

# Tax & Exchange Control



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## Kenya

Medium-term budget  
planning and fiscal  
framework in Kenya



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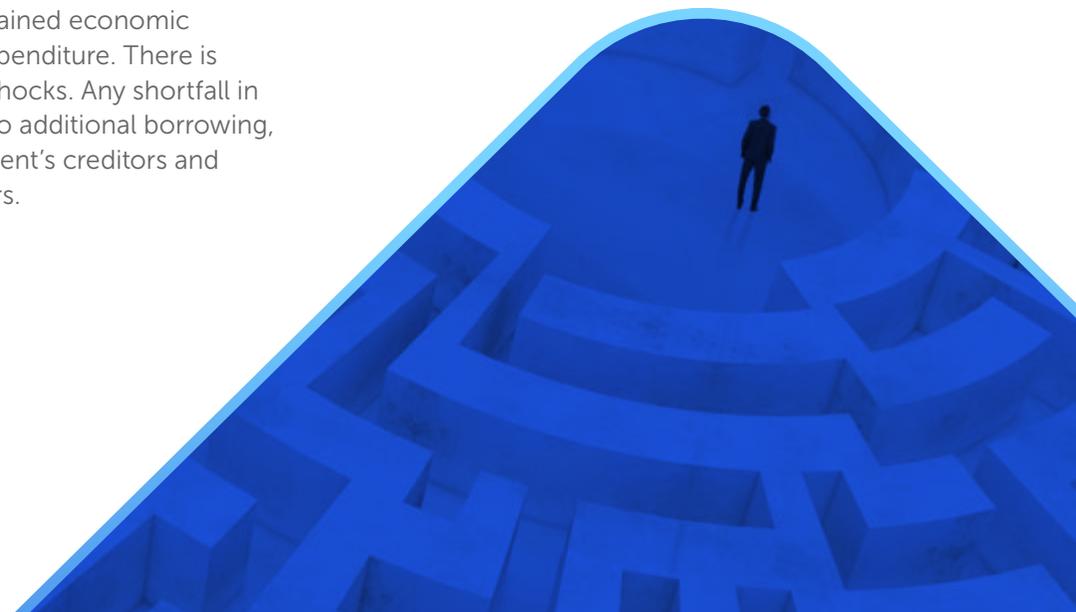
### Medium-term budget planning and fiscal framework in Kenya

Kenya's Medium-Term Expenditure Framework (MTEF) for the period 2026/27 to 2028/29 sets out how the Government intends to manage spending, borrowing and revenue collection over the next three years. Unlike the annual budget, which can be reactive or politically driven, the MTEF provides a forward-looking framework, anchoring fiscal policy to sustainable expenditure limits and revenue targets. It signals the Government's direction on tax policy, borrowing appetite, liquidity conditions in domestic markets and regulatory pressures for financial institutions and investors. This enables stakeholders to plan for risk management and capital allocation. It reveals where fiscal pressure will fall if economic assumptions do not hold and where risk will ultimately be absorbed.

#### Key objectives of the MTEF

First, the MTEF endeavours to establish fiscal discipline, setting expenditure limits consistent with sustainable revenue projections. However, we note that the Government is operating in a constrained fiscal environment. In particular, for the period 2026/27, the Government targets a fiscal deficit of KES 1.17 trillion, with a projected revenue and total expenditure is KES 3.53 trillion and KES 4.7 trillion respectively. Although the Government, under the 2026 Budget Policy Statement (BPS), commits to narrow fiscal deficits over the medium term, this depends heavily on disciplined deficit financing, improved tax compliance, sustained economic growth and strict control of expenditure. There is limited fiscal space to absorb shocks. Any shortfall in revenue is likely to translate into additional borrowing, delayed payments of Government's creditors and increased pressure on taxpayers.

The BPS shows that the Government plans to borrow mainly from cheaper foreign loans, limit commercial borrowing and rely more on long-term treasury bonds over short-term debt to manage and slow the growth of public debt. In practice, this means that government demand for domestic borrowing will remain high throughout the medium term. As a result, interest rates on treasury bills may fall, while rates on treasury bonds may rise, leading to increased competition for available credit between the Government and private businesses.



