Navigating fiscal reality and growth ambition

FY26/27 National Budget Bulletin

June 2026
PwC

Inside this bulletin...

Introduction

On 11 June 2026, the Treasury Cabinet Secretary (CS) delivered the fourth budget speech under the Kenya Kwanza administration. In his address, the CS underscored the resilience of the Kenya economy over the past three years, marked by a modest economic growth of 5%, outpacing both global and Africa averages for the same period. He further highlighted Kenya's achievement of stability of other macro-economic factors, including the currency exchange rates and USD reserves, inflation and interest rates.

The CS attributed this stability and resilience to sustained cross-sectoral investments by the government, which have helped cushion the economy from domestic and external shocks. He noted that these investments laid a critical foundation for the country to transition from a phase of resilience and stability to one of accelerated economic growth in the medium term.

However, beneath this stability, structural pressures have persisted, and in some cases intensified. These include subsisting revenue underperformance, rising debt servicing obligations, constrained household incomes, and a narrowing fiscal space for sustained development spending.

Global economic and political conditions remain challenging, heightening risks of reduced access to international markets, subdued demand for exports, and increased global oil and import prices, factors that could adversely impact Kenya's productive capacity. Regionally, the Ebola outbreak in Central Africa may disrupt labour and capital mobility, potentially straining domestic resources and supply chains.

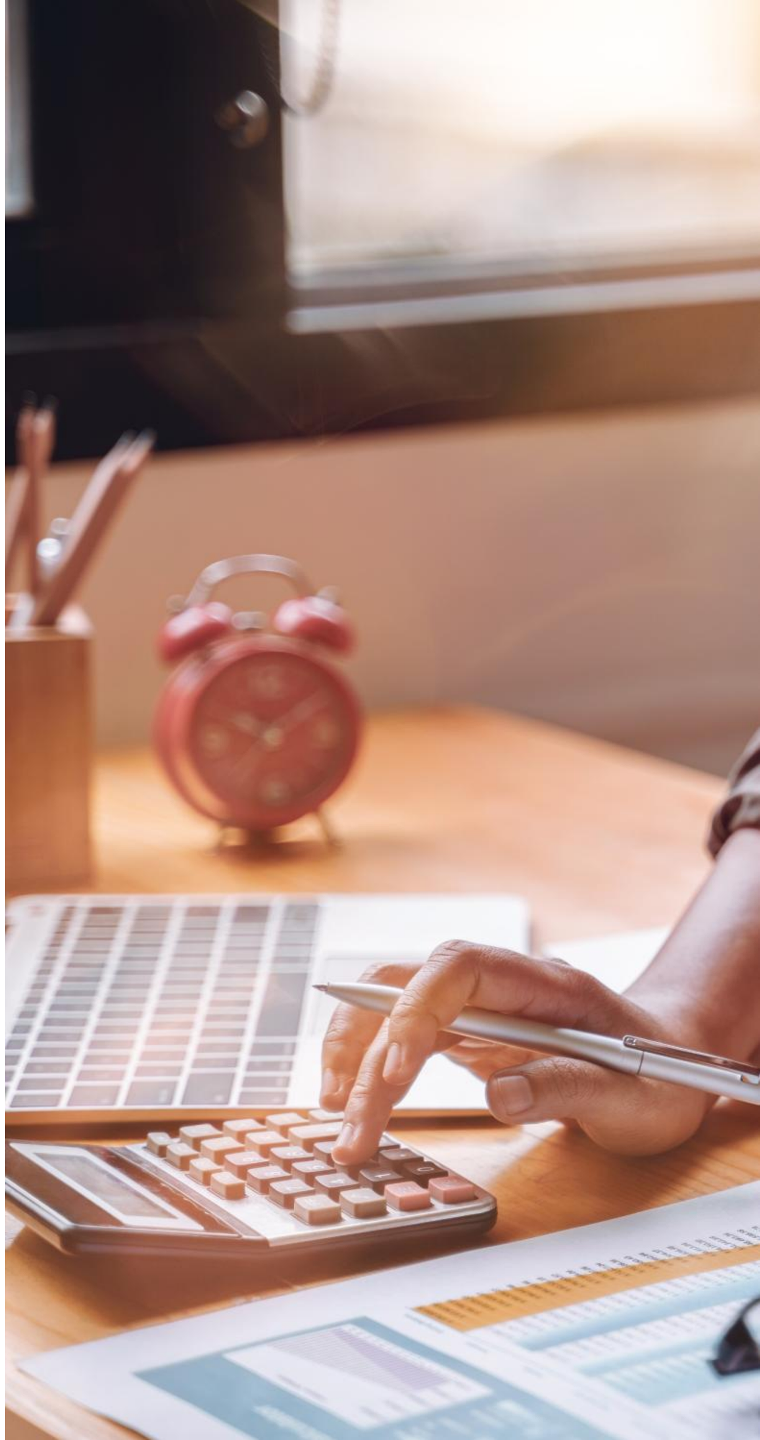
Domestically, the 2027 general elections, while not falling within the budget year, may trigger political risk and conservativism in consumer spending, with potential impact to revenue mobilisation efforts in FY26/27.

The FY26/27 budget implementation therefore demands a delicate balancing act that promotes the government's growth ambitions, while remaining responsive to prevailing domestic and global dynamics that are not in the government's control.

The budget advances a recalibrated approach, emphasising private-led growth and efficiency-led fiscal consolidation. The government has also narrowed focus from the broader BETA pillars, to specific investments in capital, talent, technology, and infrastructure.

While the fiscal consolidation reforms announced by the budget speech remain largely unchanged from prior years, the differentiating factor will be the rigor of execution, and the extent to which the government can leverage private sector capital to ameliorate the impact of the fiscal deficit.

This bulletin unpacks the FY2026/27 Budget, taking into context these evolving dynamics. It builds upon the historical analysis presented in our inaugural **Pre-budget Bulletin publication**, situating the budget within the broader economic trajectory, critically evaluating the underlying assumptions and assessing the strategic and policy shifts anticipated to deliver the BETA agenda.



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FY2026/27 Budget in brief: Promises, priorities and pressures

While macroeconomic indices have remained stable, vulnerabilities remain

The FY26/27 fiscal framework underscores the government’s continued emphasis on consolidation through spending restraint and enhanced revenue mobilisation.

Total expenditure is projected at KES 4.82 trillion, with 74% allocated to recurrent spending, 15.56% to development, and 10.5% directed primarily to transfers to county governments. The significantly low share of development spending presents a critical and subsisting structural funding balance, which may potentially undermine the government’s ability to stimulate meaningful economic growth to sustainably expand the tax base and therefore reduce reliance to debt financing. Based on the Budget Policy Statement (“BPS”), the government intends to mitigate this risk by leveraging Public Private Partnerships supplemented by the National Infrastructure Fund. If well implemented, this may substantially support the government’s growth agenda. Nevertheless, a critical assessment and rationalisation of the recurrent expenditure remains crucial.

On the revenue side, total collections (including appropriation-in-aid and grants) are projected to marginally increase by 10% over FY25/26 to KES 3.630 trillion, with ordinary revenue accounting for KES 2.986 trillion. This presents an expenditure cover of only 75%, with the resulting fiscal deficit of KES 1.146 trillion being financed by debt.

