ECONOMICS AND RESEARCH MONTHLY ECONOMIC REPORT

June 2025

HIGHLIGHTS

- The global economy demonstrated resilience as consumers and firms brought forward spending to front-run tariffs. Thus, the restraining effects of trade tariffs were not fully manifested.
- In the US economy, protracted trade and fiscal policy uncertainty continues to cast a shadow over the expected impact on consumer spending, industrial production and payrolls.
- In the Eurozone, despite a year-on-year GDP growth of 1.2% in 1Q2025, a weak outlook across various sectors necessitates a more accommodative policy stance.
- Even though Kenya's economy shows a stable macroeconomic environment, economic growth is projected to stay low at 4.5%-4.8% this year.
- In Uganda, growth prospects remain firm around 6.0% levels in 2025. However, mounting pressure on external public financing and tax revenue shortfalls is likely to curtail growth.
- Tanzania's economic activity remains steady. Into 2H2025, the tourism sector peak is expected to boost the growth momentum further and ease currency pressures.
- Rwanda faces a deeper downturn in economic growth, and a wider fiscal and current account deficit amid slow progress on the resolution of the DRC conflict.

GLOBAL

The global economy has shown resilience as consumers and firms brought forward spending to front-run tariffs. Thus, the restraining effects of tariffs that were put in place have been only gradually felt. Still, uncertainty around the outlook remains high.

More recently, a U.S. trade court ruled that Trump had exceeded his authority in imposing the duties and ordered their immediate block. Though a day after, a federal appeals court temporarily reinstated the most sweeping of President Donald Trump's tariffs.

Furthermore, uncertainty around fiscal policy is also elevated as the US Congress continues to debate major tax and spending policies.

Resultantly, broad uncertainty and front-loading saw softer economic activity in May, with the global manufacturing PMI at a five-month low of 49.6 from 49.8 in April. Expectedly, China, the US, Japan and the UK were among the nations to see production volumes contract.

In the US however, front-loading continued in May, lifting the manufacturing PMI to 52.0 from 50.2 in April, its highest since February. It seems that there is an expectation of further trade tariff measures.

The Fed held the policy rate unchanged in May, marking a third consecutive hold based on the assessment that the impact of higher tariffs on consumer spending, industrial production and payrolls is uncertain. From recent Fed rhetoric, it appears that a rate cut debate is heating up between members.

With the PCE inflation nearing the Fed's target at 2.1%, the monetary policy committee will focus more on unemployment, now at 4.2%. If this deteriorates in coming months, it is likely to convince Fed officials to cut policy rates more rapidly and deeply than markets are pricing.

In Europe, GDP grew 1.2% in the first quarter year-on-year. Recent indicators suggest some rebound in the economy, but the composite PMI declined in May, reflecting weakening in services and only modestly improving activity in manufacturing. Fundamental drivers of manufacturing, including easier monetary policy may suggest a recovery. However, most of the strength is partly accounted for by tariff front-loading and could reverse in the second half of the year.

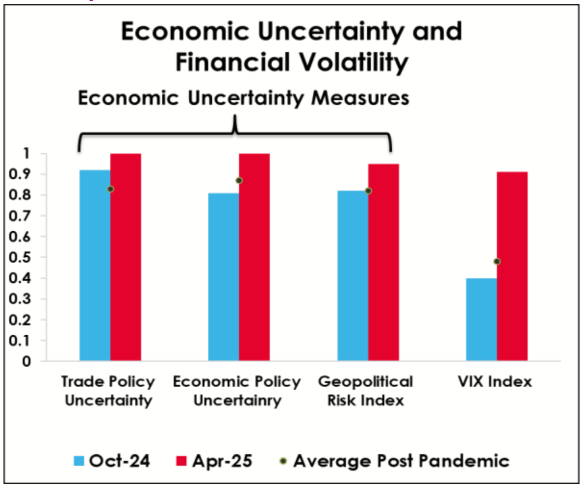
Euro area annual inflation, now at 1.92% in May down from 2.2% in April. We expect the meaningful easing in oil and gas prices to bring down the inflation path over the near-term.

Resultantly, the European Central Bank's monetary policy stance has become less restrictive, as the deposit facility rate has been cut by a cumulative 175 basis points since June 2024, to 2.25% in April 2025. The policy rate is projected to decrease further, reaching 1.75% in the latter part of 2025. However, while the interest rate cuts will support aggregate demand, the overall policy stance is uncertain in the remainder of the year.

