ECONOMICS AND RESEARCH MONTHLY ECONOMIC REPORT

November 2026

HIGHLIGHTS

- Overall, the global economy remains resilient but monetary policy tightening points to a challenging environment of higher financing costs.
- Recent US mid-term election results seem to suggest momentum for a possible US-Iran dealmaking versus an earlier narrative of renewed war escalation post these elections.
- Consequently, lower oil prices are dovish, if the last and could cap US dollar strength dynamics in the medium-term.
- Across East Africa's economies, growth outlook appears divergent and vulnerable to weather and geopolitical shocks.
- Kenya enters the fourth quarter with a decent level of economic growth momentum, although it could face a bigger test next year.

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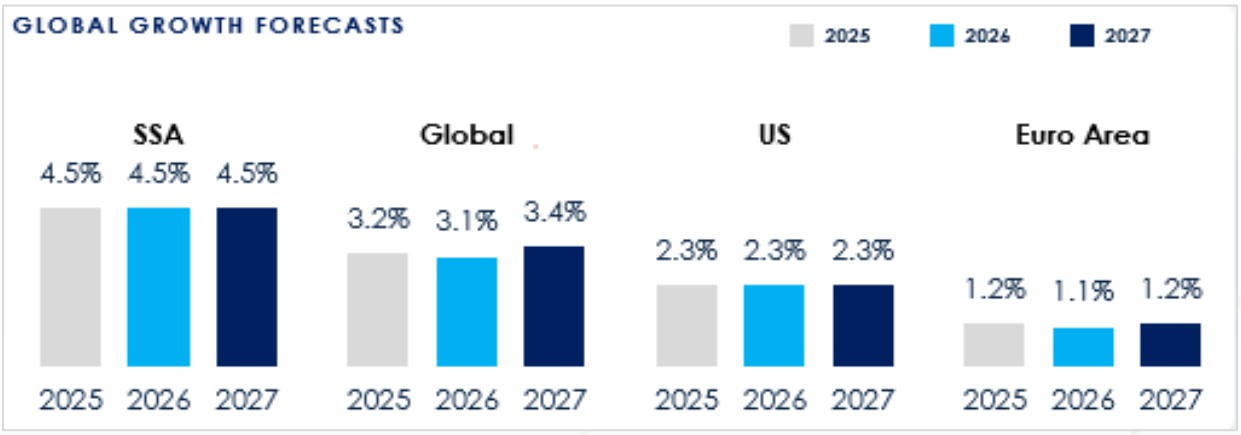
GLOBAL ECONOMY

Resilience Under Strain | Policy Buffers Narrow

The global economy entered the final quarter of 2026 with activity holding strong though momentum slowed marginally on heightened economic uncertainty. The S&P Global reported a composite PMI reading of 53.2 relative to 54.3 in September following softer output in manufacturing and services. This growth is consistent with the IMF's October World Economic Outlook, which raised its forecast for global real GDP growth in 2026 from 3.0% in July to 3.1% in their October edition, while keeping its 2027 projection unchanged at 3.4%. The resilience largely reflects stronger US activity, continued investment associated with artificial intelligence and private-sector adaptation to geopolitical disruptions.

However, performance remains highly uneven. Energy-importing economies have borne a disproportionate share of the Middle East shock, while technology-linked economies have benefited from strong capital expenditure. Central Asia and Middle East growth is now forecast 1.0 percentage point lower, while growth across advanced economies stands at 2.3% in the US and 1.1% in the Euro area. China is projected to expand by 4.5% similar to Sub-Saharan Africa.

Global Economic Growth Forecasts



Source: IMF, NCBA Economic Research

Inflation has consequently re-emerged as the principal constraint on monetary policy. The IMF now projects global headline inflation at 4.7% in 2026 and 4.1% in 2027, compared with 4.1% in 2025. Accordingly, this has given way to either policy pauses or renewed tightening. This development has kept global sovereign yields elevated and tightened financing conditions for emerging and frontier economies.

