



REPUBLIC OF KENYA
THE NATIONAL TREASURY

21 JUL 2016

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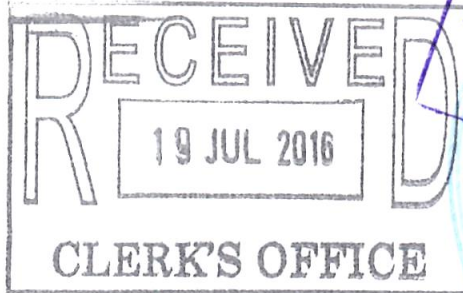
Telegraphic Address: 22921
Finance – Nairobi
FAX NO. 310833
Telephone: 2252299

THE NATIONAL TREASURY
P O BOX 30007 - 00100
NAIROBI

When Replying Please Quote

Ref: Conf. 83/02

Dr. Patrick Njoroge
Governor
Central Bank of Kenya
NAIROBI



JUL 2016

Dear

Clerk,

RE: NOTICE ON THE PRICE STABILITY TARGET AND ECONOMIC POLICIES TO BE UNDERTAKEN BY THE GOVERNMENT

As you are aware, Central Bank of Kenya Act requires the Cabinet Secretary responsible for Finance to specify, at the beginning of every financial year, the price stability target and the economic policies to be taken by the Government at least in every period of 12 months. Further, 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 Act, we have prepared the attached notice on the price stability target and economic policies to be undertaken by the Government. In this respect, therefore, the price target for the FY 2016/17 will be an inflation target of 5 percent with a 2.5 percent margin on either side in the event of adverse shocks. This target is consistent with the macroeconomic targets underlying the FY 2016/17 budget and the Medium Term Expenditure Framework (MTEF) for the period FY 2016/17- 2018/19. This target will be



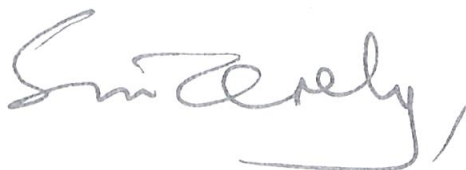
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measured by the 12 month increase in Consumer Price Index (CPI) as published by the Kenya National Bureau of Statistics.

In maintaining the inflation within target, the Central Bank of Kenya will, among others, be supporting the Economic Transformation Agenda of the Government of improving the business environment in order to lower the cost of doing business, improve competitiveness, and attract more investment for growth, employment and poverty reduction.

Yours



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

Copy to: **Mr. Justin N. Bundi, CBS**
Clerk of the National Assembly
Parliament House
NAIROBI



Attention: **Hon. Benjamin Langat, MP**
Chairperson, Finance, Planning and Trade Committee
National Assembly of Kenya
NAIROBI

Hon. Mutava Musyimi, MP
Chairperson, Budget and Appropriations Committee
National Assembly of Kenya
NAIROBI

Attachment: Notice on the price stability target and the economic policy to be undertaken by the Government.





REPUBLIC OF KENYA

THE NATIONAL TREASURY

21 JUL 2015

NOTICE ON THE PRICE STABILITY TARGET AND ECONOMIC POLICIES TO BE UNDERTAKEN BY THE GOVERNMENT

1. As you are aware, the principal objectives of the Central Bank of Kenya (CBK) as provided for under the Central Bank of Kenya (Amendment) Act, 2014, Section 4 Sub sections (1-3) shall be: (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 sub sections (1) and (2), support the economic policy of the Government, including its objectives for growth and employment.
2. The Act under Section 4 (Subsections 4, 5 and 6) provides that the Cabinet Secretary responsible for Finance may by notice in writing to the Bank, specify (i) the price stability target of the Government, and (ii) the economic policy to be taken by the Government.
3. The Act requires the Cabinet Secretary to specify at least in every period of 12 months, the price stability target in consultation with the Bank and the economic policies to be taken by the Government; provided that the first such specification shall be made at the beginning of the financial year next following the commencement of this section. Further, 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.
4. In compliance with the provisions of the Act, I have prepared this notification that sets out the price stability target and the economic policies to be taken by the Government as follows:
 - (a) **Price Stability Target**
5. The operational target for monetary policy in the FY 2016/17 shall be an inflation rate of 5 percent, with a 2.5 percent margin on either side in the event of adverse shocks. This target will be measured by the 12 month increase in Consumer Price Index (CPI) as published by the Kenya National Bureau of Statistics. The Bank shall strive to achieve the target for which it is accountable for to the Government and the general public.

