ECONOMICS AND RESEARCH MONTHLY ECONOMIC REPORT

July 2025

HIGHLIGHTS

- Globally, leading indicators in June pointed to broad resilience which appears inflated and is likely to fade in the third quarter.
- In Europe, with inflation comfortably at target, the European Central Bank has more scope to react to negative growth shocks and support the economy.
- The outlook of the US economy appears uncertain, but with little evidence of pressure in the labour market, our base case is that Federal Reserve officials are unlikely to see any urgency to cut the policy rate in July.
- Locally, economic momentum in the second half of 2025 may be hindered, as efforts to stimulate growth through monetary policy are increasingly constrained by fiscal dominance.
- Uganda's key macroeconomic variables appear broadly stable. On the fiscal front, however, a sustainable return to the fiscal consolidation path remains elusive.
- In Tanzania, broad confidence in the inflation outlook, well-managed risks to the currency and steady economic growth paved way for a more accommodative monetary policy stance.
- The Rwanda economy grew by 7.8% in the first quarter of 2025. Although, regional conflict will likely remain a key impediment to growth into 2H2025 despite the peace deal signed by Rwanda and the DRC in June.

GLOBAL

The global economy is confronted with a dynamic geopolitical landscape and elevated trade policy uncertainty. Yet, leading indicators are pointing to broad resilience as consumers and firms continued to front-load purchases to get ahead of tariffs.

The Global manufacturing PMI rose from 49.5 in May to 50.3 in June, signalling an improvement in business conditions. However, noting that businesses and households are attempting to shield themselves from the impact of tariffs, one would argue that this activity level appears inflated and could fall in subsequent months.

While uncertainty is high, we expect that the US will continue to negotiate, using the threat of reciprocal tariffs as leverage. To date, hard US inflation data has shown only limited effects from the tariffs, suggesting that these effects are largely still in the pipeline.

Global markets saw fading geopolitical risk toward the end of June. Illustratively, oil prices declined, with Brent at USD 67 per barrel. Hence, we expect the impact from the Middle East tension to be relatively low in the near-term. However, this is unlikely to be adequate to nudge investors into meaningful long duration, especially for economies with rising fiscal deficits. Specifically, for the US market, investors remain underweight duration, with the issue of large fiscal deficits, now at 6% of GDP not yet directly addressed. Resultantly, several investors have rotated into investment markets outside of the US.

EUROPE

Eurozone's economic performance in June appeared to move sideways, with signs of reversal of tariff frontloading emerging. The Eurozone composite PMI was stable at 50.6 in June, while the manufacturing PMI was flat, still in contraction territory at 49.5. The composite PMI has hovered around 50 for the past 12 months, pointing to only marginal expansion in Eurozone business activity. Further, it confirms that the GDP growth in the first quarter may be temporary. However, PMI data was collected between 12 and 19 of June, hence not capturing any impact from the latest escalation in the Middle East.

On inflation, Eurozone's Harmonized Index of Consumer Prices (HICP) inflation touched 2.0% in June, but the overall implication looks dovish. Furthermore, the spike in oil prices was so short-lived and did not seem to have any impact at all on the HICP numbers. In the near-term, we see inflation easing below the 2% mark.

Resultantly, with inflation comfortably at target, the European Central Bank has more scope to react to negative growth shocks and support the economy. We expect two more rate cuts to 1.50%, albeit with risks of a delay.

US ECONOMY

Real GDP in the US expanded by 2.1% in the first quarter this year, but the outlook appears uncertain. The manufacturing PMI, by S&P Global increased to 52.9 in June, and is expected to move sideways this quarter. Some manufacturing subsectors may see a boost to activity from tariffs or eventual rate cuts, but tariffs and slowing demand broadly should weigh on manufacturing.

On the fiscal side, the US Congress finally approved the Big Beautiful Bill, which is expected to be signed soon. The Bill proposes to maintain tax cuts that were supposed to expire and introduces new

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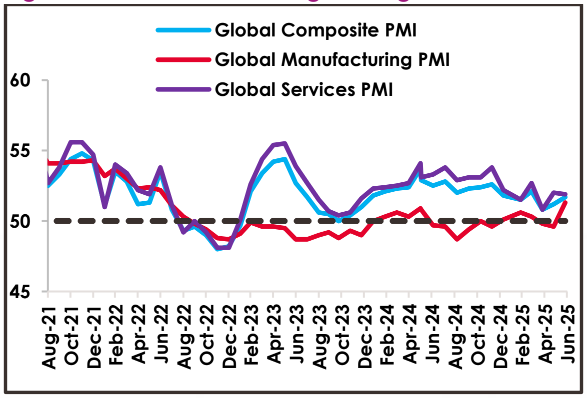
ones. Ultimately, it is expected to provide a fiscal stimulus to growth. Notably, the government expects the economy to grow around 1 percentage point faster per year due to the bill. However, in the long term, the bill plans massive cuts in the healthcare sector, while higher spending on deportations may contribute to a decline in the labour supply in the US, further limiting the country's growth potential.

