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EAST AFRICA ECONOMIC BRIEF

Q1 2026 | January – March

External Shock, Internal Test:

How East Africa's Economies Are Navigating the Middle East Crisis

5.8%	50%+	$7–9B
Projected East Africa GDP growth in 2026, region's highest	Rise in global oil prices by late March 2026	Estimated excess annual shipping costs from Red Sea rerouting

EDITOR'S NOTE

This is the inaugural issue of the Uchumi360 East Africa Economic Brief, published quarterly. Each issue translates major economic developments into analysis that policymakers, investors, and business owners can act on. This first issue addresses the defining external shock of early 2026: the Middle East conflict and its cascading effects on East African trade, fiscal positions, food security, and geopolitical strategy. We cover January through March 2026.

EXECUTIVE SUMMARY

East Africa entered 2026 as the continent's fastest-growing sub-region, with growth projected at 5.8 percent, up from 5.4 percent in 2025. That trajectory was disrupted in late February when the Middle East conflict escalated sharply into a confrontation involving Iran, triggering near-total suspension of commercial shipping through the Strait of Hormuz. The ripple effects reached East African ports, farms, and finance ministries within days.

The quarter that followed was a test of structural resilience. The region's exposure is real but uneven. Countries with heavy fuel import bills and limited fiscal buffers face immediate pressure. Others, particularly Tanzania, Uganda, and to some extent Kenya's logistics sector, are positioned to absorb or even benefit from the dislocation. The difference between these outcomes is not luck. It is the product of prior fiscal decisions, infrastructure investment, and debt management choices made over the past decade.

This brief examines Q1 2026 across four verticals: trade and logistics, food security and agriculture, fiscal and currency pressure, and geopolitical positioning. It closes with a section specifically written for business operators, concrete implications for the quarter ahead.

VERTICAL 1: TRADE AND LOGISTICS

The Routing Disruption

The structural fact: Approximately 12 percent of global seaborne trade by value transits the Bab el-Mandeb Strait annually, roughly 19,000 vessels per year. That corridor connects East Africa, via the Red Sea and Suez Canal, to Europe and the broader global supply chain. When the Strait of Hormuz effectively closed to Western commercial shipping in early March, the Cape of Good Hope became the only viable alternative. The diversion adds 10 to 14 days and approximately $1 million in fuel costs per round-trip voyage. Maersk, MSC, Hapag-Lloyd, and CMA CGM all suspended Hormuz crossings simultaneously.

For East Africa, this disruption operates through two distinct channels. Import-dependent economies face rising landed costs for fuel, industrial inputs, pharmaceuticals, and consumer goods, price increases that feed directly into inflation. But East African ports, particularly those on the Indian Ocean facing the Cape route, have gained significant transit traffic from vessels that previously routed through the Gulf.

Who Gains, Who Loses

The Port of Dar es Salaam sits at a strategic position for the Central Corridor serving Tanzania, Zambia, DRC, Rwanda, and Burundi. Increased Cape diversion traffic is generating measurable upticks in transshipment volume and port services. The Port of Mombasa, serving the Northern Corridor into Kenya, Uganda, and South Sudan, is similarly positioned. Lamu Port in Kenya has emerged as a logistics node with additional air freight coordination through Nairobi, Ethiopia's Ethiopian Airlines providing the emergency air bridge linking Asia, Africa, and Europe.

The losers are importers of refined petroleum, fertilizers, and LNG. Countries without domestic refining capacity which includes most of the region, are absorbing price increases at the pump that are visible to ordinary consumers within weeks of a supply disruption. Tanzania's Dangote Refinery partnership discussions and Mozambique's LNG momentum are long-term structural responses to exactly this vulnerability, but they do not help in Q1 2026.

INVESTOR SIGNAL

Port infrastructure and logistics operators in East Africa are experiencing a volume windfall from Cape rerouting. This is a structural tailwind so long as the Middle East conflict persists. Inland logistics corridors particularly the Central Corridor serving Dar es Salaam are the next layer of investment opportunity. Companies in freight forwarding, customs brokerage, and warehousing are seeing above-trend utilisation.