90% (KES 1.0301 trillion) of the debt financing is projected to be sourced locally. While this funding structure potentially supports foreign exchange stability, it raises concerns about credit access, and affordability, for the private sector, which may further limit economic growth and undermine some of the government’s ambitions, such as the growth of the Micro, Small, and Medium Enterprises (MSMEs) sector.

These challenges must also be viewed within the broader context of the persistent revenue underperformance noted in previous years, as well as heightened geopolitical risks, both domestically and internationally. While the budget projects marginal improvements of the largely stable macroeconomic indices, key vulnerabilities remain.

23.2%

Expenditures FY26/27 – KES 4.82 T

Compared to KES 4.5 T in 25/26

17.4%

Revenues FY26/27 – KES 3.6 T

Compared to KES 3.3 T in 25/26

5.5%

Fiscal deficit FY26/27

KES 1.2 T

Compared to KES 1.1 T in 25/26

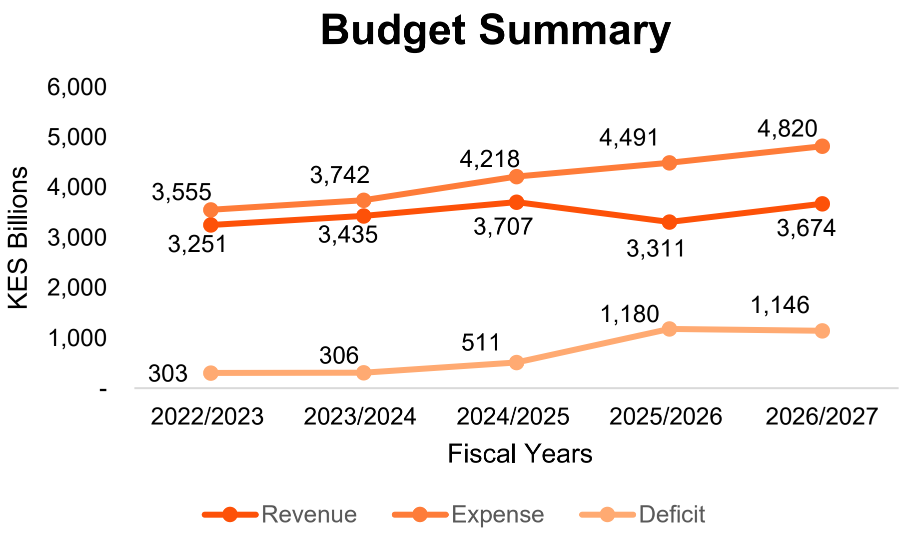
0.6%: 4.9%

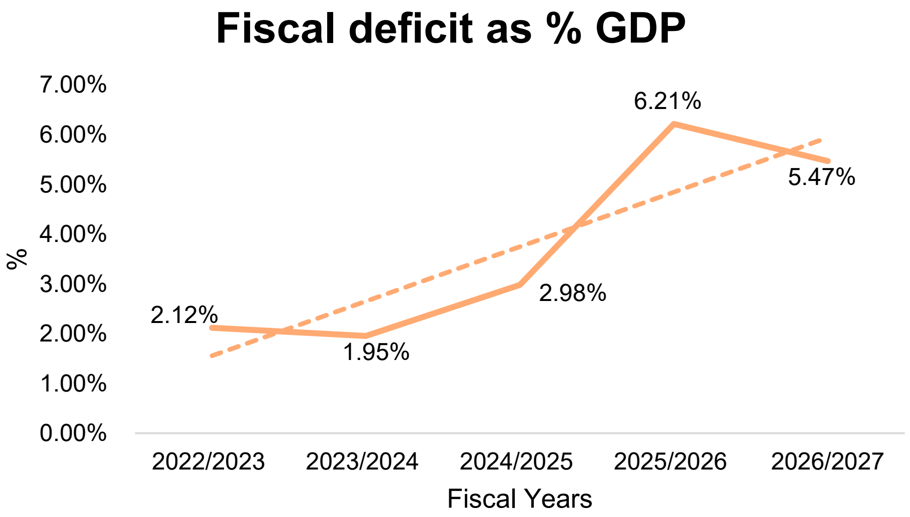
Borrowing mix FY26/27

External borrowing: KES 116.2 B

Domestic borrowing: KES 1,030.1 B

Ambitious growth plans amidst shrinking fiscal space





Source: 2026 BPS, FY26/27 Budget Statement, PwC analysis

The Government's Fiscal sustainability agenda

In the medium term, fiscal sustainability is expected to be achieved through a number of initiatives geared towards effective revenue mobilisation, tax administration reforms, rationalisation of non-essential expenditure and improvements in efficiency and accountability. Combined, as per the budget address, these efforts are anticipated to gradually reduce the fiscal deficit from 5.5% of GDP in FY26/27 to 3.3% by FY28/29.

The reality

Actual fiscal deficit trend for the past three years between FY22 and F25, however, paint a different picture. Based on the data from the Kenya National Bureau of Statistics, actual revenue grew by 14% between FY22/23 and FY24/25, while expenditure grew by 19% over the same period. This imbalance resulted in significant widening of the fiscal deficit, which rose from KES 303 billion to KES 511 billion, an increase of 69%.

The Cabinet Secretary ("CS") National Treasury indicated that the deficit is projected to escalate to KES 1.199 trillion in FY25/26, against initial budget projections of KES 901 billion, due to shortfall of revenue projections occasioned by slowdown in economic activities and tax administration constraints. This marks a critical inflection point, with the deficit reaching 24% of the budgeted expenditure, levels that had not been observed since the COVID-19 period of FY20/21, when the deficit peaked at 27%. The FY26/27 projections do not substantially reverse this trajectory, with the deficit being projected to narrow only marginally to KES 1.146 trillion.

The FY26/27 fiscal projections do not appear to correspond to historical realities. Reversing the current trajectory will require aggressive implementation of the recurring revenue mobilisation and expenditure reforms presented in the budget policy statements of the last 3 years.
Beyond these, and in the meantime, it is essential that there is strategic, effective and efficient deployment of the private capital harnessed through the Public Private Partnerships, to temper the effect of the deficit.

The 2026 Budget Policy Statement rests on key assumptions that shape fiscal outcomes

A realistic appraisal of these is vital to understand the risks and opportunities ahead:

Optimistic GDP projections

Assumption:
The 2026 BPS assumes a strong private investment recovery despite tightening external conditions.

Assessment: Historical data from Economic Survey reports show that Kenya's private investment growth has been volatile and often below public investment growth, especially during periods of global uncertainty (e.g., post-2019 slowdown).

Factors like political uncertainty such as that occasioned by general elections, high cost of credit and energy, and infrastructural bottlenecks have consistently constrained private sector investment expansion in past cycles.

Assuming a strong rebound without explicit mitigation of these structural issues may lead to over-optimistic GDP projections.

Revenue forecasts

Assumption:
Fiscal revenues depend heavily on timely implementation of tax reforms and compliance improvements.

Assessment: Past Economic Surveys highlight persistent revenue shortfalls compared to targets, often due to delayed reform rollouts, administrative capacity constraints, and tax base erosion.

Previous tax amnesty programs and enforcement drives have delivered short-term boosts, but sustainable compliance gains remain elusive.

