

# ECONOMICS AND RESEARCH **MONTHLY ECONOMIC REPORT**

## September 2025

### HIGHLIGHTS

- Global indicators continue to show resilience in the third quarter as evidenced by high frequency macro data, albeit with weaker momentum in global trade.
- In the US economy, with economic activity seemingly stable, markets shift focus to the labour market showing signs of slowing down and reinforcing expectations for a policy rate cut by the US Federal Reserve in September.
- In the Euro area, given the economy's resilience, the bar for a policy rate cut by the European Central Bank (ECB) is quite high on the back of downside risks from weaker growth prospects, the impact of U.S. tariffs, and a stronger Euro.
- Domestically, economic activity remains subdued amidst no clear catalyst to growth following a narrower window on the monetary policy side, while fiscal manoeuvrability remains limited.
- In Uganda, well-coordinated fiscal and monetary policies have resulted in contained inflationary pressures, economic activity on an expansionary path, a stronger local currency and an increase private sector credit growth.
- Overall uncertainty into Tanzania's general elections held in October 2025 is likely to keep economic activity moderate. Uplift could stem from higher government and private consumption, as well as fixed investments.
- Rwanda has historically remained a regional outperformer in recent years, however shifting macroeconomic fundamentals could undermine the economy's performance this year.

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### GLOBAL

Global indicators continue to show resilience in the third quarter as evidenced by high frequency macro data. Notably, the global manufacturing PMI in August increased by 1.2 percentage points to 50.9, its highest level in over a year. Meanwhile, the global services PMI stayed flat-lined in the month. However, a closer look at it shows that it is currently running above its average of the last few years.

However, global trade is losing momentum, with leading indicators showing that new export orders contracted for the fifth month in a row.

**Table 1: Global Composite Purchasing Managers Index, August 2025**

	Markit Composite PMI			
	Aug 2025	Jun 2025	Mar 2025	Dec 2024
<b>Global</b>	<b>52.9</b>	<b>51.7</b>	<b>52.1</b>	<b>52.6</b>
<b>U.S.</b>	<b>54.6</b>	<b>52.9</b>	<b>53.5</b>	<b>55.4</b>
<b>Eurozone</b>	<b>51.0</b>	<b>50.6</b>	<b>50.9</b>	<b>49.6</b>
<b>Germany</b>	<b>50.5</b>	<b>50.4</b>	<b>51.3</b>	<b>48</b>
<b>Italy</b>	<b>51.7</b>	<b>51.1</b>	<b>50.5</b>	<b>49.7</b>
<b>Spain</b>	<b>53.7</b>	<b>52.1</b>	<b>54.0</b>	<b>56.8</b>
<b>U.K.</b>	<b>53.5</b>	<b>52.0</b>	<b>51.5</b>	<b>50.4</b>
<b>China</b>	<b>51.9</b>	<b>51.3</b>	<b>51.8</b>	<b>51.4</b>
<b>Japan</b>	<b>52.0</b>	<b>51.5</b>	<b>48.9</b>	<b>50.5</b>

Source: Bloomberg, NCBA Research

Despite uncertainties over the over the geopolitical landscape, global commodity markets appear steady overall. Energy and non-energy commodity prices are projected at current level or slightly lower. Notably, oil prices remained below US\$ 70 a barrel all through August. The market is characterized by potential shifts in Russia supply, US sanctions policy and higher OPEC+ flows

balanced by weak demand. This portends well for global inflation that is still expected to decline from 2024 levels, though with marked divergence across economies.

### US ECONOMY

The US Bureau of Economic Analysis revised the quarter-on-quarter GDP growth for the second quarter of 2025 to 3.3% from 3% initially. On a year-on-year basis, GDP grew at 2.1%. Higher business investment and consumer spending were the primary drivers for the upward revision. Meanwhile, the S&P Global US Manufacturing Purchasing Managers' Index, posted 53.0 in August, up from 49.8 in July. Higher production and new orders were key drivers of output growth, though tariffs were again linked to rising input costs.

On to prices, annual inflation in the US, as measured by the Personal Consumption Expenditures (PCE) Price Index, held steady at 2.6% in July. While the core PCE Price Index, rose 2.9% in the same period, following June's increase of 2.8%.

