

ECONOMICS AND RESEARCH **MONTHLY ECONOMIC REPORT**

October 2026

HIGHLIGHTS

- ❖ The global economy continues to remain resilient despite being plagued by a diverse set of challenges.
- ❖ In the US, resilient activity, stable labour market and sticky inflation led the Fed to raise policy rates 25 bps in September and markets to price in potential for more hikes.
- ❖ Europe's economy has proved more resilient than feared, with tailwinds from defence spending, AI investment and robust labour markets.
- ❖ Global bond yields have risen sharply to multi-year highs.
- ❖ Economic outlook in Uganda, Tanzania and Rwanda seems upbeat but with pockets of vulnerability.
- ❖ Kenya's macroeconomic resilience is under a test in Q4, but it is unlikely to break.

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GLOBAL ECONOMY AND GEOPOLITICS

Resilience Tested | Cloudy Skies on Geopolitics

We enter the final quarter of 2026 with the global economy staying resilient in the face of persistent geopolitical escalation, in part thanks to inventory build-up and the ongoing Artificial Intelligence investment boom. This resilience has given room for policy makers to tackle the rising risks of inflation by way of rate-hiking cycle. That said, policy makers are uncertain about how further the economy can absorb high energy costs, rising financing cost and narrowing fiscal buffers.

More closely, the Global composite PMI readings appear sustainably above 50.0 through to September 2026 at 54.3. Across advanced economies, output growth has largely reflected strong activity in the services sector, while manufacturing has gradually accelerated in recent months. Notably, global manufacturing PMI reached 53.0, its strongest reading since February 2022, supported by AI-related investment, defence spending and inventory accumulation. However, the stronger demand environment has coincided with renewed pricing pressure, with manufacturing input costs accelerating in September and firms increasingly passing higher costs to customers.

The IMF's July baseline projected global growth of 3.0% in 2026 and 3.4% in 2027, reflecting opposing forces from the Middle East conflict and stronger technology-related investment. Its full October outlook, which could revise these forecasts, is scheduled for release on 13 October. Even so, the growth-inflation mix has turned less comfortable for central banks – with the European Central Bank (ECB), the US Federal Open Market Committee (FOMC) among other key policymakers tightening monetary policy further in September. This triggered a broader repricing across global fixed-income markets. Sovereign yields rose as investors adjusted to sticky inflation and a more hawkish monetary-policy outlook. US and German 10-year yields stood around 5.29% and 3.62%, respectively. The implication of this is narrowing interest rate differentials. For emerging and frontier economies, this means higher external financing costs and greater vulnerability to capital-flow and exchange-rate pressures. Therefore, we expect their policymakers to turn more hawkish in the days ahead.

Global Purchasing Managers Index (PMI)

PMI (Aug)	Composite	Manufacturing	Services
Global	53.5 (52.7)	53.0 (52.3)	53.7 (52.7)
US	58.4 (56.0)	55.9 (53.9)	58.8 (56.5)
Eurozone	52.0 (52.0)	52.7 (51.9)	51.6 (51.7)
Japan	52.3 (53.5)	54.1 (54.9)	51.6 (51.4)
China	52.4 (52.1)	52.6 (52.5)	51.4 (50.4)

Source: S&P Global, NCBA Research

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In the energy markets, whilst hopes for global diplomacy in September provided temporary relief, there was little evidence of resolution of the underlying geopolitical tensions. Brent prices continued to rise above USD 100.0 in early October. This is despite the announced relief for refined products, especially diesel as the G7 plans to release about 100 million barrels of oil and diesel from their reserves. We do think that this is partly because markets do not foresee a quick reversal of the supply-demand deficits, refined oil products are still in the red following reduced processing in Russia and Asia and low probability of a ceasefire agreement. Resultantly, this could revive inflation risks across oil importing economies.

Iran's set of conditions to the US

- ❖ An end to the war on all fronts, including, Lebanon.
- ❖ The release of its frozen funds that run into billions of US dollars.
- ❖ An end to the naval blockade on Iranian ports.
- ❖ An end to US interference in Iran's internal affairs.
- ❖ An end to US cooperation with "the opponents of Iran's revolution".
- ❖ An end to all US attacks on Iranian territory.

