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Towards Sustainable Development

The Uganda Business
Climate Index

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Brian Sserunjogi, Hilda Namuleme, Rehema Kahunde and Eric Mudoko

Uganda Business Climate Improves amidst elevated risks from the renewed conflict in the Middle East

Executive Summary

Uganda's Business Climate Index (BCI) increased significantly by 20.1 index points to 124.9 during the April–June 2026 quarter, from 104.8 registered in the January–March 2026 quarter. The index captures two issues—the business situation and business outlook sentiments. The significant improvement in the BCI was largely driven by favourable sentiments in business outlook expected during the July–September 2026 quarter. At the sectoral level, current sentiments of doing business improved in the services and agriculture sectors but declined slightly in the industry sector during the quarter under review. The services sector recorded the largest improvement, with sentiments increasing from –28.0 percentage points in the January–March 2026 quarter to 21.9 percentage points in the April–June 2026 quarter, while agriculture improved from –43.0 to –27.9 percentage points. In contrast, business sentiments within the industry sector declined slightly from –41.7 to –42.2 percentage points. During the current quarter, the top five business challenges in Uganda were competition among businesses within the same sector, reduced demand for goods and services, tax-related challenges, macroeconomic pressures and electricity-related challenges.

Picture credit: https://observer.ug/news/iran-war-weakens-ugandas-economic-prospects/

Data and methods

The data used to compute the Business Climate Index (BCI) is obtained from the quarterly Business Climate Survey (BCS). A sample of 811 firms (representative of 12,557 firms) across Uganda is drawn by the Uganda Bureau of Statistics (UBoS) from the Uganda Revenue Authority (URA) corporate income tax (CIT) database. The data represents all the four regions (Central, Eastern, Western, and Northern) and the three key sectors of agriculture, industry, and services. During the survey, business executives are 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: (i) the Business Situation (BS) and (ii) 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:

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

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 change, 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 index 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

Business Climate Index improves, supported by strong business optimism, on expected favourable product prices and increased demand for goods and services in the coming quarter.

Results indicate that the Business Climate Index significantly increased by 20.1 index points, to 124.9 during the quarter April–June 2026 from 104.8 in the preceding quarter, January–March 2026 Figure 1. The improvement in overall conditions of doing business was largely anchored on positive sentiments in the businesses' favourable outlook. During the current quarter, the business outlook index was registered at 43.6 index points compared to 7.6 index points registered for the current business situation index. The optimistic outlook is supported by expectations of increased business activity, favourable product prices, as well as increased demand for goods and services. In addition, the July–September period coincides with the harvesting of Uganda's first season crops in many parts of the country, which is expected to boost business activity within the agriculture sector, and increase demand for transport, wholesale and retail trade, and other related services.

Although current business perceptions improved significantly from -30.8 percentage points in January–March 2026 to 7.6 percentage points in April–June 2026, confidence remained subdued. The pace of recovery in current business perceptions was constrained by rising business input costs associated with the renewed conflict in the Middle East due to the escalation of the US–Israel war on Iran, which has worsened the already disrupted global fuel supply chains. Notably, the 2026 Performance of the Economy report by the Ministry of Finance, Planning and Economic Development (MoFPED) indicates that annual Energy, Fuels and Utilities (EFU) inflation continued to increase from 9.1 percent in May 2026 to 11.9 percent in June 2026, mainly driven by higher liquid fuel prices. This rise was largely driven by higher domestic prices for petrol, diesel, paraffin and cooking gas, reflecting elevated global crude oil prices, supply-chain disruptions, and increased freight and insurance costs for petroleum shipments.

The elevated energy prices have resulted in high prices for manufactured products in the industry sector, as well as increased service costs, mainly in the transport subsector.

