ECONOMICS AND RESEARCH MONTHLY ECONOMIC REPORT

September 2026

HIGHLIGHTS:

- The **global** outlook will be shaped by two competing factors. First, the various outstanding geopolitical conflicts and second, a test of the long-standing "global economic resilience theme".
- **Kenya** has weathered external shocks well, but domestic challenges may weaken its resilience.
- In **Uganda**, delays in commercial oil production likely to defer GDP uplift to 2027.
- **Tanzania's e**conomic environment upholds stability despite increased political risk.
- **Rwanda's** inflation worsens leading the MPC to tighten the policy stance

GLOBAL ECONOMY AND GEOPOLITICS

Resilient Economic Activity | Inflation Risks Higher

Leading indicators of economic activity point to continued resilience across the major economies. Illustratively, the composite PMI printed at 56.0, 52.0, 53.5 and 52.1 for the US, EU, Japan and China, respectively. Furthermore, official growth data showed that second-quarter economic growth generally surprised on the upside, particularly in Western Europe, while investment in artificial intelligence, digital infrastructure and associated capital equipment supported activity in the United States and parts of Asia. China's recovery remained constrained by weak domestic demand despite continued export and technology-sector support. Broadly, this indicates that so far, the impact from the geopolitical conflicts appears bearable.

Into the remainder of the year, the global outlook will be shaped by two competing factors. First, the various outstanding geopolitical conflicts and second, a test of the long-standing "global economic resilience theme".

Table 1: Global Purchasing Managers Index (PMI)

PMI (Aug)	Composite	Manufacturing	Services
Global	**53.5** (52.7)	**52.3** (52.1)	**53.7** (52.7)
US	**56.0** (54.5)	**53.9** (53.9)	**56.5** (54.6)
Eurozone	**52.0** (52.0)	**52.7** (51.9)	**51.6** (51.7)
Japan	**53.5** (52.7)	**54.9** (54.5)	**52.5** (51.2)
China	**52.1** (50.8)	**51.5** (50.9)	**51.4** (50.4)

Source: S&P Global, NCBA Research

US-Iran Conflict

The tentative diplomatic momentum that emerged after the June ceasefire weakened materially in August. The ceasefire memorandum expired on 17 August, while the absence of scheduled formal negotiations and renewed attacks on shipping reduced confidence in a durable settlement. Oman and Iran discussed a temporary shipping corridor through the Strait of Hormuz, and diplomatic backchannels remained open, but the US simultaneously intensified economic pressure through sanctions targeting Iranian entities and trading networks.

Tensions escalated sharply at the end of August and in early September. US attacks on Iranian targets were followed by Iranian strikes against US-linked military facilities and renewed threats against commercial shipping. The diplomatic outlook therefore remains fragile: both sides retain incentives to avoid an open-ended conflict, but neither appears willing to make concessions that could be interpreted domestically as weakness.

Russia-Ukraine War

The Russia-Ukraine conflict also intensified in August, with Ukrainian long-range air and drone attacks reportedly reaching their highest frequency since the war began. Russia responded with an elevated pace of missile and drone attacks, while the US reiterated support for Ukraine's sovereignty and a negotiated settlement. In the near-term, we see risk of continued attrition in the tensions. Ukraine is likely to maintain attacks on logistics, energy and military infrastructure, while Russia may exploit Ukraine's air-defence constraints and use hybrid operations to weaken European political support. Diplomatic engagement may produce limited agreements on sanctions, infrastructure or humanitarian issues, but the gap between the parties' territorial and security positions remains substantial.

Global Inflation Risks Have Shifted Upward

The US-Iran conflict and tensions between Russia and Ukraine has resulted in disruptions in two key strategic trade chokepoints; the strait of Hormuz and the Black Sea - a critical passage for global supplies of grain and oil. Resultantly, key commodity prices are facing pressure. According to the World Bank, the total commodity price index has risen 19% year to date, driven by increases in energy prices (28%), fertilizer prices (8%), the agriculture index (7%), and the non-energy index (6%).

