ECONOMICS AND RESEARCH MONTHLY ECONOMIC REPORT

August 2025

HIGHLIGHTS

- The IMF revised the global growth forecast upwards to 3.0% in 2025 and 3.1% in 2026, from an earlier projection of 2.8% and 3.0%, respectively.
- In the US, moderating growth, amid now evident signs of a slowing labour market has increased the odds of a policy rate cut by the US Federal Reserve in September.
- In the Euro Area, economic activity among the larger economies appears mixed. Although an anticipated recovery in business activity amidst within-target inflation is expected to hold European Central Bank benchmark rates unchanged in the near-term.
- In contrast, subdued economic activity in the U.K. anchored the Bank of England's decision to cut the bank rate by 25 basis points to 4.0%.
- Domestically, private sector consumption remains tepid while business investment is suppressed, pointing to weak revenue-raising capacity for the sovereign amid uncertain external financing.
- In Uganda, preliminary estimates for real GDP growth in the FY 2024/25 at 6.3% reinforces broad optimism around Uganda's economic outlook. However, fiscal pressures remain a concern.
- In the first quarter of 2025, Tanzania recorded real GDP growth of 4.9%, relative to 5.2% in the corresponding period of 2024.
- Rwanda's Q1 real GDP print at 7.8% presages rising headwinds to the economy in 2025 stemming from slower government consumption and external sector pressures.

GLOBAL

According to the IMF, 2025 global growth is projected higher than previously anticipated on the back of higher export front-loading activity in the first half of 2025, a lower average effective US tariff rate than announced in April, and easing financial conditions supported by a weaker US dollar. To this end, global real GDP is expected to touch 3.0% in 2025 and 3.1% in 2026 from 2.8% and 3.0%, previously.

Across the regional blocs, emerging market and developing economies (EMDE's) saw the largest upward revision, primarily reflecting higher growth in China (4.8%) due to lower tariff hikes from the US and fiscal support. Moreover, a weaker dollar has provided room for some emerging market central banks to ease monetary policy.

Real GDP growth in the Euro area and the US was revised 0.1 percentage points higher at 1.0% and 1.9%, respectively in 2025. Meanwhile, Sub-Saharan Africa growth projected at 4.0% this year was up from 3.8%.

Table 1: IMF Global Economic Update, July 2025

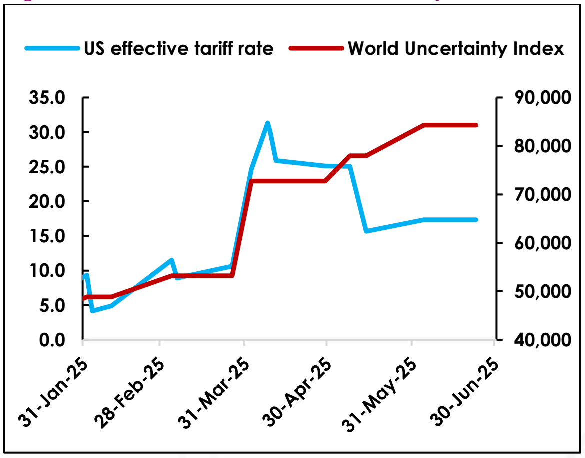
IMF GLOBAL GROWTH REVISIONS				
			Difference from April 2025 WEO	
	2025	2026	2025	2026
Global	3.0	3.1	0.2	0.1
U.S.	1.9	2.0	0.1	0.3
Eurozone	1.0	1.2	0.2	0
Germany	0.1	0.9	0.1	0
Italy	0.5	0.8	0.1	0
Spain	2.5	1.8	0	0
U.K.	1.2	1.4	0.1	0
China	4.8	4.2	0.8	0.2
Japan	0.7	0.5	0.1	-0.1
Russia	0.9	1.0	-0.6	0.1

Source: IMF, NCBA Research

However, several risks continue to shape the outlook. These include trade policy uncertainty, potential for escalation in the Middle East and Ukraine conflicts and financial market instability due to fragmentation and dollar-related concerns.

Overall, with these forces at play, the global landscape remains uncertain. Thus far, although activity has appeared resilient, the composition of activity points to distortions from tariffs, rather than underlying robustness. In July, the global composite PMI rose to 52.4 from 51.7 in June as stronger services expansions, offset manufacturing weakness.

Figure 1: Tariffs and Global Uncertainty



Source: IMF, NCBA Research

US ECONOMY

In the US, despite preliminary estimates for GDP growth in Q2-2025 showing strong growth at 3%– a bounce back from the contraction of 0.5% in Q1-2025, underlying momentum is slowing.