In the UK, GDP in the first quarter expanded by 0.7% up from 0.1% in the final three months of 2024 on account of strong increases in services, investment, and exports. In recent weeks, the UK government has announced trade agreements with the US, EU and India. However, these are all limited in scope and are expected to benefit GDP only by a small margin. While small, in each case there is room to expand the scope of the arrangements in a way that would open greater economic benefits.

Overall, improved employment and purchasing power in the Eurozone implies increased optimism for the economy. However, US policy uncertainty may slow the recovery.

Figure 1: Economic Uncertainty and Financial Volatility Index



Source: NCBA Research

KENYA

Kenya's economic outlook appears lukewarm, notwithstanding the current stable macroeconomic environment and low direct linkages with the policy uncertainty in the US. To be sure, inflation recorded within a low tight range of 3.3% to 4.1% in the first five months of the year, while the exchange rate hardly moved, averaging 129.4 YTD to the USD. Moreover, export flows remain stable, with total exports growing at 2.3% in the first quarter of the year, relative to a similar period in 2024.

In the remainder of the year, monetary policy is likely to stay restrictive- thus, doubtful in unlocking private sector credit growth at a meaningful scale, while the fiscal year beginning in July is likely to see yields on government primary issuances sticky or up. Expectedly, political activity and fiscal slippages may hold back investments, with overall investor confidence staying weak for most of the year. Against this backdrop, we maintain our earlier projection that Kenya's annual GDP will record 4.5% to 4.8% this year.

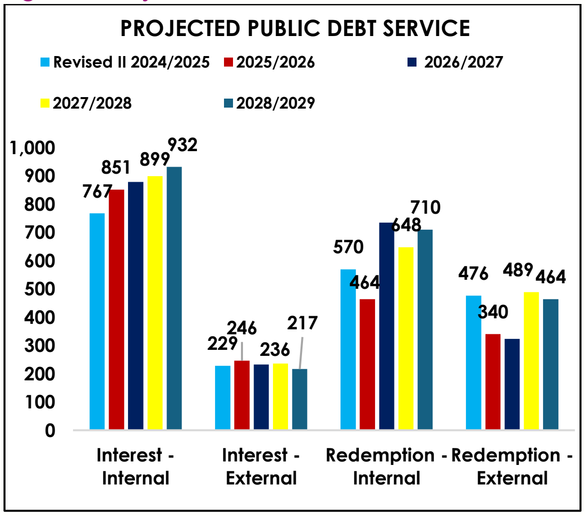
The planned fiscal consolidation this year is likely to fail to materialize due to an anticipated revenue shortfall. Following this, we project tax revenue at about 13.5% of GDP against a fiscal expenditure of 22% of GDP. Faced with higher recurrent and public debt expenditures so far, county payments are behind schedule at 72% of the budget, while only 54% of development spending has been disbursed (KES 190 billion). Resultantly, this poses risk to Kenya's medium-term growth prospects.

Moreover, the impact of running a high fiscal deficit has resulted in a greater need for government liquidity, keeping borrowing costs elevated. Indicatively, domestic borrowing has remained elevated while the overdraft facility at the CBK stood at KES 93 billion at the end of May relative to KES 61 billion at the beginning of the fiscal year.

Meanwhile, the anticipated external financing pipeline remains slow on conversion.

Into FY 2025/26, attempts to correct course are hampered as suggested by the proposed Finance Bill 2025 that does not appear to find much socio-political room to increase taxes. Resultantly, the domestic market will remain a key source for financing the budget. Underscoring this fiscal challenge, interest rates appear sticky at current levels.

Figure 2: Projected Public Debt Service



Source: National Treasury, NCBA Research

We expect the headline inflation to remain within the mid target of 5% in June, absent any significant shocks. Support is anticipated from low global oil prices, continued persuasion for farmers to release maize stocks to the markets and a stable exchange rate.

Additionally, low global commodity prices are expected to hold into June, except for palm oil on account of supply constraints. OPEC+ decision in May to continue pumping more is likely to see Brent prices hold at a lower range of $60 to $65 a barrel into the near-term. In the meantime, core inflation increased to 2.8% In May from 2.5% in April partly on account of price pressure from processed commodities such as fortified maize and wheat flour. Positively, this also signifies improved aggregate demand in the economy.

