

# ECONOMICS AND RESEARCH **MONTHLY ECONOMIC REPORT**

May 2026

## HIGHLIGHTS:

- ❖ In April, leading economic indicators pointed higher across most economies, reflecting resilience.
- ❖ However, global markets are unsure whether the US-Iran ceasefire will hold. Thus, conflict could linger for longer.
- ❖ Consequently, in the advanced economies, central banks are expected to hold policy rates at current levels into June.
- ❖ Domestically, the annual average real GDP growth in 2025 was little changed at 4.6% relative to 4.7% in 2024, following a surprise dip in fourth quarter GDP growth.
- ❖ Due to additional inflation and growth shocks from the Middle East war, we expect real GDP this year to fall within the 4.0% to 4.5% range.
- ❖ Uganda recorded positive momentum in April as shown by robust readings from key economic indicators. Additionally, with new drivers to economic activity, the growth outlook remains positive.
- ❖ In 2026, Tanzania's GDP growth is projected to flatline at 5.9% amid shocks to inflation and recalibration of investor relations.
- ❖ In 2026, Rwanda is likely to grow modestly at 7.0%-7.2% underscored by increased external pressures, base effects and shocks to inflation.

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## GLOBAL

Today, the global economy faces a broad range of uncertainties, mostly stemming from the disruptions in the oil market. Such concerns should however be balanced against the current reality of economic resilience. The global economy has in the recent past withstood the COVID pandemic, Russia/Ukraine conflict, central bank policy rate hikes and the US reciprocal trade tariffs. Surprisingly, in each shock, the economy has proved resilient.

Even more, relative to prior shocks the economy seems somewhat better prepared this time round supported by higher oil reserves held by OECD countries, faster mapping of alternative shipping routes, monetary policy flexibility, and decent global macroeconomic indicators.

Hence, global economic activity has thus far defied odds of a slowdown. In April, the Global manufacturing PMI rose to 52.6 relative to 51.3 in March, indicating improvement in output and demand in the sector. This is however likened to the trade tariff shock of 2025 where manufacturers ramped up production and clients rushed to secure purchases ahead of price increases and supply shortages and thus, could potentially prove unsustainable. Meanwhile, services activity was a mixed bag with soft demand recorded in the Eurozone and Japan, while activity appeared solid in the US and the UK.

On prices, with the Strait of Hormuz virtually impassable for commercial ships, overall price and supply shortages touched multi-year highs during the month, particularly for oil. Consequently, global inflation is now

forecast to rise to 4.4% this year from 3.9% last year. If the shock persists for several months, inflation will average 5.8%. Expectedly, major central banks left interest rates unchanged, reflecting a synchronized global pause as they balance ongoing inflation concerns with weakening economic activity. In this regard, the US Federal Reserve is projected to remain on hold throughout the remainder of the year, while the European Central Bank may increase the policy rate.

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

	Apr 2026	Mar 2026	Dec 2025	Sep 2025	Apr 2025
<b>Global</b>	<b>51.8</b>	<b>51.0</b>	<b>52</b>	<b>52.4</b>	<b>52.1</b>
<b>U.S.</b>	<b>51.7</b>	<b>50.3</b>	<b>53</b>	<b>53.6</b>	<b>53.5</b>
<b>Eurozone</b>	<b>48.8</b>	<b>50.7</b>	<b>51.9</b>	<b>51.2</b>	<b>50.9</b>
<b>Germany</b>	<b>48.4</b>	<b>51.9</b>	<b>51.5</b>	<b>52.4</b>	<b>51.3</b>
<b>U.K.</b>	<b>52.6</b>	<b>50.3</b>	<b>52.1</b>	<b>50.1</b>	<b>51.5</b>
<b>China</b>	<b>53.1</b>	<b>51.5</b>	<b>51.3</b>	<b>52.5</b>	<b>51.8</b>
<b>Japan</b>	<b>52.2</b>	<b>53.0</b>	<b>51.1</b>	<b>51.3</b>	<b>48.9</b>

Source: S&P Global, NCBA Research

## The Middle East War

April was the second eventful month as the Iran conflict showed no sign of easing. Despite the developments wherein Iran presented a 14-point peace plan to the US, proposing that both countries reach an agreement within 30 days, we think that the end is not yet in sight. The 14-point memorandum included lifting Iran's restrictions on shipping through the Strait and gradually lifting the US naval blockade. However, Iran stated that there will be no

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negotiations on the nuclear program, which we see as a deal breaker for the US. Iran governs as an Islamic theocracy. Hence, with Khamanei gone, Iran does not seem to have a clear leader which complicates negotiations for the US.

