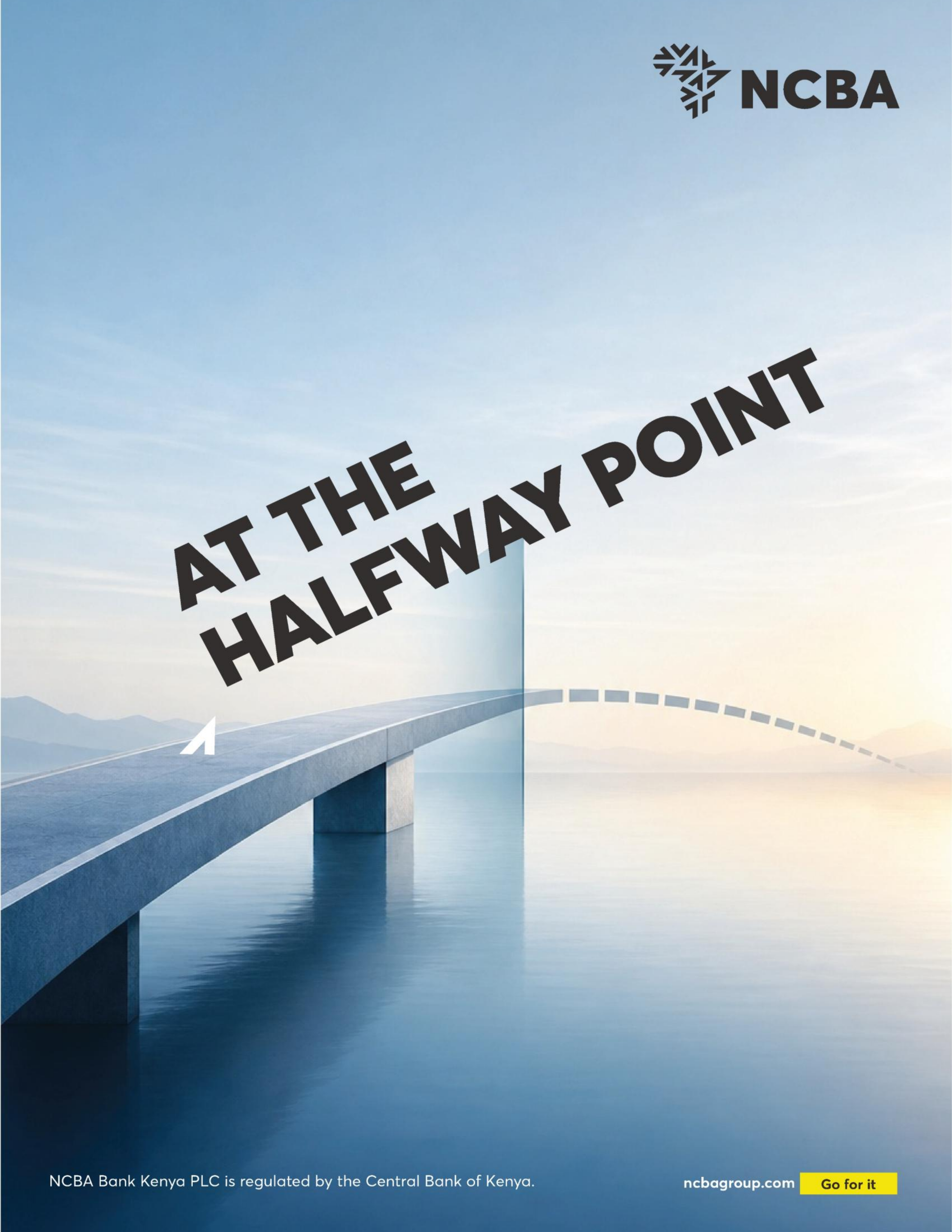
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ECONOMICS AND RESEARCH H2 2026 OUTLOOK

Executive Summary

- The world economy remains resilient with tail risks from a negative geopolitical shock and potential productivity support from the AI-driven technology boom.