Table 2: Global Commodity Prices

Commodity	Unit	Aug-26	M/M Change	Y/Y Change
Crude oil, Brent	($/bbl)	90.9	▲ 8.99%	▲ 33.28%
Cocoa	($/kg)	5.95	▲ 6.06%	▼ -21.71%
Coffee, Arabica	($/kg)	7.97	▲ 0.76%	▼ -1.36%
Tea, avg 3 auctions	($/kg)	2.91	▼ -2.35%	▼ -4.28%
Tea, Mombasa	($/kg)	2.25	▲ 0.45%	▲ 5.14%
Palm oil	($/mt)	1117	▲ 1.45%	▲ 8.87%
Palm kernel oil	($/mt)	2264	▼ -6.17%	▲ 0.00%
Maize	($/mt)	224	▲ 4.97%	▲ 20.75%
Rice, Thai 25%	($/mt)	447	▼ -1.32%	▲ 23.14%
Wheat, US HRW	($/mt)	263.2	▲ 1.98%	▲ 31.40%
Sugar, world	($/kg)	0.38	▲ 11.76%	▲ 2.70%
DAP	($/mt)	793.5	▲ 1.56%	▼ -0.20%
Urea	($/mt)	390	▼ -2.50%	▼ -23.18%
Iron Ore	($/dmtu)	96.3	▼ -1.93%	▼-3.41%
Gold	($/troy oz)	4411	▲ 8.30%	▲ 30.97%

Source: World Bank, NCBA Research

El Niño weather conditions pose further risks to the outlook. Akin to previous patterns, El Niño is likely to induce drought-like conditions in Southeast Asia and a weaker monsoon season in South Asia, negatively impacting rice, grain, sugar, and palm oil production. In Southern Africa, drought conditions may reduce regional maize production, while Kenyan maize crop production in the East may benefit from additional rainfall.

Against this backdrop, it is evident that several major central banks will maintain restrictive rates or resume tightening to combat inflation. Long-term sovereign yields have also risen as markets price persistent inflation, heavy government borrowing and sizeable corporate debt issuance. High long-term US yields may raise the global risk-free rate and establishes a higher hurdle rate for Emerging and Frontier market assets. For Kenya, this matters through the sovereign yield curve and external financing which may provide less scope for local yields to decline as quickly as domestic conditions might otherwise imply.

US ECONOMY

Focus on Inflation and the yield curve

The US economy remained resilient in August as growth indicators remained positive, while the labour market added approximately 162,000 non-farm jobs and unemployment stood at 4.1%. These indicators were consistent with continued expansion, however exposure to tariffs, elevated borrowing costs and energy-price disruptions remain key risks. For prices, these disruptions risk higher goods and services inflation. As of July, headline inflation stood at 3.4% while core PCE inflation stood at 3.3%. With regards to monetary policy, Federal Reserve Chair Kevin Warsh's Jackson Hole remarks strengthened expectations of a possible increase at the 15–16 September meeting. Market pricing assigned roughly a two-thirds probability to a 25-basis-point rise. The decision will depend heavily on whether August inflation confirms broader price transmission given that labour-market conditions appear firm enough to absorb additional tightening.

EUROPE

Scope to tighten policy

In the Eurozone, real GDP rose by 0.4% q/q in Q2, signalling moderate growth as fiscal constraints, high energy-import dependence and weak underlying domestic demand continue to undermine a strong recovery. Eurozone inflation accelerated to 3.3% in August, marking the sixth consecutive month during which inflation in the 21-country bloc exceeded the ECB's medium-term target of 2%. Annual core inflation, which excludes volatile food and energy prices, fell to 2.4% compared with 2.5% in July. Therefore, the European Central Bank (ECB) is preparing to raise interest rates for the second time this year to contain price pressures sparked by the Iran war. The ECB is widely expected to raise rates by a quarter point to 2.5%, which would be its second increase in borrowing costs since 2023.

KENYA

Economic growth outlook blurred but still resilient

Kenya has weathered external shocks well, but domestic challenges may weaken its resilience.

In August, the Headline PMI indicated a reversion to contractionary output levels, following a decline to 49.7 relative to 51.3 in July. We however attribute this decline to supply side logistical challenges through the port following the implementation of a digital pre-arrival system by the KRA requiring shippers to obtain a reference cost prior to loading cargo resulting in bottlenecks. Hence, some of this may be reversed in September and see a recovery in trade business.