Second, following the current regime's initial gains under the Bottom-Up Economic Transformation Agenda (BETA), the next phase will focus on practical areas that directly affect businesses and individuals including capital, talent, technology and infrastructure. The Government plans to invest more in education and skills training so that businesses can access a more competent workforce. It also aims to support local production so that Kenya exports more agricultural and manufactured goods instead of relying heavily on imports. There is also a focus on ensuring stable and affordable electricity, which is critical for industrialisation. At the same time, the Government intends to improve transport and logistics infrastructure to lower the cost of doing business. If successful, this may position Kenya as a key trade and transport hub in the region.

Given the limited fiscal space, high borrowing needs and the Government's focus on selected priority areas, businesses should expect limited tax relief, with stricter eligibility criteria and detailed compliance requirements. Legal and risk teams will therefore need to monitor these conditions carefully to avoid penalties or the withdrawal of benefits.

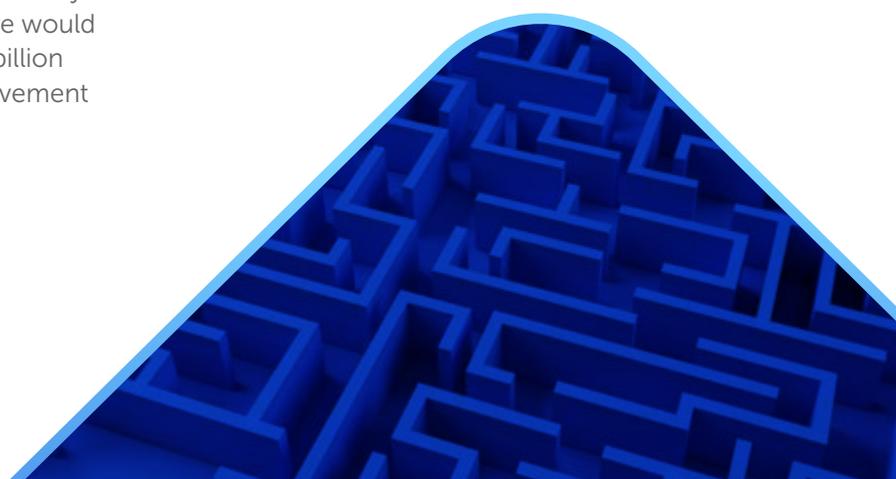
### **Economic context and assumptions**

Global growth is projected at 3.3% in 2026 and at 3.2% in 2027. In Kenya, growth projection was 5% in 2025 and is now 5.3% in 2026 according to the 2026 BPS. The growth is supported by strong performance in agriculture, steady growth in

services and a gradual recovery in industry. However, the fiscal position remains highly sensitive to any slowdowns in growth. Even a modest reduction in growth would materially widen the deficit, given the limited scope for short-term expenditure adjustments.

The 2026 BPS outlines that the Government's revenue projections assume stronger economic growth, lower inflation, a stronger Kenya shilling and lower import values. However, the BPS notes that government finances remain sensitive to changes in economic conditions. The 2026 BPS illustrates this sensitivity through scenario analysis. For example, a 1% decline in real GDP growth could reduce government revenue by about KES 13.2 billion in FY 2026/27, rising to KES 17.6 billion by FY 2029/30. Government spending would fall by only KES 7.2 billion and KES 8.8 billion respectively over the same period, resulting in a deterioration of the budget balance by KES 6 billion in FY 2026/27 and KES 7.9 billion by FY 2029/30. By contrast, a 1% increase in inflation is estimated to raise government revenue by about KES 20.4 billion in FY 2026/27 and KES 36.6 billion by FY 2029/30. Although government expenditure would also increase by KES 11.7 billion and KES 18.7 billion respectively, the net effect would be an improvement in the budget balance of KES 8.7 billion and KES 16 billion.

Inflation and exchange rate movements may temporarily increase government revenue in the short to medium term. However, they do not address deeper structural weaknesses in the economy and may create additional pressure for sectors that rely heavily on imports. As we approach the 2027 general elections, it is important to highlight that Kenya's economic performance has historically slowed during election periods as businesses and investors delay major spending decisions due to political uncertainty. For example, as per the Central Bank of Kenya's annual GDP statistics, GDP growth slowed from 4.9% in 2021 to about 4.8% in 2022 around the last general election. This reinforces that a slowdown in economic growth remains the most significant risk to fiscal performance and highlights the importance of sustained growth, macroeconomic stability, and prudent fiscal and debt management.



## Revenue and expenditure projections

Governance and expenditure control risks remain present, particularly in relation to the public sector wage bill. The projected revenue stands at KES 3.53 trillion, while total spending is KES 4.7 trillion. The expenditure breakdown is as follows: recurrent spending of KES 3.46 trillion; development spending of KES 749.5 billion; county transfers of KES 495.7 billion (including allocations to the Equalisation Fund and additional county allocations); and Contingency Fund of KES 2 billion.

