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BUDGET STATEMENT

FY 2026/27

Theme: "Sustaining the Bottom-Up Economic Transformation Agenda for Resilient and Inclusive Growth amid Global Uncertainty "

STATEMENT DELIVERED TO THE NATIONAL ASSEMBLY ON 11TH JUNE, 2026 BY HON. FCPA JOHN MBADI NG'ONGO, EGH, CABINET SECRETARY FOR THE NATIONAL TREASURY, REPUBLIC OF KENYA, WHILE PRESENTING THE BUDGET POLICY HIGHLIGHTS AND REVENUE RAISING MEASURES FOR THE FINANCIAL YEAR 2026/27 BUDGET

1ST JULY, 2026 TO 30TH JUNE, 2027

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I. INTRODUCTION

1. Mr. Speaker, it is my honour and privilege to present to this august House and to the people of Kenya the Budget Statement for the Financial Year 2026/27. I make this Statement in fulfillment of the requirements of Section 40 of the Public Finance Management Act, CAP 412A and Standing Order No. 241 of the National Assembly.

2. Mr. Speaker and **Honourable Members**, this is the first budget since the passing the late Rt. Hon. H.E. Raila Amollo Odinga who is fondly remembered as a patriot and national hero who steadfastly championed economic justice, democracy, and equal opportunity for all Kenyans. His legacy continues to inspire and guide us as we transform Kenya into a newly industrialized and middle-income country. In honour of his immense contribution to our country, I kindly invite

Members of this esteemed House to observe a moment of silence. **(Observe one minute of silence.)**

3. **Mr. Speaker,** the Rt.Hon. Amollo Odinga, was a key Partner to His Excellency The President, Dr. William Samoei Ruto in the Broad-Based Arrangement. **Mr. Speaker,** this Budget captures the ideals of the two great leaders especially on the aspiration to transform our economy from its current status to a more developed nation status – a path to Canaan through Singapore. The extensive public participation throughout the budget process presents a solid basis and foundation for what is clearly the people's budget.

4. **Mr. Speaker,** public participation is a constitutional imperative! In compliance with this requirement, I personally led extensive, public engagements with Kenyans from across the

country in the last one year. This was meant to get their views and inputs to the Budget that I am presenting today. **For example,** I met Youth and Business Community particularly, Boda Boda operators, Jua Kali artisans, leadership of the mitumba sector and scrap metal dealers. I also engaged extensively with members of the Fourth Estate and in the process launched their Financial Journalists Association. Additionally, I travelled to various regions and conducted numerous regional dialogues. These included: Kilifi in December 2025 for the coastal region dialogue; Migori in Nyanza, Kakamega in Western, and Eldoret and Nakuru in Rift Valley regions in January 2026.

5. Mr. Speaker, in February 2026, I travelled to Kiambu and Meru Counties, while in May 2026, I met the youth and the Business Community from Kajiado and Nairobi regions. The month of May and June 2026 have been very intense in terms of engagements.

6. **Mr. Speaker,** besides the regional dialogues, I joined Bunge la Mwananchi Community at Jeevanjee Gardens, Nairobi and Gumzo la Uchumi, Mashinani in Busia County for conversation with faith-based organizations in May 2026. I have also on numerous occasions appeared in a number of television stations, expounding on what we are doing and what we intend to do as a Government. Further, in the same month of May 2026, I returned to my *Alma Mater*, ***"The University of Nairobi"*** where I had a dialogue with **comrades** at the Chandaria Auditorium.

7. **Mr. Speaker,** in my engagements with Wananchi, I walked into a couple of shops to directly engage with the mobile phone dealers on the proposed tax changes (excise duty on mobile

phones). Additionally, last Thursday, 4th June 2026, I joined a panel of eminent professionals on the **Citizen Digital X Space** in unpacking the Finance Bill 2026. The eminent professionals included: FCPA Prof. Elizabeth Kalunda, the Chairperson of ICPAK, Mr. Fred Kimotho, Deloitte Tax Policy Lead; Mr. Raimond Molenje, the Chief Executive Officer, Kenya Bankers Association; Mr. Tobias Alando, the Chief Executive Officer, KAM; and Mr. Kwame Owino, the Chief Executive Officer, Institute of Economic Affairs. A total of 15,847 Kenyans tuned in while live listeners topped 14,249.

8. Mr. Speaker, the message from Kenyans across the country - from our rural villages to our bustling towns and cities, the ordinary **mwananchi** - is clear and consistent message. They have genuine expectations from the

Government. Kenyans want an economy that works for them; an economy where the cost of living is manageable; where opportunities for employment and businesses are expanding; and where the benefits of economic growth are shared widely across society.

9. **Mr. Speaker**, Wananchi want to see a Government that listens to their concerns and responds with policies that promote opportunity, fairness, and prosperity. They want to see a Government that protects their livelihoods; supports farmers and small businesses; empowers the youth and women; and ensures that public resources are used prudently and transparently. Above all, the people of Kenya want assurance that their hard-earned taxes will translate into tangible improvements in their daily lives.

10. Mr. Speaker, the main feedback from all these engagements was that the Government should reduce the overall cost of living by lowering the tax burden on essential commodities; tame wastage of public resources; and decisively deal with corruption.

11. Mr. Speaker, among the concerns and anxieties raised by Kenyans is the fear of potential outbreaks of infectious diseases, including Ebola, given the reported cases in some countries within the region.

12. Mr. Speaker, I wish to underscore that while Kenya is currently free of any confirmed Ebola Virus Disease, the Government has activated the National Ebola Incident Management System to coordinate surveillance and response. Already, enhanced screening is taking place at all the points of entry especially the airports and border points. The Government has in the meantime, trained over 1,000 healthcare workers and put together a reserve team of 241 experts in epidemiology, laboratory services and emergency response who remain on standby for rapid deployment.

13. The Government has also designated isolation and treatment facilities across the country, including at Kenyatta National Hospital and the National Police Service Hospital. The Ministry of Health is working closely with regional and international partners, including the World Health Organization, Africa CDC, IGAD and the East African Community on this matter.

14. Mr. Speaker, these efforts are further supported by our Development Partners. Already, the Government of the United States of America has committed approximately USD 13.5 million towards health security interventions, including disease surveillance and emergency preparedness. In addition, the World Bank has mobilized resources under the Regional Recovery and Resilience Operation (RRO) Programme, which will support among others, interventions in strengthening the health systems.

15. Mr. Speaker, these resources, complemented by domestic budgetary allocations, will significantly enhance Kenya's capacity to prevent, detect, and respond to Ebola and other epidemic-prone diseases, while safeguarding livelihoods and maintaining economic stability.

16. Mr. Speaker, this demonstrates that this Government is listening and responding to the concerns of citizens. On other concerns Kenyans raised with me during the public engagements I highlighted above, I will be elaborating on interventions that the Government is putting in place to cushion Kenyans and improve their livelihood.

17. Mr. Speaker, the budget for FY 2026/27 will prioritize various interventions under the Bottom-Up Economic Transformation Agenda (BETA) that promote private sector led growth, expand employment opportunities, and enhance delivery of public services while preserving fiscal sustainability and building resilience against emerging economic challenges.

18. Mr. Speaker, this Budget is being presented at a time of heightened global uncertainty arising from the ongoing conflict in the Middle East. The conflict has disrupted global commodity markets and supply chains, weakened investor confidence and tightened financial conditions.

19. These developments have heightened risks to growth and inflation, increased pressure on public finances, and created uncertainty in global markets. For developing economies such as Kenya, the impact is being felt through higher pump prices following a steep increase in global oil prices from an average of US dollar 63.06 per barrel in February 2026 to US dollar 94.4 per barrel by end May 2026. In addition, tighter financing conditions, weakening export demand, slower investment flows, and rising cost of living continue to exert pressure on economic activities.

20. Yet even in this environment, new opportunities are emerging. Countries that strengthen competitiveness, deepen regional integration, and build resilient productive capacity will be the ones that thrive.

21. Mr. Speaker, it is against this backdrop that Kenya's economic journey over the past three years stands as a story of resilience, difficult but necessary choices were made delivering a steady recovery. Faced with significant domestic and external pressures and shocks, the Government took difficult but necessary decisions to restore macroeconomic stability, strengthen public finances, and lay a firm foundation for sustainable growth.

22. Mr. Speaker, the hard decisions are bearing fruits. Under the Bottom-Up Economic Transformation Agenda, we have recorded clear gains. First, the Kenyan economy has remained resilient and registered an average rate of 5.0 percent in the period 2022 to 2025, outperforming the average global growth rate of 3.4 percent and that of Sub-Saharan Africa of 4.1 percent.

Importantly, macroeconomic stability has been preserved, confidence in the economy strengthened, and the foundations for sustained growth are now firmly in place. Macroeconomic fundamentals such as inflation and exchange rate have strongly rebounded and are projected to remain stable. Interest rates have declined supporting growth in private sector credit from the banking industry. We have also accumulated the highest levels of official foreign exchange reserves of USD 13.2 billion (equivalent to 5.6 months of import cover) by May 2026, providing adequate cover and a buffer against short-term domestic and external shocks.

23. Mr. Speaker, let me mention some key achievements. Since the rollout of BETA, the agriculture sector has registered key gains that include: reduced fertilizer costs through

Government subsidy programmes; increased marketed agricultural production; expanded food security interventions; and strengthened farmer support services targeting both smallholder and commercial farmers. Specifically:

i) Fertilizer disbursements under the Fertilizer Subsidy Programme have increased substantially to **21.3 million bags** in 2025 from 1.4 million bags disbursed in 2022, while the cost of a 50kg bag of fertilizer declined to KSh 2,500 from KSh 7,500. As a result, farmers realized estimated savings of approximately KSh 105 billion over a two-year period, enabling increased investment in production;

ii) Agricultural production has increased significantly between 2022 and 2025. For example, maize production almost doubling to

67 million bags in 2025 from 34 million bags in 2022, while maize imports have declined substantially to 3.3 million bags from 9.9 million bags over the same period reflecting improved domestic efficiency. The increased production contributed to a decline of retail prices of a 2kg packet of maize flour from an average of KSh 250 to an average of KSh 165 over the same period. Paddy rice production increased significantly to 303,724 metric tonnes in 2025 from 192,299 metric tonnes in 2022. To support expanded cultivation, the area under rice production in public irrigation schemes increased from 48,324 acres to 71,624 acres; potato production increased to 2.5 million tonnes in 2025 from 1.8 million tonnes in 2022; and milk production increased to 5,521.1 million litres in 2025 from 4,604.3

million litres in 2022. The increased production has improved food security, reduced dependance on food imports, and contributed to more stable food prices, and higher farmer incomes;

iii) **Mr. Speaker,** farmers across the other various values chains have enhanced production and benefited from higher earnings: Tea production has grown to 550.4 million kilograms in 2025 from 535.04 million kilograms in 2022, while tea export earnings rose significantly to KSh 187.1 billion from KSh 163.3 billion over the same period. To support rehabilitation of ageing plantations and expansion of coffee acreage, the Government distributed coffee seedlings progressively across the years, including 85,000 seedlings in the FY 2023/24, 809,710 seedlings in FY 2024/25, 3,127,769 seedlings in FY 2025/26; and a further 2,242,769 coffee seedlings under the March-May 2026 long rains programme. As a result of these interventions, the area under coffee has increased to 115,500 hectares in 2025 from 109,385 hectares in 2022. In the edible oils sector, the area under edible oil crops increased significantly to 114,350 hectares in 2025 from 60,000 hectares in 2022, reflecting growing farmer participation and investment in the subsector. Further, **Mr. Speaker,** interventions under the sugar sector has led to significant growth in both cane production and processing capacity, with the area under sugarcane cultivation increasing by 19.4 percent and national sugar production rising to 815,454 metric tonnes in 2024 from 472,773 metric tonnes in 2022.

24. Mr. Speaker, access to healthcare has expanded substantially through far-reaching reforms aimed at strengthening primary healthcare, improving service delivery and ensuring sustainable health financing. A total of 31.2 million Kenyans are now registered under the Social Health Authority, compared to about 8 million under the defunct NHIF, while 228 Primary Care Networks have been established and operationalized. A total of 107,831 Community Health Promoters have been recruited and trained while 16,810 medical interns have undergone internship bringing healthcare services closer to communities.

25. Mr. Speaker, the Government recognizes the critical role the contracted healthcare facilities play in the delivery of healthcare services to Kenyans. It is with this in mind that the Government in the current fiscal year (2025/26) allocated **KSh 4.0 billion** for settlement of outstanding National Hospital Insurance Fund (NHIF) pending bills.

26. Mr. Speaker, this allocation is specifically designated for settlement of NHIF pending bills owed to contracted healthcare facilities, in accordance with the Presidential Directive that prioritized the clearance of outstanding obligations for facilities with claims not exceeding KSh 10 billion. The claims earmarked for settlement under this allocation have been duly verified and adjudicated and will be fully paid before the close of this financial year. **Mr. Speaker,** the Government will subsequently prioritize payment of the outstanding claims exceeding the KSh 10.0 billion threshold once verified in the next budget.

27. Mr. Speaker, the Government has accelerated implementation of the Affordable Housing Program to address Kenya's housing deficit, create jobs, stimulate local manufacturing, support MSMEs, strengthen county economies, and improve the quality of life for millions of Kenyans. **Mr. Speaker**, through the Program:

i) A total of 277,281 housing units have been completed or are under implementation nationwide as at May 2026;

ii) The Program has also successfully aggregated demand through the Boma Yangu platform, where more than one million Kenyans have registered their interest in home ownership, demonstrating both the scale of housing demand and growing public confidence in the Government's housing agenda;

iii) To improve living conditions for students and support the expansion of higher education, the Government has packaged 177,686 student beds for development across universities, while 22,512 institutional housing units are under construction for disciplined forces, teachers, healthcare workers, and other public servants.

iv) The Programme has created over 640,442 jobs across the housing value chain through construction activities, professional services, manufacturing, logistics, and supporting industries; and

v) Under the modern Markets Program, a total of 476 markets have been packaged for development nationwide, with 354 already under implementation. This will provide dignified trading spaces and support entrepreneurship.

28. Mr. Speaker, the Government continues to implement a number of interventions to empower the youth. In particular, the Government has:

i) Constructed four Youth Empowerment Centres (YECs) in Mwea, Chepalungu, Dagoretti North and Mandera South Constituencies. In addition, 25 YECs have been equipped bringing the total to 156 YECs across the Country.

ii) The Government has also enhanced skills development and wealth creation through provision of loans to 93,559 youth entrepreneurs through the Youth Enterprise

Development Fund (YEDF). Additionally, 91,253 youth have benefited through start-up grants under National Youth Opportunities Towards Advancement (NYOTA) Programme. The NYOTA programme has also supported 51,604 youth through On-Job-Experience in 26 Counties across the Country; and,

iii) Implemented Vijana Vuka na Afya (ViVA) Project in Nairobi, Kisumu and Mombasa where 72,623 youths have benefited from subsidized Sexual Reproductive Health services.

29. Mr. Speaker, in support of the creative economy, the Government has established three Film Hubs in Dedan Kimathi University in Nyeri; Bomet and Migori Counties and fully equipped them with film production equipment. Additionally, a cinema theater has been established at Dedan Kimathi University of Technology with a capacity of 150 audiences. Further, to reach more youth particularly in rural areas, a Cinema Mashinani programme has been rolled out. The Government has also facilitated the production of 1,745 local and foreign films in Kenya and trained 1,847 filmmakers.