- Geopolitical risk is expected to stay on even after a solution to the Middle East crisis. President Trump is likely to revisit international trade relations with executive tools, sanctions and tariffs.

- A strong El Niño in East Africa is expected to affect agricultural outputs, infrastructure, regional trade and inflation.

- Kenya's growth forecast is revised down to 4.5% due to the oil shock, lower output from agriculture and a change in investment posture towards the general elections.

- Uganda shows strong growth momentum driven by broad-based sectoral growth and investment activity toward the anticipated first crude oil export in 2027, which could boost growth beyond 8% in the medium term.

- Tanzania is forecasted to grow around 6% supported by infrastructure and exports and strong credit growth.

- Rwanda is expected to grow 7.2% supported by policy credibility and investments but faces inflationary and fiscal challenges.

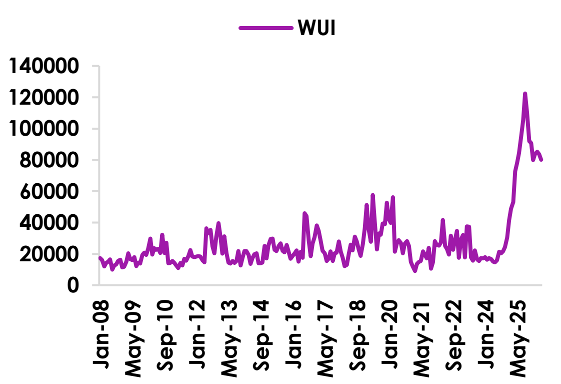
AT THE HALFWAY POINT: 2H2026 OUTLOOK

Introduction

In our 2026 annual Economic Report, published in mid-December, titled ***"Monetary Easing to Bolster Economic Growth in 2026, Though Risks Linger"***, we did not anticipate that geopolitical risks would be front and centre in 2026. This tells us that the pace and scale of geopolitical shocks are a challenge to forecast, both in the short and long-run. For policy makers and investors, it is thus important to remain agile and probably assume that the geopolitical landscape will continue to rapidly evolve.

To this end, markets should expect more volatility in the remainder of the year, although the run up to the November mid-term elections in the US may cap some of this. Nonetheless, we foresee more executive tools from President Trump as well as sanctions, tariffs and security deals. It would not be a surprise if he leans toward Europe and China in the second half of the year.

Figure 1: World Uncertainty Index (WUI)



Source: World Uncertainty Index, NCBA Research

Geopolitics: Probably More on the Spotlight in 2H2026

Even as we look forward to a lasting solution to the Middle East crisis in the next 45 or so days, economic history suggests that the thorny issues on Iran's nuclear assets, financial and trade sanctions and administration of the Strait of Hormuz are unlikely to be solved quickly. However, the Memorandum of Understanding between the US and Iran is likely to hold, providing space for their negotiations to continue. This is not because trust between them has emerged or improved, but because the incentive to break out of the talks is low for both of the parties. Consequently, oil prices eased toward USD 72 per barrel, with an expectation that trades are likely to record around that level in the near-term.

This is higher than the USD 60 per barrel price that we anticipated in our 2026 outlook report, reflecting the recent interruption to production, refining capacity and export flows from the Gulf region. That said, the posture of the main importers to rebuild oil inventories may skew this forecast slightly.

That said, we would not want to forget lessons from developments in the Red Sea. An agreement to reopen a sea passage does not automatically restore confidence to commercial shipping players. Shipping lines may want to wait for an independent verification that the waters are now safe to navigate, which could take a while. Thereafter, they would then need to deal with Iran's demand to collect toll fees after the 60-days negotiation period.