The gap between projected and actual revenue collections has been a recurring fiscal challenge in Kenya's recent history.

Exchange rate stability

Assumption:
Stable foreign exchange inflows and controlled import demand are expected.

Assessment: Kenya's exchange rate has historically exhibited significant volatility linked to external shocks (commodity price swings, global financial tightening).

For example, Economic Survey reports document episodes of sharp depreciation following adverse global shocks, impacting import costs and inflation.

We, however, note that the currency has been generally stable against the US Dollar, although volatile against other currencies.

The assumption will require continuous review and potential mitigation, as Kenya may be vulnerable to volatile oil prices and changing capital flows, which can rapidly destabilise the shilling.

Inflation containment

Assumption:
Inflation will be contained through stable food supply chains and moderated global fuel prices.

Assessment: Inflation in Kenya has often shown volatility influenced by climatic shocks (droughts, floods) and spikes in global fuel prices, as documented in multiple Economic Surveys.

The 2026 fuel crisis will likely have far-reaching effects. Increase in oil prices is expected to erode business margins and consumer disposable incomes, with an adverse impact on the projected revenues.

Food prices, on the other hand, have experienced sharp fluctuations due to production disruptions, supply chain constraints and climate variability.

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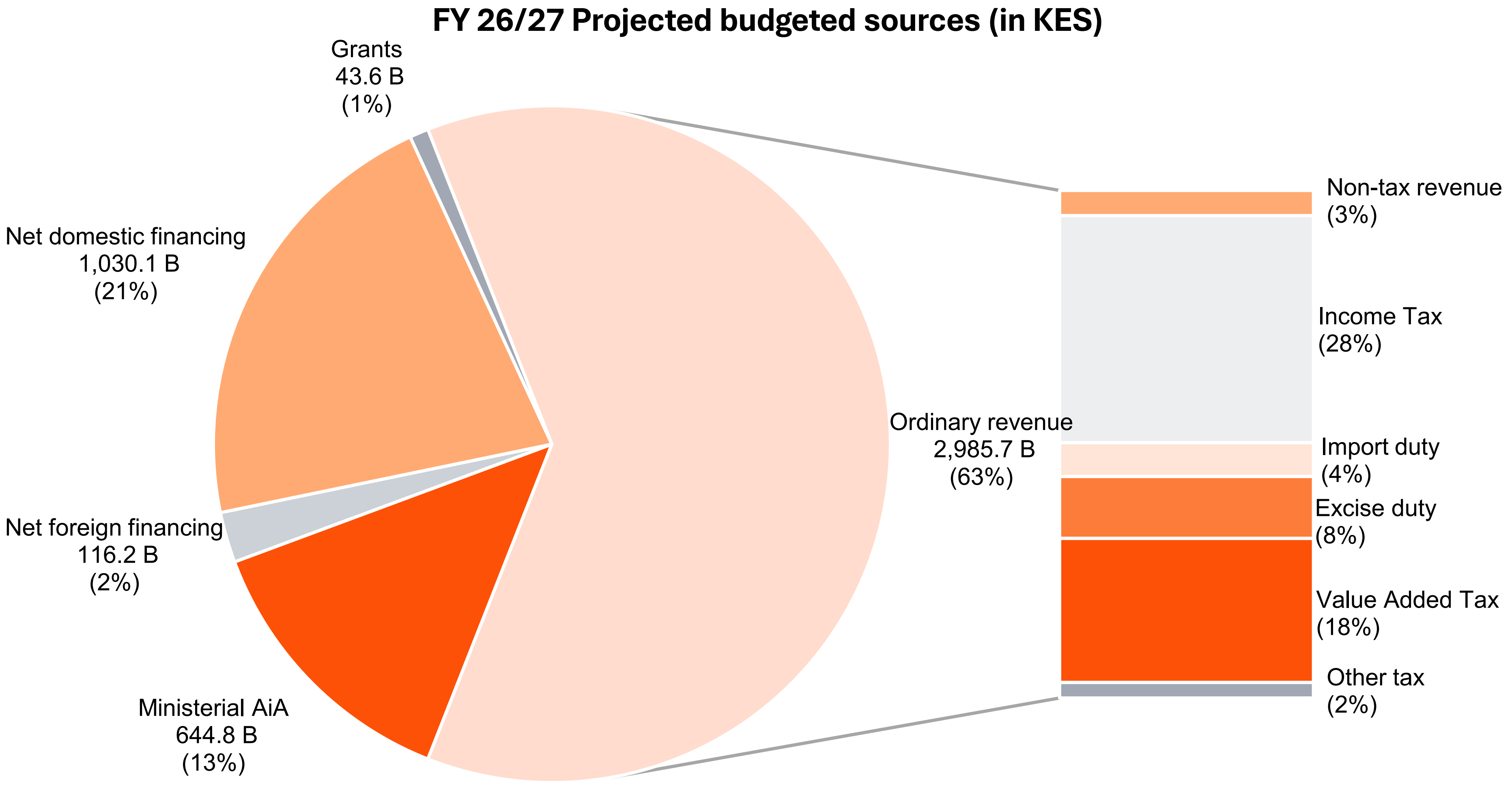
Where is the money coming from?

Where is the money coming from?



63%

Of the budget to be funded from ordinary revenue sources

As of the close of Q3 FY2025/26, KRA had collected KES 2.038 trillion against a target of KES 2.122 trillion, representing a performance rate of 96.1%.

This signals a shortfall against annual targets. Consequently, setting a 63% ordinary revenue contribution target for the FY26/27 budget appears overly ambitious and risks widening an already elevated fiscal deficit further.

Source: 2026 BPS, FY26/27 Budget Statement, PwC analysis

Where is the money coming from? (cont'd)

Fiscal Year	Ordinary revenue target (KES trillion)	Actual collections (KES trillion)	Shortfall (KES trillion)
FY2022/23	2.14	2.04	0.1
FY2023/24	2.57	2.29	0.2
FY2024/25	2.92	2.42	0.5

Source: National Treasury budget policy statements – PwC analysis

- Looking back from FY2023/24 to FY2025/26, the Government projected a reduction in the fiscal deficit from 4.4% to 3.6% of GDP by FY2026/27. However, actual outcomes indicate a widening deficit, with the fiscal deficit reaching 5.5% of GDP in FY2026/27. This calls for greater fiscal prudence, particularly in setting realistic ordinary revenue targets.
- One of key drivers of the year-on-year widening fiscal deficit is the ordinary revenue shortfalls due to unrealistic targets among other factors. As shown in the table above, ordinary revenue shortfall grew by five times in the years between FY2023/24 to FY2025/26.

- Ordinary revenue targets rose by 36.4% between FY 2022/23 and FY 2024/25 (from KES 2.14 trillion to KES 2.92 trillion), while actual collections grew only by 18.6% (from KES 2.04 trillion to KES 2.42 trillion) advancing at approximately half the pace of the targets.
- The shortfall consequently widened five times from KES 0.10 trillion in FY2022/23 to KES 0.50 trillion in FY2024/25, with cumulative under-collection over the three-year period amounting to KES 0.88 trillion, and the variance expanding from 4.7% to 17.1% of the target.
- Meeting the FY2025/26 budgeted ordinary revenue of KES 2.75 trillion would require a 13.6% increase over the FY2024/25 outturn, significantly above the 9.0% average growth recorded over the past two fiscal years.
- Looking ahead, achieving the FY2026/27 ordinary revenue target of KES 2.98 trillion would require approximately 23.1% growth from the FY2024/25 outturn, more than double the 9.0% average growth recorded over the past three fiscal years.

