Analysis of The Kenya 2025/2026 Budget

Stimulating sustainable economic recovery for improved livelihoods, job creation, business and industrial prosperity.

June 2025

Agenda

Grant Thornton

Economic analysis

Introduction

The Cabinet Secretary (CS) for The National Treasury and Economic Planning tabled a 4.2 T budget in Parliament on 12 June 2025.

Grant Thornton is delighted to present a summary of the key highlights, policy shifts, and potential implications of the proposed budget, aimed at informing stakeholders and supporting strategic decision-making.

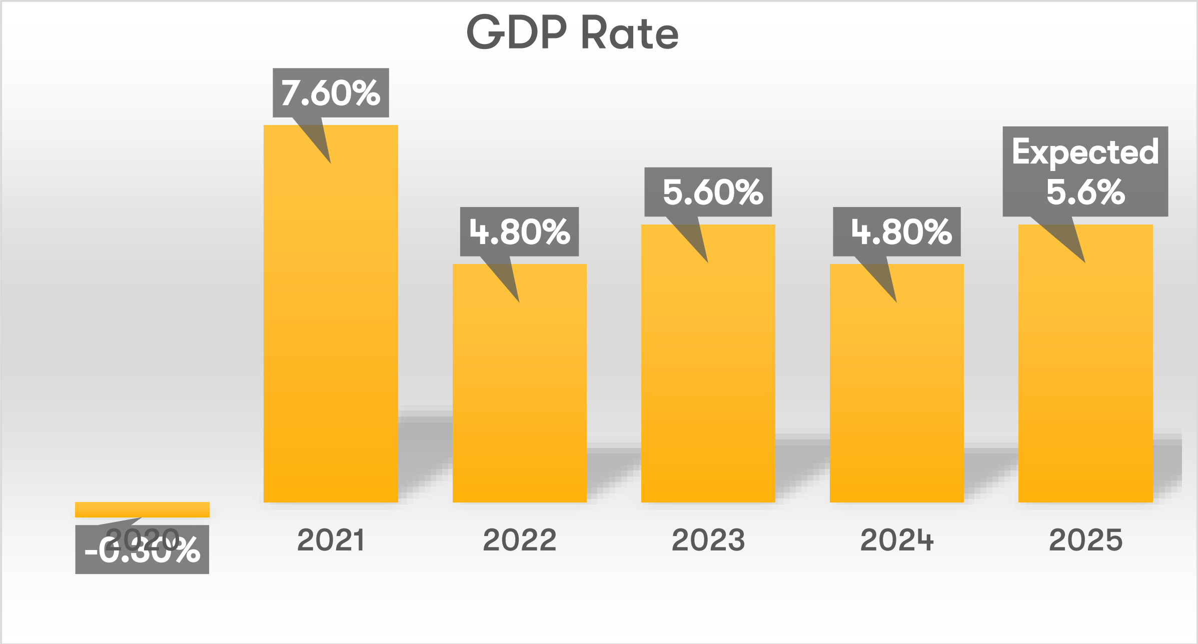
- This year's budget was made against the backdrop of the rejected Finance Bill 2024 where the Government took a cautious position of not introducing any new taxes .The shortfalls however necessitated the government to introduce supplementary budgets for the year 2024 -2025.
- The government is keenly focused on streamlining tax collection and administrative inefficiencies to allow for easier collection of taxes to fund the budget in respect of allocating funds to development projects and focused on recurrent expenditure.

Macroeconomic Policy Underpinning the FY 2025/26

Key Economic statistics

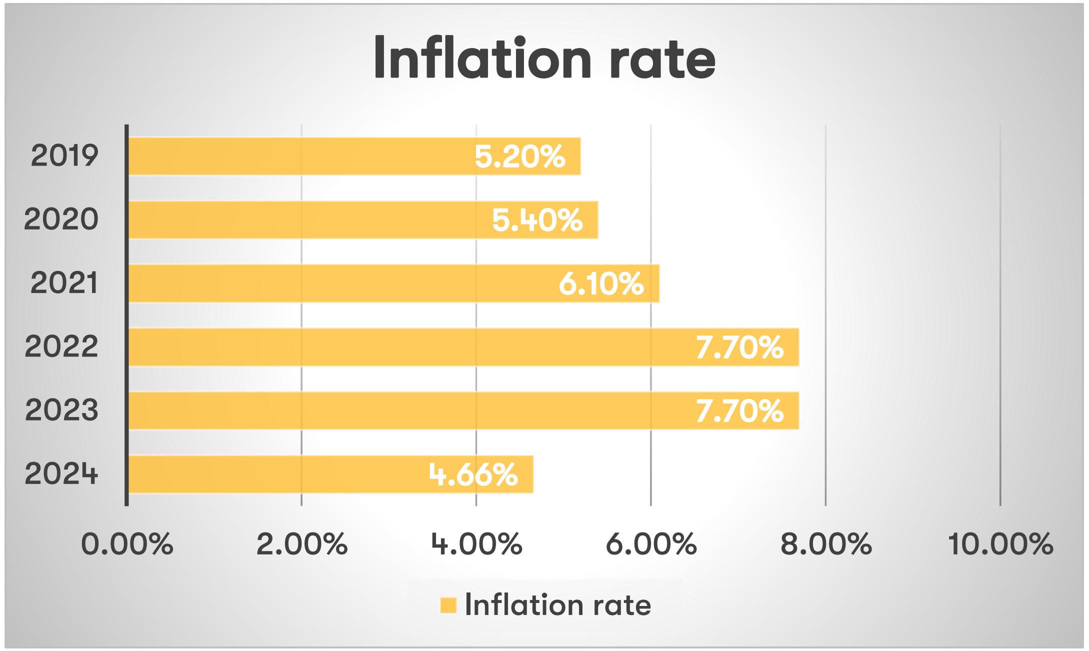
1. Gross Domestic Product

Kenya's growth has averaged 5.2 % for the period 2023 to 2024 compared against global growth of 3.3% and 3.8% for the sub-Saharan region. With GDP for the year 2024 as 4.8% with an expected GDP of 5.6% for the year 2025. For the past years, the GDP has been as follows;



2. Inflation Rate

Inflation rate has declined to 3.8% in May 2025 from a peak of 9.6% in October 2022. The annual average over the past few years has been as follows:



Macroeconomic Policy Underpinning the FY 2025/26

Key Economic statistics

3. Monetary Policy

The current account deficit has been lowered from 2.5% of GDP in 2023 to an all time low of 1.3% of GDP in 2024 resulting in foreign exchange reserves of USD 10.5 billion.