Select Geopolitical Events in 2H2026

7-8 July	• The NATO summit in Turkey is expected to be an important alliance meeting. • Discussion could cover the future support for Ukraine, European defence spending, NATO's posture toward Russia and the Middle East crisis.
24 July	• The US reciprocal 10% tariffs dated April 2025 under section 122 will expire. • These will likely be replaced by new tariffs under Section 301. Some tariffs may be revised.
Mid-August	• The 60-day ceasefire extension between the US and Iran is set to expire. If no agreement is reached, both sides could seek an additional extension
Early September	• The UN General Assembly in New York will choose the next UN Secretary-General as Antonio Guterres leaves office at the end of 2026.
September	• India will host the BRICS Summit. We watch out for any announcements that could suggest a move from reliance on the US dollar for inter-party payments.
September	• China's President Xi is expected to visit the United States following the China-US Summit in Beijing in May.
3 November	• US mid-term elections will be vital in determining President Trump's control and influence on laws and national policy.
Mid-December	• The G20 Summit in Miami could also see a fourth meeting between President Xi and Trump this year.

From Oil to a Weather Shock- More Manageable

El Niño conditions are forecast to strengthen rapidly over the coming months. Even more concerning, this El Niño is emerging alongside high fuel and fertiliser prices which could find farmers already vulnerable. Consisting of three phases: neutral, La Niña and El Niño, the El Niño phase is usually more worrisome, occurring every three to five years. Historically, it has recorded varying temperature and rainfall over the Americas, Australia, Asia and Africa.

A super El Niño this year comes from the fact that the rate of warming in 2026 is already the fastest since 1943 according to the Australian Bureau of Meteorology. The meteorologist project a record peak in temperature above the 1902 levels.

In the greater East Africa, IGAD's meteorology forecast for June-Sept 2026 rainfall outlook indicates a high likelihood of below-normal rainfall across most parts of the region. Additionally, temperature outlook indicates a higher likelihood of above-normal temperatures. These climate conditions are similar to the strong El Niño years of 1997 and 2023.

For policy makers, the headline inflation impact can be ignored as a temporary shock. The key question is not whether food prices rise, but whether El Niño-induced price shocks become embedded in underlying inflation and inflationary expectations. For the East African economies, we see a trade-off between cereals output and a good output from horticulture, tea and coffee.

ECONOMICS AND RESEARCH H2 2026 OUTLOOK

Time for the Markets to Focus Back on Fundamentals?

Away from the headwinds, macroeconomic data appears resilient to-date. Whether measured by high frequency data including purchasing managers index (PMI), equities performance, in-country indices or the broader quarterly GDP data, global economic activity remains within trend. Part of this resilience stems from stronger AI spending, support from fiscal policy and increasingly accommodative monetary policy.

The IMF's July World Economic Outlook confirms this resilience. The global growth forecast has been slightly revised downward from 3.1% to 3.0% for 2026, while projections for 2027 indicate an increase to 3.4%, up from the previous estimate of 3.2%.

The IMF identifies renewed conflict in the Middle East as the most immediate downside risk to the global outlook. The current forecast assumes a gradual normalization of conditions in the Strait of Hormuz, but any disruption beyond the baseline could have significant consequences. Meanwhile, the AI boom is supporting earnings, investment and risk assets, but increasingly resembles a source of potential correction risk if expectations are not realized.

Global inflation is projected to rise to 4.7% in 2026, up from an earlier forecast of 4.4%. This broadly suggests fewer rate cuts globally, higher terminal rates, sustained yield curve volatility and stronger support for the USD than markets may currently expect.

Across the economies, the US growth outlook was left virtually unchanged at 2.3% this year, and 2.2% in 2027. Meanwhile, growth in the Euro area, is projected at 0.9% in 2026, down 0.2 percentage point from the April WEO, reflecting a sizable negative carryover as well as the drag from higher energy prices and weak consumer confidence.

Sub-Saharan Africa is expected to remain broadly stable at 4.3% in 2026 but is particularly vulnerable because many countries are energy importers, have limited fiscal space and face declining development assistance.