Commodity markets remain an important transmission channel. The World Bank estimates that commodity prices will increase by around 23% this year relative to 2025, reflecting disruptions to energy markets, grain shipments and weather-related supply shocks. To this end, energy has been the dominant driver, with the energy price index surging 7.1% in October. However, the recent reversal in Brent price below USD 100 a barrel could point to a new equilibrium if it lasts. Agriculture prices have also remained firm, rising by 6.9% year-to-date and El Niño is expected to raise some food commodity prices materially into 2027.

Overall, the global economy should remain resilient, but with significantly narrower policy buffers. Global monetary tightening points to a difficult environment of higher external borrowing costs, stronger pressure on currencies and less room for monetary policy accommodation.

GEOPOLITICS

US Midterm Elections | Global Risk Premium Remains Elevated

The US midterm elections have materially altered the US economy political backdrop. Early election results show that Democrats have secured control of both chambers of Congress. The result is significant for the geopolitical outlook. A divided Washington between a Republican White House and Democratic-controlled Congress could constrain the administration's ability to advance legislation without negotiation and maybe strengthen congressional oversight. The effect may be particularly important for budgetary expenditure, policy on Iran, Ukraine, defence expenditure and sanctions.

We would therefore expect the White House to rely relatively more heavily on existing executive authority in foreign affairs, while Congress exercises greater leverage through appropriations, hearings and oversight. This increases the likelihood that foreign policy becomes more contested domestically, potentially slowing large fiscal or military commitments and increasing political pressure for diplomatic off-ramps in prolonged conflicts. Despite this outcome, economic growth, corporate earnings, AI investment, inflation, and interest rates should remain more important market drivers.

In the Middle East, October saw renewed diplomatic activity involving Tehran, Washington and regional and international intermediaries. Russia has increasingly attempted to position itself as a mediator, aided by its close relations with Tehran and technical involvement in Iran's civilian nuclear programme.

For markets, progress towards even a temporary ceasefire would be consequential because the conflict's largest macroeconomic impact continues to run through energy markets. Brent is currently below USD100 per barrel following the results of the US mid-term elections. Markets interpret this to have added momentum for a US-Iran dealmaking versus an earlier narrative of renewed escalation post these elections. However, re-escalation risks remain in the near-term.

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US ECONOMY

Inflation Keeps the Fed on Guard

The US economy continued to outperform expectations in the third quarter despite restrictive financial conditions and elevated geopolitical uncertainty. Real GDP expanded at an annualised 3.4% in Q3 2026, considerably stronger than the 2.2% expansion recorded in the second quarter. Consumer spending and business investment have remained key supporters, although high-frequency indicators point towards some loss of momentum entering Q4. The composite PMI for October eased to 55.9 from 58.4 reflecting slower expansion in both services and manufacturing activity.

Inflation nevertheless remains the Fed's principal challenge. Headline PCE inflation stood at 3.6% in September, leaving inflation materially above the FOMC's 2% objective. Higher energy prices have complicated the disinflation process and raised the risk of second-round effects through transport, production and consumer prices.

Against this backdrop, the Federal Reserve held the federal funds target range at 3.75%-4.00% at its 28 October meeting, following its September tightening. Expectedly, the Fed's pronouncement broadly leaned on the risks surrounding heightened inflation and tightening global financial conditions. This environment suggests higher-for-longer US rates which may continue supporting the dollar relative to lower-yielding currencies. For emerging and frontier markets, this implies costlier external financing. The key US macro question entering 2027 is therefore whether the Fed can contain the energy-induced inflation shock without materially weakening domestic demand.

EUROPEAN ECONOMY

High Prices Test the ECB's patience

The Euro area entered Q4 with positive but moderating economic momentum. The S&P Global composite PMI eased to 51.7 in October from 53.1 in September, a four-month low, while the manufacturing PMI softened to 52.7 from 52.9. Output and new orders nevertheless remained in expansionary territory, suggesting that the region continues to withstand the energy shock better than feared.

However, growth varied markedly within the eurozone: France notably lagged with a contraction of output, coinciding with political and social unrest, but Spain outperformed alongside solid growth in Germany and a sustained, though weak, upturn in Italy.

On the more difficult part of the equation, the preliminary estimate showed headline inflation accelerating further to 4.0% in October from 3.8% in September, the highest reading in three years. Energy inflation jumped to 20.8%, while core inflation excluding energy, food, alcohol and tobacco remained at 2.5% and services inflation edged up to 3.3%.

