

**MONETARY EASING TO BOLSTER  
ECONOMIC GROWTH IN 2026,  
THOUGH RISKS LINGER**



# ECONOMICS AND RESEARCH **MONTHLY ECONOMIC REPORT**

**December 2025**

## Executive Summary

- ❖ Global real GDP growth is forecast to remain resilient at 3.1% in 2026, against risk of higher than anticipated impact of the US tariffs, threat from labour market deterioration and moderate growth in China.
- ❖ Oil prices are predicted to remain subdued underpinned by sustained OPEC+ quotas and potential easing of Russia-Ukraine tensions. Gold prices may stabilize unless significant geopolitical or economic shocks occur.
- ❖ Stablecoins are expected to grow substantially in 2026 but are unlikely to threaten the dominance of the US dollar in global finance.
- ❖ In Europe, we expect growth to print at about 1.2%, supported by an expansionary fiscal position and lower financing cost.
- ❖ Kenya's near-term growth model based on public expenditure, agriculture and service sector resilience is likely to see GDP growth touch 5.1% in 2026 supported by Q4 2025 momentum.
- ❖ Uganda is among the continent's fastest-growing economies in the medium-term, with GDP projected to expand by 7.0%-7.5% in 2026, supported by possible resumption of concessional financing, steady exports and final investment on the oil export projects.
- ❖ Tanzania's 2026 growth outlook is positive but contingent on whether the re-elected administration will continue with the ongoing economic reform implementation.
- ❖ Rwanda's economy is anticipated to expand by 7.2% but remains challenged by regional insecurity, debt pressures, and fiscal risks related to infrastructure projects.

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## Monetary Easing to Bolster Economic Growth in 2026, Though Risks Linger

### GLOBAL

#### Impact of US trade tariffs to get more evident as Europe embarks on fiscal expansion

Surprisingly, so far, global growth remains on a steady trajectory. Even though the economy has cooled a notch – by expanding at about 3.2% relative to 3.3% in 2024, growth looks to have had a good run this year. In some way, this performance may be seen as a reprise of the past four years, when the global economy continued to defy broad expectations for a sharp slowdown. In 2022, the headwinds were from the onset of the Russia-Ukraine war, while in 2023 and 2024, we faced rapid central bank rate hikes. Then, in 2025, the shock was international trade tariffs by the US administration. In each case, global growth illustrated resilience.

Against this backdrop, we expect global growth to expand by about 3.1% next year, partly driven by continued monetary easing across most economies. However, we believe that there is still another shoe that may drop next year. Trade tariffs could increasingly impair economic activity, but the impact appears manageable at present.

Nonetheless, besides this risk of higher than anticipated impact of the US tariffs, there is need to monitor for threat from further deterioration of the US labour market, weaker than projected economic activity in China, downside risk from equities valuations linked to artificial intelligence investment and high public debt levels.

Additionally, specifically stemming from the US market, volatility could spring from the Supreme Court ruling on tariffs, US midterm

elections in November and a new Federal Reserve chair in May.

At the country level, we are unlikely to see highly notable divergence. **In Europe**, we project growth in 2026 to be within expectation around 1.2% as the fiscal turns more positive as well as support from lower financing costs.

Export prospects next year appear weak with lower demand and or margins in the US market. Moreover, local supply will face rising competition from China, thus possibly lower manufacturing activity in 2026. This, in addition to the absence of major global supply shocks could see inflation comfortably remain within the target of 2%.

With the periphery outperforming the core European economies into next year, fiscal support, especially from Germany's relaxation of fiscal spending rules will be a strong growth impulse.

Resultantly, the European Central Bank is expected to keep the policy rate at 2% for most of next year.

**For the US**, despite regular data releases due to the Federal government shutdown, which ended in mid-November, available high frequency indicators suggest that the economy is growing moderately and set to hit 2.0% next year. The composite PMI rose up to 54.8 in November, with both manufacturing and services indexes remaining in expansionary territory.

However, headline CPI inflation has gradually risen, reaching 3% in September, with core CPI PCE inflation at 2.9%, above the 2% target. The pick-up in goods inflation is expected to remain modest in the months ahead following less than anticipated tariff passthrough.

