

ECONOMICS AND RESEARCH **MONTHLY ECONOMIC REPORT**

June 2026

HIGHLIGHTS:

- ❖ Global growth remains resilient for now, supported by country-specific factors including inventory accumulation, investment in the technology space and a strong agricultural crop period.
- ❖ The war in the Middle East remains unresolved, with little progress on the Strait of Hormuz, Iran's frozen assets and Israel's tension with Lebanon. More recently, there are renewed strikes between Iran and Israel, despite what should be a ceasefire period.
- ❖ Resultantly, higher oil and shipping costs are increasing inflation risks in energy-importing economies, reducing the scope for near-term interest rate cuts.
- ❖ Domestically, the rising stagflation risks imply a weaker economic growth outlook, with high frequency macro indicators already pointing that way. Concerningly, significant adverse weather and Ebola shocks could see GDP growth below 4.0%.
- ❖ Uganda's outlook does not appear firm given the possible adverse impact of Ebola and recent downward correction of international coffee prices. However, continued investment in oil and gas sector is expected to cushion growth.
- ❖ Tanzania continues to post robust growth, supported by stable inflation, strong external buffers, and IMF-backed reforms, allowing for a relatively accommodative monetary policy stance.
- ❖ Rwanda has tightened monetary policy, raising its policy rate to 8.25%, in response to elevated inflation driven by higher global energy and input costs.

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GLOBAL

Broadly, the global economy appears to absorb the current oil shock better than expected. Illustratively, high frequency macro data shows that global activity in May remained resilient. However, the quality of growth continued to deteriorate as the Middle East conflict fed into energy costs, shipping disruptions and inflation expectations.

The Global composite PMI flatlined at 51.8 in April and May and was above March's 11-month low of 51.0. Activity seems to hold up well partly because of inventory building and supply-chain precautionary purchases, rather than broad-based final demand. Outlining this, the Global manufacturing PMI was recorded at a near five-year high of 53.5, while services PMI was recorded at 51.3.

Advanced country economic activity was mixed with worsening growth prospects in the Eurozone underscoring the region's greater vulnerability to the energy shock. Across emerging markets, the transmission has been uneven, but energy importers remain the most exposed through higher fuel bills, wider external deficits and renewed exchange-rate pressures.

On prices, the dominant story remained energy. Global oil prices are expected to remain elevated with Brent oil prices now at \$93.5 per barrel. Declining oil stocks in Europe and Asia coupled with uncertainty in Middle East are likely to anchor elevated oil prices in the near-term.

Central banks have therefore become more cautious. The Fed and ECB kept rates unchanged in late April, while some smaller open economies have turned more hawkish to guard against second-round inflation effects and FX weakness.

The broader implication for the global economy is that May reinforced stagflation risks with softer real activity, firmer inflation and more hesitant monetary easing.

For energy-importing economies the current account vulnerability from a higher import bill remains the key external transmission channel.

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

	Global Composite PMI				
	May 2026	April 2026	Dec 2025	Sep 2025	May 2025
Global	51.8	51.8	52	52.4	51.3
U.S.	51.5	51.7	53	53.6	53
Eurozone	48.5	48.8	51.9	51.2	50.2
Germany	48.8	48.4	51.5	52.4	48.5
Spain	50.2	48.7	55.6	53.8	51.4
U.K.	49.7	52.6	52.1	50.1	50.3
China	54	53.1	51.3	52.5	49.6
Japan	51.1	52.2	51.1	51.3	50.2

Source: Bloomberg, NCBA Research

The Middle East War

May remained another volatile month in the Middle East conflict, with no durable de-escalation and renewed market sensitivity around the Strait of Hormuz. Oil markets were still trading on alternating headlines around supply disruption and diplomacy. By late May, Brent crude was back near the mid-to-high USD 90s, after fresh strikes reignited concerns over shipping through Hormuz. Even where the worst-case closure scenario has not fully materialised, freight, insurance and route disruption costs have remained elevated.

