ECONOMICS AND RESEARCH MONTHLY ECONOMIC REPORT

October 2025

HIGHLIGHTS

- Global economic growth remains steady with key economies including the US, China, and the EU showing positive expansion, while inflation is broadly contained supporting policy easing.
- In the US, the Fed resumed monetary policy easing in mid-September following resilient economic activity and manageable upside risks to inflation.
- In the Eurozone, high frequency indicators point to marginal expansion in economic activity. However, in the near term, US trade tariffs may act as a notable headwind.
- Kenya's real GDP growth touched 5.0% in the second quarter of 2025 relative to 4.6% in Q2-2024, underpinned by construction, agriculture and service sectors. However, risks to growth remain from adverse weather outcomes and subdued aggregate demand.
- Leading macroeconomic indicators in Uganda demonstrate broad resilience in the economy's activity level.
- Tanzania's economy is growing steadily and is projected at 6% this year driven by mining, agriculture, and construction activity. Into Q4, risks to the outlook include, election-related fiscal pressures and erratic rainfall.
- Rwanda expanded by 7.8% in the second quarter of 2025 from 10.2% in a similar period of 2024. Growth momentum is threatened by regional conflict, constrained public funds and persistent inflation.

GLOBAL

Even as we wait for the IMF's October edition of the World Economic Outlook, global growth remains on a solid trajectory. Illustratively, in the second half, the key economies such as the US, China and the European Union expanded by 2.1%, 5.2% and 1.6%, respectively year-on-year.

Supporting this resilience in economic activity, global headline inflation remains well contained, with headline inflation at 2.9%, 2.04% and -0.4% in the US, European Union and China, respectively. Given that we see oil price staying below $70 a barrel, the upside risks to headline inflation are limited.

More recently, monthly data indicates resilience following the September Purchasing managers' index (PMI) staying in the expansionary territory, with the composite PMI at 53.6 and 51.2 for the US and European Union, respectively.

Resultantly, major central banks continue to unwind policy restraint, with most of them expectedly cutting rates or remaining on hold through year-end. However, for Frontier markets, even though policy will get less restrictive, we do not see many of them getting into outright accommodative territory due to various country specific or global risks.

Table 1: Global Composite Purchasing Managers Index

Markit Composite PMI				
	Sep 2025	Jun 2025	Mar 2025	Dec 2024
Global	-	51.7	52.1	52.6
U.S.	53.6	52.9	53.5	55.4
Eurozone	51.2	50.6	50.9	49.6
Germany	52.4	50.4	51.3	48
Italy	-	51.1	50.5	49.7
Spain	53.8	52.1	54.0	56.8
U.K.	51.0	52.0	51.5	50.4
China	52.5	51.3	51.8	51.4
Japan	51.3	51.5	48.9	50.5

Source: Bloomberg, NCBA Research

THE US MARKET

The Fed resumed monetary policy easing mid-September as the labour market appeared to deteriorate with unemployment level sticky at 4.3% at a time when upside risks to inflation looked manageable.

The revised gross domestic product (GDP) for the second quarter showed the economy expanding by 2.1% year-on-year. The main surprise in this data release was a significant upward revision to Q2 consumer spending from 1.6% to 2.5%. This points toward stronger spending on services, which may hold into year-end.

Given that consumer spending on services and not goods contributed significantly to overall household consumption, we do not expect the labor market to improve materially, which will likely push the Federal Open Market Committee (FOMC) to continue to cut the policy rate further into the year end.

Even though core personal consumer expenditure (PCE) inflation is still above target - at 2.9% on a year-on-year basis, it is modest and indicates limited tariff passthrough to consumer prices so far. Into the fourth quarter, tariffs negotiations for semi-conductors and pharmaceuticals are expected to be closed. But the overall trade weighted effective tariff is likely to come in lower than earlier anticipated.

On the fiscal side, with no Senate approval for budgetary spending into the new fiscal year, over 500,000 government employees are furloughed, and key economic releases may be delayed. However, we see limited adverse impact on the economy unless if the shutdown extends beyond a week or if a larger number of government workers are laid off.

THE EUROPEAN MARKET

One of the high frequency pointers to economic activity – the composite purchasing managers' index (PMI) in the Eurozone continued its marginal increase in September, rising from 51.0 to 51.2 points. However, the two sub-indices had a different trend, with manufacturing declining to 49.8 from 50.7 points, while the services PMI rose to 51.4 from 50.5.

So far, tariffs have had little adverse impact on Eurozone's economic activity, as export frontloading and related stockpiling lifted manufacturing activity. Following the US-EU trade deal in August, Eurozone goods exports to the US are now facing an average tariff rate of 13%, which is than the initial 25%. However, into the near-term, these US tariffs may turn into a more notable headwind.