Resultantly, oil price which is the key transmission channel for this war saw large swings, with Brent oil price rising 16% and 92% year-to-date. Due to falling oil inventories in Europe and Asia and a likelihood of further escalation of the war, oil prices are likely to stay above \$100 for several weeks.

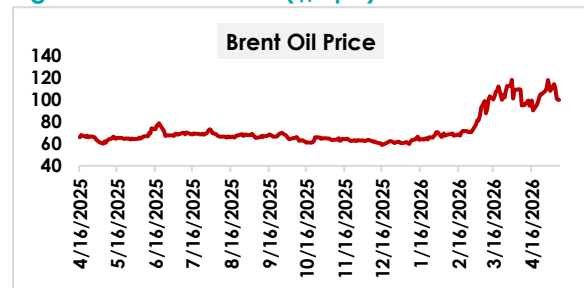
Relatedly, on April 28, the United Arab Emirates announced that it would end its 59-year-old membership in the Organization of Petroleum Exporting Countries (OPEC) - freeing itself from OPEC's quota system. Before the start of the war, the UAE's production capacity had grown to 4.8 million bpd, but under its OPEC agreement, was only allowed to produce 3.2 million bpd. While there is likely no immediate impact to energy markets given that the UAE's exports are currently constrained by Iran's control of the Strait of Hormuz, the prospect of increased supply entering the market later remains significant. This development could have a generally positive impact on the market overall.

Before then, markets continue to see a stagflation shock being plausible from this, hence sovereign bond yields are rising across different markets, gold prices are easing, and the dollar is strengthening. Expectedly, Emerging markets have exhibited more sensitivity to shifts in global risk sentiment, reflecting their greater exposure to volatile capital flows and risk-sensitive investors. Domestically, Kenya's Eurobond yields have

on average risen 75-basis points since the escalation of the conflict. Relative to the 2022 Russia-Ukraine war, this seems within manageable levels.

Overall, the situation remains highly fluid. Policymakers continue to focus on the second-round effects of the oil shock to the economy.

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



Source: Bloomberg, NCBA Research

## US ECONOMY

The US economy's leading indicators show moderating, but still resilient activity level. On one hand, the Q4 2025 GDP figure was revised lower to 0.5%, down from an estimate of 0.7% and relative to 4.4% posted in Q3. On the other, Q1 2026 growth was 2.0% year-on-year while April recorded strong PMI readings for both Manufacturing and Services at 54.5 and 51.2, respectively.

Overall, the IMF projects a marginal expansion in growth this year to 2.3% from 2.1% in 2025. Threats to economic growth from the Middle East war are expected to be partially offset by investment and productivity gains from Artificial Intelligence. On the downside, profitability and productivity of AI-related investment could be lower than expected previously amid increased competition.

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Broadly, the readings pointing to resilience but with underlying fragilities owing to surging inflation, soft labour market, trade uncertainties, and soft global demand. Illustratively, annual inflation climbed to 3.3% in March from the 2.4% recorded in February. Higher energy prices continue to entrench expectations for stronger inflation in coming months. To this end, the IMF and the US Federal Reserve's forecasts for inflation are at 3.2% and 2.7%, respectively. In the labour market, the unemployment rate is projected at 4.4% in 2026 and 4.3% in 2027 and 2028. Against this backdrop, the FOMC held the Fed Funds rate at 3.50-3.75%. Interestingly, the committee's guidance on the future path of interest rates was split, with three members dissenting and one member voting for a 25-bps rate cut. Resultantly, the policy rate is likely to stay unchanged this year. However, a rate hike is not a far-fetched probability.

## EUROPE

The European Central Bank maintained its key policy rates unchanged, keeping the deposit facility rate at 2.0%. The ECB noted that the upside risks to inflation and the downside risks to growth have intensified. The April Harmonized Index of Consumer Prices is projected at 3.0% while real GDP growth has been revised to 1.1% by the IMF.

Consistent with this outlook, the region's growth slowed in the first quarter, expanding by a meagre 0.1% down from 0.2% in 4Q2025 and below expectations of 0.2%. More recent data shows service sector slowdown, with the PMI at 47.4 in April in comparison to 50.2 in March. In contrast, the manufacturing PMI expanded to 52.2 from the previous

reading of 51.3. In the region's largest economy, Germany the composite PMI contracted to 48.3 following ten consecutive increases in economic activity.

