has been slow retail market transmission. Lending rates have remained sticky, edging down marginally by 207 basis points despite the significant decline in policy and money market rates.
- 24.** The wide and persistent spread between lending and deposit rates underscores the structural rigidities that limit full monetary policy pass-through to borrowers i.e. changes in Central Bank policy rate do not translate directly to interest rates that borrowers pay on loans.
- 25. CBR declined steadily from 13 percent in June 2024 to 9.0 percent in December 2025 (Figure 10).** This reflects the Central Bank's shift from tight inflation management toward supporting domestic growth by lowering borrowing costs. Comparing the actual CBR to Taylor rule-implied rate (Figure 10), which ranges from 14.98 percent in June 2024 to 9.8 percent in August 2025, several patterns emerge, from January to August 2025, the CBR remained close to, or slightly below the Taylor rule rate e.g. August 2025:9.5 percent CBR vs 9.8 percent Taylor rate.
- 26.** The Taylor rule rate (9.4 percent) being slightly higher than the actual CBR (9.0 percent) in December 2025 implies that the policy is mildly accommodative i.e. CBK has been keeping rates slightly lower to support domestic demand, rather than strictly anchoring inflation. Hence, the policy is broadly consistent with macroeconomic fundamentals, balancing growth support and inflation control.

**Figure 11: Taylor Rule vs CBR, June 2024 to December 2025**

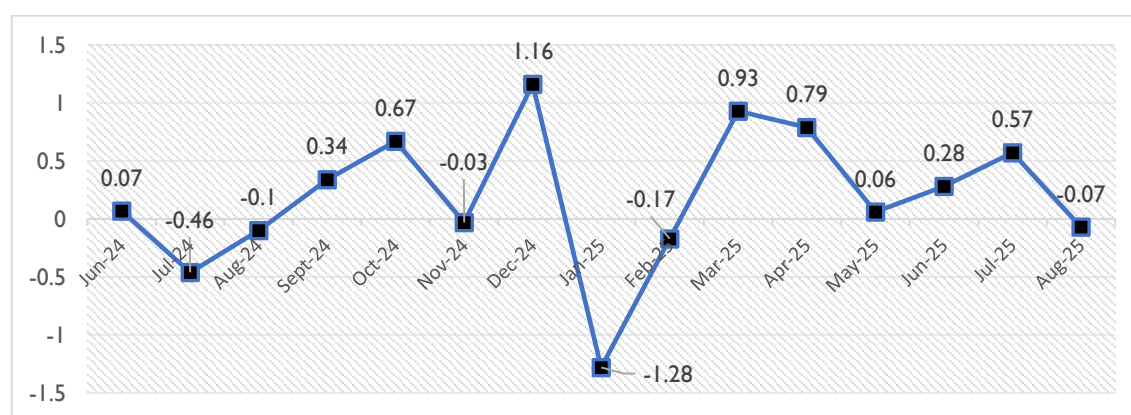


**Data Source: PBO**

### 1.2.5 Private Sector Credit

- 27. The data shows that private sector credit growth remained generally volatile between June 2024 and August 2025 (Figure 11).** Monthly growth ranged from -1.28 percent to 1.16 percent, indicating that credit conditions remained fragile over the period. Several months posted negative growth e.g. January – February 2025, and August 2025 reflecting the impact of elevated lending rates, high CBR, and strong competition from attractive T-bill yields that pulled banks towards government securities rather than private lending. Overall private sector credit remained constrained by tight monetary conditions, banks' risk averse stance, and persistent crowding-out pressures, keeping credit to the private sector subdued through the year.

**Figure 12: Private Sector Credit Growth Rate, June 2024 to August 2025**

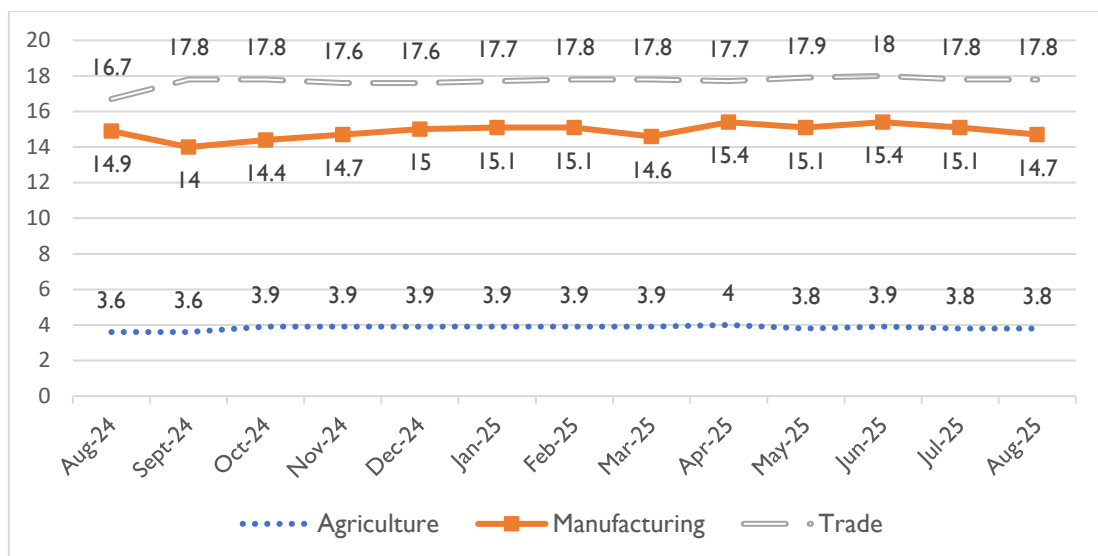


**Data Source: CBK**

- 28. On the sectoral allocation front, agriculture, manufacturing, and trade sectors maintained relatively stable shares of private sector credit over the period, August 2024 to August 2025 (Figure 12).** Agriculture consistently remained at around 3.6 – 4.0 percent, manufacturing ranging between 14.0 -15.4 percent, and trade holding the largest share at 16.7 – 18.0 percent<sup>8</sup>.
- 29.** Trade and manufacturing consistently attracted the bulk of credit, reflecting their central role in driving economic activity, while agriculture's share remained modest but steady highlighting its continued importance in supporting rural livelihoods and food security. Overall, the allocation suggests a credit structure focused on commerce and industrial activity, with limited but stable support for agriculture.

<sup>8</sup> CBK. (2025). *Monthly economic indicators, August 2025*. Nairobi, Kenya: Central Bank of Kenya

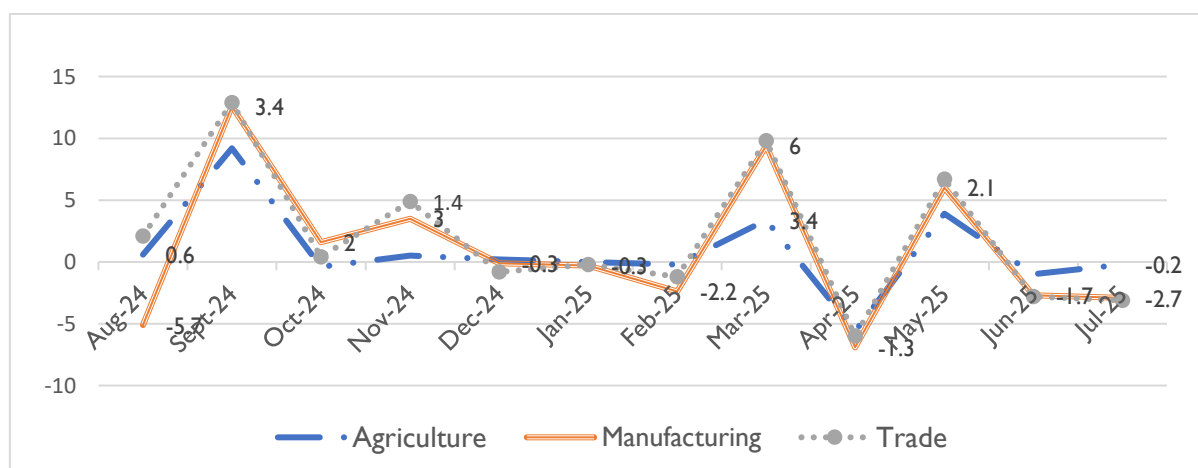
**Figure 13: Key Sectoral Credit Allocation, August 2024 to August 2025**



**Data Source: CBK**

- 30. Sectoral credit growth trends (Figure 13) leading up to July 2025 highlight a clear loss of momentum across Agriculture, Manufacturing, and Trade.** After periods of mixed but occasionally strong expansion such as 3.4 percent in Agriculture and 6.0 percent in Manufacturing, and 1.2 percent Trade growth in February 2025, all three key sectors slipped into negative territory by July 2025. This signal weakened demand for working capital amid tighter lending conditions. By July 2025, credit conditions had deteriorated reinforcing the need to monitor sectoral stress and consider measures that support liquidity and confidence across key productive sectors.

**Figure 14: Key Sectoral Credit Growth Rate, August 2024 to July 2025**



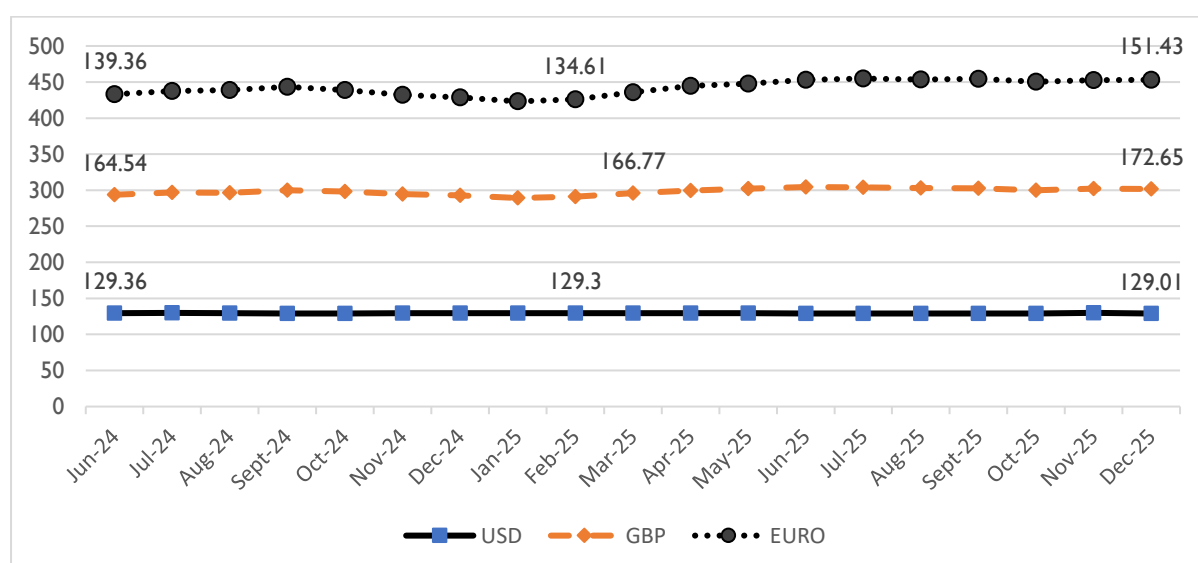
**Data Source: CBK**



## 1.2.6 Exchange Rate

- 31. The Kenyan shilling has remained unusually stable against the US Dollar over the period from June 2024 to December 2025, fluctuating narrowly between 129.2 and 129.0 per USD (Figure 14).** This unusual stability, compared to normal emerging-market volatility, points to tight exchange rate management or active liquidity smoothing by the Central Bank. While the stability supports predictable USD-denominated debt servicing, the lack of natural volatility may mask underlying foreign exchange imbalances, particularly given that the shilling was simultaneously weakening against other major currencies.