30. Mr. Speaker, to further empower the youth, the Government in partnership with the United National Development Programme, has developed the NextGen.Ke Initiative, that will provide recently graduated youth with paid internship opportunities in the private sector, enabling them to acquire practical workplace experience and market-relevant skills. To support this intervention, the Government has committed an initial allocation of KSh 2.0 billion towards its implementation.

31. Mr. Speaker, given the scale of the youth employment challenge, the Government further calls upon Development Partners, the private sector, philanthropic organizations, and other stakeholders to join this national effort, acknowledging that the task of creating opportunities for Kenya's youth extends beyond the capacity of Government alone and requires a broad-based partnership for sustainable impact.

32. Mr. Speaker, to support MSMEs, the Government has moved deliberately to put affordable credit, markets and shared infrastructure directly into the hands of the enterprises and young people at the base of the economy. To expand access to affordable credit, the Government set up the Hustler Fund in 2022. Since then, the Fund has disbursed KSh 87 billion to 28 million accounts and given 4.5 million people previously unscored (blacklisted) Kenyans a formal credit history for the first time.

33. Mr. Speaker, under the NYOTA Programme, more than KSh 5.6 billion has been invested in business skills training, mentorship, and start-up capital, benefiting at least 84 youths in each of the country's 1,450 wards. To promote value addition, the Government has equipped 214 industrial development centres in our constituencies, and opened regional markets to more than 1,100 of our enterprises, creating over 23,000 direct and indirect jobs. This is the bottom-up transformation at work, and in the coming year we will scale it further.

34. Mr. Speaker, the sustained investment by the Government since 2022 has improved infrastructure development thereby enhancing connectivity, boosting manufacturing, facilitating trade, and enhancing access to markets and essential services. Key achievements in this sector include:

i) Expansion of road network across the country, with over 2,669 kilometres of roads constructed and more than 132,000 kilometres maintained;

ii) Increased country's installed electricity generation capacity to 3,272 MW as at April 2026, with additional capacity expected from the 35 MW Globeleq Power Plant. To improve energy security and reliability, the Government has modernized substations, strengthened the national grid, reduced system losses, and enhanced regional power interconnections. As result: 75.45 km of transmission lines and associated substations were constructed while 200 km of transmission lines were energized, including the Lessos–Kabarnet, Kitui–Wote and Sondu–Homa Bay lines. In addition, 330 km of distribution lines and seven associated substations were completed. **Mr. Speaker,** during the same period, access to electricity expanded significantly with the number of customers connected rising from 8.9 million to over 10.2 million; and

iii) Industrialization is currently gaining momentum, with 10 County Aggregation and Industrial Parks constructed over the last three years to support value addition, and create employment opportunities across the counties.

35. Mr. Speaker, we have also invested heavily in critical social sectors and supported the vulnerable in the society. As a result:

i) Social protection programmes have been strengthened, with 1.2 million vulnerable Kenyans currently supported under the Inua Jamii Programme, helping to improve household resilience and protect the most vulnerable members of society; and

ii) Access to education and skills development has expanded through the implementation of far-reaching reforms across the education sector, including: i) successful implementation of the Competency-Based Curriculum (CBC); ii) rollout of the Student-Centred Funding Model, through which nearly 500,000 university and TVET students have benefited from scholarships and loans based on need and merit; iii) recruitment of 100,000 teachers to strengthen teaching capacity and improve learner outcomes; iv) timely and consistent release of capitation funds to support learning in basic education institutions; v) construction of over 23,000 classrooms and commencement of 1,600 laboratories in partnership with the NG-CDF to support CBC implementation; and vi) revitalization of Technical and Vocational Education and Training (TVET), with enrolment increasing from 562,499 trainees in 2022 to 825,484 trainees in 2025.

36. **Mr. Speaker,** access to clean and safe water has improved, with an additional six million Kenyans gaining access to water services through investments in key projects, thus enhancing public health and supporting economic activity. This comes as no surprise considering that Kenya is a leader in designing innovative, paradigm shifting locally led climate action. Take the FLLoCA

program for example, it has broken the barrier in financing locally prioritized and locally led resilience investments in 1,380 wards across 45 counties benefiting more than 2.5 million beneficiaries.

37. Mr. Speaker, key among the FLLoCA gold standard investments are: the 58 KM rehabilitation of the colonial Yata canal in Machakos; Reverse Osmosis water treatment facility in Makweni; and the Kolanya water Project in Busia County. As a matter of fact, Kenya is the leading beneficiary of the Green Climate Fund with a total of 37 projects approved and with a portfolio of more than US dollar 1 billion, a remarkable achievement that led to Kenya's identification as the host of Green Climate Fund Africa Regional office.

38. Mr. Speaker, the Government has made strides in the Blue Economy. Gains made under it include Fish Landing Sites: Five coastal counties have modern landing sites under development: Mwaepe (Kwale) KSh 255 million; Kidongo (Mombasa) KSh 175 million; Kilifi Central (Kilifi) KSh 275 million; Kipini (Tana River) KSh 151 million; Mokowe (Lamu) KSh 239 million. Each of the site includes ice and cold storage facilities, boat docking areas, processing points, ablution blocks, market stalls, and waste management systems, supporting fish preservation, trade, and employment. These projects are scheduled for completion by June 2026.

39. Also included in these gains is the lakeside. There are 4 Fish Landing Sites: Nine sites along Lake Victoria, including Asat, Ogal, Bumbe, Wichlum, Asembo Bay, Wakula, Mainuga, Nyandiwa, and Got Kachola, at KSh 1.49 billion by end 2026.

40. Along Lake Turkana is the Kalokol Fish Landing Site (KSh 182 million): Contractor on site. Includes docking facilities, cold storage and ice plants, fish processing areas, and market support infrastructure. Lowarengak Fish Market (KSh 185 million): Contractor on site. Features cold storage, hygienic market stalls, and processing facilities to support fishers and traders.

41. Mr. Speaker, the Arid and Semi-Arid Lands (ASALs) in the Northern region has historically been marginalized. To drive inclusion and transform the region, the Government is implementing various interventions targeting infrastructure development and social inclusion programs. These include: construction of a 750-kilometre Northern Kenya Gateway Corridor that connects three expansive counties of Isiolo, Wajir and Mandera to boost regional connectivity and trade. Under this, there are various ongoing roads that the Government is implementing with the support of Development Partners.

42. **Mr. Speaker,** the Government is also implementing various water interventions in the region through: drilling and equipping of boreholes; construction of dams and water pans; and expansion of bulk water supply systems. Further, key interventions in the education sector include: Recruitment of 5,000 teachers in the hard-to-reach areas; integration of alternative learning systems like *Duksi* (Islamic Religious Schools), and *Madrassa* into formal education framework; construction of low-cost boarding facilities and dormitories; provision of scholarships to protect vulnerable students from

dropping out; and implementation of TVETs to equip pastoralist youth with hands-on skills.

43. Finally, **Mr. Speaker,** devolution has been strengthened through the consistent and timely disbursement of resources to County Governments, ensuring continuity in service delivery and implementation of county development programmes. Since 2022, funding to County Governments has steadily increased, with the Equitable Share to Counties increasing from **KSh 370.0 billion** in the FY 2022/23 budget to **KSh 428.0 billion** in the FY 2026/27 budget. Total County allocations that include shareable revenue and additional allocations from the National Government allocations as well as donor proceeds has therefore increased from **KSh 392.4 billion** to **KSh 502.0 billion** over the same period. This reflects Government's unwavering commitment to safeguarding and strengthening devolution as a key pillar of inclusive national development.

44. **Mr. Speaker,** while we take pride in these achievements, we cannot afford complacency! Global uncertainty persists; High cost of living continues to affect many households; Youth unemployment persists; and climate-related shocks continue to affect livelihoods and production.

45. **Mr. Speaker**, our task is therefore clear - to solve the many problems facing Kenyans by sustaining targeted interventions under BETA in order to accelerate job creation for our youth; grow investment and trade, and deepen economic resilience.

46. Accordingly, **Mr. Speaker,** we chose the theme of the FY 2026/27 Budget as: **"Sustaining the Bottom-Up Economic Transformation Agenda for Resilient and Inclusive Growth amid Global Uncertainty."** This theme aligns with the current challenges and priorities of the Government.

47. Mr. Speaker, as we move forward in implementing the Government's Transformation Agenda, we remain mindful of all the concerns raised by Kenyans on the prevailing fiscal environment and the need for continued prudence in the management of public resources. The current fiscal position that is characterized by narrowing fiscal space calls for careful prioritization and disciplined execution of Government programmes.

48. Mr. Speaker, let me speak plainly about the fiscal reality we face!

49. Kenya's infrastructure financing deficit stands at approximately **USD 5 billion** every year. Our development budget, while growing, cannot close that gap alone. The era of financing every road, every power line, and every dam through Government borrowing and taxation is over, not because we lack ambition, but because we have learnt from the consequences of that model. Debt-financed infrastructure has left us with more debt service obligations that crowd out the very spending our people need most, on health, education, and social protection.

50. Mr. Speaker, we are going to build better. We are shifting from a model where Government borrows to build, to enhanced use of the Public-Private Partnerships and the recently established National Infrastructure Fund in funding priority infrastructure through private sector finances.

That is the foundation on which this Government's infrastructure programme rests.

51. Mr. Speaker, the Rironi–Nakuru–Mau Summit Expressway stands as proof. Construction of the Expressway is now underway and Kenyans will be driving on a modern, four-to-six-lane expressway once completed. What makes this project truly historic is not the speed of delivery, it is how it was financed. Through the participation of the National Social Security Fund both as a debt and equity investor alongside international investors, a major national highway is being built with Kenyan capital, by Kenyan workers, for the Kenyan people.

52. Mr. Speaker, beyond the Rironi - Nakuru - Mau Summit Project, the Government, will continue executing an ambitious infrastructure development plan through the National

Infrastructure Fund. The Fund will leverage on resources from privatization proceeds from mature national assets to attract private capital, domestic pension funds, and climate finance.

53. Mr. Speaker, the rest of my Statement will present the economic context underpinning this budget, followed by the policy priorities, fiscal framework, expenditure proposals and taxation measures for the FY 2026/27.

II. ECONOMIC POLICY CONTEXT

Global Context

54. Mr. Speaker, this budget has been prepared amidst heightened uncertainties associated with the ongoing conflict in the Middle East. The conflict has disrupted critical energy infrastructure and major shipping routes, including the Strait of

Hormuz, thereby exerting upward pressure on prices of energy and food.

55. Mr. Speaker, against this backdrop, global growth is therefore projected to slow down to 3.1 percent in 2026 and 3.2 percent in 2027, from an average of 3.4 percent in 2024 and 2025.

Domestic Economy

56. Mr. Speaker, notwithstanding the challenging global environment, the Kenyan economy has remained resilient. The economy grew at an average rate of 5.0 percent in the period 2022 to 2025, outperforming the average global growth rate of 3.4 percent and that of Sub-Saharan Africa of 4.1 percent. This performance reflects sound macroeconomic policy management, particularly, prudent monetary and sound fiscal policies, sustained structural reforms, and the increasing diversification of the economy, which has enhanced its capacity to withstand severe shocks.

57. Mr. Speaker, in 2025 the economy grew by 4.6 percent compared to a growth rate of 4.7 percent in 2024. This growth was supported by positive growths in all the sectors. The outlook for 2026 has been revised down to 5.0 percent from the earlier projection of 5.3 percent, reflecting the adverse impact of the ongoing conflict in the Middle East to domestic economic activities. The economy is projected to maintain the momentum in 2027 with a projected growth rate of 5.2 percent.

58. Mr. Speaker, macroeconomic indicators remain broadly stable although the emerging external pressures continue to impact domestic prices. In particular:

i) Overall inflation increased to 6.7 percent in May 2026 from 5.6 percent in April 2026 and from 3.8 percent in May 2025 due to higher energy prices arising from the elevated global oil prices, but remained within the target range of 5±2.5 percent. Inflation is expected to remain within the target range in the near term, assuming a de-escalation of the conflict in the Middle East and supported by: appropriate monetary policy actions and Government interventions; expected stability in food prices due to favourable weather conditions; and the stability in the exchange rate.

Mr. Speaker, in April 2026, the Government has deployed targeted stabilization measures to cushion consumers from the full impact of rising global fuel prices. These interventions include use of resources in the Petroleum Development Levy Fund to subsidize the fuel pump prices. In addition, the Government lowered the VAT rate on petroleum products for three months, from 16 percent to 8 percent.

ii) **Mr. Speaker,** monetary conditions have eased considerably. This follows reduction in the Central Bank Rate from 11.25 percent in December 2024 to the current rate of 8.75 percent. As a result, interest rates have declined over the same period. The 91-day Treasury Bill rate declined to 8.3 percent in May 2026 from 10.3 percent in December 2024. Similarly, average commercial banks' lending rates declined to 14.5 percent in May 2026 from 16.9 percent in May 2025 and 17.2 percent in November 2024. Reflecting the decline in the lending rates, credit to the private sector expanded by 9.3 percent in the year to May 2026 from 2.0 percent in the year to May 2025 and a contraction of 1.4 percent in December 2024;

iii) The external sector remains resilient despite emerging risks. The current account deficit is projected at 3.0 percent of GDP in 2026 compared to 2.1 percent of GDP in 2025, reflecting the higher international oil prices, lower receipts from services, slower growth in remittance inflows, and reduced exports. This is due to the adverse impact of the ongoing Middle East conflict.

At the same time, official foreign exchange reserves remain adequate at USD 13,203 million in May 2026, equivalent to 5.6 months of import cover, and continues to provide adequate cover and a buffer against short-term domestic and external shocks. The exchange rate has also remained broadly stable, averaging KSh 129.4 per US dollar in May 2026; and

iv) Activities in the Nairobi Securities Exchange have improved over the past one year. The NSE 20 Share Index rose by 59.9 percent to 3,491 points in May 2026, up from 2,183 points in May 2025, while market capitalization expanded by 61.6 percent to KSh 3,412 billion from KSh 2,111 billion over the same period.

However, between February and May 2026, the NSE 20 Share Index declined by 5.5 percent, as investors became cautious of the rising global uncertainty associated with the conflict in the Middle East.

59. Mr. Speaker, the fiscal policy stance for FY 2026/27 and the medium term is anchored on a fiscal consolidation strategy that advances the priorities of the Bottom-Up Economic Transformation Agenda while safeguarding debt sustainability and provision of essential public services.

60. The strategy will be supported by continuous domestic revenue mobilization and expenditure rationalization through targeted tax and expenditure reforms. As a result, the fiscal deficit including grants is projected to decline gradually from **5.5 percent of GDP** in the FY 2026/27 to **3.3 percent of GDP** in the FY 2028/29.

61. Mr. Speaker, risks remain. Domestically, climate-related shocks could disrupt agricultural production and infrastructure, while externally, geopolitical tensions, commodity price volatility, weaker global growth, and tighter financial conditions continue to adversely affect inflation, exports and capital flows.

62. The Government will continue to monitor evolution of these risks closely and deploy timely policy interventions to safeguard stability, strengthen resilience, and sustain inclusive economic growth.

63. Mr. Speaker, I will now turn to the policy priorities and strategic interventions that will underpin the budget for FY 2026/27.

III. POLICY PRIORITIES AND STRUCTURAL REFORMS

The Bottom – Up Economic Transformation Agenda

64. Mr. Speaker, the economic context I have outlined is a clear reminder that we are operating in a period that demands resolve, discipline, and decisive actions. The convergence of global shocks and domestic pressures calls not only for incremental adjustments, but for bold and well-coordinated policy responses. In this regard, the Government has taken, and will continue to take, firm and, where necessary, decisive actions to consolidate recent gains; safeguard macroeconomic stability; protect livelihoods; and strengthen economic transformation.

