

## Perceptions of doing business decline, on account of pessimistic outlook

### Executive Summary

Uganda's Business Climate Index (BCI) declined during the quarter October–December 2025, by 25.5 index points from 125.6 to 100.1, signaling weakening business sentiments largely driven by pessimistic expectations about the near-term economic outlook. Particularly, business expectations for the January–March 2026 quarter remain subdued on account of anticipated weakened capacity utilisation, rising input costs and reduced profitability. The subdued business outlook emerged with the uncertainty that is associated with the General Election season. At the sectoral level, business sentiments across all sectors registered an improvement in the quarter under review. The industry sector registered the highest improvement, rising to 9.8 percentage points in the October–December 2025 quarter from -23 in quarter July–September 2025. Nonetheless, near term business perceptions (January–March 2026 quarter) are anticipated to decline in the agriculture and service sectors while those in the industry shall improve. During the current October–December 2025 quarter, increased competition between businesses within the same sector, reduced demand, and poor transport infrastructure were top challenges of doing business in Uganda.



Photo Credit: <https://ugandaradionet.net/story/pictorial-ugandans-vote-for-president-mps-?districtId=732>

### Data and methods

The data used to compute the Business Climate Index (BCI) are drawn from a total of 801 businesses firms that are representative of 12,412 firms 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. During the survey, business executives were asked to assess the overall economic environment for the quarter under review compared 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 outlook.

The BCI is constructed from two sub-indicators: the Business Situation (BS) and Business Outlook (BO). Each sub-indicator is computed using the diffusion index approach, which measures the direction rather than the magnitude of change in business perceptions. The diffusion index is derived as the difference between the share of respondents reporting an improvement in business conditions and the share reporting a decline, yielding a balance statistic ranging between -100 and +100,

where positive values indicate improvement and negative values signal deterioration. The overall BCI is obtained as the geometric mean of the balances of the two sub-indicators according to the formula:

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

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 moderate 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.

The BCI is explained by ten business evaluation indicators that jointly capture the firms' perceptions of current and future business conditions: level of business activity, turnover, profitability, incoming new business, capacity utilisation, 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.

Beyond perceptions of business performance, the Business Climate Survey (BCS) also tracks operational business constraints as well as their evolution, benchmarking on the previous quarter. Respondents are asked to indicate whether they experienced challenges such as limited access to finance, unfavourable macroeconomic environment, competition, reduced demand, among others and whether each of these constraints has become more of a problem, remained unchanged, or 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.

## Findings

### Overall Business Climate Assessment

#### Perception about doing business declines, driven by pessimism in near term developments with the onset of the election season.

Results indicate that the Business Climate Index (BCI) declined by 25.5 index points, to 100.1 during the quarter October-December 2025 from 125.6 in the preceding quarter, July-September 2025 (Figure 1). Despite the decline in the overall index, conditions of doing business remained confident during the October-December 2025 quarter, with the onset of the end of year festive season, remaining slightly above potential. This was partly evidenced by growth in private sector credit at an average of 3 percent between July-September and the October-

December quarter under review. Data from Bank of Uganda shows that the financial sector lent UGX 800 billion during the October-December 2025 quarter.<sup>1</sup>

Nevertheless, the general conditions for doing business remained just at potential (a BCI of 100), due to anticipated decline in conditions of doing business during the January-March 2026 quarter, to -3.9 percentage points from the current 42.2 percentage points (Figure 1). This anticipated unfavourable business outlook is largely driven by the expected reduction in demand for goods and services on account of uncertainty about the General Election season. In addition, expected unfavourable business perceptions regarding unreliable power supply and transport disruptions from the ongoing multiple construction and rehabilitation of road infrastructure damped the near-term business outlook.