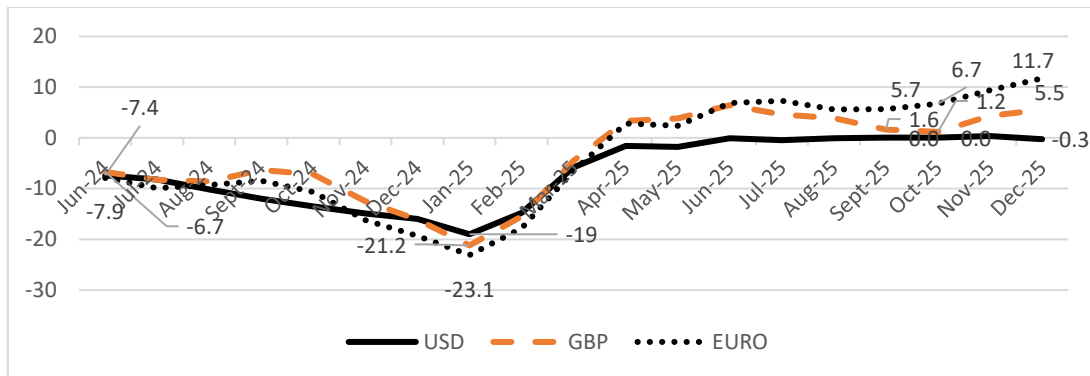
**Figure 15: USD, GBP and Euro vs Kshs. Movement, June 2024 to December 2025**



**Data Source: CBK**

- 32. The KSHS. experienced a clear depreciation against the British Pound,** starting at KSh 164.5 in June 2024 and rising to a high of KSh 175.2 in June 2025 (Figure 13), a 6.5 percent depreciation over the year (Figure 15). By December 2025, the rate moderated slightly to KSh 172.7, but the shilling remained 5.5 percent weaker than its December 2024 level. This trend signals higher costs for UK-linked trade, including imports of machinery, pharmaceuticals, education payments, and travel services.
- 33. The shilling also weakened steadily against the Euro,** moving from KSh 139.4 in December 2024 to KSh 135.6 in December 2025, an 11.7 percent depreciation over 12 months. This consistent weakening implies that Euro-denominated payments such as imports from Eurozone or development finance obligations, could become costlier.

**Figure 16: USD, GBP, EURO Volatility**

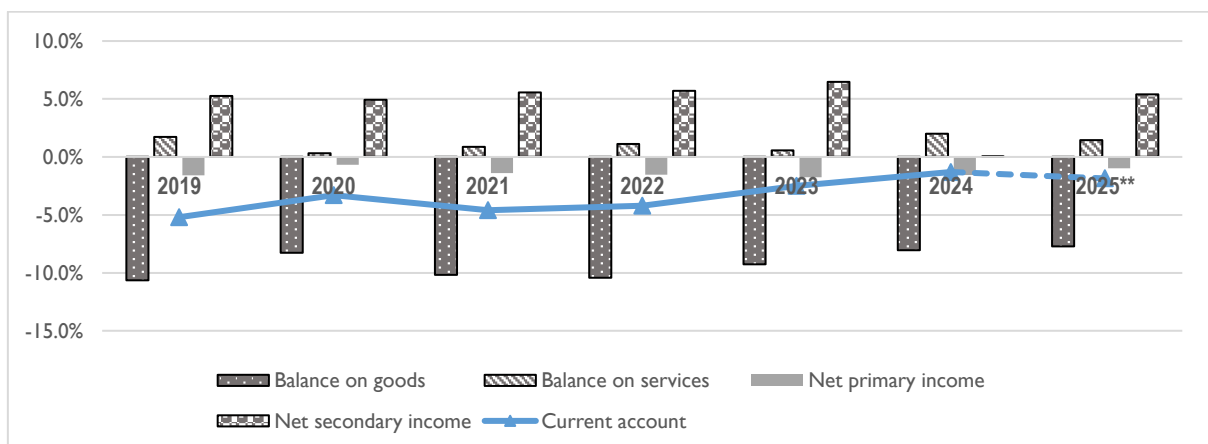


Data Source: CBK

### 1.2.7 Balance of payments

- 34. The current account balance has maintained a persistent deficit in the past five years; the deficit has however narrowed from -5.2 percent in 2019 to -1.3 percent as a share of GDP in 2024.** In the second quarter of 2025, the current account balance recorded a deficit of -2 percent as a share of GDP as shown in figure 20 due to underperformance in goods exports and services. Notably, diaspora remittances remained resilient and are expected to support the current account balance in the second half of 2025, since more remittances are sent from abroad during the holidays' season. The strengthening of the current account in the five-year period is attributable to sustained growth in exports, significant growth in services supported by travel and steady growth in diaspora remittances which continue to support the current account. Notably, in the same periods with exports growth, imports also grew significantly, contributing to persistent deficits in the current account.

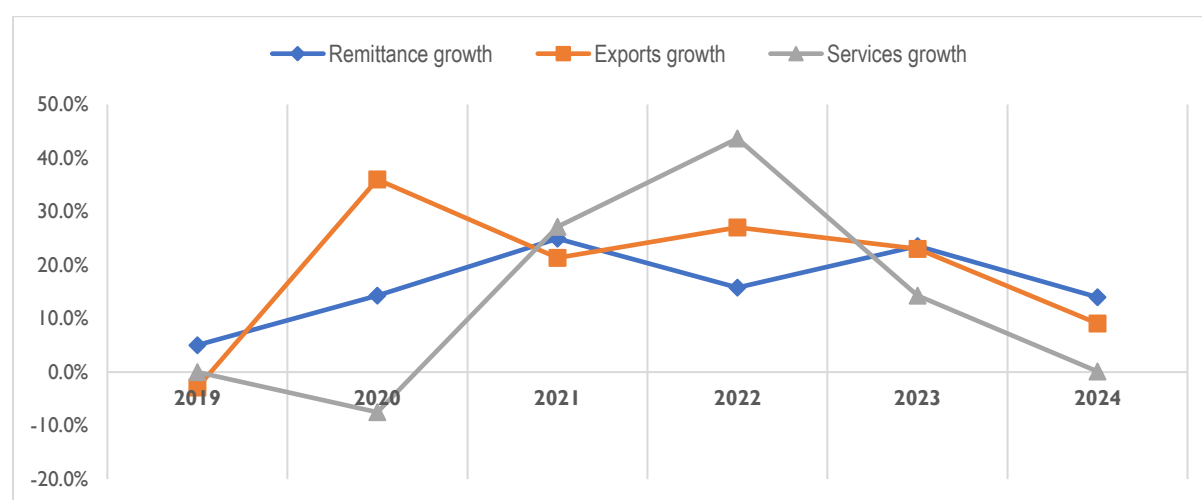
**Figure 17: Current account components as a share of GDP, 2019 to 2024**



Data Source: KNBS (\*\* 2025 Second quarter data)

**35. Goods exports, remittances and services have been the main drivers supporting the strengthening of the current account balance.** Figure 17 indicates that between 2019 and 2024, growth in exports and remittances has been relatively steady. The trend in growth in services however depicts the impact of the pandemic which affected the performance of travel, transport and other services. The trend is rather volatile with the period between 2021 and 2022 indicating post-pandemic recovery and the period between 2023 and 2024 stabilizing towards pre-pandemic growth. A shock, such as a global economic downturn or a sudden change in foreign exchange rates may affect these variables differently. Exports may contract due to reduced demand in international markets or disruptions in supply chains. Remittances could decline as diaspora incomes are affected by economic challenges abroad, reducing the inflow of foreign currency. Services, especially travel and transport, are highly sensitive to shocks related to health crises or mobility restrictions, potentially leading to sharp but temporary declines before gradual recovery. Consequently, the current account balance may experience increased volatility, reflecting the asynchronous response of these key components to shocks. This requires flexible and targeted policy interventions such as export diversification and strengthening the services sector adaptability to buffer against shocks.

**Figure 18: Remittances, exports and services growth, 2019 to 2024**



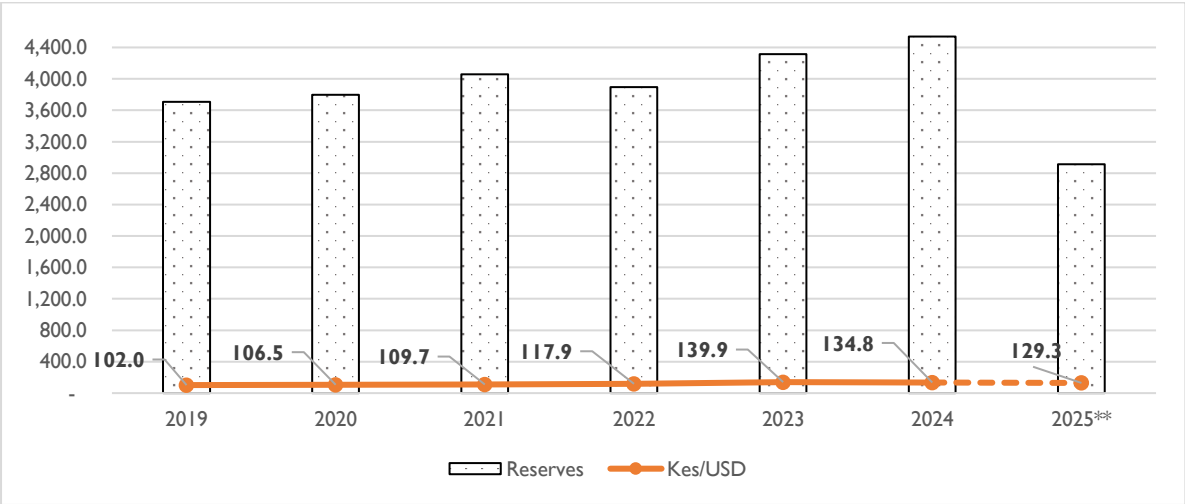
**Data Source: KNBS**

**36. The capital account averaged 0.2 percent as a share of GDP in the period between 2019 and 2024 indicating modest net capital assets transfers.** This is consistent within countries in middle to lower income status. The financial account as a share of GDP worsened from -4.8 percent in 2019 to -1.5 percent in 2024. A negative financial account balance indicates liabilities owed by non-residents to

residents which are a source of financial inflows. The negative balance indicates inflows majorly from direct investments, portfolio investments and financial derivatives which are influenced by global financial conditions. An improvement in the global financial conditions coupled with higher investor returns in the domestic market are more likely to improve financial inflows. The overall balance as a share of GDP remained at -1.1 percent in 2019 and in 2024. Notably, outflows in the overall balance may also be attributed to external debt repayments.

**37. Reserves and exchange rates indicate a gradual negative relationship between 2019 to 2025, with improvements in reserves indicating gradual stability in the exchange rate.** Reserves rose between 2019 and 2024, supported by inflows from exports, remittances as well as receipts from external borrowing and this has contributed to the appreciation of the Kenyan shilling. The shilling averaged 129.3 in the first half of 2025 supported by growth in the accumulation of reserves. This is an improvement compared to 2023 when the shilling averaged Kshs. 139.9 against the dollar.

**Figure 19: Exchange rates and reserves for the period in 2019 to 2025**



**Data Source: KNBS (\*\* 2025 Second quarter data)**

### 1.2.8Fiscal developments

**38. Despite robust revenue growth of 54 percent to Kshs. 2.923 trillion in FY 2024/25 from Kshs. 1.892 trillion in FY 2020/21, the budget deficit widened by 27 percent (Kshs. 219.09 billion) to Kshs. 1.019 trillion (5.8 percent of GDP) compared to Kshs. 799.976 billion in FY 2020/21.** Ordinary revenue collections rose by 48 percent (Kshs. 786.407 billion), driven by income tax by 60 percent, import duty by 47 percent, VAT by 37 percent, excise duty by 21 percent and other revenue by 82 percent. Appropriation-in-Aid nearly doubled, rising by 94 percent

(Kshs. 244.497 billion) from Kshs. 258.88 billion in FY 2020/21 to Kshs. 503.377 billion in FY 2024/25. This growth demonstrates strong improvements in domestic revenue mobilization and suggests economic recovery with expansion in taxable activities. However, the increased deficit reflects ongoing fiscal pressures, from government expenditures and debt servicing costs growing faster than revenues.