Business Situation by Sector

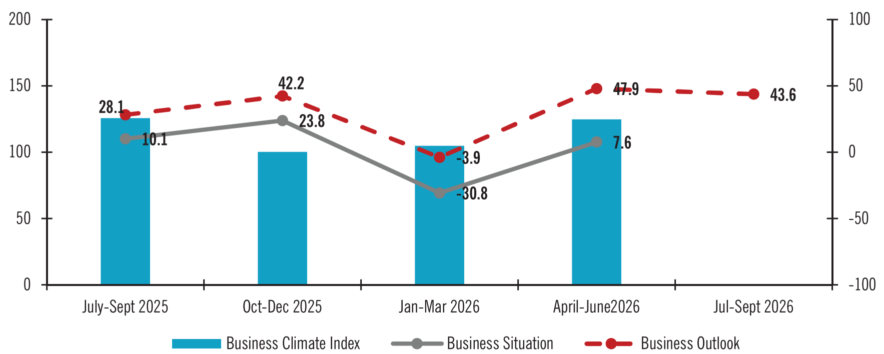
A disaggregation by sector indicates a positive outlook across all sectors for the quarter April-June 2026. Optimism is highest in the services sector, followed by the agriculture and industry sectors respectively (Figure 2). The anticipated improvement across all business sectors is attributed to expected increases in customer demand for goods and services, higher business activity, and higher sales turnover.

Despite the positive outlook, the prevailing business situation during the April–June 2026 quarter shows mixed performance across the three sectors, compared to the January-March 2026 situation. While sentiments in the services and agriculture sectors improved during the April–June 2026 quarter, the industry sector registered a marginal deterioration. Specifically, sentiments in the industry sector declined slightly from –41.7 to –42.2 percentage points, indicating operational challenges within this sector. Indeed, during the quarter, the industry sector registered high production and operating costs, subdued demand, low-capacity utilisation and reduced profitability. Businesses also reported that the shortage and increase in fuel prices contributed to higher fuel, transport, shipping and input costs, which continued to constrain business activity. Within the services sector, business sentiments increased significantly from –28.0 percentage points in January–March 2026 to 21.9 percentage points in April–June 2026, while those in agriculture improved from –43.0 to –27.9 percentage points, although they remained negative (Figure 2).

The improvement of business sentiments within the services sector during April–June 2026 was largely attributed to increased demand and business activity. Also, the increased sentiments in the agriculture sector were supported by favourable weather conditions, improved water for irrigation and continued government support through affordable financing, leading to increased production and productivity within the sector[1].

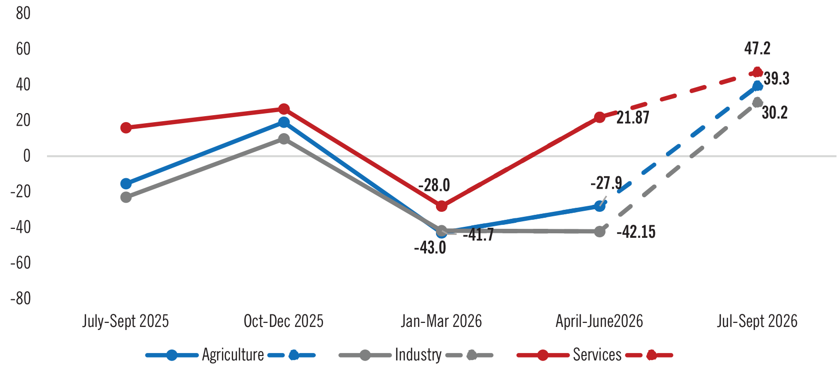
1 https://www.finance.go.ug/sites/default/files/reports/POE-2026-05-MAY.pdf

Figure 1 **The Business Climate Assessment**



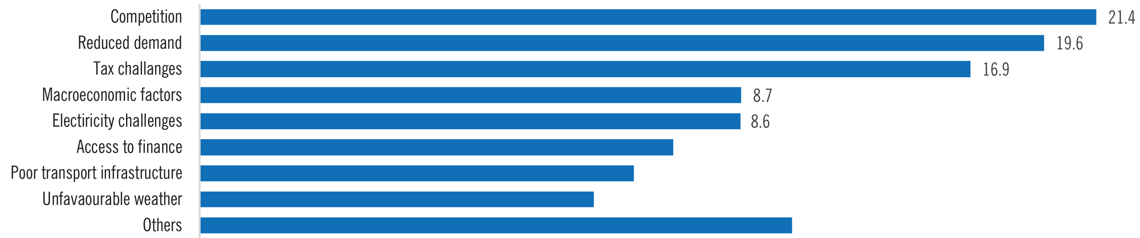
Source: Authors' computation using April - June 2026 BCI