US ECONOMY

The US economy demonstrated resilience through the first half of the year. Official growth data for first-quarter real GDP growth was revised up to an annualized 2.1% from its prior estimate of 1.6%. In June, growth momentum remained positive, with S&P Global flash Composite PMI rising to 52.2 in June, from 51.5 in May, pointing to a firmer expansion in private-sector activity. The pickup was supported by manufacturing strength, while services growth remained modest, suggesting that the economy is expanding but not uniformly.

However, inflation risks became more pronounced. May CPI rose to 4.2% y/y, while core CPI edged higher to 2.9%. The Fed's preferred PCE inflation measure rose to 4.1%, with core PCE at 3.4%, the highest since 2023. Nevertheless, we think the recent decline in international oil prices, combined with weaker than expected labour market data would have policy makers rethink policy rate hikes, even though the Summary of Economic Projections from the June FOMC meeting seemed more hawkish.

The median 2026 core PCE projection was revised up to 3.3%, and the projected year-end Fed Funds rate raised to 3.8%. Further, 2026 real GDP growth was placed at 2.2%, only slightly below earlier expectations, while unemployment was projected at 4.3%.

A fundamental shift away from forward guidance under the new Fed Chair, Kevin Warsh will likely concentrate focus to incoming data releases.

EUROPE

Europe remains the most vulnerable major advanced economy to the Middle East energy shock in June. While June PMI data showed that the downturn in Eurozone private-sector activity eased, growth remained fragile. S&P Global noted that Eurozone output stabilized in June, supported by improving manufacturing, but services remained weak, and the overall recovery was still shallow.

Inflation remains the binding policy constraint. The region's June headline inflation came softer than expected at 2.8%, however, it does not eliminate the second-round effects through high food and core goods prices.

Looking ahead, the ECB expects headline inflation to average 3.0% in 2026, before easing to 2.3% in 2027 and 2.0% in 2028. Core inflation is forecast at 2.5% in both 2026 and 2027, suggesting that second-round effects from energy prices into food, goods and services are now a key concern.

Accordingly, the ECB raised all three key interest rates by 25bps at its 11 June meeting, lifting the deposit facility rate to 2.25%, the main refinancing rate to 2.40% and the marginal lending facility to 2.65%. This marked the first-rate hike since 2023 and signalled a shift from pause to renewed inflation defence.

Looking ahead, relief from lower oil price increases the likelihood of a wait-and-see decision at the next ECB meeting in July. Markets will thus get back to combing every data release keenly.

KENYA

We revise our economic growth outlook for Kenya to 4.5% down from 5.1% projected in our 2026 economic outlook following recent headwinds. Reflecting this, the NCBA Consumer Activity Index has expanded just around the inflation level year-to-date, signalling household strain. Additionally, the Headline PMI averaged 49.3, relative to 50.5 in a similar period of 2025. Output conditions struggled to recover owing to the adverse impact of the oil shock to growth and inflation.

Across the sectors, we continue to see downside risk to agricultural production over El Niño weather conditions towards the end of the year. In the industrial sector, while public expenditure has underpinned solid activity in the construction sector, seasonally weaker public sector spending in Q3 (July–September) is likely to slow the momentum and only pickup in Q4.

The KES 4.8 trillion budget for the FY 2026/27 set against the backdrop of the US-Uran oil shock, as well as the upcoming August 2027 election could see revisions. Fiscal slippage is likely given that we expect high capital spending as the government attempts to finish key infrastructure projects across Kenya ahead of the polls. This exacerbates the challenge in containing the already wide fiscal deficit (6.4% of GDP).