5X

Growth in the revenue shortfall over three fiscal years

FY2026/27 targets have been set against a volatile macroeconomic backdrop marked by geopolitical tensions, elevated fuel prices, and subdued household disposable incomes. Further, they rely on an economic recovery that the current policy mix does little to actively support. As such, the risk of slippage is significant, driven largely by factors beyond the government's direct control.

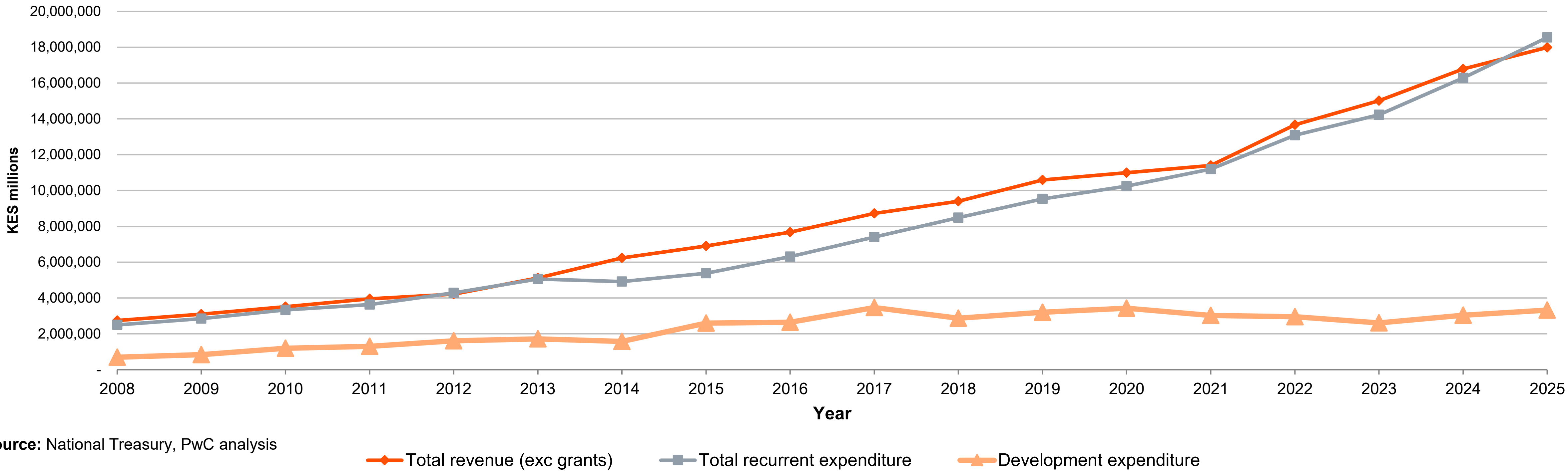
3

Where is the money going?

Recurrent spending growth has tracked revenue, while development spending has stagnated

Over time, increases in revenue have largely been absorbed by rising recurrent expenditure, with limited uplift in development spending. This pattern highlights a structural bias toward consumption, constraining investment in long-term growth.

Revenue growth vs growth in expenditure

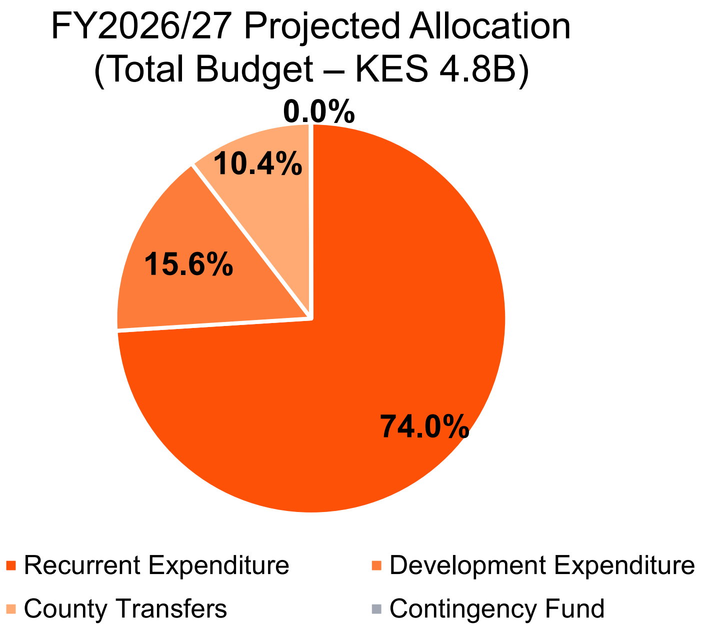


Source: National Treasury, PwC analysis

Revenue growth has consistently translated into higher recurrent expenditure, reinforcing a pattern where incremental fiscal gains are absorbed by operating costs rather than investment. Over time, development spending has remained broadly flat, failing to scale alongside overall budget expansion. This highlights a structural allocation dynamic, where spending priorities are persistently skewed toward consumption. As a result, the challenge is not only limited fiscal space, but how available resources are systematically allocated – constraining the role of public spending in supporting long-term growth.

Fiscal space remains constrained as recurrent expenditure crowds out development

Kenya's FY2026/27 budget continues to be largely weighted toward consumption, with only modest and incremental progress toward increasing development expenditure



Source: CS National Treasury Budget Statement - 2026

Recurrent expenditure dominates fiscal space

Recurrent expenditure continues to dominate Kenya's fiscal space, accounting for roughly 75% – 80% of total spending, or about KES 3.568 trillion. While its gradual decline as a share of Gross Domestic Product (GDP) signals an intent toward fiscal consolidation, this shift remains modest and does not yet reflect a structural rebalancing, thereby limiting flexibility for growth-enhancing investments.

Development expenditure rising slightly, but still heavily constrained

At the same time, development spending is projected to rise gradually, reaching around 4.1% of GDP by FY2028/29. However, it remains below 30% of the total government expenditure benchmark in practice, with persistent execution challenges - particularly underspending - continuing to dilute its intended economic impact.

County transfers

Transfers to county governments are also increasing, with allocations of approximately KES 495 billion, underscoring the continued importance of devolution. Nonetheless, ongoing disbursement delays and cash flow constraints weaken service delivery and reduce fiscal predictability at the county level.