**39. Total expenditure and net lending rose by Kshs. 1.226 trillion (45 percent) from Kshs. 2.749 trillion in FY 2020/21 to Kshs. 3.975 trillion in FY 2024/25 indicating substantial growth in government spending within the period.**

Recurrent expenditures significantly contributed to the growth in total expenditures rising by Kshs. 1.193 from Kshs. 1.754 trillion to Kshs. 2.948 trillion. Development expenditure rose slightly by Kshs. 30.654 billion from Kshs. 552.283 billion to Kshs. 582.937 billion indicating limited expansion in capital investment. This further signal, room for increased investments critical for long term growth. Notably, total expenditures as a share of GDP declined from 24.9 percent in 2020/21 to 22.8 percent as a share of GDP in 2024/25. This demonstrates that economic growth outpaced growth in government spending and this trend supports macroeconomic stability amid fiscal pressures. However, sustaining this in the long term requires continued economic expansion and controlled government spending.

**40. The main drivers of recurrent expenditure were operation and maintenance expenses as well as interest payments indicating growth in debt servicing costs.**

Interest payments nearly doubled from Kshs.495.142 billion in FY 2020/21 to Kshs. 995.119 billion in FY 2024/25. This is largely attributable to domestic interest payments which are higher than foreign interest due in the period. The dominance of domestic interest payments over foreign interest suggests reliance on domestic debt markets within the period, which potentially carries higher costs and likely crowds out other government spending priorities. Operation and maintenance costs grew by 71 percent, a likely indication of rising costs of running government services, inflationary pressures and expanded government programs. Wages and salaries grew by 27 percent which is modest compared to other recurrent expenditures, showing relatively controlled growth in personnel expenses.

**Table 3: Fiscal performance for the period 2021/22 to 2024/25 in Kshs. billion**

Details	2021/22	2022/23	2023/24	2024/25 Target	2024/25 Actual
<b>A. Total revenue</b>	<b>2,199,807</b>	<b>2,360,510</b>	<b>2,702,662</b>	<b>2,985,568</b>	<b>2,923,551</b>
<b>1. Ordinary revenue</b>	<b>1,917,910</b>	<b>2,041,120</b>	<b>2,288,922</b>	<b>2,496,196</b>	<b>2,420,174</b>
Income tax	876,707	941,576	1,043,097	1,125,163	1,093,032
VAT	523,098	550,440	645,489	660,602	660,729
Import duty	118,280	130,123	133,929	153,497	157,107
Excise duty	252,094	264,509	276,722	296,942	292,468
Other revenue	147,731	154,472	189,685	259,992	216,838
<b>2. Appropriation in Aid</b>	<b>281,897</b>	<b>319,391</b>	<b>413,740</b>	<b>489,371</b>	<b>503,377</b>
<b>B. Expenditure and net lending</b>	<b>3,027,836</b>	<b>3,221,001</b>	<b>3,605,210</b>	<b>4,045,080</b>	<b>3,975,938</b>
<b>1. Recurrent</b>	<b>2,135,305</b>	<b>2,311,564</b>	<b>2,678,437</b>	<b>2,989,053</b>	<b>2,948,431</b>
Wages & salaries	520,033	547,157	575,269	627,102	624,689
Interest payments	577,979	687,321	840,732	996,857	995,119
Domestic Interest	456,849	533,098	622,544	768,485	784,117
Foreign interest due	121,130	154,223	218,188	228,372	211,002
Pensions	122,432	120,425	143,940	190,307	176,753
O & M/ Others	866,050	895,717	1,084,324	1,137,809	1,117,534
o/w Appropriation In Aid	197,524	240,165	286,896	321,416	300,755
<b>2. Development and net lending</b>	<b>540,117</b>	<b>493,663</b>	<b>546,385</b>	<b>602,053</b>	<b>582,937</b>
Development projects (Net)	346,355	402,110	402,105	414,413	392,864
Appropriation in Aid	193,762	79,226	126,844	167,955	170,387
Payment of guaranteed loans	-	12,327	17,436	19,685	19,685
<b>Transfer to county government</b>	<b>352,414</b>	<b>415,774</b>	<b>380,388</b>	<b>453,975</b>	<b>444,570</b>
Parliamentary Service	32,652	41,187	37,257	42,580	41,552
Judicial Service	16,160	19,755	22,459	23,533	22,955
Net Lending	-	12,327	17,436	19,685	19,685
Equalization Fund	-	-	-	2,500	-
Contingency Fund	-	-	1,200	-	-
<b>D. Deficit excl. grants (Commitment basis)</b>	<b>(828,029)</b>	<b>(860,491)</b>	<b>(902,548)</b>	<b>(1,059,512)</b>	<b>(1,052,387)</b>
<b>E. Grants</b>	<b>31,031</b>	<b>23,083</b>	<b>22,037</b>	<b>47,193</b>	<b>33,320</b>
<b>F. Deficit incl. grants (Commitment basis)</b>	<b>(796,998)</b>	<b>(837,408)</b>	<b>(880,511)</b>	<b>(1,012,319)</b>	<b>(1,019,067)</b>
G. Adjustment to cash basis	11,868	37,031	121,528	-	-
<b>H. Deficit incl. grants (Cash basis)</b>	<b>(785,130)</b>	<b>(800,377)</b>	<b>(758,983)</b>	<b>(1,012,319)</b>	<b>(1,019,067)</b>
Discrepancy	(37,304)	(30,070)	(42,876)	-	15,146
<b>I. Financing</b>	<b>747,825</b>	<b>770,307</b>	<b>766,448</b>	<b>1,012,319</b>	<b>1,034,212</b>
Net foreign financing	142,524	310,759	222,717	186,496	179,738
Net domestic financing	605,301	459,548	543,731	825,823	854,474
<b>A. Total revenue</b>	<b>16%</b>	<b>7%</b>	<b>14%</b>	<b>10%</b>	<b>-2%</b>
1. Ordinary revenue	17%	6%	12%	9%	-3%
Income tax	28%	7%	11%	8%	-3%
VAT	9%	5%	17%	2%	0%
Import duty	11%	10%	3%	15%	2%
Excise duty	4%	5%	5%	7%	-2%
Other revenue	24%	5%	23%	37%	-17%
<b>2. Appropriation in Aid</b>	<b>9%</b>	<b>13%</b>	<b>30%</b>	<b>18%</b>	<b>3%</b>
B. Expenditure and net lending	10%	6%	12%	12%	-2%
1. Recurrent	22%	8%	16%	12%	-1%
Wages & salaries	5%	5%	5%	9%	0%
Interest payments	17%	19%	22%	19%	0%
Domestic Interest	17%	17%	17%	23%	2%

Details	2021/22	2022/23	2023/24	2024/25 Target	2024/25 Actual
Foreign interest due	14%	27%	41%	5%	-8%
Pensions	8%	-2%	20%	32%	-7%
O & M/ Others	32%	3%	21%	5%	-2%
o/w Appropriation In Aid	46%	22%	19%	12%	-6%
2. Development and net lending	-2%	-9%	11%	10%	-3%
Development projects (Net)	2%	16%	0%	3%	-5%
Appropriation in Aid	-9%	-59%	60%	32%	1%
Payment of guaranteed loans			41%	13%	0%
Transfer to county government	-12%	18%	-9%	19%	-2%
Parliamentary Service	12%	26%	-10%	14%	-2%
Judicial Service	13%	22%	14%	5%	-2%
D. Deficit excl. grants (Commitment basis)	-3%	4%	5%	17%	-1%
E. Grants	-45%	-26%	-5%	114%	-29%
F. Deficit incl. grants (Commitment basis)	0%	5%	5%	15%	1%
Financing	-11%	3%	-1%	32%	2%
Net foreign financing	-59%	118%	-28%	-16%	-4%
Net domestic financing	22%	-24%	18%	52%	3%

**Data Source: National Treasury**

- 41. In FY 2024/25, the deficit totalled Kshs. 1.034 trillion was financed by both foreign and domestic borrowing.** Foreign financing totalled Kshs. 179.738 billion, and domestic financing totalled Kshs. 854.474 billion as shown in table 4. Foreign financing declined by Kshs. 42.979 billion compared to FY 2023/24 and domestic financing rose by Kshs. 310.743 billion, indicating strategic reductions in foreign financing to manage external debt pressures.
- 42. More recently, foreign financing declined by 19 percent (Kshs. 42.979 billion) in FY 2024/25 compared to FY 2023/24 majorly on account of a reduction in disbursements on programme loans.** This is also a likely indication of tighter external borrowing conditions making external borrowing less attractive. Commercial financing declined by 12 percent reflecting cautious reliance on market priced external debt instruments. Net domestic financing rose by 57 percent (Kshs. 310.188 billion) in FY 2024/25 indicating policy choices to borrow from the domestic market. Government securities increased by 43 percent indicating increased borrowing through treasury bonds and bills, this may also reflect investor appetite in the domestic market.

**Table 4: FY 2024/25 financing in Kshs. billions**

Details	23/24 Actual	24/25 Target	24/25 Actual	Dev.	% growth (actual)	Growth (actual)
<b>Financing</b>	<b>767,002</b>	<b>1,012,319</b>	<b>1,034,213</b>	<b>21,894</b>	<b>35%</b>	<b>267,211</b>
<b>Net foreign Financing</b>	<b>222,717</b>	<b>186,496</b>	<b>179,738</b>	<b>(6,758)</b>	<b>-19%</b>	<b>(42,979)</b>
Disbursements	<b>760,500</b>	<b>548,032</b>	<b>527,042</b>	<b>(20,990)</b>	<b>-31%</b>	<b>(233,458)</b>
Programme Loans	317,837	118,223	113,683	(4,540)	-64%	(204,154)
Project Cash Loans	87,444	93,829	85,810	(8,019)	-2%	(1,634)
Project Loans AiA	68,343	74,492	65,633	(8,859)	-4%	(2,710)
OPEC funds	-	8,418	8,847	429		8,847
Commercial Financing	286,875	253,070	253,070	-	-12%	(33,805)
Debt Repayment Principal	(537,783)	(361,536)	(347,304)	14,232	-35%	190,479
<b>Net Domestic Financing</b>	<b>544,286</b>	<b>825,823</b>	<b>854,474</b>	<b>28,651</b>	<b>57%</b>	<b>310,188</b>
Government securities	596,560	817,301	853,121	35,820	43%	256,561
Government overdraft & others	(28,168)	-	1,862	1,862	-107%	30,030
Movement in Government Deposits	8,715	-	24,789	24,789	184%	16,074
Domestic Loan Repayments (Net Receipts)	1,429	9,632	8,048	(1,584)	463%	6,619
Domestic Loan Repayment	-	(1,110)	(1,110)	-		(1,110)
Other Accounts Payable	(34,250)	-	(32,235)	(32,235)	-6%	2,015

**Data Source: National Treasury**



## **II. MEDIUM-TERM ECONOMIC OUTLOOK**

- 43.** This section presents the outlook for key macroeconomic and fiscal indicators, including projected real GDP growth, revenue and expenditure performance, and the main underlying drivers. It examines two scenarios: a baseline scenario based on current policy settings and prevailing market conditions with no significant changes assumed; and an alternative scenario that incorporates deliberate fiscal policy interventions aimed at stimulating economic growth and macroeconomic stability.