Tax revenue is expected to grow by 7.2% to KES 2.99 trillion, with the Finance Act, 2026 anticipated to contribute an additional KES 98 billion. The success of this will be key to reign in costly borrowing – however the macroeconomic context suggests underperformance. This portends a larger debt burden noting that debt service obligations already take up more than 30% of the planned expenditure for the FY 2026/27. As such, budget estimates may change, and any deficits will probably be covered locally. Strong market liquidity and sustained investor confidence are likely to support meeting the KES 1,030 billion net domestic borrowing target. Externally, attaining the net foreign financing target of KES 116.2 billion, is largely hinged on the World Bank DPO facility, which is tied to key governance and structural reforms. Accordingly, the government will likely use external credit markets to fill any delays/shortfalls.

Table 1: Public Debt Payments for the FY 2026/27

CONSOLIDATED FUNDS – PUBLIC DEBT			
	Estimates 2025/2026	Suppl I 2025/2026	2026/2027
INTEREST			
Domestic	851.42	883.76	941.45
External	246.27	242.77	252.61
Sub - Total	**1,097.69**	**1,126.53**	**1,194.06**
REDEMPTION			
Domestic	463.51	544.26	690.09
External	340.19	673.76	338.99
Sub - Total	**803.70**	**1,218.02**	**1,029.08**
TOTAL	**1,901.39**	**2,344.55**	**2,223.14**

Source: National Treasury NCBA Research

On prices, as oil transmission effects wane on general prices, we project a lower inflation path in the near-term. Our base case (60% probability) is that the current negotiations between Iran and the US evolve into some form of a broader deal, while the ceasefire between Israel and Lebanon somewhat holds. Moreover, Gulf oil producers are likely to successfully switch to export a significant portion by pipelines, which would result in a Brent oil price of $70 per barrel on average. On the domestic front, we expect vegetable and fruit prices to decline in the near-term, upon which headline inflation would average 6.0%-6.5% in the third quarter of 2026, relative to 6.4% levels as of June.

Hence, the hurdle for further interest rate cuts by the central bank into end-year is slightly more favourable. Further, we posit that private sector credit growth requires further stimulus to boost demand. So far, we note recovery to 9.3% levels although this is likely to average 7.0%-9.0% in Q3. Demand for credit will be driven by the consumer, public sector projects, agriculture, some service sectors and working capital across various sectors. To this end, the NPL ratio, now at 15.3% is expected to range at 13.0%-15.0% in the second half of 2026.

As a result, there is little impetus from the policy anchor for interest rates to increase beyond their present levels in the market. Interest rate pressure will be driven by government borrowing appetite, liquidity conditions and the inherent inflation expectations.

Overall, our forecast is for the policy rate to close at 8.50-8.75% by December and for interest rates to remain sticky near current levels. The 91-day T-bill just approached 9%.

On the currency, the USD/KES stability continues to defy the global trend, where a strong dollar continues to weigh on the strength of major currencies. Of concern, one of Kenya's most significant sources of foreign currency—diaspora remittance—declined for the second consecutive month in May, falling by 10.4% year-on-year following contraction of 5.9% recorded in April. Lower remittances from North America and Asia suggest we are likely to see only marginal expansion from 2025. Nonetheless, the shilling's performance is expected to be backed by stable import demand and central bank support especially following the disbursement of the World Bank DPO amounting to $ 750Mn that bolstered FX reserves to $ 14,047 Mn, sufficient to cover six months of import cover. Furthermore, progress in the US-Iran talks is expected to ease shipping constraints and should ramp up tea and coffee exports in H2 2026.

Accordingly, we expect the current account deficit to widen marginally towards 4.0% of GDP this year, resulting in trading on the USD/KES around 129-132 levels.

UGANDA

Uganda's economy is at a bright turning point into the near-term having built strong momentum in 2025 as one of the fastest growing economies in Sub-Saharan Africa by expanding over 6.5% in the 2H2026 and due to the oil prospects. This growth appears durable for several reasons. Firstly, it is broad-based, stemming from agriculture, the construction sector, financial and tourism services as well as resilient household consumption. Secondly, investors are likely to continue to find Uganda attractive in the near and medium term. Thirdly, once the country's oil hits the export markets in 2027, economic growth could hit 8% per year.