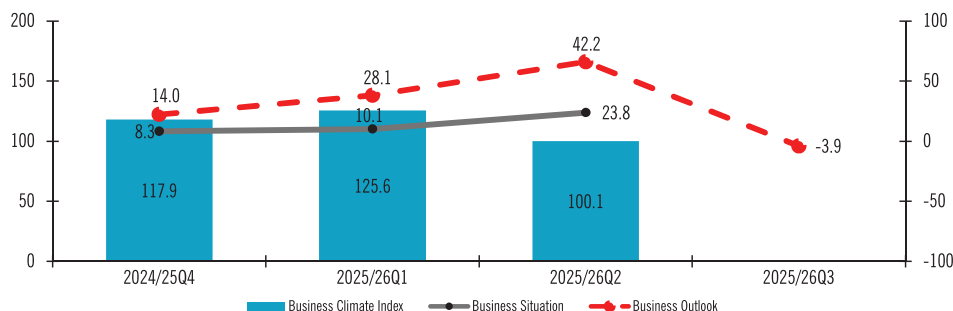
The anticipated decline in customer demand could be explained by increased stocking of household consumables during the quarter October-December 2025, as customers prepared for possible uncertainties surrounding the January 2026 General Election period. Additionally, the expected start of the Term I of the 2026 school calendar and the associated back-to-school expenditures, in the January-March 2026 quarter, also triggered a slowdown in business activity, characterised by conscious spending, as households turn attention to school fees— which is normally characterised by increases at the beginning of every school year.

### Business Situation and Outlook by Sector

A disaggregation of the business situation by sector reveals a strong recovery in business sentiments across all sectors. Specifically, the industry sector rebounded strongly to 9.8 from -23 percentage points (pp) registered in the previous quarter; the agriculture sector

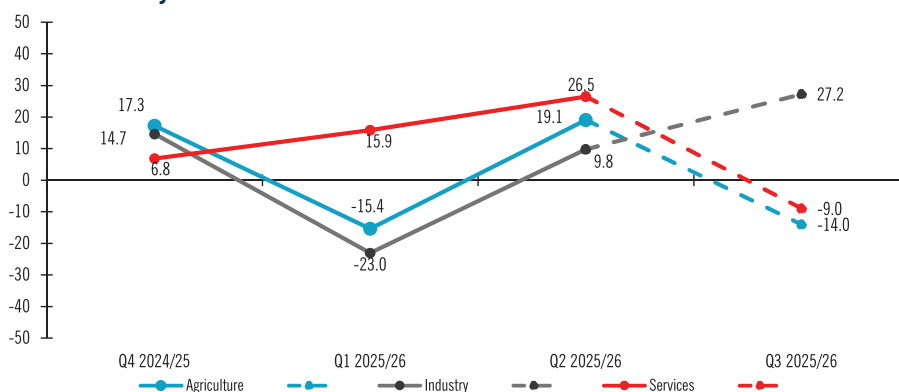
<sup>1</sup> <https://www.bou.or.ug/bouwebsite/Statistics/>

**Figure 1** The Business Climate Assessment



Source: Authors' computation using October - December 2025 BCS

**Figure 2** Business Situation by sector



Source: Authors' computation using October - December 2025 BCS

recovered to 19.1 from -15.4 pp within the same period (Figure 2). The improvement across all sectors in the October-December 2025 quarter is due to reported increase in business activity, sales turnover and profitability owing to the festive season.

However, the expected business sentiments for the January-March 2026 quarter show a mixed outlook. While perceptions of doing business in the industry show a persistent positive outlook, perceptions within the agriculture and services sectors declined drastically. The expected decline in two sectors is due to the anticipated reduction in customer demand for goods and services within the agriculture and services sectors. In addition, ongoing construction and rehabilitation of several road infrastructures is expected to negatively affect business sentiments, especially in the two sectors where a decline is expected.

### Challenges of Doing Business

Figure 3 shows that the three most important business constraints reported by firms during the October-December 2025 quarter were: (i) competition between businesses within the same sector, (ii) reduced customer demand for goods and services and (iii) poor transport infrastructure. The chart also shows that almost two in every ten respondents reported having experienced each of the mentioned challenge.

The findings further reveal that increased competition and reduced customer demand constraints were largely reported by medium and large-sized firms in the service sector, in the Eastern region. On the contrary, transport-related business challenges were mostly reported by micro firms across all sectors in Kampala, mainly due to the numerous ongoing road construction and rehabilitation activities across several city suburbs.

### How have business constraints evolved over the last period?

Similar to the previous quarter (July-September 2025), challenges posed by increased business competition, multiple taxation and corruption are elevated in the current quarter (October-December 2025) (Figure 4). Particularly, nearly half of the respondents indicated that competition, taxation and corruption worsened during the October-December 2025 quarter.