6. This inflation target is a product of the macroeconomic targets underlying the FY 2016/17 budget and the Medium Term Expenditure Framework (MTEF) for the period FY 2016/17- 2018/19 that were deliberated by the Macro Working Group, a sector under the MTEF budget process. The details of the macroeconomic targets underlying the budget and medium term and respective economic policies and structural reforms are contained in the 2016 Budget policy Statement (BPS).

7. The 2.5 percent margin on either side of the inflation target is provided for to cater for adverse shocks both domestic and external. In this regard, if inflation deviates from the target by more than 2.5 percentage points on either side, the CBK will provide a letter after the publication of the CPI data, indicating:

- The factors driving inflation outside the target band by more than 2.5 percentage points;
- The measures which the Bank is taking to address the deviation; and
- The time period within which the Bank expects inflation to return to the target.

The Cabinet Secretary is expected under Section 4 (subsection 6) of the CBK Act to lay a copy of this Notice before the appropriate Committee of the National Assembly. In this respect therefore, if inflation goes beyond the 2.5 percent margin, the CBK is expected to provide a letter and I suggest that shares a copy of the letter explaining the deviation to the Chairman of the same Committee (s). If inflation remains more than 2.5 percentage points above the target for three consecutive months after the initial letter, CBK is expected to send another letter, further explaining the deviation from the target. In assessing the inflation developments, the Government will have regard to the economic circumstances prevailing at the time.

(b) Economic Policy to be Undertaken by the Government

8. The economic policy to be undertaken by the Government in the FY 2016/17 budget and the medium term as stated in the 2016 BPS continues to focus on the implementation of economic policies and structural reforms under the Economic Transformation Agenda that is detailed in the 2016 Budget Policy Statement and my Budget Statement to the National Assembly in June 2016. These policies and reforms aim to consolidate the significant gains already made in the priority areas within a sustainable fiscal framework. The Agenda aims to achieve higher and sustainable growth, generate employment and reduce poverty and inequality enabling Kenya realise faster the aspirations under Vision 2030. The focus of the policies and reforms will be on:

- i. Improving the business environment in order to lower the cost of doing business, improve competitiveness, and attract more investment for growth, employment generation, and poverty reduction. This will entail improving security and maintaining macro-economic stability.

- ii. Continued spending in infrastructure (roads, railway, ports, energy and water) to encourage growth of competitive industries.
 - iii. Sustaining sectoral spending for employment creation. This will entail continued investments in agriculture for food security and support of the manufacturing sector through growth of exports.
 - iv. Sustained investment in social services for the welfare of Kenyans by investing in quality and accessible health care services and relevant education, as well as strengthening the social safety net.
 - v. Enhancing service delivery through devolution by consolidating gains made in devolution in order to provide better service delivery.
 - vi. Continued structural reforms in the public sector, financial sector and business regulation for better service delivery and enhance competitiveness.
9. As outlined in the Budget Statement that I delivered in Parliament on June 8, 2016, macroeconomic stability remains critical to improving the business environment and therefore, in maintaining inflation within the target, the Central Bank of Kenya will among others, be supporting the Economic Transformation Agenda of the Government.

Accountability

10. The Central Bank of Kenya and the Monetary Policy Committee is accountable to the Government for the price stability set out in this Notice. To this end, the accountability framework in terms of regular reporting will remain as outlined in Section 4B, 4C and 4D of the CBK Act, until when the CBK Act is revised or repealed. The format of reporting to National Assembly remains as previously stated.

Revision of the Target

11. Finally, the revision of the inflation target will be set out in the Budget for the FY 2017/18 that will take into account updates of the Government's economic policy objectives in the 2017 Budget Policy Statement.



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

July 14, 2016