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The labour market is expected to be a primary source of concern for policy makers and markets. Illustratively, as of September, the unemployment rate touched 4.44%, 100 bps above its recent low of 3.4% in April 2023. Hopefully, fluctuations in labour supply due to seasonal and immigration changes will not make interpreting labour market data a challenge next year.

**In China**, economic growth is expected to moderate in 2026 to about 4.2% from 4.5%, dependent on the outcomes of US-China trade tensions and policy support from China's 15th five-year government plan, which focuses on high quality innovative growth.

**In India**, economic growth is expected to get near 6.2% next year following resilient agricultural output and rural wage growth. Positively, headline inflation is at an all-time low of 1.5% driven by low food prices. With commercial bank lending rates expected to stay just around 10%, private sector capex spending will remain favourable next year.

## OIL

### Broadly subdued demand in 2026

The oil market is likely to remain subdued with base case Brent prices just around USD 60 per barrel in most of 2026. In their December meeting, the OPEC+ agreed to maintain the group-wide quotas for next year 2026 and pause output changes for Q1 2026.

An evaluation of each member's maximum oil production capacity is likely to see attention shift to the cost of production.

So far, Saudi Arabia's unwinding of oil production cuts has been consistent with the US goal of lowering oil prices, which will hopefully continue in the near-term. Moreover, there is a reasonable chance of improved Russia/Ukraine relations next

year, probably ahead of the US mid-term elections, which is likely to help keep oil prices low.

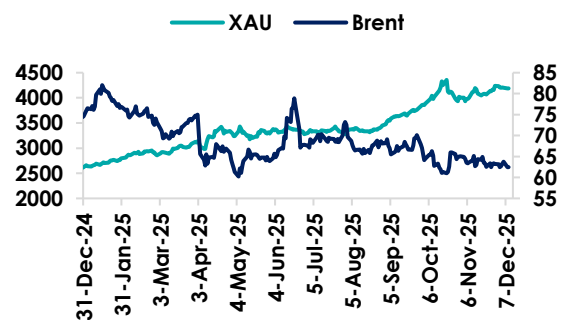
With the OPEC+ staying nimble and ready to adjust production, any sharp surge in demand for oil, though unlikely given the projected level of economic activity in Asia, the US and Europe, will easily be accommodated.

## GOLD

### Still difficult to make a call on gold prices

In as much as it is very difficult to make a call on gold prices, we think that the potential risks that drove gold prices up 62% in 2025 may need to crystalize for gold to see another rally in 2026. Russia/Ukraine relations must escalate significantly, the US Fed independence needs to be eroded, the AI-led bull market in US equities should significantly unwind and fiscal pressures may need to print in several key economies.

Gold and Brent Oil Prices Trend



Source: Bloomberg, NCBA Research

We see a limit to the logic of buying gold as a hedge against adverse events at very high prices. Moreover, the US economic environment risks are set to decline in 2026 with perhaps lower or similar inflation risks, lower interest rates and further deals on the US tariffs.

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## Stablecoins to get more relevant in 2026

**Technology** is poised to help shape the international financial system in 2026. How that happens depends on regulation and resilience of these new technologies to cyber risk. Stablecoins are likely to be one of the relevant innovations in this space in 2026 following the passage of the GENIUS Act in July 2025 by the US Congress.

Stablecoins are digital, cryptographic tokens whose value is pegged to that of other assets, such as the US dollar. Issuers back stablecoins with cash deposits, Treasury securities and other assets. This feature differentiates stablecoins from bitcoin and other crypto assets whose values fluctuate with supply and demand and makes them a more popular alternative as a medium of exchange and a store of value.

Into 2026, the speed and volume of the adoption of stablecoins appears decent, with the US Treasury Borrowing Advisory Committee projecting USD 500 billion annual growth in market capitalization.

Although, the Global Financial Stability Report by the IMF in October mentions stablecoins twenty times, risk to the financial system remains low for now. This is limited to run risk and fire sale of assets that back the issuances, and if significant, the central banks could intervene. By pegging value to dollars or other safe assets, they seem to combine digital efficiency and stability and somewhat affordable options for cross-border transfers.

But we do not see stablecoins posing competition to the US dollar. The USD is still widely used internationally, which means stablecoins will likely be predominantly USD-based. When looking at the usage of currencies globally, the USD is quite dominant. Notably, it commands 56% of the global share in FX reserves, 82% of trade finance and 50% of international payments.