In response to these fiscal pressures, National Treasury Cabinet Secretary John Mbadi has invited Parliament to explore constitutional and structural reforms aimed at easing the Government's expenditure burden, particularly by reviewing county government structures to reduce duplication and the wage bill. The Cabinet Secretary says that there is need for a targeted tax policy, administrative reforms, prudent fiscal consolidation and sustainable domestic revenue

mobilisation. Accordingly, this raises the question of whether it is time to consider a leaner government, such as fewer counties or constituencies, to curb recurrent spending. Another complementary measure is the restructuring of existing loans to lower interest payments, freeing up resources for development priorities and strengthening fiscal sustainability.

Current revenue strategies are focused on base-broadening, digitization and improved compliance, rather than increases in headline tax rates. For legal teams, this indicates an environment of heightened tax scrutiny and enforcement risk, especially in sectors involving digital transactions, withholding tax and cross-border trade.

## Social and developmental priorities

Social and developmental spending remains central to sustaining inclusive growth and consolidating gains under the BETA, with the Government's medium-term fiscal strategy prioritising investment in healthcare, education and targeted social interventions to improve livelihoods and strengthen human capital.

In the health sector, emphasis is placed on achieving Universal Health Coverage. This includes strengthening primary healthcare networks, expanded community health services, digital health systems, improved medical supply chains and sustainable financing. The goal is to provide equitable access to quality care for all Kenyans.

Education and skills development focus on improving learning outcomes and expanding scientific and technical training. The goal is to have skills that are aligned with evolving labour-market needs to support productivity, innovation and employment growth.

These investments are deliberately structured to reduce inequality and poverty. They aim to lower the cost of living, enhance food security, expand access to essential services and create income-generating opportunities at the base of the economy. Targeted social safety nets and programmes for youth, women and persons living with disabilities further cushion vulnerability while enabling economic participation.

Parallel interventions in agriculture, micro, small and medium enterprises (MSME) development, affordable housing and digital inclusion are intended to bridge urban-rural disparities and promote broad-based value-chain participation. Collectively, these measures reinforce macroeconomic stability, social cohesion and an inclusive, employment-led growth model, all within a framework of strengthened public financial management, accountability and service delivery.

Investors have the opportunity to participate in public service delivery through privately initiated proposals under the public-private partnerships (PPPs) framework. Sectors such as healthcare, digital infrastructure, education, agriculture and MSME development provide scope for private initiatives

that complement government programmes. By preparing well-structured proposals that meet regulatory and contractual requirements, investors can contribute to delivering essential services, support social and economic development, and benefit from structured partnerships with the public sector.

## Infrastructure investment plans

Infrastructure development remains a priority, with major projects planned in transport, energy, water and ICT. Many of these are structured through PPPs or blended finance arrangements. Ongoing PPPs include the Nairobi-Nakuru Mau Summit Highway, Menengai Geothermal Power Plant Project, Galana Kulalu Food Security Project and Kenya Defence Forces Residential Accommodation Project.

These projects offer long-term opportunities but also carry significant credit, political and regulatory risk. When fiscal resources are tight, the allocation of risk in project agreements becomes critical. Poorly structured contracts can expose lenders and sponsors to payment delays, renegotiations and disputes arising from changes in law or fiscal policy.

Moreover, the National Infrastructure Fund Act, 2026 has been signed into law. The act establishes the National Infrastructure Fund to scale up national infrastructure; mobilise private capital and non-traditional sources of infrastructure finance; and reduce reliance on public debt for the financing of infrastructure. This shifts infrastructure

financing from a predominantly debt-driven model toward an investment-led framework that draws on private capital, pension funds and other institutional investors. This presents an investment opportunity for investors.

## Challenges and risks to the MTEF

The medium-term framework faces several risks. These include lower than expected revenue, which could widen the fiscal deficit; governance and payroll integrity risks highlighted by the discovery of approximately 4.7 million altered records for pension contributions and statutory deductions by county government entities; debt sustainability pressures due to high domestic and external borrowing; and weak fiscal management at the county level, which can lead to delayed payments and stalled projects.