Overall, with stable economic activity, all focus is on the labour market, and policy developments. Recent labour statistics have reinforced expectations for the US Federal Reserve to cut interest rates in September. Specifically, amid major downward revisions to prior jobs data, unemployment is expected to tick up to 4.3% from 4.2%, previously while nonfarm Payrolls are set to rise by 75,000 in August, a tad higher than July's 73,000 increase. The release of the Fed's economic projections in the September meeting will further guide markets going forward.

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On the currency, inconsistencies in policy rollout and regulatory reversals by the US administration rattled investors who now appear to favour alternative markets and assets such as gold, Eurozone equities as well as Emerging market bonds. Year-to-date, the US dollar has weakened by 9.4% against major currencies. In the medium-term, the USD outlook could gain from growth-supportive fiscal and monetary policies outside the US.

Despite rising expectations for a Fed rate cut that have pulled short-term yields lower, long-term yields have climbed, with the U.S. 30-year Treasury briefly touching 5% for the first time since July. Inflation concerns and questions around Fed independence are likely contributing factors.

For emerging and frontier markets, a weaker dollar offers room for further policy easing and opportunities to tap into international credit markets to finance fiscal deficits. However, contrasting signals from rising long-term US Treasury yields could add complexities.

### EUROPE

For the six consecutive months to August, the Eurozone recorded an acceleration in manufacturing output growth, the fastest since March 2022. Spain recorded an especially steep upturn, with growth hitting the highest since October 2024. Growth also accelerated in Germany, Austria, Italy, the Netherlands and Greece. While France reported a third successive month-on-month drop in output, the decline was only marginal.

Given the economy's resilience, the bar for a policy rate cut by the European Central Bank (ECB) is quite high. Several ECB members signalled that risks were already tilted to the downside, citing weaker growth prospects, the impact of U.S. tariffs, and a strong Euro.

For the shared currency, should Eurozone growth continue, the bullish EUR/USD view will stay intact and deliver EUR/USD strength in the coming months.

In the UK, although the economy reported a steep decline in economic activity in August, recent months have seen much reduced rates of contraction compared to earlier in the year.

The concern for the Bank of England is that the general price level in the economy remains firmly above the 2.0% target. The latest numbers show inflation at 3.8% in July, up from 3.6% in June. At the core level, core inflation rose by 3.8%, up from 3.7%. Broadly the higher print raises considerable doubt on how fast rates can be lowered. Looking ahead, we expect the BoE to watch inflation data closely, after forecasting that the consumer price index could peak at 4% in September.

### KENYA

For the fourth consecutive month, the headline purchasing managers' index (PMI)- a high frequency indicator of economic activity registered below the 50 neutral-mark at 49.8 in August. New orders remain low while output levels are on a downtrend against weak purchasing power by consumers and a subdued economic environment.

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In our view, the protracted recovery in growth reinforces an overall GDP growth forecast at sub 5% this year. There is no clear catalyst to economic growth, following a narrower window on the monetary policy side, while fiscal maneuverability remains limited.

To spur economic activity, monetary policy turned slightly more accommodative backed by within-target inflation at 4.5% as of August. However, the Central Bank Rate (CBR) down 350-basis points is yet to yield the desired outcomes. To this end, the central bank unveiled a new risk-based credit pricing framework for the banking industry to complement its stance. This is expected to boost transmission of the policy stance into the credit market.

So far, amidst low credit disbursements into the private sector, excess liquidity continues to be invested in government paper with notable overperformance in the recent bond auctions. Illustrating this, net domestic borrowing has already touched 41% of the budgeted financing for this fiscal year.