According to S&P Global, while the Composite PMI in July rose to 55.1 levels, the Manufacturing PMI dropped to 48.0 from 49.0 a month prior as the tariff-related inventory accumulation in prior months reversed.

On prices, while the pass-through of tariff hikes into consumer prices has been contained well so far with inflation at 2.7% – we expect the transmission to be higher in July and August amid extension of July 9th to 1st August tariff expiry date

Meanwhile, recent labour market is showing signs of pressure with the unemployment rate back up at 4.2% and Non-farm Payrolls employment showing a marginal increase in July (+73,000) and has shown little change since April.

Against this backdrop, in a rare show of dissent at the Fed, two committee members- Fed Governors Michelle Bowman and Christopher Waller- voted in favour of a rate cut. Though the FOMC rate was ultimately held at 4.25%-4.5%, the odds of Fed rate cut in the September 16-17th meeting have risen.

EUROPE

In the Euro Area, Eurozone GDP growth slowed slightly less than expected in the second quarter at 1.4% on a year-over-year basis, although that still represented a marked deceleration in activity from earlier this year.

The performance among the Eurozone's larger economies were mixed with Germany and Italy's growth particularly weak, recording a contraction of 0.1% quarter-over-quarter. On the flip side, French Q2 GDP rose 0.3%, a bit more than expected, while Spain's Q2 GDP rose a solid 0.7%.

We still anticipate underwhelming growth moving forward as the impact of higher U.S. tariffs bites on activity and sentiment remains subdued.

The Eurozone July CPI at 2.0% at the headline level and 2.3% on core, provides some scope for one final rate cut from the European Central Bank (ECB) this year. Though, the ECB President Christine Lagarde appears optimistic on growth and projects stable inflation at the target in the medium term pointing to a potential pause in further policy easing in the near-term.

In contrast, with U.K. GDP falling in both April and May, and more timely data illustrating a drop in the July services and composite PMI, the Bank of England cut the bank rate by 25 basis points to 4.0%. Although, the BoE is likely signal a continued gradual pace of monetary easing going forward.

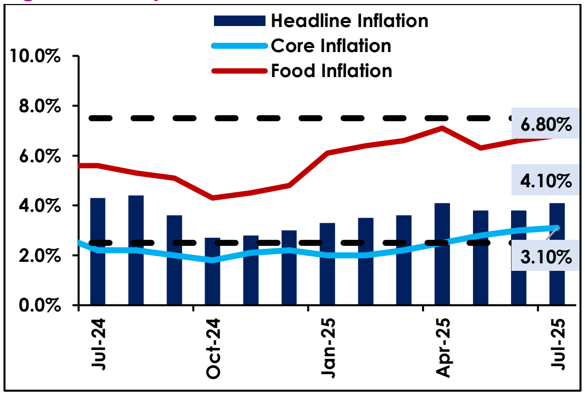
KENYA

High frequency indicators of economic activity continue to disappoint. According to the Headline PMI by S&P Global, private sector activity contracted in July with the index dropping to 46.8 from 48.6 in June. Activity was likely exacerbated by protest disruptions in the month amid tepid demand levels.

Business investments remain suppressed owing to elevated cost of doing business, weak demand and global uncertainty. Meanwhile, private consumption that has shown modest signs of recovery could stifle as inflation pressures rise. Notably, dry weather conditions in the remainder of the third quarter are expected to push vegetable prices up, while imported soft commodities could turn higher following forecasted higher demand from Europe and Asia, through remains dependent on weather.

Overall, expectations for a gradual rise in inflation toward the 5.0% mid-point of the target range are firming, underpinned by an expected increase in domestic demand.

Figure 2: Kenya Inflation Rates



Source: KNBS, NCBA Research

Into the remainder of 2025, the settlement of pending bills to road contractors through the securitization of the Road Maintenance levy provides some impetus to the growth narrative. This is expected to uplift activity in the construction sector and drive demand for manufactured inputs, thereby propelling the much-desired recovery in the industrial sector. Overall, growth could range between 4.7%-4.9% this year.

However, the IMF has raised transparency concerns on Kenya's securitization of the fuel levy to clear pending bills – pointing to potential challenges for the government in securing fresh concessional flows from the multilateral lender at a time when external credit market remain tight. On the bright side, the sovereign has made strides in unlocking the part of the World Bank DPO facility budgeted at KES 171Bn this fiscal year following the President's assent of the Conflict-Of-Interest Bill.

Nonetheless, against a weak aggregate demand backdrop, revenue-raising capacity remains constrained. Hence, we expect continued reliance on domestic borrowing. Resultantly, efforts to stimulate activity through monetary policy easing could not only be undermined by rising inflation and global uncertainty but by fiscal dominance as well.

