ECONOMICS AND RESEARCH MONTHLY ECONOMIC REPORT

March 2026

HIGHLIGHTS

- Globally, geopolitical risks intensified following military attacks by US and Israel on Iran.
- Brent oil price surged, posing immediate adverse effect on global commodity prices, shipping costs and disrupting the route to market for multiple goods and services.
- Consequently, concerns about inflation are beginning to emerge while the market is adjusting expectations for central bank rate cuts, particularly those by the US Federal Reserve.
- Europe's proximity to the conflict, reliance on large oil and gas imports will have direct implication to the economic landscape.
- On a local level, the ongoing geopolitical conflict will adversely affect Kenya's exports, dampen tourism growth, increase inflation and weaken the currency.
- This risk emerges against a backdrop of weak aggregate demand level as shown by the NCBA Consumer Activity Index that reported lower household expenditure in February.
- Uganda's vulnerability to the Middle East conflict remains high given that the region controls 35% of export revenue and its strong foreign portfolio linkages and volatile foreign currency reserves.
- In Tanzania, although tourist arrivals from the Middle East are not significant, disruption to global civilian travel and rising energy costs are expected to dampen overall tourism and trade linkages.
- In Rwanda, the latest jump in global oil prices hits an economy that is already facing hurdles to growth from regional conflict and rising inflation from higher domestic food and energy prices.

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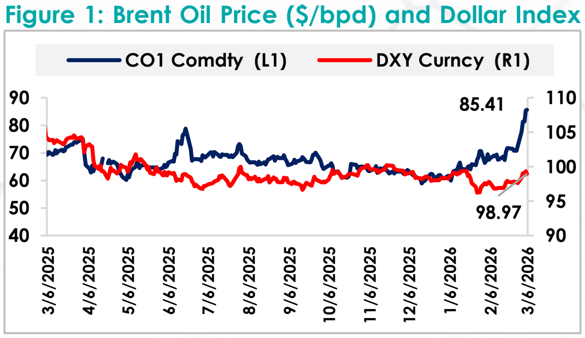
GLOBAL

What began as a calm start to 2026, quickly shifted to turmoil as geopolitical risks intensified. In the spotlight, the US-Iran conflict took a dramatic turn following heightened military attacks by US and Israel on Iran. The response was immediate with waves of Iranian missiles and drones launched at Israel and at installations across the Gulf – including in Qatar, Kuwait, the United Arab Emirates and Bahrain – dramatically escalating the conflict.

While no physical damage has been done to the Strait of Hormuz—where a fifth of global oil supply passes through—tanker transit through the channel has effectively halted, raising fears of potential shocks to global oil supply. While President Turmp has assured free flow of energy through the Persian Gulf, ships are unable or unwilling to transit the Strait due to the risk of loss and skyrocketing insurance premiums.

Global markets stability was disrupted, with fluctuations in oil prices serving as the primary channel. Brent oil price surged 13% to USD 85 per barrel, posing immediate adverse effect on global commodity prices, shipping costs and disrupting the route to market for multiple goods and services.

Figure 1: Brent Oil Price ($/bpd) and Dollar Index



Source: Bloomberg, NCBA Research

Consequently, global markets are now signalling a preference for cash amidst these geopolitical risks. A flight to traditional safe-haven assets has not been explicitly evident. Notably, gains on the dollar index are +1.5%, gold -3.7% month-to-date as well as minimal changes on the other safe-haven assets that include JPY and CHF. Moreover, European and Asian stock markets sharply dropped - the EUROSTOXX down 6.4%, NIKKEI 225 down 8.5% and HCSI down 6.1%.

In relation to historical geopolitical shocks, the current situation appears different. The US has what appears to be a long-term objective here which is to eliminate imminent threats from Iran and achieve a long-term stability in the Middle East. However, the reliance by the US on the Iranian regime to achieve this introduces uncertainty. Against this backdrop, timeline for resolution is unclear, though early indications point to a prolonged conflict. This poses risks of significant disruption to the Gulf region's infrastructure and oil supply, dislocation to supply chains, elevated shipping costs and a decline in overall global growth.

