

ECONOMICS AND RESEARCH **MONTHLY ECONOMIC REPORT**

February 2026

HIGHLIGHTS

- ❖ Global economic activity remained steady in January supported by policy easing, AI-related investment and lower trade barriers despite headwinds from geopolitical tensions.
- ❖ In the US, underpinned by steady growth, contained risks to inflation and signs of stabilization in the unemployment rate, the Federal Reserve left interest rates unchanged at 3.50% to 3.75% in January.
- ❖ As Euro area growth improves, the European Central Bank is likely to maintain its current monetary policy in the first half of 2026.
- ❖ Domestically, according to our NCBA Consumer Activity Index (NCBA-CAI) activity modestly improved in January primarily owing to a seasonal pick-up in education service expenditure.
- ❖ Seasonal flows from horticulture and public sector activity will boost the economic growth momentum into the remainder of 1H2026, though amidst risks from adverse weather conditions.
- ❖ Uganda's economic performance will remain buttressed by strong household consumption, robust investment growth in the extractive sector, and buoyant coffee exports.
- ❖ In Tanzania, upbeat real GDP growth, stable inflation and well-managed currency risks underpinned by foreign direct investment, and traditional export growth suggest a favourable outlook.
- ❖ Rwanda's outlook is blurred by border tensions but could emerge steady as indicated by a 7.5% annual growth projection for 2026.

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GLOBAL

Global economic activity is already off to a solid start after building momentum in 2025. Illustratively, global manufacturing PMI rose to 50.9 in January 2026 in comparison to 50.4 in December 2025. Into the year end, the International Monetary Fund (IMF) anticipates growth to reach 3.3%, an upward revision from their October forecasts. Growth will be driven by a surge in AI-related investment in the U.S. and Asia, policy easing and lower trade barriers.

Across the economic blocs, advanced economies are projected to grow by 1.8%, Emerging and Developing Economies (EMDE) at 4.2% and Sub-Saharan Africa at 4.6% following policy reforms and a stable macroeconomic landscape.

In China, slower economic momentum remains a concern. Following a 5% real GDP outturn in 2025, the IMF sees growth waning to 4.5% this year and further to 4.0% in 2027. Stimulus measures and a lower US effective tariff rate will however provide some anchor.

More broadly, we see persistent headwinds from high public debt levels, policy uncertainty, geopolitical tensions and international trade shifts.

On trade, multiple countries have responded by initiating a reset of economic ties. Most notably, the European Commission agreed on a free trade agreement (FTA) with India which is expected to help Europe diversify its exports. To this end, they have agreed to reduce trade tariffs that currently average 15%. Similarly, the UK held high level talks with China to strengthen its trade relationships.

On geopolitics, President Trump's consideration for a major strike on Iran remain active while tensions in the Middle East, Venezuela and Greenland are elevated. Tension induced volatility has been evident in the oil market. Brent prices saw a short spike, albeit brief to US \$70 per barrel before easing to US\$ 65 per barrel. Projected oil demand data indicates that despite potential fluctuations, we expect energy prices to stay below US\$70 per barrel.

In this context, the global inflation outlook remains favourable, with projections indicating a continued decline from 4.1% in 2025 to 3.8% in 2026, and further to 3.4% in 2027. This underpins further easing of monetary policy, but cautiously. The US and the UK are anticipated to lower interest rates further, while EMDE central banks' easing appears varied due to domestic factors.

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

	Jan 2026	Dec 2025	Sep 2025	Jun 2025	Mar 2025
Global	52.5	52	52.4	51.7	52.1
U.S.	52.8	53	53.6	52.9	53.5
Eurozone	51.3	51.9	51.2	50.6	50.9
Germany	52.1	51.5	52.4	50.4	51.3
Spain	52.9	55.6	53.8	52.1	54
U.K.	53.9	52.1	50.1	52	51.5
China	51.6	51.3	52.5	51.3	51.8
Japan	53.1	51.1	51.3	51.5	48.9

Source: Global S&P, NCBA Research

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US

The US economy is forecast to expand by 2.4% this year, owing to the anticipated support from lower interest rates and expansionary fiscal policy, as well as a waning impact from trade barriers. More recent data underscores solid economic momentum, with the composite PMI at 52.8 in January relative to 52.7 as of December 2025.

In the labour market, the unemployment rate at 4.4% has shown some signs of stabilization since December when downside risks to employment were high. It was against this assessment of the economic growth prospects and the outlook on employment and inflation that the Federal Reserve left interest rates unchanged at 3.50% to 3.75% in January.

The committee stated that it is at a favourable position regarding monetary policy, with the upside risks to inflation and the downside risks to employment within control. This means that a cut in March will depend on whether the data weakens significantly in the coming weeks. Moreover, even with the nomination of a new Federal Reserve Chair, the committee's future policy path is not certain.

