ECONOMIC POLICY RESEARCH CENTRE

Towards Sustainable Development

The Uganda Business Climate Index

Issue No. 52, July - September 2025

Hildah Namuleme, Rehema Kahunde, Steven Katende

Uganda's Business Climate improves amidst declining manufacturing and agricultural sector performance

Executive Summary

The Business Climate Index (BCI) improved marginally by 7.7 index points from 117.9 in the previous quarter April-June 2025) to 125.6 in the current quarter (July - September 2025). Improved input prices, favourable product prices and increased business activities, as well as business sales/ more business orders, caused the increment in business sentiments during the current quarter. This increase was largely because of improved macroeconomic factors, especially the exchange rate, higher product prices, and increased demand, which was more evident in medium-sized businesses.

At the sectoral level, business sentiments within the service sector registered sharp improvements of 15.2 index points, rising to 132.3 in the current quarter from 117.1 in the previous quarter, emanating from increased business activity, sales turnover, favourable selling price and profitability, mainly among large and medium-sized businesses in education, monetary intermediation, transport, and warehousing and storage services. On the contrary, sentiments in the agriculture and manufacturing sectors sharply declined by 36.5 and 32.6 index points to 105.5 and 84.1 from 141.5 and 116.7. The post-harvest season partly caused the deterioration in business sentiments within the agriculture sector, slowing production and causing crop prices to fall, which reduced income and turnover for agribusinesses engaged in storage, transport, and processing. Additionally, the quarter experienced sporadic dry spells that disrupted planting and led to lower demand for inputs such as seeds, fertilizers, and post-harvest

equipment. Although business conditions improved, employment gains remained weak. Businesses laid off more workers than they hired, especially part-time employees, a situation that reflected the vulnerability of temporary jobs. Layoffs of temporary workers were most pronounced in the industrial sector.

Nonetheless, the near-term business sentiments (October-December 2025) indicate anticipated improvements in conditions for doing business by 16.6 index points from the current 125.6 index points to 142.2 index points in the next quarter. The upcoming quarter's favorable business conditions are attributed to an expected improvement in general business optimism and a pickup in demand due to the anticipated end-of-year festive season.

Data and methods

The data used to compute the Business Climate Index (BCI) are drawn from the EPRC Business Climate Survey. This wave included 984 firms, and the sample is nationally representative of 15,096 business establishments across Uganda. The sample, drawn by the Uganda Bureau of Statistics (UBOS) from the Uganda Revenue Authority (URA) business database, ensures national representation across all four regions (Central, Eastern, Western, and Northern) and the three key sectors of agriculture, industry, and services. The survey asked business managers and owners to assess the overall economic environment for the quarter under review relative to the previous quarter, as well as their expectations for the next three months. These assessments form the two key components of the BCI, the business situation and business expectations. **Please see the appendix at the bottom of the details of the methods used to compute the BCI.**

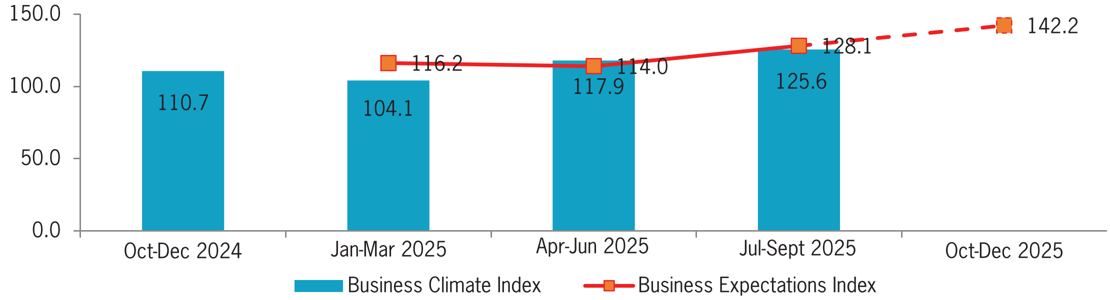
Findings

Overall Business Climate Index

Business climate improves slightly, and businesses remain optimistic about the future. Results indicate that the Business Climate Index improved by 7.7 index points, to 125.6 during the current quarter (July–September 2025) from 117.9 in the preceding quarter (April–June 2025) (Figure 1). The improvement resulted from improved input prices, favourable product prices, increased business activities, and business sales/more business orders, all of which were largely attributed to improved macroeconomic factors, particularly the exchange rate, improved product prices, and increased demand.