US ECONOMY

Sticky Inflation Forces Fed into Tightening

The US economy remained remarkably resilient through September, leaving the Federal Reserve increasingly focused on above-target inflation. Illustratively, real GDP growth touched 2.2% in the second quarter, while the Fed's September projections upgraded 2026 real GDP growth to 2.3% from 2.2% and 2027 growth to 2.4%. Meanwhile, unemployment is projected at just 4.1% in the fourth quarter of 2026.

However, inflation remains a key watch point. Headline CPI accelerated to 3.4% y/y in August, driven partly by higher gasoline prices, although core CPI moderated to 2.4%. More importantly for policy, the Fed's September projections put 2026 core PCE inflation at 3.4%, compared with 3.3% previously, way above the 2% objective.

Against this backdrop, the Federal Reserve raised the federal funds target range by 25bps to 3.75%-4.00% on 16 September. The September projections also shifted materially more hawkish: the median policy-rate projection was raised to 4.1% at end-2026 from 3.8% in June, indicating scope for additional tightening. In response, the US 10-year Treasury yield has risen to approximately 5.3%, compared with around 4.80% earlier in September and the dollar similarly strengthened. Sustained US yields above 5% would keep upward pressure on borrowing costs, reinforce dollar strength and tighten financial conditions for emerging markets.

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For Kenya specifically, this environment increases Eurobond refinancing costs and will expectedly catalyze CBK tightening to maintained reasonable spread against US assets.

EUROPE

Policy Tightening Balance of Risks

The Euro-area economy entered the fourth quarter with substantially better growth momentum than had been expected earlier in the year. The S&P Global Eurozone composite PMI increased to 53.1 in September from 52.0 in August, its highest level in almost three-and-a-half years. Growth broadened across manufacturing and services, while new orders expanded at their strongest pace since May 2022. The ECB accordingly revised its growth projections higher, forecasting Euro-area GDP growth at 0.9% in 2026, 1.4% in 2027 and 1.5% in 2028.

However, stronger activity has coincided with a significant deterioration in the inflation outlook. Euro area headline inflation accelerated sharply to 3.8% in September from 3.2% in August, largely reflecting an increase in energy inflation to 18.8%. Core inflation was considerably more contained at 2.5%, although services inflation edged up to 3.2%, indicating that inflation is being driven disproportionately by energy.

Against this background, the ECB raised all three policy rates by 25bps on 10 September, bringing the deposit facility rate to 2.50%. The policy committee continues to see inflation risks tilted upward and growth risks tilted downward and has retained a meeting-by-meeting, data-dependent approach rather than committing to a predetermined rate path. Bond markets have responded forcefully. German 10-year Bund yields stood around 3.62%, while rates across Europe remain elevated amid monetary tightening and fiscal borrowing pressure.

Looking ahead, stronger activity gives the ECB more latitude to prioritise price stability, increasing the likelihood that rates remain restrictive for longer than previously anticipated. For markets, this should keep European sovereign yields comparatively elevated, while the Euro will remain caught between higher European rates and a stronger US yield environment. Consequently, the ECB is likely to intervene to cushion the Euro.

KENYA

Adverse Weather Conditions and High Energy Price Warrant Policy Shift

Kenya's economy has maintained a modest expansion in 2026, although underlying indicators point to a gradual moderation in growth momentum. The NCBA Consumer Activity Index, a high-frequency measure of household activity, is up around 6% year-to-date, while private-sector credit growth has returned to double-digit territory.

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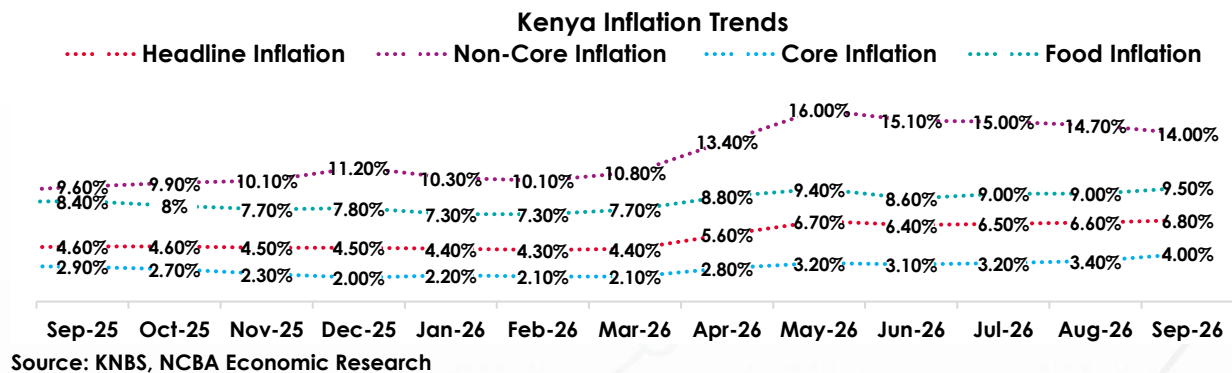
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On the production side, the S&P Global Kenya PMI improved to 51.3 in September from 49.7 in August, returning above the 50-point threshold. However, the headline improvement somewhat overstates the strength of the recovery: new orders increased, but output contracted for a seventh consecutive month as elevated fuel, transport and agricultural input costs constrained production.