EUROPE

Annual growth for 2025 came in at 1.5% in the Euro area and 1.6% in the European Union. Germany, Spain, France and Italy showed positive momentum, growing by 0.4%, 2.6%, 1.1% and 0.8%, relative to 0.3%, 0.8%, 0.2% and 0.3%, respectively in a similar period in 2024.

In 2026, growth is forecast to touch 1.3% with increased military and defence spending expected to materialize in subsequent years. Manufacturing activity is gradually improving (manufacturing PMI in January 2026 at 49.5 vs 46.6 in January 2025), while increased public spending and strong outturn in Spain and Ireland will prop up activity.

Against a strong domestic economic growth backdrop, the European Central Bank is unlikely to change its policy rate- now at 2% this week, and probably for the remainder of the first half of this year.

Similarly, the Bank of England (BoE) is scheduled to meet on 5th February and is expected to hold the policy rate at 3.75% after cutting by 25bps in December. With lower inflation (3.4%) and economic growth forecast at 1.4% in 2026-2027, we do not see reason to rush into a policy rate cut.

KENYA

Kenya's economic performance this year will remain hinged on weather conditions and the pace of public sector activity. Seasonally, horticulture is expected to perform well, especially cut flower exports in the first and second quarter. This is likely to see annual growth touch 5.1%.

In January, our internal consumer activity index (NCBA-CAI) rose 0.95% month-on-month and 8.9% year-on-year relative to 3.0% and 6.5%, respectively in December, indicating an improvement in activity level. This was primarily underpinned by seasonal pick up in education services expenditure.

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Following dry conditions in December and January, food price pressure was evident in January 2026. While the headline inflation rate was modestly lower at 4.4% (4.49% in December), food inflation stood at 7.3%. Positively, we do see a decline in maize prices partly trading off the price pressure from vegetables and fruits resulting in overall inflation at the 4.3% to 4.7% range in February and March. There is thus limited second-round inflation effect in the first quarter of the year.

We therefore see no urgency by the MPC to cut the policy rate in February. However, the level of core inflation- at 2.2% is quite low and unfortunately points toward weak aggregate demand in the economy.

Although credit uptake is gradually recovering, the improvement remains modest, with private sector credit growth recorded at 5.91% in December. Overall, we expect credit growth to range 7-8% levels this year.

consolidation efforts. Nonetheless, elevated public debt levels, now at 68% of GDP remain a key macroeconomic vulnerability. Specifically, interest payments absorb about 40% of total tax revenues.

Consequently, the sovereign continues to pursue domestic liability management strategies to alleviate refinancing and liquidity pressures. On external financing, the government will have to lean more on commercial borrowing in the near-medium term, suggesting sustained pressure on public debt service.

Table 2: Kenya Sovereign Rating Actions by Moody's Ratings

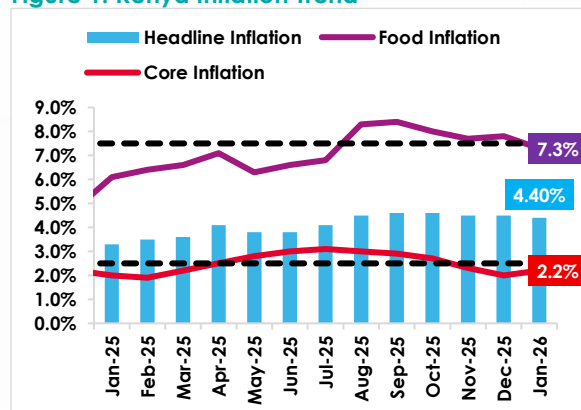
Effective Date	Rating
27-Jan-2026	B3u
8-July-2025	Caa1u
12-May-2025	B3u

Source: Moody's, NCBA Research

In the external sector, we see minimal risk to the Kenya shilling with steady inflows from agricultural exports, in particular horticulture due to the peak season in Q1. However, the resilience on our diaspora remittances could be tested this year.

On the import side, we expect import demand to gradually rise supported by credit growth recovery and improvement in domestic demand, further reinforced by stable import commodity prices. CBK's ample FX reserves at USD 12,219 million (5.3 months of import cover) will further underscore stability. We see USD/KES trading within the 128–130 range in the near term.