The ECB responded cautiously at its October meeting, leaving policy rates unchanged, with the deposit facility rate at 2.50%, following September's 25bps increase. The pause provides time to assess whether the energy shock spreads materially into underlying inflation and wages.

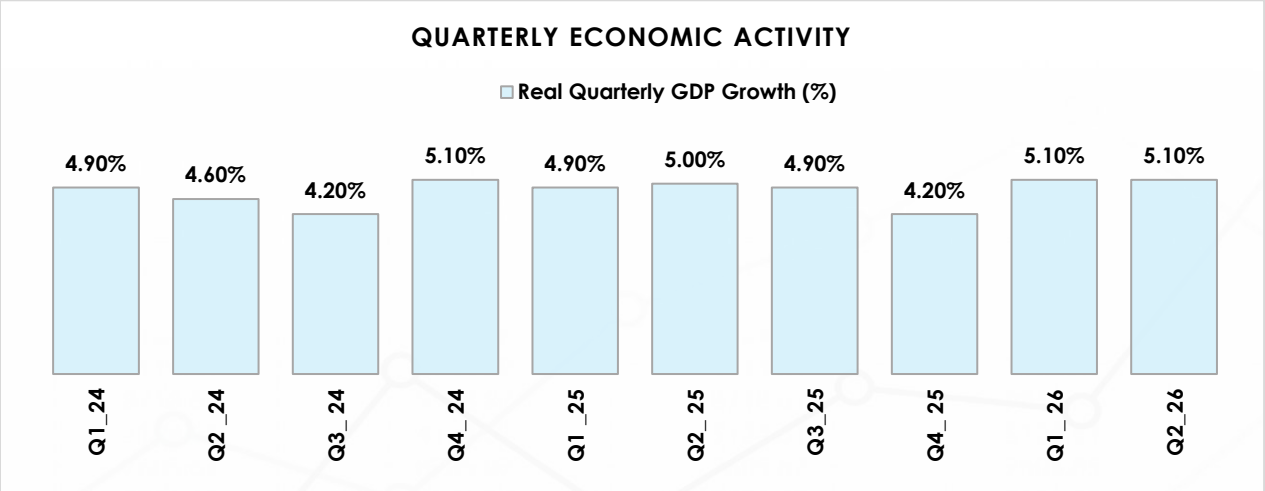
Nonetheless, October's inflation print strengthens the case for additional tightening if price pressure remains persistent. The ECB therefore enters its final 2026 meeting facing a narrow policy trade-off: We expect a hike of 25-basis points to anchor inflationary expectations. The Euro should receive some support from a more restrictive ECB than envisaged earlier in the year, although its performance against the dollar will remain highly sensitive to US yields and geopolitical developments.

KENYA

Inflation Approaches the Ceiling | Policy Trade-Off Turns More Difficult

Kenya's economic performance has thus far surprised to the upside, proving more resilient than previously thought. Following the release of the second quarter GDP numbers, Kenya recorded real GDP growth of 5.1% in H1-2026, with services and construction providing significant support despite weaker agricultural conditions. Business sentiment remains relatively constructive, with the CBK's October CEO survey reporting sustained optimism about business activity in the next twelve months.

