

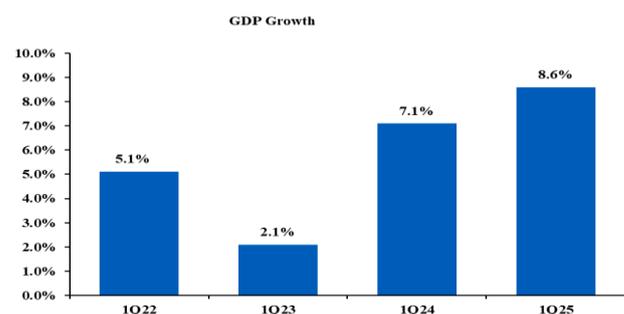
## Political and Economic Review

### Growth momentum continued

Business conditions greatly improved in 2Q25 owing to increased private sector and government spending. This followed GDP growth of 8.6% y/y in 1Q25. Headline inflation rose by an average of 3.7% in 2Q25 on rising food and core items prices. However, it is expected to remain below the 5.0% target in the medium term. Nonetheless, Bank of Uganda maintained the Central Bank Rate (CBR) at 9.75% given the global uncertainties. The UGX appreciated against the KES, USD, and TZS, while depreciating against the European currencies. Yields rose as domestic borrowing increased. The **Local Share Index** fell by 3.6% q/q in 2Q25.

### Uganda's 1Q25 GDP grew by 8.6% y/y

GDP in the first quarter of 2025 expanded by 8.6% year-on-year (y/y), higher than the 7.1% growth reported in 1Q24. The growth was supported by all economic sectors. Industry expanded by 7.6% y/y (+6.1% y/y in 1Q24), mainly on construction (+12.2%/y/y) and manufacturing activities (+5.0%/y/y). Agriculture grew by 10.0% y/y compared to a growth of 4.0% y/y in 1Q24 mainly on food crops growing activities which registered a growth of 7.7% y/y and cash crops (+9.3). Services grew by 8.3% y/y in the quarter (+ 8.7% y/y in 1Q24) owing to trade and repairs that grew by 11.7% y/y and transport and storage (+6.5% y/y). Uganda Bureau of statistics estimates Uganda's aggregated GDP registered a 6.3% growth in FY2024/25.



Source: Uganda Bureau of Statistics (UBOS)

### Private sector growth strongly picked up

The Stanbic Bank Uganda Purchasing Managers' Index (PMI) showed that the private sector business conditions for 2Q25 strongly improved at a faster pace recording an average PMI of 55.8 from 51.7 in 1Q25. Growth was supported by new orders, increased production and staffing to support increasing demand.

### The fiscal budget for FY2025/26 remained unchanged ...

Uganda's parliament approved a budget for fiscal year 2025/26, totalling UGX 72.4trn. This was higher than the UGX 72.2trn originally budgeted for 2024/25 by 0.33% but lower than the actual/revised budget for 2024/25 by 5.2%. There is more allocation to goods and services as statutory expenditures related to debt reduced to UGX 26.9trn (37.1% of total budget) in FY2025/26 from UGX 33.9trn (44.3% of 2024/25 revised budget).

### ... as domestic revenue projections increase by 16.3%...

Domestic revenue is forecasted to increase to UGX 37.5trn in FY2025/26, up from UGX 31.8trn collected in FY 2024/25 (UGX 32.1trn originally budgeted in FY 2024/25). Projected domestic revenue is composed of tax revenue UGX 33.9trn, non-tax

revenue UGX 3.3trn and Appropriation in Aid (AIA) of UGX 0.3trn. The domestic revenue represents a revenue-to-GDP ratio of 14.6% up from 13.9% obtained in FY2024/25. The increase is expected from new tax measures, improved tax administration, economic expansion and rationalizing tax exemptions.

### ...while expenditure is estimated to increase by 26.2%...

The overall expenditure is projected to increase to UGX 56.5trn (22.2% of GDP) from UGX 47.4trn (21.4% of GDP) in the FY2024/25 budget. Recurrent expenditure will take up UGX 36.9trn (65.3%), development expenditure UGX 18.2trn (32.2%) and arrears UGX 1.4trn (2.5%).

### ...resulting in a decreased fiscal deficit...

The fiscal deficit (including grants) is expected to decrease to UGX 17.0trn (6.7% of GDP), in FY2025/26 from an actual UGX 17.2trn (7.6% of GDP) in FY2024/25. The deficit will be financed through net external financing of UGX 5.62trn (33.1%) and net domestic borrowing of UGX 11.38trn (66.9%).

### ...and debt remains sustainable in the medium term

As of June 2025, Uganda's total public debt stock stood at UGX 116trn (USD 31.5bn). With the GDP estimated at UGX 226.3trn (USD 61.3bn) on this date, the debt/GDP stood at 51.3%. This debt was composed of external debt UGX 56.3trn (48.5%) and domestic debt UGX 59.8trn (51.5%). According to the International Monetary Fund (IMF)/World Bank debt framework, the risk of debt distress is moderate.