However, there is gradual diversification of FX reserves away from the US dollar. Most of it is into non-traditional reserve currencies such as the Australian dollar, and the Canadian dollar, as well as the Chinese Yuan growing from 0% in 2014 to 2.2% in 2024.

## KEY CURRENCIES OUTLOOK

### A choppy market for most of the first half of 2026

The global foreign exchange market is likely to be a sea with many small waves. Until we have greater clarity, which is unlikely in the first half of the year, the US dollar will drive most of the moves. We see the US dollar weakness reversing next year once a more growth-friendly policy mix materializes. This is likely to get support from the artificial intelligence and related capex spending in the US.

We foresee reduced US political uncertainty especially compared to 2025. Moreover, markets are slowly learning to ignore some headline news following several reversals of US executive orders in 2025.

The US Fed independence risk would imply that the entire Fed board is sufficiently politically influenced to cut rates even if the economic backdrop does not call for it, which we doubt is the case. Thus, data dependence is expected to matter most for the committee.

Against a backdrop of strong economic growth in the US, artificial intelligence tailwinds, we project a choppy USD bottom into Q1 2026 and later a slight recovery.

The Eurozone is set to print an expected growth rate of 1.1% next year, while monetary policy actions by the European Central Bank (ECB) are likely to be absent of any surprises. In Q1 2026 as the US labour market disappoints and decent data release from Europe continues, the EUR will

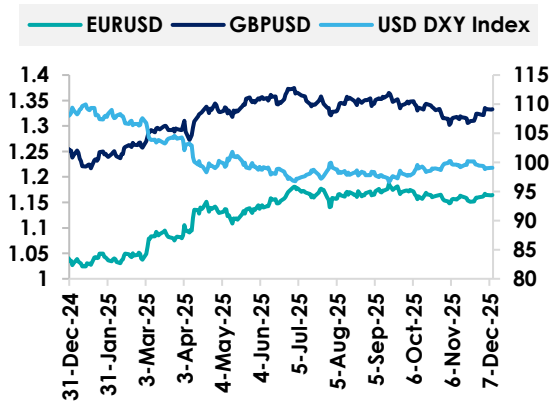
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hold strong. However, EUR upside is limited in the first half of the year following stable interest rates resulting to a weaker EUR/USD at around 1.13 in mid-year. Later in Q4 2026, a rebound is likely to stem from fiscal impulse and a potential Russia/Ukraine ceasefire. Thus, most of the movement depends on the USD view.

Meanwhile, JPY is likely to stay weak due to concern over the new administration's fiscal policy which could turn inflationary. Consequently, despite the shrinkage in the interest rate differential, JPY is likely to trade around 145 to 152 against the US dollar in the first half of 2026.

**Trade shock volatility has eased, but DXY remains 8.4% weaker against major currencies year-to-date**



Source: Bloomberg, NCBA Research

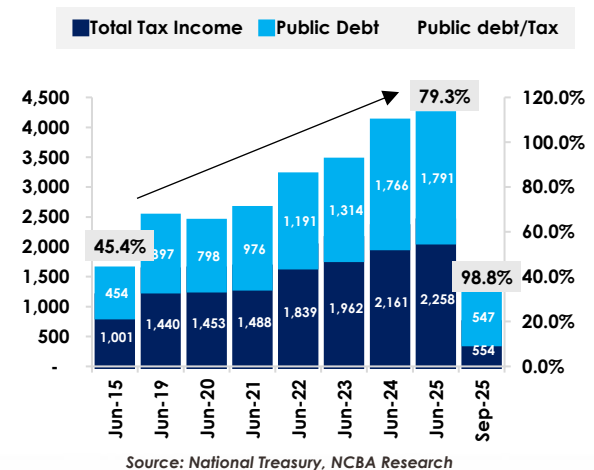
## KENYA

### Economic growth dependent on weather outcomes and public sector activity

In our 2025 macroeconomic outlook report titled "Propping up economic growth by lowering policy rates", we projected GDP growth at 4.8%. However, this is likely to be slightly higher. This stems from an improved private sector credit growth in the third quarter as well as increased fiscal spending since July. Following this improved momentum, we forecast economic growth at 5.1% in 2026.