Interest rates have been falling with the central bank lowering the Central Bank Rate (CBR) from 13% in August 2024 to 9.75% in June 2025, in anticipation that Commercial banks will pass the benefits of reduced interest rates to the borrowers.

4. Bottom-Up Economic Transformation Agenda(BETA)

The BETA Agenda aims to bring down the cost of living, eradicate hunger, create jobs, expand the tax base, improve foreign exchange reserves, and achieve inclusive growth. To achieve the core values of BETA, the government has done the following;

- To ensure food security in the country the government reduced the cost of fertilizer from Kes 7,500 to Kes 2,500 as at 2025. This has resulted in an increase in maize production from 61.7 million bags in the year 2022 to 85.7 million bags in the year 2024.
- To support livelihood and businesses of enterprising Kenyans, the Government has disbursed Kes 60.0 billion through the Hustler Fund which had a repayment rate of 79% among citizens who received the loans.
- To support the Universal Health Care (UHC) Agenda 22 million Kenyans have been registered under Social Health Authority (SHA) a sharp increase from the 8 million under the defunct NHIF expanding health coverage for Kenyans.
- The government through the Affordable Housing Program(AHP) has built 2,379 affordable homes with another 11,000 units in the final stages of construction and approximately 148,000 houses under construction in 43 counties.
- The government has allocated Kes 11 billion to MSME'S who are involved in the AHP program.

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Macroeconomic Policy Underpinning the FY 2025/26

Key Economic statistics

5. KRA Revenue Collection

The current account deficit has been lowered from 2.5% of GDP in 2023 to an all time low of 1.3% of GDP in 2024 resulting in foreign exchange reserves of USD 10.5 billion.

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FY 2022/2023	FY 2023/2024	2024/2025
2.166 trillion	2.407	Expected collection 2.58 T
	An increase of 11.1% translating to Kes 240.65 B	

- As at 30th April 2025 KRA had collected Kes 2.25 T against a target of Kes 2.5 T.
- Through the tax amnesty program, KRA collected Kes 43.9 B. This is after 2,617,111 taxpayers were granted amnesty in the Financial Year 2023/2024.
- The Tax Procedures amendment Act, 2024, extended the tax amnesty program to June 2025 covering the period up to December 2023 which has since resulted to an additional revenue of Kes 13.5 B as at April 2025.

The bottom-up economic transformation agenda

The Bottom-up economic transformation agenda

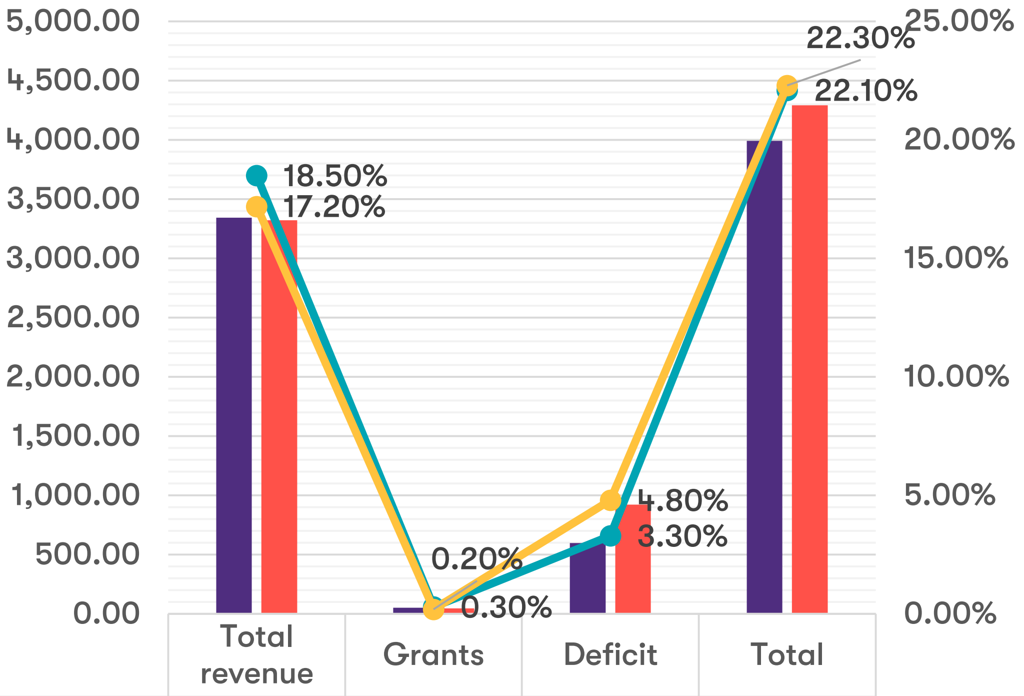
- Kenya's FY 2025/26 budget underscores the government's continued dedication to the Bottom-Up Economic Transformation Agenda (BETA).

- This agenda is designed to spark sustainable economic recovery and foster inclusive growth by directing increased investment into five high-impact sectors crucial for both the national economy and household well-being.