Taken together, the indicators point to moderate rather than broad-based acceleration following the stronger-than-expected 5.3% GDP expansion in Q1, consistent with our expectation for full-year growth of around 4.5%.

Inflation remains the more immediate macroeconomic concern. Headline inflation rose to 6.8% in September from 6.6% in August, driven principally by food and transport costs. Food inflation accelerated to 9.5%, while transport prices were 15.6% higher year-on-year. More importantly from a monetary-policy perspective, core inflation increased sharply to 4.0% from 3.4% in August, even as non-core inflation moderated to 14.0%. The broadening in underlying price pressures suggests that the initial oil and supply shock is increasingly filtering into the wider domestic price structure. This materially changes the calculus for the October MPC. A more prolonged geopolitical conflict is increasing the risk of second-round effects becoming embedded.

Inflation Trend in Kenya



On the fiscal side, FY2026/27 started at a relatively brisk pace. Based on Exchequer data, total receipts during the first two months of the fiscal year rose 24% year-on-year to KES 882 billion, supported by a 14% increase in tax revenue and a 30% rise in domestic borrowing. Expenditure concurrently increased by 16% to KES 780 billion. Notably, development disbursements accelerated to around KES 44 billion, compared with KES 14 billion over the corresponding period of FY2025/26, while county disbursements rose 69% to KES 55.6 billion. Against a backdrop of tighter international credit conditions and rising global bond yields, the government has a stronger incentive to front-load domestic financing while local liquidity and investor demand remain

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supportive. The trade-off is that heavier issuance could eventually place upward pressure on domestic yields, particularly at the longer end of the curve, and potentially slow the decline in private sector financing cost.

In the foreign-exchange market, the USD/KES came under modest upward pressure during September, amid increased corporate and importer demand, although central-bank intervention contained movements beyond the 130 level. Diaspora and other foreign-currency inflows continued to provide an important cushion. Looking ahead, the combination of a higher oil import bill and recovering domestic demand point to a gradual build-up in dollar demand. We therefore expect the shilling to retain a mild depreciation bias in the near term, with USD/KES likely to test 131 levels. Nevertheless, orderly adjustment rather than sharp depreciation remains our base case.

Overall, weather outlook in Q4 will impact economic activity differently across the various sectors. Notably, agriculture activity will go on as usual in Q4 2026 but then, crop output may decline in Q1 2027. Relatedly, dairy, beef, fruit, sugar and coffee farming will yield better output under projected El Niño conditions. To this end, we expect slight disruption on the service sectors, but resilience will carry the day. However, pressure on fiscal affairs will emerge in Q1 2027 as the government rebuilds infrastructure and livelihoods affected.