In the immediate, concerns about inflation are beginning to emerge. Asia, as the home to the largest oil importers will be the hardest hit. This includes China, South Korea, India, and Japan. The US being a net exporter of oil will however still suffer second-round effects on inflation. Emerging and Frontier economies heavily dependent on oil imports will face similar pressures and exacerbate trade deficits. Moreover, with the Middle East and Eastern Europe historically supplying nearly 60% of East Africa's chemical fertilisers, supply chain disruptions have driven the spot prices of urea and diammonium phosphate up by roughly 38%.

This alongside major disruptions to aviation have implications to logistics which translates to imported inflation.

In the same breadth, countries dependent on the Gulf region as a key export market could encounter reductions in export revenues.

At the same time, exposure to portfolio and capital outflows in emerging and frontier markets poses a substantial risk of exchange rate depreciation.

In the wake elevated uncertainty and evolving risks, the market is adjusting expectations for central bank rate cuts, particularly those by the US Federal Reserve. For Emerging and Frontier central banks, further policy easing may be delayed as well to safeguard against external risks.

The conflict redirected market focus from recent trade policy adjustments within the US economy. As President Trump's response to the Supreme court ruling that shut down International Emergency Economic Powers Act (IEEPA) tariffs appeared to be largely priced in. Trump imposed a 15% global surcharge on imports for 150 days through Section 122 of the Trade Act of 1974. Countries that faced high IEEPA rates (India, Thailand, Vietnam) see substantially lower tariffs under the Section 122 replacement than they did before the ruling. While countries with low pre-existing tariffs see a more modest change, with the 15% surcharge providing the floor. For Kenya, the estimated effective tariff rate now stands at 30%, but we continue to reap the benefits from the AGOA extension running through till December 2026.

The situation remains fluid. We expect Trump to use the next 150 days to conduct further investigations around trade. Positively, this will coincide with the run up to the U.S. midterm election season, suggesting that the appetite by Congress and by voters to raise tariff rates again may be low. This could support the containment of forthcoming trade agreements and tariff adjustments.

US ECONOMY

US economic activity is holding steady though momentum slowed in February as signalled by the S&P Global manufacturing and services PMI reading of 51.6 and 52.3 relative to 52.4 and 52.7, respectively in January. US inflation at 2.4% is weathering trade headwinds well and is supported by reducing wages and services inflation. However, a prolonged rise in oil prices could filter through to prices. Further, details of the manufacturing PMI report showed signs of accelerating factory-level inflation. Reflecting investor concerns around general prices, US Treasury bond yields have trended upward, with the 10-year Treasury yield at 4.08%.

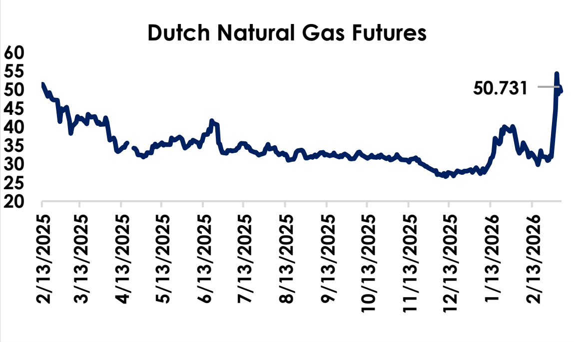
This reinforces the already hawkish outlook reflected in the FOMC January meeting minutes. The committee appeared more concerned about the pace and timing of the return to 2% inflation while stating that the labour market had shown signs of stabilizing. As a result, the Federal Reserve is anticipated to maintain its current policy stance until there is greater clarity on the progression of the conflict and its implications to the US economy.

EUROPE

Recovery in economic activity is emerging strongly in the Eurozone. In February, the S&P Global PMI reading for manufacturing was the highest reading in almost 4 years at 50.8, rising from 49.5 in January. This expansion can be attributed to an increase in new factory orders, with Germany recording the sharpest improvement in operating conditions.