Despite these tariff changes, the inflation situation has not changed due to the negative demand shock, higher supply of cheap Chinese goods and a stronger Euro. At 2.2%, the inflation rate is close to the European Central Bank's target of 2%, and we expect it to point toward 2% in the near term.

Together with a somewhat steady economy, this is likely to see the European Central Bank to leave the policy rate unchanged at 2% in the remainder of the year.

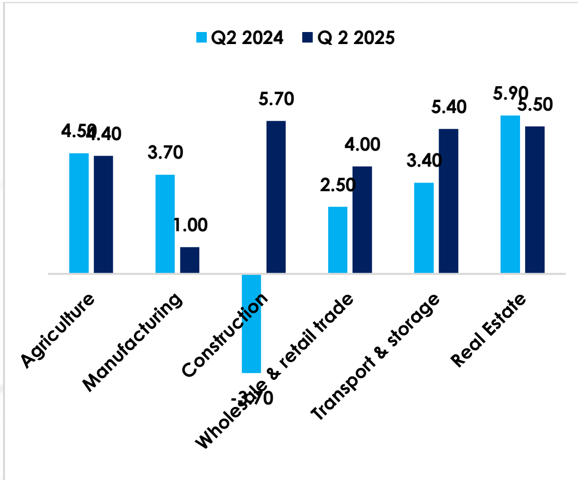
KENYA

Real GDP growth in the second quarter of 2025 was broadly in line with our expectations – expanding by 5.0% relative to 4.6% in the corresponding period of 2024. Growth was buttressed by recovery in construction sector activity that grew by 5.7% relative to a contraction of 3.7% in 2Q2024.

However, manufacturing growth slowed to 1.0% from 3.2% due to a mixed performance in the food-sub-sector. That said, agricultural activity remained resilient but slower than expected at 4.4% from 4.5% in 2Q2024. In the services sectors, strong outturn was recorded in the wholesale and retail trade as well as transport sectors at 4.0% and 5.4% from 2.5% and 3.4%, respectively. However, the accommodation and food service sector growth waned to 7.8% from 35%.

Into the fourth quarter, services is likely to remain resilient, but despite peak season activity, slower momentum in tourism could act as a drag. On agriculture, below average rainfall across most parts of the country amidst risk of a La Nina event suggest an uncertain outlook. Industry sector growth is expected to rebound further on credit expansion, but a material recovery is unlikely. Overall, we maintain a moderate growth outlook of 4.8%-5.0% this year.

Figure 1: Kenya Quarterly GDP Growth



Source: KNBS, NCBA Research

On the fiscal side, tax revenues collected by the revenue authority in the first two months of the fiscal year grew by 5.1% year-on-year, touching KES 328Bn (12.1% of budget). Even so, to achieve the desired 13.8% tax revenue growth, further stimulus to growth is needed. Meanwhile, total government outlay grew 53% year-on-year (KES 674Bn) primarily driven by education capitation funding disbursements and public debt service costs, crowding out development expenditures.

On financing, the government is expected to pursue several external financing options amidst challenges on its fiscal consolidation agenda. The upcoming mid-2027 general elections, may result in increased fiscal spending pressures and in a bid to win over the electorate early, derailing spending rationalization efforts and reform implementation. Given the current socio-political context, an attempt to raise new taxes into the FY 2026/27 is likely to face headwinds from the public. Certainty, optimism around the fiscal trajectory therefore remains measured.

For the local currency government securities, investors are likely to continue to trade more cautiously without missing appealing opportunities in the bonds market. So far, the yield curve implies increased activity on the short-mid end of the curve. In the third quarter, yields on the short to mid end of the curve declined by 25-30 basis points on average, closely tracking the 25bps drop in the CBR. In contrast, yields on the long end remained sticky, rising by 10-basis points.

In the external sector, the third and fourth quarters of the year are typically associated with higher service receipts, particularly for travel. However, tourist arrivals in the first half of the year revealed slow momentum into the second half, growing by 2.7% year-on-year. Further, on agricultural commodity exports, the key risk into the period is the uncertain weather outcomes that could negatively impact crop production and consequently foreign currency receipts. This, coupled with signs of already declining diaspora remittances pose some upside risk to the currency. Although, with the central bank expected to maintain intervention in the FX market, volatility to the currency could be kept at bay. November external debt service appears heavy, but we posit the CBK's healthy FX reserve balance (US $ 10.7 billion) should cater for the obligations without major strain.