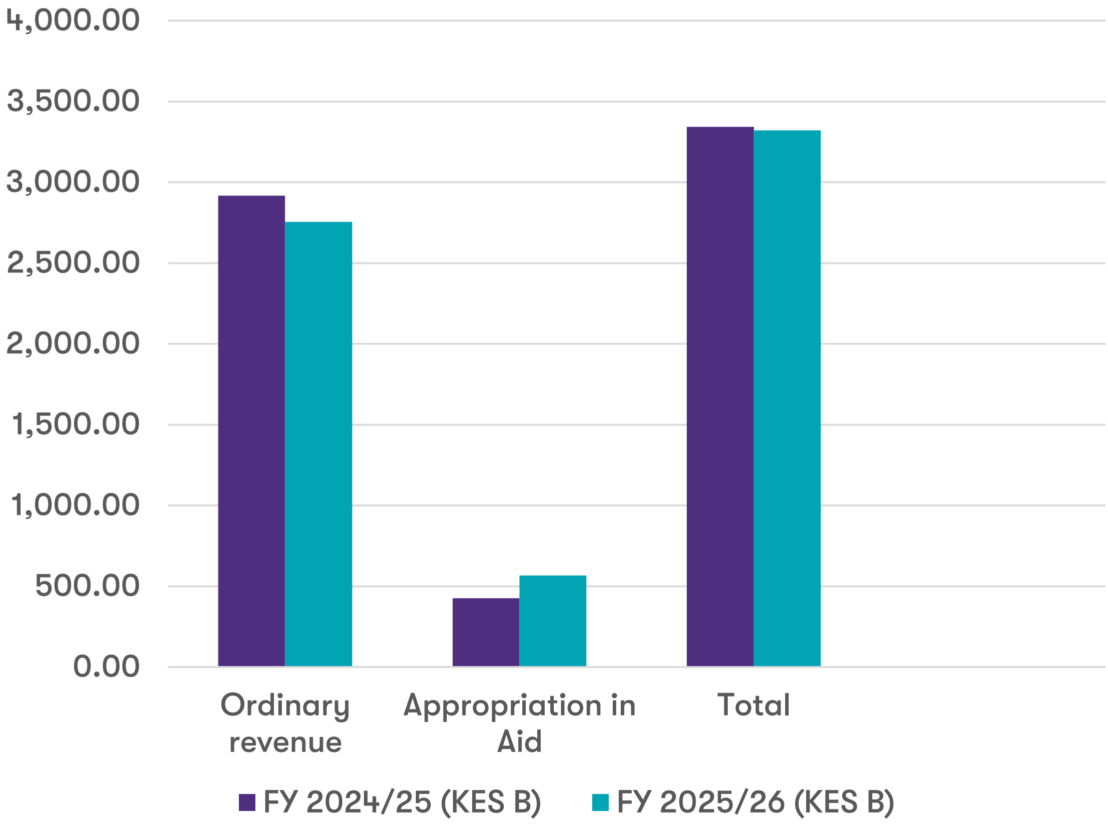
The Bottom-up economic transformation agenda

Budget allocation

Major expenditure allocations of the KES 4.29 trillion, which is 22.3% of GDP in FY 2025/26 compared to KES 3.992 trillion which was 18.5% of the GDP in FY 2024/25.