POLICYMAKER FLAG

The disruption to Gulf LNG supply has implications for regional energy planning beyond the immediate price shock. Tanzania and Mozambique's LNG ambitions are now more strategically compelling than they were twelve months ago. Governments that move to accelerate domestic energy production, whether gas, hydro, or renewables are reducing a structural vulnerability that Q1 2026 has made visible.

VERTICAL 2: FOOD SECURITY AND AGRICULTURE

The Fertilizer Channel

The underreported risk: For East African smallholder farmers, the most consequential transmission mechanism of the Middle East conflict is not the oil price, it is the fertilizer price. Gulf LNG is the primary feedstock for ammonia and urea production globally. Disruptions to that supply chain raise fertilizer costs and constrain availability at the worst possible time: the March-to-May planting season that determines most of the year's food output.

This matters because the planting season does not wait for geopolitical resolution. A farmer who cannot access affordable fertilizer in March does not simply defer the purchase, they plant with less, or plant differently, or do not plant at all. The food price consequences of that decision are felt six months later at harvest, but the economic decision is made now.

Tanzania's headline inflation remained remarkably stable through Q1, an annual average of 3.3 percent in 2025, outperforming Kenya's 4.1 percent and Uganda's 3.6 percent. But food inflation tells a different story: food prices rose to 6.7 percent by December 2025 and the trend line into Q1 2026 is not yet stabilised. The fertilizer shock arrives into an already stressed food price environment.

Country-Level Exposure

Tanzania is relatively buffered by its diversified agricultural base and ongoing investment in irrigation infrastructure. Kenya's horticultural export sector, one of the country's top foreign exchange earners faces input cost pressure that could affect competitiveness in European markets if the disruption extends beyond two quarters. Uganda's food production is largely subsistence and semi-commercial, making rural households directly exposed to any imported input cost increases, even without formal market integration.

Rwanda presents a distinct case. Its terrain limits fertilizer alternatives, and its high-density population means food price spikes transmit quickly into urban cost-of-living pressures. The government's track record on food security management is strong, but the fertilizer channel represents genuine vulnerability.

> **BUSINESS OPERATOR IMPLICATION**
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> Agri-processing businesses sourcing from smallholder suppliers should expect yield and quality variability in the H2 2026 harvest if fertilizer access is constrained during the March-May planting window. Companies that can support farmers with input access, through contract farming arrangements or in-kind credit are protecting their own supply chains, not just doing development work.

VERTICAL 3: FISCAL AND CURRENCY PRESSURE

The Regional Picture

Oil prices rose approximately 50 percent by late March 2026, the most immediate transmission mechanism from the conflict into African economies. For oil-importing nations which is most of East Africa, this raises the import bill, pressures foreign exchange reserves, and feeds directly into transport costs and inflation. The currency impact amplifies the pain: twenty-nine African countries had already seen currency depreciation before Q1 began, increasing the local-currency cost of servicing external debt.

The East African fiscal scorecard heading into this shock is more differentiated than most continental analyses suggest. Tanzania holds the strongest position: a debt-to-GDP ratio of approximately 46 to 47 percent, the only major EAC economy below the 50 percent threshold combined with inflation that has consistently outperformed regional peers and foreign exchange reserves covering over four months of imports. The Bank of Tanzania held the Central Bank Rate at 5.75 percent in Q1, signalling confidence in the inflation trajectory.

Kenya enters the shock in a more complicated position. Public debt reached the equivalent of 68 to 69 percent of GDP, with debt service consuming a growing share of government revenues. In Q1 of the 2025/26 fiscal year, Kenya spent 509 billion shillings on debt service against 554 billion in tax revenue, a ratio that leaves almost no fiscal space to absorb an external shock through spending. Kenya's Finance Minister explicitly flagged heightened uncertainty from tariff tensions and geopolitical conflict as material risks to the growth outlook.

