



REPUBLIC OF KENYA
THE NATIONAL TREASURY AND PLANNING

NOTICE TO THE CENTRAL BANK OF KENYA ON THE PRICE STABILITY TARGET AND ECONOMIC POLICY OF THE GOVERNMENT- FINANCIAL YEAR 2018/19 BUDGET

The Central Bank of Kenya Act (2015), Cap 491, Section 4 (Subsections 4 - 6) provides that the Cabinet Secretary responsible for Finance shall specify at least once in every period of 12 months:

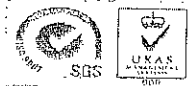
- a. The price stability target of the Government, in consultations with the Central Bank and;
- b. Economic policy to be taken by the Government

In addition, subsection 6 of 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 taken by the Government in the FY 2018/19 as follows:

A. Price Stability Target

The inflation target shall be 5.0 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 inflation target is in line with the macroeconomic developments and targets underlying the FY 2018/19 budget and the MTEF for the period FY 2018/19 - FY 2020/21. The macroeconomic targets support the economic policies of the Government as detailed in the 2018 Budget Policy Statement and were developed during the inter-Ministerial Macro Working Group in preparing the expenditure ceilings for the FY 2018/19 budget.



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The Central Bank of Kenya (CBK) is therefore expected to achieve this 5.0 percent inflation target and will be accountable to the Government and the general public for its attainment. 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. This will help preserve macroeconomic stability and reduce undesirable fluctuations in economic performance. In this regard, in the event that inflation rate published by KNBS, deviates from the target by more than 2.5 percentage points in either direction, the CBK will provide a letter indicating:

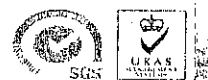
- The factors driving inflation away from the specified target by more than 2.5 percentage points in either direction;
- The measure(s) which the CBK is taking to address the deviation; and
- The time period within which the CBK expects inflation to return to the target.

A copy of this notice will be shared with the appropriate Committee of the National Assembly, and in case of deviation from target, CBK will also be expected to share a copy of the letter explaining the deviation to the Chairman of the same Committee. If the deviation persists for three consecutive months after the initial letter, CBK will be expected to 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.

B. Economic Policy to be taken by the Government

The economic policy of the Government in the FY 2018/19 budget and the medium term is anchored on the strategic objectives outlined in the Third Medium Term Plan of Vision 2030. The economic policy aims at building on the progress made under the Economic Transformation Agenda which targets to continue: (i) improving the business climate by maintaining macroeconomic stability, addressing security challenges, and reducing the cost of doing business; (ii) closing the infrastructure gaps; (iii) investing in key sectors such as manufacturing, agriculture and tourism; (iv) sharing prosperity by investing in pro-poor programmes in health, education and in social welfare programmes; and (v) to fully support devolution.

The priorities in the FY 2018/19 budget and the medium term focus on four key strategic areas (under "The Big Four" Plan) that will further support strong economic growth and help to decisively deal with the pressing challenges of unemployment, poverty and income inequality among Kenyans. "The Big Four" Plan targets to: (i) boost manufacturing activities and raise its share to GDP to 15 percent by 2022; (ii) enhance food and nutrition security through expansion of food production and supply, reduction of food prices to



ensure affordability and support value addition in the food processing value chain; (iii) achieve universal health coverage to guarantee quality and affordable healthcare, and (iv) support the construction of at least 500,000 affordable houses by 2022 to improve the living conditions of Kenyans.

To anchor macroeconomic stability, the fiscal policy is designed to lower the fiscal deficit progressively in order to ensure that public debt remains on a sustainable path. Under this fiscal consolidation plan, the Government projects the fiscal deficit to narrow to 5.7 percent of GDP in the FY 2018/19 from the estimated 7.2 percent of GDP in the FY 2017/18 and further down to around 3.0 percent of GDP by FY 2021/22. To attain this, special focus will be placed on raising revenues through tax policies and administration measures while strengthening expenditure control and improve the efficiency of public spending.

As outlined in the Budget Statement delivered to the National Assembly on 14th June 2018, price stability is one of the prerequisite for a stable macroeconomic outlook underpinning the FY 2018/19 budget. It is therefore expected that the CBK will maintain inflation within the target range during the FY 2018/19 budget period.

Accountability

The Central Bank of Kenya and the Monetary Policy Committee 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 sections 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

The revision of the inflation target will be set out in the Budget for the FY 2019/20 that will take into account updates of the Government's economic policy objectives in the 2019 Budget Policy Statement.



HENRY K. ROTICH, E.G.H

CABINET SECRETARY/THE NATIONAL TREASURY AND PLANNING

July 5, 2018



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