### World Bank funding resumes

In June 2025, the World Bank announced the resumption of its financing operations in Uganda, effective July 2025, following a two-year suspension. The World Bank Board in addition approved three new projects targeting critical development needs in social protection, education, and managing forced displacement/refugees. This development signals renewed international financial support for Uganda, potentially easing government funding pressures. World Bank has committed USD 1.5bn ready for disbursement for FY2025/26.

### Uganda removed from EU grey list

The EU's decision now aligns with the Financial Action Task Force's (FATF) delisting of Uganda in February 2024. Uganda's removal from both lists indicates that it has met international anti-money laundering and counter-terrorist financing standards. The delisting is expected to facilitate smoother international transactions, reduce compliance burdens for Ugandan financial institutions, and encourage greater foreign investment. The decision becomes binding after a one-month scrutiny by the EU parliament.

### Economic outlook

GDP is expected to grow by 7.0% in FY2025 driven by business sector notably in the oil extractive industry, household and government spending. Downside risks relate to geopolitical challenges that could lead to weaker global demand.

## Currency, Inflation and Fixed Income Markets Review

### UGX performance mixed in 2Q25

During the quarter, UGX appreciated against the USD, KES, and TZS by 1.9%, 1.8% and 1.1%, respectively supported by portfolio flows on high yielding treasury instruments, monetary policy actions, remittances, foreign direct investment inflows and external loan disbursements. In addition, the USD weakened globally fuelled by President Trump's tariff policies.

On the other hand, UGX depreciated against the Euro and GBP by 6.2% and 3.9% q/q.

Year-to-date, the UGX was up by 2.8% against the USD.

	30-Jun-24	31-Dec-24	31-Mar-25	30-Jun-25	Q-on-Q	YTD	Y-on-Y
USD/UGX	3706.92	3696.86	3663.32	3594.74	1.9%	2.8%	3.1%
GBP/UGX	4682.95	4640.30	4740.34	4934.90	-3.9%	-6.0%	-5.1%
EUR/UGX	3963.07	3846.58	3951.99	4214.87	-6.2%	-8.7%	-6.0%
KES/UGX	28.67	28.60	28.32	27.81	1.8%	2.8%	3.1%
TZS/UGX	1.41	1.51	1.37	1.355	1.1%	11.1%	4.1%

Source: Bank of Uganda

The foreign exchange reserves stood at USD 4.1bn in May 2025 representing 3.7 months of import cover having increased from USD 3.4bn (2.9 months of imports cover) in February 2025.

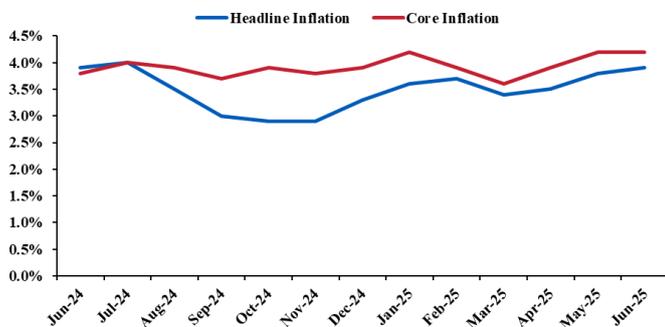
### Currency outlook

The UGX is expected to appreciate in 3Q25 due to continued external loan disbursements, tight domestic monetary policy and foreign direct investment inflows. However, UGX downside risks relate to high external debt services, reduced NGO flows and geopolitical conflicts escalating leading to safety haven flows.

### Headline inflation-maintained stability in 2Q25

Headline inflation averaged 3.7% y/y in 2Q25, a marginal increase from an average of 3.6%/y/y in 1Q25. This was due to food and core items prices.

Food prices and core items prices moved by an average of 3.8% y/y and 4.1% y/y respectively in 2Q25 compared to 2.5% and 3.9% y/y respectively in 1Q25. The energy prices fell by an average of 0.4% in 2Q25 compared to -0.2% y/y in 1Q25. Core inflation remained controlled below the central bank target of 5.0% by the tight monetary policy, a stable exchange rate, lower global inflationary pressures and favourable food and energy prices.



Source: Uganda Bureau of Statistics

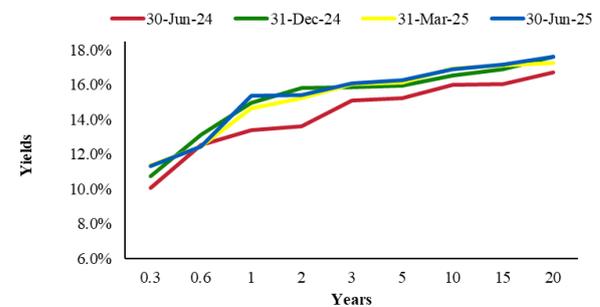
### Inflation outlook

Headline inflation is projected to rise but remain within a range of 4.0-4.5% in the second quarter of 2025 as aggregate demand increases notably on oil extractive industry investment and increased government spending. However, downward risks to inflation are linked to an appreciating UGX as well as lower import and petroleum oil prices.

### CBR maintained at 9.75% in 2Q25 while yields rise

Bank of Uganda (BOU) maintained the Central Bank Rate (CBR) at 9.75% in its May 2025 monetary policy committee meeting, in response to rising global uncertainties although inflation was expected to remain around the 5.0% target.