### **a) Macroeconomic Outlook**

#### **2.2.1 Baseline Scenario Projections**

- 44.** The baseline projections indicate a broadly stable macroeconomic outlook over the medium term, with real GDP growth expected to hover around 5 percent between 2025 and 2027. This steady expansion suggests continued economic resilience supported by gradual improvements in investments and sustained activity in the services sector. While growth slightly moderates toward 2027, the overall trajectory reflects a balanced expansion rather than rapid acceleration, pointing to moderate but consistent economic momentum under current policy and market conditions.
- 45.** Sectoral forecasts indicate that the services sector remains the primary engine of growth, largely supported by the continued resilience of tourism, expansion in hotel and accommodation services, improved transport and logistics activity, and sustained innovation within the financial sector. Ongoing investments in transport infrastructure and digital superhighway are projected to enhance efficiency, deepen market access, and support business activity across the economy.
- 46.** Industrial activity is projected to firm up over the medium term, supported by lower production costs due to easing inflation, a more stable monetary policy stance, and an exchange rate that lowers input prices. Construction is expected to rebound as clearance of verified pending bills in the roads sector restarts stalled projects and improves contractor liquidity. The continued rollout of the Affordable Housing Programme will further sustain project pipelines, boost demand for local construction materials, and support job creation.
- 47.** The primary sector (agriculture and allied activities) is likely to remain subdued in the medium term as climate change-related shocks continue to depress

productivity and output. According to the Kenya Drought – DREF Final Report<sup>9</sup> below-normal and poorly distributed rainfall during successive rainy seasons has intensified drought conditions across many parts of the country, particularly in arid and semi-arid lands, undermining crop and livestock production and heightening food security risks.

**Table 5: GDP Projections for Baseline Forecasts**

Details	2024	2025	2026	2027
	Actual	Proj.		
<b>Real GDP growth (%)</b>	4.7	4.9	5.0	4.9
<b>CPI index (Average)</b>	4.5	4.2	5.0	6.0
<b>Broad Money M3</b>	33.8	35.0	36.1	36.9
<b>Investment % of GDP</b>	16.8	17.5	18.5	19.0
<b><i>O/W Central Government</i></b>	4.1	4.2	4.6	4.8
<b><i>other</i></b>	12.7	13.3	13.9	14.2
<b>Savings % of GDP</b>	15.5	16.1	16.9	17.1
<b>Current account % of GDP</b>	-1.3	-1.4	-1.6	-1.9
<b>Agriculture and mining (% growth)</b>	3.9	5.0	3.5	3.0
<b>Industry (% growth)</b>	1.5	3.4	4.8	2.7
<b>Services (% growth)</b>	6.1	5.4	6.1	6.1

**Source: PBO**

### 2.2.2 Alternative Scenario Projections

48. The alternative scenario is underpinned by key changes in government policy, most notably the increase of VAT from 16 percent to 18 percent, expected to generate approximately Kshs. 87 billion in additional revenue. These resources are earmarked entirely for development expenditure, with a primary focus on the settlement of verified pending bills. By clearing arrears, the government will aim to restore liquidity in the economy, reduce bottlenecks in ongoing development projects, and enhance the efficiency of public investment. The policy changes underpinning the alternative scenario are discussed in detail in Chapter Three of this publication.
49. The injection of additional resources is anticipated to have significant multiplier effects across the economy. Increased liquidity is likely to crowd in private investment, stimulate credit flows to the private sector, and boost demand in related industries such as construction, manufacturing, and services. Collectively, these dynamics are expected to strengthen economic activity, support employment creation, and contribute to higher GDP growth under the alternative forecast.

<sup>9</sup> Kenya Drought - DREF Final Report (MDRKE065) - Kenya | ReliefWeb

50. Consequently, the alternative scenario presents a more optimistic outlook compared to the baseline, with real GDP growth reaching 5.5 percent in 2026, slightly higher than the 5.0 percent projected under the baseline scenario. This stronger growth reflects the combined impact of enhanced government development spending, the settlement of pending bills, and an additional 1.5 percent growth in real private investments stimulated by improved liquidity and credit availability.
51. The attainment of the alternative scenario will, however, require enhanced fiscal discipline, including the timely disbursement of resources to implementing agencies to ensure development projects progress as planned. In addition, measures must be taken to curb further accumulation of pending bills, as unchecked arrears could undermine liquidity, stall ongoing projects, and weaken the expected multiplier effects on private sector activity and overall GDP growth.

**Table 6: GDP Projections for Alternative Forecasts**

Details	2024	2025	2026	2027
	Actual	Proj.		
Real GDP growth (%)	4.7	4.9	5.5	5.4
CPI index (Average)	4.5	4.2	5.3	6.4
Broad Money M3	33.8	35.0	36.0	36.6
Investment % of GDP	16.8	17.5	18.9	19.9
<i>O/W Central Government</i>	4.1	4.2	4.9	5.3
<i>other</i>	12.7	13.3	14.0	14.6
Savings % of GDP	15.5	16.1	17.3	17.8
Current account % of GDP	-1.3	-1.4	-1.7	-2.1
Agriculture and mining (%)	3.9	5.0	4.2	3.7
Industry (%)	1.5	3.4	5.0	4.5
Services (%)	6.1	5.4	6.2	6.0

Source: PBO (\* actuals)

## **b) Fiscal Outlook**

52. The fiscal outlook over the medium-term points to modest revenue growth, with total revenue and grants projected to reach Kshs. 3,542.8 billion (17.1 percent of GDP) under the no-policy-change scenario. This estimate is, however, about Kshs. 89 billion lower than the National Treasury projection of Kshs. 3,632.1 billion (17.3 percent of GDP) contained in the Budget Review and Outlook Paper (BROP). The divergence largely reflects differences in underlying macroeconomic assumptions, particularly expected GDP growth, as well as varying projections of the revenue outturn for FY 2025/26, which serves as the base year for forecasting revenues in FY 2026/27.

- 53.** Recent revenue performance further reinforces the cautious outlook. As of December 2025, ordinary revenue collections were approximately Kshs. 55 billion below target, signalling persistent shortfalls that could undermine the attainment of the full-year FY 2025/26 revenue target. Should this trend persist through the remainder of the fiscal year, the lower outturn would inevitably weaken the revenue base used for forward projections, thereby placing downward pressure on the FY 2026/27 estimates and increasing the risk of wider fiscal deficit.
- 54.** The alternative scenario presents a more optimistic outlook in terms of both economic growth and revenue collection, projecting stronger GDP expansion and improved domestic revenue performance driven by supportive policy measures and higher development spending. As a result, total revenue and grants is estimated at Kshs. 3,653.6 (17.5 percent of GDP), exceeding both the baseline projections and the National Treasury's BROP projections, as a result of a higher VAT rate and a stronger anticipated economic momentum.
- 55.** On the expenditure side, all scenarios maintain elevated spending levels, albeit with notable differences in composition. Total expenditure and net lending are highest under the alternative scenario at Kshs. 4,813.3 billion (23.1 percent of GDP), followed by the Baseline at Kshs. 4,711.6 billion (22.8 percent of GDP), with both projections exceeding the BROP estimate of Kshs. 4,649.9 billion (22.2 percent of GDP). The higher spending ceilings primarily reflect persistent expenditure pressures associated with sustaining the competency-based education programme, advancing universal health coverage reforms, responding to ongoing drought conditions, and completing critical infrastructure projects that are ongoing or in the pipeline.
- 56.** In the alternative scenario, additional recurrent expenditures are earmarked for social protection expenditures, including cash transfers to OVCs and the elderly, and other interventions aimed at limiting the possible worsening of inequality that may arise from raising the VAT rate.
- 57.** There are no significant differences in development expenditure allocations between the Baseline and the BROP projections, indicating broadly similar assumptions on the scale of planned capital spending. In contrast, the alternative scenario is anchored on a more expansionary development agenda, with an allocation of Kshs. 851.5 billion compared to Kshs. 759.2 billion under the baseline. This higher provision reflects deliberate prioritisation of growth-enhancing development programmes, including infrastructure projects and settlement of pending bills, aimed at stimulating economic activity and employment.

58. Both the baseline and alternative scenarios project a fiscal deficit of 5.6 percent of GDP, compared to 4.9 percent in the BROP, indicating a relatively more expansionary fiscal stance. This outlook is informed by persistent expenditure pressures that keep total spending elevated, coupled with continued revenue shortfalls, thereby widening the fiscal deficit.

**Table 7: Fiscal Framework for Baseline Forecasts**

Details	2024/25	2025/26	2026/27 Projection		
	Actual	Approved Budget	BROP	PBO Baseline	PBO Alternative
	Kshs. Billions				
<b>Total Revenue &amp; Grants</b>	<b>2,956.9</b>	<b>3,368.6</b>	<b>3,632.1</b>	<b>3,542.8</b>	<b>3,653.6</b>
<b>Total Revenue</b>	<b>2,923.6</b>	<b>3,321.7</b>	<b>3,583.3</b>	<b>3,508.3</b>	<b>3,618.9</b>
<b>Ordinary Revenue</b>	2,420.2	2,754.7	2,998.2	2,887.4	2,993.3
Income Tax	1,093.0	1,284.8	1,288.4	1,325.9	1,335.3
VAT	660.7	771.7	781.8	804.7	897.5
Import Duty	157.1	162.9	177.2	177.4	178.2
Excise Duty	292.5	335.5	358.8	335.0	336.7
Other Revenues	216.8	199.9	392.0	244.5	245.6
A-i-A	503.4	566.9	585.1	620.9	625.6
<b>Grants</b>	<b>33.3</b>	<b>46.9</b>	<b>48.8</b>	<b>34.6</b>	<b>34.6</b>
<b>Expenditure &amp; Net Lending</b>	<b>3,975.9</b>	<b>4,301.9</b>	<b>4,649.9</b>	<b>4,711.6</b>	<b>4,813.3</b>
<b>Recurrent</b>	2,948.4	3,134.1	3,437.2	3,500.8	3,510.2
Wages and Salaries	624.7	657.3	714.1	714.9	714.9
Pensions & Other CFS	176.8	205.2	211.2	211.2	211.2
Interest Payments	995.1	1,097.7	1,193.5	1,193.5	1,193.5
O&M	1,053.0	1,055.8	1,278.8*	1,259.6	1,268.5
Contribution to civil servants' pension fund	34.3	34.4	39.6	39.6	39.6
<b>Development &amp; Net Lending</b>	<b>582.9</b>	<b>681.0</b>	<b>761.1</b>	<b>759.2</b>	<b>851.5</b>
<b>Contingency Fund</b>		2.0	5.0	5.0	5.0
<b>Transfers to County Governments</b>	444.6	484.8	446.6	446.6	446.6
Parliamentary service	41.6	48.0		53.2	53.6
Judicial Service	23.0	27.8		28.7	28.9
Equalization Fund		9.6	15.2	15.2	15.2
<b>Deficit incl. Grants</b>	<b>(1,019.1)</b>	<b>(933.3)</b>	<b>(1,017.8)</b>	<b>(1,168.8)</b>	<b>(1,159.7)</b>
	<b>Percentage of GDP</b>				
<b>Total Revenue and Grants</b>	<b>17.0</b>	<b>17.5</b>	<b>17.3</b>	<b>17.1</b>	<b>17.5</b>
<b>Total Revenue</b>	<b>16.8</b>	<b>17.2</b>	<b>17.1</b>	<b>16.9</b>	<b>17.4</b>
<b>Ordinary Revenue</b>	13.9	14.3	14.3	13.9	14.4
A-i-A	2.9	2.9	2.8	3.0	3.0
<b>Grants</b>	0.2	0.2	0.2	0.2	0.2
<b>Expenditure &amp; Net Lending</b>	<b>22.8</b>	<b>22.3</b>	<b>22.2</b>	<b>22.8</b>	<b>23.1</b>
<b>Recurrent</b>	16.9	16.3	16.4	16.9	16.8
<b>Development &amp; Net Lending</b>	3.3	3.5	3.6	3.7	4.1
<b>Deficit Incl. Grants</b>	<b>(5.8)</b>	<b>(4.8)</b>	<b>(4.9)</b>	<b>(5.6)</b>	<b>(5.6)</b>
<b>Primary Balance</b>	<b>(0.1)</b>	<b>0.8</b>	<b>0.8</b>	<b>0.1</b>	<b>0.2</b>
<b>Nominal GDP</b>	<b>17,434.5</b>	<b>19,273</b>	<b>20,953.6</b>	<b>20,700.0</b>	<b>20,846.1</b>

Source: PBO (\* includes allocations for Parliament and Judiciary)

### c) Overall Budget for FY 2025/26

- 59.** Based on the projected macroeconomic outlook, the total FY 2026/27 budget under the baseline scenario is proposed at Kshs. 4.7116 trillion, comprising Kshs. 1.444 trillion for Consolidated Fund Services, Kshs. 2.057 trillion for ministerial recurrent expenditures, Kshs. 790.8 billion for ministerial development expenditures, and Kshs. 420 billion as the equitable share to the county governments.
- 60.** Under the alternative scenario, the total budget is proposed at Kshs. 4.813 trillion, with Kshs. 883.1 billion allocated to ministerial development expenditures and Kshs. 2.065 trillion to recurrent expenditures, while Consolidated Fund Services and county allocations are maintained at baseline levels. This implies that any additional revenue above the baseline is primarily channelled toward development spending.