UGANDA

Strong Economic Outturn but Exchange Rate Risks Emerge

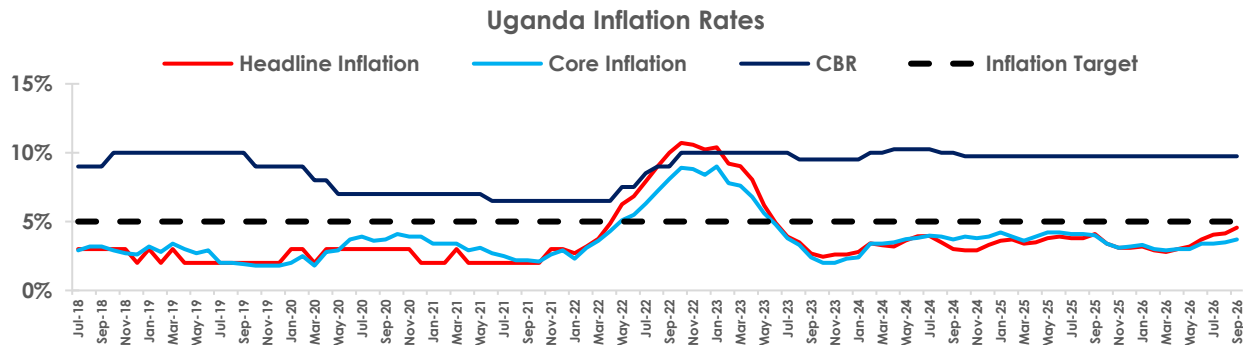
Uganda registered real GDP growth of 6.8% in the second quarter of 2026, up from 5.5% in the corresponding period of 2025. Growth was buoyed by strong activity in agriculture that grew by 7.1% in the period relative to 4.2% last year driven by food crop growing activities. The industry sector recorded growth of 6.9%, relatively unchanged from 7.0%. Meanwhile, services sector expanded 4.6%, marginally slower than 4.8% recorded in 2025. The slowdown can be attributed weakness in the transport sector that contracted by 0.7% relative to growth of 11.5% in the same period in 2025 but was partly offset by robust activity in trade and the financial and insurance sectors. More recent data shows the headline PMI posted 53.0 in September, down from 55.0 in August but still indicative of an improvement in the overall health of the Ugandan private sector. Into the remainder of the year, we expect the country to record marginally slower output underlined by a weaker currency and inflation risk.

On inflation, September headline CPI rose to 4.6% annually in comparison to 4.1% in August, predominantly driven by food prices. Core inflation similarly increased to 3.7% from 3.6% in the previous month. In the coming months, higher global energy prices, food supply pressures, and a weaker shilling will likely drive inflation beyond 5%. The Bank of Uganda has continually demonstrated proactiveness in policy decisions and is therefore more likely to implement an additional policy rate hike before year-end if inflation pressure persists.

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Inflation Trend in Uganda



Source: UBOS, NCBA Research

The risk of further tightening comes against the backdrop of the Bank of Uganda's recent increase of the Cash Reserve Requirement (CRR) by 250 basis points to 13.5%. This marks the second increase this year after the CRR was raised from 9.5% to 11% in March, reflecting deliberate efforts to tighten structural liquidity in the market. Success here may be limited if there is a significant portion of money supply outside the banking system.

The increase in the CRR comes against the backdrop of sharp depreciation of the shilling, which is down about 4% since August trading at 3930 levels. The weakening is largely attributable to shored up dollar demand from energy and manufacturing corporates amid high energy prices, with offshore flows adding to the pressure. Resultantly, the policy tool is seen to manage excess shilling liquidity and contain exchange rate pass-through. However, the impact has yet to be realized. The shilling could remain weak at these levels in the near term given risk of disrupted regional trade due to El Nino, sharp reversal in gold price and a low likelihood of central bank intervention in the market. Illustratively, while the central bank has rebuilt its FX reserve buffers to \$6,616Mn, it remains below 4.0 months of import cover at 3.7 months.

TANZANIA

Firm Economic Growth but External Risks Remain

Tanzania's economy continues to display comparatively strong momentum despite a less supportive global backdrop. Bank of Tanzania high-frequency indicators estimate that the economy expanded by around 6.0% in the first half of 2026, supported by agriculture, construction, mining, financial services and transport, with growth expected to remain above 6% in the second half. The World Bank Tanzania Economic Update 2026 similarly projects real GDP growth of 6.1% in 2026, following 5.9% in 2025, with growth rising towards 6.5% over the medium

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term. Domestic financial conditions also point to resilient demand, with private-sector credit growth averaging around 24% in Q2, providing additional growth support.

Inflation has nevertheless edged higher as the Middle East conflict feeds through to energy, fertiliser, freight and transportation costs. Headline inflation stood at 4.3% in August, remaining within the Bank of Tanzania's 3%-5% target range. In the July MPC meeting, inflation was expected to remain anchored by adequate domestic food supply. Consequently, monetary policy enters the fourth quarter from a considerably firmer starting point. In our view, the combination of within-target inflation and firm growth gives the central bank little urgency to hike rates in October.