The policy significance is that the war has shifted from being a pure geopolitical risk to a macroeconomic shock with persistent inflationary effects. The IMF's downside scenarios show that if the conflict broadens or energy infrastructure is more severely damaged, global growth could fall toward 2.5%, while inflation would rise much more sharply. This is particularly relevant for frontier and emerging markets where higher oil prices widen trade deficits, weaken currencies and increase

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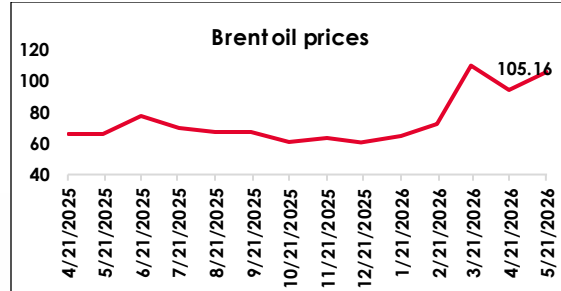
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sovereign funding stress. Countries with stronger reserve buffers and more stable export earnings are better placed to absorb the shock, but those with thin external cushions remain vulnerable if oil stays elevated into 2H26.

Overall, our view skews toward a lengthy negotiation between Iran and the US government, with a high probability that oil prices remain elevated around USD 100 a barrel on the spot market, while the gap between spot and physical stock prices stays much higher than the usual USD 6 a barrel.

Additionally, the fear of repeat attacks on Gulf oil infrastructure could see very slow capacity rebuild. For commercial shipping lines, confidence to transit through the Strait of Hormuz after the war ends will be quite slow.

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



Source: Bloomberg, NCBA Research

US ECONOMY

The US economy continued to show resilience through May, but the balance of evidence points to moderating growth alongside firmer inflation. Real GDP expanded by 2.0% annualized in Q1 2026, up from 0.5% in Q4 2025, supported by investment, exports, consumer spending and a positive base effect on government expenditure. However, the underlying momentum remained mixed, as higher oil prices and war-related supply disruptions fed into costs, while external demand softened.

The May PMI data captured this split well. Manufacturing PMI rose to 55.1, but services remained subdued at 50.7. Much of the manufacturing strength reflected precautionary inventory accumulation, and not necessarily a sustained improvement in final demand.

The April CPI release showed headline inflation accelerating to 3.8% year-on-year, with core CPI at 2.8% year-on-year, as gasoline and shelter remained key contributors. With inflation no longer clearly converging to target and the war adding renewed energy-price risks, the Federal Reserve held the target range for the federal funds rate unchanged at the April 28–29 meeting.

The market takeaway through May was that policy rate cuts have been pushed out further, and the risk of a renewed tightening bias has risen if second-round inflation effects broaden.

Externally, the stronger dollar bias in May was consistent with a higher-for-longer rates narrative and safe-haven demand. A stronger dollar helps moderate imported inflation, but it also tightens global financial conditions and reinforces pressure on more vulnerable Emerging market currencies.

EUROPE

The Eurozone entered May on a weaker footing than the US, and the month's data reinforced the view that Europe remains more vulnerable to the energy shock from the Middle East conflict. The ECB left its key policy rates unchanged at its 30 April meeting, keeping the deposit facility rate at 2.00%, while noting that upside risks to inflation and downside risks to growth have intensified.

This was a clear acknowledgement that the region is facing a harder policy trade-off than it did earlier in the year.

Inflation has reaccelerated. Euro area headline HICP rose to 3.0% in April, up from 2.6% in March, while core inflation eased slightly to 2.2%.

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The rise in headline inflation was driven largely by energy, consistent with the ECB's warning that the war is pushing up prices while simultaneously weighing on sentiment and growth.

Growth indicators have deteriorated more visibly. The Eurozone economy expanded by just 0.1% in Q1 2026, and the May flash PMIs pointed to a further weakening in activity, especially in services. The Eurozone services PMI fell to 47.7, manufacturing slowed to 51.6, and the composite index declined to 48.5 consistent with mild contraction in Q2.

On rates, the ECB remains data dependent, but the tone appears more cautious. Markets through May increasingly priced the possibility that the ECB could tighten later in the year if energy-driven inflation persists, even though the growth backdrop remains fragile. In FX markets, the Euro has remained relatively firm against the dollar compared with prior stress episodes, but Europe's external vulnerability remains elevated because of its reliance on imported energy.

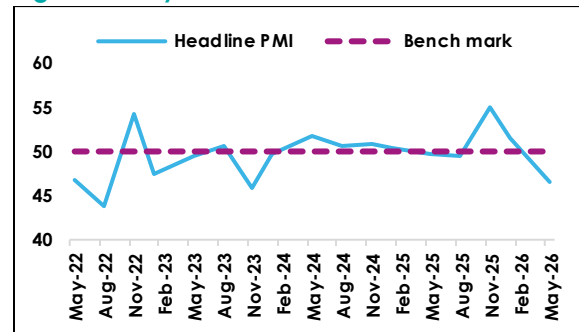
Overall, May strengthened the case that the Eurozone is moving into a more difficult macro environment, where the ECB may have limited room to support growth without risking inflation persistence.

