

EAC MACROECONOMIC HIGHLIGHTS - March 2025

EAC inflation

In February 2025, most East African Community (EAC) Partner States experienced an increase in their annual headline inflation rates.

Uganda, Kenya, and Tanzania saw their inflation rates rise to 3.7%, 3.5%, and 3.2%, from 3.4%, 3.3% & 3.1% respectively, driven by higher prices for food, non-alcoholic beverages, and utility bills.

Similarly, Burundi's annual headline inflation increased to 38.2% from 36.5% in January. Conversely, Rwanda's Inflation reduced from 7.3% to 6.3%, attributed to reduced prices in several sectors such as food prices and non-alcoholic beverages.

The EAC region showed an increase in inflation, reflecting diverse economic conditions across member states such as higher cost of living, buying food, the social and political unrest which has affected trade, especially in the case of DRC, and the mounting politicking pressures in Uganda, as close to the election cycle.

Forex volatility

In the same period, East African currencies experienced mixed performance against the US Dollar.

The Ugandan Shilling and Kenya Shilling both appreciated against the dollar by 0.3% and 0.1%

respectively, while the Burundian Franc, Rwanda Franc, and Tanzanian Shilling weakened by 0.2%, 0.9%, and 4.4% respectively.

Uganda and Kenya benefit from forex inflows, while Tanzania and Burundi struggle with dollar demand pressures, with Rwanda the most due to the widened trade deficit.

These trends highlight divergent monetary policies and external sector dynamics across the region. Uganda and Kenya benefit from forex inflows, while Tanzania and Burundi struggle with dollar demand pressures, with Rwanda the most due to the widened trade deficit.

Monetary union

With the new EAC monetary committee constituted by newly appointed central Bank governors, how likely is it be for a common currency among partner states to stabilize the volatility in exchange rates within the region? This has created cyclical changes in some of the macroeconomic indicators, such as inflation.

Furthermore, countries with higher fiscal deficits will demand more foreign currency to cover the deficits. This pressures the local currency. For example, according to IMF projections, the Fiscal deficit is expected to be the lowest at

3.22% in Tanzania and highest in Burundi at 15.42% as the year 2025 unfolds. This deviation from the EAC convergence criteria of a fiscal deficit below 3% of GDP.

This highlights the challenges in fiscal discipline, which will stifle investment in critical public areas and may necessitate borrowing, which increases debt levels and certainly currency depreciation.

Conclusively the EAC partner states face complex dynamics in inflation, Currency volatility, and fiscal imbalances this questions the path toward the now-due dream of fiscal and Monetary harmonization.

This calls for political commitment (consistent implementation of EAC trade protocols, resolving persistent trade disputes, and fostering regional cooperation) and structural reforms.

Reference:

Data was compiled from the Central Banks of Kenya, Tanzania, Uganda, Rwanda and different Finance Ministries of the EAC partner States.