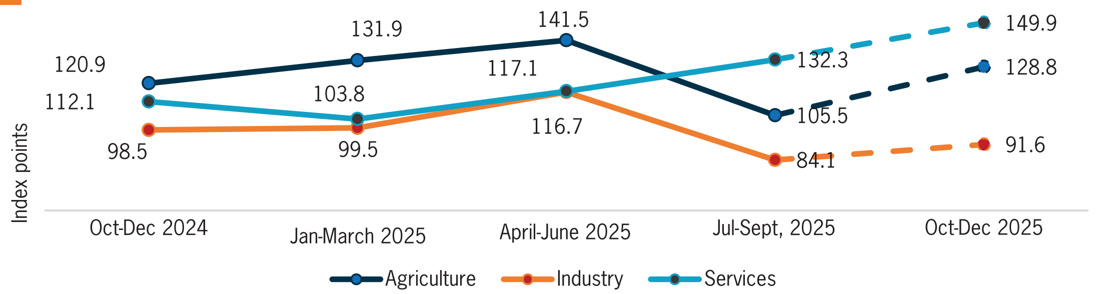
The continued strengthening of the Uganda Shilling against the US Dollar, an appreciation of 2.7 percent in the quarter from an average mid-rate of Shs 3,605.84/USD in June 2025 to Shs 3,507.79/USD in September 2025, is among the positive sentiments mentioned. The appreciation meant that businesses that rely on imported raw materials, machinery, were spend less in shillings, lowering production and operating costs.

Figure 1 The Business Climate Assessment



Source: Authors' computation using July - September 2025 BCI survey

Figure 2 Business Climate Index and future expectations, by sector



Source: Authors' computation using July - September 2025 BCI survey

Lower input costs and stable prices increased sales and profitability for manufacturers, traders, and service providers. These findings are in line with other indices, such as the September 2025 Purchasing Managers' Index (PIM) by Stanbic Bank Uganda, which attributes the expansion in business activity in Uganda's private sector to improved input prices, favourable product prices, and a rise in new business orders.[i]

The Business Climate Index by sector

Business sentiments in the services sector improved, while those for the agriculture and manufacturing sectors showed a minor decline.

A disaggregation of the BCI by sector (Figure 2) highlights improved business sentiments in the services sector by 15.2 index points from 117.1 in the previous quarter (April-June 2025) to 132.3 index points in the current quarter (July-September 2025). This improvement majorly stemmed from increased business activity, sales turnover, favourable selling price and profitability, mainly among large and medium-sized businesses in the education, monetary intermediation, transport, and warehousing and storage services sub sectors.

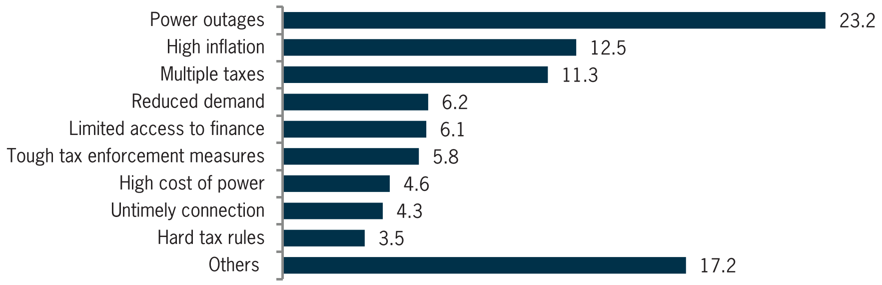
By contrast, sentiments in the agriculture and manufacturing sectors sharply declined by 36.5 and 32.6 index points to 105.5 and 84.1 from 141.5 and 116.7, respectively. Agricultural businesses, particularly large enterprises dealing in agricultural storage, packaging, transportation, agricultural inputs, and post-harvest equipment, reported reduced business activity, sales turnover and declining capacity utilization. This is partly because the first agricultural season in the country ended. Specifically, July-September coincides with the post-harvest season, when production slows, and crop prices decline. This reduces income and turnover for agribusinesses engaged in storage, transport, and processing. Additionally, the quarter experienced sporadic dry spells that disrupted planting and led to lower demand for inputs such as seeds and fertilizers.

