REPUBLIC OF KENYA
THE NATIONAL TREASURY AND ECONOMIC PLANNING

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

The principal objectives of the Central Bank of Kenya (CBK) as established in Cap 491, Section 4 (Subsection 1, 2 and 3) of the Central Bank of Kenya (Amendment) Act, 2015, are:

1. to formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices;
2. to foster the liquidity, solvency and proper functioning of a stable, market-based, financial system; and
3. subject to (1) and (2) above, to support the economic policy of the Government, including its objectives for growth and employment.

The Act under Section 4 (Subsections 4, 5 and 6) provides that the Cabinet Secretary responsible for Finance specifies at least once in every period of 12 months:

- the price stability target of the Government; and,
- economic policy to be taken by the Government.

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 order to comply with these provisions, this Notification sets out the price stability target and the economic policy to be taken by the Government in the FY 2025/26 as follows:

A. Price Stability Target of the Government

In order to sustain macroeconomic stability in the FY 2025/26, the inflation target will be 5.0 percent with a flexible margin of 2.5 percent on either side in the event of adverse shocks. This target will be measured by the 12 months increase in Consumer Price Index as published by the Kenya National Bureau of Statistics. The target is part of the macroeconomic framework underpinning the 2025 Budget Policy Statement and the FY 2025/26 budget. The Macro Working Group agreed on the macroeconomic framework when setting the expenditure ceilings for the FY 2025/26 budget and the Medium Term Expenditure Framework.

As highlighted in the Budget Statement presented to the National Assembly on 12th June 2025, maintaining price stability is a key prerequisite for a stable macroeconomic environment underpinning the FY 2025/26 Budget In this regard, the CBK is expected to achieve the set target and will be accountable to the Government and the public for its attainment. A flexible margin of ±2.5 percentage points on either side of the target has been provided to accommodate the impact of external shocks and extreme weather events, which not only disrupt economic activity but also present significant fiscal risks.

In the event that inflation rate 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;
- The measure(s) the CBK is taking to address the deviation; and
- The time period within which CBK expects inflation to return to the target.

Since the Cabinet Secretary is expected to lay a copy of this notice before the appropriate Committee (Finance and National Planning) of the National Assembly, the CBK when sending the letter will copy the same to the same Committee through the Clerk of the National Assembly. If inflation remains more than 2.5 percentage points above the target for three consecutive months after the initial letter, the CBK will send a further letter. In assessing inflation developments, the Government will have regard to the economic circumstances prevailing at the time.

B. Economic Policy to be taken by the Government

The Government in the FY 2025/26 budget and the Medium Term will continue to expand investments in five core priority sectors under the Bottom-Up Economic Transformation Agenda that have the largest impact and linkages to the economy and household welfare. These priority sectors include: i) Agricultural Transformation and Inclusive Growth; ii) Micro, Small and Medium Enterprise (MSME) Economy; iii) Housing and Settlement; iv) Healthcare; and v) Digital Superhighway and Creative Industry.

The Government will also implement interventions to support and accelerate economic recovery by:

i) Continuing to uphold macroeconomic stability and strengthening security to ensure a safe and supportive business environment;
ii) Accelerating the development of key infrastructure including roads, railway, energy and water systems to lower the cost of doing business and ease the movement of people and goods;
iii) Boosting investment in key economic sectors to drive broad based sustainable growth by advancing agricultural transformation, strengthening manufacturing, promoting environmental conservation and climate change mitigation, revitalizing tourism and ensuring sustainable land use and management;
iv) Strengthening human capital development by increasing investment in health, education and targeted social safety nets for vulnerable populations to achieve both social and economic outcomes;

v) Promoting empowerment of youth, women and persons living with disability through Government funded programs complemented by strategic partnerships with private sector organizations;

vi) Facilitating fiscal decentralization by allocating sharable revenues to County Governments to bolster institutional capacity and improve service delivery; and

vii) Undertaking various policy, legal and institutional reform as highlighted in the Budget Statement for the FY 2025/26 budget so as to improve efficiency and effectiveness in public service delivery.

The policies, programs and projects under implementation will continue to: a) bring further down the cost of living; b) ensure food security; c) create jobs; d) expand the tax base; e) improve foreign exchange balances; and f) foster a sustainable inclusive growth and economic transformation.

The fiscal policy for the FY 2025/26 budget and the medium term continues to support the Government's priority programmes under BETA through a growth oriented fiscal consolidation plan. This consolidation plan targets to reduce the fiscal deficit gradually from 5.3 percent of GDP in the FY 2023/24 to 4.8 percent of GDP in FY 2025/26 and 2.7 percent of GDP in the FY 2028/29. This will improve the primary surplus and support public debt sustainability with the Present Value (PV) of debt-to-GDP ratio expected to decline towards the debt anchor of 55% ±5% by 2028.

As outlined in the Budget Statement presented to the National Assembly on 12th June 2025, macroeconomic stability remains critical to improving the business environment and therefore, in maintaining inflation within the target range, the Central Bank of Kenya will, among others be supporting the economic policy of Government.

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 target will be set out in the next Budget for the FY 2026/27. As usual, the 2026 Budget Policy Statement will also update the Government's economic policy objectives.

HON. FCPA JOHN MBADI NG'ONGO, EGH
CABINET SECRETARY

June 30, 2025