EAC FISCAL SNAPSHOT — Q1 2026

Country	Debt/GDP	Inflation	GDP Growth (2026)	Shock Resilience
Tanzania	~47%	3.3% (2025 avg)	6.3–6.4%	**HIGH:** low debt, stable FX, strong reserves
Kenya	~69%	4.1% (2025 avg)	5.3–5.5%	**MODERATE:** high debt service, fiscal squeeze
Uganda	~50%	3.4%	7.0–7.5%	**MODERATE**-HIGH: pre-oil windfall positioning
Rwanda	~73%	~5%	~7–8%	**MODERATE:** concessional debt mitigates risk
Ethiopia	High	~28%	~6–7%	**LOW-MODERATE:** internal conflict, high inflation

What the Numbers Mean

Tanzania's position as the EAC's macroeconomic anchor is more than a data point, it is a strategic asset for the broader region. Investors pricing country risk across East Africa should distinguish sharply between Tanzania's fiscal trajectory and Kenya's. They are not the same story. For Kenyan policymakers, the Q1 shock reinforces the urgency of the fiscal consolidation agenda. The 4.9-percent-of-GDP deficit target is not optional; it is the margin of safety.

Uganda's oil dimension deserves separate attention. First Oil is projected for mid-2026. If that timeline holds, Uganda enters the second half of the year as a fundamentally different fiscal proposition. The country is already de-leveraging in anticipation: domestic debt issuance was cut by over 20 percent for FY2026/27, a deliberate compression of the supply that is generating positive yield dynamics for fixed-income investors.

> **INVESTOR SIGNAL**
> Tanzania's Eurobond trajectory and domestic fixed-income market represent the best risk-adjusted positioning in the EAC for 2026. With a debt-to-GDP ratio well below regional peers, stable inflation, and a policy rate that remains accommodative relative to growth, the investment case is structurally sound. Uganda's pre-oil positioning is the highest-conviction growth play in the region if First Oil timelines hold.

VERTICAL 4: GEOPOLITICAL POSITIONING

The Horn of Africa Dimension

The strategic geometry: East Africa sits at the intersection of the Middle East conflict's geography and its economic consequences. The Bab el-Mandeb Strait, the chokepoint connecting the Red Sea to the Gulf of Aden, sits between Yemen and the coast of Djibouti and Eritrea. Houthi forces have threatened to close it. If that closure happens, the only remaining rerouting option is the Cape of Good Hope, which is already under significant pressure from Hormuz diversions. A simultaneous closure of both chokepoints would represent an unprecedented shock to global trade.

For East Africa, this is not a distant geopolitical abstraction. It is a direct threat to shipping lanes that carry the region's imports and exports. It is also an opportunity, for countries that can position themselves as logistics alternatives, neutral diplomatic actors, or energy security partners in a world looking for reliable supply chains away from conflict zones.

Who Is Positioned to Lead

Ethiopia's role as the emergency air bridge through Ethiopian Airlines is generating real economic returns and diplomatic visibility simultaneously. This is the kind of strategic positioning that comes from prior investment, in aircraft, in routes, in slots now yielding returns in a disrupted environment. Kenya's Lamu Port and the LAPSSET corridor positioning is similarly consequential: East Africa's coastal infrastructure is now a geopolitical asset, not merely a development project.

Tanzania's traditional non-alignment and stable governance profile makes it a credible partner for investors and governments seeking reliable jurisdictions in an uncertain world. The country's refusal to take sides in external conflicts, historically principled, now strategically valuable is an underappreciated asset in Q1 2026's environment.

The risk side of the geopolitical ledger is concentrated in the Horn. Sudan, Somalia, and the broader conflict dynamics around the Red Sea are drawing in external powers, the United States, Gulf states, China, Russia, Iran, and Turkey in ways that could intensify rather than resolve existing fragilities. The humanitarian and fiscal costs of this intensification fall disproportionately on Kenya and Ethiopia, which host the largest refugee populations and absorb the most regional instability.

POLICYMAKER RECOMMENDATION

The African Union's proposed Continental Crisis and Resilience Compact, centred on energy and food security, financial safety nets, and strategic trade autonomy is the right institutional response to this environment. East African governments should push for its operationalisation, particularly the African Financing Stability Mechanism. Regional common positions on debt shock clauses, shipping insurance, and emergency food corridors are not aspirational language, they are the practical infrastructure of crisis resilience.