Uganda is on course to begin its first crude oil exports in late 2026 or early 2027, following the announcement by Liu Xiangdong, president of CNOOC Uganda Limited, who stated that the Kingfisher oil development project has entered its final phase. The Kingfisher project is expected to unlock 200,000 barrels per day of the estimated 1.4 billion barrels of recoverable oil in the Lake Albert Basin. Moreover, the completion of EACOP will enable Uganda's first commercial crude oil exports and establish a new export corridor linking inland production in East Africa to global markets via the Indian Ocean. Oil revenues are also expected to ease pressure on the government's fiscal deficit financing.

The combined Kingfisher, Tilenga and East African Crude Oil Pipeline (EACOP) projects have attracted investments exceeding $12 billion, making them among the largest industrial developments in Uganda's history.

To illustrate continued growth momentum, the headline PMI posted 56.5 in June, up from 54.1 in May. The latest data signalled another monthly improvement in the health of the Ugandan private sector. Looking ahead, investment activity, higher exports, and growth in across the key sectors will prop up overall growth.

Though picking temporary momentum, consumer prices saw the June headline inflation rising to 3.7%, up from 3.2% recorded in May. Annual Energy Fuels and Utilities inflation rose to 11.9% compared to 9.1% in the year ended May 2026. Core inflation increased to 3.4% from 3.0%, previously.

The June inflation print validates the Bank of Uganda's cautious posture. Although inflation remains below the 5% medium-term target, the rise in core inflation suggests that fuel-related pressures are beginning to pass through more broadly. This reduces the scope for near-term easing and keeps the central bank on a defensive footing. That said, the policy makers seem to have demonstrated prudent actions in the past, which is expected to continue.

The USDUGX gained nearly 100-shillings in the month supported by easing global oil prices, improved interbank dollar liquidity, and reduced importer demand following the U.S.-Iran peace agreement, which lowered pressure on the domestic foreign exchange market. Further, Uganda's external position continues to benefit from stronger coffee and gold exports, which helped cover the demand from traders seeking to finance higher energy import and freight costs. Year-to-date, the USDUGX has depreciated by only 1.0% this year. The Bank of Uganda's foreign exchange reserve balances have continued to rise, reaching $ 6119.46Mn (4.1 months of import cover) as of May.

Into the second half of 2026, we see the current account deficit moving toward 7% of GDP following a 15% drop in coffee prices, a likely pick up in the import bill in the fourth quarter and travel cancellations due to the Ebola outbreak.

On the fiscal side, with Uganda holding the fiscal deficit almost flat in FY2026/27, growing at just 0.4%, budget execution will be crucial now that the government faces no budget outliers such as general elections. This is likely to offer bond investors comfort, which will support both budgetary financing and the local currency.

Overall, timely oil exports represent the most significant shift in Uganda's economic growth outcomes, while on the external side, potential risks could stem from a deterioration of the Middle East conflict, coffee price weakness as well as its landlocked position, which amplifies impact from external shocks.

TANZANIA

Real GDP growth in Tanzania is forecast at around 6% in 2026, similar to the first half of 2026, underpinned by solid performance in agriculture, construction, mining, financial services and transport activities. Into H2 2026, we project a robust infrastructure activity to support growth.

Notably, in the FY 2026/27, development expenditure is budgeted up 20% and accounts for 33% of the total budget. Of concern, funding grants from development partner have declined by 39%. This decline reinforces the emphasis on self-reliance, with tax revenue (TZS 36.99 trillion) targeted to rise to 13.7% of GDP, compared to 13.2% in 2025/26. Overall, the government plans to contain the budget deficit within 3.0% of GDP and will be financed primarily through domestic borrowing (TZS 6.56 trillion) and concessional financing (TZS 6.55 trillion), with only a small allocation of TZS 2.43 trillion to external commercial loans.

