



**REPUBLIC OF KENYA
THE NATIONAL TREASURY AND PLANNING**

NOTICE TO THE CENTRAL BANK OF KENYA ON THE PRICE STABILITY TARGET AND THE ECONOMIC POLICY OF THE GOVERNMENT FOR THE FINANCIAL YEAR 2022/23 BUDGET

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 2022/23 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 2022/23 budget and the Medium-Term Expenditure Framework (MTEF) for the period (FY 2022/23 - FY 2024/25). The macroeconomic targets support the economic policies of the Government as detailed in the 2022 Budget Policy Statement and were developed during the inter-Ministerial Macro Working Group while preparing the expenditure ceilings for the FY 2022/23 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 the adverse impact of the Russia-Ukraine conflict and the COVID-19 pandemic, and other global disruptions on the Kenyan economy through volatility in commodity (oil) prices. Domestic shocks may emanate from unfavourable weather conditions that may affect agricultural production. Maintaining Inflation rate at these levels will help preserve macroeconomic stability and reduce undesirable fluctuations in economic performance.

In the event that inflation rate as 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 2022/23 budget draws from the national development agenda as outlined in the Third Medium Term Plan (MTP III) of the Vision 2030 and prioritized in the "Big Four" Agenda. As stated in the April

2022 Budget Statement, the focus of this year's budget policies is geared towards returning the economy back on a more sustainable growth path for improved livelihoods. In pursuit of this, the budget theme is *"Accelerating Economic Recovery for Improved Livelihood"*. The Government will therefore implement economic policies and undertake structural reforms geared towards improving the welfare of Kenyans.

The FY 2022/23 budget was prepared against a background of a projected global economic slowdown amidst uncertainty relating to the Russia-Ukraine conflict, effects of COVID-19 containment measures in China, persistent supply chain disruptions and elevated global inflationary pressures reflecting the impact of the sharp increase in prices of commodities particularly fuel, fertilizer, edible oils, and wheat. Financial market volatility has also increased significantly amid the recent adjustments in monetary policy in advanced economies. As such, global economic growth is projected to slow down to 3.6 percent in 2022 from a growth of 6.1 percent in 2021.

The Kenyan economy has demonstrated remarkable resilience and recovery in 2021 due to the proactive measures by Government to support households and businesses through the COVID-19 crisis and the diversified nature of the economy. The economy grew by 7.5 percent in 2021 from a contraction of 0.3 percent in 2020. The economy is expected to remain resilient in 2022 and is projected to stabilize at 6.0 percent reinforced by the ongoing implementation of the strategic priorities of the Government.

Therefore, economic policy of the Government is geared towards fast tracking the implementation of the strategic priorities of the Government under the "Big Four" Agenda of universal healthcare, food and nutrition, housing and expanding manufacturing. The Government will also continue implementing the Economic Recovery Strategy (ERS), supported by the IMF, which is aligned to the "Big Four" Agenda, to mitigate the adverse impact of the COVID-19 Pandemic on the economy and re-position the economy on a steady and sustainable growth trajectory. Additionally, the Government has continued with the implementation of various Economic Stimulus Programs (ESPs) in order to accelerate the economic recovery. In this regard, the Government has rolled out the third phase of the Economic Stimulus Program that targets key productive and service sectors in thirteen strategic interventions that cover: agriculture, health, education, drought response, policy, infrastructure, financial inclusion, energy, and environmental conservation.

In order to complement the monetary policy and anchor macroeconomic stability, the fiscal policy supporting the FY 2022/23 and the medium-term budget framework is designed to reduce fiscal deficit and stabilize growth in public debt while strengthening debt sustainability. The policy will support the projected economic growth by ensuring development projects are implemented as planned. Fiscal deficit is therefore projected to decline from 8.1 percent of GDP in the FY 2021/22 to 6.2 percent of GDP in the FY 2022/23 and 3.2 percent of GDP by the FY 2025/26. This fiscal consolidation will be achieved through a combination of revenue enhancement initiatives and curtailing non-core expenditures while prioritizing high impact social and investment expenditure over the medium term as outlined in the 2022 Budget Policy Statement.

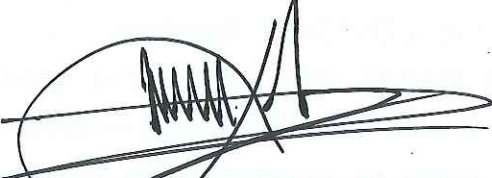
As outlined in the Budget Statement delivered to the National Assembly on 7th April 2022, price stability is one of the prerequisites for a stable macroeconomic outlook underpinning the FY 2022/23 budget. It is therefore expected that the CBK will maintain inflation within the target range during the FY 2022/23 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 2023/24 that will take into account updates of the Government's economic policy objectives in the 2023 Budget Policy Statement.



HON. (AMB.) UKUR YATANI, E.G.H
CABINET SECRETARY/THE NATIONAL TREASURY AND PLANNING

June 06, 2022