



REPUBLIC OF KENYA

CABINET NEWS

APRIL 29, 2025

STATE HOUSE, NAIROBI

The Cabinet has resolved to implement significant budget realignments in line with the government's policy of fiscal consolidation and commitment to living within its means.

In a Cabinet meeting chaired by President William Ruto at State House, Nairobi today, Cabinet Secretaries were directed to work closely with the National Treasury to identify and implement necessary adjustments within their respective ministries and State departments. This move aims to cap the fiscal deficit at no more than 4.5% of GDP for the 2025/26 financial year, down from 5.3% in 2023/24, 5.1% in 2024/25, and with a medium-term target of reducing the deficit to 2.7%.

As a result, the initial budget estimates of KSh4.3 trillion will undergo substantial revisions before being tabled in Parliament. These adjustments are part of broader austerity measures designed to strengthen fiscal discipline, reduce public debt vulnerabilities, and create the fiscal space necessary to deliver essential public goods and services.

In furtherance of these objectives, Cabinet also approved the Finance Bill, 2025, which focuses primarily on closing loopholes and enhancing efficiency, including addressing loopholes related to tax expenditures that have historically been exploited to siphon funds from public coffers, such as through inflated tax refund claims.

Importantly, the Bill seeks to minimise tax-raising measures. Instead, it aims to enhance tax administration efficiency through a new legislative framework. Key provisions include streamlining tax refund processes, sealing legal gaps that delay revenue collection, and reducing tax disputes by amending the Income Tax Act, VAT Act, Excise Duty Act, and the Tax Procedures Act.

Notably, the Bill proposes critical changes to support small businesses, allowing them to fully deduct the cost of everyday tools and equipment in the year of purchase, thereby eliminating unnecessary delays in accessing tax relief.



In addition, retirees will benefit significantly as all gratuity payments, whether in public or private pension schemes, will now be fully tax-exempt, ensuring dignity for Kenya's senior citizens after retirement.

Employers will also be required to automatically apply all eligible tax reliefs and exemptions when calculating Pay As You Earn (PAYE) taxes for employees. Currently, many employers omit these reliefs, forcing employees to seek refunds from the Kenya Revenue Authority.

These reforms underpin the Bottom-Up Economic Transformation Agenda (BETA) and reinforce the Government's commitment to building a stronger, more inclusive economy.

In a move to ensure predictability and strengthen emergency preparedness, the Cabinet also gave nod to the Public Finance Management (Amendment) Bill, 2024. This Bill mandates, rather than merely encouraging, all county governments to establish County Emergency Funds.

This decision follows the serious gaps exposed by the 2023 El Nino rains and stems from extensive consultations and a directive issued at the 24th Ordinary Session of the Intergovernmental Budget and Economic Council (IBEC) in August 2024. The amendment aims to equip counties with the financial readiness to respond swiftly to future emergencies, thereby protecting lives, livelihoods, and critical infrastructure.

In a demonstration of its commitment to enhancing governance, strengthening judicial independence, and attracting the most qualified legal professionals, the Cabinet endorsed the Judges Retirement Benefits Bill, 2025.

The Bill establishes a dedicated pension and retirement benefits framework for judges of the superior courts, moving them away from the general Pensions Act and recognising the unique demands of judicial service. It introduces a Defined Benefit system for serving judges and a Defined Contribution system for new appointees, ensuring financial



security, protecting judicial independence, and aligning with broader public sector pension reforms.

The new law provides for enhanced retirement benefits, including monthly pensions, gratuities, medical coverage, and diplomatic privileges for retired judges and their spouses, allowing them to retire with dignity after decades of service under strict ethical standards.

In line with the Government's focus on achieving Universal Health Coverage (UHC) and improving access to quality healthcare, especially in underserved regions, Cabinet approved the construction of two Level VI teaching and referral hospitals in Bungoma and Kericho counties in partnership with the African Development Bank.

To stimulate investment and deepen financial markets, the Cabinet gave a green light to amendments to the Capital Markets Act to remove shareholder limits in regulated institutions. While strong governance frameworks remain in place, the Cabinet Secretary retains the discretion to impose limits on specific license categories if necessary. These amendments are not expected to have a direct financial impact on government revenue.

Additionally, the Cabinet approved the Draft Pest Control Products Bill, 2024, which modernises the regulation of pest control products in Kenya. The Bill establishes the Pest Control Products Authority, aligns with constitutional and international standards, and enhances food safety, environmental protection, public health, and agricultural exports.

Finally, the Cabinet approved the establishment of a Consulate General in Port-au-Prince, Haiti. This decision underscores Kenya's commitment to promoting global peace and security while expanding diplomatic presence in the Caribbean. The consulate will provide strategic support to Kenya's leadership role in restoring law and order in Haiti.

###

