

Kenya 2025 Budget Highlights

On the edge: Navigating Kenya's fiscal tightrope

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Summary Indicators

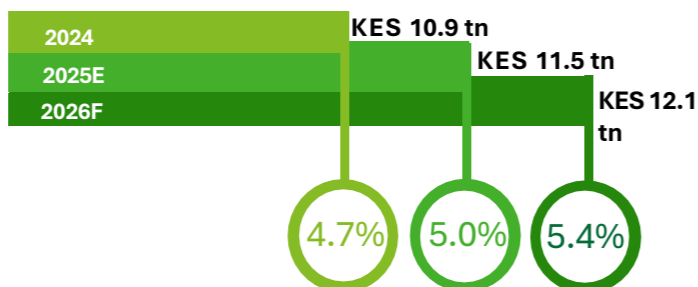
Indicators (Ratio)	2024	2025E	2026F
GDP Growth	4.7%	5.0%	5.4%
Debt to GDP	69.3%	70.0%	66.3%
Inflation	4.5%	4.5%	5.5%
CBK Policy Rate	11.3%	9.5%	9.0%

Source: EIU, BMI Fitch Solutions

GDP Growth

- Kenya's GDP growth is projected to accelerate to 5.0% in 2025 from 4.7% in 2024, primarily driven by increased household spending.
- This expansion is hinged on the Central Bank of Kenya's (CBK) gradual interest rate reductions, stimulating borrowing, investment, and consumption.
- Between 2026 and 2029, real GDP growth is forecasted to average 5.8%, primarily driven by expected growth in the services sector and continued recovery of the consumer spending power.

Real GDP

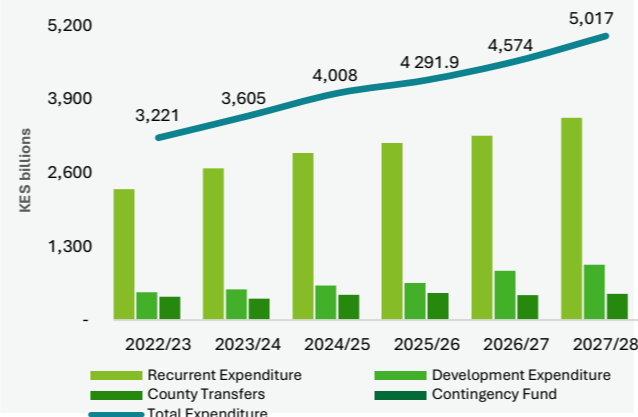


Source: EIU

Exchange Rate

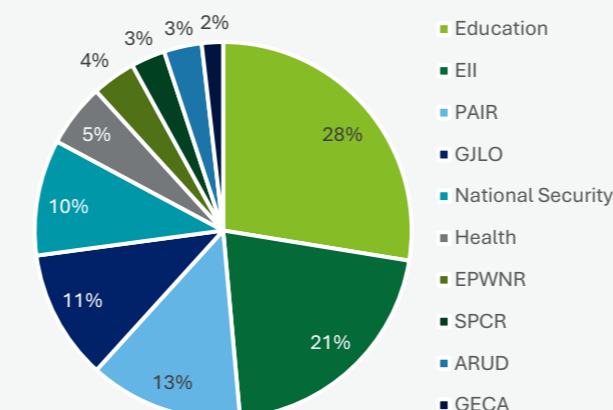
- The Kenya Shilling (KES) has since remained stable averaging KES 129.4/USD between June 2024 and May 2025 and is projected to average KES 130.4/USD by year end 2025.
- This robust performance is attributed to declining global commodity prices, increased Foreign Direct Investments (FDI), and growing exports.
- However, the KES is projected to depreciate by an average of 5.0% between 2026 and 2029, reaching KES 158.7/USD by 2029.
- This anticipated depreciation stems from Kenya's status as a significant net importer, which fuels demand for foreign currencies and contributes to a widening current account deficit.

Budget Trends



Source: The National Treasury's Budget Summary for the Fiscal Year 25/26

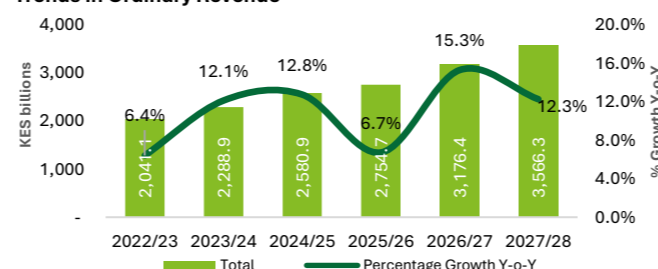
Budget Allocation per sector



Source: Kenya Budget Policy Statement

Useful Tax Insights

Trends in Ordinary Revenue



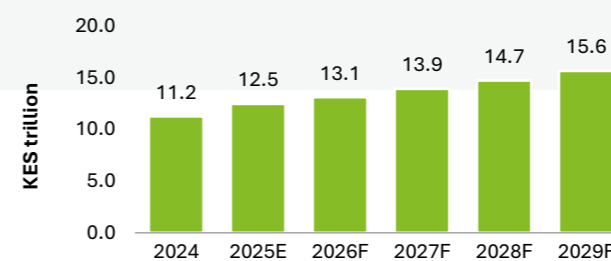
Source: The National Treasury's Budget Summary for the Fiscal Year 25/26