Rhetoric by the ECB President stated willingness to hike rates in the near term, however caution will be necessitated given the muted growth backdrop. Markets now forecast a June rate hike of 25-bps, but the committee will be keen to assess the second-round impacts of oil on the Eurozone.

## KENYA

Economic activity in 2025 recorded below estimates following a surprise dip in fourth quarter GDP growth at 4.2% from 5.6% in Q4 2024. The downturn in activity was largely linked to underperformance in agriculture and services sectors, offsetting the rebound in the industry sectors.

Firstly, the lower-than-expected short rains in October to December led to an 8% and 24.7% decline in tea production and cane deliveries, outweighing the gains in horticulture and rice output. Relatedly, manufacture of sugar fell 24.8%. In services, tight credit condition and lower aggregate demand saw slower activity in wholesale & retail trade, as well as the real estate market. Meanwhile, lower air passenger traffic resulted in lower activity in transport. In education sector, lower infrastructure expenditure relative to last year as well as compressed enrolment in secondary education led to lower activity level.

Overall, the annual average real GDP growth in 2025 was little changed at 4.6% relative to 4.7% in 2024. Due to additional

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inflation and growth shocks from the Middle East war, the outlook for 2026 growth is less optimistic. We expect real GDP this year to fall within the 4.0% to 4.5% range.

**Figure 2: Kenya 2025 Real GDP Growth**

Sectoral Real GDP Growth Projection (y/y, percent)			
	2024 Annual	2025	
		Q4	Annual
Agriculture	4.4	-1.3	3.1
Mining	-7.8	17.8	14.9
Manufacturing	3.0	1.1	2.0
Electricity	1.2	5.5	6.3
Construction	-0.7	7.3	6.8
Wholesale & Retail Trade	4.0	4.0	3.6
Accommodation	25.9	18.3	15.6
Transport	4.3	4.7	3.7
ICT	7.1	4.0	4.8
Financial & Insurance	7.5	7.4	6.5
Real estate	5.3	2.9	3.9
Education	4.8	2.1	2.8
Health	6.0	5.9	5.5
<b>Overall GDP Growth</b>	<b>4.7</b>	<b>4.2</b>	<b>4.6</b>

Source: KNBS, NCBA Research

More recent data still indicates weak activity level. According to S&P Global, the headline PMI stood below 50, at 49.4 relative to 47.7 in March. The slight upturn is primarily attributed to stock purchases following the March lull linked to the war amid still soft new orders and output growth.

On the consumer front, the NCBA Consumer Activity Index nominally rose 1.6% and 8.2% on a monthly and annual basis but showed emerging cracks in real terms.

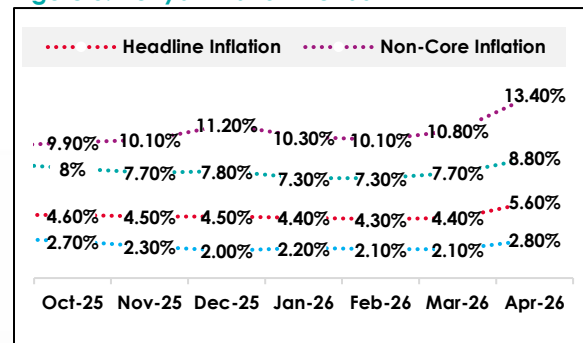
That said, in April, the headline CPI rose to 5.6% from 4.4% in March, driven primarily by higher food and transport costs. The sharp increase in food prices was contrary to our expectations for a moderation in vegetable prices and may be attributed to crop losses caused by extensive flooding and logistical challenges affecting timely transportation of

goods to market. This limited the scope for households to absorb anticipated increases in energy and transport costs, posing downside risks to real incomes and consumption.

Following the strained household and enterprise budgets, private sector credit growth- now at 8.1%, could thus range 6-8.0% to end year on squeezed real incomes.

Typically, short end interest rates tend to be the most sensitive to price and government liquidity changes. Hence, the yield curve has risen – with the 91, 182 and 364-day T-bills at 8.04%, 8.21%, and 8.51%, respectively. For the MPC, a hawkish bend by the Fed, surging local inflation and rising yields will similarly see a hawkish tilt in the June meeting.

**Figure 3: Kenya Inflation Trends**



Source: KNBS, NCBA Research

On the fiscal front, tax revenue collections as of March stood at KES 1,717Bn, translating to a nominal growth of 8.7% and a shortfall of KES 232Bn. The resulting shortfall may be exacerbated by lower VAT collections on petroleum products following the reduction to 8% and lead to further fiscal revenue pressure. The net domestic borrowing target now stands at KES 996Bn – up from KES 635Bn in the initial estimates. This has taken the current run rate to roughly 84%.