**Table 8: Budget Summary**

Details	2024/25	2025/26	2026/27 Proj.		
	Actual	Approved Budget	BROP	PBO Baseline	PBO Alternative
	Kshs. Billions				
<b>Recurrent</b>	1,891.0	1,804.7	1,992.9	2,056.5	2,065.9
<b>Development</b>	713.2	744.8	792.7	790.8	883.1
<b>Ministerial National Government</b>	<b>2,604.2</b>	<b>2,549.5</b>	<b>2,785.6</b>	<b>2,847.3</b>	<b>2,949.0</b>
<b>Pensions &amp; Other CFS</b>	205.2	205.2	211.2	211.2	211.2
<b>Interest</b>	1,097.7	1,097.7	1,193.5	1,193.5	1,193.5
<b>Contribution to the civil service pension fund</b>	34.4	34.4	39.6	39.6	39.6
<b>Net lending</b>	-	-	-	-	-
<b>CFS</b>	<b>1,337.3</b>	<b>1,337.3</b>	<b>1,444.3</b>	<b>1,444.3</b>	<b>1,444.3</b>
<b>County Equitable Share</b>	<b>415.0</b>	<b>415.0</b>	<b>420.0</b>	<b>420.0</b>	<b>420.0</b>
<b>Total</b>	<b>4,356.6</b>	<b>4,301.9</b>	<b>4,649.9</b>	<b>4,711.6</b>	<b>4,813.3</b>

Source: PBO

### III. SUPPORTING JOB CREATION AND PRODUCTIVITY GROWTH

#### a) Reducing Tax Expenditure to Strengthen Fiscal Sustainability

61. Tax expenditures is a form of government spending carried out through measures in the tax legislation, regulations and other similar instruments aimed at supporting specific business categories or taxpayer groups, rather than directly through budgeted government expenditures<sup>10</sup>. Tax expenditures under the different tax heads (*Personal Income Tax, Corporate Income Tax, VAT and Excise Duty*) provide relief, exemptions, allowances and credits to both households and industries.
62. Tax expenditure highlights from the National Treasury indicate that total tax expenditure in 2023 stood at Kshs. 510.56 billion (3.38 percent of GDP) having increased from Kshs. 238.58 billion (2.23 percent of GDP) in 2020<sup>11</sup>.

**Table 9: Summary of Tax Expenditure Per Tax Category**

Tax Head	2020	2021*	2022*	2023*	2020	2021*	2022*	2023*
	Kshs Million				Expenditure to GDP Ratio			
<b>Income Tax</b>	27,836.27	27,159.11	53,478.99	95,130.66	0.26	0.3	0.40	0.63
<b>VAT</b>	197,392.00	247,871.60	301,460.83	332,966.85	1.84	2.06	2.23	2.20
<b>Excise Duty</b>	7,123.56	7,728.78	9,873.31	12,284.56	0.07	0.06	0.07	0.08
<b>Import Duty</b>	4,705.32	4,825.30	13,589.36	63,049.35	0.04	0.04	0.10	0.42
<b>Fees and Levies</b>	2,024.09	5,553.51	14,732.45	7,132.15	0.02	0.05	0.11	0.05
<b>Total Tax Expenditure</b>	<b>238,579.25</b>	<b>292,922.49</b>	<b>393,134.94</b>	<b>510,563.57</b>	<b>2.23</b>	<b>2.44</b>	<b>2.91</b>	<b>3.38</b>

63. The report also found that VAT (Kshs. 332.97 million) account for the largest share of revenue foregone given the expanding range of benefits accrued in the VAT system. Although the report analyzes tax expenditures from 2023 financial year, it provides a good basis of reassessing the efficiency and fiscal sustainability of existing tax incentives as part of the Government's medium-term strategy on reducing its reliance on borrowing.
64. A legislative review should be prioritized for the removal of exemptions on goods that are not essential for basic consumption, vulnerable households or which do not primarily support commercial activities. This approach would broaden the tax base and align the country's fiscal policy with the evolving priorities.

<sup>10</sup> Organization for Economic Co-operation and Development (OECD)

<sup>11</sup> <https://newsite.treasury.go.ke/sites/default/files/Reports/Reports/TAX-EXPENDITURE-REPORT-TER-2024.pdf>

## **b) Addressing Government Pending Accruals**

### **3.2.1 Introduction**

- 65.** Kenya faces persistent fiscal challenges, exacerbated by large stocks of government pending accruals. Government pending accruals are unsettled financial obligations for goods and services procured but not paid after their contractual due date. It also includes other unpaid obligations such as pension arrears, unpaid statutory payroll deductions, unpaid court awards and pending tax refunds.
- 66.** Accumulation of government pending accruals has been a major concern since the 1990s. Over the years, the Government had set up several committees and verification teams to advise the Government on how to resolve the problem. In the period between 1998 and 2003, eight (8) different teams were set up to examine and validate government pending accruals and make recommendations for resolving them and stop their recurrence and escalation. However, despite the work carried out by these teams, there was still no clarity of the actual size and composition of these pending accruals, and no comprehensive plan was presented for resolving the existing stock and containing their recurrence and escalation.
- 67.** Government pending accruals create a severe economic drag by choking business cash flow, especially for SMEs, leading to reduced operations, layoffs, and bankruptcies. It also strains the banking sector with Non-Performing Loans (NPLs) and increasing costs for borrowing due to higher risk premiums. Further, it reduces government capacity for provision of essential services. The above concerns ultimately slow overall economic growth and increase poverty.
- 68.** The impact of delays in payment of government pending accruals on GDP has been assessed by two research papers. Checherita-Westphal et al. (2016)<sup>12</sup> assessed the economic impact of government pending accruals using data from 17 European countries and found out that payment delays reduce economic growth, increase the likelihood of bankruptcies and reduce profits. For instance, a one standard deviation change in delayed payments reduces the annual growth rate by 0.8 to 1.5 percentage points and reduces profit growth by 1.5 to 3.4 percentage points. Pane et al. (2020)<sup>13</sup> assessed the economic impact of government pending accruals on Paraguay and found out that the cost of delays was equivalent to 0.48 percent of GDP. Further, the World Bank noted that the settlement of road arrears in the first half of 2025 was one of the main contributors to the faster-than-expected

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<sup>12</sup> <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1771.en.pdf>

<sup>13</sup> <https://scispace.com/pdf/the-cost-of-late-payments-in-public-procurement-3zkpjuy1ex.pdf>



recovery of the construction sector, leading to an upward revision of their 2025 GDP projections from 4.5 percent to 4.9 percent. Therefore, addressing government pending accruals will be a significant catalyst for enhancement of Kenya's economic growth over the medium term.

- 69.** In 2024, the government developed a strategy to comprehensively address the persistent problem of pending accruals.<sup>14</sup> The strategy encompasses the verification of the current stock of pending accruals, identifying the underlying causes, attendant corrective reforms and the plan to clear the stock of arrears. This is expected to help the Government to bring the issue of pending accruals to finality in a structured manner and by taking appropriate measures to avoid accumulation in the future.
- 70.** From the strategy, the government expects to implement the following measures to prevent accumulation and ensure clearance of all pending accruals within 5 years:
- a) Strict enforcement of relevant laws and regulations on public finance management which direct that pending accruals carried over from the prior year form the first charge against the budget allocation. Further, commitments for supply of goods or services shall be done not later than 31st May each year except with the express approval of the Accounting Officer in writing.
  - b) Migration from cash to accrual accounting is expected to enhance the management of pending accruals as it will require these accruals at each reporting period to be recognized in the balance sheet. This will facilitate subsequent tracking of payments against the accruals by the Accounting Officers and facilitate decisions on long outstanding pending accruals. It will also make it possible to apply the law on first charge of the budget to pending accruals. In addition, information on pending accruals will also be easily available at any given point in time.
  - c) Optimal allocation of resources for settlement of tax refunds and allowing taxpayers to offset refund claims against outstanding tax debt or future tax liabilities where Commissioner has not paid approved refunds within 6 months.

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<sup>14</sup> <https://newsite.treasury.go.ke/sites/default/files/Strategies/Strategy-on-Verification-and-Clearance-of-Pending-Bills-May-2024.pdf>

- d) Identify opportunities for State Owned Enterprises (SOE) and county government to mobilize own source revenue, assist them to identify ways of using their available assets to clear pending accruals, and introducing expenditure rationalization measures to create space to fund clearance of pending accruals.

### **3.2.2 Analysis of National Government Pending Accruals**

- 71.** According to the Controller of Budget (CoB) Budget Implementation Review Report for the 1<sup>st</sup> Quarter of FY 2025/26, the total national government pending accruals accrued to Ministries, Departments and Agencies (MDAs) as of 30<sup>th</sup> September 2025 amounted to Kshs. 475.7 billion. Out of the total 88 MDAs, 22 do not have pending accruals while 66 have some level of outstanding accruals. For the MDAs with pending accruals, the main contribution was from Semi-Autonomous Government Agencies (SAGAs) which accounted for 75 percent (Kshs. 356.8 billion) of total government pending accruals while Headquarters of MDAs accounted for 25 percent (Kshs. 118.9 billion). MDAs with the largest pending accruals include the State Department for Roads of Kshs. 130.4 billion, State Department for Higher Education and Research of Kshs. 73.3 billion, State Department for Energy of Kshs. 57 billion and State Department for Medical Services of Kshs. 23.7 billion (See Annex 1).
- 72.** The total government pending accruals are equivalent to 18.7 percent of the approved budget for FY 2025/26, indicating that most of the pending accruals are unlikely to be settled within this financial year without impacting service delivery. Out of the total 66 MDAs, the pending accruals for 38 MDAs are equivalent to less than 10 percent of the approved budget for FY 2025/26 indicating that the pending accruals can be adequately settled within the allocations for the current financial year without an adverse impact on service delivery.
- 73.** Arrears of 17 MDAs are equivalent to between 10 – 40 percent of the approved budget for FY 2025/26 indicating that if the current level of budgetary allocation is maintained over the next 5 years, these MDAs will be able to adequately settle their pending accruals within their annual budgetary allocations. This means there are 10 MDAs whose pending accruals are more than 50 percent of the approved budget for FY 2025/26 thus the accruals are unlikely to be settled from within the annual budgetary allocations over the next 5 years (table 1). Therefore, the government will be required to support the MDAs efforts to settle the pending accruals by providing additional budgetary allocation.

