



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 2019/20 BUDGET

As you are aware, 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 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.

In addition, subsections 4 - 5 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.

Further, 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 2019/20 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 2019/20 budget and the MTEF for the period FY 2019/20 - FY 2021/22. The macroeconomic targets support the economic policies of the Government as detailed in the 2019 Budget Policy Statement and were developed during the inter-Ministerial Macro Working Group in preparing the expenditure ceilings for the FY 2019/20 budget.

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 Chairperson 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 2019/20 budget draws from the national development agenda as outlined in the Third Medium Term Plan (MTP III) of the Vision 2030 and targets to attain the Sustainable Development Goals (SDGs) of the United Nations. The policy prioritizes investments in the "Big Four" Plan, which targets to boost manufacturing for job creation, enhance food and nutrition security, achieve Universal Health Coverage and support construction of affordable and decent housing. The implementation of the Government Priority Programmes began in FY2017/18 and so far

notable progress has been made across the four strategic areas as highlighted in the 2019 Budget Policy Statement.

The Government continues to implement key enablers to the “Big Four” to provide a conducive environment for the private sector to thrive by preserving macroeconomic stability, expanding infrastructure, improving security, implementing business regulatory reforms, expanding access to finance and instituting governance reforms.

In order to complement the monetary policy and anchor macroeconomic stability, the fiscal policy underpinning the FY 2019/20 budget and the medium term has inbuilt fiscal consolidation. This consolidation plan will gradually reduce the fiscal deficit to below 4.0 percent of GDP over the medium term. The consolidation will be achieved through enhanced revenue mobilization and rationalization of low priority recurrent expenditure while protecting capital expenditure. Through this, the pace of growth in public debt will reduce creating fiscal space to fund priority expenditures under the “Big Four” Plan.

As outlined in the Budget Statement delivered to the National Assembly on 13th June 2019, price stability is one of the prerequisite for a stable macroeconomic outlook underpinning the FY 2019/20 budget. It is therefore expected that the CBK will maintain inflation within the target range during the FY 2019/20 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 2020/21 that will take into account updates of the Government’s economic policy objectives in the 2020 Budget Policy Statement.


HENRY K. ROTICH, E.G.H
CABINET SECRETARY/THE NATIONAL TREASURY AND PLANNING

July 16, 2019