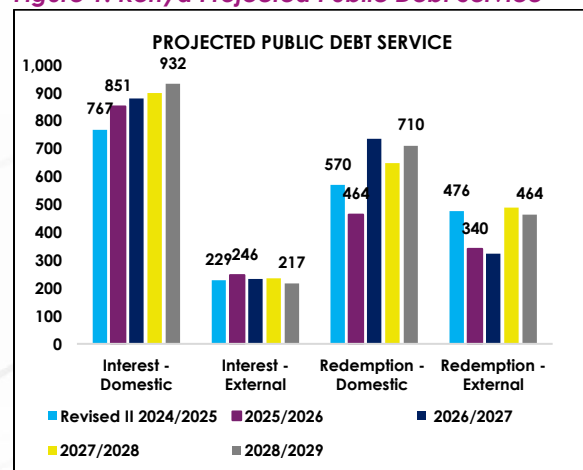
Appetite for primary securities will likely be sustained in the near-term, underpinned by Kenya's recent credit rating upgrade to 'B' with a 'Stable Outlook' by S&P following reduced near-term external liquidity risks. In comparison, Fitch affirmed Kenya at 'B-' with a Stable Outlook, while Moody's credit rating is currently at Caa1 with a Positive Outlook.

Taking this into consideration, front-loading may offer scope for fiscal adjustments later in the year bearing in mind the evident external financing constraints at a time when a significant portion of government revenue is consumed by recurrent spending and public

debt service - curbing spending on development and to counties.

Although, any material upside to Kenya's outlook could stem from a solid demonstration of the sovereign's commitment to sustainable public finance and fiscal discipline. The government is reportedly exploring ways to refinance its debt to smooth out its obligations. In the FY 2027/28, external debt service is expected to jump 30% to KES 724Bn due to the Eurobond 2028 maturity. This, in our view, could be a potential target. Positively, the credit rating upgrade appears to have increased investor confidence as indicated by lower yields across Kenya's Eurobonds. On the domestic front, we are likely to see increased issuances on the longer-end of the government securities yield curve, already evident. Further, liability management tools such as bond switches could be in the offing especially into the FY 2026/27 with a budgeted 23% increase in domestic debt service at KES 1,614Bn.

**Figure 1: Kenya Projected Public Debt Service**



Source: National Treasury, NCBA Research

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In the interest rate market, following the transmission of the August CBR cut, yields appear sticky at the current levels with the 91, 182, and 364-day papers at 7.999%, 8.05% and 9.569%, respectively. With the MPC next convening in October, yields are likely to respond to fiscal developments.

In the currency market, the USD/KES has remained stable even amidst a highly volatile global context upheld by a stronger external position characterized by steady foreign currency inflows amid moderate demand. Notably, the current account deficit narrowed to 1.6% of GDP in the year to June 2025 relative to 1.8% in a similar period of 2024, supported by resilient exports (notably horticulture and coffee), robust diaspora remittances (+12%), and strong service receipts. Meanwhile, imports grew by 9.9%.

Looking ahead, agricultural exports and diaspora flows are likely to hold within single digit change. At the same time, import demand is expected to pick-up as activity resumes. Though a strong FX reserve balance at US \$ 10,889Mn will stand ready to cushion the currency against any volatility or shocks. Hence, we price in the potential for only a modest adjustment on the currency, absent any weather shocks.

### **UGANDA**

In Uganda, well-coordinated fiscal and monetary policies are supporting private investment in the economy. Notably, inflationary pressures are contained, economic activity is on an expansionary path, the local currency is stronger and private sector credit growth is picking up.

Moreover, driven by the developments in the oil & gas sector, foreign direct investment (FDI) inflows surged 24% in the first quarter of 2025 to US\$ 923 million relative to the corresponding period in 2024 (overall FDI in 2024: USD 3.30 billion).

Overall, strong macroeconomic fundamentals are expected to propel growth to 6.5% this year.

Against this backdrop, the FY 2025/26 is off to a solid start. Total revenues and grants amounted to UGX 2,537.7 billion, reflecting a 103.2% performance against the budgeted collections for the month. Of this, tax collections touched UGX 2,254.1 billion (99.3% of target). Total government outlay however fell short of target partly on account of delays in the implementation of requisite budget processes at the beginning of the financial year. Looking ahead, continued mobilization of grant and concessional flows will remain critical for the sovereign to remain on a fiscal consolidation path particularly as the sovereign faces spending pressures into the general elections in January 2026.