KENYA

Economic activity in May deteriorated further following the impact from the week-long protests linked to the fuel price hikes. Notably, the headline PMI dropped further below the neutral threshold at 46.6 down from 49.4 in April. This signalled the quickest decline in activity since July 2024.

Following a slowdown in economic activity year-to-date as proxied by our consumer activity index, we project real GDP growth at 4.0%-4.5% this year. However, this is not firm given the ongoing volatility and could face further revisions next quarter.

Figure 2: Kenya Headline PMI



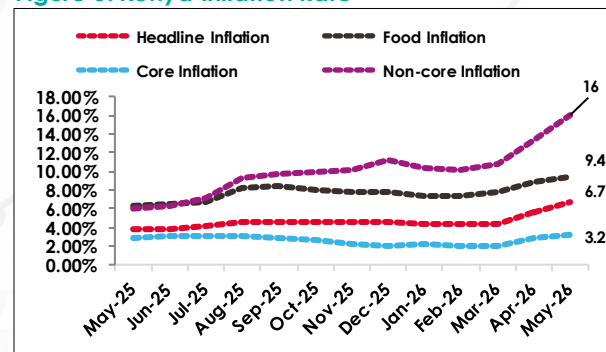
Month	Headline PMI	Benchmark
May-22	46.6	50
Aug-22	44.6	50
Nov-22	54.1	50
Feb-23	47.7	50
May-23	49.4	50
Aug-23	46.6	50
Nov-23	49.4	50
Feb-24	51.6	50
May-24	50.0	50
Aug-24	50.0	50
Nov-24	50.0	50
Feb-25	50.0	50
May-25	50.0	50
Aug-25	55.0	50
Nov-25	46.6	50
Feb-26	46.6	50
May-26	46.6	50

Source: S&P Global, NCBA Research

Kenya's macroeconomic backdrop is facing renewed inflation risks and a more challenging external environment. In May, headline inflation accelerated to 6.7% from 5.6% in April, due to higher prices in the food and transport categories. At the core level, inflation ticked up to 3.3% from 2.8%, with the impulse still more concentrated in food and fuel-linked components than in broad-based demand pressure.

In the near-term, declining oil stocks in Europe and Asia coupled with uncertainty in Middle East are likely to anchor elevated oil prices in the near-term. Meanwhile, the vegetables production shock stemming from high rainfall in March and April could extend beyond July. Overall, against this backdrop, domestic headline inflation could rise towards 7.5% in the near-term on account of second round effects.

Figure 3: Kenya Inflation Rate



Month	Headline Inflation	Core Inflation	Food Inflation	Non-core Inflation
May-25	5.6%	2.8%	8.0%	6.0%
Jun-25	5.6%	2.8%	8.0%	6.0%
Jul-25	5.6%	2.8%	8.0%	6.0%
Aug-25	5.6%	2.8%	8.0%	6.0%
Sep-25	5.6%	2.8%	8.0%	6.0%
Oct-25	5.6%	2.8%	8.0%	6.0%
Nov-25	5.6%	2.8%	8.0%	6.0%
Dec-25	5.6%	2.8%	8.0%	6.0%
Jan-26	5.6%	2.8%	8.0%	6.0%
Feb-26	5.6%	2.8%	8.0%	6.0%
Mar-26	5.6%	2.8%	8.0%	6.0%
Apr-26	5.6%	2.8%	8.0%	6.0%
May-26	6.7%	3.2%	9.4%	16.0%

Source: KNBS, NCBA Research

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On the fiscal side, the April exchequer report indicated that tax revenue collection faces a substantial challenge ahead, with KES 633 billion still needed by June. Recent government interventions are widening this gap following the reduction in VAT on petroleum along with a fuel subsidy applied on diesel.

Government outlay on recurrent expenditures appears broadly on track at 80% of the budget while development and county disbursements lag with balances of KES 164Bn and KES 105Bn, respectively into June. Public debt payments continue to absorb the fiscal room, consistently accounting for 70% of tax revenues. Hence, this is keeping domestic issuances elevated. However, the prospect of tightening external credit markets could mean greater reliance on the domestic market.

This at a time when fiscal risk and inflation is rising typically translates to the market demanding more premium especially on the short end.

On the external side, the shilling remained broadly stable, supported by reserves and policy credibility, but the underlying current-account position has weakened. The central bank estimates the current-account deficit at 2.4% of GDP in the 12 months to February 2026 and projects it to widen to 3.0% of GDP in 2026, reflecting a larger oil bill, slower services receipts and softer remittance growth. For now, however, official FX Reserves stand at USD 13.35bn, equivalent to 5.68 months of import cover, providing an important first line of defence against external shocks.