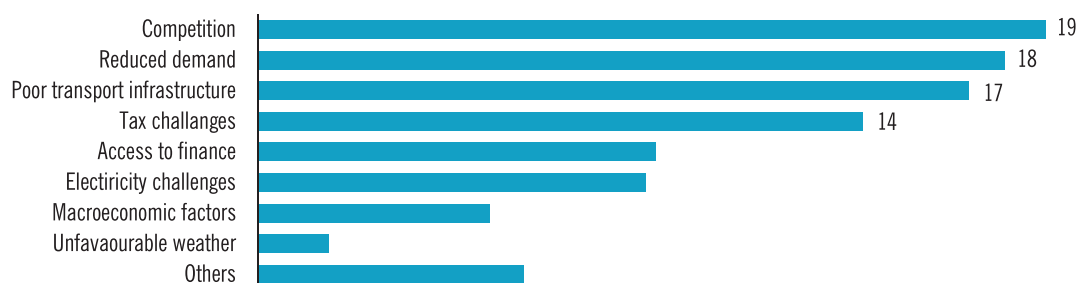
On the contrary, unlike last quarter, the electricity challenge has been less severe in the October-December 2025 quarter. The decreased severity of power challenges is attributed to the several initiatives that Uganda Electricity Distribution Company Limited (UEDCL) undertook during the quarter to improve power reliability. For instance, by November 2025, UEDCL reported that it had installed a total of 132 new transformers and replaced 126 faulty units across different urban centres of the country. In addition, between July and December 2025, the company also started the “wetereze campaign” that regularized power connections for a total of 28,000 illegal users. According to UEDCL, this initiative helped to recover a total of 1.4 million Kilowatt Hours of lost power, reducing technical losses and improving power network reliability.<sup>2,3</sup>

### Changes in Business Employment

The business employment status during the October-December 2025 quarter remained largely stable, with most businesses maintaining their workforce levels. About 89.5 percent of businesses reported retaining the same number of workers compared to the previous quarter (July-September 2025) (Figure 5). However, 7.4 percent of businesses laid off workers, while only 3.1 percent reported hiring additional workers.

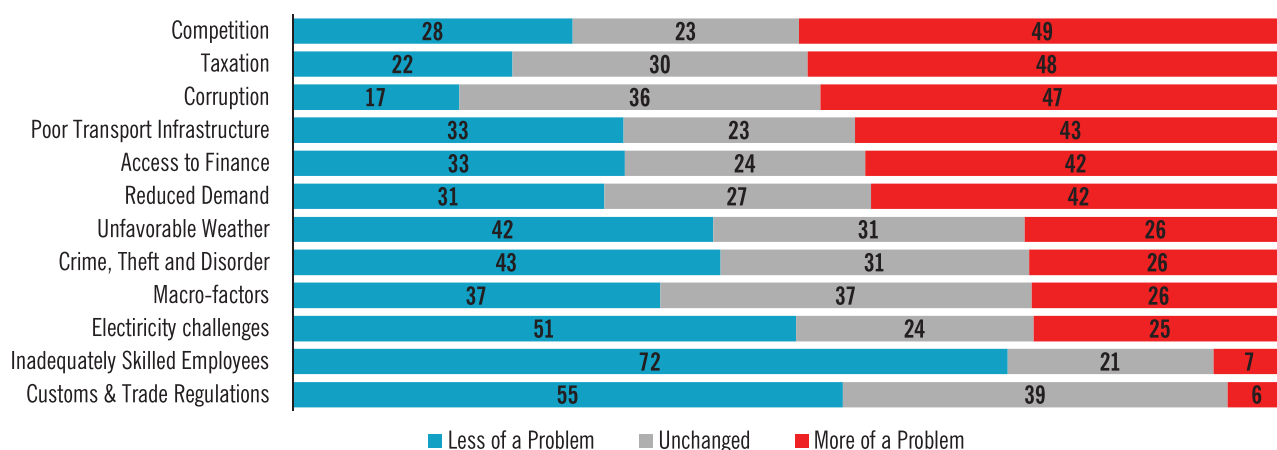
<sup>2</sup> <https://softpower Uganda/uedcl-installs-132-new-transformers-in-push-for-reliable-power-supply/>  
<sup>3</sup> <https://news swift.co.ug/energy/28000-illegal-power-users-seek-amnesty-under-uedcl-wetereze-campaign-says-md-mwesigwa/#:~:text=28%2C000%20illegal%20power%20users%20seek,campaign%2C%20says%20MD%20Mwesigwa%20%2D%20NewSwift>