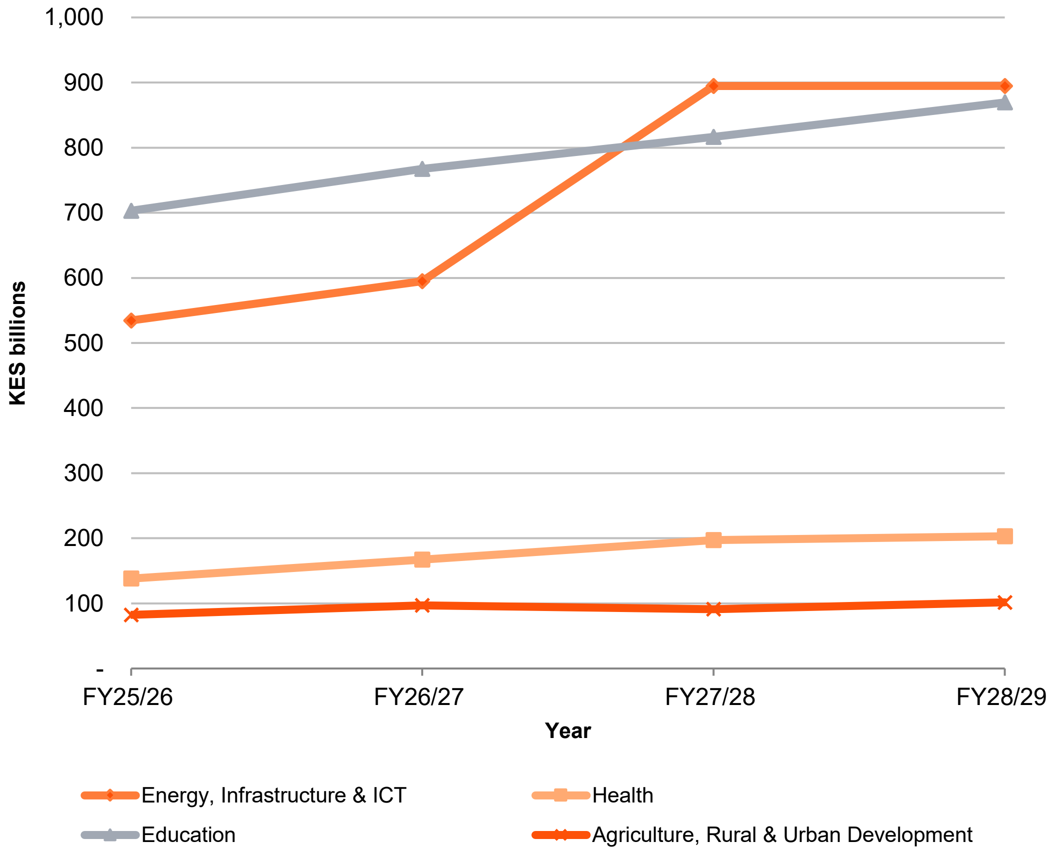
Contingency fund

Finally, the contingency fund remains relatively small at about KES 2 billion, limiting the government's capacity to respond effectively to unforeseen shocks, including climate-related risks, inflationary pressures, and external economic volatility.

Expenditure dynamics remain constrained by structural rigidities, with a large share of the budget absorbed by non-discretionary items such as wages, interest payments, and statutory transfers. These pressures, compounded by rising debt-servicing obligations, significantly limit the scope for meaningful spending cuts or reallocation. Over recent budget cycles, efforts to rationalise expenditure have yielded only gradual adjustments, underscoring the difficulty of implementing deep reforms. As a result, while consolidation efforts are ongoing, the pace of expenditure restructuring remains modest, highlighting the need for sustained reforms to improve spending efficiency and create fiscal space. Without structural expenditure reform, fiscal consolidation will come at the expense of growth.

Sector spending is rising, but remains skewed towards operations over investment, despite growing needs

Selected sector allocations



Source: 2026 BPS, PwC Analysis

- Across health, education, and security, funding increases are primarily absorbed by recurrent spending, with limited growth in development investment. While this sustains service delivery in the near term, it restricts capacity expansion. As demand continues to rise, pressure is mounting on a largely fixed capital base, constraining the ability of these sectors to scale effectively.
- The FY2026/27 budget proposes an increase in the allocation to education by 9.5% versus an average 1.3% growth in the period between FY2023/24 – FY2025/26 – most of this spend appears to be geared towards teacher compensation, rather than education infrastructure development.
- Capital investment is increasingly concentrated in housing and energy, while other critical areas - such as health and education infrastructure, transport networks, and urban systems - are scaling more slowly. This creates an imbalance where service delivery is expanding, but the underlying systems required to sustain it are not keeping pace
- Energy, ICT and Infrastructure is highlighted as a key focus area, receiving allocated budget funding but also additional support in the form of PPPs and capital mobilisation – spend in this category is focused on power transmission and distribution, power generation scaling over time (energy spend c. KES 100B) and most notably, on housing (c. KES 300B) (presumably, to further the Affordable Housing Agenda).
- Housing has become the dominant driver of capital spending - large in scale, highly concentrated, and execution-dependent. While it reflects strong policy prioritisation, it also introduces concentration and opportunity cost risks, particularly as other critical infrastructure - health, education, and transport - scales more slowly.
- The allocation to Agriculture remains limited, despite it being the largest sector and contributing c. 22% of GDP for the last five years - Agriculture spending is geared toward supporting production - particularly crops and livestock - with a relatively strong capital component. However, the allocation is still focused on upstream activities, with less emphasis on downstream value chains, market access, and system-wide transformation.

Delivery framework: from commitments to controls

The policy architecture is clear - the delivery test is whether reforms translate into bankable projects, disciplined spending, and measurable outcomes

Capital

NIF, SWF, PPPs, asset monetisation

KES 5T mobilisation target; up to KES 10 leveraged per KES 1 of public capital

Talent

Education, skills, health workforce

HELB, TVET, university funding model, CBC roll-out

Technology

IFMIS, eTIMS, TSA, PIMIS, e-GP

e-GP: 1,538 procuring entities, 33,000+ suppliers, 22,000+ staff trained, 223 contracts published

Infrastructure

Roads, energy, logistics, water

PPP target KES 80B FY2026/27; pipeline of 30 projects, 10 under implementation

Revenue discipline

Realistic targets; broader base; data-driven compliance; risk-based enforcement

Expenditure control

ZBB; TSA; full e-GP; accrual accounting; PIM reforms; SOE reform; verified pending-bill settlement

Financing discipline

Concessional bias; longer tenor; transparent contingent-liability disclosure; PPP fiscal-risk reporting

Achievement of the FY2026/27 Budget will depend on the following three:

1. **Can revenue targets be delivered without overburdening compliant taxpayers?** The Finance Bill 2026 reinforces a data-driven compliance model. The risk is compliance fatigue among the already-compliant base.
2. **Can expenditure reforms create real fiscal space?** Various expenditure reforms are appearing in the Budget for the third or fourth consecutive cycle (e.g., Zero-Based Budgeting (ZBB), Treasury Single Account (TSA), end-to-end Electronic Government Procurement (e-GP), reforms to State-Owned Entities (SOEs) and others. The post-budget question is whether each now carries a time-bound delivery milestone.
3. **Can alternative financing move from architecture to transactions?** The National Investment Fund (NIF) (now to be incorporated as a limited-liability company initially capitalised from privatisation proceeds) and the Sovereign Wealth Fund (SWF) must demonstrate first credible transactions, governance arrangements, and contingent-liability frameworks to succeed, the likelihood that these can be completed within 12 months is low. The gap will be the development expenditure that has to be foregone as the institutional set up is achieved.

4

Tax and regulatory measures

More KRA powers. More technology and data. More tax revenue?

The Finance Bill, 2026 (the "Finance Bill", the "Bill"), was tabled before the National Assembly in early May 2026 for its first reading. It proposes a raft of tax measures aimed at mobilising additional revenue by broadening the tax base, strengthening enforcement, and modernising tax administration.

