

ECONOMICS AND RESEARCH **MONTHLY ECONOMIC REPORT**

April 2026

HIGHLIGHTS

- ❖ The Middle East war presents significant downside risks to global economic growth this year.
- ❖ In March, economic leading indicators pointed lower across most economies, reflecting negative impact to global trade flows, supply chains and output growth.
- ❖ The direct and second-round effects from the oil shock will lead to higher inflation globally. Resultantly, we anticipate a pause in global monetary easing.
- ❖ The US economy facing upside risks to inflation and downside risks to economic growth, supported the US Federal Reserve's decision to hold interest rates steady in March.
- ❖ In the Eurozone, March inflation rose above the 2.0% target following a surge in European gas prices. The European Central Bank held its benchmark rates unchanged in March.
- ❖ Domestically, oil-driven upside risks to inflation may materialize in the short-term, with probable government intervention through a fuel subsidy. However, the current fiscal pressures point to only a partial and short-lived reprieve.
- ❖ Uganda's economic momentum appeared robust through the first quarter of 2026. However, risks to the outlook are firming owing to the ongoing Middle East conflict.
- ❖ In Tanzania, the global oil shock raised local fuel prices by over thirty percent in April, and unlike in 2022, no fuel subsidy has been offered, reflecting stricter fiscal prudence.
- ❖ In Rwanda, 2025 real GDP growth reached 9.4%, up from 7.2% in 2024. Looking ahead, regional conflict amid the ongoing geopolitical tensions may slow the momentum in 2026.

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GLOBAL

The Middle East war presents significant downside risks to global economic growth this year. While our baseline forecast for level of economic activity is only slightly lower than last year, a more severe scenario would see GDP outturn much lower. In as much as the global economy is now more resilient to shocks than in past decades, Asia, particularly India, Japan and South Korea face intense headwinds given their direct exposure to the disruption of oil through the Strait of Hormuz. In contrast, the United States and Canada are well positioned as net oil exporters. Europe is somewhere in the middle, following its heavy reliance on the Strait of Hormuz for liquified natural gas. Expectedly, the International Monetary Fund is likely to revise downward its global GDP forecast next week.

In March, the Global Composite PMI declined to 51.0 in comparison to 53.3 recorded in February. Similarly, the Composite PMI declined across most economies including, the US, Eurozone, and China at 50.3, 50.7, 51.5, down from 51.9, 51.9 and 55.4, respectively in February.

Table 1: Global Composite Purchasing Managers Index by S&P Global

	Mar 2026	Dec 2025	Sep 2025	Jun 2025	Mar 2025
Global	51.0	52	52.4	51.7	52.1
U.S.	50.3	53	53.6	52.9	53.5
Eurozone	50.7	51.9	51.2	50.6	50.9
Germany	51.9	51.5	52.4	50.4	51.3
U.K.	50.3	52.1	50.1	52	51.5
China	51.5	51.3	52.5	51.3	51.8
Japan	53.0	51.1	51.3	51.5	48.9

Source: S&P Global, NCBA Research

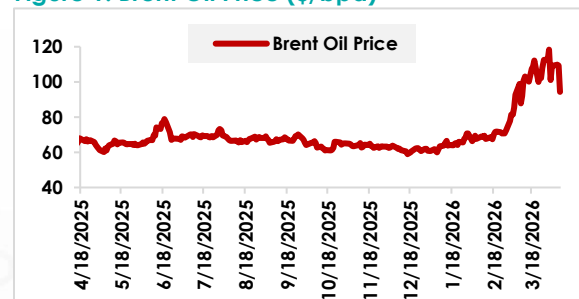
Reflecting the challenges emanating from the conflict, including negative impact to global trade flows, supply chains and output growth, the Global Manufacturing PMI declined to 51.3 in March, down from February's 44-month high of 51.8.

Moreover, on inflation, global prices seemed managed until February. However, direct and second-round effects from the oil shock will lead to higher inflation globally. Hence, monetary easing takes a pause following the expected rise in inflation and uncertainty on the duration of the war and recovery thereafter.

The Middle East War

The main drivers of the impact of the Middle East war are the development of oil and gas prices and the potential end date of the war. Brent oil prices have risen 50% since the onset of the conflict and 77% year-to-date.

Figure 1: Brent Oil Price (\$/bpd)



Source: Bloomberg, NCBA Research

Consequently, the International Energy Agency agreed to a historic release of 400 million barrels of oil from strategic reserves, while OPEC agreed to a modest production boost to combat disruptions caused by the conflict. However, these short-term measures have not convinced markets given the potential effects of a prolonged energy supply disruption.