January inflation reading for the region came at 1.7%, bringing the region's inflation to a 16-month low. However, upside risks from the ongoing surge in oil and gas prices risks a return of CPI to the ECB's 2% target and even beyond if the conflict is prolonged. Already, European gas prices have soared to an extent not seen since the launch of Russia's full-scale invasion of Ukraine in 2022.

Figure 2: Europe Natural Gas Futures Price



Source: Bloomberg, NCBA Research

This latest jump in global gas and oil prices will similarly hit the UK economy that is still showing moderate levels of activity and is experiencing rising inflation and a tightening labour market.

While European leaders generally remain on the sidelines in this conflict, Europe's proximity to the conflict, reliance on large oil and gas imports will have direct implication to the economic landscape. The European Central Bank and the Bank of England are widely expected to remain on hold as the situation unfolds.

KENYA

Improved economic activity stemming from lower interest rates could result in real GDP growth of 5.1% this year, from an estimated 5.0% in 2025. So far, leading pointers for growth continue do not illustrate a meaningful recovery in the economy from the 2025 levels. Notably, the Kenya headline PMI, as measured by S&P Global dropped for the third consecutive month from 51.9 in January to 50.4 in February.

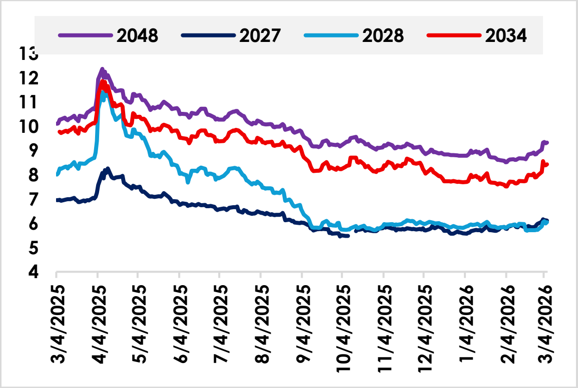
According to the NCBA Consumer Activity Index, February consumer activity concentrated around essentials as the index weakened on lower expenditure across all consumption categories, except for food, housing and utilities. The seasonally adjusted Index dropped to 115.83 from 117.22 in January 2026. This represents 1.18% drop month-on-month. Year-on-year, consumer activity rose by 6.98%, with consumption mainly driven by food, housing and utilities.

The ongoing geopolitical conflict in the Middle East may further hold back economic growth. We note an immediate adverse impact on foreign civil air travel. Hence, tourism activity, though not at peak period is expected to decline in-tandem. Further, an immediate delay in belly cargo exports to all destinations could result in bottlenecks in the transport sector. Beyond that, the imminent risk stems from Kenya's dependence on the Gulf region as a key export market and source of diaspora flows. Notably, the tea exports to Middle East (Iran, Jordan, Oman, Saudi Arabia, UAE, Qatar, Iraq and Turkey) constitute 15% of total tea exports. Therefore, material disruption could result in an immediate drop in tea exports and revenues. Kenya also receives 10% of its diaspora flows from the Middle East, hence we see an immediate adverse impact on the remittance inflows from the region.

Furthermore, risk of oil-driven inflation is emerging. Higher imported inflation could filter through to local pump prices and surge transport and food costs. Following significant potential second-round inflationary effects from this, we now see Kenya's monetary policy committee (MPC) exercising caution on further policy easing in the April meeting.

In the external credit markets, credit spreads are widening while bond yields are rising as investors place higher premiums in emerging and frontier assets. In the Russia-Ukraine conflict of 2022, Kenya's Eurobond yields rose by an average of 50-300 basis points over several weeks. So far, Kenya's Eurobond yields have on average risen by 40 basis points.

Figure 3: Kenya Eurobond Yields



Source: Bloomberg, NCBA Research

On the upside, this comes on the back of the successful Eurobond issuance (US $ 2.25 billion) that allowed for the full and partial redemption of the 2028 (US$ 415.4 million repurchased) and 2032 (US$ 324.8 million repurchased) Eurobond note. This move eased external debt financing pressure in the medium term amid geopolitically induced volatility in markets. The balance amounting to US $1.83Bn (KES 236.4Bn) is earmarked for general budgetary support, thus easing strain on the budget deficit. However, a prolonged movement toward safe-haven markets could maintain elevated risk premiums and continue to exert pressure on budget financing costs.