On monetary policy, external shocks prompted the central bank to tighten the policy stance. The MPC hiked the policy rate by 50 basis points to 6.25% for the quarter ending September 2026. With the annual headline inflation rising to 4.2% in May 2026, the recent rate hike was anticipated to keep inflation within 3-5% target. Moreover, the onset of the July 2026 cereals harvest across most of the country is expected to moderate food inflation. Looking ahead, we see the policy rate holding at 6.25% through December, before a window to ease the policy stance emerges in 2027.

We anticipate that credit growth will absorb this rate hike marginally noting that it has consistently stayed strong with double-digit expansion up to now. As of May, credit grew 23.2% and the continued strength reflects both accommodative liquidity conditions and resilient demand from businesses and households, supporting private investment and consumption. Additionally, NPL ratio remains low at 2.9% further supporting the domestic outlook.

The external account remains relatively well cushioned, anchored by IMF reforms, a strong reserve position and high export growth. The central bank reported foreign reserves of about USD 5.7bn, covering 4.4 months of imports, while earlier external-sector data showed support from gold, tourism and agricultural exports. This helped stabilize the shilling despite global risk aversion and higher oil price. In the near term, given that the East Africa Ebola outbreak has yet to stabilize, we continue to see risk to tourism activity in the region. For Tanzania, where the peak tourism season occurs between July and October, may see reduced sector inflows. Nonetheless, the Bank of Tanzania appears keen to sustain USD/TZS trading levels below 2650 levels through intervention in the FX market. Thus, we expect the USDTZS to hold near current levels in the near term.

RWANDA

Rwanda's economy continues to be one of the fastest growing in Sub-Saharan Africa, supported by strong policy credibility, infrastructure investment, and an expanding services sector. According to IMF projections, real GDP growth is expected at 7.2% in 2026.

Despite the favourable growth profile, risks to the outlook have increased. Rwanda remains vulnerable to imported inflation through higher fuel, fertilizer and transport costs arising from geopolitical tensions. Fiscal and external pressures are also building up due to financing requirements for major infrastructure projects and elevated import demand. Moreover, public debt is projected to rise further as strategic investments continue.

A key geopolitical risk remains the continued instability in eastern Democratic Republic of Congo (DRC). While diplomatic efforts through the Washington and Doha processes have reduced the risk of a broader regional conflict, tensions between Rwanda and DRC remain a source of uncertainty. Any deterioration in regional security could affect trade corridors, tourism flows, investor sentiment and fiscal priorities.

With regard to inflation, Rwanda's CPI rose by 12.9% year-on-year in May, and core inflation at 9.2%. Inflation pressures were broad-based, with transport, housing and utilities, food and services all elevated.

In the latest monetary policy decision meeting in May, the National Bank of Rwanda raised the central bank rate by 100bps to 8.25%. The policy stance is now clearly hawkish, reflecting concern that inflation has moved well above the upper bound of the preferred target range and could remain elevated for much of 2026. Thus, we see minimal changes to the stance into end-year in a bid to anchor inflation expectations.

In the FX market, movement on the USD/RWF indicates continued gradual depreciation pressure, trading at 1461 levels against the dollar. Given Rwanda's dependence on imported fuel, fertilizer and capital goods, pressure on the trade deficit persists. The external position remains exposed. Official data shows a Q1 2026 trade deficit of about USD 771.5Mn, while the Budget Framework Paper notes that the Middle East conflict is weighing on Rwanda's current-account outlook through higher oil and fertiliser prices.

On the fiscal side, the FY2026/27 budget emphasizes domestic revenue mobilization, digital transformation, regional integration and resilience. The fiscal stance continues to normalize after recent shocks while preserving strategic investments such as the New Kigali International Airport and targeted support including fertiliser subsidies.

Overall, the IMF extended Credit Facility, a proved policy implementation capacity by the government and fading external risks should keep Rwanda's economic growth momentum.

ECONOMICS AND RESEARCH H2 2026 OUTLOOK

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