



REPUBLIC OF KENYA THE NATIONAL TREASURY

NOTICE TO THE CENTRAL BANK OF KENYA ON THE PRICE STABILITY TARGET AND ECONOMIC POLICY OF THE GOVERNMENT

As you are aware, the Central Bank of Kenya Act (2015) Cap 491, Part II Section 4 (Subsections 4, 5 and 6) provides that the Cabinet Secretary responsible for Finance shall specify at least once in every period of 12 months:

- The price stability target of the Government, in consultation with the Central Bank; and
- Economic policy to be taken by the Government.

In addition, the Act requires the Cabinet Secretary to publish the Notice in such a manner he deems fit and lay a copy of the Notice before the appropriate Committee of the National Assembly.

In compliance with the provisions of the CBK Act (2015), this Notification sets out the price stability target and the economic policy to be implemented by the Government in the FY 2017/18 as follows:

Price Stability Target

The inflation target shall be 5 percent, with a flexible margin of 2.5 percent on either side in the event of adverse shocks. This inflation target will be measured by the 12 month increase in Consumer Price Index (CPI) as published by the Kenya National Bureau of Statistics (KNBS). The Bank shall strive to achieve this inflation target in the FY 2017/18 and will be accountable to the Government and the general public for its attainment.

The inflation target of 5 percent is in line with the current macroeconomic developments and targets underlying the FY 2017/18 Budget and the Medium Term Expenditure Framework (MTEF) for the period FY 2017/18 - FY 2019/20 and the economic policies of the Government detailed in the 2017 Budget Policy Statement. This target was arrived at during the Inter-Ministerial, Inter Agency, Macro Working Group discussions on the

macroeconomic targets to guide the FY 2017/18 Budget and the MTEF for the period FY 2017/18 - FY 2019/20.

The flexible margin of 2.5 percent on either side of the inflation target is to cater for effects of external shocks such as oil price variations and domestic shocks particularly weather-related ones. This will help preserve macroeconomic stability and reduce undesirable fluctuations in economic performance. In this regard, in the event that inflation deviates from the target by more than 2.5 percentage points in either direction, the CBK will provide a letter after the publication of the CPI data by KNBS, indicating:

- The factors driving inflation away from the specified target by more than 2.5 percentage points;
- The measure(s) which the Bank is taking to address the deviation; and
- The time period within which the Bank expects inflation to return to the target.

Since a copy of this Notice will be laid before the appropriate Committee of the National Assembly, the Bank will also submit a copy of the letter explaining the deviation to the Chairman of the same Committee. If inflation remains more than 2.5 percentage points above the target for three consecutive months after the letter, the Bank will send another letter further explaining the deviation from the target. In assessing the inflation developments, the Government will consider the prevailing economic conditions at the time.

Economic Policy to be taken by the Government

The economic policy of the Government in the FY 2017/18 Budget and the Medium Term is anchored on the strategic objectives outlined in the second Medium Term Plan of the Kenya Vision 2030, and also considers progress made in the implementation of key projects and the on-going strategic interventions outlined in the Economic Transformation Agenda of the Government. Specifically, through the Transformation Agenda, the Government will continue creating a conducive business environment for job creation, investing in sectoral transformation to ensure broad-based growth, investing in infrastructural development, investing in quality and accessible health care services and education, and consolidating the gains made in devolution.

To secure macroeconomic stability, the fiscal policy strategy will aim at supporting rapid and inclusive economic growth, generation of higher revenues, enhanced public investment and social spending while ensuring a sustainable debt position through gradual reduction of the fiscal deficit. On the other hand, monetary policy stance will ensure that movements in the interest rates support the Government objective of price stability.

The implementation of these policy and strategic measures is expected to raise productivity and economy-wide efficiency, thereby bolstering and sustaining high and inclusive growth. This will, in turn, provide opportunities for creation of productive jobs for Kenyans.

As outlined in the Budget Statement for the FY 2017/18 delivered to the National Assembly on 30th March 2017, price stability is one of the prerequisite for a stable macroeconomic outlook underpinning the FY 2017/18 Budget. Therefore, in maintaining inflation within the target range, the Central Bank of Kenya will be supporting macroeconomic stability and the economic policy of the Government detailed in the 2017 Budget Policy Statement.

Accountability

The Central Bank of Kenya and the Monetary Policy Committee of the Bank is accountable to the Government for the price stability target set out in this Notice. In this respect, the accountability framework in terms of regular reporting will remain as outlined in Section 4B, 4C and 4D of the CBK Act, 2015. The format of reporting to the National Assembly remains as previously stated.

Revision of the Target

Finally, the revision of the target will be set out in the Budget for the FY 2018/19 that will take into account updates of the Government's economic policy objectives in the 2018 Budget Policy Statement.

HENRY K. ROTICH, E.G.H
CABINET SECRETARY/THE NATIONAL TREASURY
July 24, 2017