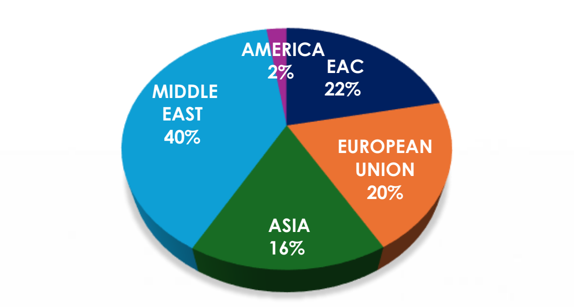
The USD/KES has remained resilient, though pockets of dollar demand following the escalation in the US-Iran conflict saw modest depreciation on the currency, now trading at 129.25 levels. The outlook for the shilling is clouded by risk from imported inflation, a slowdown in diaspora remittances, lower export receipts from tea and global economic uncertainty. On the upside, strong domestic drivers for a stable currency including from rising import cover – now at 5.4 months of imports should materially shield the KES from this external shocks.

UGANDA

In the wake of unprecedented risks from the geopolitical front, Uganda's economic resilience is anchored on the planned start of oil production in second half of 2026. The country's potential oil reserves were raised from 6.5 billion to 6.6 billion barrels. Construction at oil fields and an export pipeline are at peak. Work at the Kingfisher oil fields is at 74%, Tilenga is at 60% and work on the East Africa crude oil pipeline (EAOP) is at 75% completion. Oil revenue investment could start by the end of 2026, absent any setbacks to the project.

Thus far, economic activity remains positive – the headline PMI posted at 54.2 in February, up from 52.6 in January. However, the Middle East war is presenting downside risks to economic growth. The Middle East controls 35% of Uganda's exports, mainly for coffee and mineral products. This indicates a heavy dependence on the region for export revenue. As a result, a significant disruption in these markets, especially the UAE and Israel which are Uganda's main destinations signals a substantial decline in coffee and gold exports.

Figure 4: Share of Uganda's Exports per Region %



Source: UBOS, NCBA Research

That said, Uganda's gold exports performed exceedingly well in 2025. US $ 5.8 Billion worth of gold was exported in the year, a 76% increase from 2024. This was supported by higher production and the commissioning of its first large scale Chinese owned mine in 2025. Projected higher prices of gold could support Uganda's balance of payments inflows but if the key export market is inaccessible, gains may be temporarily constrained.

On the fiscal side, Uganda benefits from a favourable yield environment and has thus attracted strong foreign investor flows. The ongoing conflict may however affect these portfolio flows, meaning local debt financing would majorly depend on domestic investors. This comes at a time when lower domestic borrowing is assisting to drive private sector credit growth. In December, credit expanded by 11.0% relative to 10.3% in November 2025. A material decline in portfolio flows raises the risk of crowding out the private sector.

Uganda's February inflation dropped to 2.9% from 3.2% in January on account of subdued food inflation at 1.8%. Looking ahead, favourable weather is expected in the March to May season. Although, the positive impact of this to food prices may be partly offset by increases in global oil prices.

The pressure in the currency market is already evident, trading on the USD/UGX rose sharply to touch 3700 levels, a depreciation of 2.8% since the escalation of the conflict. This is owing to strong foreign portfolio linkages, reliance on a few exports and volatile FX reserves (4.2 months).

Overall, Uganda's vulnerability to external shocks remains high. There is thus a need to monitor these developments closely. Against this backdrop, a near-term policy hold is the likely scenario for the Bank of Uganda.

TANZANIA

A robust investment environment continues to boost economic activity in construction related activities, drive foreign direct investment and support overall business growth. In the near term, we see significant risks to Tanzania's tourism sector. Although tourists from the Middle East only account for 1.8% of arrivals into the country, disruption to global civilian travel and rising energy costs are expected to dampen tourism and trade linkages.