During the second quarter of 2025, yields rose on all tenors. Yields on short-end (3 years below), mid-end (4-10 years) and long-end (bonds above 10 years) changed +0.18%, +0.04% and +0.19% q/q respectively. The minimal rise in the yield curve was on account of upward pressures on increased government borrowing to finance the supplementary and the original budget which was somewhat offset by portfolio flows on fixed income.



Source: Bank of Uganda

For the 3 months ended May 2025, there was a strong improvement in the private sector credit growth that averaged 9.8% y/y compared to 7.4% y/y for the 3 months ended February 2025. This is still below the 10-year historical average of 10.8%. Lending rates increased by 0.13%.

	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
Central Bank Rate	9.75%	9.75%	9.75%	9.75%	9.75%	9.75%	9.75%
Lending rates	18.08%	17.37%	16.50%	18.76%	17.74%	16.64%	18.64%
PSC year-on-year growth	9.03%	6.78%	7.71%	7.84%	8.71%	10.49%	10.15%

Source: Bank of Uganda

Money supply (M3) grew at an average of 11.1% for the 3 months ended May 2025 from 7.8% for the 3 months ended February 2025 on account of private sector growth and increased government spending. However, it remained below the historical 10-year average of 12.0%.

### Interest rate outlook

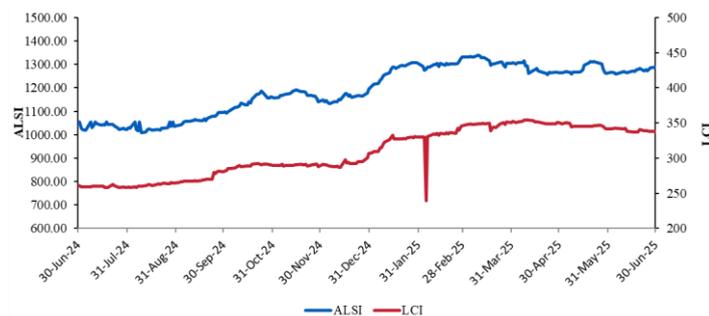
The yields are expected to rise in the 3Q25 owing to the high government domestic borrowing and debt refinancing as indicated in the FY2025/26 budget. However, foreign portfolio flows on fixed income may augment domestic savings.

## Equity Market Review

### Uganda's stock market indices fall in 2Q25

The **Local Share Index (LSI)** fell by **3.6%** in 2Q25 on account of negative performance of **Uganda Clays Limited (17.7%) Airtel Uganda (14.8%)** and **MTN Uganda (3.7%)**. Year-to-date, the **LSI** index was up by **10.1%**. The best performing stocks in 2Q25 were **Bank of Baroda (+46.2%), DFCU (+5.9%)** and **Stanbic Bank Uganda Holdings (+3.2%)**.

The **All-Share Index (ALSI)** dropped by **1.2%** during the quarter due to fall in prices of both cross-listed and local stocks. Cross listed stocks with the largest decrease were **Nation Media Group (15.5%), Kenya Airways (8.2%)** and **Centum Limited (8.1%)**. Year-to-date, the **ALSI** was up 7.8%.



Source: Uganda Securities Exchange

Company	30-Jun-24	30-Sep-24	31-Dec-24	31-Mar-25	30-Jun-25	Q-on-Q	YTD	Y-on-Y
Airtel Uganda	70.0	68.0	58.0	93.9	80.0	-14.8%	37.9%	14.3%
British American Tobacco Uganda (BATU)	15,000.0	15,000.0	15,000.0	15,000.0	15,000.0	0.0%	0.0%	0.0%
Bank of Baroda Uganda (BOBU)	20.0	21.0	22.3	23.3	34.0	46.2%	52.8%	70.0%
Cipla QCIL	55.5	55.0	63.5	85.5	89.0	4.1%	40.2%	60.4%
DFCU	225.0	225.0	225.0	239.0	253.0	5.9%	12.4%	12.4%
MTN Uganda (MTNU)	170.0	197.2	275.0	271.00	261.06	-3.7%	-5.1%	53.6%
National Insurance Corporation (NIC)	5.5	5.5	5.0	5.00	5.10	2.0%	2.0%	-7.3%
New Vision PLC (NVL)	153.0	153.0	152.0	152.00	152.00	0.0%	0.0%	-0.7%
Stanbic Uganda (SBU)	37.0	44.7	39.3	46.00	47.48	3.2%	21.0%	28.3%
Uganda Clays (UCL)	12.0	9.1	9.0	7.90	6.50	-17.7%	-27.8%	-45.8%
Umeme Ltd	460.0	430.0	415.0	415.0	415.0	0.0%	0.0%	-9.8%
Market Index								
All Share Index (ALSI)	1,028.1	1,093.7	1,194.80	1,303.44	1,287.64	-1.2%	7.8%	25.2%
Local Share Index (LSI)	259.1	280.6	306.99	350.44	337.97	-3.6%	10.1%	30.4%