Kenya's near-term growth model based on public expenditure, agriculture and service sector resilience faces challenges. Moreover, the country is struggling with high public debt interest costs and refinancing needs. Illustratively, in the first quarter of this fiscal year – 2025/2026, the government spent KES 509 billion on public debt service out of a total tax collection of KES 554 billion.

### Public Debt Payments as a Proportion of Tax Revenue



Source: National Treasury, NCBA Research

### Weather outturn on the spotlight

In as much as the outlook anticipates sustained resilience in agriculture, weather outcomes could surprise on the downside. Already rainfall forecasts into the start of 2026 by the Kenya Meteorological department and the IGAD climate prediction and application centre are adverse. They project drier than normal conditions in Kenya.

Positively, global food commodity prices are forecast low and steady in 2026, which is expected to lighten the burden of cereals importation. Moreover, Kenya's neighbours could offer an option, especially Tanzania, whose weather outcomes so far are favourable.

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The service sectors are projected to expand by about 6% next year, almost flat from this year's 5.7% and much lower than the print of 7% in 2022 and 2023. This follows an insignificant improvement in financing cost, which is unlikely to be sufficient to incentivize meaningful capital expenditure.

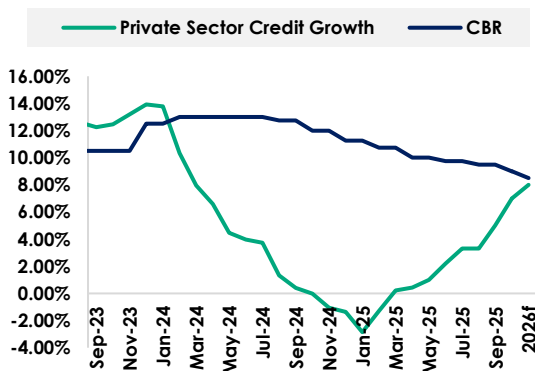
That said, sectors which could do well with equity financing, for example agriculture, hotels and accommodation are likely to still expand despite elevated borrowing cost.

We see an upside in the industrial sector, with construction benefiting from increased public sector activity, while food processing appears to be a lone bright spot in manufacturing.

### Improved credit portfolio

Against this backdrop, we see private sector credit growth at 8% in 2026, primarily supported by consumer loans, working capital facilities and scattered capital expenditure loans. This expansion as well as debt collection effort is expected to drive the non-performing loans ratio slightly down to 13%-15%.

Private Sector Credit Growth and CBR Trend



Source: CBK, NCBA Research

### Privatisation proceeds are likely to slightly alleviate pressure on the 2026/2027 development projects

On the fiscal side, the government is expected to attempt to manage its public

debt service work towards reducing its cost of public debt. With a good run on domestic borrowing so far - which stands at KES 457B out of KES 635B, we see two possible options. The government could either accelerate privatization efforts and or adjust upwards its domestic borrowing target. This follows an expected low conversion of the external financing pipeline. However, preparation for the upcoming 2027 general elections is likely to derail spending rationalization efforts and reform implementation.

We know that given the current socio-political context, any attempt to raise new taxes into the FY 2026/27 is likely to face headwinds from the public. Certainly, optimism around the fiscal trajectory therefore remains measured.

### Further easing in 2026, absent any persistent inflation shocks

On the monetary policy side, the focus in 2026 will likely be on the extent to which the Central Bank of Kenya (CBK) can continue with monetary policy easing to reignite private sector credit growth while keeping inflation within target. Although inflation has been on a downward trend in 2025, the fallback could easily be reversed by kinks in the inflation data due to food price inflation. We thus see the policy rate touching 8.5% in end 2026.

Maintaining foreign exchange market liquidity next year remains crucial, especially after seeing its benefits in 2025. To this end, the central bank appears ready to intervene in the market, given its foreign exchange reserves position of at least 4.5 months of import cover for most of 2026. Moreover, FX demand appears moderate. Thus, the USD/KES exchange rate is expected to depreciate by just 2% to touch 132 at the close of next year.

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## UGANDA

### Economic prospects favourable on oil sector development

Uganda is among the continent's fastest-growing economies in the medium-term, with GDP projected to expand by 7.0%-7.5% in 2026, supported by possible resumption of concessional financing, steady exports and final investment on the oil export projects.

However, right before this, Uganda goes into a general election in mid-January. Despite several candidates running for the presidency, there is a high likelihood that the majority vote will go to the incumbent.