Challenges in doing business

Power outages, inflation and multiple taxation were the most pressing business constraints during the quarter.

The three major challenges to business operations for the quarter under review were power outages, inflation and multiple taxation (Figure 3). Most of these challenges remain unchanged when compared to those reported in the previous quarter (April-June 2024), especially for power outages and multiple taxation. Therefore, one can conclude that the challenges of doing business in Uganda have remained consistent. For the third consecutive quarter, business owners have identified multiple taxation—arising from frequent interactions with both central and local government agencies for payments such as URA taxes, operating permits and ground rent—as a major challenge.

Figure 3 Business Constraints (percent)



Source: Authors' computation using July - September 2025 BCI survey

Also, unlike in the previous quarter, business owners reported being impacted by macroeconomic challenges, specifically inflation, during July–September 2025. Firms in the manufacturing sector and the service sectors registered the most frequently reported the highlighted challenges.

Future business outlook: October – December 2025

In addition to the registered improvement, businesses remain optimistic about the future business situation. Business owners anticipate that the near-term business sentiments will improve by 16.6 index points to 142.2 in the next quarter (October-December 2025) from the 125.6 index points registered in the current quarter (July-September 2025), according to Figure 1. The projected improvement in both domestic and international demand for goods and services is expected to improve business conditions in the upcoming quarter, mainly due to the end-of-year festive season.

Businesses expect favorable business sentiments across all sectors, but especially in the agriculture and service sectors (see Figure 2). Specifically, business conditions in the agriculture sector are expected to improve by 23.3 index points from 105.5 in the quarter under review (July-September 2025) to 128.8 in the next quarter (October-December 2025), due to the anticipated increase in produce sales. Because the upcoming quarter aligns with planting seasons, when farmers buy inputs and crop prices go up, there is an expectation of above-average positive sentiment in the agriculture sector. Specifically, firms dealing in fish rearing, poultry keeping, animal feeds, seeds and seedlings report expected improved business sentiments.

Similarly, firms expect the service sector sentiments to improve by 17.6 index points from 132.3 to 149.9, and the manufacturing sector sentiments to improve by 7.5 index points from 84.1 to 91.6. The positive expectations in these sectors are mainly driven by the anticipated improvements in sales turnover, profits and business activity.

Changes in Business employment

While most of the firms reported having retained their workforce, the average number of reported layoffs was more than triple that of hired workers, despite improved business sentiments

Despite the improvement in the conditions of doing business and the positive outlook highlighted above, about 14.2 percent of businesses reduced the size of their workforce, while 12 percent of the businesses employed more workers (Figure 4). Notably, for firms that laid off any workers, the largest proportion were part-time workers (on average 15) compared to full-time (on average 4). Similarly, for firms that were able to hire additional workers, a larger proportion were part-time workers (on average 3) compared to full-time hires (on average 2). This suggests that Ugandan firms are less likely to expand their full-time workforce but may still adjust their use of part-time workers, indicating greater flexibility with part-time workers. Indeed, part-time workers allow firms to scale up or down rapidly during conditions of seasonal production cycles, volatile market demand or shock, without the rigidity associated with full-time workers.

Disaggregation of changes in employment by sector and firm size (not indicated in the chart) reveals that the layoffs were higher in the industry sector and within small and medium businesses. The high layoffs in the industry sector are partly in line with the decline in the perceptions of doing business in the sector, as earlier illustrated in Figure 2. Similarly, the registered layoffs in the small and medium-sized firms could be due to the reported increase in the cost of operation because of the EFRIS expansion to non-VAT registered businesses, as explained in panel B of Figure 5 below. Previous research corroborates these findings, such as Guloba *et al*., (2021)[ii] and Sserunjogi et al., (2022),[iii] which noted that firms tend to downsize their workforce in the face of increased costs of operation. The findings further imply that improved conditions for doing business may not necessarily translate into higher job creation.