Source: Uganda Securities Exchange

### MTN Uganda 1Q25 results sustain pace...

The telecom company's profit after tax grew by 20.6%/y to UGX 180.9bn in 1Q25. This growth was supported by service revenue, which grew by 13.5% y/y to UGX 841.4bn and a reduction in depreciation, amortization, and finance costs. Service revenue grew on account of volume and better pricing. Mobile, data and fintech (MoMo) subscribers grew 14.6%/y to 22.8m, 19.4%/y to 10.2m and 9.8% y/y to 13.6m, respectively. Voice revenue grew by 1.5% y/y to UGX 320.1bn, mobile data revenue grew by 32.5%/y to UGX 235.6bn and MoMo revenue grew by 18.4% y/y to UGX 255.6bn. EBITDA grew by 13.7% y/y to UGX 440.0bn as network costs grew slower at 7.8%/y, but other operating costs grew by 16.1%/y.

The company achieved an EBITDA margin of 52.4% above its target guidance of 50.0%. However, service revenue grew fell short of the company's guidance of mid-teen and fintech revenue also fell short of its target of at least 20.0%.

### ...as the company calls for a special meeting on the separation

MTN Uganda has called for an extraordinary general meeting on 22<sup>nd</sup> July 2025 to vote on the structural separation of MTN Mobile Money (MTN MoMo/Fintech) from MTN Uganda. If approved,

MTN MoMo will be owned by MTN Group FinTech Holding BV and a trust whose beneficiaries shall be the existing minority shareholders in MTN (U). A window will be created for which dissenting shareholders can exercise their individual opt out.

### Umeme good faith negotiations end, and arbitration starts...

Good-faith negotiations between Umeme and the Ugandan government, which began in April 2025 regarding the buyout amount for their expiring concession agreement, concluded in June 2025 without a compromise. Umeme had initially requested USD 234m (UGX 854bn) but received only USD 118.3m. Consequently, Umeme immediately initiated arbitration in London, now claiming a net buyout of USD 292m after accounting for USD 118.3m already received. The arbitration process is expected to take 1.5 to 3 years.

### ...as Umeme released FY2024 results...

The energy utility company generated a net loss of UGX 510bn in 2024 from a net profit of UGX 11.5bn. The loss was result of revenue that grew at slow rate of 5.4% to UGX 2.3trn; operating expenses that increased by 31.8% to UGX 343.0bn; amortisation of intangible that increased and; write-off of the buyout amount.

Revenues increased by 5.4%/y to UGX 2.3bn. The growth in revenues was due to increased electricity sales volume of 10.8% but reduced tariffs by 5.6%. Operating costs (administration, repairs maintenance) increased by 31.0% to UGX 343bn. The company wrote off the buyout by UGX 360.9bn leaving an outstanding buyout on the balance sheet of UGX 434.8bn. Consequently, EBITDA dropped by 75.1% to UGX 120.2bn.

Below the EBITDA, amortization of the intangible rose by 58.1% y/y to UGX 699.1bn.

The operating cashflows fell by 36.7% to UGX 291.8bn and was spent on Capital expenditure of UGX 106.9bn and dividend payments of UGX 169.2bn. The paid dividend consisted of 2024 interim dividends of (UGX 26 per share) and 2023 final dividend of 78.1 per share. This left a bank overdraft of UGX 25.3bn and Management did not propose a final dividend for FY2024. The Umeme trading suspension was lifted on the same day results were released.

### ...but Umeme proposes dividends for 2025

Management proposed an interim dividend of UGX 222 per share for FY2025 payable in July 2025.

### Uganda clays warn about loss

The company's management warned that it expects a loss for 1H25 as result of the company's plants in Kajjansi and Kamonkoli experiencing operational disruptions, leading to decreased production levels and lower revenues. However, management has also indicated that the operational disruptions have been resolved, and better performance is expected in 2H25.

### Stock market outlook

The local equity market is expected to remain stable in 3Q25 as positive domestic economic data and corporate earnings boost stocks. The down risks relate to rising treasury yields, geopolitical risk and local election uncertainty.

## Political and Economic Review

### *Riding the momentum*

The second quarter of 2025 was characterized by a stable macroeconomic environment, easing interest rates and strong equities performance. Inflation averaged 3.9% remaining within the CBK's target. The shilling held steady against the USD, gaining 0.1% quarter-on-quarter (q/q), supported by forex reserves and export inflows. The Central Bank cut the policy rate by a cumulative 1% (100 basis points) to 9.75%, leading to lower short-term yields and a steeper yield curve. Business activity moderated slightly as reflected by the Stanbic PMI average of 50.1 a decline from 50.9 the previous quarter. Equities extended gains with NSE All Share index up 17.3% q/q, supported by resilient earnings growth, dividends and investor sentiment.

### *Kenya's economy maintains steady growth in 1Q25*

The economy grew by 4.9% in 1Q25, matching the growth recorded in 1Q24, with all sectors posting positive performance. Agriculture expanded by 6.0%, up from 5.6% a year earlier, supported by favorable weather. Growth was also recorded in Information & Communication (5.8%), Trade (5.4%), Real Estate (5.3%), Finance (5.1%), and Public Administration (6.5%). Professional services and Transport rose by 4.6% and 3.8%, respectively. Mining rebounded with 10.0% growth, while Construction grew by 3.0%. However, Accommodation and Food Services slowed sharply to 4.1% from 38.1% due to reduced spending by both local and foreign tourists, with the government reducing funding for meetings in hotels and resorts.