While the market appears relatively calm on rates with short-term yields sticky at 8.11%, 8.41% and 9.72% across the three, six and twelve-month papers respectively, sooner than later, the curve may begin to reflect higher inflation and interest rate expectations. Therefore, we anticipate a gradual erosion of real yields which may see fixed income investors hold nominal yields sticky or higher. This could support preference for the long end of the curve in the medium term.

In the domestic FX market, the USDKES was unchanged in the month supported by balanced foreign currency demand and supply as well as central bank intervention. The CBK's official FX reserves balance remains healthy at US$ 10,692Mn – 4.7 months of import cover.

UGANDA

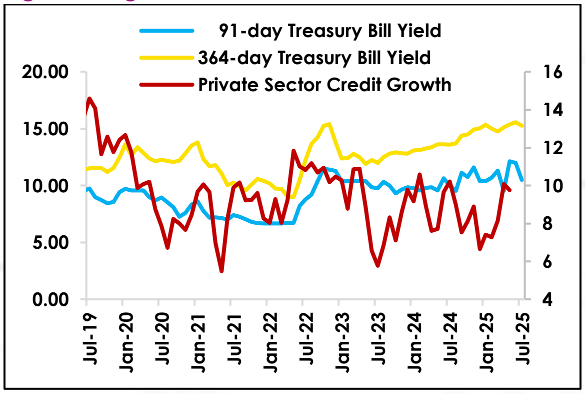
Preliminary estimates for real GDP growth in the FY 2024/25 at 6.3% reinforces broad optimism around Uganda's economic outlook. Leading indicators for private sector activity similarly paint a favourable picture – with Headline PMI consistently recording above the 50 neutral mark throughout 2025. In July the PMI registered at 53.6, marginally lower than 55.6 in June. Broadly, strong private and government consumption continue to uplift overall growth while sentiment remains positive.

On to price, headline inflation declined marginally to 3.8% in July from 3.9% previously. Core inflation similarly eased to 4.1% from 4.2% in the month before.

For the Monetary Policy Committee (MPC), with inflation within the Bank of Uganda's target, ample domestic liquidity conditions and a stable currency, the policy stance appears somewhat neutral or stimulatory. The MPC has lowered the policy rate by only 25 basis points to 9.75% since September 2024 and we foresee minimal rate cuts in the horizon.

Moreover, concerns around subdued private sector credit growth are being addressed through targeted funding. Notably, the government of Uganda received the first tranche of UGX 170 billion from the World Bank as part of a UGX 800 billion financing deal aimed at supporting manufacturing and export value chains. This first tranche will be deployed towards the operationalisation of a Working Capital facility through eligible financial institutions. Of the total UGX 800 billion, UGX 642 billion will be channelled through the INVITE Trust for lending to the private sector through four financing facilities. Thus far, credit growth has remained flattish – growing by 9.8% in May 2025.

Figure 3: Uganda Private Sector Credit Growth, %



Source: KNBS, NCBA Research

In the local FX market, the Uganda shilling has staged a strong performance throughout most of the year – gaining 3% in value against the dollar. The FX reserve position has marginally improved to US $ 4,069.4Mn (3.7 months of import cover) as of May, from US $ 3,793.9Mn (3.4 months) in April 2025. We see scope for further build up in reserve balances to end year on anticipated external flows. This, combined with strong coffee exports will continue to provide cushion to the currency. Indicatively, in May 2025, Uganda's exports grew by 43% reflecting a good harvest – and hence supply – associated with high international coffee prices and front-loading.

TANZANIA

In the first quarter of 2025, Tanzania recorded real GDP growth of 4.9%, relative to 5.2% in the corresponding period of 2024. Sectors performance was mixed with Economic activity primarily supported by mining and quarrying (9.6%), electricity (19%), and education (8.6%). However, growth slowed in the construction (4.3%), accommodation and food service (2.3%) sectors. Meanwhile, agriculture grew by 3.0% from 2.3% in 1Q2024.

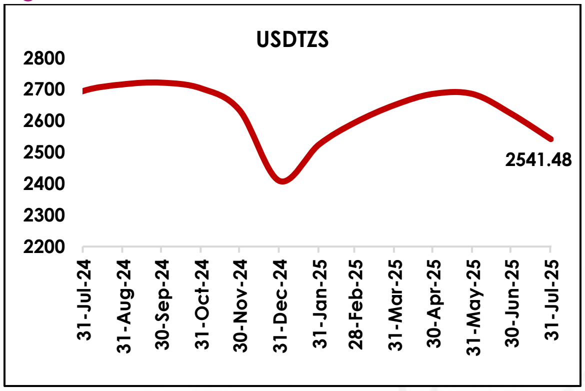
Overall, the economy is forecast to grow by 6.0% this year and expand further to 6.5% over the medium-term. In the forthcoming quarters, we expected increased government spending leading up to the general elections in October to propel activity and boost domestic liquidity that has tightened since the improvement of foreign currency supply in the FX market.