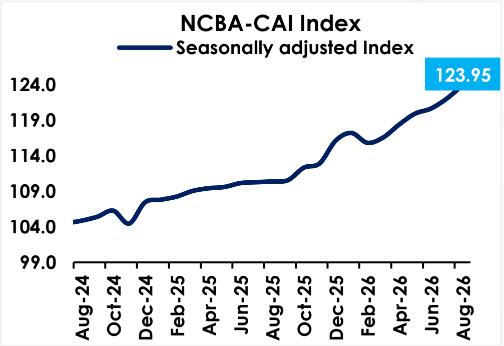
Of concern, the Government declared a severe national drought emergency across 20 counties, with a projected 30 to 40 percent decline in the 2026 cereals crop harvest due to prolonged dry spells and climate change. The dry spell has seen near-total crop failure across maize and wheat production, disrupted crop cycle for rice and choked dairy production.

In the year to July 2026, milk intake in the formal sector declined -2.3% relative to a similar period of 2025. Meanwhile, the Foreign Agricultural Service (FAS) estimates corn and wheat production could half in the FY2026/27. This local production gap means that Kenya needs to import roughly 2 million metric tonnes of wheat and maize and 1.1 million metric tonnes of rice. This at a time when there are disruptions along the Black Sea channel and local delays in the issuance of import permits portends further cost pressure.

This shock is expected to be immediately succeeded by El Nino that has historically damaged acres of farmland, risking further disruption to food supply. Positively, we expect additional rainfall to improve Kenya's maize, coffee, sugar, and fruit yields. Taken together, we now see the agriculture sector registering growth of just 2.0% this year relative to 3.1% in 2025. This is likely to have adverse spillover effects down the agriculture value chain, to agro-processing, transport and trade. Hence, we envisage that economic growth could underperform the 2025 growth of 4.6% more materially.

Positively, according to our NCBA-Consumer Activity Index, consumption activity appears steady. In August, the index rose 5.7% y/y and 1.6% m/m supported by school holiday related spending, back to school purchases in late August and recreation activities. However, general prices in the economy remain elevated and the outlook increasingly uncertain owing to the ongoing domestic dry spell, the Middle East conflict and reduced cereals exports through the Black Sea. Further, a lower VAT rate of 8% on petroleum fuel expires in October 2026.

Figure 1: NCBA-Consumer Activity Index



Source: NCBA Economic Research

Therefore, we project headline inflation to move toward 7.0% in the near-term from current level of 6.6%. This puts consumption growth at risk and could consequently slow private-sector credit growth slightly, with growth averaging 9% through December.

On the fiscal front, the July Exchequer report indicates a solid commencement to the current fiscal year following 14% growth in tax revenues compared to the previous year, and robust domestic borrowing. Consequently, government expenditure for the month included KES 142 billion allocated to recurrent expenses, KES 29 billion directed towards development initiatives, and KES 21 billion disbursed to county governments. For the rest of Q3, proceeds from T-bills and government bonds should sustain regular government spending.

However, Q4 presents a noteworthy period, particularly as government spending ramps up while external financing conditions tighten. The government is anticipated to approach the Eurobond market to raise US $815 million as well as raise commercial loans from alternative sources. Positively for now, market liquidity and interest rates appear stable indicating probable success in raising funds from the domestic market.

Externally, higher imported commodity prices are expected to place pressure on the import bill, although we posit export seasonality from tourism, coffee and tea to offset some of this impact. Moreover, the FX reserve buffer is ample portending strong cushion against exchange rate volatility. However, an escalation in the Middle East that pushes Brent materially above $100 would present an adverse scenario for inflation, interest rates and external financing cost.

UGANDA

Oil export pivotal

Delays in Commercial Oil Production Likely to Defer GDP uplift to 2027

According to the Purchasing Managers Index (PMI), Uganda is continuing to expand at a solid pace. The PMI held at 55.0 in August supported by output growth and an increase in order volume. In the near term, robust public and foreign investment will underpin activity. Into Q4, Uganda remains exposed to potential agricultural output disruptions linked to El Niño, as well as risk to tourism and trade due to Uganda's proximity to the Ebola outbreak in the DRC.