Uganda's annual headline and core inflation in August flatlined at 3.8% and 4.1%, respectively. Inflation pressure was however recorded in the services index primarily due to higher transport inflation. Meanwhile, food inflation eased to 3.0% from 3.2% in the prior month. In the near term, the general price level is expected to remain within the central bank's target. Despite well-managed inflation, the Bank of Uganda has adopted a cautious approach to easing its policy stance, holding the CBR at 9.75% since October 2024. This follows heightened global uncertainty amidst the need to preserve capital flows into the economy to mitigate

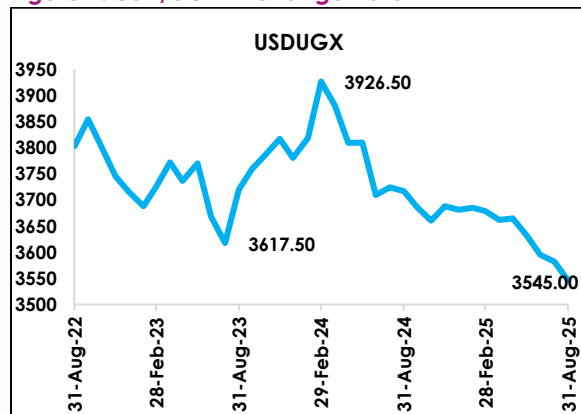
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any potential sharp depreciation in the currency and risk reigniting inflationary pressures. Positively, portfolio investments are on an uptrend. In Q1-2025, portfolio investments stood at US\$ 1,154.4 million – up 22% in comparison to Q1-2024 and were mainly directed into longer-dated government security paper – supporting deficit financing for this fiscal year.

Partly buoyed for the flows from offshore investors combined with remittances and coffee export receipts, the UGX has sustained appreciation against the dollar and gained 4.4% YTD. Indicatively, in the twelve months to June, goods exports grew 64.3%, while imports rose 50.7%. Service exports have similarly remained resilient. The appreciation was also partly influenced by the global weakening of the US Dollar against major currencies. Looking ahead, a continued gradual improvement in the central bank's official FX reserve position will provide buffer against volatility – US \$ 4297.8 million – 3.9 months of import cover.

**Figure 2: USD/UGX Exchange Rate**



Source: Bloomberg, NCBA Research

### TANZANIA

Tanzania is approaching its October 2025 general elections against a backdrop of growing political polarization and concerns over political freedom. Broadly, we anticipate general uncertainty into this period to keep economic activity moderate. On the other hand, we see uplift from higher government and private consumption, and fixed investments in various projects spanning sectors such as mining and construction. To be sure, the Nyanzaga gold project, one of the largest gold mines in Tanzania- secured an agreement to begin development with the first gold expected in Q1-2027.

Highlighting this, private sector credit held firm at 15.9% in June and July though moderated from the 17.1% recorded in May. Across the sectors, the mining sector recorded the largest increase in credit growth at 26.2%, up from 5.0% in January 2025 likely linked to the rapid expansion of the sector and several mining projects now at advanced stages. Meanwhile, credit growth appears steady or on a gradual increase in the personal/household segment and building and construction sectors at 13.1% and 18.9%, respectively. In contrast, credit expansion in manufacturing has sharply declined.

The transmission of the 25-basis point CBR cut to 5.75% is expected to keep credit growth buoyant in the near term. Moreover, Tanzania's credit to GDP ratio remains low relative to country peers, signalling significant scope for sustained credit growth going forward. On policy, monetary policy is expected to remain cautious to contain the risks from exchange rate depreciation and

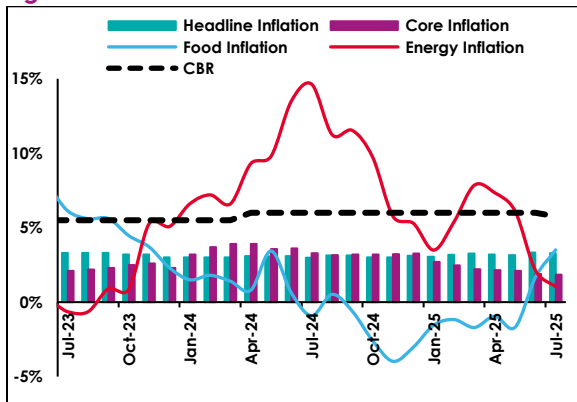
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increased public spending in an election year.