65. Mr. Speaker, our focus is not only on navigating the immediate challenges, but also on accelerating structural transformation, creating jobs at scale, and ensuring that the benefits of growth are broadly shared among all Kenyans.

66. Mr. Speaker, these interventions are being implemented within a coherent and forward-looking framework anchored on the Bottom-Up Economic Transformation Agenda. BETA remains the Government's principal vehicle for translating policy into tangible outcomes at the household level, by aligning investments, reforms, and institutions around the goal of inclusive growth and shared prosperity.

67. Through the BETA five core priority pillars, the Government is scaling targeted interventions that address binding constraints to productivity, expand economic opportunities, and strengthen resilience across sectors. These priority pillars are deliberately structured to reinforce one another, ensuring that progress in one area catalyzes gains across the broader economy.

68. Mr. Speaker, the Government also continues to implement complementary cross-cutting policy interventions to sustain economic resilience, accelerate inclusive growth and improve business environment. This will create a seamless transition to the next frontier of economic transformation. These interventions include:

i) Strengthening fiscal and monetary policy coordination to safeguard economic stability and reinforce investor confidence;
ii) Enhancing fiscal sustainability by expanding domestic revenue mobilization and improving efficiency of public expenditure;
iii) Modernization of strategic infrastructure in transport and logistics, energy, and water sectors to improve productivity, connect markets, lower the cost of doing business and enhance competitiveness;
iv) Supporting industrial development, trade, tourism, blue economy, MSMEs and

innovation to accelerate job creation; broaden economic opportunities; and transform Kenya's economy to a net exporter of goods and services;

v) Strengthening environmental conservation and climate change mitigation and adaptation measures to promote sustainable development and resilience;

vi) Supporting human capital development through continued investment in quality education, universal health care, and well targeted social protection interventions;

vii) Advancing youth empowerment through targeted investments in skills development, entrepreneurship, digital opportunities and access to affordable financing; and

viii) Strengthening governance reforms to enhance public service delivery.

Evidence-Based Decision Making

69. Mr. Speaker, as we implement this Budget, the Government reaffirms its commitment to strengthening economic planning and development as the foundation of sustainable growth, prudent resource allocation, and improved service delivery to our citizens. In the coming financial year, we will intensify efforts to institutionalize evidence-based planning and decision making across all levels of Government. This approach will ensure that public resources are directed to interventions that deliver the highest economic and social returns aligning with the national development priorities.

70. To achieve this, the Government will accelerate the finalization and implementation of a comprehensive Economic Planning Policy and an Economic Planning Bill. These two instruments will create a coherent, transparent mechanism for identifying, prioritizing, and sequencing Government policies, programmes, and projects based on rigorous economic analysis, affordability, and measurable impact.

71. Mr. Speaker, we will also continue to invest in national statistical systems, policy research, data analytics, and monitoring and evaluation to provide timely, reliable evidence for decision making. Integrated planning and data management systems will be rolled out to improve coordination among Ministries, Departments, Agencies, and County Governments.

72. Mr. Speaker, through these measures, we will foster a culture of evidence-based policymaking, strengthen public accountability, and ensure that every shilling spent delivers maximum value to the people of Kenya.

Policy, Legal and Institutional Reforms

73. Mr. Speaker, to strengthen economic stability, the Government continues to roll out targeted structural, institutional and regulatory reforms to improve the business environment, boost public service efficiency, and reinforce accountability in public finances.

Building Resilience Against Climate Change

74. Mr. Speaker, the Government has continued to make concerted efforts to strengthen disaster risk management. The recently enacted National Disaster Risk Management Bill, (National Assembly Bill No. 24 of 2023), provides a legal framework for coordination of disaster risk management activities across the two levels of Government, supporting prompt responses when disasters occur.

75. Mr. Speaker, to further strengthen the Country's preparedness and response to climate related risks, the National Treasury is spearheading the development of a new Disaster Risk Financing Strategy for the period 2026-2030 since the earlier Strategy for the period 2018 - 2022 came to an end.

76. Mr. Speaker, in response to changes in climate, the Government will continue to implement the Financing Locally-Led Climate Action Program (FLLoCA), a transformative initiative that has unlocked green investments at the County level empowering local communities to adapt to impacts of climate change.

77. Mr. Speaker, to finance large-scale climate and environmental projects, the Government will establish the Kenya Green Investment Facility in line with Kenya's commitments under the

Nationally Determined Contributions to the Paris Agreement. To further scale green financing, the Government is finalizing the framework for issuance of sustainability linked bonds with targets in forestry and rural electrification expansion.

78. Mr. Speaker, Kenya secured the hosting rights for the Green Climate Fund Regional Office for East and Southern Africa in Nairobi, reinforcing the country's position as a regional green finance hub. Further, the National Treasury is at an advanced stage of accreditation as a Direct Access Entity to the Green Climate Fund, enabling the country increase public sector-driven climate investments and opportunities.

79. Mr. Speaker, the Government will host the African Green Investment Forum in October 2026. This forum will serve as a flagship continental initiative designed to mobilize substantial green finance, accelerate sustainable investments, and advance Africa's leadership in this domain.

Public Procurement Reforms

80. Mr. Speaker, to operationalize procurement reforms and eliminate manual inefficiencies, the Government officially launched the rollout of an end-to-end e-Government Procurement (e-GP) System in July 2025. The system has now shifted procurement processes from fragmented and manual processes to a fully digitized procurement platform.

81. The platform has been integrated with core Government systems, including: IFMIS, Business Registration Services (BRS), and i-Tax, with initial on-boarding prioritising National Government Ministries, Departments and Agencies (MDAs); State Corporations; and County Governments.

82. Significant progress has been made. To date 1,543 Procuring Entities have been registered, over 40,000 suppliers registered, over 22,000 staff trained, over 12,000 suppliers/contractors trained, 652 Annual Procurement plans published, 8000 tenders published, and 1,863 contracts published.

83. Mr. Speaker, going forward, the next steps will include full rollout of the System to all schools, and other Procuring Entities that are yet to onboard to the e-GP System; continuous user training and change management to improve adoption and system utilization. Further, **Mr. Speaker,** beginning July 1, 2026, there will be no exemption to procure outside the system.

84. Together, these measures will ensure that every shilling allocated through this Budget delivers maximum value to Kenyans.

85. Mr. Speaker, during the implementation of e-GP system, we have experienced challenges which have hindered the seamless implementation of system. Some of these challenges included resistance from users and litigation in the courts.

86. Mr. Speaker, to further strengthen our procurement framework, the Government developed the Public Procurement and Asset Disposal (Amendment) Bill, 2026. Among the key reform areas in the Bill include: mandatory disclosure and reporting requirements; promotion of local content and preference and reservation schemes, especially for youth, women and persons with disabilities; and provision of a stronger legal basis for electronic procurement and framework contracting.

87. Mr. Speaker, I submitted this Bill 2026 to Parliament for consideration and approval. I urge the House to favourably consider the Bill.

State Corporations Reforms

88. Mr. Speaker, State Corporations remain a cornerstone of Kenya's development architecture, delivering essential public services and catalyzing strategic investments.

89. Mr. Speaker, as I mentioned in my Statement last year, the Government embarked on comprehensive reforms which target to streamline mandates, strengthen governance, enhance accountability, and improve operational efficiency of state owned enterprises.

90. Mr. Speaker, the implementation of the reforms is ongoing through a Multi-Agency Technical Working Committee. In the first phase, the Committee considered twenty-three (23) mergers, sixteen (16) dissolutions, seven (7) transfers of functions back to Ministries, Departments and Agencies, and the declassification of selected State Corporations.

91. Mr. Speaker, under Phase 1 of the reforms, the Committee has finalized: the review of enabling legislation(s) of the affected State Corporations and drafted appropriate bills where necessary; review of the staff complements, skills and placement/deployment of those affected so as to facilitate a smooth transition; and documentation of assets and liabilities of the entities identified.

92. I submitted to this House the draft Bills supporting the implementation of the reforms under Phase 1 and I urge Honorable Members to favorably consider the Bills to enable timely implementation of the reforms.

Government Owned Enterprises

93. Mr. Speaker, further as part of the reforms, the Government Owned Enterprises Act, No. 25 of 2025 was assented to by His Excellency the President on 21st November 2025 and came into effect on 5th December 2025. The Act provides a modern framework for the ownership, oversight and management of commercial State Corporations.

94. The implementation of the Act is underway with reforms being rolled out across 65 identified Government Owned Enterprises and 18 statutory entities. As a requirement under the Act, the independent search and selection panel has begun the process of recruiting independent directors of the Boards of GOEs. All the Government Owned Enterprises are required to operate as commercial entities (for profit); be self-financing; be self-sustaining; and accountable to the public through the National Treasury.

National Infrastructure Fund

95. Mr. Speaker, in March 2026, the Government established the National Infrastructure Fund following the enactment of the National Infrastructure Fund, Act 2026. The NIF is as an innovative mechanism for scaling up infrastructure development by mobilizing private capital and expertise to execute commercially viable infrastructure projects, while reducing reliance on taxation and debt.

96. The Fund will promote growth of infrastructure projects by pooling capital from diverse sources including; pension funds, sovereign wealth funds, private equity, banks, development finance institution, among others, to finance large scale, long-term projects.

97. In this respect, **Mr. Speaker,** the proceeds from privatization will be channeled into the Fund, thus ensuring transparent revenue flow in financing national priority projects, including; national highways, airports, seaports, electricity generation, ICT, water & irrigation, and agribusiness.

98. As a start, the proceeds from the March 2026 IPO of Kenya Pipeline Company of KSh 106.3 billion as well the expected Ksh 204 billion from the partial divestiture of the Government's stake in Safaricom PLC to Vodacom will form the seed capital to the Fund.

Sovereign Wealth Fund

99. Mr. Speaker, to complement the National Infrastructure Fund, the Government has submitted to this august House, the Bill to establish the Sovereign Wealth Fund with three distinct components: the Stabilization Component; the Strategic Infrastructure Investment Component and the Future Generation (***'Urithi'***) Component. This Fund will bring into operation Article 201 of the Constitution on intergenerational equity by ensuring natural resources wealth is invested productively, and spread equitably to both current and future generations.

Sugar Sector Reforms

100. Mr. Speaker, the Government has also taken practical steps to deliver its promise to modernize the sugar mills and transform these once-struggling factories into productive, sustainable enterprises. The sugar sector reform programme has been significantly progressed following the implementation of the Government's leasing framework for state-owned sugar companies.

101. The leasing process has since been successfully concluded, with investors having fully taken over operations of the sugar factories, namely, Chemelil Sugar Company, Muhoroni Sugar Company, South Nyanza Sugar Company (SONY) and Nzoia Sugar Company.

102. Mr. Speaker, since resumption of operations, substantial investments have been undertaken towards rehabilitation and modernization of the factories, resulting in significant revamping of the mills and improvement of operational capacity. These initiatives are expected to enhance efficiency, restore profitability and protect the livelihoods of farmers.

103. Mr. Speaker, these are not isolated transactions. They are proof that when governance is strengthened, when mandates are clarified, and when institutions are held to account, the Corporations can be genuine engines of growth. The Government will press forward, deepening these reforms and ensuring that every public enterprise earns its place through performance, transparency and value created.

National Assets and Inventory Management

104. Mr. Speaker, to strengthen national assets management, the National Treasury has operationalized the Assets and Inventory Management Modules in IFMIS, providing real-time visibility of public assets across all levels of Government. An analysis of the asset registers shows that Ministries, Departments and Agencies collectively hold assets valued at approximately **KSh 4.9 trillion,** underscoring the importance of robust asset management. To strengthen transparency and support the transition to accrual accounting, the National Treasury has developed a Government Asset Valuation Policy Framework and a Public Assets Tagging Framework.

105. Mr. Speaker, to unlock greater value from these assets without placing additional pressure on public finances, the National Treasury is developing an Asset Optimization Framework and a Leasing Framework to attract private capital and expertise, while supporting infrastructure development and improved service delivery.

Digital e-signatures in Government

106. Mr. Speaker, in line with the Digital Transformation Agenda, the Government has embarked on reforms to modernize and harmonize the legal and regulatory framework governing secure digital identities, electronic signatures, electronic seals, and time-stamping services.

107. Mr. Speaker, to make this a reality, I will in the next financial year, submit to this House, necessary amendments to the Public Finance Management Act and Kenya Information and Communication Act as well as the attendant regulations. This will make use of electronic signatures, electronic seals, and time-stamping services a reality in Government thereby creating efficiency in service delivery.

Pending Bills

108. **Mr. Speaker,** as I informed this House in my Statement last year, the Pending Bills Verification Committee was established in November 2023 to review and validate outstanding claims and provide a credible basis for settlement. The Committee has since concluded its work and analyzed a total of 91,911 pending bill claims valued at KSh 637.6 billion.

109. Following this verification exercise, 29,885 claims amounting to KSh 235.6 billion have been recommended for settlement. Of this amount, KSh 80.3 billion has already been settled through securitization in the roads sector, leaving a verified outstanding balance of KSh 155.3 billion for other sectors.

110. Mr. Speaker, to settle the verified outstanding balance of KSh 155.3 billion, the National Treasury has proposed a balanced and sustainable settlement strategy which includes a combination of direct budgetary allocations and securitization. The proposal is to settle the verified outstanding balance of Ksh 155.3 billion over two years starting with FY 2026/27.

111. Mr. Speaker, in the FY 2026/27, the National Treasury proposes a budgetary provision of **KSh 68.0 billion** to settle the verified bills to suppliers and contractors, owed by the Government for amounts of up to KSh 100 million. This provision will also partly settle suppliers/contractors whose pending bills exceed KSh 100 million, ensuring that no supplier is excluded.

112. With the settlement of the KSh 68.0 billion worth of claims, the Government will have settled 99 percent of the verified outstanding pending bills representing 63 percent of the total value, a tremendous progress. The remaining KSh 88.0 billion worth of claims will be addressed through other budgetary provisions and instruments.

113. **Mr. Speaker,** the deliberate policy of settling pending bills of up to KSh 100 million, while individually smaller in value, accounts for the majority of suppliers and have the highest multiplier effect on economic activity. This is to ensure that the Micro, Small and Medium-Enterprises (MSMEs) are not starved of the essential working capital which is critical to the sustainability of their businesses.

Financial Sector Reforms

114. Mr. Speaker, Kenya's financial sector remains strong and continues to support households, businesses, savings, and investment across the economy.

115. Mr. Speaker, today, the banking sector remains strong, stable, and profitable, supported by adequate capital and liquidity buffers. In the year to March 2026, total banking sector assets grew by 13.8 percent, from KSh 7.7 trillion to KSh 8.7 trillion; and profitability increased by 13.6 percent, from KSh 73.5 billion to KSh 83.5 billion.

116. Mr. Speaker, to strengthen the banking sector's resilience, deepen competition, and improve access to credit for households and businesses, the Government is implementing the following reforms:

i) Progressive increase in minimum core capital requirements for commercial banks, from KSh 1 billion to KSh 10 billion by December 2029;

ii) Lifted the moratorium on licensing of new commercial banks, effective 1st July 2025;

iii) Implementation of the revised Risk-Based Credit Pricing Model anchored on the Kenya Shilling Overnight Interbank Average to enhance transparency and fairness in loan pricing and strengthen monetary policy transmission; and

iv) Implementation of the Banking (Penalties) Regulations, 2025, to strengthen enforcement, governance, accountability, and compliance in the banking sector.