UGANDA

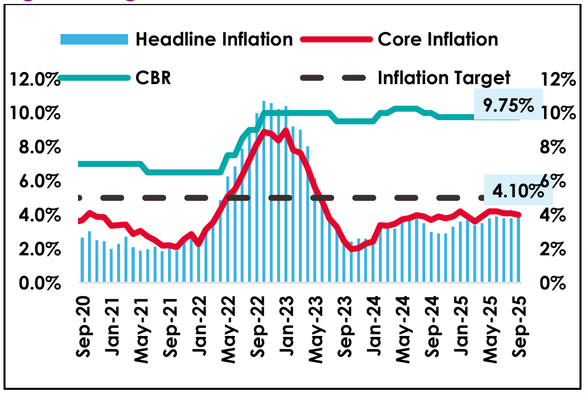
Leading indicators including PMI surveys demonstrates broad resilience in the economy's activity level. We see tailwinds from continued investment into the extractive industry, as well as strong growth in construction, manufacturing and agriculture. However, in the medium-term risks to the outlook includes uncertainty around the commencement of oil production including completion of associated infrastructure projects, such as the crude oil export pipeline.

Still on risks, the fiscal outlook is uncertain chiefly owing to limited domestic revenues, elevated spending and a decline in foreign aid. Notably, in the first two months of the FY 2025/26, tax collections recorded a shortfall of UGX 106.7 billion at UGX 4,626.71 billion. At the same time, unplanned and pent-up expenditures resulted in higher disbursements than budgeted, placing pressure on the fiscal deficit. Moreover, increased spending in the current election cycle and with public debt-to-GDP reaching almost 53% certainly exacerbates the uncertainties.

Overall, rationalizing spending, enhancing revenues and rallying concessional financing remain vital to consolidate fiscal balances.

On prices, the consumer price index in September rose marginally to 4.1% from 3.8% in August, primarily driven by pressure on food prices. Indicatively, food inflation has sharply rose to 7.4%, up from 3.0% in the prior month. On the upside, stable core prices and muted pressure from energy has contained overall prices within target – with core inflation at 4.0% and the energy, fuel and utilities index recording a disinflation of 0.1%. Looking ahead, we expect inflation to average around 5%.

Figure 2: Uganda Inflation Rate

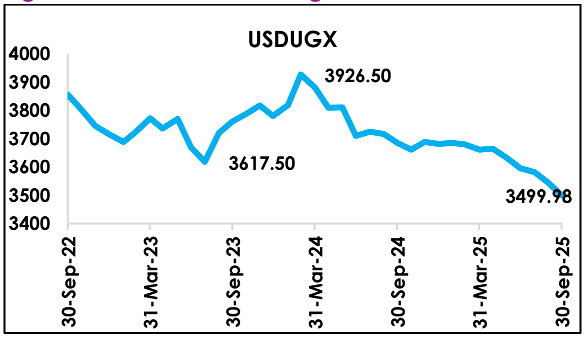


Source: UBOS, NCBA Research

On the monetary policy front, the adopted stance appears attractive for the government securities yield curve and has thus sustained domestic and foreign investor participation. However, the Bank of Uganda has kept acceptance rates in the auctions at prudent levels to mitigate crowding out the private sector that has struggled to sustain double digit growth. As of July, credit expanded by 8.3% in July 2025, though has generally been on an upward trajectory.

In the currency market, the Uganda shilling has remained on a solid footing, touching lows of 3460 as export flows from coffee and mineral products, trickle into the FX market. In the near-term, uncertainty in the coffee price outlook could impact FCY inflows but favourable gold prices could cushion the currency. Overall, we expect the USDUGX to trade around 3450-3550 levels.

Figure 3: USD/UGX Exchange Rate



Source: Bloomberg, NCBA Research

TANZANIA

Tanzania's economic growth appears robust. Following a real GDP expansion of 5.4% in the first quarter, we expect the economy to grow further toward 6.0%. Underpinning this outlook is the continued strong mining sector growth and healthy activity in agriculture and construction sectors.

Indicative of a steady business operating environment, private sector credit growth is holding firm close to 16.0% levels. Reinforcing an upbeat mining sector outlook, credit expansion in the sector has remained on an upward trend, rising by 28.2% in July from 0.5% in January 2025 bolstered by several projects now at advanced stages.