**Table 10: National Government Arrears as of 30<sup>th</sup> September 2025**

S/ No.	MDA	Government Pending Accruals (Ksh. mlns)	FY 2025/26 Budget (Ksh. mlns)	% of Arrears to Budget	Main Source of Arrears
1.	1011 Executive Office of the President	13,602.5	5,569.3	244.2	NMS
2.	1123 State Department for Broadcasting & Telecommunications	15,092.1	6,553.2	230.3	KBC, PCK
3.	1152 State Department for Energy	56,950.0	63,473.8	89.7	KETRACO, REREC, KPLC
4.	1213 State Department for Public Service	15,816.2	21,608.8	73.2	NYS
5.	1091 State Department for Roads	130,396.4	221,794.5	58.8	KENHA, KeRRA, KURA
6.	2031 Independent Electoral and Boundaries Commission	5,406.3	9,332.3	57.9	Headquarters
7.	1036 State Department for the ASALs and Regional Development	5,785.9	10,878.8	53.2	Headquarters
8.	2021 National Land Commission	1,749.6	3,359.3	52.1	Headquarters
9.	1012 Office of the Deputy President	1,592.5	3,072.1	51.8	Headquarters
10.	1065 State Department for Higher Education and Research	73,292.6	143,735.0	51.0	Universities (various)

Source: CoB

### 3.2.3 Analysis of County Government Pending Accruals

- 74.** According to the Controller of Budget (CoB) Budget Implementation Review Report for the 1<sup>st</sup> Quarter of FY 2025/26, the total county government pending accruals as of 30<sup>th</sup> September 2025 amounted to Kshs. 177.5 billion of which Kshs. 125.7 billion is for recurrent expenditure and Kshs. 51.8 billion is for development expenditure. Out of this, County Executive accounted for 97 percent (Kshs. 171.9 billion) while County Assemblies accounted for 3 percent (Kshs. 5.5 billion). Counties with the largest pending accruals include Nairobi County of Kshs.82.9 billion, Kilifi County of Kshs. 9.7 billion, Kiambu County of Kshs. 6.5 billion, Machakos County of Kshs. 5.8 billion and Narok County of 5.4 billion (See Annex 2).
- 75.** The total county government pending accruals are equivalent to 29.4 percent of the approved budget for FY 2025/26 indicating that most of the pending accruals are unlikely to be settled within this financial year without impacting on service delivery. Of the 46 counties, the pending accruals for 16 MDAs are equivalent to less than 10 percent of the approved budget for FY 2025/26. This indicates that the pending accruals can be adequately settled within the allocations for the current financial year without an adverse impact on service delivery. Moreover, the

pending accruals of 30 MDAs are equivalent to between 10 – 50 percent of the approved budget for FY 2025/26 indicating that if the current level of budgetary allocation is maintained over the next 5 years, these MDAs will be able to adequately settle their pending accruals within their annual budgetary allocations. Only one county, Nairobi County Government, has significant pending accruals amounting to 185.8 percent of the approved budget for FY 2025/26 making it a challenge to settle the accruals from within the annual budgetary allocations over the next 5 years. Therefore, the government will be required to support the Nairobi County's efforts to settle the pending accruals by providing additional budgetary allocation.

### **3.2.4 Policy Options for Government Pending Accruals**

- 76.** Clearance of all current government pending accruals and prevention of accumulation of future accruals is expected to have a significant impact on the economy by improving business cash flow, especially for SMEs, reducing Non-Performing Loans (NPLs) and costs of borrowing in the banking sector, increase government revenues and overall GDP. The PBO estimates that addressing the current government pending accruals within 5 years is expected to increase annual GDP by 0.5 percent over the period. To achieve this, the government should adopt the following policy options:

#### ***Mandatory 10 percent Annual Budgetary Provision by MDAs and County Governments with Outstanding Government Pending Accruals***

- 77.** Most National Government MDAs and County Government have pending accruals equivalent to between 0 – 50 percent of their FY 2025/26 budgetary allocation thus they can adequately settle their accruals within their annual budgetary allocations over the next 5 financial years (FY 2026/27 – 2030/31) provided they ringfence up to a maximum of 10 percent of their annual allocations. This would make pending accruals clearance a formal part of budget formulation, rather than an afterthought.
- 78.** This proposal presents a definitive, ministry-centric framework for the FY 2026/27 budget, designed to address pending bills through structured, accountable financing systematically. Rather than perpetuating ad hoc bailouts, the framework embeds liability management directly into the core budget process, transforming it into a disciplined exercise in balance sheet repair. It recognizes that for IPSAS accrual compliance to be meaningful, the budget must evolve from a cash plan into a strategic tool for settling crystallized obligations, thereby restoring fiscal integrity and operational credibility across government.

79. The core mechanism of this proposal is the mandatory Accruals Liquidation Plan (ALP), a binding document that each ministry must submit as part of its budget proposals. The ALP serves as both a diagnostic and a prescriptive roadmap, detailing the ministry's verified stock of arrears and outlining a precise, quarterly schedule for their settlement. This shifts the paradigm from reactive clearance to proactive, planned liquidation, imposing a rigorous discipline that links budget execution directly to the cleaning of each ministry's financial statement and holds accounting officers to a clear, measurable performance standard.
80. It essentially mainstreams pending accruals clearance into the budget process, treating it with the same importance as other expenditures. The benefit of this approach is its predictability and accountability. However, the downside is that it reduces flexibility in already tight budgets since MDAs would have slightly less to spend on new programs in the medium-term. But the trade-off is necessary to break the cycle of accumulating government pending accruals.
81. To implement this policy option, the National Treasury and County Treasuries should ensure each MDA with outstanding government pending accruals must ringfence up to 10 percent of their annual budgets over the medium term. The National Assembly and County Assemblies should ensure that when approving the budgets for each financial year, each MDA with outstanding government pending accruals should provide a budget allocation of up to 10 percent for settlement of their respective pending accruals. Further, the Controller of Budget should be tasked not to release funds for any MDA or County Government that has outstanding government pending accruals but has not provided for the 10 percent annual provision in their budgets.
82. Ultimately, this proposal is about more than clearing old debts; it is about installing a permanent system of accountability. By making accruals settlement a core, measurable budget objective, it ensures that the discipline of IPSAS accrual accounting is fully realized in fiscal practice, transforming how ministries plan, spend, and are held accountable for their financial commitments. Adopting this ministry-specific accruals budgeting model for FY 2026/27 would mark a decisive step toward a clean government balance sheet. It would unlock stalled projects, restore supplier confidence, and free up future fiscal space currently shadowed by legacy liabilities, thereby laying a foundation for sustainable and credible public financial management for years to come.

***Additional Budget Allocations for MDAs with significant Government Pending Accruals***

- 83.** From the analysis, 10 MDAs have pending accruals equivalent to more than 50 percent of their FY 2025/26 approved budget. Even if they ringfence 10 percent of their annual budget for settlement of pending accruals over the next 5 financial years, they will still have outstanding accruals totalling to Kshs. 75 billion in FY 2030/31. In addition, Nairobi County has pending accruals amounting to Kshs. 82.9 billion which is equivalent to 185.8 percent of its FY 2025/26 approved budget. Even if it ringfences 10 percent of its annual budget for settlement of pending accruals over the next 5 financial years, it will still have outstanding accruals amounting to about Kshs. 60.6 billion in FY 2030/31. The benefit of this approach is that it will shorten the period for settlement of arrears for the MDAs and the Nairobi County. However, the downside is that it puts a strain on the resources of the National Government. However, this is the most feasible solution to address the arrears of the 10 MDAs and Nairobi County.
- 84.** Therefore, the National Government should consider providing a budgetary allocation amounting to Kshs. 75 billion in FY 2026/27 to the 10 MDAs as shown in table 3, and a conditional allocation amounting to Kshs. 12 billion annually between FY 2026/27 – 2030/31 to the Nairobi County to supplement their efforts in settlement of the pending accruals.

**Table 11: Annual additional budgetary support for MDAs with Significant Government Pending Accruals**

S/ No.	MDA	Government Pending Accruals (Ksh. mlns)	Total Contribution by MDA in 5 years (Kshs. mlns)	Total Additional Budgetary Allocation (Kshs. mlns)
1.	1011 Executive Office of the President	13,602.5	2,784.7	10,817.9
2.	1123 State Department for Broadcasting & Telecommunications	15,092.1	3,276.6	11,815.5
3.	1152 State Department for Energy	56,950.0	31,736.9	25,213.1
4.	1213 State Department for Public Service	15,816.2	10,804.4	5,011.8
5.	1091 State Department for Roads	130,396.4	110,897.3	19,499.1
6.	2031 Independent Electoral and Boundaries Commission	5,406.3	4,666.2	740.1
7.	1036 State Department for the ASALs and Regional Development	5,785.9	5,439.4	346.4
8.	2021 National Land Commission	1,749.6	1,679.7	69.9
9.	1012 Office of the Deputy President	1,592.5	1,536.1	56.4
10.	1065 State Department for Higher Education and Research	73,292.6	71,867.5	1,425.1
	<b>Total</b>	<b>319,684.1</b>	<b>244,688.7</b>	<b>74,995.4</b>

**Data Source: PBO**

## **c) Restructuring of Funding to Counties**

### **3.3.1 Introduction**

- 85.** The County Governments receive funding from the National Government through 3 main sources: equitable share, which is the portion of national revenue shared equitably among the county governments, conditional and unconditional allocations from the national government's share of revenue, and proceeds of Grants and Loans from development partners for functions that are implemented by county governments.
- 86.** To determine the equitable share, the national government sharable revenue is first vertically divided between the national and county governments through the annual Division of Revenue Act based on the criteria provided in Article 203 of the Constitution. Thereafter, the county government share is horizontally divided among the 47 county governments through the County Allocation of Revenue Act in accordance with the basis of revenue sharing provided in Article 217 of the Constitution. Since the onset of devolution, both the vertical and horizontal sharing of revenue has been in line with the provision of the Constitution. In particular, the county governments received allocations of more than 20 percent of all revenues collected by the national government as audited and approved by the National Assembly, which is above the 15 percent minimum threshold. Also, the horizontal sharing of revenue has consistently followed a needs-based approach with all four bases of sharing revenue.
- 87.** The conditional and unconditional allocations from the national government share of revenue are used to support strategic county-level programs aimed at enhancing service delivery and accelerating socio-economic development across the country.
- 88.** Proceeds of Grants and Loans from development partners for functions that are implemented by county governments are appropriated to the respective State Departments of the National Government then transferred to County Governments through the annual County Government Additional Allocation Act. Since the onset of devolution, the funds have been earmarked to finance various strategic programmes under health, agriculture, urban development, water and sanitation, social protection and environment sectors.
- 89.** Between FY 2012/13 to FY 2025/26, county government have been allocated revenues by the national government amounting to Kshs. 4.67 trillion. This comprises of Kshs. 4.14 trillion (89 percent) through equitable share, Kshs. 203.5 billion (4 percent) through conditional and unconditional allocations from the



national government share of revenue and Kshs. 324.7 billion (7 percent) through Grants and Loans from development partners. Despite this level of financing to county governments and the needs-oriented revenue-sharing formulas for horizontal allocation, poverty, inequality, unemployment, and underdevelopment persist across many regions.

- 90.** According to the Kenya Poverty Report 2022<sup>15</sup> by the Kenya National Bureau of Statistics (KNBS), poverty is still deeply entrenched in the country with overall poverty headcount rate at 39.8 percent in 2022 compared to 33.6 percent in 2019. This indicates that approximately 20 million Kenyans are unable to meet their basic needs. The Arid and Semi-Arid Lands (ASAL) counties still have the highest levels of poverty rates despite the 4<sup>th</sup> basis of horizontal revenue sharing putting significant emphasis on poverty. This means that the economic expectations from the equitable sharing of revenue for counties have not matched the final outcomes.
- 91.** The lower-than-expected contribution of county governments to the socio-economic development of the country may be attributed to the weak expenditure quality. Over the past 5 financial years, county government have spent a total of Kshs. 429 billion with Kshs. 215 billion (50 percent) being spent on personnel emoluments, Kshs. 105 trillion (25 Percent) being spent on operation and maintenance and Kshs. 109 trillion (25 percent) being spent on development expenditure. The high share of personnel emolument and low share of development expenditure indicates that most counties have not adhered to the Public Finance Management (PFM) Act, 2012 requirements of allocating a maximum of 35 percent and a minimum of 30 percent of the total budget to personnel emoluments and development expenditures respectively. Therefore, a larger proportion of county government's expenditure is being utilized on consumption-oriented services rather than productive capital investments.
- 92.** While significant investments are identified for critical services like healthcare and education that are essential in improving the wellbeing of Kenyans, they do not automatically translate into economic growth and poverty reduction without complementary investments in productive sectors like agriculture, manufacturing and infrastructure to support market access logistics. As a result, devolution has improved service access but not sufficiently transformed local economies.
- 93.** A review of the Kenya Agricultural Sector Extension Policy, 2023, shows that the provision of agricultural extension services has been severely affected by reduced

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<sup>15</sup> <https://www.knbs.or.ke/wp-content/uploads/2024/10/The-Kenya-Poverty-Report-2022.pdf>



financing and insufficient manpower. Fertilizer programs aimed at supporting farming activities do not reach small-scale farmers, faulting the role of counties in the agriculture function. A report by FAO titled “Report on Post-Harvest Losses in Kenya, 2023”, indicates that Kenya suffers post-harvest losses of up to 25 percent in every season across all major staple food items. This implies that the counties have continued to rely on the National Cereals and Produce Board (NCPB), which is often inadequate or inaccessible. In FY 2025/26, counties allocated a total of Kshs. 31.6 billion to the agriculture, livestock and fisheries sector for both recurrent and development expenditure (see Annex 3). This is equivalent to 5.2 percent of their total budget, which is below the recommended 10 percent in line with the Comprehensive Africa Agriculture Development Program (CAADP).