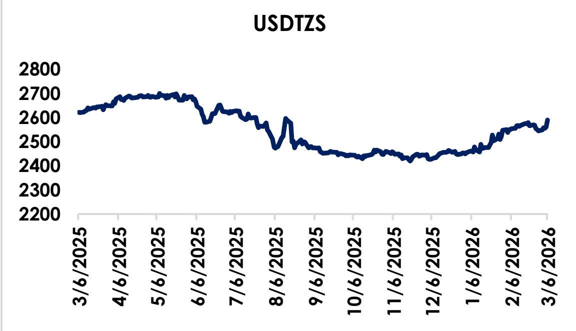
Tanzania's headline inflation declined to 3.3% in January from 3.6% in December. Core prices similarly declined to 2.2% from 2.5%. The drop is largely attributed to softer food and energy inflation at 5.7% and 4.6%, respectively. Tanzania has enjoyed a low and stable inflation environment, but surging oil prices risks this stability. We see this pressure translating to higher pump prices, disrupt transport and logistics and impact household budgets. In response to the conflict, the Ministry of Energy is seeking to strengthen its strategic fuel reserves, to shield from potential shortages. This came amid the anticipated construction of new petroleum reserve tanks in Dar es Salaam.

All said, these emerging uncertainties around the length of the conflict supports the case for a cautious stance by the Bank of Tanzania's monetary policy committee.

In the FX market, the USD/TZS has ceded mild losses of 0.96% since the conflict. Year-to-date, the shilling is 5% weaker against the greenback. This is despite Bank of Tanzania intervention in the market. A higher import bill is expected to widen the current account and thus weaken the currency further, central bank support notwithstanding.

Elsewhere, Moody's affirmed Tanzania's rating at B1 with a stable outlook on both the local currency and foreign currency long-term issuer ratings. This broadly signals the country's economic resilience despite a turbulent political year in 2025. However, Moody's cited financing risks linked to lower access to concessional funding following the election unrest indicating higher future borrowing costs.

Figure 5: Tanzania Shilling against US Dollar



Source: Bloomberg, NCBA Research

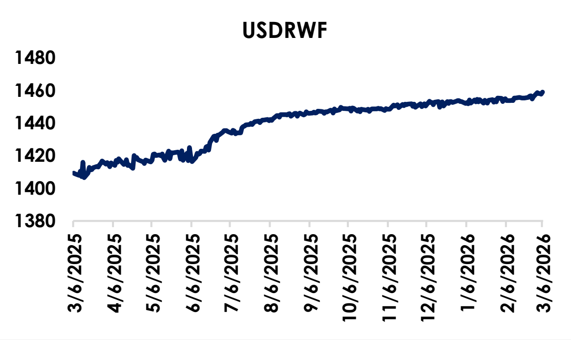
RWANDA

In Rwanda, the latest jump in global oil prices hits an economy that is already facing hurdles to growth from regional conflict and is already experiencing rising inflation from higher domestic food and energy prices.

Illustratively, a week prior to the US-Iran conflict escalation, the National Bank of Rwanda (BNR) raised its policy rate 50 bps to 7.25%, driven by the need to curb further inflationary pressures from food and energy. Currently, headline inflation stands at 8.9%, sitting above the 8% upper-band of the target. From the meeting, the MPC projected inflation to remain above the 8% mark in the first half of 2026, before returning to the target band (2% to 8%) by the end of 2026. However, with emerging pressures on commodity prices, we foresee inflation holding above 8% for most of the year. With that, overall caution with regard to the policy stance will be warranted and further policy hikes are not off the table.

Volatility in the local currency market has been relatively muted. The Rwandese Franc against the dollar lost marginal ground to trade just shy of 1460 but appears to be paring back losses toward 1455 levels. We expect proactive support from the National Bank of Rwanda to keep movement on the currency pair within narrow ranges. However, widening trade deficit is expected.

Figure 6: Rwanda Franc against US Dollar



Source: Bloomberg, NCBA Research

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