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In Europe, European gas prices up 60% since the conflict has already pushed March inflation to 2.5%, above the 2% target and relative to 1.9% in February. Meanwhile, in the US, gasoline prices have touched \$4 a gallon for the first time since August 2022. On fertilizers, urea and ammonia prices are up 54% and 20%, respectively since 28 February.

Policy makers are keen to assess the secondary effects through higher food production and transportation costs that are expected to kick in. Already, Tanzania's fuel prices have risen 30% for the cycle commencing 01 April 2026. Domestically, EPRA is expected to announce new fuel prices for the period between April 15 and May 14, wherein we expect an increase in fuel costs, following a partial subsidy. The current fiscal pressures point to only a partial and short-lived reprieve that is likely to be skewed toward diesel.

Overall, there is a need to prepare for more volatile weeks ahead because it will take longer to normalize supply again.

US ECONOMY

The US economy faces upside risks to inflation and downside risks to economic growth stemming from the Middle East war. Consequently, the Federal Open Market Committee (FOMC) held the Fed Funds rate unchanged at 3.50%-3.75% citing an uncertain outlook to economic activity and inflation partly due to the recent developments in the Middle East and the trade tariffs by the US administration.

Following the decision, the committee projects the US economy to expand by 2.4%

in 2026 relative to their earlier forecast of 2.3% stemming from investment and productivity gains from Artificial Intelligence. However, the committee projects inflation to be somewhat elevated at 2.7% in 2026 compared to an earlier forecast of 2.4%, primarily driven by rising energy prices. Additionally, labour market conditions are expected to hold, with the unemployment rate projected at 4.4% in 2026 and 4.3% in 2027 and 2028. Overall, the committee forecasts only 25 basis points cut to the FOMC rate this year.

More recent macro data appears mixed, according to the PMI readings for the month of March. The services PMI declined to 49.8 in March, down from February's 51.7 relative to an increase in the manufacturing index at 52.3 in March, up from 51.6 in February.

EUROPE

Economic prospects in the Eurozone are vulnerable to the Middle East war on proximity and huge reliance on energy imports from the Middle East. Hence, the ongoing recovery may be stalled if the market faces a prolonged energy market disruption, as expected by the European Union.

In March manufacturing activity trended higher from 50.8 in February to 51.6 in March, its highest level since mid-2022. However, with an anticipated adverse impact to global supply chains, manufacturing growth may be hampered in coming months.

As expected, the European Central Bank (ECB) held all three benchmark rates unchanged in their second monetary policy

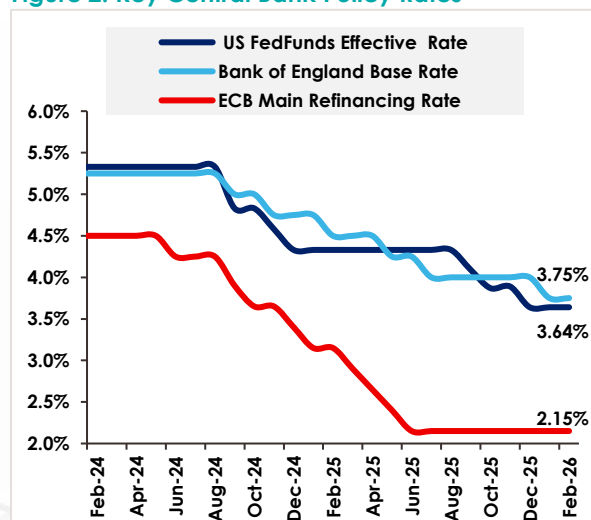
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meeting of the year. The committee noted that increased public spending on defense and infrastructure and a solid private sector are expected to anchor the region's growth, while acknowledging that the ongoing Iran war poses significant upside risks on inflation and downside risks on economic growth. Consequently, to this end, the ECB revised upwards their inflation expectations to average 2.6% in 2026 while downgrading GDP growth from 1.2% previously to 0.9%.

In the United Kingdom, the Bank of England held the policy rate at the current level of 3.75% in March citing imminent inflation risk on the backdrop of rising energy costs. Supporting the stance, the committee now projects March inflation at 3.5% up from 3.0% in February 2026. Furthermore, the direct contribution of energy prices to CPI inflation in the third quarter of 2026 would be around 75 bps.