- The Government projects to collect ordinary revenue to the tune of **KES 2.835tn** in FY 25/26 from the projected **KES 2.58tn** in FY24/25, representing a growth of **9.9%**.
- Income tax remains the highest projected revenue earner at **KES 1.32tn** in FY 25/26.
- As at 31 March 2025, ordinary revenue collections have evidenced an overall shortfall of **8%**. The Government has raised ordinary revenues of **KES 1.697tn** against a target of **KES 1.840tn**.
- The Budget Policy Statement has projected a total revenue of **KES 3.385tn** for the year. However, the collections yield for the period to 30th April 2025 stood at **KES 2.1tn** from both ordinary revenue and external grants. This represents 62% of the total projected revenue.
- With the financial year coming to a lapse, it is highly unlikely that the projected revenue target will be met, thus the pivoting of the Finance Bill towards tax base expansion.

National Debt

- Kenya's public debt has been a significant area of focus in recent macroeconomic discussions. The expected rise in public debt to KES 12.5tn in 2025 is attributable to the government seeking for alternative financing to plug the tax revenue shortfall due to the annulment of the Finance Bill 2024.
- In 2025, the government is focusing on increasing tax revenue through the implementation of revised Finance Bills such as the Finance Bill 2025.

Public debt

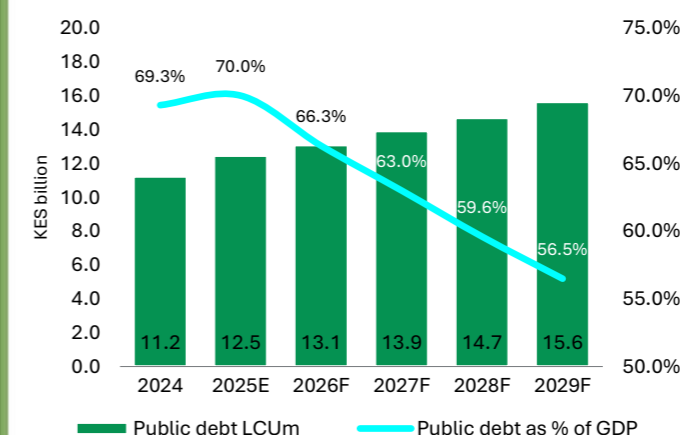


Source: EIU

Kenya's public debt (as a % of GDP) is projected to average at 70.2% in 2025 and will remain a concern with debt servicing expenses consuming over 60% of tax revenues in 2025.

Debt Sustainability and Performance

Public debt



Source: EIU

Key Proposed Tax Changes

- Carry forward of tax losses to be limited to the year in which they arise and the succeeding five years of income.
- Raft of incentives to be introduced targeted at companies certified by the Nairobi International Financial Centre Authority (NIFCA), amongst them a reduced corporate tax rate of 15% for start up companies for the first 3 years of operations and 20% for the succeeding 4 years.

Key Proposed Tax Changes

- Expansion of the taxation scope for businesses subject to the **Significant Economic Presence Tax (SEPT)** to incorporate those operating over the internet or electronic network to come into play.
- Advanced pricing agreements** for non-resident persons who carry out business with related resident persons to be introduced.
- Accelerated investment allowances** applicable in the first year of use to investments outside Nairobi and Mombasa counties on buildings used for manufacture, hotel buildings and machinery used for manufacture to be repealed.
- Preferential tax rates** applicable to companies engaged in the construction of at least 100 units in a year and in the local assembly of motor vehicles to be repealed.
- Payments for distribution of software in instances where regular payments are made for purposes of such a distribution to be considered as **royalty** for taxation purposes.
- Supply of **electric bicycles**, input of raw materials locally purchased or imported for the manufacture of animal feeds, and electric buses to be classified as exempt supplies for VAT consideration purposes.
- Printed paper, paperboard products** and imported self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes of plastics to be exempted from Excise Duty.
- All **aircraft parts to aeroplanes** and **other aircrafts** of unladen weight exceeding 2000kgs to be exempted from IDF and RDL.
- Commissioner to be empowered to issue **agency notices** pitting on tax disputes being heard at the High Court and other courts.
- Taxpayers to be required to share data with the KRA Commissioner for scrutiny even in instances where such data is deemed to be **sensitive or personal in nature**.
- Computation for **timelines** in regard to lodgment of objections and appeals to include weekends and public holidays.
- The KRA Commissioner to be empowered to **grant waiver of penalties and interest** arising from errors on account of an electronic tax system; and
- Transfer of property by a company to its directors to be **exempt from Stamp Duty**.