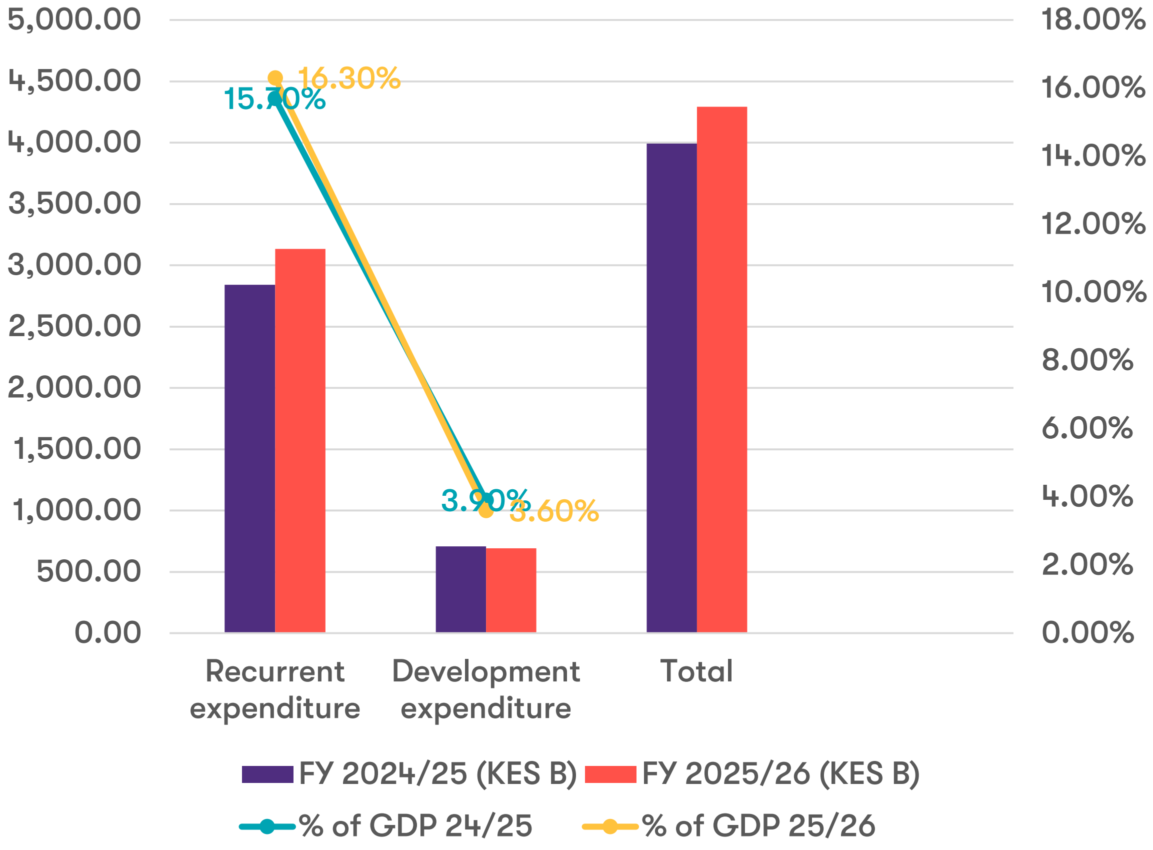


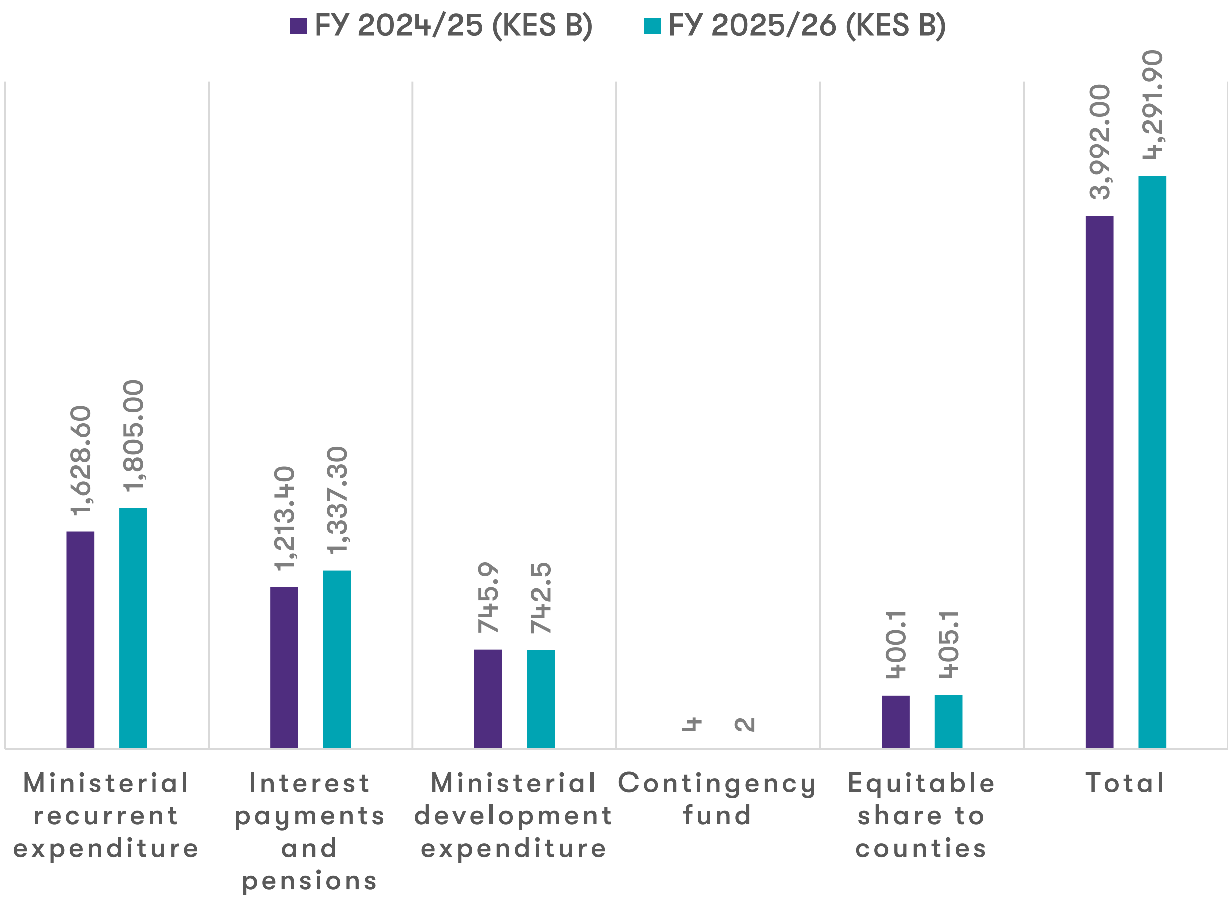
	Total revenue	Grants	Deficit	Total
FY 2024/25 (KES B)	3,343.20	51.8	597	3,992.00
FY 2025/26 (KES B)	3,321.70	46.9	923.2	4,291.90
% of GDP	18.50%	0.30%	3.30%	22.10%
% of GDP	17.20%	0.20%	4.80%	22.30%



The Bottom-up economic transformation agenda

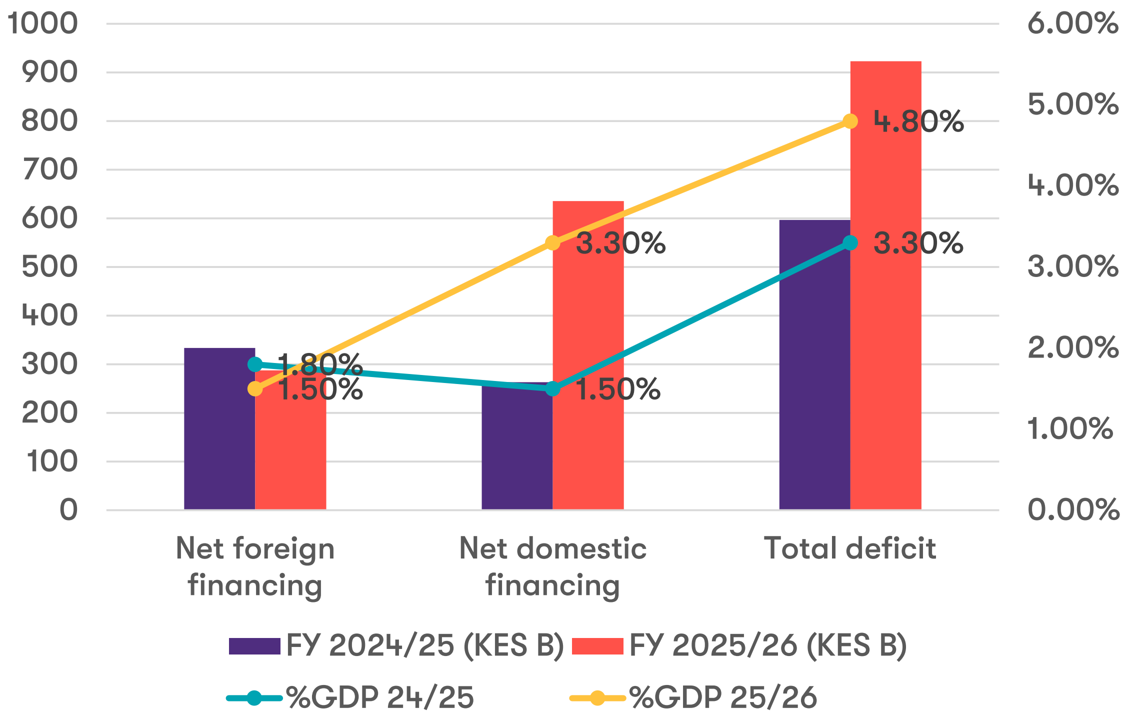
This proposed budget on total government expenditure and net lending in FY 2025/26 has been classified as follows:



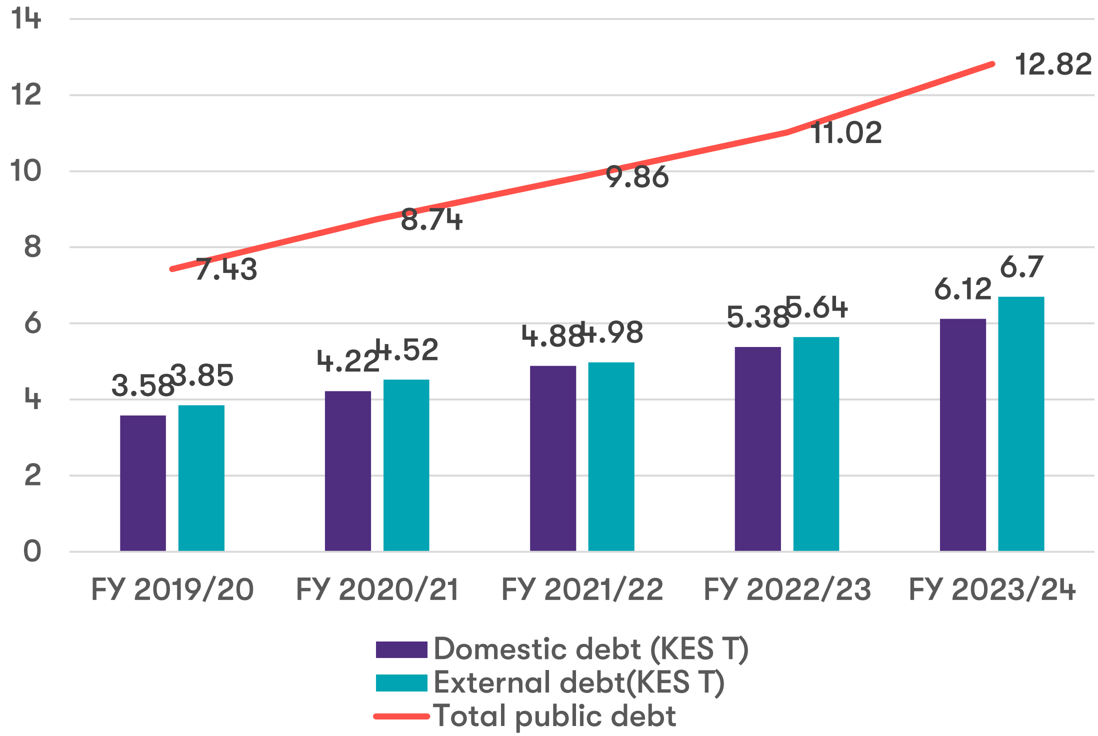


The Bottom-up economic transformation agenda

The deficit shall be financed from net foreign and domestic sources as follows:



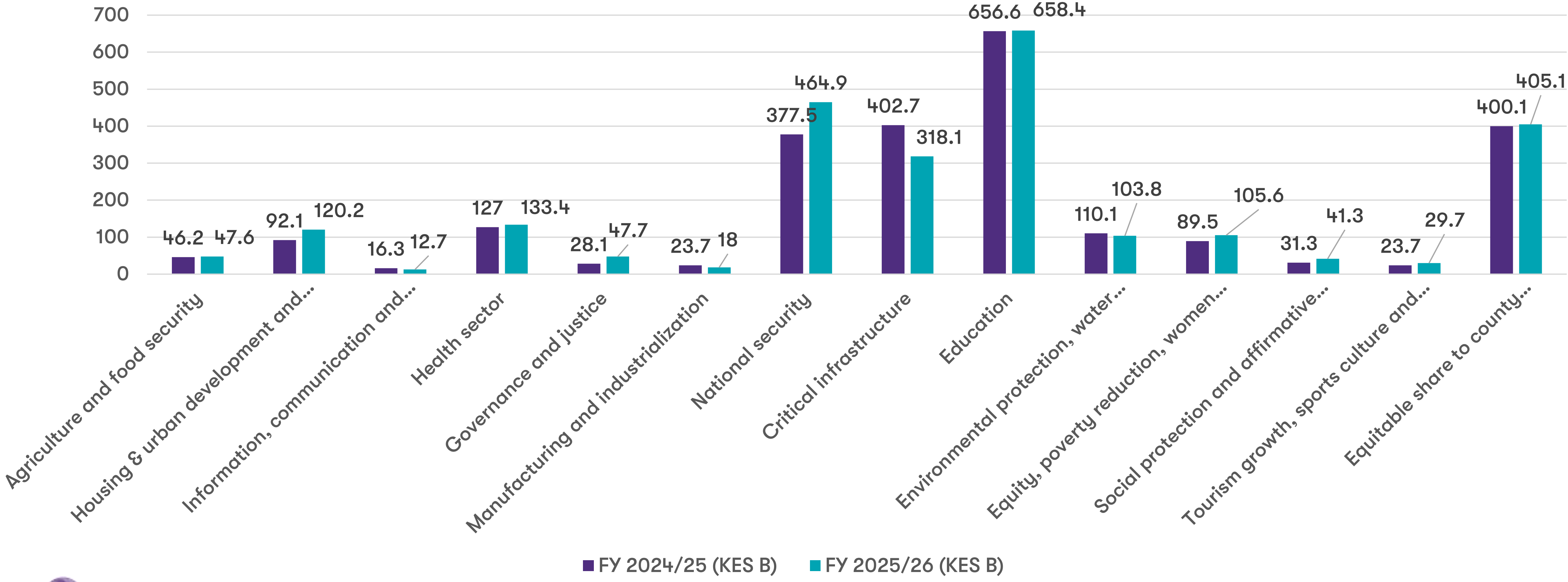
The public debt has tremendously increased in the last five years as per the table below:



The Bottom-up economic transformation agenda

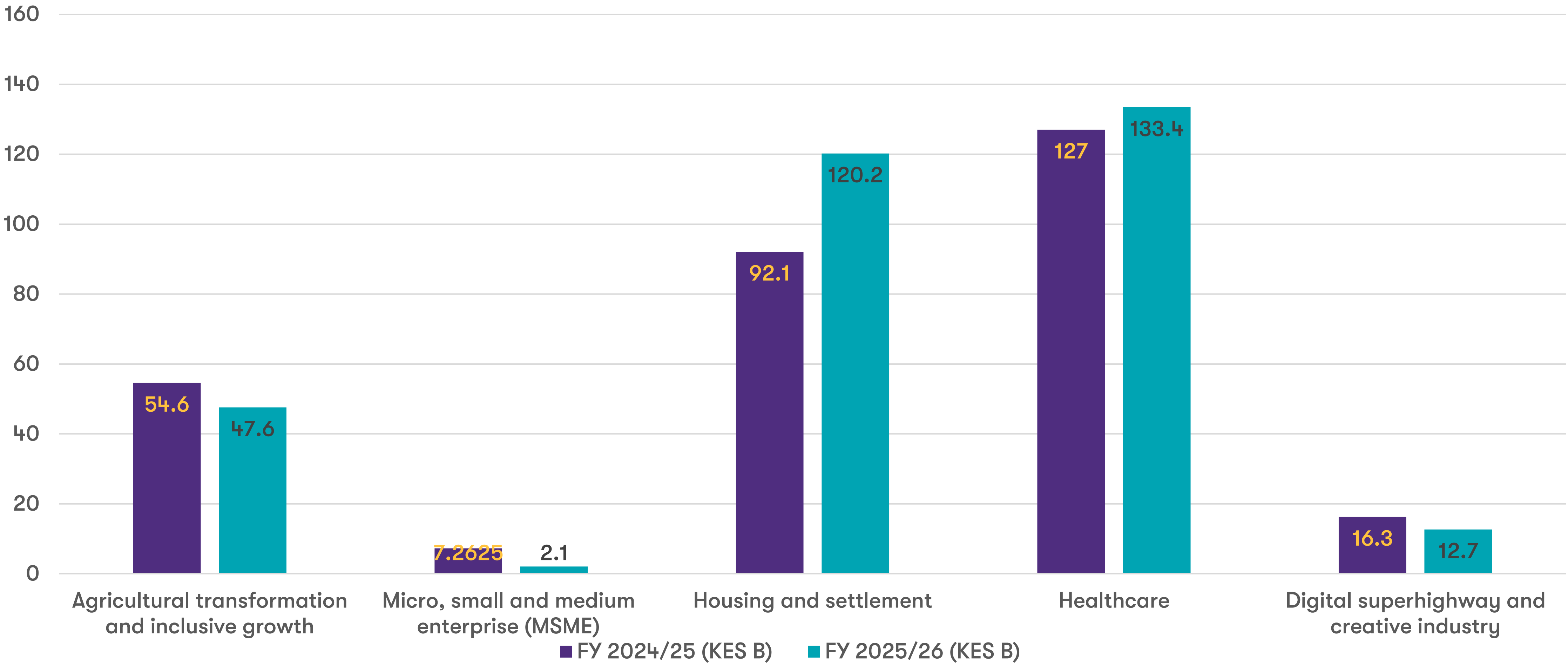
Sector allocation

Comparative sector allocation of the budget FY2024/25 and FY 2025/26



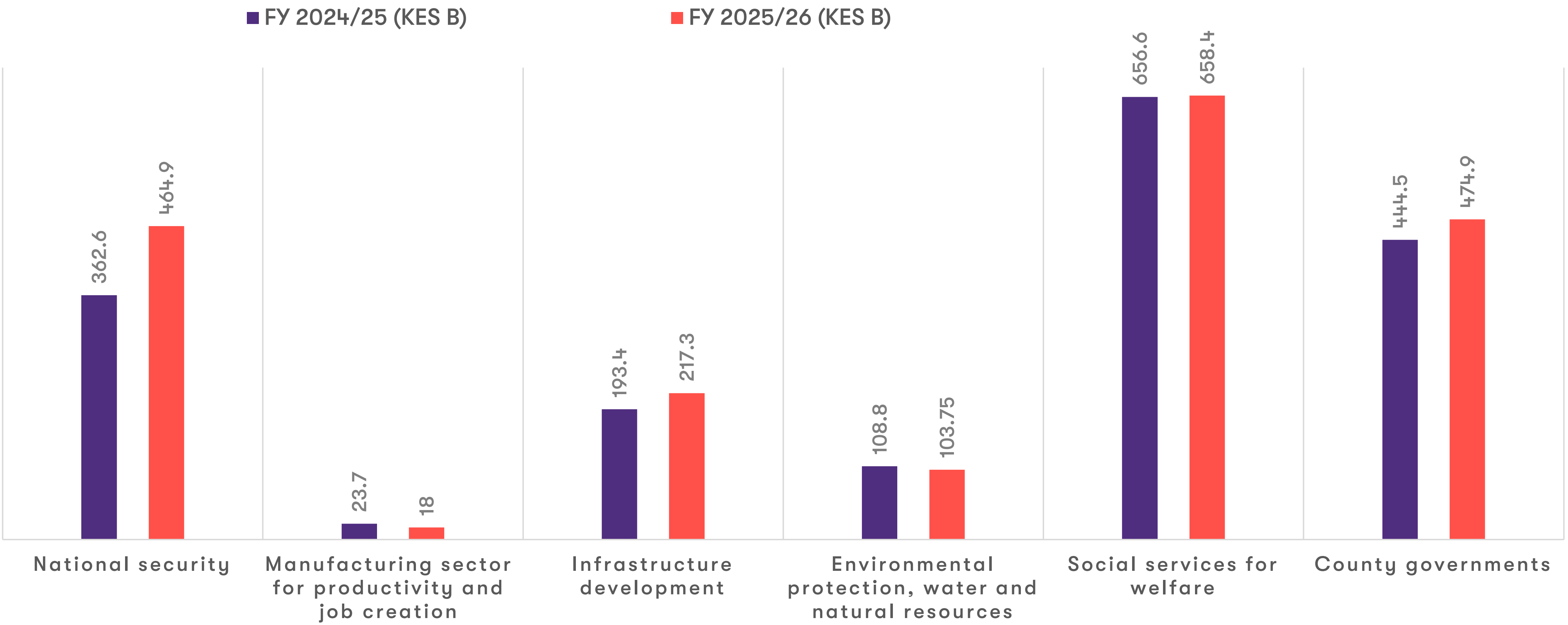
The Bottom-up economic transformation agenda