As a result of generally stable or declining global commodity prices and low private sector credit growth, we do not anticipate pressure on the exchange rate by importers. Growth in imports in the first quarter, at 10.5% was driven by purchase of motor vehicles, electrical and industrial machinery. However, we note that the comparable period last year faced an FX liquidity challenge, which has now been resolved. We thus foresee imports recording just about a single digit expansion in the second half of the year.

Furthermore, following favorable weather conditions so far and projected to remain so in the third quarter of the year, agriculture exports are expected to perform well, thus supporting the currency. However, diaspora remittances may prove unpredictable in the remainder of the year. Stricter immigration laws in the US may see increased remittances by Kenyans who think that they could face deportation. For the rest of the source markets, remittances are likely to oscillate within a single digit change. Overall, we project the KES to stay at current level into the end of June.

UGANDA

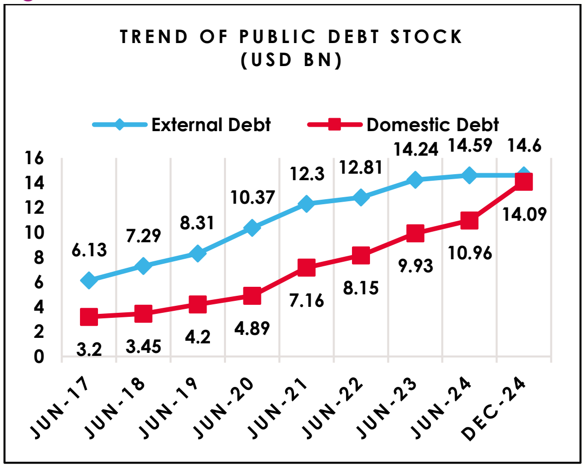
Uganda's growth projection for FY2024/25 remains at 6.0-6.5%. This outlook is supported by increased activity in the oil and gas sector, higher agricultural production and ongoing public infrastructure investments in the road, railway and water sectors.

Higher government spending on the back of deep cuts in foreign assistance and a shortfall in tax revenue implies a wider fiscal deficit in the current year. To be sure, the Ministry of Finance projects the deficit to widen materially to 7.0% from 4.7% of GDP in FY 2023/24.

Into FY 2025/26, the fiscal deficit is optimistically forecast to narrow to 6.0% of GDP. As part of its efforts to alleviate pressure on the Treasury, the government is planning to issue corporate bonds to raise capital for state-owned enterprises and revitalize the country's underperforming corporate bond market. Even so, with a total gross financing requirement of UGX 32.71 trillion, the financing burden remains. Of this, UGX 10.5 trillion will be sourced externally with a significant proportion (16.71%) on non-concessional and commercial terms.

Against a tight external credit market, the risk of turning into the domestic market is high. Hence, investors are expected to continue to seek higher premiums as sovereign appetite remains elevated suggesting lower extension of credit to the private sector.

Figure 3: Trend in Public Debt Stock



Source: MoFPED, NCBA Research

The Monetary Policy Committee maintained the policy rate at 9.75%. The decision reflects heightened global risks to the economy that could lead to adverse impact to the key economic prices.

Firstly, inflation is on an uptrend and could rise further in the near-term. In May, headline and core prices edged up to 3.8% and 4.2% from 3.5% and 3.9% in March 2025, respectively. Core inflation is expected to average between 4.5% and 5.0% in FY2025/26 and to converge toward the 5% target over the medium term.

In addition, global policy uncertainty has necessitated caution in interest rate decisions to safeguard the currency from portfolio and capital outflows.

Nonetheless, the local currency has performed broadly well year-to-date buttressed by coffee exports. Uganda is one of the main drivers behind the region's growth this year - exports grew by 72.9% in March boosted by good harvest and high international coffee prices.

In the near term, we anticipate the USDUGX to trade around 3,700 levels. However, into 2026, the World Bank foresees a 9% price reduction in Robusta prices (80% of Uganda's coffee) which risks depreciation on the shilling. Moreover, official FX reserves remain low at US $ 3,588 Million – 3.3 months of import cover.