In the labour market, total nonfarm payroll employment increased by 147,000 in June, and the unemployment rate changed little at 4.1% from 4.2% previously. Resultantly, with little evidence of pressure in the labour market, our base case is that Federal Reserve officials are unlikely to see any urgency to cut the policy rate in July.

Figure 1: Global Purchasing Manager's Index



Source: NCBA Research

KENYA

Leading indicators of economic activity revealed broadly subdued momentum in the first half of 2025, though we opine there is scope for some upside into the second half. According to the KNBS, real GDP growth was flat year-on-year at 4.9% in the first quarter of 2025. Meanwhile, Headline PMI averaged 50 in 2Q2025, virtually flat from an average of 49.7 in the corresponding period of 2024. Looking ahead, the agriculture sector looks poised for strong growth this year, following a 6% growth outturn in Q1 supported by favourable weather conditions. Higher agricultural processing activities will boost further recovery in manufacturing that expanded by 2.1%, up from 1.9% in 1Q2024. Growth in construction was similarly higher at 3.0% from 0.4%. The anticipated increase in private sector lending into H2 is expected to see further upturn in industrial sector growth.

Certainly, the four-month consecutive increase in core prices to 3.0% as of June, a proxy for demand pressures is yet to reflect on output. Meanwhile, inflation at the headline level remain within target at 3.8%, with support from cheaper cereals imports that capped upside pressure on food prices. In the third quarter, we see inflation swinging sideways around this level.

This inflation outlook against the backdrop of fragile domestic demand supports the case for further stimulation through monetary policy given limited room on the fiscal front. That said, we foresee the MPC remaining cautious in the months ahead amid external risks and now, the glaring possibility of fiscal dominance in the FY 2025/26, which adds additional complexities to interest rate decisions.

Notably, the government's attempt at running a narrower fiscal deficit has been futile on the back of anticipated revenue shortfall in the FY 2024/25. Illustratively, the fiscal deficit in 2024/25 closed at a whopping KES 997Bn and is expected to narrow marginally to KES 923Bn in 2025/26. At a time when concessional sources of external funding are limited, the government is likely to rely predominantly on local deficit financing.

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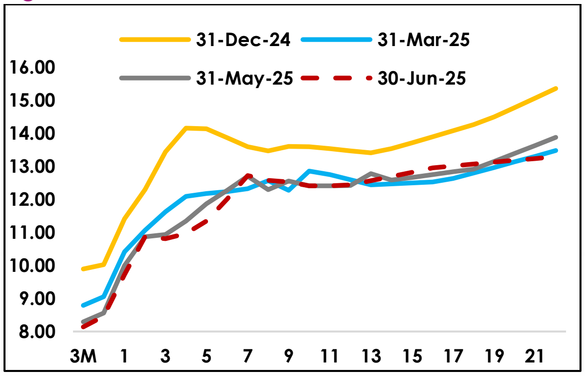
Hence, the transmission effect from the MPC's policy signals will likely be dampened by the evident fiscal strain. This indicates slower transmission of lower interest rates into the market, subduing credit growth and hurting Kenya's medium-term growth prospects.

On the government securities yield curve, worries around government debt and monetary policy would see investors continue to demand a fair premium for holding longer-dated bonds as a cover for potential revaluation losses. This, coupled with high domestic liquidity and low credit expansion will keep yields sticky into the end of 2025.

Figure 2: Government Securities Yield Curve, %



Source: NSE, NCBA Research

In the local FX market, the local unit remains unfazed amidst a highly volatile environment. Underscoring this, demand from importers remains at bay while foreign currency inflows from diaspora, agricultural commodity exports and central bank intervention remain favourable. Into the third quarter, we expect the USDKES to hold within current ranges. However, there is potential for a mild adjustment owing to the risk from unstable diaspora flows due to stricter immigration laws in the US and an increase in importer demand.