- 94.** Data from the Kenya National Bureau of Statistics (KNBS) indicate that Earth/Gravel /Unpaved roads form the biggest component of county roads. As of June 2024, county governments recorded a total of 117,887 kilometres of Unpaved Roads and 3,607 kilometres of paved Roads. Most of the unpaved roads consist of class D, E, F, and G. These road classifications are the major roads connecting the county headquarters with residential areas, towns and market centres, farms, and industrial areas. This small proportion (3%) of tarmac roads compared to the overall road network in the counties is a demonstration of infrastructure underperformance across county governments. Despite the importance of road infrastructure as an enabler for all other sectors, the county governments have been adversely underfunding the sector, with the allocation for FY 2025/26 amounting to Kshs. 43 billion which is equivalent to 7.1 percent of total budget with individual counties allocating between 1.6 – 14.8 percent of their budgets to the sector.
- 95.** County governments in Kenya face critical shortfalls in water and irrigation investment, driven by inadequate funding, poor maintenance of infrastructure, and low budgetary execution, which falls short of the massive capital needed for sector development. With only 21% of irrigation potential utilized and high-water losses in service provider networks, the sector struggles to meet demand, requiring improved financial management. The county governments allocation in FY 2025/26 for water, sanitation and irrigation amounted to Kshs. 32 billion which is equivalent to 5.3 percent of total budget with individual counties allocating between 1.1 – 13 percent of their budgets to the sector.
- 96.** In addition, Section 110 of the Public Finance Management Act (Cap. 412A) mandates county governments, through respective County Assemblies to allocate

funds to the County Emergency Fund (CEF). These funds are meant to address urgent expenditure needs that may arise, and no budgetary allocation had been provided. These would be cases of drought, floods, or the unprecedented COVID-19 pandemic. Review of the establishment of these Funds across counties shows that most counties have established emergency Funds. However, budgetary allocation to the fund has remained the biggest challenge, with some counties not allocating any funds at all. In FY 2025/26, counties allocated a total of Kshs. 3 billion to CEFs equivalent to 0.5 percent of total budget against a requirement of at least 1 percent as provided in Section 110 of the PFM Act, 2012. In other instances, allocation is made to the Fund and subsequently followed by withdrawal, raising concerns that the fund is an instrument to facilitate expenditure. This makes it difficult for counties to make any meaningful intervention when disasters strike.

97. For devolution to become a true engine of prosperity, the debate must be shifted from increase in annual allocation levels and focus on how the funds are spent, what the funds are spent on, and how the expenditures translate into jobs, incomes, and economic transformation. County Governments should be mandated to reorient their expenditures towards spending in economic transformation programmes, including agriculture value chains, irrigation, agro-processing, and infrastructure that links producers to markets. In addition, county government should also be mandated to allocate resources annually to the County Emergency Funds.

### **3.3.2 Policy Options for Effective Funding of Critical County Functions**

98. The current Constitutional provisions do not wholly demand county governments to apply the equitable share funds to these identified expenditure gaps. The sharing of revenue between the two levels of government, as per Articles 202 and 203, does not provide an expenditure framework for the funds allocated to counties. Further, although the allocation of funds among counties is based on specific parameters, the expenditure patterns of the funds remain diverse across counties. County governments have the flexibility to allocate the funds as desired, which may not align with the overall expenditure priorities of the government. Therefore, there is need to institute a mechanism that will incentivize county governments to prioritize funding the specific sectors that align and support the National Government interventions for economic transformation should be considered.
99. Each financial year, Parliament reviews and approves in the annual County Allocation of Revenue Act the indicative recurrent expenditure ceilings for County

Assemblies and County Executives. The Commission on Revenue Allocation (CRA) plays a critical role in making recommendations to Parliament on these ceilings. The ceilings become the guiding policy for preparation of the budgets by county governments. In a similar manner, the CRA and Parliament may also consider proposing minimum development expenditure allocations for critical sectors including agriculture, roads, water, irrigation and for the county emergency funds. This will ensure counties realize substantial development and also support the National Government interventions for economic transformation.

- 100.** In FY 2026/27, the National Government has proposed an equitable share of Kshs. 420 billion in the 2025 Budget Review and Outlook Paper (BROP). From the equitable allocation, the CRA and Parliament may consider providing a minimum allocation for the agriculture, roads, water, irrigation and for the county emergency funds as indicated in table 1 below. Following empirical studies by the IMF that have modelled the impact of efficiency in government expenditure on growth and revenue collection<sup>16</sup>, the policy option is likely to increase productivity of the agriculture and manufacturing sectors, and crowding-in of the private sector due to better access to markets and reduced logistical costs. The PBO estimates that there will be an increase of 0.1 percent in GDP growth if this policy is implemented.

**Table 12: Allocation of Equitable Share of Revenue for FY 2026/27**

S/ No.	Item	Amount (Kshs. mlns)	Justification
1	Projected Equitable Share for FY 2026/27	420,000	
2	Total funding for critical sectors for County Governments as follows:	137,000	
	(a) Roads, Transport and Public Works Sector	50,000	• Ringfence funds in all counties for development expenditure to support National Government interventions in road, transport and public works (county feeder roads, non-motorised transport interventions, storm water drainage infrastructure)
	(b) Water, Sanitation and Irrigation Sector	40,000	• Ringfence funds in all counties for development expenditure to support National Government interventions in water, sanitation and irrigation sector (last mile connectivity, irrigation canals development)
	(c) Agriculture, Livestock and Fisheries Sector	40,000	• Ringfence funds for crop-farming counties for recurrent and development expenditure to support National Government interventions in crop value chain (fertilizer subsidy, post-

<sup>16</sup> <https://www.imf.org/external/pubs/ft/wp/wp97153.pdf>

S/ No.	Item	Amount (Kshs. mlns)	Justification
			<p>harvest interventions, agriculture extension services)</p> <ul style="list-style-type: none"> <li>• Ringfence funds for livestock-farming counties for recurrent and development expenditure to support National Government interventions in livestock value chain (livestock restocking, development of feedlots, livestock extension services)</li> </ul>
	(d) County Emergency Funds	7,000	<ul style="list-style-type: none"> <li>• Ringfence funds in all counties for allocations to the County Emergency Funds in line with PFM Act, 2012.</li> </ul>

**Data Source: PBO**

## ANNEXTURES

### Annex 1: National Government Trade Payables as of 30th September 2025

<b>Vote</b>	<b>Outstanding Trade Payables</b>	<b>FY 2025/26 Budget</b>	<b>% of Outstanding Trade Payables to Budget</b>
	<b>(Ksh. mlns)</b>	<b>(Ksh. mlns)</b>	
<b>1011 Executive Office of the President</b>	<b>13,602.5</b>	<b>5,569.3</b>	<b>244.2</b>
<b>1012 Office of the Deputy President</b>	1,592.5	3,072.1	51.8
<b>1013 Office of the Prime Cabinet Secretary</b>	-	356.6	-
<b>1014 State Department for Parliamentary Affairs</b>	-	363.5	-
<b>1016 State Department for Cabinet Affairs</b>	6.9	228.7	3.0
<b>1017 State House</b>	-	8,578.9	-
<b>1018 State Department for National Government Coordination</b>	15.2	1,044.3	1.5
<b>1023 State Department for Correctional Services</b>	6,221.1	38,153.2	16.3
<b>1024 State Department for Immigration and Citizen Services</b>	6,290.0	22,344.7	28.1
<b>1025 National Police Service</b>	13,646.3	127,091.4	10.7
<b>1026 State Department for Internal Security &amp; National Administration</b>	2,380.2	35,830.3	6.6
<b>1032 State Department for Devolution</b>	2,759.2	17,246.4	16.0
<b>1033 State Department for Special Programmes</b>	-	653.7	-
<b>1036 State Department for the ASALs and Regional Development</b>	5,785.9	10,878.8	53.2
<b>1041 Ministry of Defence</b>	3,030.4	202,322.9	1.5
<b>1053 State Department for Foreign Affairs</b>	2,226.7	25,364.1	8.8
<b>1054 State Department for Diaspora Affairs</b>	222.3	717.8	31.0
<b>1064 State Department for Technical Vocational Education and Training</b>	824.0	43,244.8	1.9
<b>1065 State Department for Higher Education and Research</b>	73,292.6	143,735.0	51.0
<b>1066 State Department for Basic Education</b>	9,748.1	127,912.2	7.6
<b>1067 State Department for Science, Innovation and Research</b>	-	992.9	-
<b>1071 The National Treasury</b>	6,287.4	106,879.4	5.9
<b>1072 State Department for Economic Planning</b>	15.5	63,039.6	0.0
<b>1073 State Department for Investments and Assets Management</b>	-	3,908.3	-
<b>1082 State Department for Medical Services</b>	23,684.9	105,953.4	22.4
<b>1083 State Department for Public Health and Professional Standards</b>	3,120.1	32,152.2	9.7
<b>1091 State Department for Roads</b>	130,396.4	221,794.5	58.8
<b>1092 State Department for Transport</b>	17,622.7	47,456.0	37.1
<b>1093 State Department for Shipping and Maritime Affairs</b>	59.3	5,683.4	1.0
<b>1094 State Department for Housing &amp; Urban Development</b>	1,305.6	123,828.8	1.1
<b>1095 State Department for Public Works</b>	1,665.2	4,444.7	37.5
<b>1097 State Department for State Department for Aviation and Aerospace Development</b>	-	14,515.2	-
<b>1104 State Department for Irrigation</b>	-	7,548.4	-

<b>Vote</b>	<b>Outstanding Trade Payables</b>	<b>FY 2025/26 Budget</b>	<b>% of Outstanding Trade Payables to Budget</b>
	<b>(Ksh. mlns)</b>	<b>(Ksh. mlns)</b>	
<b>1011 Executive Office of the President</b>	<b>13,602.5</b>	<b>5,569.3</b>	<b>244.2</b>
1109 State Department for Water & Sanitation	13,579.0	53,954.3	25.2
1112 State Department for Lands and Physical Planning	453.5	10,762.6	4.2
1122 State Department for Information Communication Technology & Digital Economy	1,181.1	16,188.8	7.3
1123 State Department for Broadcasting & Telecommunications	15,092.1	6,553.2	230.3
1132 State Department for Sports	1,219.6	17,461.8	7.0
1134 State Department for Culture and Heritage	59.0	3,585.6	1.6
1135 State Department for Youth Affairs and Creative Economy	24.4	4,901.0	0.5
1152 State Department for Energy	56,950.0	63,473.8	89.7
1162 State Department for Livestock Development	329.9	10,111.5	3.3
1166 State Department for the Blue Economy and Fisheries	249.4	8,229.9	3.0
1169 State Department for Agriculture	17,749.9	49,944.5	35.5
1173 State Department for Cooperatives	21.9	7,349.0	0.3
1174 State Department for Trade	98.8	4,353.9	2.3
1175 State Department for Industry	77.5	9,402.0	0.8
1176 State Department for Micro, Small and Medium Enterprises Development	321.0	5,093.5	6.3
1177 State Department for Investment Promotion	860.2	3,512.5	24.5
1184 State Department for Labour and Skills Development	62.4	5,063.8	1.2
1185 State Department for Social Protection and Senior Citizens Affairs	104.9	29,320.0	0.4
1186 State Department for Children Welfare Services	-	12,318.1	-
1192 State Department for Mining	72.7	1,630.6	4.5
1193 State Department for Petroleum	6,544.5	30,689.4	21.3
1202 State Department for Tourism	2,071.6	16,535.4	12.5
1203 State Department for Wildlife	3,977.5	14,359.6	27.7
1212 State Department for Gender and Affirmative Action	88.2	6,344.1	1.4
1213 State Department for Public Service	15,816.2	21,608.8	73.2
1221 State Department for East African Community	92.3	1,034.7	8.9
1252 State Law Office	216.7	5,386.8	4.0
1253 State Department for Justice Human Rights and Constitutional Affairs	-	1,020.4	-
1261 The Judiciary	637.9	26,937.4	2.4
1271 Ethics and Anti-Corruption Commission	-	4,500.0	-
1281 National Intelligence Service	-	51,447.2	-
1291 Office of the Director of Public Prosecutions	-	4,481.6	-
1311 Office of the Registrar of Political Parties	0.5	2,487.0	0.0
1321 Witness Protection Agency	-	841.2	-
1331 State Department for Environment & Climate Change	679.8	5,829.6	11.7