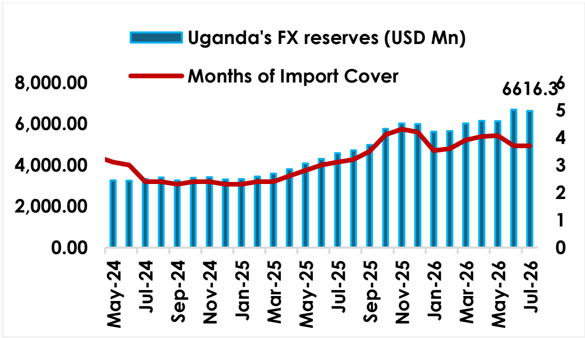
In the extractive sector, Uganda has seen a slower-than-expected start to commercial oil production owing to lack of requisite infrastructure that has pushed the completion date for the East African Crude Oil Pipeline (EACOP), among other challenges. Resultantly, we expect most of the oil production gains to be realized in 2027. Overall, real GDP growth is thus projected around 6-7% this year and above 8.0% in the medium term.

On prices, firms are now faced with rising input costs from higher energy prices and pressure on cost of raw materials. Notably, the Producer Price Index of Manufacturing and Utilities is up 1.8%

year-on-year, relative to 1.0% previously. Nonetheless, consumer prices have risen more moderately. In August, the headline inflation print stood at 4.1% from 4.0% in July. Similarly, core inflation rose to 3.5% from 3.4%, previously.

In the currency market, the Uganda shilling has depreciated by 4.0% year-to-date, faced with increased dollar demand from manufacturers and energy importers. Looking ahead, we see mild pressure on the UGX and a slight reversal towards 3750 in Q4. Underpinning this, official FX reserves are up $625Mn at $ 6,616Mn hence growing buffer for the exchange rate. Moreover, we expect export seasonality to drive higher foreign currency inflows buoyed further by positive sentiment on oil export progress.

Figure 2: Uganda's FX Reserves in USD Mn



Source: Bank of Uganda, NCBA Research

TANZANIA

Focus on political risk

Economic Environment Upholds Stability Despite Increased Political Risk

1H2026 GDP growth estimated at 6.0% is expected to hold at those levels into H2 2026 driven by infrastructure, exports and strong credit growth. Government-led infrastructure projects are anticipated to support construction, mining and transport activity.

On the political front, Tanzanian Vice President Emmanuel John Nchimbi resigned on August 25, 2026. His successor, Deogratius Ndejembi was appointed as the new Vice President on August 29, 2026. Given that the ruling party Chama Cha Mapinduzi remains dominant, we expect policy continuity. Markets remained stable following the announcement, with limited impact on the currency.

The recent Fitch rating may have softened the blow, but the principal risk is potential for a shift in perceptions of sociopolitical stability. Notably, on August 21, 2026, Fitch affirmed Tanzania's rating at 'B+' and revised the outlook to Positive from Stable. This is especially crucial for the government as it seeks to deepen its capital market following the recent liberalization allowing non-resident investors to participate in T-bills and government bonds.

The primary market has remained active with investors showing strong demand for government paper, largely supported by significant TZS liquidity injected into the market by the regulator. Resultantly, yields across all tenors have dropped sharply in the year-to-date.

Notably, overall T-bill rate has declined over 100bps since December 2025. This is expected to ease pressure on the government's fiscal deficit financing.

Headline CPI stood at 4.2% in July against a medium-term target of 5%. Energy prices are up +2.3 percentage points from February 2026 while in contrast food inflation down -1.6pp in the same period. Tanzania has managed to keep food prices contained due to the bumper harvest. Looking ahead, we see inflation anchored within 3-5% target range in the near term. Although, immediate risk from high energy price and El Nino will be key to watch.