117. Mr. Speaker, to strengthen banking sector's resilience and stability, the Business Laws (Amendment) Act 2024 requires commercial banks to progressively raise the minimum core capital from KSh 1 billion to KSh 10 billion by 2029 through targeted milestones.

118. Mr. Speaker, while the Government firmly upholds the strategic necessity of raising the minimum core capital, it is prudent that this transition be managed in a manner that is least disruptive to credit access and financial services delivery, particularly to the Micro, Small and Medium Enterprise segment and other niche markets currently served by the banking industry.

119. Mr. Speaker, to allow flexibility in achieving this objective, and following wide consultation, I will be proposing amendments to the to the timelines specified in the Business Laws (Amendment) Act 2024 to allow commercial banks raise the minimum core capital to KSh 10.0 billion by 31st December 2032 without the annual milestones. This will provide the flexibility necessary for institutions to pursue measured, commercially sound, and market-sensitive capital-raising strategies in a manner that preserves shareholder value and sustains investor confidence.

120. Mr. Speaker, to make it easier and cheaper for Kenyans and businesses to send and receive money across East African region, Partner States are working to connect their financial systems as per the East African Community Payments System Master Plan, 2025, so that transactions are faster, more affordable, and more efficient to support trade and regional integration.

121. Mr. Speaker, to safeguard the country against illicit financial flows, the Government has over the last two years undertaken far-reaching reforms aimed at strengthening our Anti-Money

Laundering, Counter-Financing of Terrorism, and Counter-Proliferation Financing framework following the country's placement on the Financial Action Task Force (FATF) Grey List in February 2024. These reforms include the adoption of the Virtual Asset Service Providers legal framework, strengthening beneficial ownership transparency, enhancing risk-based supervision across financial and designated non-financial business and professions sectors, improving inter-agency collaboration, and increasing investigations, prosecutions, and asset recovery efforts relating to money laundering and terrorism financing offences.

122. Further, **Mr. Speaker,** reporting institutions have continued to enhance compliance with AML/CFT obligations, thereby reinforcing the integrity and resilience of our financial system.

123. Mr. Speaker, Kenya has made substantial progress in addressing the action items under the FATF Action Plan, with only a few outstanding measures remaining as we approach the conclusion of the implementation period. The Government remains fully committed to finalizing the remaining reforms and securing Kenya's exit from the Grey List at the earliest opportunity.

124. These achievements demonstrate our unwavering resolve to align Kenya with international best practices, safeguard the country against illicit financial flows, and strengthen investor confidence in our economy.

125. Mr. Speaker, the Government is also supporting innovation in financial services through the implementation of the Virtual Assets Service Providers Act, 2025. In this regard, we have developed regulations to govern virtual asset service providers. The regulatory framework ensures that new technologies operate in a safe and regulated environment that protects users, strengthens financial stability, and encourages responsible innovation.

Capital Markets Developments

126. Mr. Speaker, the Government continues to implement measures to deepen and broaden capital markets in order to mobilize savings for productive long-term investment. These efforts have continued to yield results, with the Nairobi Securities Exchange recording exceptional performance in 2025.

127. Mr. Speaker, the capital markets supported the recent Initial Public Offering (IPO) by Kenya Pipeline Company and its subsequent listing at the Nairobi Securities Exchange in March 2026. Further, the Capital markets supported recent issuances by various companies to raise capital. These included: the KSh 44.8 billion Sharia-compliant Linzi Bond for infrastructure financing; the Safaricom's KSh 20 billion Green Bond to support 5G expansion; the East African Breweries PLC KSh 16.8 billion Medium-Term Note Programme, and the KSh 3.4 billion by Spearhead Africa Infrastructure Fund to support long term infrastructure financing across the region.

128. Mr. Speaker, innovation in market access has advanced significantly with the launch of the Ziidi Trading Application integrated into the M-Pesa platform. This groundbreaking platform enables Kenyans to conveniently buy and sell securities through their mobile phones, marking a major milestone in financial inclusion and retail investor participation.

129. Mr. Speaker, Kenya is emerging as a key player in the carbon credit space, leveraging its rich natural resources and strong base in renewable energy to participate in global climate markets. To actualize formal trading of carbon credits, the Government is preparing carbon credit regulations. These regulations will allow the Government and private sector players to benefit through trading of carbon credits generated in Kenya and the region.

130. Mr. Speaker, in my recent public engagements, coffee farmers raised concerns of continued exploitation by middlemen in the marketing and pricing of their coffee. **Mr. Speaker,** I want to assure Kenyans that through the reforms the Government is implementing at the Nairobi Coffee Exchange, the exploitative middlemen have been eliminated ensuring farmers retain a much larger share of the export price of their coffee. Farmers today are able to sell their coffee directly at the exchange supported by their various brokerage firms, majority of whom are owned by the farmers through their cooperative societies.

131. The Nairobi Coffee Exchange has also enabled price discovery thereby improving earnings by the coffee farmers. To further support prompt payment of coffee sold through Nairobi Coffee Exchange, the Government introduced the Direct Settlement System that has reduced payment delays across the coffee value chain.

132. **Mr. Speaker,** coffee traceability is today a reality! Through the Nairobi Coffee Exchange trading platform and the Direct Settlement System cataloguing and invoicing, every coffee lot has a unique identification, milling data, warehouse records, auction sales and buyer data that can be accessed allowing traceability of coffee from the **farm** to the **buyer**. This has created greater buyer confidence on the origin, quality, and authenticity of Kenyan coffee by eliminating coffee laundering.

Pension Reforms

133. **Mr. Speaker,** delayed pension processing has for long been a source of frustration and hardship for retiring public servants. A civil servant who has dedicated their career to public service deserves timely and dignified access to their retirement benefits.

134. **Mr. Speaker,** to hasten the processing of pension claims, I launched the e-Pension Management Information System on 1st June 2026. Following this launch, we have now discontinued manual submission of pension claims unless expressly authorized by the National Treasury.

135. Mr. Speaker, to ensure this reform delivers a lasting impact, Ministries, Departments and Agencies are now required to initiate pension claims at least nine months before a public officer's retirement date. This will facilitate resolutions of late or incomplete submissions of pension claims ahead of the retirement date for our employees. Further, the National Treasury, in collaboration with the Kenya School of Government, will institutionalize electronic Pension Management Information System training as part of a continuous capacity building programme to ensure sustained competency in pension administration across the Public Service.

Insurance Reforms

136. Mr. Speaker, to expand access to insurance, the Insurance Regulatory Authority licensed five micro insurance companies in the FY 2024/25. This has increased access to affordable insurance, with over 11 million lives covered as at 31^{st} December 2025.

137. Mr. Speaker, to strengthen climate resilience, the Government is promoting agricultural and index-based insurance products. Through the DRIVE (De-risking, Inclusivity, and Value Enhancement) Livestock Insurance Project over 2.7 million livestock valued at KSh 29.3 billion have been insured, while payouts exceeding KSh 648 million have supported pastoral communities affected by drought since 2023.

138. Further, the Government has initiated amendments to the Insurance Act to establish agricultural insurance as a standalone class of insurance business. This reform will strengthen the regulatory framework for agricultural risk management and support food security, financial inclusion, and sustainable agricultural development.

139. Mr. Speaker, to deepen local insurance capacity and retain insurance premiums within the domestic economy, the Government will, effective 1st July 2026, require all importers to obtain Marine Cargo Insurance cover from insurers licensed under the Insurance Act prior to customs clearance.

IV. FISCAL POLICY FRAMEWORK

140. Mr. Speaker, the implementation of the FY 2025/26 Budget has remained broadly on course, despite emerging pressures on revenue performance and expenditure demands. These developments have necessitated measured adjustments, while at the same time informing a more deliberate and responsive fiscal policy stance for the FY 2026/27 and the medium term.

141. Mr. Speaker, on the revenue front, performance has fallen short of target in the FY 2025/26. This is due to slower-than-expected tax receipts, largely driven by administrative constraints and a slowdown in economic activities.

142. At the same time, expenditure pressures have intensified. The implementation of pending and newly negotiated Collective Bargaining

Agreements has raised the public sector wage bill beyond initial projections, thereby constraining fiscal space. In addition, emergency interventions in response to floods and drought have required additional resources. As a result of these developments, it became necessary to introduce targeted adjustments through Supplementary Budget I of FY 2025/26.

143. Mr. Speaker, to enhance tax administration, including upgrading of critical systems and strengthening of compliance efforts, the Kenya Revenue Authority was allocated additional resources in the Supplementary Budget 1 for FY 2025/26. These interventions are expected to improve efficiency and support a recovery in revenue performance.

144. The Supplementary Budget I, also reflected additional expenditure of **KSh 368.6 billion** compared to the original budget to cater for the emerging expenditure pressures. In this regard, the fiscal deficit including grants, is now projected at **KSh 1,199.4 billion**, equivalent to **6.4 percent of GDP**, compared to **KSh 901.0 billion**, or **4.7 percent of GDP**, in the original budget estimates.

145. **Mr. Speaker,** fiscal policy is not merely about balancing budget, it's about creating conditions for sustainable growth protecting the vulnerable and securing prosperity for the future generation. Accordingly, the fiscal policy for FY 2026/27 and the medium term will be anchored on a growth-supportive consolidation path, aligned to the Government's priorities under the

Bottom-Up Economic Transformation Agenda and the Fourth Medium Term Plan.

146. The policy will prioritize enhanced domestic revenue mobilization, strengthened expenditure control, and strategic reprioritization of public spending. This approach aims to reinforce public debt sustainability and safeguard essential public services.

Domestic Revenue Mobilization

147. Mr. Speaker, every shilling of development begins with every shilling of revenue collected fairly, efficiently, and transparently. To boost revenues, the Government will continue to strengthen implementation of the National Tax Policy and the Medium-Term Revenue Strategy, aimed at simplifying tax laws, rationalizing tax expenditures, and creating a fair, predictable, and efficient tax system.

148. Mr. Speaker, the Kenya Revenue Authority has intensified reforms to modernize tax administration, enhance compliance, and improve service delivery through technology and innovation.

149. Notable progress has been made in expanding the Electronic Tax Invoice Management System, with over 655,000 taxpayers now on boarded, significantly enhancing transaction visibility and strengthening VAT compliance. Integration between iTax and customs systems has improved end-to-end taxpayer visibility, while the rollout of the Electronic Rental Income Tax System has simplified compliance within the rental sector.

150. Mr. Speaker, the Kenya Revenue Authority has also strengthened enforcement through data-driven compliance strategies, artificial intelligence, and non-intrusive cargo scanning technologies, enhancing the detection of illicit trade and reducing revenue leakages. As a result, the active taxpayer base increased by 82,209 to over **6.6 million** taxpayers as at **March 2026** from 6.5 million as at **March 2025,** reflecting growing voluntary compliance and improved taxpayer engagement.

151. Mr. Speaker, service delivery and trade facilitation have equally improved through initiatives such as **Huduma Popote** and enhanced customs systems, which have reduced cargo clearance times and improved operational efficiency.

152. Mr. Speaker, in the FY 2026/27, Kenya Revenue Authority will intensify reforms to strengthen revenue mobilization, modernize tax administration, and improve taxpayer experience through the following measures:

i) Roll out integrated digital tax administration and revenue monitoring systems, including the Domestic Tax Administration System, expanded electronic invoicing, Virtual Electronic Tax Registers, enhanced Point of Sale integration, and the e-Customs mobile application, to improve efficiency, compliance, and real-time visibility of transactions;

ii) Implement Device Identification and Registration and strengthen Exchange of Information frameworks to combat tax evasion, illicit trade, and cross-border revenue leakages;

iii) Simplify taxpayer processes through pre-populated returns, streamlined digital payment solutions, and expanded digital service delivery platforms to reduce the cost and burden of compliance;

iv) Expand taxpayer outreach and support through initiatives such as Ushuru GPT, omni-channel customer engagement systems, Huduma Popote, and Ushuru Mashinani to enhance accessibility and responsiveness;

v) Strengthen enforcement, compliance, and revenue assurance through advanced data analytics, artificial intelligence, and integrated investigation and case management systems; and

vi) Invest in core ICT infrastructure, integrated enterprise platforms, and cybersecurity systems to safeguard the integrity, resilience, and efficiency of revenue administration.

153. Mr. Speaker, the Government will continue to scale up non-tax revenues by strengthening the capacity of Ministries, Departments and Agencies to efficiently generate income from public services while enhancing their operational systems to improve efficiency and overall revenue performance.

Improving Efficiency of Public Expenditure

154. Mr. Speaker, raising revenue is only half the equation. Ensuring that every shilling delivers maximum value is equally important. In order, to improve the efficiency and value for money of public expenditure, the Government is implementing targeted reforms to strengthen expenditure controls, enhance transparency, and improve public sector efficiency.

155. These reforms include the full rollout of e-Government procurement, completion of key Treasury Single Account reforms, and transition to accrual-based accounting to strengthen cash management, fiscal oversight, and financial reporting.

156. The Government will also deepen public financial management reforms through the entrenchment of zero-based budgeting, digitization and automation of pension and payroll administration, and strengthened human resource management systems to enhance efficiency, accountability, and service delivery across the public sector.

157. Further, the Government will optimize the management of public assets and liabilities, accelerate state corporation reforms and targeted privatization, and scale up the use of Public-

Private Partnerships to mobilize private capital, improve efficiency, and support delivery of commercially viable projects. **Mr. Speaker,** allow me to expound on some of the expenditure reforms that we are implementing.

Migration to Accrual Accounting

158. Mr. Speaker, effective public finance management begins with what we own, what we owe and how public resources are being utilized. To improve cash management, the Government is implementing one of the most significant financial management reforms in Kenya's history, the transition from Cash Basis to Accrual Basis of Accounting under the International Public Sector Accounting Standards. Following Cabinet approval of the transition roadmap in March 2024, implementation commenced in FY 2024/25 through a structured three-year phased approach led by the National Treasury.

159. Mr. Speaker, this reform fundamentally changes how Government accounts for public resources. For the first time, Kenya's financial statements will present a complete and accurate picture of the country's financial position, capturing not just cash flows, but all public sector assets, liabilities, revenues and expenditures. Public debt obligations, infrastructure assets, inventories, receivables and payables will all be recognized and reported transparently, giving Parliament, citizens and investors a true account of the nation's financial health.

160. Mr. Speaker, implementation is progressing as scheduled across three phases. The first phase addressed financial assets and liabilities. The current phase incorporates inventories and prepayments. The final phase will bring in all remaining assets and liabilities, culminating in full consolidation of public sector entities.

161. To support this transition, the Government is upgrading IFMIS and related systems, strengthening public sector asset management frameworks, undertaking asset identification and valuation exercises across Ministries, Departments, Agencies, Counties and other public entities, and building capacity among public officers to sustain the reform beyond its implementation period.

162. **Mr. Speaker,** this reform is not just about accounting standards. It is about accountability, ensuring that those entrusted with public resources can be held to a higher standard of transparency, and reinforcing public confidence in the stewardship of national resources.

Treasury Single Account

163. Mr. Speaker, as I had informed this House in last year's Budget Statement, the Government has been implementing the Treasury Single Account Framework to strengthen cash management and improve efficiency of public financial operations. Following the successful rollout of the Treasury Single Account to all Ministries, the Government has reduced the cost of overdraft financing from Central Bank of Kenya by 61 percent in this financial year translating into substantial savings.

164. Mr. Speaker, the implemented Treasury Single Account model directly links invoices to specific batches submitted by Ministries and

Departments, among other enhanced features. These Treasury Single Account reforms have substantially improved the efficiency of Government exchequer operations, delivered transparency in exchequer and cash management, and ensured that public funds are released only against verified and approved obligations, thus laying the foundation for managing pending bills.