The Bill aims to enhance KRA powers, shorten compliance timelines, tighten electronic invoicing requirements and reduce the list of zero-rated or VAT-exempt goods/services.

The Bill has since gone through a public participation exercise, now awaiting the report of the Parliamentary Committee for Finance and National Planning Committee. At this point in the legislative process, only Parliament can make amendments to the Finance Bill. For the detailed proposals in the Finance Bill, please refer to PwC's Tax Alert.

In this year's Budget Speech, the Cabinet Secretary ("CS") National Treasury set out to intensify reforms to strengthen revenue mobilisation, modernise tax administration, and improve taxpayer experience.

In line with this objective, the Government is seeking to prioritise investment in digital systems, alongside a range of tax policy and administrative measures aimed at strengthening enforcement, broadening the tax base, and enhancing revenue collection.

The planned reforms can be broadly classified into 3 categories:

- Consolidating and expanding KRA's powers;
- Strengthening technology and data-driven tax administration; and
- Broadening the tax base.

i. Consolidating and expanding KRA's powers

In his speech, the CS National Treasury signaled a clear policy shift toward consolidating and expanding the powers of KRA, while simultaneously curtailing several long-standing taxpayer safeguards.

Consistent with this approach, the Finance Bill proposes to empower KRA to issue assessments based on information obtained from third parties, electronic tax systems, and previously filed returns.

Notably, the CS National Treasury remained silent on review of the PAYE tax bands, representing a missed opportunity to introduce reforms that could significantly stimulate economic growth.

While this may enhance enforcement in an increasingly data-driven tax environment, the absence of clear thresholds or procedural safeguards raises concerns about uncertainty and the potential for disputes-particularly where assessments rely on incomplete, automated, or unverified data.

The Bill further seeks to consolidate the General Anti-Avoidance Rules, currently contained in the Income Tax Act and the Value Added Tax Act, into a single, expanded provision under a proposed new section of the Tax Procedures Act.

The proposed rule adopts notably broad definitions of "scheme" and "tax benefit," significantly widening the scope of arrangements that may be subject to challenge and increasing the risk of uncertainty and protracted tax disputes.

The Government also intends to shorten compliance timelines. The CS clarified that the proposed changes will differentiate deadlines by taxpayer category; one month for nil return filers, four months for salaried employees earning salaries only, and six months for businesses with multiple income sources.

This represents a shift from the Bill's initial proposal to impose a uniform four-month deadline for all taxpayers except nil filers. This is a welcome move as big taxpayers often require more time to prepare their returns.

More KRA powers. More technology and data. More tax revenue? (cont'd)

Additionally, the Bill proposes to allow KRA to issue agency notices even where a taxpayer has lodged an appeal against the underlying assessment. This exposes taxpayers to enforcement action while disputes remain unresolved, thereby tilting the dispute-resolution framework decisively in favour of the revenue authority.

Overall, the Finance Bill seeks to grant additional powers to a revenue authority already perceived as aggressive, while reducing certain safeguards intended to protect taxpayers. This heightens risk of uncertainty and therefore erosion of investor confidence.

ii. Strengthening data-driven tax administration

The CS National Treasury indicated that the Government intends to strengthen tax administration through the expanded use of digital tax tools and data-driven processes to support revenue mobilisation.

Pre-populated tax returns - To enhance data visibility and reduce reliance on taxpayer self-disclosure, the Bill proposes broadening the use of electronic tax systems. This will enable KRA to generate pre-populated tax returns based on available transactional data. In principle, this could simplify compliance and reduce administrative burdens.

However, it raises important practical considerations. Pre-populated returns will depend on the completeness and accuracy of KRA-held data, while taxpayers will remain responsible for verifying its correctness before submission. Errors, omissions, or mismatches could lead to tax disputes especially where prefilled information is not adequately reviewed.

Mandatory electronic invoicing, filing and payment - The Bill also seeks to amend the Tax Procedures Act to formalise the mandatory use of electronic invoicing, filing, and payment across the tax system. Compliance with these requirements will be reinforced through structured show-cause procedures, alongside increased penalties. Taxpayers will need to ensure that they maintain strong controls, documentation and audit trails to demonstrate reasonable efforts to comply, particularly where failures arise from system outages, integration challenges or data-validation issues.

Dedicated VASP reporting framework - In addition, the Bill introduces a dedicated reporting framework for Virtual Asset Service Providers (VASPs), whereby VASPs operating in Kenya will be required to submit annual information returns detailing their users and the beneficial or controlling persons associated with those accounts. This proposed amendment would materially raise the compliance profile of virtual asset service providers by increasing regulatory scrutiny and enforcement exposure.

Collectively, these measures signal a shift from a predominantly self-assessment-based tax system, supported by periodic audits, to a data-driven compliance model. In the envisaged model, the KRA will increasingly initiate compliance engagements with access to detailed underlying transactional data to ramp up tax collection.

iii. Broadening the tax base

The CS National Treasury indicated that, to ease the burden on existing taxpayers, the Government will prioritise broadening the tax base rather than increasing headline tax rates as its primary strategy for addressing the fiscal gap. Consistent with this policy direction, the Finance Bill proposes a range of measures aimed at expanding the scope of taxation.

Withholding tax on card transaction fees - First, the Bill proposes the introduction of withholding tax on interchange fees and merchant service fees arising from card-based payment transactions. This proposal would likely increase the overall cost of card transactions, particularly where Kenyan payers are required to gross up payments to non-resident recipients. It may also incentivise the use of cash over cashless payment systems. Additionally, the proposed change departs from international best practice, which typically requires human intervention for a service to be characterised as managerial or professional in nature.

More KRA powers. More technology and data. More tax revenue? (cont'd)

Taxation of gains from indirect share disposals - Second, the Bill seeks to expand the taxation of gains from indirect share disposals by removing the existing 20% underlying-value threshold. As a result, any disposal by a non-resident of shares deriving value from Kenya would become taxable, irrespective of the proportion of value attributable to Kenya.

While the proposed amendment aims to expand Kenya's capital gains tax net to cover indirect share transfers by non-residents, the absence of a clear definition of "value" makes the provision overly broad and potentially applicable to transactions where the Kenyan nexus is minimal. This creates uncertainty, as it may capture all indirect disposals involving entities with Kenyan subsidiaries, regardless of materiality, thereby deviating from threshold-based approaches and potentially eroding investor confidence.

Reclassification of items from zero-rated to VAT exempt - The Bill further proposes to reclassify a broad range of goods and services from zero-rated to exempt under the VAT Act. This change would deny suppliers the ability to recover input VAT, thereby embedding the tax cost in final prices.

Taken together, these measures reflect a deliberate strategy to capture revenue from sectors and transactions that have either expanded beyond, or previously fallen outside, the existing tax framework.

Collecting more today matters; building an equitable tax system that lasts matters more

A tax rule is not merely a directive to be enforced and followed. It is a powerful signal that shapes behavior and influences decisions.

It tells the foreign investor weighing Nairobi against Kigali, Cairo or Lagos whether Kenya is a destination or merely a detour.

It whispers to the household how much of its hard-earned income is its own to save, to spend or to invest in the next generation.