In the FX market, the USDTZS currency pair is down 7.9% year-to-date. FX reserves have declined from $6.33Bn to $5.67Bn – reflecting deployment in FX market and external debt service. Although the months of import cover remain above statutory targets. Tanzania's recent liberalization may support the currency through portfolio flows but also introduces potential flight risk in periods of uncertainty for foreign investors. Into December, we expect tourism flows and continued strong performance on gold exports to support the currency.

Figure 3: Tanzania Food and Energy Inflation

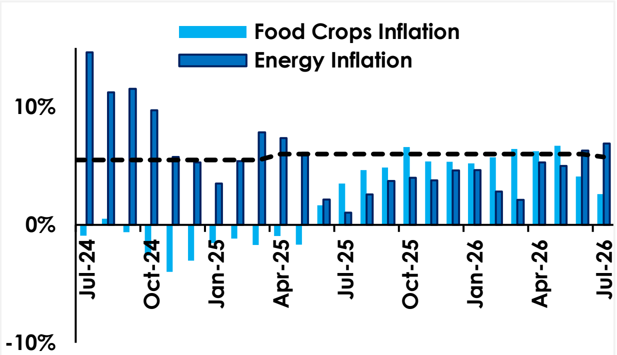
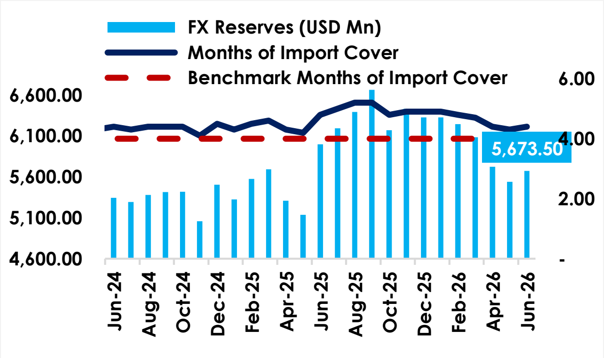


Figure 4: Tanzania's FX Reserves



Source: Bank of Tanzania, NCBA Research

RWANDA

Proactive monetary stance

Inflation Worsens Leading the MPC to tighten the Policy Stance

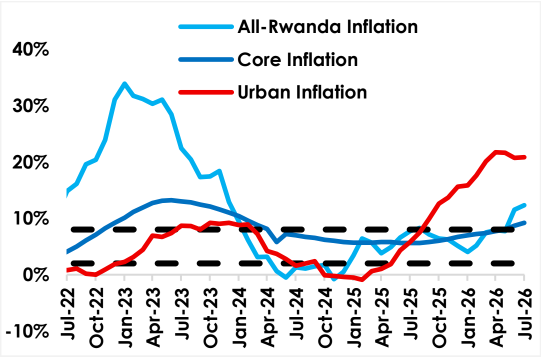
Latest pulse of economic activity through the Composite Index of Economic Activity (CIEA) shows economic activity declined in the second quarter. The CIEA dropped to 10.9% in Q2, down from 17.1% in Q1.

Central Bank of Rwanda's monetary policy committee opted to increase the CBR by 50 basis points from 8.25% to 8.75%. The move was underpinned by the need to contain inflationary pressure amid external shocks and an imminent weather shock from El Nino. Headline inflation stood at 14.5% as of July 2026, marking an increase from 9.1% in the first quarter of 2026. The committee expects inflation to average 8% in 2026 reflecting the adverse impacts from high energy prices and food inflation. From the pronouncement, the committee titled toward taking further action if the data leans toward a sustained deterioration in the inflation outlook.

Private sector credit growth touched 22% year-on-year. Credit uptake in the construction, trade, households and manufacturing sectors is largely attributable to the increase. The non-performing loans ratio rose to 3.0% as of June 2026, relative to 2.6% a year earlier.

Externally, Rwanda's export performance has surprised to the upside, recording a 51% growth in the first half of 2026 underpinned by strong mineral exports and high global prices. Meanwhile, imports grew 28%, partly offsetting the export growth. This led to a 1.1% increase in the trade deficit. Nonethless, depreciation on the Rwandese Franc has been minimal as diaspora remittance growth and FDI provide good cushion. Further, FX reserves remain above the statutory target at 4.2 months of imports.

Figure 3: Rwanda Inflation



Source: Bank of Tanzania, NCBA Research

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