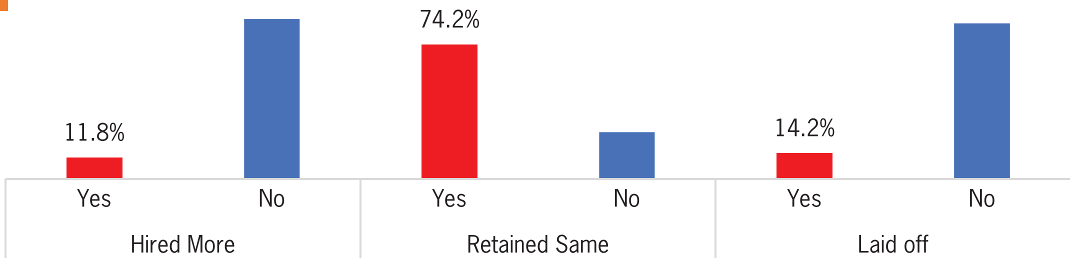
Question of the quarter (July - September 2025)

Effect of the expansion of the use of the Electronic Fiscal Receipting and Invoicing System (EFRIS) by URA to non-VAT registered businesses, effective 1st July 2025.

Almost 6 in every 10 businesses expressed concerns about the negative effects of the expansion of EFRIS on their operations. Previously, only VAT-registered tax payers (those with turnovers exceeding 150 million) were required to use EFRIS (a system implemented by the URA to curb revenue leakage and underreporting). Effective July 1st, 2025, all businesses, regardless of whether they were VAT registered or not, were required to issue e-invoices or e-receipts for all business transactions. In this quarter, we sought to understand whether and how the expansion of EFRIS to non-VAT registered businesses potentially affected Uganda's business environment. Businesses were asked: (i) "Has your business been affected by the expansion of the use of EFRIS to non-VAT registered businesses?" and (ii) "If Yes, how?"

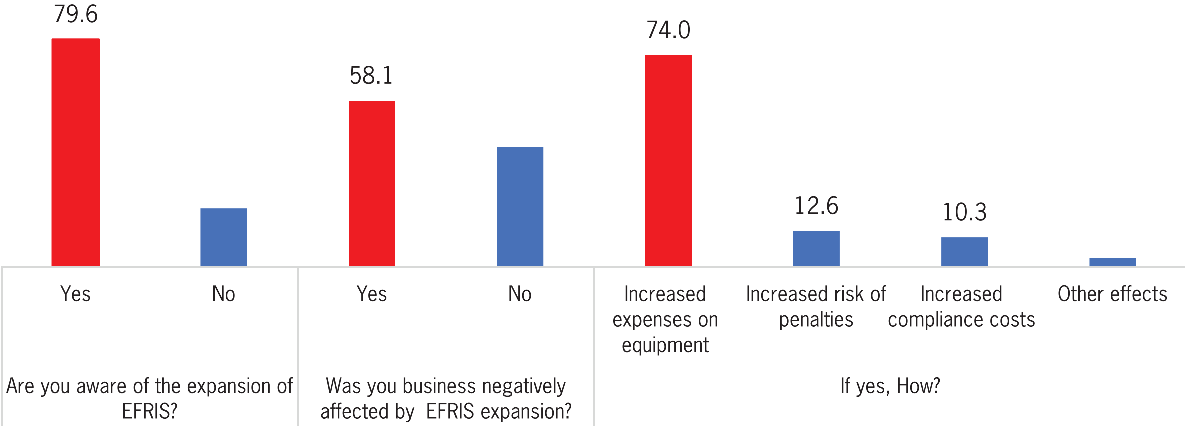
Approximately six out of ten businesses (58% of firm owners) voiced concern regarding the expansion of EFRIS and its impact on their operations (Figure 5 panel A). Among those affected, the most cited effect was the increased operation costs resulting from the high expenditure on EFRIS equipment, such as computers and other electronic fiscal devices. Other notable concerns included a perceived increase in the cost of compliance, which could increase the risk of penalties, with businesses reporting that they had to spend on training their staff on how to operate the system, besides ensuring a constant internet connection. It is worth noting that many businesses lacked both the technical infrastructure and know-how to integrate and operate EFRIS immediately as instructed by URA.