It advises the entrepreneur whether the risk of expansion, of the extra shift, the extra branch, the extra hire; is one the system will reward or quietly punish.

The Finance Bill, 2026, with its sharper enforcement edge, its data-driven focus and its widened base ambitions, sends signals on all these three fronts. Whether those signals attract or repel will determine not only what the KRA collects in FY2026/27, but what there is left to collect in the years that follow.

Summary of proposed customs measures

The CS National Treasury outlined customs measures effective 1 July 2026, anchored on two key mechanisms. Firstly, duty remissions of 0%-10% will apply to selected inputs, including those used in manufacturing pharmaceuticals, smart devices, automotive parts, animal feeds, and roofing materials with the aim of reducing production costs.

Secondly, stays of application of the East African Community ("EAC") Common External Tariff rates will be implemented, applying lower rates on essentials like wheat and rice to enhance food affordability, while imposing higher protective rates of 25%-35% on textiles, steel, paper products, and processed food products to shield local manufacturers.

Notably, while the government promotes digital connectivity through zero-duty smart device assembly inputs, it has simultaneously proposed increased tariffs on optical fibre cables to 10%, an inconsistency that may undermine its stated digital superhighway objectives.

The proposed reduction from 25% to zero-duty on dates during Ramadhan 2027 reflects thoughtful consideration of the Muslim community's needs.

We expect these and more customs measures to be gazetted on 30 June 2026.

Regulatory measures

The CS, National Treasury indicated that the Government is considering the following regulatory measures:

Digital e-signatures in government - To advance the Digital Transformation Agenda, the Government has announced reforms to make changes to the legal and regulatory framework governing secure digital identities, electronic signatures, electronic seals, and time-stamping services.

The CS has committed to submitting, in the next financial year, necessary amendments to the Public Finance Management Act, Cap. 412A (“PFMA”) and the Kenya Information and Communication Act, Cap. 411A together with attendant regulations, to facilitate the adoption of these digital tools across Government and create efficiency in service delivery.

Embedding digital tools in Government operations is critical for enhancing efficiency in public service delivery. This is a welcome step forward, but the Government must in parallel ensure that the proper digital security safeguards are in place in this regard.

Sovereign Wealth Fund - To complement the National Infrastructure Fund, the Sovereign Wealth Fund Bill has been tabled before Parliament. It seeks to establish a Sovereign Wealth Fund comprising three distinct components: the Stabilisation Component, the Strategic Infrastructure Investment Component and the Future Generation ('Urithi') Component, with a view to ensuring that Kenya's natural resource wealth is invested productively and distributed equitably across current and future generations.

This is a progressive move towards long-term wealth management in Kenya, giving legislative effect to the principles of intergenerational equity enshrined in Article 201 of the Constitution of Kenya, 2010.

Amendments to the Public Finance Management Act - To address delays in the approval and disbursement of County Government Additional Allocations, the National Treasury has developed the draft Public Finance Management (Amendment) Bill, 2025 ("PFM Bill"), which proposes amendments to sections 42 and 191 of the PFMA. The PFM Bill seeks to provide for the submission of two separate bills to Parliament: one on County Government Additional Allocations and the National Government's share of revenue, and the other on proceeds from loans and grants from Development Partners.

If passed, the amendments will mitigate delays in the approval and disbursement of County Government Additional Allocations, enhancing predictability in intergovernmental fiscal transfers and supporting the timely delivery of devolved services and projects at the county level.

Public procurement reforms - To further strengthen the public procurement framework, the Government has developed the Public Procurement and Asset Disposal (Amendment) Bill, 2026 ("PPAD Bill"). The PPAD Bill introduces mandatory disclosure and reporting requirements for public entities, promotes local content through preference and reservation schemes targeted at youth, women and persons with disabilities and provides a stronger legal basis for electronic procurement and framework contracting.

This represents a welcome and substantive effort to modernise Kenya's procurement regime, reinforcing transparency and accountability, and to drive greater efficiency in public expenditure. The PPAD Bill will need to be carefully assessed for consistency with Article 227 of the Constitution of Kenya, 2010, which enshrines the principles of fairness, equity, competitiveness, and cost-effectiveness in the procurement of public goods and services.

Other regulatory measures

Other notable regulatory reforms proposed by the CS include:

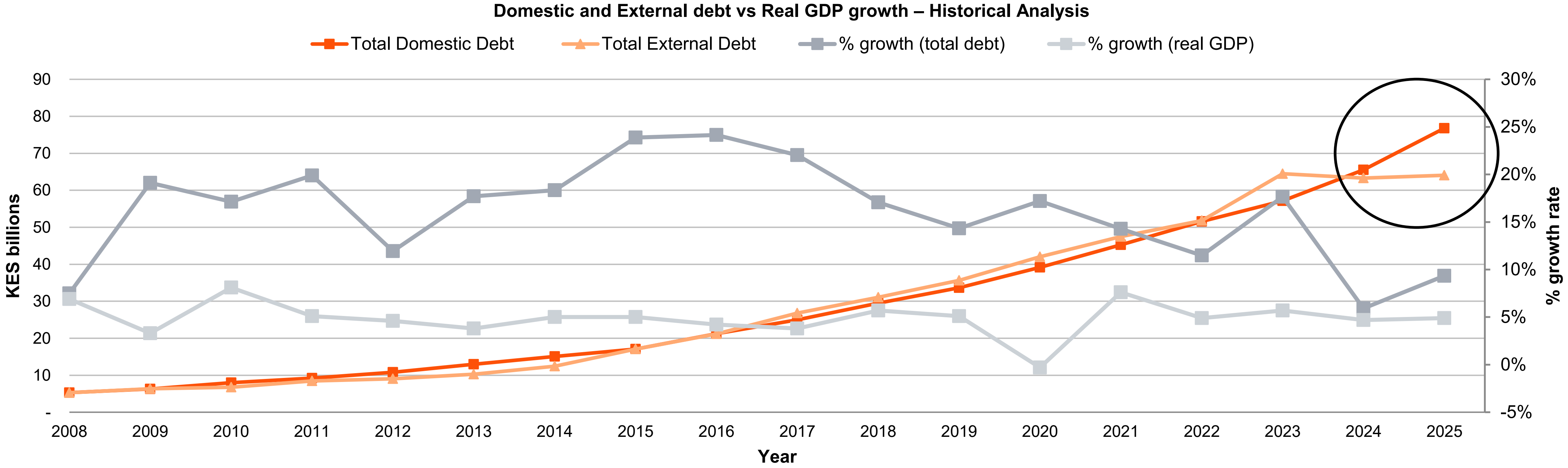
- Drafting of Carbon Credit Regulations, to allow for trading of carbon credits generated in Kenya and the region;
- Amendments to the Insurance Act, Cap 487, to establish agricultural insurance as a standalone class of insurance business, aimed at strengthening agricultural risk management and food security; and
- Strengthening economic planning through evidence-based decision-making and the rollout of a new Economic Planning Policy and Bill to ensure public resources deliver maximum impact aligned with national development priorities.

5

Debt: The number that won't go away

Debt, the number that won't go away

The FY2026/27 fiscal framework lowers the deficit only gradually, while interest costs and domestic borrowing remain structurally binding



Source: National Treasury, PwC analysis

Debt accumulation is outpacing economic growth: Borrowing is increasingly decoupled from growth outcomes, suggesting diminishing returns on debt-funded spending. The graph presented shows domestic debt accelerated significantly in the later years to FY2025/26, reaching its highest level at the end of the timeline. Meanwhile, GDP growth did not show a corresponding sustained upward trajectory.