However, risks to the outlook remain including prolonged trade uncertainty and reduced foreign development assistance. Although Tanzania's direct exposure to global trade tensions is limited, heightened global tensions could affect the economy through lower global export demand and prices, and tighter financial conditions. This could potentially call for targeted fiscal support and enhanced exchange rate flexibility.

On the upside, tourism over-performance, commodity price (including gold) increases, and accelerated reforms following the 2025 elections could boost export, investment, and growth prospects.

In the FX market, the Tanzania shilling expectedly turned onto an appreciation path, gaining 162 shillings July-to-date but depreciated by 2.0% YTD. Central bank interventions coupled with increased flows from tourism and corporate flows into fiscal year 2024/25 closure has supported the reversal. Into the close of 2025, we anticipate further gains on the currency.

Figure 4: USDTZS Trend



Source: Bloomberg, NCBA Research

RWANDA

The Q1 real GDP print of 7.8% by the National Institute of Statistics Rwanda (NISR) was the slowest pace of expansion since Q3 2023. The slowdown was primarily linked to slower government consumption growth, although this was offset by a pickup in both fixed investment and private consumption.

Broadly, this pace of expansion presages rising headwinds to the Rwandan economy, especially given much lower government consumption on the back of deep cuts to foreign assistance, as well as other aid suspensions and strong base effects, resulting to14.8% government consumption growth in 2024.

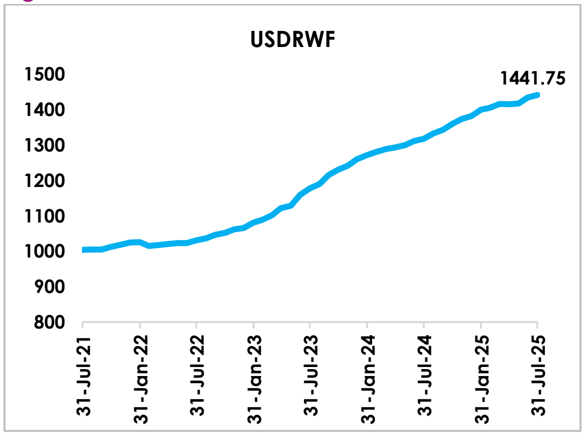
Moreover, higher inflation exacerbated by a weak currency, reforms to pension contributions, and lacklustre agricultural sector performance will depress real net incomes, prompting a slowdown in private consumption growth.

Notably, in June 2025, headline inflation rose to 7%, up from 6.9% a month prior driven by marginal pressure on food prices in the month. Meanwhile, core inflation was unchanged at 5.6%. Given that inflation is trending close to the 8% upper-band target, the Monetary Policy Committee will likely remain data-driven to contain general prices rise and support external adjustment.

That said, current account pressure in the external market continue to exert pressure on the local unit and has sustained Franc's depreciation trend. Year-to-date, the USDRWF is down 4.5%. In an effort to slow the depreciation, the central bank continues to intervene directly and through moral suasion. In the remainder of 2025, the IMF projects FX reserves to close 2025 at 4.6 months of import cover, hence pressure on the currency stemming predominantly from a widening current account deficit will continue to be partially offset by central bank support.

Overall, Rwanda's underperformance will be short-lived, and growth will likely return to trend in 2026. Improving agricultural conditions, alongside the fading impacts of pension reforms, will support real incomes and, by extension, household spending. However, the fiscal position is expected to face pressure amid ongoing large infrastructure projects. Therefore, accelerating domestic revenue mobilization and maintaining a credible fiscal consolidation path are crucial to restoring policy space and ensuring long-term fiscal sustainability.

Figure 5: USDRWF Trend



Source: Bloomberg, NCBA Research

NCBA Research

Head Office: NCBA Centre, Mara & Ragati Roads, Upper Hill,

P O Box 30437 00100, Nairobi, Kenya

Direct Line: +254 020 288 4548 or +254 020 288 4725

Email: anthony.muli@ncbagroup.com samantha.njoroge@ncbagroup.com david.ndwiga@ncbagroup.com

Telex: 23205 (COMAFBANK); SWIFT BIC: CBAFKENX; Reuters Dealing: CBAF; Reuters Information: CBAN

Website: www.ncbagroup.com