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However, local deficit financing may not be materially impacted this fiscal year, supported by still ample liquidity, though could signal further pressure in yields. Thereafter, prospective increase in domestic borrowing beyond June may see investors re-evaluate their return on sovereign risk.

On the exchange rate front, the USD/KES traded in narrow swings, ending the month marginally stronger at 129.20 levels from 130. The shipment of exports and air cargo has resumed, albeit with continued delays. The key risk is deteriorating supply chain disruptions and a sustained increase in agriculture input costs, mainly fertilizers. Tight market for agricultural commodities may hamper export performance specifically for horticulture, tea, and coffee. Expectedly, goods export growth is forecast slower this year at 5.3%, relative to 6.1% in 2025. This in combination with an increase in import costs suggests depreciation risk to the local currency. So far, central bank intervention has stemmed any material loss on the currency. Partly due to this, the FX reserves now stand at US \$ 13,226 Million, down from US \$ 14,022 Million at the end of March.

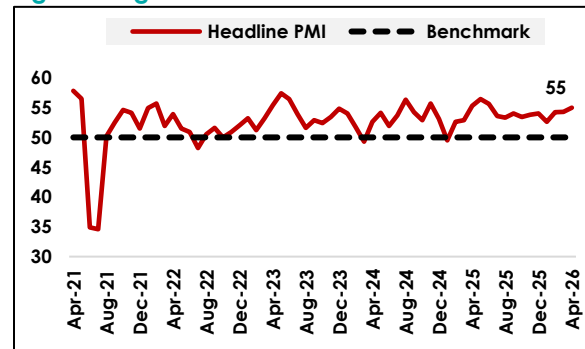
## UGANDA

The beginning of the second quarter of 2026 was marked by positive momentum, as shown by robust readings from key economic indicators. The headline PMI posted at 55.0 in April, up from 54.3 in March, supported by a rise in output and new orders. This is despite reported increase in fuel costs in the month.

The IMF projects 2026 GDP growth at 7.5%, up from 6.8% in 2025 in anticipation of the first oil

production in and strong export growth. Notably, coffee production has increased, leading to a 17% increase in export value in February, despite a drop in global coffee prices. Gold exports similarly performed well but supply chain disruptions linked to the war interrupted gold trade in the Middle East, posing downside risk for future export flows.

Figure 4: Uganda Headline PMI



Source: S&P Global, NCBA Research

Inflation remains relatively contained though it demonstrated a slight uptick in April to 3.0% from 2.8% in March, largely driven by rising energy costs. Notably, energy and utilities inflation increased to 6.1% (from 4.1%), reflecting significant annual increases in pump prices—with petrol rising by 8.7% and diesel by 10.8%.

In the May monetary policy meeting, we expect the policy rate to remain unchanged at 9.75%. Even though Uganda has new drivers to its economic activity, we do see the committee going into this meeting with caution following the uncertain nature of the external side.

On public finance management, Uganda passed the Protection of Sovereignty Bill, 2026 which seeks to regulate foreign funding and curb activities deemed to threaten Uganda's sovereignty. The initial legislation

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established a sweeping and highly discretionary framework that would significantly expand state control over civic space. Concerningly, it introduced tight controls on foreign funding, but following concerns raised by the Bank of Uganda, the World Bank and other institutions over the potential deterrent of some FX inflows and even personal remittances, which form the bulk of Uganda's secondary income inflows, the final legislation scaled back foreign funding disclosures.

On the currency, year-to-date, the USDUGX has depreciated by 4%. The Bank of Uganda's FX reserves have steadily risen to USD 5,636.0Mn but remains below the 4.0 months of import cover statutory target at 3.8 months. Accordingly, the central bank is likely to continue prioritising the accumulation of additional buffers in the wake of external pressures.

## TANZANIA

Tanzania's National Bureau of Statistics revealed real GDP expanded by 5.7% in Q4 2025, slowing from 6.4% in Q3. Growth was driven by stronger activity in the financial and insurance sector (19.5% up from 14.2% in Q3) as well as mining and quarrying (7.1% to 7.5% in Q4). However, slower growth in the tourism sector (6.7% to 1.5%), manufacturing (4.5% to 4.2%) and agriculture (5.1% to 4.4%) resulted in an overall slowdown in headline growth.