To address these risks, the Government proposes several reforms. First, it plans to strengthen revenue administration. Second, it intends to reform payroll systems, particularly through the implementation of the Human Resource Information System – Kenya (HRIS-Ke). The system is expected to automate payroll processing and enable the simultaneous computation and remittance of pension contributions and other statutory deductions. In addition, the Government proposes conducting forensic audits and strengthening the accountability of accounting officers. It also plans to structure PPPs and public contracts more carefully to manage risk.

For banks, lenders and investors, these risks are not merely theoretical. They can affect payment reliability, enforcement of contracts and exposure to government or county-level credit risk.

## Public engagement and next steps

Following the preparation of the Sector MTEFs, the BPS was developed and has now been approved by the Parliamentary Budget Committee. The next step is for National Treasury to prepare the budget estimates for the national Government and submit them to Parliament for approval.

The process will then move to the budget reading by the Cabinet Secretary for National Treasury, followed by the Finance Bill, 2026 (Finance Bill). The Finance Bill will contain the proposed tax measures needed to implement the budget. Once the Finance Bill is published, members of the public, businesses and professional bodies will have an opportunity to submit comments and memoranda to Parliament as part of the public participation process before the Bill is debated and enacted into law.

## Conclusion

Kenya's medium-term budget framework reflects the Government's effort to maintain fiscal discipline in a challenging environment. The Government is seeking to support economic growth, manage public debt and protect key social spending despite revenue growth and high financing needs.

For banks, corporates and investors, this means operating in a period of sustained fiscal pressure, tighter liquidity in domestic markets, and increased scrutiny from tax and regulatory authorities. The framework should therefore not be viewed merely as a planning document. It provides an important signal of the risks and policy direction that will influence financing decisions, investment planning and legal strategy over the medium term.

## Key takeaways

For banks, the framework suggests that government borrowing will continue to play a dominant role in the domestic financial system. Banks are therefore likely to maintain significant holdings of government securities. While these instruments support liquidity management, they also increase exposure to sovereign risk. Continued government borrowing may also limit the availability of credit to the private sector and increase sensitivity to interest rate and liquidity changes.

Corporates may face greater pressure from tax enforcement and compliance measures even if headline tax rates remain unchanged. Companies that rely on government payments or public sector contracts may also experience cash-flow risks due to delayed payments. In addition, businesses operating across counties or in regulated sectors may encounter varying levels of oversight and implementation at the sub-national level.

Investors will need to assess fiscal policy with careful attention to policy predictability and economic stability, particularly as Kenya approaches the 2027 election cycle. Periods leading up to elections have historically been associated with changes in fiscal policy and regulatory behaviour. While the legal framework remains stable, the operating environment can become more complex when fiscal pressures intensify.

## Frequently asked questions

### 1. Is the MTEF legally binding?

No. The MTEF is not legally binding in itself; rather, it signals the Government's fiscal policy direction and expenditure priorities over the medium term. Legal enforceability only arises once MTEF proposals are translated into approved annual budgets, Finance Acts, and Appropriation Acts under the Public Finance Management Act and subject to Parliamentary approval and oversight.

### 2. Will taxes increase?

While headline tax rates may remain unchanged, the effective tax burden is likely to rise through base broadening, enhanced compliance enforcement, expanded digitisation and more targeted audits. In addition, existing tax incentives, exemptions and preferential treatments may be rationalised or withdrawn, increasing tax exposure for affected sectors even in the absence of formal rate hikes.

### 3. How does the Human Resource Information System – Kenya (HRIS-Ke) payroll audit affect risk?

The HRIS-Ke payroll audit highlights persistent weaknesses in recurrent expenditure controls and public sector payroll governance, increasing the risk of adverse audit findings, litigation and pressure for supplementary budgets. These weaknesses also heighten scrutiny of employment contracts, allowances and arrears, with potential spill-over effects for suppliers and contractors linked to public sector entities.

### 4. How should corporates and banks respond?

Corporates and banks should undertake proactive tax and regulatory risk assessments, conduct scenario planning around enforcement and incentive changes, review contractual exposure, particularly in public and county-level engagements and closely monitor sub-national fiscal management to mitigate payment delays, disputes, and compliance risks.

### 5. Is public participation meaningful?

Yes. Early and structured engagement in public participation processes can materially influence proposed tax measures, transitional provisions, incentive regimes, and expenditure allocations before they are enacted into law. For businesses and industry groups, this also presents an opportunity for targeted taxation and incentives lobbying within the formal policy and legislative framework.

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**BBBEE STATUS:** LEVEL ONE CONTRIBUTOR

Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

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