UGANDA

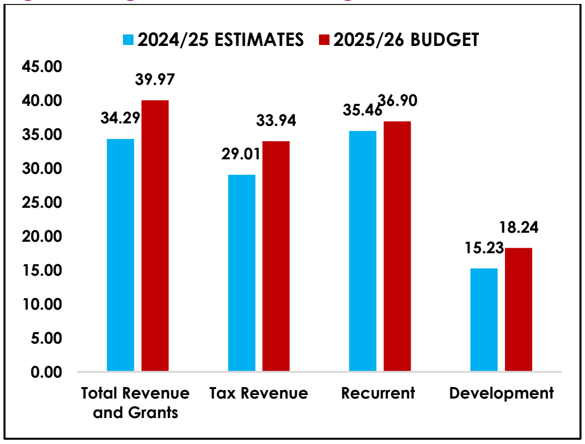
Macroeconomic indicators point to a steady first half of 2025. Economic activity has remained upbeat, with the headline PMI averaging 53.34 year-to-date, relative to 52.34 in a similar period of 2024 buoyed by strong industrial output. Additionally, ongoing investments into the extractive sector partly contributed to a 23% increase in Foreign Direct Investment inflows in Q1. Moreover, inflation has remained within the lower band of the statutory target, thereby preserving real household incomes and consumer spending activity.

To this end, the execution of the fiscal budget for 2024/25 was supported by robust tax revenue collections, projected to have closed at 98% of the target at UGX 29.0 trillion. However, higher than planned spending resulted in a marked widening of the fiscal deficit to 7.6% of GDP from an initial estimate of 4.5% of GDP. Deficit financing through external sources was challenged. Resultantly, the sovereign mobilized only 73% of the net external financing target. To address the shortfalls, the government borrowed 75% more than budgeted domestically. Resultantly, interest rates trended higher, while private sector credit growth was muted.

To steer back onto the fiscal consolidation path, the Ministry of Finance set the FY 2025/26 budget at UGX 56.5 trillion, up 10% from FY 2023/24 in comparison to a 35% increase in the year prior. Tax revenues are projected to grow by 16% (UGX 33.94 trillion) supported by new tax measures targeting UGX 538.6Bn in additional revenues. On financing, however, the estimates appear ambitious in the wake of reduced external support – with the net external financing target up 55% at UGX 5.7 trillion.

Interestingly, estimated concessional project loans has more than doubled to UGX 4.4 trillion, in part likely reflecting the World Bank's decision to resume new funding to Uganda. Overall, attaining a narrower fiscal deficit of 6.5% of GDP may still be a steep climb.

Figure 3: Uganda's Fiscal Budget, UGX Trillion



Source: MoFPED, NCBA Research

Besides the positive sentiment fuelled by the World Bank announcement, strong coffee exports and diaspora flows pushed further gains on the Uganda shilling in the month. Notably, diaspora remittances surged 23% in Q1 reaching US $ 332.4Mn. Year-to-date, the USDUGX has appreciated by 2.5%. Into Q3, anticipated flows from external financiers could boost the central bank's low FX reserves position currently at 3.0 months of import cover (US$ 3,793.9Mn) and cushion the currency.

TANZANIA

The Bank of Tanzania estimates point to real GDP growth outturn of 5.8% and 5.5% in the first and second quarters of 2025. Infrastructure investments in railways, roads, airports, and sports facilities in preparation for the upcoming CHAN and AFCON tournaments may propel growth to 6% levels in 2025.

The general elections expected in October however brings short-term uncertainties to Tanzania's outlook. Besides political risk, potential adjustments to policy could impact the economy's long-term trajectory. Further, while higher public spend is growth positive, it suggests a pause in fiscal consolidation.

Relatedly, the Ministry of Finance unveiled the TZS 46.45 trillion budget for the FY 2025/26. In it, a heavy pipeline for the construction of large infrastructure projects saw development project loan financing of nearly double the FY 2023/24 estimates at TZS 4.42 trillion. To maintain growth-friendly fiscal consolidation, the domestic revenue target at TZS 40.47 trillion will be raised from a 2.0% increase in tax revenues at TZS 34.10 trillion.

Achieving this revenue target will be made possible by a persistently low and stable inflation environment that has sustained decent consumer spending activity and favourable business conditions in the economy.

In fact, broad confidence in the benign inflation outlook saw the Monetary Policy Committee lower the policy rate by 25 basis points to 5.75% in early July. This marks the first revision in the CBR since Q2-2024. Well-managed risks to the currency and steady economic growth underpinned this decision further.

From the monetary policy framework, 7-day interbank rate is expected to stabilize within the CBR corridor of 3.75 - 7.75 percent. This is expected to buttress domestic liquidity that has remained somewhat unevenly distributed in the market.