The pivotal sectors include:



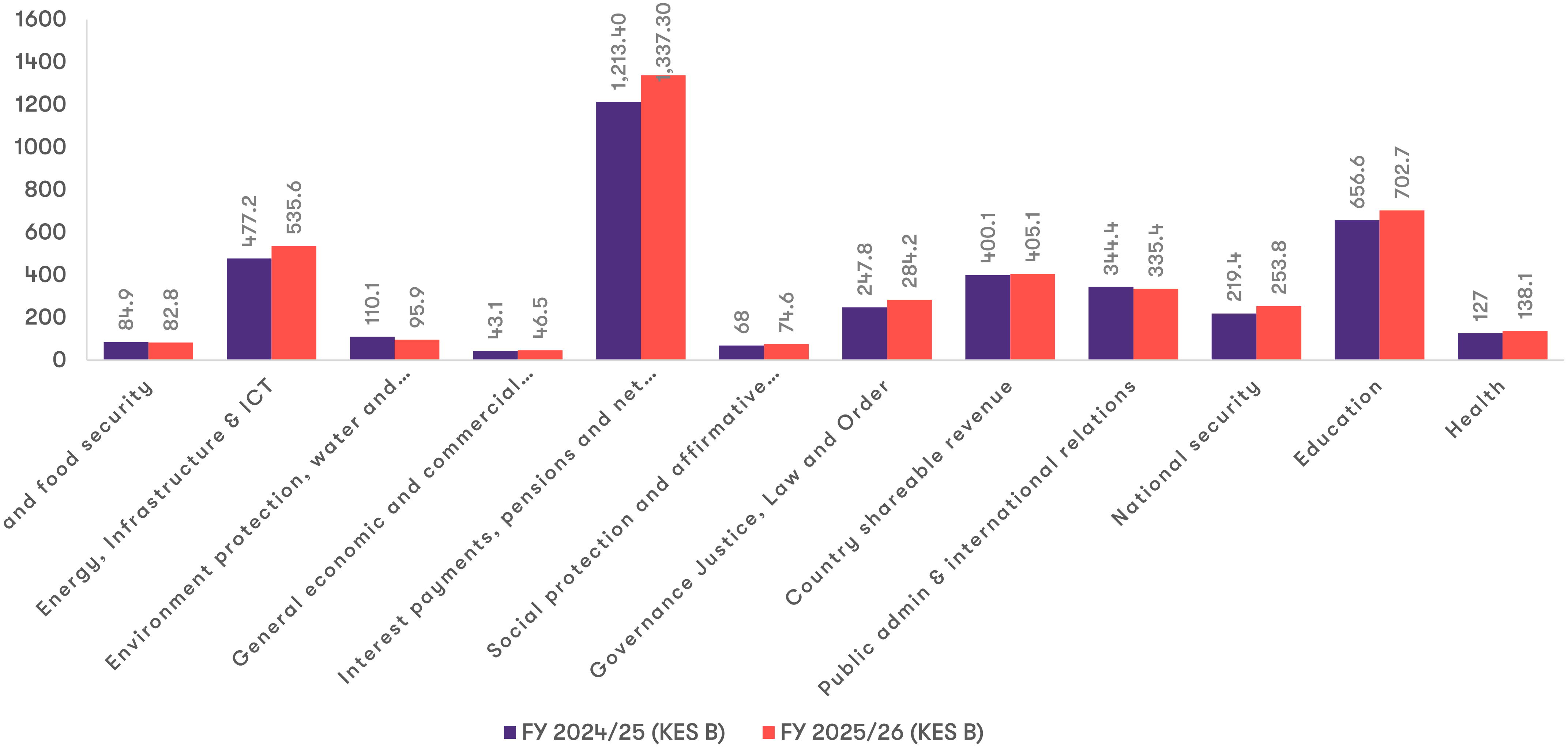
The Bottom-up economic transformation agenda

Other key allocations to thematic areas which include:



The Bottom-up economic transformation agenda

The budget expenditure tracking



Customs

Customs

Customs duties play a crucial role in shaping Kenya's economy by influencing the cost of imported goods, protecting local industries and generating government revenue. These taxes directly affect production costs, consumer prices, and the competitiveness of domestic businesses which ultimately trickling down to the consumers through changes in the prices of essential goods like food, electronics, and construction materials.

The 2025/26 Budget introduces several customs measures agreed upon during the East African Community (EAC) Ministers' Pre-Budget Meeting, aimed at supporting local industries while balancing affordability for consumers. Overall, these changes appear favorable, as they prioritize local production, job creation, and cost reduction in key sectors.

A. Tea packaging materials and Wheat importation:

- Reduced duty rates for importing tea packaging materials at 10% (from a range of 25% to 35%) to support local tea producers by lowering input costs during value addition. Similarly for wheat Kenya was granted/extended duty remission to import at 10% provided that the millers first purchase local wheat this aims to stabilize flour prices and protect Kenyan wheat farmers.

B. Rice Imports:

- Kenya will import rice at 35% duty or USD 200 per metric tonne (whichever is higher), instead of the EAC Common External Tariff (CET) rate of 75% or USD 345 per metric tonne to enable meet local demand.

C. Local Assembly and Production:

- Duty remission extended for inputs used in assembling telecommunication devices including mobile phones, laptops, and tablets. This will promote local manufacturing and job creation in technology sector.
- Duty-free imports for animal feed inputs under the EACC duty remission scheme to reduce production costs.
- As part of the BETA priority value chains, to support the leather sector, Kenya was allowed to extend a stay of application on Common External Tariff (CET) rate and apply a 35% import duty on leather products and duty remission for chemicals used in leather processing.
- EAC ministers approved Kenya's request for Tariff split on transformer assembly to distinguish between fully built and unassembled units. This incentivizes local transformer assembly for energy distribution.
- Duty-free imports for crane assembly inputs.