Figure 2: Key Central Bank Policy Rates



Source: Bloomberg, NCBA Research

KENYA

The domestic economic landscape is at risk of further slowdown following the shock from the Middle East conflict. In the immediate, inflationary pressures are likely to arise, stemming from higher global oil cost transmission to local pump prices.

Government intervention remains probable, particularly through the reinstatement of the fuel subsidy to cushion households and enterprises. This comes at a time when the government is undertaking a multi-agency emergency response to severe flooding experienced in the country in March.

Hence, emergency spending is likely to be capped, offering short-term relief for consumers. This is reinforced by underperforming tax revenue collections in the current fiscal year. Therefore, expanding the tax base will stay a priority, but it is likely to yield only limited extra revenue. In the current fiscal year to date, tax collections reached KES 1,156 million translating to a nominal growth of 8% year-on-year.

On the financing side of the budget, we note a slight increase in sovereign risk. Kenya's Eurobond yields have risen by an average 140 basis points since the onset of the US-Iran conflict, thereby making the foreign-denominated bonds less attractive to investors. Early refinancing of external borrowing provided wiggle room. Hence, external debt service is unlikely to be a strain into June.

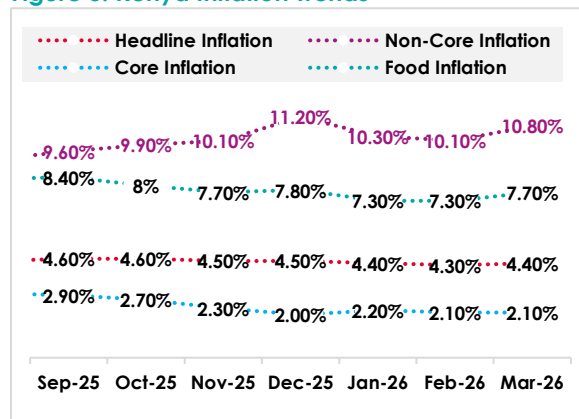
To this end, we see oil-driven upside risks to inflation materializing in the short-term. The second-round effects from higher food prices are expected to be of smaller magnitude but

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linger longer on the back of production and crop cycles. March, headline inflation rose marginally to 4.4% from 4.3% recorded in February. We now foresee inflation rising above the 5% mid-point in the next two months.

Figure 3: Kenya Inflation Trends



Source: KNBS, NCBA Research

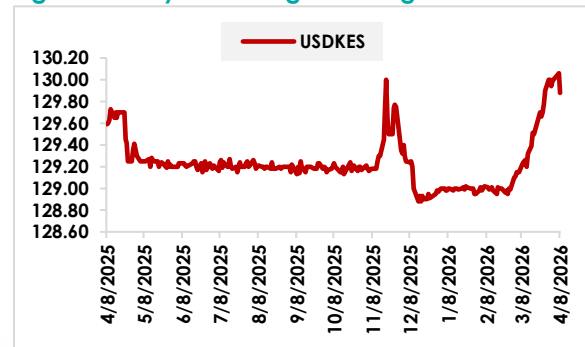
On the currency, the KES has ceded 0.8% of its value to the dollar since the onset of the Middle East conflict. Though this is lower relative to its regional peers in Tanzania (-1.3%) and Uganda (-4.7%), it reflects an increase in the supply of US dollars into the market by the central bank aimed at capping depreciation of the shilling. Since receipt of the Eurobond proceeds in early March, CBK's usable FX reserves have dropped US \$ 805 million to US \$13,656 Million, albeit still healthy balances. Continued depreciation risk may require faster intervention and more FX reserve use. However, rapid reserve depletion keeps the KES biased toward further depreciation.

Underpinning this, the share of diaspora remittances from the Middle East have already been declining owing to stricter labour regulations and introduction of taxes in Saudi Arabi and Qatar.

As of February, the Middle East accounts for 9.4% of total flows, down from 13% in a similar period of 2025. The conflict is further expected to restrict remittances from the region. Resultantly, remittances will likely print lower in March following recorded growth of 0.3% and 0.8% on a monthly and yearly basis, respectively in February.

Broad risks to the economy warrant extra caution regarding monetary policy, hence we anticipate no changes to the current policy stance in the April MPC meeting.