Kenya Quarterly Real GDP Growth



Source: KNBS, NCBA Economic Research

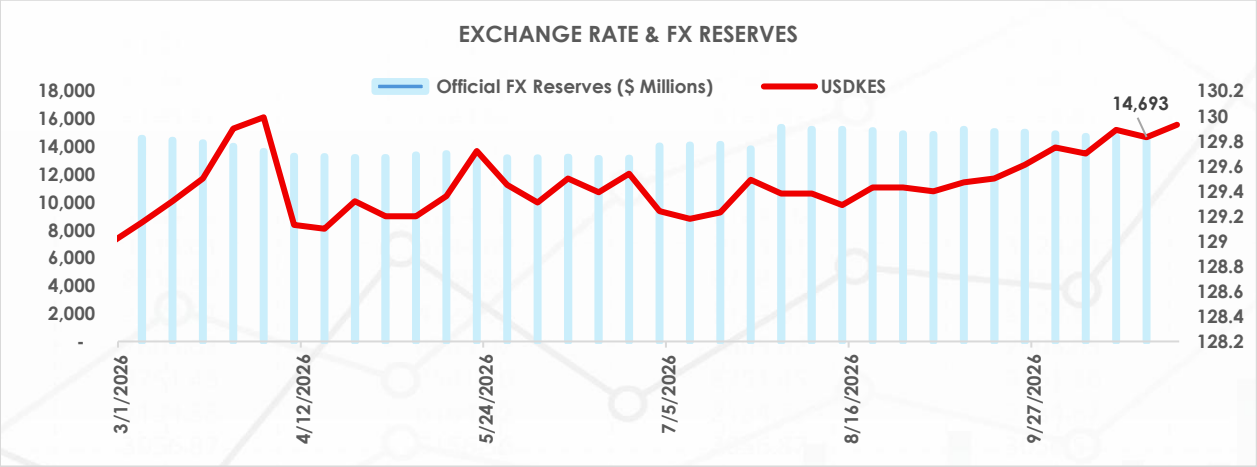
Into Q4, the macroeconomic conditions have turned less favourable. On the weather front, the delayed onset of the short rains, amid still looming risks of El Niño is set to see crop production underperform. However, positive offsets from export-led service sectors, tourism, and industry are projected to place full year growth at 4.8% this year, up from 4.6% recorded in 2025.

The immediate concern has shifted decisively towards inflation. The government's ability to protect consumers from high energy prices has diminished, as evidenced by the lack of the fuel subsidy in the current cycle, although the 8% VAT reduction on petroleum products has been extended for 90 days. As a result, EPRA's upward revision on diesel and petrol prices in the mid-October pricing review, as well as persistent pressure on food prices sent overall inflation toward the 7.5% upper-band target. Into December, absent a significant reversal in oil prices, we project inflation at 7.0-7.5%.

The risk of tightening policy by the central bank is higher now but with one inflation reading expected before the December MPC meeting, the outcome will be crucial in informing our expectations for their policy decision.

On the fiscal front, the sovereign has so far benefited from successful bond auctions, hence low utilization of the overdraft facility. However, public debt-servicing pressures persist. The government's reliance on successive liability management operations does signal to investors refinancing risks. As of September, debt service payments accounted for nearly 80% of tax revenues collected, implying less fiscal space for budgetary spending. Positively, the current local borrowing has come at a relatively contained cost with yields moving very marginally since July. In the near term, we project interest rates to respond mainly to increase in the global interest rate path and local policy stance. Additionally, a Eurobond issuance could inform changes to the fiscal funding mix through June 2027. In the FX market, the local currency traded at slightly higher levels in October but remained broadly contained. Stable import demand, foreign currency inflows from exports and diaspora remittances and central bank interventions anchored the currency.

Figure 2: Kenya Exchange Rate and FX Reserves



Source: CBK, NCBA Economic Research

UGANDA

Currency Weakness Necessitated Aggressive Policy Response

Uganda entered the final quarter with economic activity still expanding but with a much less favourable inflation and external-sector backdrop. We estimate growth at around 6.4% in the quarter ending September, down from 6.8% in the preceding quarter, while FY2026/27 growth projection is revised down to 6.0%-6.5% from 7.0%-7.5%. This remains a decent growth pace, but tighter financing conditions and imported cost pressure should restrain momentum in the coming quarters.

Reflecting this, output growth slowed in the first month of Q4 as signalled by a decline in the Headline PMI from 53.0 to 50.9 in October. At the sector level, output fell in construction, wholesale & retail and services, but rose in agriculture and industry. Pressures were largely linked to higher fuel, transport and utility costs.