Anchoring this outlook, headline inflation is low and stable at 3.3% registered in June and July. Notably, higher food prices appeared to be offset by declines in energy prices. Similarly, core inflation (non-food-non-fuel) stood flat at 1.8%. Overall, inflation appears firmly anchored within the target and is expected to remain below 5% in the near-term against a strong agricultural outlook and low imported energy prices.

**Figure 3: Tanzania Inflation Trend**



Source: NBS, NCBA Research

In the local FX market, the shilling is supported by enhanced market sentiments and buttressed by saturated foreign currency inflows from tobacco and gold exports as well as tourism receipts. Moreover, the central bank was in the market – injecting dollars to cushion the currency. Official FX reserves remain healthy – USD 5,971.5 billion – providing sufficient buffer to the currency. Overall, the currency will remain driven by dollar demand and supply balances in the economy. We expect to see trading on the USD/TZS around 2500-2600 levels in the near term.

### RWANDA

Rwanda's economy is facing a myriad of challenges stemming from persistently elevated prices, protracted regional conflict and public financing pressures on the external front. While Rwanda has remained a regional outperformer in recent years, the shifting macroeconomic fundamentals could undermine the economy's performance this year.

Positively, even at a time when foreign development aid has sharply dwindled, Rwanda continues to leverage warm relations with external financiers to support the country's development agenda. The government secured a USD 300 million partnership framework agreement with the OPEC Fund for International Development (OFID) to support key sectors vital to Rwanda's development agenda.

The funding will be directed towards agriculture and food systems, particularly irrigation and post-harvest management, renewable energy projects focused on solar power, and infrastructure upgrades in the aviation sector.

Nonetheless on the fiscal budget, the deficit is expected to widen to 7.4% of GDP in 2026, up from 5.5% in 2025. This reflects spending on priority investments but also follows slower progress on domestic revenue mobilization, delayed fiscal consolidation and heightened debt vulnerabilities due to debt service pressures amidst declining concessional financing with the conflict in the DRC adding further complexities.

On the monetary policy front, the central bank's monetary policy committee (MPC) raised the policy rate by 25-basis points to

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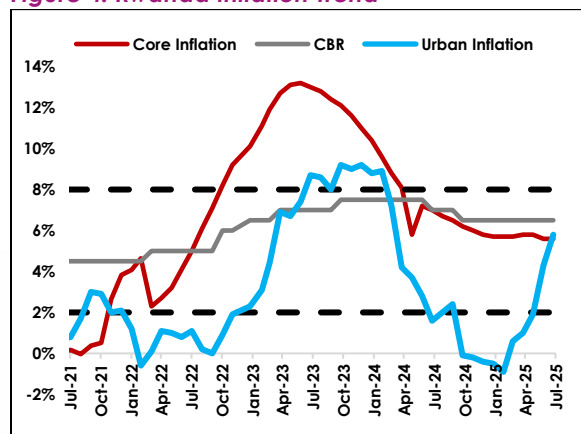
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6.75%. With inflation currently at 7.3%, the decision was underpinned by the need to firmly contain inflation within the 2% to 8% target range. Overall, inflation is forecast to average 7.1% in 2025. However, this outlook is subject to risks from domestic weather conditions and currency depreciation pass-through.

Demonstrating this pressure, the general producer price index rose to 13% in July from 11.9% in June. To this end, the MPC is likely to pivot policy stance with caution and only cut interest rates once there is sufficient evidence that inflation is firmly anchored within the target.

On the upside, an improved trade balance, broader stability of the US dollar globally and domestic foreign exchange market reforms supported a slower pace of depreciation on the Franc - at 4.7% year-to-date relative to 5.7% in a similar period of 2024. To year-end, we project further depreciation on the currency of about 3.0% exacerbated by persistent demand and supply imbalances in the FX market.

**Figure 4: Rwanda Inflation Trend**



Source: NISR, 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](mailto:anthony.muli@ncbagroup.com)

[samantha.njoroge@ncbagroup.com](mailto:samantha.njoroge@ncbagroup.com)

[david.ndwiga@ncbagroup.com](mailto:david.ndwiga@ncbagroup.com)

Telex: 23205 (COMAFBANK); SWIFT BIC: CBAFKENX;

Reuters Dealing: CBAF; Reuters Information: CBAN

Website: [www.ncbagroup.com](http://www.ncbagroup.com)