Figure 4: Kenya Exchange Rate Against US Dollar



Source: Bloomberg, NCBA Research

UGANDA

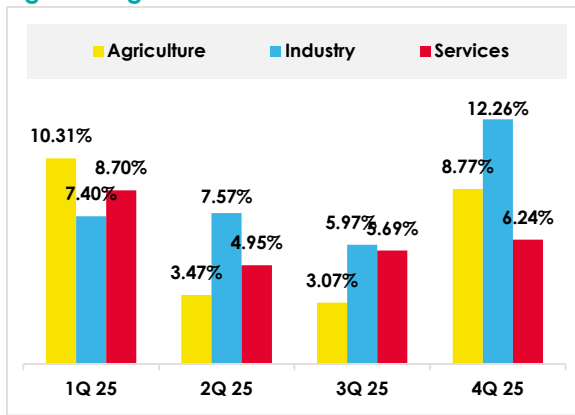
The Uganda Bureau of Statistics revealed real GDP growth in the fourth quarter of 2025 at 8.5% relative to 5.4% in a similar period of 2024. The agriculture sector performed better at 8.8% from 7.8%, previously, reflecting accelerated growth across most sub-sectors including cash and food crops, livestock and forestry. Underpinned by substantial capital investment and elevated global gold prices, construction and mining activity was robust, buttressing industry sector growth at 12.3%, up from 7.7% in 4Q2024.

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On services, transport and financial insurance growth supported GDP growth of 6.2% from 2.2%. Overall, this performance translates to full year growth estimate of 6.8%, beating estimates of 6.5%.

Figure 5: Uganda 2025 Real GDP Growth



Source: Ubos, NCBA Research

Leading indicators suggest that momentum has continued into early 2026. The Bank of Uganda's Business Tendency Index measuring current and future expectations for business activity held above 50 in January and February indicating net positive sentiment — with manufacturing, wholesale trade, agriculture, and financial services all in expansionary territory.

However, we see only a modest in expansion from 2025 levels. As Uganda prepares for its first oil production in the coming quarters, the country continues to import refined fuel. The monthly average import bill on petroleum products was US\$ 140Mn in 2025. Evidently, the ongoing Middle East conflict is expected to exacerbate these import costs as global energy prices continue to surge. If oil exports commence in 2H2026, the benefits from export may only partly offset its impact as the trade balance improves. This is especially so as 35% Uganda's coffee and mineral

products due to the Middle East are likely to be impacted.

Further, fixed investment that substantially contributed to economic growth in recent years may slow as large oil-linked infrastructure projects near completion.

On the fiscal side, greater prudence may cap government expenditure in the next budget cycle following the accelerated spending realized in the election cycle. Further, public debt service costs have risen. Notably, the cost of domestic debt has risen to 4.4% of GDP as of December 2025, relative to 3.8% in June 2025.

On to prices, higher oil prices and exchange rate depreciation passthrough to inflation is expected to increase inflationary pressures. Therefore, inflation may reverse its current trend toward 5% levels. Currently, inflation remains muted at 2.8%.

That said, the USDUGX depreciated by 4.7% in March, reflecting the impact of the geopolitical conflict on local trading activity. Demand for the US dollar has risen, triggering some portfolio outflows from the market. Further, diaspora remittances and export flows may decline indicating risk of further depreciation. The Middle East accounts for 32% of total diaspora flows.

Overall, Uganda's near-term outlook remains largely dependent on the commencement of oil export this year. However, risks from geopolitics, potential delays in project completion and limited fiscal space may curtail the momentum. Against this backdrop, the monetary policy stance is expected to remain restrictive and cautious.

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TANZANIA

In Tanzania, Fitch Ratings affirmed the country's Long Term Foreign-Currency Issuer Default Rating at B+ with a Stable Outlook. The rating was supported by a strong growth outlook with real GDP projected to expand at 6.0% in 2026 and 2027. However, near-term risks from geopolitics and adverse weather conditions remain.

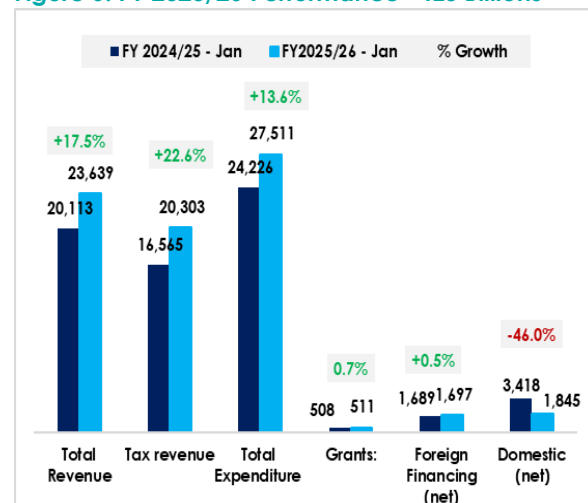
The Middle East conflict has resulted in a more than 30% increase in the cost of fuel across petrol, diesel and kerosene. The cost of Petrol has risen to TZS 3820 per litre, up from TZS 2864 per litre in March. This marks the largest spike since 2022 linked to the Russia-Ukraine war. Nonetheless, inflation in this period was able to remain contained below 5.0%, recording a peak of 4.9%. Currently, we expect higher pump prices to impact the cost of moving goods and people through higher transportation and food cost causing disruption to the sanguine price outlook.