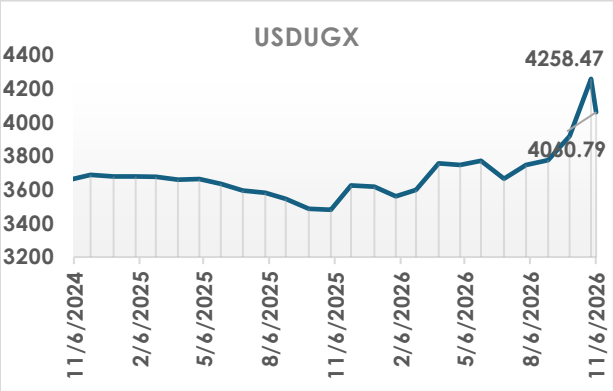
That said, inflation accelerated sharply in October. Headline CPI rose to 5.8% from 4.6% in September, while food-crop inflation increased to 10.7% and core inflation to around 4.4% from 3.7%. The acceleration validates the Bank of Uganda's concern that currency depreciation and higher energy costs could spread into a broader price shock.

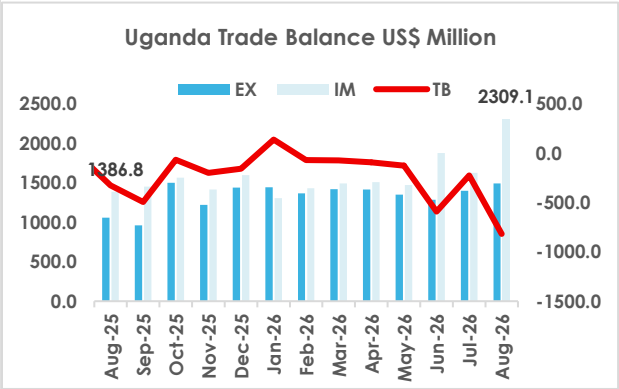
That risk prompted an unusual monetary policy response. At a special meeting on 14 October, the Bank of Uganda raised its Central Bank Rate by 225bps to 12.0% from 9.75%, following an earlier increase in the Cash Reserve Requirement to 13.5%. The Bank now expects core inflation to average 5.5%-6.0% over the next 12 months, and headline inflation at 7-7.5%. The aim of the tightening is therefore both to anchor expectations and interrupt the feedback loop between shilling depreciation, fuel costs and domestic prices.

The problem is that the external imbalance remains material. On trade, the BoU estimates that the current-account deficit has widened to USD4.6bn with imports up 66% and export growth of 6.6%. Coffee exports are down 11% but have been partly offset by a 13% increase in mineral product exports such as gold.

Consequently, the shilling should remain the key monetary-policy transmission channel. Nonetheless, the sharp upward repricing on the yield curve appears to have drawn substantial portfolio inflows into the market, resulting in a recovery in the USDUGX to familiar territory of 4,060 levels. Absent a meaningful reversal in US yields, we see room for reduced further depreciation on the currency pair.

Uganda Exchange Rate and Trade Balance





Source: BOU, NCBA Economic Research

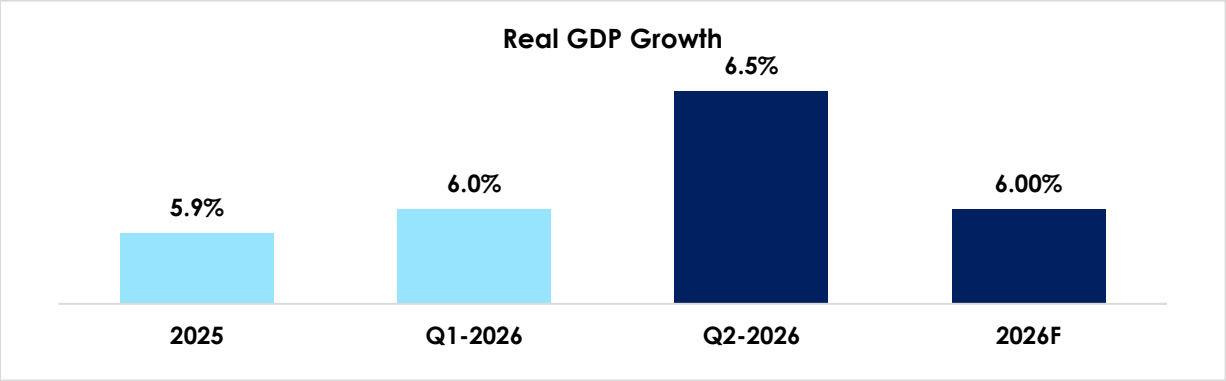
TANZANIA

Firm Economic Growth but External Risks Remain

Tanzania continues to distinguish itself through comparatively strong growth and contained inflation. Real GDP expanded by 6.5% in Q2 2026, up from 6.0% in Q1, supported by agriculture and a number of service industries despite softer mining and construction growth. The IMF's improved regional outlook also provides a constructive external backdrop, although higher oil prices represent a meaningful terms-of-trade headwind for the economy.