Figure 4 Whether firms hired, retained and/or laid off workers (%)



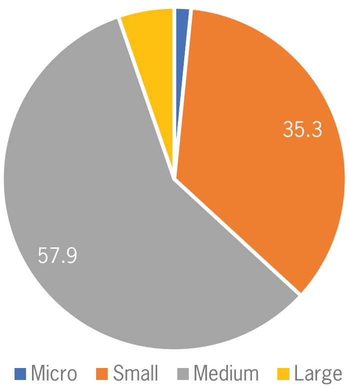
Source: Authors' computation using July - September 2025 BCI survey

Figure 5 Panel A: Effect of EFRIS expansion to non-VAT registered businesses, %



Source: Authors' computation using July - September 2025 BCI survey

Figure 5 Panel B: Distribution of firms affected by the EFRIS expansion to non-VAT registered businesses by size, %



Source: Authors' computation using July - September 2025 BCI survey

Panel B of Figure 5 displays a breakdown of the EFRIS expansion effect by firm size. Notably, small and medium firms had the biggest proportions of businesses that were affected by the EFRIS expansion to non-VAT registered firms. Medium-sized businesses were the most affected, with 57.9 percent reporting having been affected, followed by 35.3 percent of small businesses. This pattern suggests that the expansion of EFRIS has a disproportionate effect on medium and small businesses. This could potentially increase the number of firms becoming informal and micro-sized due to the reported high cost of operation caused by EFRIS. Conversely, large enterprises experienced relatively less impact, partly because they were already using EFRIS even before the expansion.

Nonetheless, it is important to note that while the government aims at increasing tax compliance as a way of improving domestic resource mobilization through EFRIS, the required hardware and software, skilled staff and internet connectivity create a significant barrier to its implementation. Additionally, these requirements could potentially push more firms back into informality or even reduce their size. These findings show that the URA needs to quickly find solutions to the problems with how EFRIS is being used. Specifically, training the small and medium-sized firm owners and subsidizing the required equipment for the use of EFRIS could go a long way in increasing its uptake.

Conclusion

The Business Climate Index (BCI) improved marginally by 7.7 index points from 117.9 in the previous quarter April-June 2025) to 125.6 in the current quarter (July - September 2025). The slight improvement in business sentiments registered during the current quarter was mainly driven by increased product prices and increased demand, which was more evident in medium-sized businesses. The service sector, especially education and transport businesses, recorded increasing business sentiments at the sectoral level, while the agriculture and manufacturing sectors saw sharp reductions. Improved macroeconomic factors, especially the exchange rate, improved product prices, and increased demand, are the reasons behind the service sector's improvement, particularly for medium-sized businesses.

Considering the business challenges faced by businesses, the three major challenges to business operations for the quarter under review are power outages, inflation and multiple taxation (Figure 3). Most of these challenges remain unchanged when compared to those reported in the previous quarter (April-June 2025) specifically, power outages and multiple taxation. Although business conditions improved, employment gains remained weak. Enterprises marginally laid off more workers than they hired, particularly part-time employees, which showed the flexibility of temporary hires. Layoffs were most pronounced in the industrial sector.

The near-term business sentiments (October-December 2025) indicate an expected improvement in conditions for doing business by 16.6 index points from the current 125.6 index points to 142.2 index points in the next quarter. The projected improvement in general business optimism and a pickup in demand due to the expected end-of-year festive season explain the anticipated favourable business conditions in the upcoming quarter, which is expected to increase business activity, sales turnover, and incoming new business orders.