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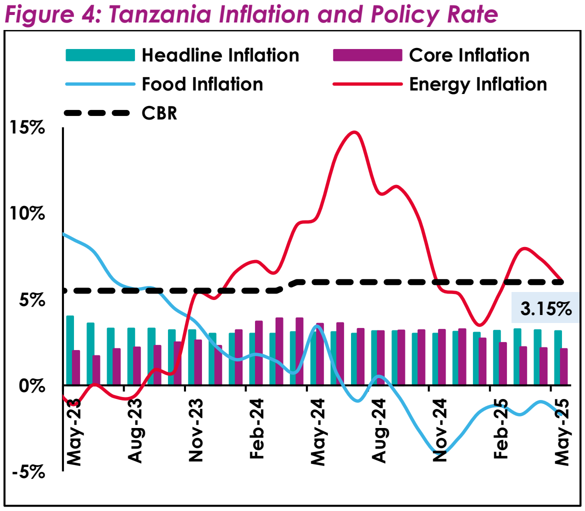
We therefore expect continued high subscription in the primary auctions to ease borrowing pressure for the sovereign looking to finance the deficit through TZS 2.95 trillion from the domestic market.

The credit market performance has held strong with lending growth of 16.7% in Q2-2025 and relatively low non-performing loans at 3.4% as of May 2025.

Figure 4: Tanzania Inflation and Policy Rate



Source: BoT, NCBA Research

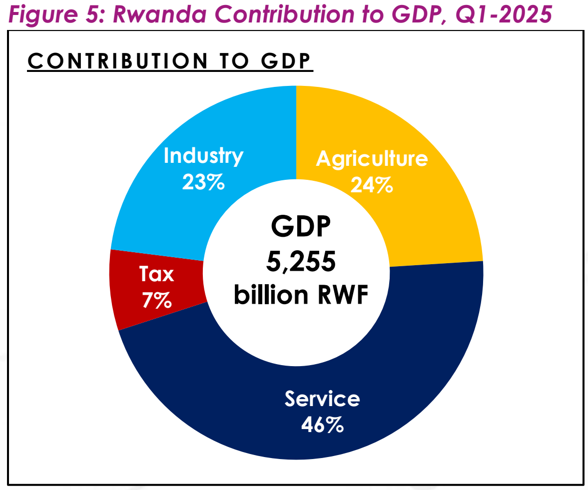
In the currency market, the USDTZS staged a sharp, albeit brief decline to 2580 levels in mid-June propelled by flows from the mining sector. However, the shilling partly reversed those gains to settle at 2625 levels. On the upside, we see moderate risks to the currency into 2H2025 owing to anticipated flows from tourism, gold and tobacco as well as central bank intervention. To be sure, official FX reserves have risen to the highest level recorded in recent history at US $ 6.0Bn – 4.8 months of imports following the disbursement of USD 448.4Mn from the IMF in June.

RWANDA

Rwanda's economic performance in 2025 thus far has been resilient. Official statistics show that the economy expanded by 7.8% in first quarter of 2025. Agriculture grew by 2%, industry increased by 9%, while services expanded by 9%. Priority investments in infrastructure such as the New Kigali International Airport and expansion of the national airline RwandAir is expected to uphold growth around 7.1% levels in 2025.

Regional conflict will likely remain a key impediment to economic growth despite the peace deal signed by Rwanda and the DRC in June, backed by US mediation. Peace may still prove elusive driven by the fact that key players involved in the crisis were left out of negotiations while no provisions are made for enforcement the opportunities for US companies.

Figure 5: Rwanda Contribution to GDP, Q1-2025



Source: NISRF, NCBA Research

On the fiscal side, the sovereign's continued implementation of fiscal consolidation could have contractionary effects on growth. Though, large infrastructure spending needs saw the fiscal year 2025/26 budget expand by 21% to RWF 7,032.5 billion. To finance it, the government plans to raise RWF 4,105.2 billion in domestic revenues, comprising of RWF 3,628.0 billion from taxes. External grants are estimated at RWF 585.2 billion whilst external loans are projected at RWF 2,151.9 billion. Amid reduced external support, pressure on public finances may ensue.

On prices, inflation, currently at 6.9% as of May, is projected to average 6.5 percent in 2025 before easing to 3.9 percent in 2026. Against this backdrop, monetary policy easing will likely remain cautious.

The local currency continues to cede value to the dollar. Year-to-date, the currency is 2.5% weaker aggravated by dollar demand and supply imbalances. Specifically, lower regional demand has dampened export flows while demand across various sectors remains elevated. Given this context, the current account deficit is expected to widen to 13.8% of GDP from 12.7% in 2024.

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