Agriculture sector growth flatlined at 5.2%, while industrial sectors recorded material slowdown relative to last year. Construction slowed from 9.1% to 4.4%, mining activities softened from 19.0% to 1.2%. Across the service sub-sectors, financial services, transport, education and health recorded higher growth while the accommodation and restaurant growth weakened from 29.2% to 5.9%.

Tanzania Real GDP Growth



Source: NBS, NCBA Economic Research

Inflation remains substantially more contained than elsewhere in the region. Headline inflation stood at 4.3% in September, inside the Bank of Tanzania's 3%-5% medium-term target range. This relatively favourable inflation backdrop gave the MPC room to maintain the CBR at 6.25% on 7th October, with the Bank judging that the existing restrictive stance remains sufficient to contain underlying pressures while supporting growth.

The exchange rate was similarly stable through October. The shilling ended the month around USD/TZS 2,641 broadly unchanged from early October. This contrasts favourably with the sharp adjustment in Uganda and suggests that Tanzania's monetary aggregates, external inflows, including tourism, gold and other exports, continue to cushion pressure from the higher oil-import bill.

The overall policy mix is therefore considerably more comfortable than in several neighbouring economies. However, higher global energy and freight prices warrant vigilance. A material deterioration in the external balance or a sustained move in inflation above 5% would narrow the Bank of Tanzania's room to remain on hold.

RWANDA

Strong Growth Coincides with Persistent Price Pressures

Rwanda's economy continues to exhibit one of the strongest growth profiles in the region, although the inflation shock materially complicates the policy outlook. Real GDP expanded by 9.7% in H1 2026, with Q2 growth of 9.4%, supported by services, construction, manufacturing and strong mineral exports. Illustratively, merchandise exports increased 52.1% in the first half, compared with an 18.9% increase in imports, materially improving the export-to-import ratio despite the trade deficit remaining sizeable.

As part of the government's response to elevated global energy prices and supply disruptions, Rwanda introduced a new petroleum procurement framework, led by the Rwanda National Energy Company (RNEC), aimed at centralising bulk fuel procurement and securing more favourable supply terms. The framework is particularly important given the sharp increase in Rwanda's headline inflation, where higher energy and transport costs have been significant contributors. Over time, a more predictable fuel-import framework could therefore ease inflation volatility and reduce pressure on the franc, although its effectiveness will remain sensitive to global oil prices, freight costs and the availability of foreign exchange.

That said, inflation is sharply inconsistent with the central bank's price-stability objective. Urban inflation increased to 17.2% in September from 15.7% in August, with food, transport and energy costs driving the acceleration. The National Bank of Rwanda expects headline inflation to remain above the upper limit of its target band during H2 2026 before moderating in 2027 as the effects of earlier supply shocks dissipate.

Against this backdrop, following the August rate hike to 8.75%, we see room for further tightening to contain inflation into the November MPC meeting. Despite the tighter policy stance, private sector credit has continued to expand strongly, up 22% as of June 2026. This growth is largely driven by the construction, trade, real estate and agriculture.

More encouragingly, currency conditions have remained considerably orderly than the inflation data suggests. Strong export receipts, remittances and FDI, together with earlier FX-market reforms, have improved foreign-currency availability. Gross reserves provided about 4.1 months of import cover at end-June.

In October, Rwanda and the IMF staff reached a staff-level agreement on the economic policies and reforms needed to complete the first review of the Extended Credit Facility (ECF) arrangement. Subject to approval by IMF Executive Board, may receive $35.7Mn under the ECF-supported arrangement.

The balance of risks therefore shows that strong real activity and continued access to concessional flows should provide the central bank with more room than most regional central banks to prioritise price stability.

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