165. Mr. Speaker, building on this momentum, in FY 2026/27 the Government will:

i) Extend the Treasury Single Account framework to County Governments by completing the automation of County exchequer requisition processes, after which counties will progressively migrate to a Treasury Single Account architecture mirroring that of the National Government; and

ii) Operationalize, in collaboration with the CBK, a Granular Data Integration system to deliver real-time visibility of the cash and liquidity positions of State Corporations and Semi-Autonomous Government Agencies.

166. Mr. Speaker, taken together, these reforms represent significant modernization of our public cash management architecture. They are already delivering measurable savings, deepening fiscal transparency, and strengthening our capacity to deliver value for every shilling of public money.

Strengthening Internal Audit Oversight and Fiscal Discipline

167. Mr. Speaker, every shilling entrusted to Government must be accounted for and deliver value to the people of Kenya. The recurrence of audit queries and delays in implementing audit recommendations across public institutions continue to expose public resources to fiscal risks and weaken service delivery.

168. Mr. Speaker, to strengthen accountability, fiscal discipline, and support the Government's Zero-Fault Audit Initiative, the Government will introduce amendments to the Public Finance Management Act and related regulations to strengthen the mandate of the Office of the Internal Auditor General and enhance oversight across the public sector.

169. The reforms will establish a framework for tracking the implementation of audit recommendations and resolutions issued by Parliament, the Office of the Auditor-General, Audit Committees, and other oversight institutions, with clear accountability mechanisms for non-compliance.

170. The Government will also strengthen Internal Audit Functions across public entities, roll out an integrated Internal Audit Management System, and enhance the adoption of Enterprise Risk Management to improve the identification and mitigation of fiscal and operational risks.

171. Mr. Speaker, these reforms will strengthen transparency, internal controls, and prudent management of public resources while improving accountability and service delivery across Government.

Revenue Projections

172. Mr. Speaker, our fiscal projections reflect a careful balance between ambition and realism, ensuring that we live within our means while investing in our future.

173. Based on the outlined policy measures, total revenue collection, including Appropriation-in-Aid for the FY 2026/27 budget is projected to be **KSh 3,630.5 billion** equivalent to **17.4 percent of GDP**. Of this, ordinary revenue is projected at **KSh 2,985.7 billion** equivalent to **14.3 percent of GDP**, and Ministerial Appropriation-in-Aid is projected at **KSh 644.8 billion** equivalent to **3.1 percent of GDP.** Grants are projected at **KSh 43.6 billion or 0.2 percent of GDP**.

Expenditure Projections

174. **Mr. Speaker,** total expenditure in the FY 2026/27 budget is projected at **KSh 4,820.4 billion** equivalent **23.2 percent of GDP**. Of this, recurrent expenditures will amount to **KSh 3,568.4 billion** equivalent to **17.1 percent of GDP** and development expenditures, including allocations to domestic and foreign financed projects, Contingency Fund and Equalization Fund will amount to **KSh 750.0 billion** equivalent to **3.6 percent** of **GDP**. Total allocation to County Governments is projected at **KSh 502.0 billion** of which **KSh 428.0 billion** is equitable share and **KSh 74.0 billion** is additional allocations from the National Government's share of revenue and loans **(KSh 16.6 billion)** and grants from Development Partners **(KSh 57.4 billion)**.

Fiscal Deficit and Financing

175. Mr. Speaker, the resultant fiscal deficit including grants is projected at **KSh 1,146.2 billion**, equivalent to **5.5 percent** of GDP. The fiscal deficit will be financed by net external borrowing of **KSh 116.2 billion** equivalent to **0.6 percent** of GDP and net domestic borrowing of **KSh 1,030.1 billion,** which is equivalent to **4.9 percent of GDP**.

Public Debt Management

176. Mr. Speaker, debt is a tool for development, but only when managed prudently and sustainably. To preserve debt sustainability and strengthen economic resilience, the Government will continue implementing fiscal consolidation measures anchored on enhanced domestic revenue mobilization, strict expenditure controls, and improved efficiency in public spending. Given these reforms, the Present Value of public debt to GDP is projected to decline steadily towards the approved debt anchor over the medium term.

177. Mr. Speaker, in pursuit of the strategic objective of strengthening debt portfolio diversification, the National Treasury is actively advancing a range of innovative financing instruments. These initiatives are designed to broaden the investor base, optimize the cost-risk profile of public debt and enhance overall resilience in debt management. In this regard, the Government is considering thematic and liability management instruments such as debt-for-food swaps and debt-for-development swaps.

178. These instruments provide an opportunity to convert external debt obligations into targeted investments that directly support national priorities, including food security, sustainable development and social infrastructure, while simultaneously easing debt service pressures and reinforcing fiscal sustainability.

179. Mr. Speaker, further to this, the Government is also evaluating opportunities to access new and diversified international capital markets. This includes the potential issuance of Samurai Bonds in the Japanese market and Panda Bonds in the Chinese domestic market. By tapping into these markets, the Government stands to benefit from deep and diversified pools of capital, secure potentially competitive financing terms, and promote currency diversification within the debt portfolio, thereby reducing reliance on traditional funding sources.

180. Mr. Speaker, complementing these efforts and in recognition of the growing global demand for ethical and faith-based financing, the Government is considering the introduction of

Sukuk instruments. These Sharia-compliant securities, which are structured on asset-backed or asset-based principles, will enable the Government to access liquidity from Islamic finance markets. This will not only expand the investor base to include investors with Sharia compliance mandates but also promote financial inclusion and contribute to the deepening of domestic and international capital markets.

181. Collectively, these initiatives underscore a forward-looking and proactive approach to public debt management, one that emphasizes innovation, prudent risk management and alignment with both domestic development priorities and evolving global financing trends.

182. Mr. Speaker, to further strengthen transparency, coordination, and efficiency in the implementation of externally funded projects, the

National Treasury has spearheaded the development - of the Development Project Management Information System. This innovative digital platform will serve as a centralized repository for real-time tracking of project implementation, monitoring of disbursements, and alignment of outcomes with national development priorities.

183. By enhancing project oversight and accountability, this system represents a significant step forward in ensuring that externally mobilized resources are utilized effectively, and that every shilling delivers value for money and tangible impact for our citizens.

Public Private Partnerships Framework

184. Mr. Speaker, the scale of Kenya's development ambitions demands that we leverage not only public resources but also the capital innovation and expertise of the private sector.

185. Public-Private Partnerships have therefore become a central pillar of our development financing strategy. Beyond mobilizing additional resources, Public-Private Partnerships enable the Government to harness private sector innovation, technical expertise, operational efficiency, and risk-sharing arrangements that enhance project delivery while preserving fiscal sustainability.

186. **Mr. Speaker,** the Government continues to strengthen the Public-Private Partnerships programme as a key instrument for delivering strategic investments under the Bottom-Up Economic Transformation Agenda. In this financial year, we have so far mobilized approximately **KSh 96 billion** private capital investment in PPPs, this being the CRBC/NSSF investment for the Rironi -

Gilgil (A8) & Nairobi - Maai Mahiu - Naivasha (A8 South) sections of the Nairobi-Nakuru - Mau Summit Highway.

187. Building on this momentum, the Government targets to mobilize at least **KSh 70 billion** through PPP investments in FY 2026/27 across the energy, transport, water, housing, health, and digital infrastructure sectors.

188. **Mr. Speaker,** other priority projects, besides the Nairobi–Nakuru–Mau Summit Project, include the Nairobi–Mombasa Expressway and the Mau Summit–Eldoret–Malaba Highway, which will strengthen regional connectivity and facilitate trade along the Northern Corridor.

189. **Mr. Speaker,** in ports and logistics, the Government is leveraging private sector capital and expertise for the development of container terminals, cargo berths, inland container depots, and special economic zones in Mombasa, Lamu, Nairobi, and Naivasha, strengthening Kenya's position as the region's leading trade and logistics hub.

190. Mr. Speaker, in the energy sector, priority investments include the High Grand Falls Hydropower Project, expected to generate 700 megawatts, and the Karura Hydropower Project, expected to generate an additional 90 megawatts. Together, these projects will add approximately 790 megawatts of clean and reliable power to support industrialization, digital transformation, and emerging technologies. These investments will be complemented by strategic transmission infrastructure projects to strengthen and expand the national grid.

191. Mr. Speaker, in the water sector, the Government is advancing key dam projects, including Radat Dam, Barsalinga Dam, Lowaat Dam, and Soin Koru Dam, which will enhance water security, irrigation, food production, and climate resilience in some of the country's most water-stressed regions.

192. Mr. Speaker, in the ICT sector, the Kenya National Data Centre PPP and the Konza Data Centre Project will strengthen Kenya's digital infrastructure, support data sovereignty, and position the country as a leading digital and innovation hub in East Africa.

193. Mr. Speaker, together, these projects represent investments valued at over USD 10 billion and will support economic growth, improve service delivery, create jobs, and strengthen Kenya's productive capacity.

194. Mr. Speaker, to accelerate project origination and preparation, the National Treasury has established a framework for **Rapid Results Initiative** bringing together Ministries, Departments, and Agencies to identify, develop, and fast-track investment opportunities in priority BETA sectors.

195. Mr. Speaker, the National Treasury is also at the tail end of finalizing all the required PPP regulations and guidelines to fully operationalize the PPP Act. This is in addition to the recently issued circular on mandatory disclosure requirements for all Privately Initiated Proposals. These circulars aim to enhance uniformity, transparency, accountability, and build public trust by enabling timely disclosures, integrity and standard reporting.

196. Mr. Speaker, as we expand the PPP programme, we remain committed to increasing the participation of Kenyan enterprises, investors and financial institutions to promote local ownership, domestic value creation and reduce foreign exchange risk. In this regard, the National Infrastructure Fund will play a key role in mobilizing long term domestic capital and supporting local participation in infrastructure financing.

197. Mr. Speaker, our pension funds, insurance companies, SACCOs, and retail investors will increasingly have opportunities to participate in strategic national investments, ensuring that the benefits and returns generated by these projects accrue to Kenyan citizens while supporting long-term economic transformation.

Mr. Speaker, by mobilizing domestic savings and channeling them into productive investments, we are creating a model of growth that is owned, financed, and sustained by Kenyans. Kenya is not just open for business - Kenya is investing in itself.

V. RESOURCE ALLOCATIONS

198. Mr. Speaker, over the past three years we have laid a firm foundation for inclusive growth. The FY 2026/27 Budget builds on those gains and advances the Bottom-Up Economic Transformation Agenda (BETA), the Administration's core economic strategy aligned with the Fourth Medium Term Plan of Vision 2030. BETA focuses public resources on unlocking productivity and increasing incomes at the base of the economy through deliberate, value-chain-driven allocations. With limited fiscal space, this

Budget prioritizes interventions that deliver the greatest impact in job creation, higher household incomes, and broader economic participation.

Agricultural Transformation and Inclusive Growth

199. Mr. Speaker, agriculture remains central to BETA and Kenya's long-term prosperity. It supports more than two-thirds of Kenyan households and generates significant employment multiplier effects, especially among groups historically excluded from modern economic opportunities. Strengthening agriculture is therefore essential food and nutrition security, enhancing resilience, and promoting a shared prosperity.

200. Mr. Speaker to accelerate agricultural transformation, I propose a targeted allocation of **KSh 64.0 billion** across priority programmes that boost productivity, value addition and resilience. Key investments include **KSh 18.0 billion** for the Fertilizer Subsidy Programme, **KSh 2.0 billion** for the Seed Subsidy Programme and **KSh 1.0 billion** for Coffee Seedlings Programme to lower input costs for smallholders; **KSh 4.7 billion** for the National Agricultural Value Chain Development Project to advance processing and market linkages. Further, I propose **KSh 5.4 billion** for the Food Systems Resilience Project and **KSh 1.6 billion** for the Resilience for Food and Nutrition Security Program to enhance adaptive livelihoods, diversify income sources and reduce vulnerability to climate shocks.

201. Mr. Speaker, recognizing the economic potential of pastoral and livestock systems, I propose **KSh 3.3 billion** for De-Risking, Inclusion and Value Enhancement of Pastoral Economies

Programme, **KSh 1.3 billion** for Kenya Livestock Commercialization Programme (KeLCoP) and **KSh 400 million** for the Livestock Value Chain Support Project. These allocations will foster greater market access, commercialization, animal health services and resilience among pastoral communities.

202. Mr. Speaker, the blue economy offers meaningful opportunity for coastal and lakeside communities. To support the growth of the blue economy, I propose **KSh 8.2 billion** for the Blue Economy and Fisheries sub sector, including **KSh 2.1 billion** for Aquaculture Business Development Project; **KSh 1.8 billion** for the Kenya Marine Fisheries and Socio-Economic Development Project, and **KSh 578 million** for Kabonyo Fisheries and Aquaculture Training Center. These investments will expand sustainable aquaculture, uplift fisher-folks' incomes and create jobs in value addition and logistics.

203. Mr. Speaker, addressing historical land inequalities remains a priority. To promote equitable access, and ensure sustainable land management, I propose **KSh 9.4 billion** for settlement of the landless - of this amount **KSh 5.0 billion** is for the landless in the Coast region, **KSh 892 million** for processing and registration of Title Deeds; and **KSh 388 million** for digitization of Land Registries to secure tenure, reduce disputes and unlock productive land use.

Transforming the Micro, Small and Medium Enterprise (MSME) Economy

204. Mr. Speaker, MSMEs are the backbone of our economy: they account for 98 percent of businesses, provide approximately 14.9 million jobs, and contribute about 40 percent to GDP.

They span informal home-based enterprises, artisans, mechanics, tailors, carpenters, fabricators, and medium-sized firms. Nurturing this sector is essential for broad-based job creation and inclusive growth.

205. Mr. Speaker, lack of affordable credit remains a major constraint for MSMEs and households at the bottom of the pyramid. To address this, I propose **KSh 550 million** for the Centre for Entrepreneurship Project to strengthen incubation, skills and business development services, and **KSh 1.1 billion** for Rural Kenya Financial Inclusion Facility to expand credit access and financial services to under-served communities.

Housing and Settlement

206. Mr. Speaker, decent housing underpins social stability and economic productivity. Our Affordable Housing Programme, not only provides safe and affordable homes to Kenyans, but also generates jobs directly in construction and indirectly across building materials and services sectors.

207. To sustain this momentum, I propose **KSh 143.7 billion** for the Housing, Urban Development and Public Works Sub-Sectors. This package includes **KSh 18.6 billion** under the Kenya Urban Programme (KenUP); **KSh 50.6 billion** for construction of Affordable Housing Units; **KSh 20.9 billion** for Social Housing Units; **KSh 20.2 billion** for institutional housing; and **KSh 18.2 billion** for critical social and physical infrastructure. Further support includes **KSh 2.7 billion** for the Kenya Informal Settlement Improvement Project Phase II and **KSh 535 million** targeted to support construction of County Headquarters. These investments will improve living conditions, provision of services and local governance capacity.

208. Mr. Speaker, to protect lives and property through compliance with building codes and standards, I propose **KSh 2.4 billion** for the Regulation and Development of the Construction Industry, thus reinforcing safety, quality and accountability across the sector.

Universal Health Coverage

209. Mr. Speaker, Universal Health Coverage (UHC) is central to BETA's social contract. Equitable access to quality health services is essential for human capital, productivity and poverty reduction. Towards this end, I have proposed **KSh 177.2 billion** to the health sector to advance UHC and strengthen essential services. Key allocations include: **KSh 8.6 billion** salaries for UHC staff; **KSh 19.1 billion** for Primary Healthcare Fund to finance front-line services.