### *Business confidence holds despite marginal slowdown*

Stanbic Bank Kenya's **Purchasing Managers' Index (PMI)** averaged 50.1 in 2Q25, down from 50.9 in 1Q25, indicating a modest growth in private sector activity (levels above 50 signals expansion). However, in the month of May and June there was a contraction with PMI of 49.6 and 48.6, respectively. The contraction was driven by subdued output and sales activity, reflecting softer customer demand and rising cost pressures.

### *Outlook*

Economic growth is projected to recover gradually to 5.0%-5.3% in 2025 supported by lower interest rates and a marginal improvement in the business environment. However, the growth will be low due to several challenges i.e. low disposable incomes, rationalization in government spending and low aggregate demand in the private sector etc. The resilience on key service sectors, positive performance in agriculture and improved exports are expected to continue supporting growth.

### *Kenya shilling sustains mixed performance in 2Q25*

The Kenya shilling (KES) remained relatively stable against the US dollar (USD) **year-to-date (YTD)** and gained by 0.1% **quarter on quarter (q/q)** to close 2Q25 at 129.2. **Year-on-year (y/y)**, the KES gained by 0.2% against the USD. The stability of the shilling has been supported by Central Bank intervention coupled with inflows from exports and tourism.

### *Currency outlook*

The shilling is expected to remain stable with a gradual depreciation due to potential increase in import activity, debt service payments and lower rates. However, the depreciation is anticipated to be gradual, tempered by concessional debt inflows, remittances, tourism and export receipt as well as the high reserve position.

### *Inflation rises in 2Q25*

In 2Q25, the headline inflation averaged 3.9%, up from 3.5% recorded in the previous quarter. The rise in overall inflation during the quarter was mainly driven by upticks in the Housing and Transport indices, which rose by 1.7% and 1.6% respectively. The food index also rose by 0.3% q/q.

### *Inflation outlook*

Inflation is expected to remain within the CBK's (2.5% -7.5%) target range in the third quarter of 2025 supported by falling crude oil prices, a resilient KES and stable food prices. However, upside risks to inflation remain, primarily due to potential disruptions in global supply chains driven by ongoing geopolitical tensions.

### *Yield curve steepens in 2Q25*

The yield curve posted a 0.11% decline in the quarter, with yields along the short end of the curve (bonds with maturities under 5 years) declining by a higher margin of 0.73%, followed by the mid-section (maturities of 5 to 12 years) with a slight 0.06% decline. On the other hand, the long end of the yield curve (bonds above 12 years) rose q/q for the first time since December 2023 by 0.14%. YTD, the yield curve recorded declines across all tenures.

On average, treasury bill rates decreased during the quarter, with the 182-day T-bill recording the highest drop of 0.9%. Both the 91-day and 364-day T-bills declined by 0.8%. The 91-day, 182-day and 364-day T-bills closed the quarter at 8.14%, 8.46% and 9.72%, respectively.

During the quarter, the Central Bank of Kenya's Monetary Policy Committee met twice. In the first meeting, it cut the Central Bank Rate (CBR) by 75 basis points to 10.00%, citing stable energy prices and exchange rate stability. In the subsequent meeting, the MPC further trimmed the CBR by 25 basis points to 9.75%, marked by inflation remaining within the CBK target, a steady Kenyan shilling, and a modest pick-up in private credit growth.

### *Interest rates outlook*

Interest rates are expected to remain relatively stable in the short-term driven by low inflation, easing monetary policy and a stable currency. However potential fiscal pressures and high domestic borrowing by government could see rates trend upwards.

## Equity Market Review

### Stock market sustains its bull run

In the second quarter of 2025, the stock market posted strong performance across all indices. The *Nairobi All Share Index (NASI)* gained 17.3% *quarter-on-quarter (q/q)*, while the NSE 25, NSE 10, and NSE 20 rose by 11.5%, 13.0%, and 9.6% q/q, respectively. All indices recorded double-digit gains on both a year-to-date and year-on-year basis, supported by valuations, resilient corporate earnings, dividend declarations and improved sentiment toward frontier markets.

	28-Jun-24	31-Dec-24	28-Mar-25	30-Jun-25	Q-on-Q	YTD	Y-on-Y
NASI	109.5	123.5	130.8	153.4	17.3%	24.3%	40.1%
NSE 20	1,656.5	2,010.7	2,226.9	2,440.3	9.6%	21.4%	47.3%
NSE 25	2,861.0	3,402.8	3,532.4	3,938.3	11.5%	15.7%	37.7%
NIO	1,117.4	1,302.3	1,342.4	1,516.9	13.0%	16.5%	35.8%

Source: NSE

Among the top counters, performance was mixed. *Safaricom*, *NCBA*, and *Co-op* posted strong gains of 36.6%, 13.3%, and 11.9%, respectively, while *ABSA* and *Stanchart* recorded modest increases of 1.1% and 0.2%.