D. Paper and Packaging:

- A stay on the EAC CET last year allowed Kenya to impose a 25–35% import duty on specific paper used for packaging materials. This adversely affected exporters, particularly within the tea sector. Therefore to resolve this issue, Kenya has chosen not to extend the stay on the EAC CET, this adjustment will not disrupt local packaging manufacturers, as they can still import raw materials under existing duty remission.

Other taxes summary

Other taxes summary

- Through the Finance bill 2025 the government intends to collect 30B compared to previous Finance Bills which were targeting additional collections of over 300B.The FB 2025, whereas it slowed down on introducing more taxes, it aims at enhancing tax revenue measures and collections.
- The Budget 2025/2026 emphasized on some proposals as contained in the Finance Bill 2025, it further aims to enhance a range of tax reforms aimed at enhancing compliance, promoting equity and improving revenue mobilization. The proposals are centered on making the tax system more efficient. This will in turn close existing loopholes and encourage investment across key sectors

Advance Pricing Agreements (“APAs”):

With increasing Transfer Pricing audits, the APAs provide a framework in which taxpayers will enter an arrangement with the KRA on specific related-party transactions and thus mitigate transfer pricing disputes. This will reduce the conflict between the commissioner and the Taxpayer under this regime

Minimum Top-Up Tax:

The due date for payment of the minimum top-up tax has been defined. The bill sets the due date as the last day of the fourth month after the end of the year of income.

Diminution:

Businesses will now be allowed to fully deduct the cost of acquiring utensils and industrial tools in the year of purchase. This replaces the current three-year straight-line depreciation. Hence boosting business cashflow.

Gratuity:

For clarity , All gratuity payments, whether from public or private pension schemes, will be exempt from income tax.

Digital Asset Tax:

The Digital Asset Tax rate is proposed to be halved from 3% to 1.5%. The move is aimed at supporting innovation and encouraging youth engagement in the digital economy.

Mortgage Interest Deduction:

To promote more Kenyans to construct their own houses, mortgage interest deductions will now also apply to home construction loans, in addition to loans for purchasing or renovating residential houses.

Other taxes summary cont.'

Per Diem:

The tax-free DSA limit for the private sector will be increased from Ksh 2,000 to Ksh 10,000 per day. This hopes to bring equity with the public sector and easing tax compliance for employers and employees.

Incentives for Nairobi International Financial Centre (“NIFC”):

Strategic tax incentives are proposed to position Nairobi as a competitive financial hub:

Large businesses that invest Kes 3 billion or more within a period of 3 years will qualify for a reduced corporate income tax rate of 15% for the first 10 years of operation. After this 10-year period, the applicable corporate income tax rate will increase to 20%.

Newly established businesses categorized as startups will benefit from a preferential corporate income tax rate of 15% for their first 3 years of operation. After this initial period, the tax rate will increase to 20% for subsequent years.

Legal Definition of a Tax Invoice:

The Bill proposes to codify the definition of a tax invoice to provide clarity and reduce litigation or disputes related to invoicing practices.

Reduction of timelines on claiming VAT refunds arising from bad debts:

The period for claiming VAT refunds arising from bad debts will be shortened from three years to two years, and taxpayers will have the additional option to offset such claims against future VAT liabilities.

Liability for Misuse of Exempt or Zero-Rated supplies:

Supplies that are either exempt or zero-rated will be expected to be use for their original purpose otherwise they will incur a tax liability in case of misuse.

Reclassification of goods:

Certain goods previously zero-rated for local consumption will now be classified as exempt. This will limit VAT input claimability and narrow refund leakage. Furthermore, ambiguous or broadly worded exemptions are proposed to be removed for clarity.

Change in definition of digital lenders

The Bill includes a refined definition of a digital lender to mean a person extending credit through an electronic medium but does not include a bank licensed under the Banking Act, a Sacco society registered under the Co-operative Societies Act or a microfinance institution licensed under the Microfinance Act.

Harmonized Classification of Excisable Goods:

All excisable goods, both locally manufactured and imported, will now be classified using the East African Community Common External Tariff (EAC CET) codes. This will improve consistency and regional harmonization.

Issuance of excise licenses:

The Kenya Revenue Authority (“KRA”) will be mandated to respond to excise license applications within 14 days, reducing administrative delays.

Neutral Alcohol Excise Rate:

A uniform excise rate of Kes 500 per litre will apply to undenatured ethanol (with alcohol strength of 90% or higher) that is supplied to licensed manufacturers of beverages, supporting industrial predictability.

Other taxes summary cont'

Power to collect tax from persons owing money to taxpayers:

The Bill empowers KRA to collect taxes from non-resident persons, through an agency notice.

Enforcement of tax collection in absence of a stay order

The Finance Bill 2025 proposes a shift in how stay orders are handled related to tax assessments and enforcement. Currently, taxpayers can seek stay orders from the court to prevent the KRA from enforcing an assessment. Under the new bill, the KRA can issue agency notices even if a taxpayer appeals a decision to the Tax Appeals Tribunal or court, unless they have a court-granted stay order. This means taxpayers will need to proactively seek stay orders to prevent enforcement actions, even during the appeal process.

KRA to provide reasons for issuing amended assessments

The bill proposes to amend Section 31 by introducing Section 31(8A) in respect of amended assessments where the Commissioner is now required to provide a reason for amending the assessments.

Waiver of penalties and interest accruing from system errors

The bill proposes to introduce subsection 89(5A) where it allows the Cabinet secretary to waive penalty and interest that may accrue from the use of the e-tims system on recommendations from the Commissioner. Some of the errors include;

- Errors generated by an electronic tax system
- A delay in updating an electronic tax system
- Duplication of a penalty or interest due to a malfunction of an electronic tax system
- Incorrect registration of the tax obligations of a taxpayer. Taxpayers will be allowed to correct errors in their tax returns without incurring penalties, provided the errors were made in good faith and not with the intent to evade taxes.

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