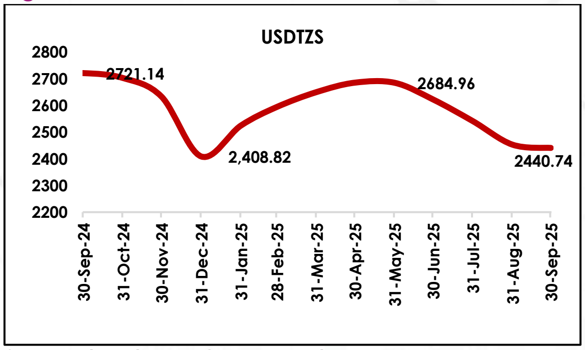
Tanzania's positive outlook was affirmed by the IMF that recently concluded a staff visit to the country. However, the fund flagged some risks to Tanzania's outlook.

Globally, economic and trade slowdown, geoeconomic fragmentation, and reduced foreign development assistance could hurt growth prospects. Locally, the upcoming national elections may increase risk of fiscal pressures and reform slowdown, while insufficient and erratic rainfall could affect growth and inflation.

Against this backdrop, we project inflation to settle around 4.0% in December 2025 from 3.3% in August. A healthy food stock level held by the National Food Reserve Agency of 485,930.4 tonnes as of July 2025 could however soften the blow. Further, at 4.0%, inflation would still be within target and would therefore sustain the desired level of household consumption, therefore implying no major revisions to the current policy stance, with the Bank of Tanzania holding the CBR at 5.75% in the October Monetary Policy Committee meeting.

On the currency, the central bank has implemented various reforms and interventions to enhance foreign currency liquidity in the formal FX market, which has resulted in the USDTZS paring back some of its losses to stand at 1.8% from 9% at the end of Q2. Further, gold and tobacco exports, combined with tourism inflows supported the gains. Looking ahead, we see the currency pair trading at 2350 to 2600.

Figure 4: USDTZS Trend



Source: Bloomberg, NCBA Research

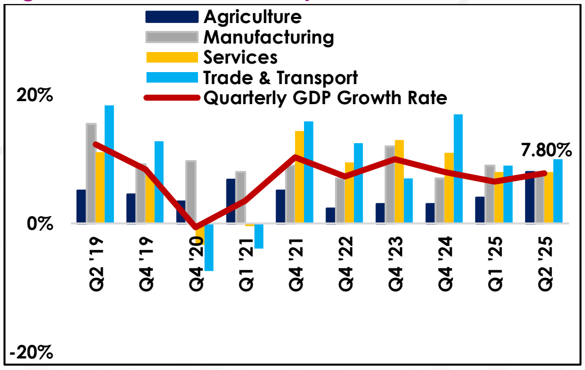
RWANDA

The economy is showing a slower momentum year-to-date due to regional conflict, threats to public and private consumption from elevated spending needs and persistent inflation, respectively. Moreover, recent cuts on overseas development assistance will hurt public expenditure into the remainder of this fiscal year.

Illustratively, real GDP grew by 7.8% in the second quarter of 2025, slower than the 10.2% growth in the same period of 2024. Relatedly, Q1-2025 GDP growth was revised down from 7.1% to 6.5% following the recent rebasing exercise of the GDP to 2024 base year by the National Institute of Statistics.

Growth was slower across most of the sectors except for agriculture that expanded by 8% from 4% in 2024 fuelled by robust export crop production. In industry, mining sector growth was strong at 12% but manufacturing sector activity slowed to 8.0% from 10% in Q2 last year. Similarly, service sector GDP growth waned to 9% from 12%. While growth was slower across most sub-sectors including, trade and transport, ICT and financial services, the hotels sector had the sharpest downturn, contracting by 7% from a growth of 18% last year.

Figure 5: Rwanda Quarterly GDP Growth



Source: NISR, NCBA Research

Overall, for 2025, growth is projected to expand by 7.1%. Positively for Rwanda, relations with external financiers remain warm and could provide some cushion to the economic fallout from the DRC conflict, that still faces slow progress in implementing the US-backed peace agreement.

Underscoring this, Moody's upgraded Rwanda's outlook from "Negative" to "Stable" while the rating was affirmed at B2 on account of reduced risks from the DRC conflict and sustained support external financial assistance.

On prices, inflationary pressures remain elevated, and upside risks remain. In August, the headline inflation rate stood at 7.1%, down from 7.3% in the prior month. We expect inflation to remain within the upper band of the target driven by risk of adverse weather conditions likely to hit in 4Q2025. Resultantly, the central bank's policy stance is likely to remain in restrictive territory.

In the local FX market, the Rwandese Franc has sustained losses against the dollar bringing YTD losses to 5%. Persistent conflict could deter tourism demand while lower export business into the DRC could exert pressure on the current account deficit- with both already evident. As a result, we foresee an annual depreciation rate of 6%-8% on the USDRWF pair.

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