Figure 1: Kenya Inflation Trend



Source: KNBS, NCBA Research

Kenya's sovereign credit rating was reinstated to B3 from Caa1, reflecting reduced domestic financing costs following monetary easing and continued fiscal

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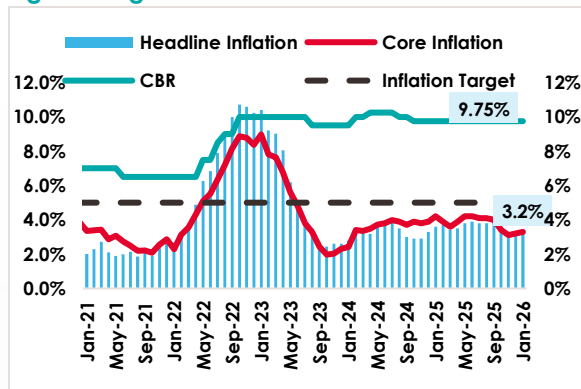
UGANDA

In 2025, Uganda's growth reached 6.3%, its highest rate since the COVID-19 pandemic, boosted by higher government spending, a recovery in household consumption, robust investment growth, and buoyant coffee exports.

We anticipate that strong momentum will continue throughout this year. Real GDP growth is projected to reach 6.4%.

The annual Consumer Price Index (CPI) in January 2026 was broadly unchanged at 3.2% relative to 3.1% in December 2025. The slight uptick can primarily be linked to higher services prices. Overall core goods inflation dropped to 2.1% in January 2026 from 2.5% in December 2025.

Figure 2: Uganda Inflation Rate



Source: UBOS, NCBA Research

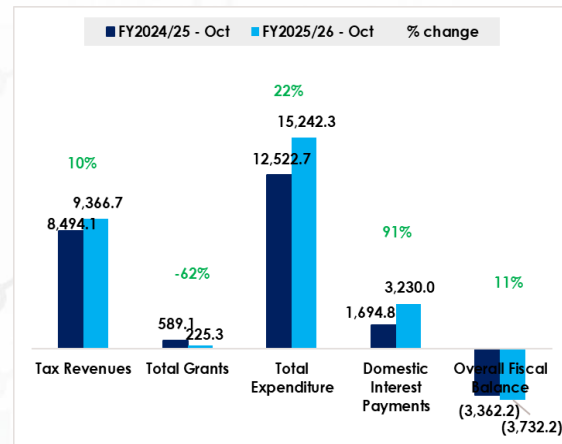
With regard to policy, the Monetary Policy Committee (MPC) held its policy rate at 9.75% for the second half of 2025 citing external sector volatility. Although we do think that the committee has room to get more accommodative as it meets in February. Into this year, the MPC projects core inflation to remain within the target range of 5%, while the currency is stable.

However, the main trigger for this decision is the committee's interpretation of the current expansionary fiscal policy which could partly relate to the general elections in January. If found too expansionary, the committee may hold the policy rate at 9.75%.

Currently, the government's public finance situation is challenged by reduced fiscal space resulting from decreased official development assistance and increased debt-servicing costs.

Notably, in the period July-October of the current fiscal year, total grants dropped 62% relative to a similar period of the FY 2024/25. In the same period, cumulative domestic interest payments have risen by 91% reaching UGX 3,230Bn. Meanwhile, expenditure growth (+22%) far exceeds tax revenue growth (+10.3%), placing pressure on the budget deficit which has thus far widened 11%. To this end, we expect Uganda to sustain a substantially wide fiscal deficit above 7% of GDP in the near term.

Figure 3: Uganda FY 2025/26 Performance In UGX Billions



Source: Mofped, NCBA Research

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In the FX market, despite the recent volatility, the USD/UGX has gained 1.3% YTD. Key drivers remain the extent to which portfolio investors remain compelled by bonds, climate conditions, international gold and coffee prices, foreign direct investment flows, external borrowing, and infrastructure-related imports. We expect general stability around 3,500-3600 levels.

TANZANIA

Tanzania's estimated real GDP growth of 5.9% in 2025 is broadly in line with a projected growth rate of 6%. This activity level was boosted by agriculture, mining, and construction activities. This year, economic growth is forecast at 6.2% supported by strong private consumption, and broad-based growth across the industrial sectors.

On the fiscal front, while foreign development aid has dwindled to developing economies, the impact on Tanzania is negligible thus far—project grants in the fiscal year to November is down a meagre 3% at TZS 340Bn relative to regional peers. Positively, tax revenue growth is on a solid upward trajectory, growing by 17% at TZS 15,827Bn, buttressing higher government outlay in part related to the 2025 general elections.