Appendix: Methodology used to compute the Business Climate Index (BCI)

Two sub-indicators, the Business Situation (BS) and Business Expectations (BE), are used to construct the BCI. Each sub-indicator is calculated using the diffusion index approach, which measures the direction of change in business perceptions instead of its magnitude. The difference between the share of respondents who report improved business conditions and those who report a decline yields the diffusion index, producing a balance statistic that varies between -100 and +100, where positive values show improvement and negative values indicate deterioration. The overall BCI is obtained as the geometric mean of the balances of the two sub-indicators according to the formula:

$$\text{BCI} = \sqrt{(\text{Balance of BS} + 200)(\text{Balance of BE} + 200)} - 200$$

Because the balances range between -100 and +100, they are first increased by 200 to avoid negative values in the root expression, and 200 is subtracted at the end to restore scale interpretability. This geometric mean moderates extreme changes, smoothing out the effect of sharp quarterly fluctuations. Finally, the BCI is rescaled to a range of 0-200, where values below 100 indicate a business environment below average (contraction) and values above 100 indicate a business environment above average (expansion). The index captures the general direction of business conditions rather than their magnitude, making it a sensitive indicator of short-term shifts in business sentiment.

Ten business evaluation indicators explain the BCI. These indicators jointly capture firms' perceptions of current and future business conditions: level of business activity, turnover, profitability, incoming new business, capacity utilization, average cost of inputs, prices of produced goods, business optimism, number of employees, and average monthly salary. For each of these indicators, respondents express their perceptions using a three-point Likert scale; "improved", "did not change", and "declined"; or "above normal", "normal", and "below normal"; or "more favourable", "unchanged", and "less favourable"; depending on the question type. The responses are coded as 0, 1, and 2 respectively, where 0 indicates deterioration, 1 indicates no change, and 2 indicates improvement.

Using the principal component analysis (PCA) method, we performed a factor analysis to identify which indicators most strongly shape the current business situation and business expectations. This statistical technique identifies the underlying latent construct that explains the greatest proportion of shared variation among the indicators. For both the current and future models, one dominant factor with an eigenvalue greater than 1 was retained, explaining the largest proportion of the total variance. Indicators with higher factor loadings mainly drove the business climate; indicators that exhibited weaker loadings exerted less direct influence on overall perceptions of business conditions. Additionally, the reliability of the underlying factor structure was validated through the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy.

Beyond perceptions of business performance, the BCI survey also tracks the evolution of business constraints. Respondents are asked to indicate whether each constraint such as access to finance, input costs, taxation, infrastructure, or competition, has become more of a problem, remained unchanged, or become less of a problem during the reference quarter. This information complements the BCI by providing insight into which structural challenges are intensifying or easing in the business environment.

Endnotes

i https://www.pmi.spglobal.com/Public/Home/PressRelease/866444132eac4bdfba0c8853d4e4e73f
ii https://www.brookings.edu/wp-content/uploads/2021/07/21.07.30-Uganda-Covid-Update.pdf
iii https://www.taylorfrancis.com/chapters/edit/10.4324/9781003208358-12/employment-productivity-uganda-smes-face-covid-19-sserunjogi-brian-nathan-sunday-paul-lakuma-rehema-kahunde

The Economic Policy Research Centre (EPRC) has been producing the Business Climate Index (BCI) for Uganda since June 2012. The BCI reflects the perceptions of Ugandan business managers on the current and near-future (expected three months ahead) business conditions. The BCI is a perceptions indicator of economic activity and the general business environment in which businesses operate. The purpose of BCI is to forecast turning points in economic activity and thus provide critical information for policy makers both in Government and the Private Sector.

About EPRC
The Economic Policy Research Centre (EPRC) is an autonomous not-for-profit organization established in 1993 with a mission to foster sustainable growth and development in Uganda through advancement of research – based knowledge and policy analysis.

Address
Economic Policy Research Centre
Plot 51, Pool Road, Makerere University Campus
P.O. Box 7841, Kampala, Uganda
Tel: +256-414-541023/4
Fax: +256-414-541022
Email: eprc@eprcug.org

Acknowledgement
The Business Climate Survey team appreciates the support received from all participating business establishments across the country, our partners at the Uganda National Chamber of Commerce and Industry, Kampala City Traders Association and all persons who reviewed and edited this publication.

Learn more at www.eprcug.org