210. Mr. Speaker, to reduce the burden of communicable diseases and advance immunization, I propose **KSh 18.5 billion** for the Global Fund; and **KSh 6.4 billion** for Vaccines and Immunization Programme. These investments will protect children and communities and reduce health-related economic shocks.

211. Mr. Speaker, tackling cancer and other chronic illnesses requires focused investments. I propose **KSh 3.0 billion** to the Emergencies, Chronic and Critical Illness Fund, **KSh 1.0 billion**

for Construction of a Cancer Centre at Kisii Level 5 Hospital, **KSh 300 million** to strengthen Cancer Management in Kenyatta National Hospital and **KSh 150 million** for the expansion of Comprehensive Cancer Centre at Kenyatta University Teaching Referral & Research Hospital. These measures will expand diagnostic and treatment capacity across regions.

212. Mr. Speaker, to improve tertiary health care, I propose **KSh 45.3 billion** for our Referral Hospitals. Additional targeted investments include **KSh 487 million** for the construction of Kenyatta National Hospital Burns and Pediatrics Centre, **KSh 300 million** for renovations and replacement of obsolete equipment at Kenyatta National Hospital and **KSh 2.0 billion** for construction of a New 2,000 Bed Multi-specialty at

Moi Teaching and Referral Hospital to expand capacity and improve health outcomes.

213. Mr. Speaker, to ensure reliable supply chains and strengthen human resources, I propose **KSh 20.9 billion** for Kenya Medical Supplies Agency; **KSh 3.1 billion** for the Kenya Medical Research Institute, **KSh 1.3 billion** for the Integrated Reproductive Health Programme, **KSh 500 million** for family planning and reproductive health commodities, and **KSh 600 million** for equipment at the National Blood Transfusion Services.

214. Mr. Speaker, as a country we value the services offered by our health workers. To build workforce capacity, I propose **KSh 9.3 billion** for Medical Interns; **KSh 10.9 billion** for the Kenya Medical Training Colleges; and **KSh 3.2 billion** and **KSh 396 million** for stipend and medical insurance for Community Health Promoters, respectively.

Digital Superhighway and Creative Economy

215. Mr. Speaker, digital transformation is a strategic enabler for competitiveness in the Fourth Industrial Revolution. Digital connectivity and literacy are essential for education, healthcare, finance, markets, public services, and emerging digital opportunities.

216. Mr. Speaker, Kenya's creative economy – encompassing film, music, fashion, arts, media, digital content, and design – has become a powerful engine of growth and youth employment. Investing in creative industries expands cultural exports and drives innovation.

217. Mr. Speaker, to accelerate digital adoption and inclusion, I propose **KSh 8.6 billion**

to this sector. This includes: **KSh 4.3 billion** for Kenya Digital Economy Acceleration Project, **KSh 1.3 billion** for maintenance and rehabilitation of National Optic Fiber Backbone Infrastructure, **KSh 528 million** for Maintenance & Rehabilitation of Last Mile County Connectivity, **KSh 309 million** for Government Shared Services, **KSh 382 million** for the Digital Superhighway cybersecurity, **KSh 400 million** for establishment of Digital Hubs, and **KSh 455 million** for ICT Infrastructure Maintenance.

Investing in Critical Infrastructure

218. Mr. Speaker, infrastructure is the backbone of economic transformation. It provides connectivity, energy, and water resources needed to power productive activities and sustain human settlements. By reducing transaction costs and opening markets, infrastructure investments deliver long-term value. Towards this end, I propose **KSh 220.4 billion** for development of Roads, including **KSh 44.3 billion** to support construction of roads and bridges, **KSh 58.0 billion** for rehabilitation of roads, and **KSh 118.1 billion** for roads maintenance. This balanced mix supports connectivity, freight efficiency and long-term road preservation.

219. Mr. Speaker, to expand railway transport, I propose **KSh 38.4 billion** for railway projects. Additionally, **KSh 400 million** is proposed for the Kenya Ferry Ramp in Likoni, Mombasa; **KSh 1.0 billion** for development of the Public Ferry Landing Ramps in Lake Victoria including Mbita and Sena in Suba North and West sub-counties of Homa Bay County; **KSh 150 million** for acquisition of Public Ferry in Lake

Victoria; and **KSh 582 million** for the Nairobi Bus Rapid Transport Project, which is a critical public transport investments that will reduce congestion and enhance mobility.

220. Mr. Speaker, reliable, affordable energy is vital for industry and households. I propose **KSh 30.9 billion** to the energy sub-sector, including **KSh 7.5 billion** for the National Grid System; **KSh 20.2 billion** for Rural Electrification and **KSh 3.2 billion** for alternative energy technologies. These allocations expand access, lower costs and promote sustainable growth.

Improving Education Outcomes

221. Mr. Speaker, Kenya's future depends on developing strong human capital. To this end, we will continue to strengthen quality learning, training and research, promote equity and inclusivity, scale up investment in education and fortify the system against emerging technological and labour market shifts as well as fortify education-to-industry linkages thus ensuring skills match demand.

222. **Mr. Speaker**, I propose **KSh 784.5 billion** for the Education Sector, including **KSh 424.3 billion** to the Teachers Service Commission, **KSh 136.6 billion** for Basic Education, **KSh 163.9 billion** for Higher Education, **KSh 1.3 billion** for Science Innovation & Research and **KSh 58.5 billion** for Technical Vocational Education and Training (TVET). This comprehensive allocation safeguards service delivery and expands opportunities across the learning continuum.

223. **Mr. Speaker**, within this funding to the Education sector, I propose **KSh 7.0 billion** Free

Primary Education, **KSh 54.6 billion** for Free Day Secondary Education, and **KSh 30.7 billion** for Junior Secondary School Capitation. I also propose **KSh 9.9 billion** for administering National Examinations; and **KSh 3.0 billion** for the School Feeding Programme.

224. Mr. Speaker, I propose **KSh 4.9 billion** for conversion of 20,000 intern teachers into permanent and pensionable from January 2027. Further, the newly recruited 24,000 intern teachers will be converted into permanent and pensionable in July 2027. In this respect, I propose an allocation of **KSh 8.2 billion** for intern teachers to address staffing gaps and improving learning outcomes.

225. Mr. Speaker, to improve learning environments and skills training, I propose **KSh 4.1 billion** for primary and secondary school infrastructure, and **KSh 2.1 billion** for construction and equipping of TVET Centres, **KSh 7.1 billion** for the Kenya Primary Education Equity in Learning Program, and **KSh 4.7 billion** for Kenya Secondary Education Quality Improvement Project.

226. Mr. Speaker, further investments in this sector include: **KSh 56.3 billion** to the Higher Education Loans Board for provision of loans to University and TVET students; **KSh 30.9 billion** for university scholarships; **KSh 9.2 billion** for TVET scholarships; **KSh 6.7 billion** for CBA-Arrears for Universities and 2021-2025 CBA; and **KSh 5.9 billion** for ongoing projects in universities across the country - measures that expand access and strengthen human capital for a competitive economy.

Supporting Manufacturing for Job Creation

227. Mr. Speaker, manufacturing is a linchpin for structural transformation. We will therefore, continue to strengthen local value chains, deepen backward and forward linkages and enhance competitiveness in domestic and export markets.

228. Mr. Speaker, to continue promoting local industries, I propose **KSh 16.7 billion** to support manufacturing initiatives across implementing agencies. This includes **KSh 2.6 billion** for equipping County Integrated Agro-Industrial Parks, **KSh 5.4 billion** for the Supporting Access to Finance and Enterprise Recovery (SAFER) Project, **KSh 602 million** for development of Athi River Textile Hub, **KSh 300 million** for establishment of flagship Export Processing Zones Hubs, **KSh 604 million** for the development of

Special Economic Zone Textile Park Naivasha, and **KSh 2.4 billion** for Kenya Jobs and Economic Transformation. These measures will deepen industrial clustering and create high-quality jobs.

229. **Mr. Speaker**, I further propose **KSh 500 million** for Coffee Cherry Revolving Fund, **KSh 2.0 billion** for coffee debt waivers; and **KSh 2.7 billion** for sugar sector reforms in order to stabilize key agricultural-industrial value chains and protect livelihoods.

230. **Mr. Speaker**, to prepare our youth for industry needs, I propose **KSh 500 million** for construction of Industrial Research Laboratories that will foster innovation, internships and industry-academia collaboration.

Improving Security

231. Mr. Speaker, a safe and stable environment is indispensable for investment, trade, and economic growth. I therefore, propose **KSh 252.1 billion** for Defence, **KSh 144.7 billion** for the National Police Service, **KSh 64.1 billion** for the National Intelligence Service, **KSh 63.9 billion** for Internal Security and National Administration and **KSh 42.6 billion** for Prisons Services. These allocations strengthen national security and uphold the rule of law.

232. Specific security investments include **KSh 13.0 billion** to cater for leasing of police motor vehicles, **KSh 7.0 billion** for Police Modernization Programme, and **KSh 1.3 billion** for construction and modernization of national forensic facilities. I have also proposed **KSh 3.9**

billion for stipend to Village Elders, to enhance local administrative capacities and to appreciate and recognize the role played by village elders in helping address security and other societal challenges.

Protecting the Vulnerable Groups

233. Mr. Speaker, social safety nets remain central to BETA's objective of poverty reduction and inclusive growth. Strengthened safety nets protect livelihoods, create pathways out of poverty and enable economically excluded households to participate in productive activities.

234. In this regard, I propose **KSh 41.8 billion** to protect the vulnerable Kenyans including **KSh 24.6 billion** for cash transfers to elderly persons, **KSh 8.9 billion** for cash transfers to Orphans and Vulnerable Children, and

KSh 1.5 billion for cash transfers to persons living with severe disabilities. These measures provide immediate relief and sustain basic consumption.

235. Mr. Speaker, the allocation also includes **KSh 4.3 billion** for the Kenya Hunger Safety Net Programme, **KSh 550 million** for the National Fund for the Disabled of Kenya, and **KSh 1.1 billion** for the Child Welfare Society of Kenya; **KSh 200 million** to support autism and albinism programmes in order to strengthen social protection and community support systems.

Equity, Poverty Reduction, Women and Youth Empowerment

236. Mr. Speaker, anchored on the Kenya Young People's Agenda, we are funding key Government interventions that will equip youth with entrepreneurial and life skills, promote local and international employment, and unlock opportunities for youth-owned MSMEs.

237. Mr. Speaker, the Government will also fund initiatives that advance gender equality by promoting meaningful inclusion of women in decision-making, enhancing their economic empowerment and intensifying efforts to eliminate gender-based violence and harmful practices such as female genital mutilation.

238. Mr. Speaker, to empower youth, women and constituencies across the country, I propose **KSh 110.2 billion** for targeted initiatives. This includes: **KSh 12.5 billion** for the National Youth Service, **KSh 4.9 billion** to National Youth Opportunity Towards Advancement (NYOTA) project, **KSh 1.6 billion** for Youth Employment Support Programme, and **KSh 1.0 billion** for Film Development Services. These investments will spur skills development, civic engagement and growth in creative industry.

239. **Mr. Speaker**, to support women and girls, I propose **KSh 402 million** for the Women Enterprise Fund, and **KSh 4.9 billion** for the National Government Affirmative Action Fund to enhance their inclusion, dignity and economic participation.

240. **Mr. Speaker,** to promote regional equity and strengthen local development, I propose **KSh 61.8 billion** for the National Government Constituency Development Fund; **KSh 10.3 billion** for the Equalization Fund to finance programmes in marginalized areas, and **KSh 10.5 billion** for the Kenya Devolution Support Programme No. II.

Stimulating Tourism Growth, Sports, Culture, Recreation and Arts

241. **Mr. Speaker**, sports and arts are vital for national identity, youth empowerment and economic diversification. We will therefore, promote sports at all levels, enforce international anti-doping standards and commercialize indigenous knowledge to create livelihood opportunities.

242. To harness national talent and promote Kenya as a regional cultural hub, I propose **KSh 45.6 billion** for Sports, Culture, Recreation and Tourism, including **KSh 25.2 billion** for the Sports, Arts and Social Development Fund and **KSh 14.3 billion** for the Tourism Fund. These allocations will stimulate jobs, community development and foreign exchange earnings.

Environmental Protection, Water and Natural Resources

243. Mr. Speaker, environmental conservation, climate resilience, reforestation, biodiversity protection and land restoration are central to sustainable development. Access to clean water, improved sanitation and expanded irrigation are equally crucial for health, productivity and agricultural growth. Towards this end, I propose an allocation of **KSh 124.8 billion** for the cluster.

244. Mr. Speaker, to safeguard ecosystems and tackle climate risks, I propose **KSh 13.4 billion** for Forests Resources Conservation and Management; **KSh 1.7 billion** for Forests Research and Development. I also propose **KSh 3.2 billion** for Tree Growing Campaign.

245. **Mr. Speaker,** I further propose **KSh 4.7 billion** for Environment Management and Protection; **KSh 8.9 billion** for the Kenya Financing Locally Led Climate Action Project; and **KSh 1.8 billion** for Meteorological Service.

246. **Mr. Speaker,** in order to support solid waste management in Nairobi, I propose **KSh 2.5 billion** and **KSh 1.0 billion** for the removal of asbestos.

247. Additional targeted allocations in this sector include: **KSh 13.2 billion** for wildlife security, conservation and management; **KSh 1.2 billion** for wildlife research and development; **KSh 1.1 billion** for Human-Wildlife Conflict Compensation; and **KSh 800 million** for Wildlife Insurance. These investments protect natural capital that underpins tourism and rural livelihoods.

248. Mr. Speaker, to expand water infrastructure and ensure water security, I propose **KSh 51.5 billion** for water and sewerage infrastructure development, **KSh 6.3 billion** for water resources management, **KSh 2.5 billion** for water storage and flood control.

249. Mr. Speaker, to promote irrigation development in the country and reduce reliance on rain fed agriculture, I propose **KSh 1.1 billion** for Irrigation and Drainage Development; **KSh 1.8 billion** for Large Scale Commercial Irrigation Development, **KSh 3.3 billion** for Community Managed Irrigation Development, **KSh 3.0 billion** for Public Irrigation Schemes, and **KSh 1.6 billion** for Revitalizing Irrigation in ASAL Areas. These allocations will improve access, productivity and resilience in agriculture and settlements.

Improving Governance and Sustaining the Fight against Corruption

250. **Mr. Speaker,** strong institutions and adherence to the rule of law are prerequisites for sustainable development. Effective governance strengthens investor confidence and ensures efficient delivery of public services.

251. To strengthen accountability and the rule of law, I propose **KSh 5.1 billion** for the Ethics and Anti-Corruption Commission, **KSh 7.0 billion** for the Office of the Director of Public Prosecutions, **KSh 6.0 billion** to the State Law Office, and **KSh 9.8 billion** for the Office of the Auditor General. These allocations will intensify anti-corruption efforts and reinforce public sector integrity.

252. **Mr. Speaker,** to enhance parliamentary oversight and legislative functions, I propose **KSh**

50.9 billion for Parliament. Further, to support administration of justice, I propose **KSh 30.4 billion** for the Judiciary. These allocations are essential to uphold democracy, transparency and citizens' trust in public institutions..

Allocations to County Governments

253. Mr. Speaker, the Government remains committed in supporting devolution through intergovernmental fiscal transfers in line with Article 202 of the Constitution. I therefore, propose to allocate **KSh 428.0 billion** in equitable share which shall be transferred to the respective County Governments as per the Fourth Basis formula during FY 2026/27. The **KSh 428.0 billion** represents 21 percent of the most recently audited revenues for FY 2022/23, way higher than the minimum of 15 percent prescribed in Article 203(2) of the Constitution.