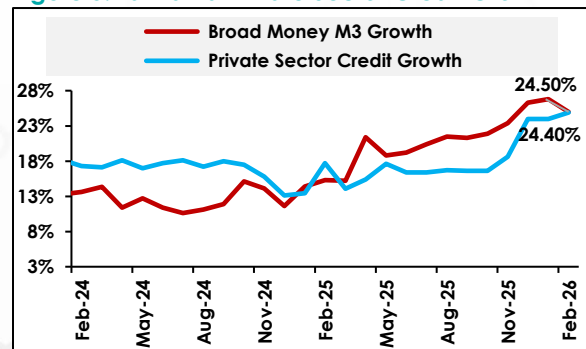
In 2026, GDP growth is projected to flatline at 5.9% amid shocks to inflation and risks of tighter financial conditions. Meanwhile, the Bank of Tanzania projects 6.1% expansion. However, risks are emerging. Firstly, following

the surge in fertilizer prices and supply disruptions, we see risk to crop yields, and food production costs. This combined with the current 30% increase in fuel prices effected in April will have an adverse effect on inflation. We now forecast inflation to move toward 5% in Q2.

To safeguard against these risks, the Monetary Policy Committee in April 2026 decided to hold the Central Bank Rate at 5.75%. Furthermore, the committee narrowed the interest rate corridor around the CBR from 200 basis points to 150 basis points. Hence, the target band for the 7-day interbank rate will be 4.25-7.25%.

In the credit market, private sector credit growth has been steady at 22.8% on the back of accommodative monetary policy and strong demand by businesses and households. However, rising inflationary pressures could slow credit uptake in coming months. On the upside, the nonperforming loan ratio remains well below the 5% tolerable threshold at 2.9%.

Figure 5: Tanzania Private Sector Credit Growth



Source: Bank of Tanzania, NCBA Research

In the local FX market, as expected, strong performance on gold exports and a strong FX reserve buffer has assisted to shield the shilling from sharp sell off. Notably, export

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performance has remained strong particularly in gold, tourism, and agricultural products.

Official FX reserves, now at USD 6.2 billion and sufficient to cover 4.8 months of imports could see further drawdown following continued volatility and uncertainty in global markets.

## RWANDA

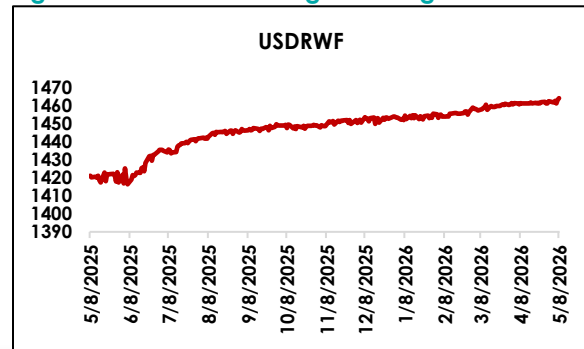
In 2025, real GDP grew by 9.4% but the IMF sees a more modest growth rate in 2026 at 7.2% underscored by increased external pressures, base effects and shocks to inflation. The services sector's contribution to GDP has remained on a steady increase to 52%, relative to agriculture at 20% and industry at 23%. Therefore, the economic impact of the Middle East conflict, particularly with regards to disruption to passenger travel, supply chain woes and inflationary pressures could be detrimental to the economy.

In March, the Urban CPI index remained above the upper-bound target of 8% at 9.2%, underpinned by pressure on the housing, water, electricity, and gas index (14.6%). The overall Rwanda CPI index stood at 7.7% relative to 7.9%, previously. Meanwhile, core inflation rose to 8.0% from 7.7%, previously. The adjustments to fuel prices, along with revised public transport fares effective April 16 by the Utilities Regulatory Authority are expected to intensify inflationary pressures. Risks to the inflation outlook remain tilted to the upside, reflecting energy price pass-through, weather-related supply shocks, and heightened global and regional geopolitical uncertainties.

For the Monetary Policy Committee, there is a need to anchor inflation expectations, thus the outlook appears hawkish.

In the currency market, the exchange rate remained broadly stable, oscillating slightly above 1460 levels underpinned by policy measures governing foreign exchange transactions. Maintaining exchange rate stability remains critical in limiting imported inflation pressures, particularly in the context of elevated global energy prices and tightening global financial conditions.

Figure 6: Rwanda Exchange Rate Against USD



Source: Bloomberg, NCBA Research

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