### Banking sector faces earning squeeze in 1Q25

Kenya's banking sector posted mixed performance in 1Q25, with most banks reporting negative or modest earnings growth. This was largely driven by a combination of declining interest income, elevated interest expenses and weaker non-interest income. Banks continued to grapple with margin compression and slower loan growth.

1Q25	ROE	Earnings growth	Loan growth (y/y)	Deposit growth (y/y)	NPL ratio
KCB	24.4%	0.2%	0.1%	-4.9%	19.9%
Equity	25.6%	-3.9%	3.3%	7.0%	15.0%
Coop Bank	19.6%	5.4%	1.7%	9.0%	17.1%
ABSA	26.3%	4.6%	-5.6%	4.6%	13.1%
Stanchart Bank	27.0%	-11.6%	-10.2%	-6.8%	8.3%
NCBA	20.4%	3.3%	-10.4%	-9.6%	12.2%
Stanbic Bank	20.4%	-16.6%	-4.6%	-5.0%	8.7%
DTB	14.4%	8.8%	5.7%	9.0%	13.2%
I&M Bank	20.7%	38.3%	18.3%	29.3%	10.9%
HF	4.1%	-37.5%	0.0%	5.6%	25.2%

Source: Company filings

Despite the earnings strain, all listed banks except *HF*, which posted a *Return on Equity (ROE)* of 4.1% achieved double-digit ROE.

Deposit performance varied significantly, with *I&M* recording the strongest growth at 29.3%, benefiting from its strong corporate and retail franchise, while *NCBA* registered the steepest contraction at 9.6%.

Lending activity remained subdued across the board, as most banks scaled back on risk, with the exception of *I&M* and *DTB*, whose loan books expanded by 18.3% and 5.7% respectively.

Asset quality remained a concern, as *Non-Performing Loan (NPL)* ratios rose across the sector. *HF Group* recorded the highest NPL ratio at 25.3%, followed by *KCB* at 19.8%. In contrast, *Stanbic* (9.1%) and *Stanchart* (7.4%) maintained the lowest NPL ratios, indicating stronger credit risk management practices.

Access Bank Plc officially completed its acquisition of National Bank of Kenya (NBK) from KCB Group making NBK a wholly owned subsidiary of Access Bank.

### Ethiopian venture weighs on Safaricom's FY25 net profit

*Safaricom Group* reported solid FY25 results, with net income attributable to equity holders rising by 10.8% y/y to KES 69.8 bn. This was supported by a 10.8% y/y increase in service revenue to KES 371.4bn (Ethiopia: KES 7.5bn) mainly supported by a 16.5% y/y growth in mobile data revenue to KES 78.5bn and a 15.1% y/y growth in M-Pesa revenue to KES 161.1bn. Operating costs rose 25.2% y/y to KES 104.3bn with Operating costs to total revenue at 26.8%. Operating expenses related to the Ethiopian unit stood at KES 36.2bn. Net profit grew 7.3% to KES 45.8bn, supported by strong Kenyan operations but partially offset by losses in Ethiopia. The board recommended a final dividend per share of KES 0.65, placing the total dividend per share for the period at KES 1.20.

### Birr depreciation deepens Safaricom Ethiopia's losses

*Safaricom Ethiopia*, though still unprofitable, showed signs of progress with a 7.2% increase in revenue to KES 7.9bn, driven by a 35.8% surge in mobile data, which now accounts for 71.5% of total revenue. The customer base increased to 8.8m from 4.4m FY24, but M-Pesa revenue dropped sharply by 86.4% to KES 12.5m due to adoption challenges. Net losses widened to KES 49.8bn from KES 42.1bn in FY24, exacerbated by a 117.1% depreciation of the Ethiopian Birr, which led to a spike in foreign exchange losses. Operating costs rose by 33.9% to KES 41.6bn amid continued network rollout, with capital expenditure intensity remaining elevated. Despite these pressures, the company implemented cost-mitigation measures such as localized procurement and contract renegotiations to help manage currency-related volatility.

### Stock market outlook

We expect moderate gains in 3Q25, supported by improved corporate earnings, attractive valuations and continued monetary easing that favors risk assets. Dividend-paying stocks and improved foreign inflows may support sentiment, though concerns around rising domestic borrowing and debt sustainability could limit momentum.

## Rwanda

### *Rwanda's economy expands by 7.8% in 1Q25*

Rwanda's economy grew by 7.8% y/y in 1Q25 compared to 8.0% y/y in 4Q24. This growth was supported by the service sector which expanded by 9.0% y/y and the industry sector which rose by 9.0% y/y. The agricultural sector performance remained modest (+2.0% y/y) due to fluctuating weather conditions and commodity price uptrends. The International Monetary Fund (IMF) projects the economy to grow at an annual rate of 7.1% in 2025.

### *Reform progress in Fifth IMF review*

The IMF Executive Board concluded Rwanda's fifth Policy Coordination Instrument (PCI) review in June 2025 with key emphasis being the 8.9% growth in 2024 driven by services, construction, and agriculture. Rwanda met all targets and key reform commitments, notably in State-Owned Enterprises (SOE) governance and public financial management, demonstrating strong reform commitment.