254. Mr. Speaker, including the additional allocation from the National Government's share of revenue of **KSh 16.6 billion** to the proposed shareable of KSh 428.0 billion, implies that county Governments will receive a total of **KSh 444.6 billion** in FY 2026/27. Further to this allocation, I have proposed an additional allocation of **KSh 57.4 billion** from loans and grants from Development Partners.

255. Mr. Speaker, the National Treasury has developed the draft Public Finance Management (Amendment) Bill, 2025 which proposes to amend to Sections 42 and 191 of the Public Finance Management Act, Cap 412A. These amendments aim to provide for submission of two separate Bills: one on the County Governments Additional Allocations; National Government's share of revenue Bill and the other on proceeds from loans and grants from Development Partners Bill. This will mitigate delays in the approval and disbursement of County Government Additional Allocations.

Equalisation Fund

256. Mr. Speaker, to support implementation of projects in the marginalized areas, **KSh 10.3 billion** has been proposed as an allocation to the Equalization Fund in the FY 2026/27.

County Government's Pending Bills

257. Mr. Speaker, the growing stock of pending bills in County Governments poses a fiscal risk. As of 30th June 2025, County Governments reported outstanding pending bills of **KSh 183.0 billion**. **Mr. Speaker,** during its 27th Ordinary Session, the Intergovernmental Budget and Economic Council (IBEC) approved and adopted the County Governments' Pending Bills Action Plan submitted by the Controller of Budget. The Council directed all County Governments to customize and implement their respective Pending Bills Action Plans, to progressively reduce the stock of pending bills. I urge County Governments to ensure full implementation of the agreed action plans.

VI. TAXATION MEASURES

258. Mr. Speaker, following the tragic events of 25th June 2024, a day that remains etched in our hearts, Government was reminded of the need to always listen to the voices of her citizens. As I mentioned at the beginning of this Statement, I championed public engagements with Kenyans of all walks of life while putting together this budget and the supporting policy measures.

259. Mr. Speaker, over the last one month, focus has been more on the Finance Bill, 2026 and like I mentioned I engaged Kenyans widely in town hall meetings; various media stations; Bunge la Mwananchi at Jevanjee Gardens here in Nairobi; Ongata Rongai in Kajiado; comrades at the University of Nairobi; Citizen Digital X Space just to mention but a few. I wish to thank all Kenyans who took time to attend these forums and engage with me. My assurance is that their voices have been reflected in the proposals that I am presenting today.

260. Mr. Speaker, in preparing these proposals, I have been guided by the overriding principle of placing the wellbeing of the common mwananchi first. In this regard, I have deliberately chosen not to introduce new taxes or increase tax rates that would further overburden the hardworking Kenyans and their families. Instead, the measures are focused on reforms that improve efficiency in tax collection, create fairness in the tax system and broaden the revenue base without burdening the Mwananchi.

261. Mr. Speaker, allow me to share a **striking reality**. Today, only 3.1 million working Kenyans contribute to Pay as You Earn. Yet millions of other Kenyans that make money in our economy do not contribute to the taxes we collect. Many of these people have been filing nil returns year after year. The burden of developing this country has therefore been on afew of us. **Mr. Speaker, This must change.** We shall continue to broaden our tax base a process that will help us lower tax rates to ease burden on the few that are tax compliant.

262. Mr. Speaker, to support financing of FY2026/27 budget, I will today present highlights of two sets of proposals:

- The first set of proposals relates to customs measures agreed upon by the East African Community Ministers/Cabinet Secretary responsible for Finance and Economic Affairs during this year's Pre-Budget Consultations held in Arusha, Tanzania on 15th May, 2026. The measures agreed upon target to support local manufacturing, promote value addition, strengthen industrial competitiveness, enhance food security, protect jobs, and align the regional tariff structure with Kenya's economic development objectives.

The second set of proposals are contained in the Finance Bill 2026. These measures are guided by three key principles: **first,** efficiency to ensure tax collection is done with minimal leakages and ease compliance; **second,** fairness, to ensure that the tax burden is shared equitably among all; and, **third,** simplicity, to ensure that compliance with tax laws is straightforward, transparent, and predictable for all Kenyans.

263. **Mr. Speaker,** the measures I present today, majority of which are targeted to simplify tax compliance and strengthen tax administration are expected to yield an additional **Ksh 98.9 billion** in revenues.

Customs Measures

264. **Mr. Speaker,** allow me to express my sincere appreciation to this House for the approval granted to the customs measures on 8th May, 2026 which I subsequently presented during the

Pre-Budget Consultations held in Arusha, Tanzania on 15th May, 2026. I wish to inform this House that all those measures were subsequently adopted by the East African Community Ministers/Cabinet Secretary responsible for Finance and Economic Affairs. These measures will take effect from 1st July 2026. I will now highlight some of them.

265. Mr. Speaker, high production costs continue to constrain growth and competitiveness of local industries, particularly where manufacturers rely on imported inputs that are not available locally. To lower the cost of production for our local industries and make locally produced goods affordable, Kenya secured approval at the region to continue applying a **zero percent** duty remission on selected inputs used in manufacture of pharmaceutical products, roofing materials, automotive parts for vehicles and motorcycles, and cold rooms for preservation; leather processing, and the assembly of smart mobile phones, laptops, and tablets. Kenya also secured approval to continue applying a duty remission rate of **10 percent** on selected inputs used in furniture and door manufacturing, as well as completely knocked down kits for assembly of motorcycles. Through these measures, jobs created by the industries in these categories remain protected to support livelihood of our people.

266. Mr. Speaker, food security is one of the pillars under the Bottom-Up Economic Transformation Agenda and therefore remains a national priority. To support affordability of food and animal feeds by Kenyans, Kenya was allowed to continue importing wheat at a duty remission rate of **10 percent** instead of the Common External Tariff rate of **35 percent**; continue importing inputs for manufacture of animal feeds **duty free** under the East African Community duty remission scheme; and apply a **zero percent** import duty on **dates** consumed by our Muslims brothers and sisters during the **period of Ramadhan** in 2027. Kenya also secured approval to continue applying an import duty of **35 percent** or **USD 200 per metric tonne**, whichever is higher, on imported rice instead of the Common External Tariff rate of **75 percent** or **USD 345 per metric tonne**.

267. Mr. Speaker, to promote value addition of products locally grown by our farmers, Kenya was allowed a stay of application of East African Community Common External Tariff (EAC-CET) rates and apply a duty rate of **35 percent** or equivalent specific duty rates on selected processed food products including preserved vegetables, peas, sweet corn, tomato products, sauces, jams, edible oils, malt extract, and other prepared food products. This will cushion the local industries from imported products and make Kenyan products more competitive in the domestic market, protect these agro-based industries thus safeguarding income of our farmers and the local jobs created in the agro processing value chain.

268. Mr. Speaker, to protect local manufacturers in the textile, apparel, leather, and footwear sectors and the many jobs in these industries, Kenya was granted an extension of a stay of application of EAC-CET and apply higher duty rates ranging between **25 percent** and **35 percent** on imported textiles, apparel, blankets, bed linen, carpets, tarpaulins, leather products, and worn clothing, while maintaining **zero percent** duty remission on selected inputs for leather processing.

269. Mr. Speaker, to strengthen digital connectivity as part of the digital superhighway pillar of BETA, the local assembly of smart devices remains a key priority. Expanding access to affordable smart telecommunication devices will enable more Kenyans participate in the digital economy and benefit from emerging opportunities in business and innovation. With this in mind, Kenya requested and was granted **a zero percent** duty remission on inputs used in the assembly of smartphones, laptops, and tablets. Additionally, optical fibre cables and recorded software products will be imported at a higher tariff rate of

10 percent instead of the EAC-CET rate of **zero percent**.

270. Mr. Speaker, to lower the cost of construction materials for the delivery of affordable housing as part of BETA priorities, Kenya was allowed to continue applying a **zero percent** duty remission on selected inputs for the manufacture of roofing materials and related industrial products. Further, to protect local industries that manufacture steel products, aluminum products, pipes, electrical equipment, ceramic tiles, and other construction materials, Kenya was also allowed to continue applying stays of application at duty rates ranging from **25 percent** to **35 percent**, together with equivalent specific duty rates where applicable to discourage under declaration of import values.

271. Mr. Speaker, given the limited fiscal space, Kenya continues to explore alternative financing models particularly the Public Private Partnerships arrangements in developing infrastructure projects. With this in mind, Kenya was granted a stay of application of EAC-CET and apply a **zero percent** import duty on goods, materials, and equipment imported for use in the PPP projects.

272. Mr. Speaker, local assembly of motor vehicles and the manufacturing of automotive parts continue to create jobs for Kenyans. In this respect, Kenya applied to protect these industries and the associated value chains. Kenya was granted a **zero percent** duty remission on selected inputs used in the manufacture of automotive parts.

273. Mr. Speaker, to support local manufacturing of paper and paper products, Kenya was allowed to continue applying stays of application at a rate of **35 percent** on kraft paper and paperboard, printed poly bags, sacks and bags, and related packaging materials instead of the EAC CET rate of **25 percent**.

274. Mr. Speaker, to protect local manufacturers of household and industrial products and the jobs therein, Kenya will continue the stays of application of EAC CET rates and apply rates ranging **from 25 percent** to **35 percent,** together with equivalent specific duty rates where applicable, on products including LPG stoves, cookware, aluminium products, steel products, electrical equipment, and related manufactured goods.

Highlights of Proposals in the Finance Bill, 2026

275. Mr. Speaker, I now turn to the proposals in the Finance Bill, 2026 that target to amend various domestic tax laws to improve revenue collection, ease tax compliance and create fairness within the tax system.

Income Tax Act

276. Mr. Speaker, currently, certain corporate restructurings, such as mergers, amalgamations, or internal reorganizations are exempt from capital gains tax. To encourage the establishment and growth of Real Estate Investment Trusts, the Bill proposes to extend the exemption to qualifying property transfers into approved Real Estate Investment Trusts (REITs).

277. Mr. Speaker, to promote fairness, improve consistency within the tax system, and support investment in the petroleum sector, the Bill proposes to reduce the corporate tax rate applicable to non-resident petroleum contractors to **30 percent** from **37.5 percent.** This will harmonize with the rate that is applicable to other non-resident companies. The Bill further clarifies that repatriated income earned by non-resident petroleum contractors will be subject to tax at the rate of **15 percent**, consistent with the treatment applicable to other non-resident persons operating in Kenya.

278. **Mr. Speaker,** the current framework for taxation of trusts is complex and may create uncertainty in the taxation of trust incomes and distribution. To improve clarity and align the framework with the international best practices, the Bill proposes to introduce a single-point taxation system at the trustee level and removes the risk of double taxation for beneficiaries, thereby improving compliance and reducing opportunities for tax avoidance.

279. **Mr. Speaker,** the Bill does not propose to increase monthly rental income. On the contrary, the Bill proposes a simplified tax framework for **non-resident persons** who earn monthly rental income in Kenya but do not pay tax on that income. In this case therefore, non-resident landlords will be required to register and account for tax directly especially where the property is not managed through a property agent while preserving the existing withholding tax framework where non-residents are currently complying with their tax obligations. **Mr. Speaker,** this proposal will not result in higher rent or additional burden on existing tenants that reside in properties owned by non-residents.

280. Mr. Speaker, currently, any persons making payments to non-resident ship owners and charterers are required to withhold and remit tax on shipping income. This has affected compliance, particularly where persons procuring shipping services are not aware of the withholding obligation. To simplify the administration of the tax and provide greater certainty in its collection, the Bill proposes to place responsibility for payment of the tax on resident shipping agents and provide a clear timeline for remittance, being within **5 days** after receipt of payment or before the ship leaves the port of lading, whichever is earlier.

281. Mr. Speaker, currently, the deadline for filing tax returns is 30th June of every year for all categories of income, which leaves no room for verification and validation of filed returns before the commencement of another financial year. To provide sufficient time for verification and validation of returns, I propose revisions to the timelines for filing individual income tax returns. Under the proposal, taxpayers with nil returns will be required to file within one month after the end of the year of income, while taxpayers whose income is fully taxed at source, including persons earning employment income only, will file within four months after the end of the year of income. All other tax payers are required to file their return by 30th June of every year.

282. Mr. Speaker, currently, gains arising from offshore transfers where the value of the transferred shares is derived from assets located in Kenya are not taxed. To ensure that gains derived from Kenyan assets remain taxable in Kenya irrespective of how the transactions are structured, the Bill therefore proposes to amend the Income Tax Act to ensure that all gains from transfer of assets located in Kenya get same tax treatment irrespective of the location of the beneficial owners.

283. Mr. Speaker, when companies make profits, those profits should find their way back to shareholders within a reasonable time. Currently, some companies have been holding back their profits indefinitely simply to defer paying dividend tax. This is a loophole that needs to be addressed. In order to provide greater certainty in the application of the deemed dividend provisions and discourage indefinite retention of profits solely for purposes of deferring dividend taxation, the Bill proposes to introduce a minimum deemed dividend distribution threshold of **60 percent** of undistributed income.

284. Mr. Speaker, rapid advances in technology have transformed the way businesses make payments, distribute software, and provide services across borders. However, the current Income Tax Act provisions do not clearly address the tax treatment of certain payments arising from software distribution arrangements, payment card schemes, payment processing systems, and related digital platforms. This has created uncertainty and disputes regarding the taxation of interchange fees, merchant service fees, and other payments made for access to these systems. The Bill therefore proposes amendments to clarify the definitions of management or professional fees and royalties in order to provide a clear legal framework for taxation of such payments and reduce opportunities for revenue leakage.

285. Mr. Speaker, gambling activities have grown significantly in recent years, particularly through digital platforms. While these are legitimate activities, winnings from gambling are income, and like any other income, they should be taxed. The Bill, therefore, proposes to introduce withholding tax on winnings, lotteries and prize competitions.

286. Mr. Speaker, the scrap metal trade is a significant economic activity that supports the livelihood of many Kenyans. To improve traceability of transactions and strengthen compliance for scrap metal trade, the Bill proposes to introduce a withholding tax on incomes earned from the sale of scrap metal at a low rate of 1.5 percent of the gross amount paid.

287. Mr. Speaker, currently, payments made by the national carrier to non-resident service providers are exempt from payment of withholding income tax while similar payments when made to residents are taxed. To promote fairness and ensure consistent tax treatment between resident and non-resident service providers, the Bill proposes to remove the exemption from withholding tax on payments made by the national carrier to non-resident service providers.

Value Added Tax Act

288. Mr. Speaker, I will now turn to the proposed amendments to the Value Added Tax Act.

289. Mr. Speaker, dialysis remains a life sustaining treatment for many Kenyans living with kidney disease, yet the cost of essential renal treatment equipment continues to place pressure on households and healthcare providers. The Bill therefore proposes to exempt dialyzers, which is a critical lifesaving component for patients experiencing kidney failure, from VAT to reduce their cost and make renal treatment affordable.

290. Mr. Speaker, the Government recognizes the important role that trade in used clothing and footwear, commonly known as mitumba, continues to play in supporting livelihood and affordable access to clothing across the country. To simplify compliance, the Bill proposes to charge VAT at the point of importation while subsequent domestic sales of worn clothing and worn footwear will be exempt from VAT. This means that, mitumba traders selling to everyday Kenyans will not be burdened with VAT obligations.