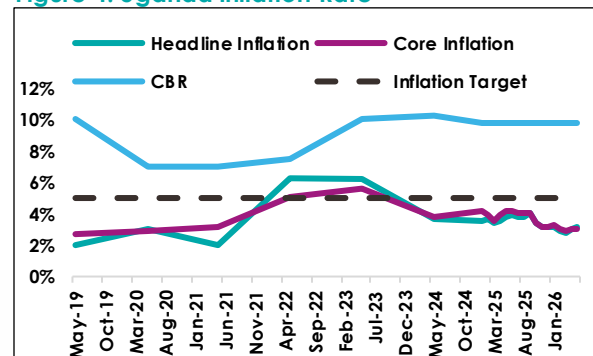
UGANDA

Uganda's economy entered May with positive momentum, supported by strong domestic activity and an improved near-term growth outlook. Illustratively, the Headline PMI held firm at 54.1 in May, though down slightly from 55.0 in April.

Supply chain disruptions appeared to crop up among some firms but largely were able to stockpile. However, the external shock from higher oil prices is now becoming more visible in inflation and the exchange rate. Overall, economic growth could face additional headwinds from the Ebola outbreak across Uganda's borders and print nearer 6% than 7% this year.

Inflation, while still below target, has turned upward. Headline inflation rose to 3.2% in May from 3.0% in April, while core inflation flatlined at 3.0%. The Bank of Uganda (BOU) noted that month-on-month, core inflation rose to 0.5% for the second consecutive month, suggesting that the oil shock is beginning to pass through more broadly.

Figure 4: Uganda Inflation Rate



Source: UBOS, NCBA Research

Against that backdrop, the MPC on 14 May left the CBR unchanged at 9.75%, judging the current stance appropriate but acknowledging that the inflation outlook had worsened. The BoU now sees core inflation in a 5.0%–5.3% range over the next 12 months. In their decision, the MPC raised the cash reserve requirement to 11% from 9.5% in March to help contain liquidity and keep inflation expectations anchored. That points to a more defensive policy posture.

The Uganda shilling remains a key watchpoint. May data showed that it depreciated by 0.4% as the dollar continued to attract safe-haven flows.

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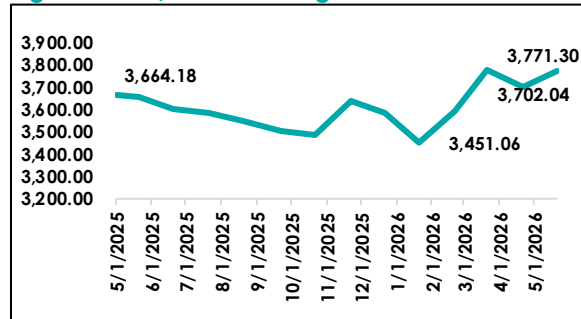
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On the external side, Uganda's merchandise trade deficit narrowed sharply in March as exports outpaced imports, helped by stronger coffee and gold receipts. This offers some protection to the current account, but sustained high oil prices still pose a clear downside risk for the oil-importing economy.

On the fiscal side, Parliament approved the FY 2026/27 budget at UGX 84.3tn, with debt servicing projected at roughly UGX 33.4tn. That debt burden will continue to limit policy flexibility even as the economy positions for stronger medium-term growth from oil production and exports.

Figure 5: USD/UGX Exchange Rate



Date	Exchange Rate
5/1/2025	3,664.18
6/1/2025	
7/1/2025	
8/1/2025	
9/1/2025	
10/1/2025	
11/1/2025	
12/1/2025	
1/1/2026	
2/1/2026	3,451.06
3/1/2026	
4/1/2026	3,702.04
5/1/2026	3,771.30

Source: Bloomberg, NCBA Research

TANZANIA

Tanzania's macro story in May remained one of relative resilience, supported by strong credit growth, low inflation and solid external buffers, though risks from imported inflation have increased. The Bank of Tanzania estimates GDP growth at 6.2% in Q1 2026 with activity driven by construction, agriculture, financial services and tourism. The outlook for Q2 remains robust, with growth projected at 6.1%.

Relatedly, Tanzania and the IMF reached a staff-level agreement on the final reviews of the Extended Credit Facility (ECF) and the Resilience and Sustainability Facility (RSF), reflecting broadly successful program implementation with strong growth, contained inflation, adequate reserves, and increased social spending.