### *Stable credit outlook for Rwanda*

In 2Q25, credit rating agencies reaffirmed Rwanda's B+ rating with stable outlooks, citing strong growth and fiscal reforms. S&P reversed an earlier negative outlook after improved fiscal conditions. Fitch highlighted Rwanda's strong institutional governance and effective public sector management, along with its reliance on concessional debt, as key strengths that help mitigate external risks.

### *Inflation accelerates, CBR steady*

Rwanda's annual inflation rose from 4.9% in March 2025 to 6.6% in April, then further accelerated to 7.7% in May, driven mainly by higher food and non-alcoholic beverage prices, including a sharp rise in meat and dairy costs. Despite this upward trend, the National Bank of Rwanda maintained the Central Bank Rate (CBR) steady at 6.5% throughout 2Q25, confident that inflation would remain within the 2%-8% target range amid improving supply conditions.

### *RWF depreciates against the USD*

The Rwandan Franc (RWF) weakened against the USD by 2.3% in 2Q25. The currency remains under pressure due to import demand and a persistent current account deficit widening.

### *RSE remains flat in 2Q25*

The Rwanda Stock Exchange (RSE) **Local Share Index** and the **All-Share Index** gained by **0.02% q/q** and **0.01% q/q** respectively in 2Q25. The top performers were **Bralwira +16.7% q/q** and **Bank of Kigali +3.1% q/q**. **MTN Rwanda** was the worst performer - **7.8% q/q**.

### *Stock market outlook*

RSE is expected to maintain positive performance in 2H2025, supported by steady economic growth and strong corporate earnings. However, ongoing global trade tensions and regional uncertainties pose risks.

## Tanzania

### *Tanzania's economy expands by 5.5% in 2024*

Tanzania's economy grew by 5.5% y/y in 2024 compared to 5.3% y/y in 2023. This growth was driven by Arts and Entertainment sector (+17.1% y/y), Electricity Generation and Distribution sector (+14.4% y/y), Information and Communication sector (+4.8% y/y). The International Monetary Fund (IMF) projects the economy to grow at an annual rate of 6.0% in 2025

### *IMF and Tanzania reach staff level agreement*

Tanzania reached a staff-level agreement with the IMF on the fifth review under the Extended Credit Facility (ECF) and the second review under the Resilience and Sustainability Facility (RSF), unlocking access to US\$441m in financing. This reflects strong policy coordination and support for ongoing reforms and fiscal management.

### *Tanzania's credit ratings reaffirmed*

In 2Q25, credit rating agencies Fitch and Moody's reaffirmed Tanzania's credit ratings with stable outlooks. Fitch maintained a B+ rating, highlighting robust GDP growth and key infrastructure projects, while Moody's kept a B1 rating, emphasizing macroeconomic stability supported by ongoing reforms. Both agencies noted challenges such as governance issues and revenue performance, underscoring the need for continued policy improvements.

### *Inflation rises, CBR maintained*

The annual headline inflation remained unchanged at 3.2% in May 2025 from the prior month, despite rising prices for key staples. However, annual core inflation eased to 2.1% in May from 2.2% in April. The Bank of Tanzania (BoT) maintained the Central Bank Rate (CBR) at 6.0% in 2Q25. In early July, the rate was reduced by 25 basis points to 5.75% with expectations of inflation remaining stable below its medium target range, helped by the onset of the harvest season.

### *TZS strengthens in 2Q25*

The Tanzanian Shilling (TZS) slightly strengthened against the USD by 1.2% in 2Q25. This stability was underpinned by enhanced foreign exchange liquidity, fueled by higher tourism revenues and robust exports, especially in gold and tobacco. Foreign exchange reserves stood at USD 6bn by the end of June 2025, one of the highest in recent years, representing 4.8 months of import cover.

### *DSE posts mixed performance*

Dar-es-Salaam Stock Exchange (DSE) registered mixed performance in 1Q25 with the **Local Share Index** shedding **-2.4% q/q** and the **All-Share Index** gaining **+2.3% q/q**. The top performers were **Mkombozi Commercial Bank (MCB) +89.7% q/q** and **Maendeleo Bank Plc (MBP) +46.2% q/q**, while the worst performer was **Vodacom -36.4% q/q**

### *Stock market outlook*

The bourse is anticipated to be positive in 3Q25, supported by strong corporate earnings and stable currency. However, foreign investors' outflow and constrained market liquidity may temper growth



**Markets rally on positive macroeconomic trends**

Global markets ended the quarter with strong performances across most major indices, supported by improving economic and market fundamentals that boosted investor confidence. The MSCI Emerging Markets Index (+11.6% q/q), MSCI World (+11.0% q/q), and MSCI World ex USA (+10.9% q/q) led the gains, benefiting from a broad-based recovery across both developed and developing economies. The MSCI Euro (+10.9% q/q) and S&P 500 (+10.6% q/q) also posted solid returns, lifted by favorable macroeconomic trends and improving earnings sentiment. In contrast, the Shanghai Composite Index (+3.3% q/q) underperformed, reflecting weaker domestic momentum and investor caution despite ongoing policy support.