291. Mr. Speaker, currently, passengers arriving at the ports of entry in Kenya are allowed VAT exemption on value of goods not exceeding

USD 300. This threshold has remained unchanged and has not kept pace with the current realities. The Bill therefore proposes to increase the VAT exempt threshold on value goods for passengers arriving at the ports of entry from **USD 300** to **USD 2,000**.

292. Mr. Speaker, the scrap metal sector plays an important role in supporting local manufacturing and recycling activities but presents significant challenges in administration of input VAT. To simplify VAT administration within the sector while complementing the withholding income tax framework proposed under the Income Tax Act, the Bill therefore proposes to exempt scrap metal from payment of VAT.

293. Mr. Speaker, Public Private Partnerships continues to play an important role in the delivery of strategic infrastructure projects across the country. To reduce the cost of implementation of the projects, the Bill proposes a VAT exemption for goods and services imported or procured locally for use solely in the approved Public Private Partnership infrastructure projects.

294. **Mr. Speaker,** the rapid growth of digital payment platforms has created uncertainty regarding the VAT treatment of certain payment facilitation and processing services. While these services support financial transactions, they are distinct from the underlying financial services. The Bill therefore seeks to clarify that core financial services, including money transfer services such as M-Pesa will remain exempted from VAT, while platforms that facilitate services such as merchant acquiring, payment gateway, aggregation, and settlement services will not qualify for exemption.

295. **Mr. Speaker,** to promote consistency in the treatment of input VAT and support proper administration of the VAT framework, the Bill proposes to require adjustment of input VAT previously claimed where goods that were intended for taxable supplies subsequently become exempt while still in stock.

296. Mr. Speaker, Kenya's tax expenditure was estimated at **KSh 286.5 billion** or **1.8 percent of GDP** in 2024, a decline from **KSh 368.4 billion** or **2.4 percent of GDP** in 2023. **Mr. Speaker,** to further reduce tax expenditures I propose to rationalize some of the existing incentives as follows:

- To remove VAT exemption on certain goods and services currently exempt including denatured ethanol, direction finding compass, affordable housing construction inputs, tourism facility construction inputs, and aircrafts of chapter 88 excluding parts and large aircrafts of over 2000 kilograms;

- To exclude from VAT exemption spare parts applicable to official aid funded projects to reduce opportunities for misuse of the exemption; and
- Transfer selected supplies from zero rated status to VAT exempt status in line with the National Tax Policy objective of limiting zero rating primarily to exports.
- to exempt mobile phones from VAT as part of the simplified taxation framework for mobile phones, outlined under the proposals under Excise Duty Act.

297. The above measures are expected to further lower tax expenditures as a share of GDP and enhance revenue collection.

Excise Duty Act

298. Mr. Speaker, I will now turn to the proposed amendments to the Excise Duty Act.

299. Mr. Speaker, currently more Kenyans are drinking bottled water in both urban and rural areas, the Bill proposes to remove excise duty of 6.41 shillings per litre of bottled water. **Mr. Speaker,** it is expected that the vendors of bottled water will pass this benefit to the ordinary citizens by lowering the price of bottled water.

300. Mr. Speaker, mobile phones have become essential tools for enhancing communication, access to information and delivery of services. They support among others, education, businesses, financial services, e-commerce, healthcare and social interactions while also promoting digital inclusion, productivity and social economic development.

301. Mr. Speaker, to further encourage use of mobile phones in the country, the Bill proposes to simplify taxation of mobile phones by replacing the existing multiple taxes and levies with a single excise duty charged at the rate of 25 percent at the point of activation on any telecommunications network in Kenya. This measure will lower the prices of mobile phones in the country.

302. Mr. Speaker, in recognition of the health risks associated with excessive sugar consumption, the Bill proposes to increase excise duty on sugar sweetened beverages from KSh 14.14 per litre to KSh 20 per litre.

303. **Mr. Speaker,** in support of public health, the Bill also proposes to adjust excise duty rates on other manufactured tobacco, tobacco substitutes, tobacco extracts and essences from KSh 11,382.48 per kg to KSh 12,550 per kg; while the excise duty rates applicable to cigars, cheroots, cigarillos, containing tobacco or tobacco substitutes will be adjusted from KSh. 16,260.29 per kg to KSh. 18,000 per kg.

304. **Mr. Speaker,** betting on horse racing is currently exempt from excise duty. In order to create fairness in the taxation of betting and gaming activities, the Bill proposes to remove this exemption. Further, to expand the scope of taxation, the Bill proposes to amend the definition of gaming wallets to include land-based betting and gaming activities.

305. Mr. Speaker, to promote fairness and consistency in the taxation of similar products, the Bill proposes to harmonize excise duty treatment within the alcoholic beverages sector by removing the preferential excise duty rate of KSh 10 per centilitre of pure alcohol for alcoholic beverages manufactured by small independent brewers.

306. Mr. Speaker, in the Finance Act 2025, excise duty rate for undenatured Extra Neutral Alcohol supplied to licensed manufacturers of spirituous beverages was set at KSh 500 per litre. To support manufacturers in this sector, the Bill proposes to reduce the applicable excise duty rate to KSh 80 per litre. In addition, the Bill proposes amendments to clarify that this rate is applicable to both locally purchased and imported undenatured Extra Neutral Alcohol supplied to licensed manufacturers.

307. Mr. Speaker, to address environmental externalities, the Bill proposes to introduce excise duty on coal at the rate of 5 percent of the excisable value. The Bill also proposes to extend excise duty on plastic articles for locally manufactured products in order to promote consistency in tax treatment.

308. Mr. Speaker, the Bill further proposes to establish a clear excise duty taxation framework for vintage and collector vehicles. This proposal relates to vehicles whose year of first registration is at least 30 years before the date of purchase and whose value is at least KSh 10 million.

Tax Procedures Act

309. Mr. Speaker, the proposed amendments to the Tax Procedures Act, seek to strengthen tax administration, improve compliance, support digitalization, and make it easier for taxpayers to meet their obligations.

310. **Mr. Speaker,** currently, foreign investors are required to obtain KRA PIN before opening Central Depository and Settlement Corporation (CDSC) accounts to participate in trading in the Nairobi Securities Exchange (NSE). In order to improve the attractiveness of Kenya's capital markets to foreign portfolio investors, the Bill proposes to exempt foreign investors from the requirement to obtain KRA PIN solely for purposes of opening Central Depository and Settlement Corporation accounts. **Mr. Speaker,** income earned by non-resident investors from investments in the NSE is subject to withholding tax as a final tax and they are not required to file annual income tax returns.

311. Mr. Speaker, I am grateful that this House approved the Virtual Assets Service Providers Bill, 2025 that was subsequently enacted in 2025. **Mr. Speaker,** currently, there is no reporting framework for virtual assets transactions. In order to address this gap, the Bill proposes to introduce a Virtual Asset Reporting Framework for Virtual Assets Service Providers so as to improve visibility of virtual asset transactions and align Kenya's reporting framework with the international best standards.

312. Mr. Speaker, to simplify compliance, reduce filing errors, and improve efficiency in tax administration, the Bill proposes to amend the Tax Procedures Act to provide for pre-populated tax returns using information already available to the Kenya Revenue Authority. Under this amendment, taxpayers still retain the right to review, confirm, or amend the information before submitting their returns.

313. Mr. Speaker, to strengthen the integrity of the tax system and prevent tax arrangements designed primarily to obtain a tax benefit while preserving fairness for compliant taxpayers, the Bill proposes introduction of a General Anti Avoidance Rule applicable across tax laws.

314. Mr. Speaker, the Tax Procedures (Amendments) Act, 2024 provided for a tax amnesty on penalties, interests and fines for taxpayers on tax liabilities accrued up to 31st December 2023. This facilitated taxpayers to clear principal tax liabilities to Government. In order to encourage settlement of existing tax liabilities by more taxpayers, this Bill proposes a six-month tax amnesty beginning 1st July, 2026 for tax liabilities accrued up to 31st December 2025. Under this amnesty, taxpayers who settle the principal tax due within the amnesty period will qualify for waiver of the related penalties, interest, and fines.

315. Mr. Speaker, to support faster resolution of system related issues and improve taxpayer confidence in digital tax administration systems, the Bill proposes to allow for waiver of penalties and interest, by the Commissioner, up to a specified threshold of KSh 2 million arising from electronic tax system errors.

316. Mr. Speaker, to improve continuity of tax records and simplify compliance for reinstated entities, the Bill proposes to provide for automatic reinstatement of a Personal Identification Number where a deregistered company or other entity is restored to the official register.

317. Mr. Speaker, to improve efficiency in tax administration, the Bill proposes to allow tax assessments to be issued based on information lawfully available to the Commissioner. **Mr. Speaker,** to further align enforcement of tax compliance, the Bill proposes to amend the Tax Procedures Act to clarify that enforcement of tax collection when a Tax Appeals Tribunal or a court judgment on tax dispute is in favour of the Commissioner shall only be suspended where a stay order has been granted.

318. Mr. Speaker, to lower compliance costs and simplify customs clearance procedures, the Bill proposes to remove the requirement for importers to present certificates of origin where such certificates are not necessary for purposes of claiming preferential tariff treatment.

Miscellaneous Fees and Levies Act

319. Mr. Speaker, under the Miscellaneous Fees and Levies Act, the Bill proposes to rationalize the application of Import Declaration Fee and Railway Development Levy exemptions on aircraft by limiting the exemption to aircraft parts and large aircraft used for commercial air transport. This measure is intended to better target the exemption while supporting Kenya's position as a regional hub for aircraft maintenance and aviation services.

320. Mr. Speaker, the Bill also proposes amendments to clarify the application of customs procedures to all fees and levies imposed under the Miscellaneous Fees and Levies Act. These measures are intended to improve administration and support prudent fiscal management.

321. Mr. Speaker, to support growth of the Real Estate Investment Trusts market and development of Kenya's capital markets, the Bill proposes to exempt from Stamp Duty, transfers of beneficial interests in property into approved Real Estate Investment Trusts. This measure complements the proposed amendments under the Income Tax Act on exemption of Real Estate Investment Trusts from Capital Gains Tax.

322. Mr. Speaker, in line with the proposed simplified framework under the Excise duty Act on mobile phones, the Bill proposes to exempt imported mobile phones from Import Declaration Fee and Railway Development Levy.

323. Mr. Speaker, to increase resources available for road maintenance while ensuring that existing annuity obligations continue to be met, the Bill proposes amendments to the Road

Maintenance Levy Fund Act to reduce the allocation to Road Annuity Fund from KSh 3 per litre to KSh 1.50 per litre of fuel. This reduction of KSh 1.50 per litre of fuel will be allocated to Road Maintenance Levy Fund.

VII. CONCLUSION

324. Mr. Speaker, as I conclude, I want to underscore that we have navigated a period of extraordinary challenge, yet the economy has held firm. Kenyans have demonstrated remarkable resilience, and patience, and this Government has remained steadfast in its commitment to deliver on the promises of the Bottom-Up Economic Transformation Agenda.

325. Mr. Speaker, this budget was carefully crafted against a backdrop of limited fiscal space and competing priorities. It reflects prudent choices and disciplined fiscal management while directing resources towards programs and interventions that will have the greatest impact on the lives of ordinary Kenyans while staying firmly on course with our fiscal consolidation plan.

326. Mr. Speaker, the reforms I have outlined today are designed to cushion our citizens, strengthen economic resilience, and lay the foundations for sustainable growth and transformation. They will stimulate job creation, ease the cost of living, and accelerate the economic transformation our people deserve.

327. Mr. Speaker, this Budget is deliberate, decisive and targeted. It channels scarce resources to where they catalyze the greatest economic and social returns: to smallholder farmers and pastoralists, to MSMEs and youth, to health and education, to infrastructure that connects markets, and to institutions that uphold the rule of law. Every allocation is chosen to multiply employment, protect the vulnerable, advance equity and unlock private investment. By prioritizing inclusive, bottom-up growth, we will not only sustain recovery but accelerate shared prosperity across Kenya.

328. This is therefore a Budget for Mwananchi. I call upon Honourable Members and all Kenyans to stand behind its implementation, as we work together, with purpose and resolve towards our shared prosperity. Together we can translate these investments into jobs, higher incomes and a better future for every Kenyan.

329. At this point, **Mr. Speaker,** I wish to thank His Excellency the President, Dr. William Samoei Ruto and His Excellency the Deputy President Professor Kithure Kindiki for their unwavering support, leadership, and counsel as we prepared this Budget.

330. I am also greatly indebted to the Prime Cabinet Secretary, the Attorney General, my fellow Cabinet Secretaries, all the Principal Secretaries, Accounting Officers, and all personnel across Government Ministries, Departments and Agencies who have diligently contributed to the development of the FY 2026/27 budget.

331. Allow me to thank you, **Honourable Speaker** of the National Assembly and your counterpart in the Senate, the Majority and Minority Leaders and the entire House Leadership including the respective Clerks for supporting the approval process of the FY 2026/27 budget.

332. My sincere thanks to Honourable Chairs and Members of both the Budget and

Appropriations Committee and the Finance and National Planning Committee and all the other Departmental Committees of this House as well as the staff of the Parliamentary Budget Office, for their constructive inputs and leadership during the approval process of this budget;

333. I appreciate in a special way Dr. Chris Kiptoo, the Principal Secretary for the National Treasury and the staff of the National Treasury have tirelessly worked long hours to ensure that this budget and the supporting documents are prepared and submitted within the legal timelines I also wish to appreciate my two other Principal Secretaries at the National Treasury, namely Dr. Bonface Barasa Makokha, the Principal Secretary for State Department for Economic Planning and Mr. Cyrell Wagunda Odede, the Principal Secretary for State Department of Public Investments and

Assets Management and their respective staff, for the support during the preparation and finalization of the Budget for FY 2026/27.

334. My sincere appreciation also goes to the Governor of the Central Bank of Kenya, the Commissioner General of the Kenya Revenue Authority, as well as the management and staff of both institutions, and all MDAs for their valuable contributions to the budget process.

335. My gratitude to our Multilateral and Bilateral Development Partners for their continued technical and financial support. I also thank the private sector for their participation and contribution in the budget process.

336. I wish to appreciate the members of the Fourth Estate and all non-state actors for the active engagement and participation in the FY 2026/27 budget process.

337. Mr. Speaker, I cannot forget to mention this. My sincere thanks also goes to, particularly my dear wife, Madam Roda Mbadi and my children who have remained my pillar. In the course of the year, calls of duty would be challenging, but when I got home, I felt relaxed among them. I will forever be grateful for their support, inspiration and prayers as I executed my duties at the National Treasury.

338. Finally, **Mr. Speaker,** I wish to thank Kenyans from all walks of life who gave their suggestions and proposals throughout the budget making process.

Thank You and May God Bless Kenya.

Pause

339. Mr. Speaker, before I resume my seat, you will recall that I have already submitted to this House the budget estimates and the Finance Bill, 2026, together with the accompanying documents as required by the Public Finance Management Act, CAP 412A. Today, I further submit the following documents to this august House and request that you graciously receive them:

i) Budget Statement for the FY 2026/27;
ii) The 2026 Budget Policy Statement;
iii) Estimates of Revenue, Grants and Loans for the FY 2026/27 Budget;
iv) Financial Statement for the FY 2026/27 Budget;
v) Medium Term Debt Management Strategy 2026;
vi) Budget Highlights – The "Mwananchi" Guide for the FY 2026/27 Budget; and

vii) Statistical Annex to the Budget Statement for the FY 2026/27.

THANK YOU, HONOURABLE SPEAKER

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THE NATIONAL TREASURY
JUNE 11, 2026

The statement is available on:
www.treasury.go.ke