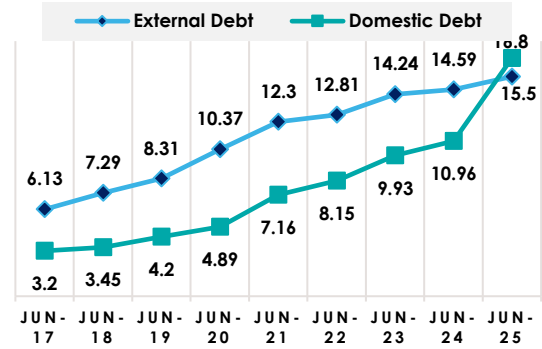
Another significant development for Uganda is its transition into an oil-exporting nation. The Petroleum Authority of Uganda sees oil export starting in the second half of 2026. In as much as this appears optimistic, Uganda could easily achieve this goal in 2027. So far estimates show that the Tilenga and Kingfisher fields can produce 230,000 barrels per day of oil if the construction of the pipeline stays on schedule.

Assuming favourable domestic weather conditions and absent any global commodity shocks, we project inflation to average 4%-5% next year. Downside risks include easing global monetary conditions that could lower imported inflation. Thus, core inflation is expected to remain close to the medium-term target at 4.0% to 4.5% next year.

### Public debt remains sustainable, but domestic interest spending to surge higher

While public debt remains sustainable, the stock of public debt expanded more rapidly in 2025. Nominal public debt as a share of GDP increased 51.3% in June 2025, up from 46.9% in June 2024. Similarly, interest payments touched 4.4% of GDP in June 2025 from 3.5% in the previous year. This follows a growing share of higher-cost domestic financing in 2025.

Uganda's Public Debt Stock on an Uptrend Reflecting Higher Domestic Debt Borrowing (USD Billions)



Source: MofPed, NCBA Research

### Possible resumption of concessional financing to support the currency

However, we see Uganda getting into a new IMF programme next year, under which fiscal management is likely to be a key policy goal following fiscal slippage that has occurred in 2025. Fortunately, such a programme would prove beneficial to the currency.

But still, a decline in aid-related foreign exchange inflows could exert pressure on the currency as well as downside risk from falling global coffee prices. All in, the currency is expected to depreciate moderately by about 2% to 3% next year.

## TANZANIA

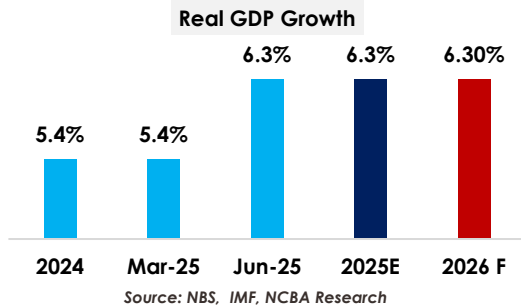
### Economic reform implementation crucial to sustain Tanzania's medium-term growth path

Tanzania's medium-term outlook is positive, contingent on whether the re-elected administration will continue with the ongoing economic reform implementation. Economic growth is projected to reach 6.3% next year, assuming sustained improvement of the business environment.

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### Tanzania projected real GDP growth



Of importance to the economic growth path, we assume that the government engages the IMF on a new programme, following the end of the current one in May 2026. The government has however, not yet explicitly expressed its commitment to this discussion since the October elections. That said, a new IMF programme would ideally continue to make Tanzania attractive to donors for various projects. Although some of them would nonetheless evaluate Tanzania differently following the post elections violence in November.

### Low and stable inflation environment

Inflation is expected to remain below the Bank of Tanzania's 5% upper band target, assuming favourable domestic weather conditions next year. As long as inflation remains within this target band, the Bank of Tanzania is unlikely to fundamentally change its current monetary policy stance. To this end, we see them cutting policy rate by 25bps to 50bps next year.