<b>Vote</b>	<b>Outstanding Trade Payables</b>	<b>FY 2025/26 Budget</b>	<b>% of Outstanding Trade Payables to Budget</b>
	<b>(Ksh. mlns)</b>	<b>(Ksh. mlns)</b>	
<b>1011 Executive Office of the President</b>	<b>13,602.5</b>	<b>5,569.3</b>	<b>244.2</b>
<b>1332 State Department for Forestry</b>	1,322.3	12,544.2	10.5
<b>2011 Kenya National Commission on Human Rights</b>	5.2	530.3	1.0
<b>2021 National Land Commission</b>	1,749.6	3,359.3	52.1
<b>2031 Independent Electoral and Boundaries Commission</b>	5,406.3	9,332.3	57.9
<b>2041 Parliamentary Service Commission</b>	66.0	2,839.9	2.3
<b>2042 National Assembly</b>	28.4	28,568.6	0.1
<b>2043 Parliamentary Joint Services</b>	2,507.0	8,383.1	29.9
<b>2044 Senate</b>	184.6	8,199.2	2.3
<b>2051 Judicial Service Commission</b>	-	842.4	-
<b>2061 Commission on Revenue Allocation</b>	13.6	370.0	3.7
<b>2071 Public Service Commission</b>	-	3,561.7	-
<b>2081 Salaries and Remuneration Commission</b>	-	751.7	-
<b>2091 Teachers Service Commission</b>	-	387,181.4	-
<b>2101 National Police Service Commission</b>	-	1,390.8	-
<b>2111 Auditor General</b>	-	8,689.0	-
<b>2121 Controller of Budget</b>	5.5	834.1	0.7
<b>2131 Commission on Administrative Justice</b>	1.1	674.2	0.2
<b>2141 National Gender and Equality Commission</b>	-	556.5	-
<b>2151 Independent Policing Oversight Authority</b>	-	1,315.9	-
<b>Total</b>	<b>475,723.2</b>	<b>2,549,544.0</b>	<b>18.7</b>

Source: COB

## Annex 2: County Government Arrears as of 30th September 2025

County	Outstanding Trade Payables (Ksh. mlns)	FY 2025/26 Budget (Ksh. mlns)	% of Outstanding Trade Payables to Budget
Baringo	477.2	9,542.0	5.0
Bomet	1,523.2	10,815.8	14.1
Bungoma	4,254.3	15,926.4	26.7
Busia	3,261.7	10,037.8	32.5
Elgeyo/Marakwet	17.5	8,849.6	0.2
Embu	1,503.9	8,990.3	16.7
Garissa	2,429.5	12,913.2	18.8
Homa Bay	1,812.1	12,185.2	14.9
Isiolo	1,115.9	3,402.5	32.8
Kajiado	2,780.0	13,775.5	20.2
Kakamega	2,425.9	18,154.0	13.4
Kericho	2,041.5	10,035.0	20.3
Kiambu	6,475.0	23,806.8	27.2
Kilifi	9,699.2	19,876.5	48.8
Kirinyaga	765.1	8,001.3	9.6
Kisii	949.1	18,584.6	5.1
Kisumu	3,653.9	16,331.5	22.4
Kitui	535.9	14,274.8	3.8
Kwale	1,666.7	15,827.6	10.5
Laikipia	1,499.3	9,217.1	16.3
Lamu	18.5	4,648.4	0.4
Machakos	5,804.2	15,193.6	38.2
Makueni	401.6	11,542.1	3.5
Mandera	2,114.0	15,011.7	14.1
Marsabit	854.1	10,329.9	8.3
Meru	1,286.7	16,018.8	8.0
Migori	1,020.1	10,825.8	9.4
Mombasa	3,254.7	14,630.0	22.2
Murang'a	1,622.5	11,716.8	13.8
Nairobi City	82,892.7	44,620.9	185.8
Nakuru	2,551.9	22,397.4	11.4
Nandi	993.2	10,028.8	9.9
Narok	5,429.4	17,231.1	31.5
Nyamira	689.4	8,646.3	8.0
Nyandarua	1,532.2	9,426.5	16.3
Nyeri	342.4	8,515.9	4.0
Samburu	457.4	7,814.2	5.9
Siaya	1,971.8	12,793.3	15.4
Taita/Taveta	2,137.4	7,849.0	27.2
Tana River	2,353.2	9,964.9	23.6
Tharaka-Nithi	750.4	6,770.4	11.1
Trans Nzoia	2,570.0	9,917.7	25.9
Turkana	721.7	17,560.5	4.1
Uasin Gishu	1,545.3	10,181.0	15.2
Vihiga	1,242.4	6,912.6	18.0
Wajir	3,712.6	13,994.4	26.5
West Pokot	308.8	8,628.3	3.6
<b>Total</b>	<b>177,465.4</b>	<b>603,717.3</b>	<b>29.4</b>

Source: COB



### Annex 3: County Government Budget Allocations to Critical Sectors in FY 2025/26

County	County Emergency Fund	Development Expenditure for Roads, Transport and Public Works	Development Expenditure for Water, Sanitation and Irrigation	Total Expenditure for Agriculture, Livestock and Fisheries	Count y Emerg ency Fund	Development Expenditure for Roads, Transport and Public Works	Develop ment Expendit ure for Water, Sanitatio n and Irrigatio n	Total Expenditure for Agriculture, Livestock and Fisheries
	Kshs mlns				Percentage of Total Budget			
Baringo	20.0	591.9	715.9	310.8	0.2	6.2	7.5	3.3
Bomet	85.0	1,097.3	909.7	609.6	0.8	10.1	8.4	5.6
Bungoma	100.0	1,291.7	743.4	605.1	0.6	8.1	4.7	3.8
Busia	-	621.9	722.5	816.3	-	6.2	7.2	8.1
Elgeyo Marakwet	2.7	222.8	667.0	965.7	0.0	2.5	7.5	10.9
Embu	20.0	869.5	102.0	484.6	0.2	9.7	1.1	5.4
Garissa	40.0	866.8	1,793.1	691.9	0.3	6.7	13.9	5.4
Homa Bay	17.2	699.5	462.4	488.7	0.1	5.7	3.8	4.0
Isiolo	55.0	291.5	180.9	283.5	1.6	8.6	5.3	8.3
Kajiado	100.0	713.9	406.1	759.3	0.7	5.2	2.9	5.5
Kakamega	100.0	1,540.0	864.0	693.0	0.6	8.5	4.8	3.8
Kericho	10.0	657.6	473.0	723.3	0.1	6.6	4.7	7.2
Kiambu	60.0	1,885.7	500.0	1,202.9	0.3	7.9	2.1	5.1
Kilifi	250.0	1,465.6	2,540.3	774.6	1.3	7.4	12.8	3.9
Kirinyaga	26.0	620.0	484.0	633.0	0.3	7.7	6.0	7.9
Kisii	100.0	2,364.0	1,450.7	665.6	0.5	12.7	7.8	3.6
Kisumu	200.0	1,236.0	595.7	671.4	1.2	7.6	3.6	4.1
Kitui	121.0	700.3	529.3	824.8	0.8	4.9	3.7	5.8
Kwale	5.0	1,692.5	1,654.3	305.9	0.0	10.7	10.5	1.9
Laikipia	82.2	967.9	358.9	360.1	0.9	10.5	3.9	3.9
Lamu	5.0	101.8	95.3	376.7	0.1	2.2	2.0	8.1
Machakos	37.4	1,158.9	657.1	579.5	0.2	7.6	4.3	3.8
Makueni	20.0	521.4	448.0	702.8	0.2	4.5	3.9	6.1
Mandera	291.4	558.4	1,967.6	858.4	1.9	3.7	13.1	5.7
Marsabit	70.0	142.1	487.8	1,303.5	0.7	1.4	4.7	12.6
Meru	-	1,527.5	1,064.3	652.6	-	9.5	6.6	4.1
Migori	-	1,084.8	531.0	631.0	-	10.0	4.9	5.8
Mombasa	20.0	743.5	334.5	329.0	0.1	5.1	2.3	2.2
Murang'a	30.0	1,427.4	338.7	927.8	0.3	12.2	2.9	7.9
Nairobi City	150.0	2,824.3	845.0	323.2	0.3	6.3	1.9	0.7
Nakuru	70.0	1,249.7	729.2	845.1	0.3	5.6	3.3	3.8
Nandi	40.0	614.2	793.6	608.9	0.4	6.1	7.9	6.1
Narok	-	1,376.6	458.0	1,031.0	-	8.0	2.7	6.0
Nyamira	10.0	435.7	337.4	497.6	0.1	5.0	3.9	5.8
Nyandarua	40.0	1,392.1	502.1	612.2	0.4	14.8	5.3	6.5
Nyeri	-	498.9	226.9	599.6	-	5.9	2.7	7.0
Samburu	20.0	298.4	340.7	944.2	0.3	3.8	4.4	12.1
Siaya	180.0	1,706.9	465.7	874.0	1.4	13.3	3.6	6.8
Taita/Taveta	10.0	224.7	1,020.9	401.7	0.1	2.9	13.0	5.1
Tana River	179.1	849.3	257.8	626.4	1.8	8.5	2.6	6.3
Tharaka-Nithi	10.0	554.8	450.0	581.2	0.1	8.2	6.6	8.6

County	County Emergency Fund	Development Expenditure for Roads, Transport and Public Works	Development Expenditure for Water, Sanitation and Irrigation	Total Expenditure for Agriculture, Livestock and Fisheries	Count y Emerg ency Fund	Development Expenditure for Roads, Transport and Public Works	Develop ment Expendit ure for Water, Sanitatio n and Irrigatio n	Total Expenditure for Agriculture, Livestock and Fisheries
	Kshs mlns					Percentage of Total Budget		
Trans Nzoia	40.0	603.4	361.9	800.5	0.4	6.1	3.6	8.1
Turkana	100.0	273.7	590.8	1,618.4	0.6	1.6	3.4	9.2
Uasin Gishu	70.0	948.8	383.7	312.8	0.7	9.3	3.8	3.1
Vihiga	50.0	306.8	375.5	380.5	0.7	4.4	5.4	5.5
Wajir	200.0	963.9	1,298.8	665.7	1.4	6.9	9.3	4.8
West Pokot	10.0	253.7	513.7	640.1	0.1	2.9	6.0	7.4
<b>Total</b>	<b>3,046.9</b>	<b>43,037.9</b>	<b>32,029.0</b>	<b>31,594.3</b>	<b>0.5</b>	<b>7.1</b>	<b>5.3</b>	<b>5.2</b>

Source: COB