This review will see the country gain access to US\$375.5 million in financing.

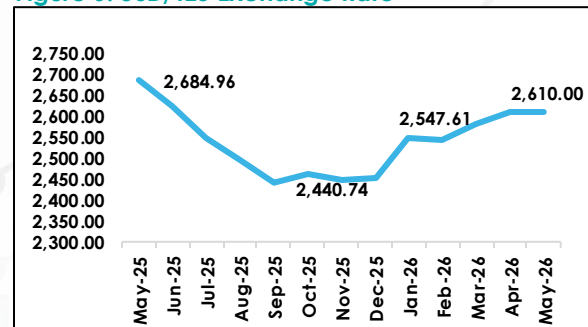
Inflation has remained comparatively contained. According to the Bank of Tanzania, inflation averaged 3.3% in Q1 2026 in Mainland Tanzania, with inflation expected to remain within the 3%–5% target range in Q2 even as energy and transportation costs rise. This relatively muted pass-through reflects favourable food supply conditions, exchange-rate stability and the authorities' still-accommodative but cautious monetary stance.

The latest MPC decision saw the committee hold the CBR at 5.75% and narrowed the policy corridor from ± 200 bps to ± 150 bps to improve transmission.

The central bank sees rising external inflation risks, but for now believes inflation is still sufficiently contained to avoid tightening. A strong private-sector credit growth of 22.8% and a low NPL ratio of 2.9% continue to support the domestic outlook.

On the external side, Tanzania remains relatively well positioned. The current-account deficit improved to 2.2% of GDP in the year to March 2026 from 2.4% in 2025, supported by stronger exports, especially gold, tourism and agricultural products. Foreign-exchange reserves exceeded USD 6.2bn, covering 4.8 months of imports, while the exchange rate remained broadly stable. That stability reduces imported inflation risk and should continue to cushion the shilling even if oil remains elevated.

Figure 6: USD/TZS Exchange Rate



Date	Exchange Rate
May-25	2,684.96
Jun-25	
Jul-25	
Aug-25	
Sep-25	2,440.74
Oct-25	
Nov-25	
Dec-25	
Jan-26	2,547.61
Feb-26	
Mar-26	
Apr-26	
May-26	2,610.00

Source: Bloomberg, NCBA Research

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On the fiscal front, the government's FY2026/27 budget proposal totals TZS 62.3tn, with a target of 6.3% GDP growth, inflation within 3%–5%, and domestic revenue financing about 74.2% of expenditure. The fiscal stance therefore remains growth-supportive but disciplined, though higher oil prices could pose additional risks.

On the external side, the picture is mixed. Exports improved in Q1 2026, and the trade deficit narrowed by more than 23% year-on-year, helped by stronger traditional commodity exports. However, more broadly the Middle East war is worsening the current-account outlook through a higher oil and fertiliser bill. For the currency, the policy priority remains exchange-rate stability to limit imported inflation, but the pressure is clearly toward depreciation unless export growth continues to offset the import shock.

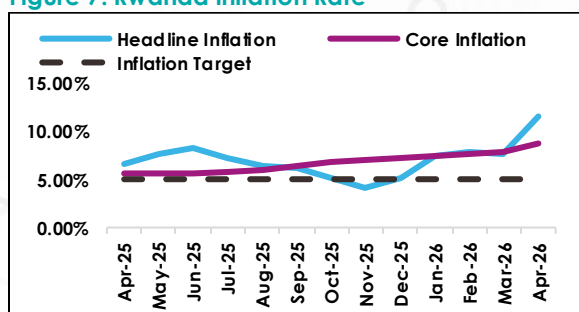
RWANDA

Rwanda entered May with a sharply worsening inflation backdrop, prompting a more hawkish monetary-policy response than elsewhere in the region, indicating greater vulnerability to higher fuel, fertiliser and shipping costs.

Reflecting this, inflation has worsened materially, touching 13% on the Urban CPI and 11.5% for all-Rwanda inflation, up from 9.2% and 7.7%, previously respectively. This reflects more persistent domestic inflationary pressure compounded by the imported shock from higher global energy and transport costs.

Accordingly, at its May meeting the MPC raised the Central Bank Rate by 100bps to 8.25%. The committee's message was explicitly focused on safeguarding price stability and limiting second-round effects, with policymakers indicating that inflation is likely to remain above the preferred ceiling of 8% through much of 2026 before easing later.

Figure 7: Rwanda Inflation Rate



Source: NISR, NCBA Research

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