FOR THE BUSINESS OWNER: Q2 2026 PLANNING IMPLICATIONS

The following observations are written for business operators managing real decisions in the quarter ahead. They are deliberately specific.

On supply chain and import costs

- Budget for a 15 to 25 percent increase in shipping costs on imports from Asia and Europe. This is not a Q1 anomaly, it will persist as long as both the Hormuz and Bab el-Mandeb remain disrupted. Build the contingency into your Q2 and Q3 operating budgets now.
- Review your supplier geography. If your supply chain runs through Dubai or Gulf transshipment hubs, Jebel Ali in particular expect delays of two to three weeks minimum, with insurance surcharges that your suppliers may try to pass through on invoicing.
- Importers paying in USD or EUR are absorbing both the commodity price increase and the currency movement simultaneously. Speak to your bank about forward cover if you have predictable import requirements.

On energy costs

- Fuel cost increases are not temporary. Plan for pump prices to remain elevated through H1 2026 at minimum. Transport-heavy businesses, distributors, manufacturers, agriculture should renegotiate fuel escalation clauses in supplier and customer contracts before prices embed.
- Businesses with generator-heavy operations are especially exposed. The cost of diesel backup power is rising in direct proportion to the oil shock. This is an accelerant for solar and

hybrid energy adoption at the business level; the economics now favour it more than they did twelve months ago.

On food and agriculture

- If you operate in food processing, retail, or distribution, build a scenario into your Q2 plan where input costs rise a further 10 to 15 percent from Q1 levels. Fertilizer-dependent supply chains are the most exposed.
- Contract farming arrangements that include input support, seed, fertilizer, agrochemicals, are now a supply chain protection mechanism as much as they are a development intervention. The cost of supporting farmers is lower than the cost of supply disruption at harvest.

On the opportunity side

- East African port-adjacent businesses, freight forwarding, customs broking, warehousing, cold chain, bunkering, are operating in a high-volume environment that may persist for 12 to 18 months. If you have capacity to expand in these sectors, the demand environment supports it.
- Tourism operators should note that global travel disruption from the Middle East conflict is redirecting some European and Asian leisure travel toward safer long-haul destinations. East Africa's safari and beach tourism offer is a genuine beneficiary of this displacement effect.

LOOKING AHEAD TO Q2 2026

Three variables will determine whether Q2 2026 is a continuation or an escalation of the Q1 shock.

First, the duration and intensity of the Middle East conflict. A sustained closure of both the Strait of Hormuz and the Bab el-Mandeb simultaneously would represent a supply chain shock without modern precedent. The probability is not high, but it is no longer negligible. East African governments and businesses should have scenario plans for this outcome.

Second, the planting season outcome. If fertilizer constraints during March to May translate into reduced yields in the H2 harvest, the food price pressures currently visible at the margins will accelerate. Governments will face difficult choices between food price subsidies, which entrench fiscal risk and allowing market prices to clear, which concentrates the pain on lower-income households.

Third, Uganda's First Oil milestone. If oil production begins on the projected mid-2026 timeline, it materially changes the EAC's energy and fiscal geometry. A producing Uganda is a different counterpart for regional investors and a different conversation for the EAC's collective energy security strategy.

Uchumi360's Q2 2026 brief, due in July, will assess outcomes against these three variables and revisit the country-level fiscal scorecard with updated data.

ABOUT UCHUMI360

Uchumi360 is East Africa's business and economic intelligence publication. We produce analysis for policymakers, investors, and business operators grounded in data, written for decision-making. This brief is produced quarterly. For subscriptions and distribution enquiries, contact the editorial team at business@uchumi360.com.

Sources: African Development Bank Group / African Union / UNECA / UNDP Joint Policy Brief (April 2026); IMF World Economic Outlook; Bank of Tanzania Monthly Economic Review; African Development Bank Macroeconomic Performance and Outlook 2026; Deloitte East Africa Economic Outlook; Kpler Shipping Data; CNBC / Reuters shipping and trade coverage; East Africa Security Analysis; TICGL Tanzania Economic Research.