**Figure 3 Business Constraints (% of firms)**



Source: Authors' computation using October - December 2025 BCS

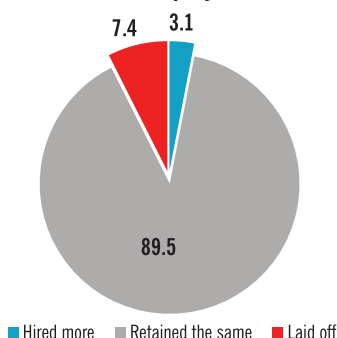
**Figure 4 The evolution of business constraints (% of firms)**



Source: Authors' computation using October - December 2025 BCS

At the sector level, hiring of new workers was largely concentrated in the services sector, accounting for 91.4 percent of new jobs. In contrast, worker layoffs were highest in the industry sector, with 73.5 percent of businesses laying off workers. The relatively higher layoffs within the industry sector were particularly registered within businesses in the construction sub-sector, reflecting the seasonal nature of activities within that sub-sector.

**Figure 5** How business employment has evolved (%)



Source: Authors' computation using October - December 2025 BCS

**Question of the Quarter**  
**Awareness and preparedness for commercial oil and gas production**

In this quarter we sought to understand the extent of business awareness and preparedness for Uganda's commercial oil and gas production anticipated to start in 2026. We approached this by asking a question whether the business executives were aware of the commencement of commercial oil and gas production in 2026 and how they had prepared their businesses to benefit from the vast business opportunities that come with this sector.

Results indicate that about four in every ten firms were not aware that Uganda will begin commercial oil production in 2026 (Figure 6). This information gap reveals that a considerable proportion of local businesses remain unprepared to participate in emerging opportunities

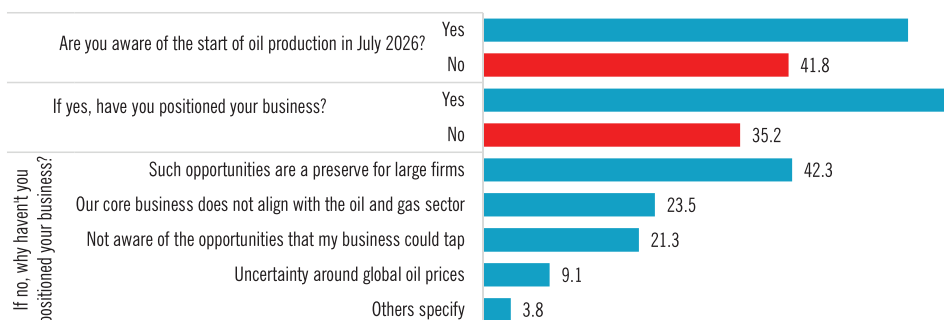
linked to the oil and gas sector. Limited awareness among businesses could reduce the potential benefits of the sector for businesses and weaken local content participation.

Moreover, three in every ten businesses that were aware had not positioned themselves to take advantage of the emerging opportunities that are likely to arise out of commercial oil and gas production. In this regard, 42 percent of businesses believed these opportunities were reserved for large firms (Figure 6). Other business executives (23.5 %) indicated that their core business activities do not align with the oil and gas sector, while 21.3 percent of businesses reported limited knowledge about the specific opportunities available for local enterprises. The findings highlight the need for strengthening information dissemination and clarifying local content opportunities among small and medium businesses.

**Conclusion**

Perceptions about the business environment in Uganda declined during the quarter October-December 2025, but the index remained slightly above potential. The decline in overall perception of doing business was due to anticipated decline in conditions of doing business during the January-March 2026 quarter, resulting from uncertainty that comes with the election season. Sectoral results reveal positive sentiments across all the three sectors (agriculture, industry and service). However, only the industry sector is expected to sustain the registered positive sentiments. Employment outcomes remained stable, with layoffs slightly exceeding new hires, particularly among part-time workers and micro enterprises. Firms also continue to face constraints, particularly competition, reduced demand, and poor transport infrastructure, although improvements in electricity reliability suggest progress in addressing some operational bottlenecks registered in the preceding quarter. Lastly, the findings highlight critical information gaps regarding Uganda's upcoming commercial oil production, with many firms unaware and/or unprepared to benefit from emerging opportunities. Overall, the results underscore the need for policies that strengthen business confidence, address the reported constraints, and improve information dissemination to support business participation in emerging economic opportunities.

**Figure 6** Awareness about the opportunities from commercial oil production (% of firms)



Source: Authors' computation using October - December 2025 BCS

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. BCI is a perceptions indicator of economic activity and the general business environment in which firms operate. The purpose of BCI is to forecast turning points in economic activity and thus provide critical information for policy makers both in the 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.

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