TANZANIA

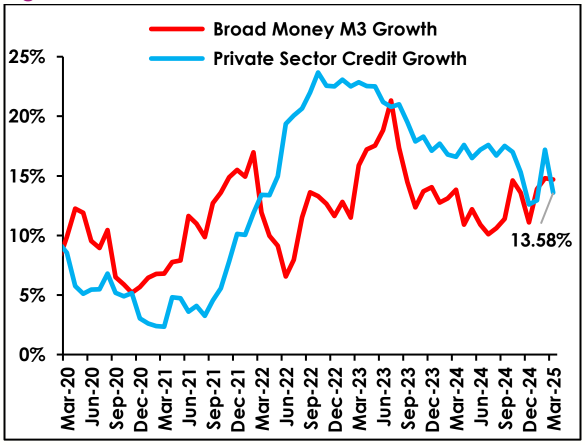
Economic activity has remained steady. The tourism peak (June-October) is expected to prop up activity levels further in the near term. The tourism sector contributes approximately 17% to GDP and 25% to total foreign exchange earnings. In Q1-2025, tourist arrivals rose by 1.7% relative to a similar period in 2024.

Elsewhere, Afreximbank pledged USD 1.0 billion in financing to Tanzania that will be deployed over the next 12 months, targeting trade-enabling sectors such as manufacturing, healthcare, infrastructure, and SMEs. Overall, higher public spending and fixed investments, supported by multilateral and development partners, will remain a key catalyst for economic growth this year.

On prices, year-to-date inflationary pressures remain muted around 3.2%. We see minimal risks to the outlook in the near term, in line with Bank of Tanzania's forecasts of 3.2% levels in the second quarter. With most global commodity prices on a gradual downward trend, the onset of the long rains could offer further support to lower domestic food prices.

For the Monetary Policy Committee, currency depreciation concerns will likely take precedence. The IMF sees the central bank's current policy stance (CBR at 6.0%) as neutral or mildly stimulatory implying that we are likely to see the CBR remain unchanged in the subsequent meeting, absent any material risks to inflation and the currency. Reinforcing this, the growth of lending to the private sector remains in double digits -13.6% in March amid muted credit risks.

Figure 4: Tanzania Private Sector Credit Growth



Source: BoT, NCBA Research

In the FX market, central bank interventions have been successful in bringing back FX flows into the formal market, increasing its liquidity and reducing the parallel market premium. Even though the USDTZS depreciation stands at 11% year-to-date, we expect slower depreciation in 2H2025 on account of tourism flows.

RWANDA

Rwanda's economy faces lower growth prospects in 2025. The IMF projects GDP growth at 7.1% down from 8.9% in 2024 following ongoing border challenges with DRC Congo. We see the fiscal deficit widening to 6.8% of GDP in 2025 (from an estimated 6.2% in 2024), as slower growth weighs on revenue generation and both military and interest spending tick up.

The Monetary Policy Committee opted to hold the policy rate at 6.5% in their May meeting. The decision was anchored around the need to curb inflationary pressures amid risks to the outlook. Illustratively, though inflation has remained within the 2 to 8 percent target, general prices picked up to 6.7% in 1Q2025 from 5.2%, previously. Inflation is expected to average 6.5% this year, before dropping sharply to 3.9% in 2026.

Heightened global economic uncertainty, most notably due to escalating trade tensions, will likely see the central bank remain cautious in the months ahead.

On the trade front, regional conflict with the DRC has exacerbated the decline in Rwanda's exports. In April 2025, total exports dropped by 28% relative to April 2024. Meanwhile, re-exports, primarily to the DRC have declined by 32%.

Table 1: Rwanda Re-export Data

Rwanda Re-Exports					
Country	Value: US $ Million			Percentage Change	
	2024 Apr	2025 Mar	2025 Apr	M/M	Y/Y
DRC	47.20	42.57	41.29	-3.01%	-12.52%
Total Re-exports	66.96	42.10	45.72	8.6%	-31.7%

Even so, resolving the conflict may still face slow progress, implying further widening of the trade deficit currently at 10.8%. A poor export performance and lower secondary income inflows could see the current account deficit widen from an estimated 11.1% of GDP in 2024 to 12.2% in 2025. Resultantly, against YTD losses of 3.0%, we expect the USDRWF pair to end 2025 about 8-10% weaker.

Washington is pushing for a peace agreement between Rwanda and the DR Congo to be signed this summer, accompanied by minerals deals aimed at bringing billions of dollars of Western investment to the region. On April 25, 2025, in Washington DC, the DR Congo and Rwanda signed a landmark declaration of principles (DoP) agreement. This outlined objectives for the two markets to refrain from interfering in each other's internal affairs and promoted deeper economic and security cooperation and integration.

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