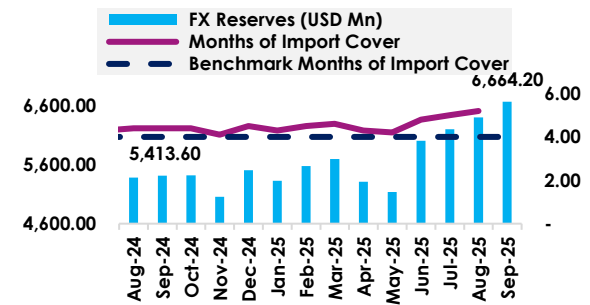
### Moderate current account pressure

The current account deficit is projected to remain moderate in 2026, following a likely favourable outlook on the terms of trade. Gold, cashew nuts, coffee and minerals exports are expected to stay near current price levels. On the import side, we do not project a significant expansion of the import bill. Thus, currency moves are likely to be within a narrow range, holding

depreciation at about 2% to 4% year-on-year. However, any negative sentiments on the IMF and donor relations in the second half of the year could lead to a faster currency depreciation.

Risks to the outlook seem tilted to the downside. External risks include reduced foreign development assistance lower global export demand and prices, fiscal slippages, renewed foreign exchange market illiquidity and a reactive stance by the government toward the election violence.

### Sufficient FX Reserves held by the Bank of Tanzania to underpin continued intervention in the FX market



## RWANDA

### Rwanda to emerge resilient despite fiscal pressures and regional conflict

Rwanda's economy has exhibited surprising resilience in the wake of recent and persistent shocks. Output growth is likely to continue into 2026 supported by robust activity in the services and construction sectors. Moreover, growth will also be dependent on success on reforms for debt risk management and domestic revenue mobilization. However, key risks, if they materialize could curtail the momentum. This largely includes heightened regional insecurity and conflicts and any unprecedented global shocks that could exacerbate Rwanda's already fragile external position. Therefore, we project a real GDP growth of 7.2% from an estimated 7.0% this year.

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On the bright side, diplomatic developments toward resolving the conflict with the DRC are picking momentum. Despite this, the conflict will likely dominate in most of 2026 with potential negative impact to foreign aid flows that already appear to be diminishing.

### Narrower fiscal space to scale-up consolidation efforts

On the fiscal front, the economy appears debt stressed in the near-medium term. Illustratively, the public debt to GDP ratio is projected to close at 75% in 2025, 77.7% in 2026 and 79.1% in 2027 against a threshold of 74%. To this end, the sovereign must grapple with higher fiscal and external pressures in so far as budget financing is concerned.

To navigate this eminent debt risk, we see the sovereign more likely to pursue a sustained consolidation anchored in domestic revenue mobilization measures under the second medium-term revenue strategy, expenditure prioritization of capital spending, and expanded monitoring of fiscal risks. In this regard, the World Bank recently approved \$100 million funding to support these reforms and underscore debt risk management efforts.

### Slower disinflation to warrant cautious policy easing

Rwanda has recorded a slower pace of disinflation relative to its regional peers. In 2025, inflation is projected to remain broadly within the National Bank of Rwanda's 2–8 percent target band at an average of 5.8% relative to 6.9% in 2025.

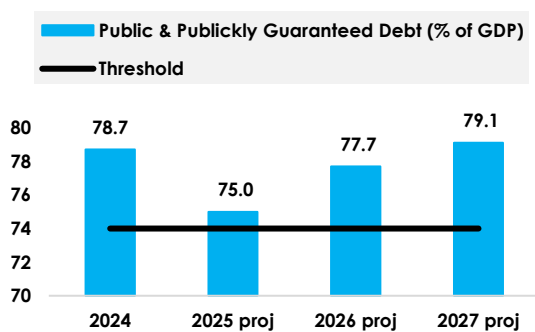
This should provide room for easing monetary policy by the central bank but with caution given upside risks from the newly implemented tax hike measures, adverse weather, as well as global geopolitical tensions and related supply chain disruptions.

### Persistent current account pressure to weigh on the Rwandese Franc

In the external sector, the current account remains fragile on account of strong consumer and capital goods, widening the deficit. Into 2026, the current account deficit is poised to widen further on higher imports associated with the construction of New Kigali International Airport. This may pose downside risks to government fiscal policy buffers even with higher revenues from the new tax package. Consequently, the Rwandese Franc could suffer a depreciation bias. Moreover, re-escalation of Congo-Rwanda tension could weaken the Franc further.

Overall, into 2026 Rwanda's economic outlook remains positive, though heightened regional security risks and partial suspension of donor funding amid the Rwanda – Congo tension is likely to weigh on public finances, thus undermining the outlook.

Rwanda's Public Debt to GDP Ratio



Source: Rwanda Ministry of Finance, NCBA Research

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