Shift toward domestic borrowing: The sharper rise in domestic debt vs external debt indicates a funding shift. Domestic borrowing may be easier or politically preferable, but it raises interest costs, crowds out private sector credit, and increases pressure on local financial markets.

GDP growth volatility signals structural constraints and fiscal vulnerability: Debt is increasingly financing recurrent spending and low-return investments, rather than productivity-enhancing sectors. The divergence between rising debt and inconsistent GDP growth points to debt sustainability concerns and increased refinancing risks.

Debt, the number that won’t go away

The FY2026/27 fiscal framework lowers the deficit only gradually, while interest costs and domestic borrowing remain structurally binding

FY2026/27 Fiscal deficit - KES 1.146T which is 5.5% of GDP

Present Value of public debt is 65.6% of GDP compared to 55% statutory anchor

Interest payments projected in the BPS as KES 1.203T is 33.1% of Target Revenue

Pending Bills:
KES 637.6B at national level
KES 183.0B at county level

Debt continues to be the key challenge for the FY2026/27 Budget. While the deficit is set to reduce from 6.4% of GDP in FY2025/26 to 5.5% in FY2026/27, the borrowing requirement exceeding KES 1.1 trillion means a strong domestic focus on financing.

Domestic debt is expected to reach 38.7% of GDP compared to external debt at 28.5%, making local liquidity, yields, and private-credit conditions crucial to the fiscal outlook.

Recent improvements in sovereign ratings have enhanced external market access, paving the way for a shift towards concessional and liability-management borrowing. But the real issue isn't the deficit, it's the over KES 1.2 trillion in interest payments that was projected in the BPS that overshadows everything else. There was, however, an increase in the domestic debt that will lead to an increase in interest payments.

National Government intervention:
To restore private sector liquidity, the Pending Bills Verification Committee has vetted claims worth KES 637.6 billion, validating KES 235.6 billion for payment. Following the KES 80.3 billion securitisation in the roads sector, a verified balance of KES 155.3 billion remains. The Treasury’s sustainable settlement strategy combines direct budgetary allocations commencing with KES 68.0 billion in FY2026/27, with targeted financial instruments to systematically clear these liabilities.

County Government arrears:
At the sub-national level, county pending bills escalated to KES 183.0 billion by June 2025, posing a severe fiscal and local economic risk. Unlocking this liquidity is vital to prevent choking MSMEs of essential working capital. Consequently, counties must aggressively execute the IBEC-approved Pending Bills Action Plans, ensuring that clearing outstanding arrears is prioritised as a first charge on their respective budgets.

Debt pressure: the fiscal squeeze

The issue is no longer how much Kenya borrows, but how much revenue is pre-committed before services are funded

Debt-service pressure

Debt service is the binding constraint on fiscal flexibility

Interest payments at >25% of the Budget, is above the 18% benchmark

Forex & refinancing risk

High exposure to foreign currency debt increases vulnerability

47% of public debt is foreign currency denominated

Contingent liabilities

Off-balance-sheet exposures can crystallise rapidly

KES 83.2B in guarantees and KES 1,051B in on-lent loans

Fiscal squeeze

Revenue shortfall

Higher borrowing / delayed payments

Higher debt-service pressure

Less room for development, counties, and services

Kenya's public debt is assessed as sustainable in the 2026 BPS; however, debt service pressures remain elevated. With a significant share of revenue committed to interest and principal repayments, fiscal space is constrained - limiting the Government's flexibility and increasing vulnerability to shocks.

The ordinary revenue shortfall reached KES 161.9 billion, driven by a KES 60.3 billion deficit in Corporation Tax and a KES 50.1 billion deficit in PAYE. However, strong Ministerial Appropriations in Aid collections, which exceeded the target by KES 46 billion, reduced the net fiscal revenue gap to KES 115.8 billion.

The year-end overall shortfall is expected to grow towards KES 200 billion due to emergency tax concessions, such as halving VAT on fuel to counter Middle East shocks.

For FY2026/27, development spending is projected at 15.56% of the Budget, under the 30% statutory minimum.

If the historical trends continue, adjustments will likely impact development spending, county transfers, and service delivery.

Debt remains manageable if revenue improves, borrowing costs decrease, and contingent liabilities stay controlled. The credibility test for the planned 1.7 ppt deficit reduction in FY2027/28 begins now.

6

From policy clarity to delivery credibility

The strategic direction is clear, success will depend on quality of execution

A consistent policy direction, now reaffirmed

The FY2026/27 Budget largely confirms the strategic direction outlined ahead of the budget cycle. It reinforces the Government's commitment to private sector-led growth, supported by a shift toward capital mobilisation through vehicles such as PPPs, the NIF and the SWF. At the same time, the fiscal strategy remains anchored on efficiency-driven consolidation, with a continued emphasis on improving revenue administration and rationalising expenditure while safeguarding priority programmes.

This coherence between policy intent and the Budget Statement provides a clearer articulation of the Government's medium-term economic strategy, particularly the transition away from debt-funded development toward more diversified and risk-sharing financing models.

Persistent structural pressures remain

Despite this clarity of direction, the Budget underscores the structural fiscal constraints. The fiscal deficit remains high and growing, with consolidation expected to occur gradually over the medium term, while debt-servicing obligations continue to absorb a significant share of revenues. On the revenue side, projections remain dependent on improved compliance and administration rather than broad-based expansion in economic activity, against a backdrop of recent shortfalls and external pressures, including elevated global oil prices and tighter financing conditions. Domestic financing is a fallback option for any shortfalls.

At the same time, expenditure rigidities – particularly within recurrent spending – limit the Government's ability to meaningfully reallocate resources toward development priorities. These dynamics highlight the tension between the ambition to scale growth and the realities of the funds available to do this.

Early signals of progress, but delivery risk persists

The Budget Statement does provide initial evidence of movement from policy design to implementation, particularly in the establishment of new financing mechanisms such as the NIF and the advancement of PPP-based infrastructure projects. However, these developments remain at an early stage.

The successful scaling of private capital mobilisation will depend on the Government's ability to translate pipeline projects into credible, bankable transactions. Likewise, while there is an intention to narrow the deficit, the underlying drivers of past slippages – revenue underperformance, expenditure pressures, and implementation delays – have not been fully resolved.

Credibility will be determined by implementation, not intent

Taken together, the FY2026/27 Budget is directionally coherent and strategically aligned with the Government's economic agenda. However, its credibility will ultimately be judged not by the articulation of reforms, but by the extent to which they are delivered in practice.

Progress over the coming year will need to be assessed against a limited set of critical indicators: the ability to operationalise and scale new financing vehicles, adherence to the stated fiscal consolidation path, and demonstrable improvements in implementation discipline across revenue collection, expenditure management, and project execution.

Final perspective

The Budget marks an important transition from policy formulation toward operational delivery. The challenge now is not one of strategy, but of execution. Sustained progress will require consistent follow-through, transparent monitoring, and a clear prioritisation of high-impact interventions within an increasingly constrained fiscal environment.

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