Government response to the global oil shock has differed from 2022. Whereas a TZS 100 billion fuel subsidy was instated at the time, the government has resorted to supply-side intervention. The government assigned the Tanzania Petroleum Development Corporation (TPDC) to import and distribute petroleum products between May and July, leveraging bulk procurement to secure more favourable prices.

This largely demonstrates higher fiscal prudence. To be sure, in the first seven months of the current fiscal year, the fiscal deficit is tracking 7% lower than in the fiscal year 2024/25 boosted by a 23% growth in tax revenues against 14% growth in expenditure year-on-year.

Overall, the fiscal deficit is projected near 3% of GDP supported by declining government debt and intact IMF Extended Credit Facility (ECF) and Resilience and Sustainability Facility (RSF) programs.

Figure 6: FY 2025/26 Performance - TZS Billions



Source: Bank of Tanzania, NCBA Research

On the monetary policy front, the Bank of Tanzania will similarly remain prudent and vigilant against external risks. Into the April MPC, we expect no change in the current policy stance, but we expect the pronouncement to show willingness to act in the case inflation rises aggressively or shows persistence at elevated levels.

In the local currency market, down a meagre 1.3% in March, the Tanzania shilling has held up relatively well amid the evolving geopolitical conflict. The central bank has continued to support the local currency underscored by favourable foreign reserve balances at US \$ 6,243.6 million, covering 4.8 months of import cover.

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RWANDA

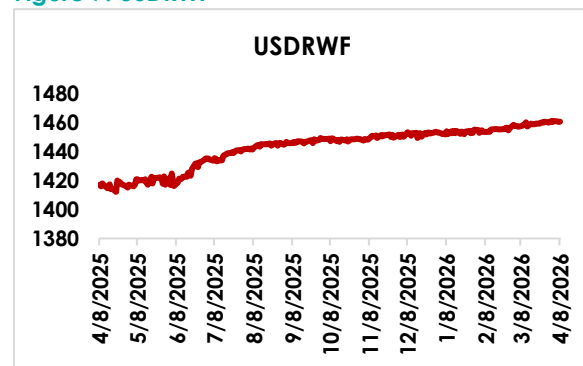
Rwanda's economy sustained strong and broad-based growth in 2025, with real GDP growing by 9.4%, up from 7.2% in 2024. Growth was mainly driven by the services sector, particularly trade, transport, financial services, and information and communication, while industry benefited from mining, construction, and manufacturing. Agriculture also performed strongly, supported by robust export crop production, especially coffee. This momentum is expected to carry into 2026, albeit amidst rising headwinds.

Headline inflation rose to 7.9% in February from 7.5% in January. Meanwhile, the Urban CPI index touched 9.2% from 8.9%, previously. This was primarily driven by food inflation, which accelerated to 12.4% from 8.1%, while core inflation rose to 6.1% from 4.8%, indicating a broadening of underlying price pressures. Inflation is expected to remain above the central bank's target through 1H2026, exacerbated by sustained elevation in global energy prices owing to the Middle East war. This is likely to be exacerbated by higher electricity tariffs locally effected in the fourth quarter of 2025.

Under these conditions, a cautious policy stance is likely to remain warranted. In the credit market, growth appears solid with credit to the private sector expanding strongly by 21.6% in the fourth quarter of 2025, up from 14.3% in the same period of 2024 boosted by adequate market liquidity and base effects from weaker lending activity in the previous year. As base effects wane and inflationary pressures amplify, we may see credit growth slowing with spillover effects to overall economic growth.

In the FX market, the USDRWF only ceded marginal pressure, down 0.3% in the month. the Rwandese Franc has remained supported by dollar inflows. Further, the central bank's reserves remain adequate to provide support to the local unit with import cover at 4.2 months.

Figure 7: USDRWF



Source: Bloomberg, NCBA Research

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