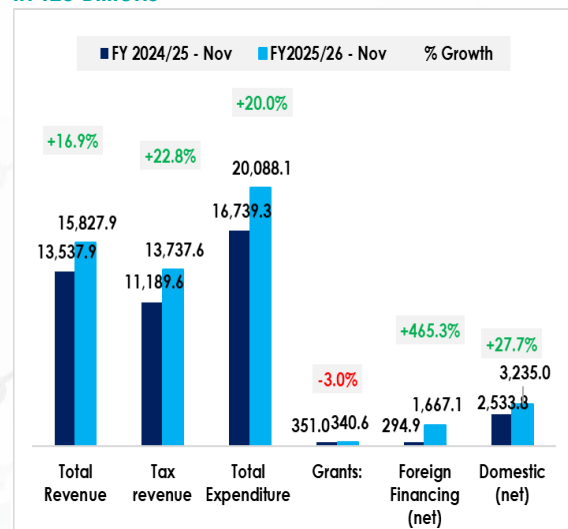
The Monetary Policy Committee held the CBR at 5.75% for the first quarter of 2026. The decision was underpinned by expectations of low and stable inflation. In Q1, good crop harvests and low imported inflation are anticipated to keep food prices at bay. This is further underscored by adequate food stocks held by the National Food Reserve

Agency (NFRA) of more than 590,000 tonnes. Moreover, energy prices remain moderate.

The current policy stance appears accommodative at these levels, as underlined by sustained growth in private sector credit. Illustratively, in the fourth quarter of 2025, credit growth averaged 18.1% relative to 14.9% in the corresponding quarter of 2024.

In the currency market, the USD/TZS is expected to trade at 2500 to 2530 in near-term. The local unit has gained support from donor flows, foreign direct investment, exports of gold, tobacco, cashew nuts and coffee, as well as moderate oil prices. However, tourism receipts in 2026 may be lower than last year due to the election fall-out. Already in December 2025, the Bank of Tanzania had to supply the market with US dollars. On the upside, official FX reserves at \$ 6.3Bn signal continued intervention.

Figure 4: Tanzania FY 2025/26 Performance in TZS Billions



Source: Mof, NCBA Research

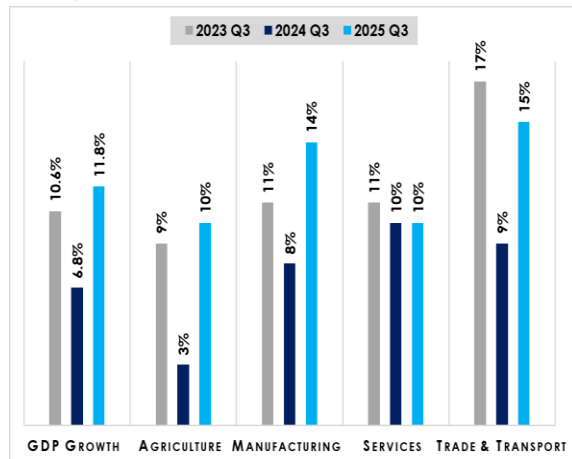
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RWANDA

Real GDP expanded by 11.8% year-on-year in Q3 2025, positioning the economy as the third-fastest growing in Africa. Growth was broad-based, with all major sectors recording positive performance during the quarter.

Figure 5: Rwanda Q3 GDP and Sectoral Growth rates %



Source: NISR, NCBA Research

Looking ahead, Rwanda's outlook is blurred by border tensions but could emerge steady as indicated by a 7.5% annual growth projection for 2026.

Meanwhile, headline inflation rose to 8.0% year-on-year in December 2025, up from 7.2% in November. Price pressures were largely driven by food and beverages, which increased by 3.6%, and transport costs which rose by 9.4%. Core inflation also edged higher to 7.2% from 7.0%, indicating persistent underlying inflationary pressures. Overall, inflation is expected to remain near the upper bound of the target range in the near term, suggesting scope only for cautious and

gradual monetary policy easing by the National Bank of Rwanda.

Rwanda's fiscal landscape remains vulnerable to reduced foreign aid assistance. Though in the first quarter of the fiscal year 2025/26, overall budget execution remained broadly in line with fiscal objectives despite constrained environment. Notably, tax revenue collections virtually hit the target at RWF 876Bn against RWF 880Bn. Grants disbursement similarly performed well at RWF 139Bn against RWF 140Bn.

Despite cuts to foreign assistance, especially in response to Rwanda's conflict with the Democratic Republic of Congo, the government will be able to plug the shortfall by drawing on a diverse range of sources. This includes domestic borrowing where investor appetite remains robust. With that, the public debt is projected to remain high, currently at 68% of GDP.

In the foreign exchange market, the current account is likely to remain under pressure, reflecting a move toward construction related activities including the New Kigali International Airport. Hence, notwithstanding central bank intervention, the Rwandan Franc continues to face depreciation pressures amid sustained demand for foreign currency, particularly the US dollar. Amidst interventions by the central bank, trading on the USD/RWF pair held relatively steady around 1455 levels.

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