Index	30-Jun-24	31-Dec-24	31-Mar-25	30-Jun-25	Q-on-Q	Y-on-Y	YTD
S&P 500	5,460.5	5,881.6	5,611.9	6,204.95	10.6%	13.6%	5.5%
MSCI World	3,511.8	3,707.8	3,628.6	4,026.4	11.0%	14.7%	8.6%
MSCI World ex USA	2,328.9	2,302.7	2,429.4	2,694.6	10.9%	15.7%	17.0%
MSCI Euro	1,436.1	1,385.2	1,546.3	1,715.0	10.9%	19.4%	23.8%
MSCI Emerging Markets	1,086.3	1,075.5	1,101.4	1,229.3	11.6%	13.2%	14.3%
Shanghai Composite Index	2,967.4	3,351.8	3,335.8	3,444.4	3.3%	16.1%	2.8%

Source: MSCI, S&P 500, Shanghai Composite

**Fed's target still elusive**

The US annual Consumer Price Index (CPI) headline inflation rate increased marginally to 2.4% in May 2025, compared to 2.3% in April driven by an increase in costs of food and transport. The Personal Consumption Expenditures (PCE) price index slightly increased to 2.3% in May 2025, compared to 2.2% in April 2025. The core (excluding food and energy) PCE index increased slightly to 2.7% in May 2025 from 2.6% of the previous month, though still above the Fed's 2.0% target.

**Fed holds benchmark rate steady**

The Federal Reserve Committee maintained the Fed's Fund rate at 4.25%-4.5% for the fourth consecutive meeting. The Federal Open Market Committee (FOMC) noted the need for more clarity on the outlook for inflation and economic activity as a basis for holding the rate. The committee projected two rate cuts in the next half of the year, despite maintaining the 2025-year end Fed rate at 3.9%. The headline PCE and Core PCE inflation was revised upwards to 3.0% from 2.7% and 3.1% from 2.8% respectively for 2025-year end.

**US economy reverses course**

The US economy contracted at an annualized rate of -0.5% in 1Q25, compared to the 2.4% growth rate in 4Q24. This decline was primarily due to an uptick in imports and a decrease in government spending. However, this was partly offset by an upturn in fixed investments. The Federal Reserve lowered the economy's projections from 1.7% to 1.4% in 2025 in the June 2025 meeting.

**US-China trade tensions cool off**

The US and China agreed to a 90-day tariff truce, lowering US tariffs on Chinese goods from 145% to 30% and China's tariffs on US goods from 125% to 10%. The US also eased export restrictions on key semi-conductor and aerospace technologies. This marked a temporary pause in trade tensions to allow room

for further dialogue. However, structural issues like intellectual property enforcement, industrial subsidies, and technology transfer remain unresolved. After 8th July, the truce may be extended, escalated, or formalized.

**Middle East tensions: Israel-Iran conflict**

In June 2025, amid the broader Israel-Hamas conflict, tensions between Israel and Iran escalated sharply. Israel launched airstrikes on Iranian nuclear and military sites. Iran retaliated by firing missiles at Israeli cities. The U.S. then struck Iran's key nuclear facilities in Fordow, Natanz and Isfahan. In response, Iran targeted a U.S. military base in Qatar. The escalation triggered short-lived volatility in energy markets and increased global risk premiums. A ceasefire was reached on 24<sup>th</sup> June 2025, temporarily halting direct hostilities.

**Crude retreats as market shifts to supply focus**

Crude oil prices dipped sharply with Brent crude declining by 9.5% in 2Q25 to USD 67.6 per barrel. The drop followed a brief geopolitically driven price surge in June amid heightened Middle East tensions, which temporarily elevated the oil risk premium. However, the Israel-Iran truce eased market fears, triggering a downward correction in oil prices. Additionally contributing to the downward pressure on prices was OPEC+'s decision to approve a production hike of 411,000 barrels per day for August. This shifted OPEC+'s focus towards market share protection over price stabilization.

**Strong start for China, but headwinds persist**

The Chinese economy grew by 5.4% in 1Q25, above the 5.3% market forecasts and unchanged in comparison to 5.4% in 4Q24. This growth was on the back of an uptick in industrial output, retail sales and fixed asset investments. However, the ongoing property sector crisis and the US-China tariff war pose risks to the economy's growth. The IMF lowered China's GDP rate for 2025 to 4.0% from 4.6%, which is lower than the country's target of 5.0%.

**ECB cuts policy rate**

The European Central Bank (ECB) lowered its policy rate by 25 basis points (0.25%) to 2.0% in their June 2025 meeting. The committee's decision was backed by the updated assessment of the inflation outlook and strength of the policy transmission. The rate cut was further reinforced by annual core inflation remaining unchanged at 2.3% in June 2025. The Euro annual headline inflation projection was revised downwards to average 2.0% from 2.3% in 2025, despite holding the annual core at 2.4%. The revision reflected the governing council's lower assumptions for energy prices and a stronger Euro.

**Stock market Outlook**

The global equity market is expected to remain resilient in 3Q25, supported by easing trade tensions, strong earnings, accommodative monetary policy and expansionary fiscal policy. However, unresolved trade issues, geopolitical risks and U.S. debt concerns may weigh on performance.