Reinforcing this growth momentum, credit to the private sector expanded by 31.2%, compared with 28.1% in June 2026. The strength of credit growth reflects robust demand consistent with expanding economic activity. Notably, Transport and communication recorded the strongest annual growth, followed by mining and quarrying, and then trade. Agriculture sector credit grew by 37.3% in the period, up from 31.8% in July 2025, reflecting crop harvest season activity.

Looking ahead, the increase in the CBR, which took effect in July 2026, is expected to moderate growth of money supply and credit, although the effect is likely to materialize with a lag.

Tanzania Private Sector Credit Growth

	Annual Growth of Private Sector Credit (%)				
	Jul-25	Sep-25	Dec-25	Jun-26	Jul-26
Agriculture	31.8	27.6	28.9	30.1	37.3
Manufacturing	6.3	0.1	-8.2	8.3	5.1
Mining and quarrying	0.8	32.4	91.1	39.9	65.2
Personal	13.1	14.7	17.7	21.8	24.7
Transport and communication	18.9	17.4	29.4	59.5	66.0
Building and construction	21.6	15.7	25.6	34.4	38.9
Trade	26.2	24.8	49.7	46.4	43.5
Hotels and restaurants	13.0	16.3	2.5	0.9	25.1

Source: Bank of Tanzania, NCBA Research

Externally, the current account deficit has widened to USD 2,395.3 million in the year ending July 2026, from USD 1,975.4 million in the corresponding period of 2025. The deficit reflects an increase in goods imports, driven by investment related and energy demand, which outweighed the combined increase in exports of goods and services. Hence, while we foresee foreign currency inflows picking up from export and tourism, persistent energy-market disruptions could gradually weaken that cushion.

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RWANDA

Slowing Growth Momentum

Official statistics showed Rwanda's economy grew by 9.4% in the second quarter of 2026. This is relative to 10% in 1Q2026 and 7.8% in 2Q2025. Agriculture grew by 4%, down from 8% in 2025 - while food crop production increased by 5% and export crops production decreased by 20%. Industry increased by 18%, supported by mining, construction and manufacturing activities. Services increased by 7%, underpinned by wholesale and retail trade, transport and ICT. In the remaining quarters of 2026, expansion in agriculture, services, and construction will buttress growth.

Rwanda's Urban Consumer Price Index (CPI), increased by 15.7% in August 2026, up from 14.5% in July 2026. Pressure largely stemmed from higher food and transport inflation. Meanwhile, August core inflation was recorded at 10.3% in comparison to 10.0% in July. Overall, the lagged transmission from the recent policy tightening will keep inflation substantially above the central bank's 8% target in the near-term, with forecasts pointing to an average inflation rate of 12% this year. Therefore, we cannot rule out additional tightening, particularly if elevated food and energy prices continue feeding into core inflation.

External sector pressures remain manageable from a currency perspective. Merchandise exports grew 51.0% in Q2, supported by minerals and non-traditional exports, but imports increased by 28.0%, leaving the trade deficit 13.8% wider at US\$821.9 million. Despite this imbalance, the franc has remained comparatively stable and has depreciated by only 1.36% against the USD. Still, the sizeable import requirement associated with infrastructure investment and elevated energy costs remains a source of medium-term depreciation pressure.

Fiscal and debt dynamics warrant closer attention. Rwanda's FY2026/27 fiscal strategy envisages continued fiscal consolidation alongside strategic projects, including the New Kigali International Airport, while also accommodating interventions aimed at mitigating the effects of the Middle East conflict, including fertiliser subsidies. However, fiscal space is becoming progressively tighter. Public debt at 75% of GDP in 2025 is expected to approach 80% in 2026, alongside a current-account deficit of around 13.5% of GDP. Financing conditions have therefore become an increasingly important constraint, particularly as concessional financing proves scarce and global interest rates remain elevated. Encouragingly, domestic government securities continue to attract strong demand, pushing Treasury-bill rates lower across maturities.

Against this backdrop, Fitch Ratings affirmed Rwanda's Long-Term Foreign-Currency Issuer Default Rating at 'B+' with a Stable Outlook, citing strong governance indicators, high growth potential and stable public debt service burden. The assessment highlights continued confidence in the country's economic fundamentals and policy framework despite a challenging global and regional environment.

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