Figure 2 **Business climate index by sector**



Source: Authors' computation using April – June 2026 BCS

Figure 3 **Business Constraints (percent of businesses)**



Source: Authors' computation using April – June 2026 BCS

Challenges of Doing Business

Figure 3 shows that business competition among businesses operating within the same sector was the most reported challenge during the April–June 2026 quarter. Further disaggregation reveals that business competition was mainly reported by small and medium-sized businesses in the services sector, particularly those operating in wholesale and retail, education and transport subsectors. About 56 percent of small-sized firms and 27 percent of medium-sized firms identified competition as a major constraint, reflecting increased competition for customers. The challenge of business competition was followed by reduced demand for goods and services, predominantly reported by medium-sized businesses in the services sector, especially those operating in accommodation as well as information and communication subsectors, where 61 percent of firms reported subdued demand for their goods and services.

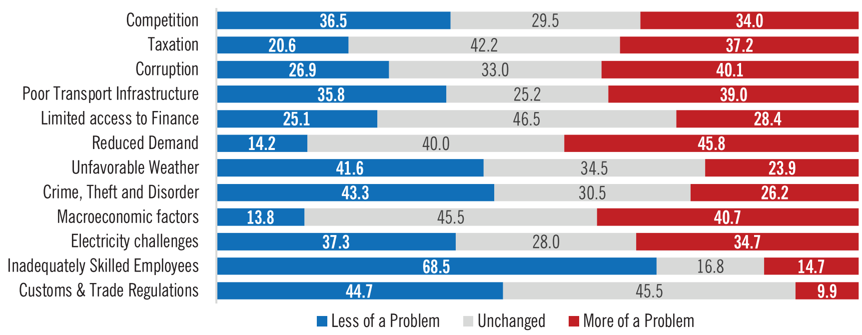
Relatedly, electricity-related challenges, including delays in obtaining new connections and unreliable supply, were mainly reported by medium-sized businesses in the services sector. Almost 60 percent of the affected firms operated in activities such as printing and stationery, radio broadcasting and other electricity-dependent services. Tax-related challenges, specifically perceived multiple taxation and high compliance fees, were most pronounced among small businesses in the industrial sector, particularly construction firms, with 60 percent reporting difficulties associated with tax compliance and enforcement. These constraints increased operating costs, disrupted business activities and limited firms' ability to expand production and service delivery. Lastly, businesses also reported macroeconomic pressures, specifically depreciation of the exchange rate as well as imported inflation resulting from global supply disruption of fuel- a key input in business operations.

How have business constraints evolved during the quarter (April-June 2026)?

Regarding the evolution of business constraints, Figure 4 shows that reduced demand, macroeconomic factors, corruption, poor transport infrastructure and electricity challenges were the most severe constraints during the April–June 2026 quarter. Considering reduced demand, perceived corruption and heightened global energy inflation, nearly 4 in every 10 businesses reported that this had become more of a problem compared with the previous quarter. For electricity, about 3 in every 10 reported increased electricity challenges. These findings suggest that weak demand, rising operating costs and unreliable and costly electricity continued to adversely affect business operations during the quarter.

In contrast, some constraints became less severe. Inadequately skilled employees registered the greatest improvement, with more than 6 in

Figure 4 **The evolution of business constraints (percent of businesses)**



Source: Authors' computation using April – June 2026 BCS every 10 businesses reporting that it had become less of a problem. Similarly, about 4 in every 10 businesses indicated that customs and trade regulations, crime, theft and disorder, and unfavourable weather conditions had become less problematic.

Changes in Business Employment

Regarding employment, like the last three consecutive quarters, most businesses retained the same number of workers during the April–June 2026 quarter. However, the proportion declined marginally, from 88.8 percent in January–March 2026 to 86.8 percent in April–June 2026 (Figure 5). The proportion of businesses that laid off workers increased marginally from 9.2 percent to about 10.0 percent, indicating continued caution among businesses in expanding their workforce. In contrast, the proportion of businesses that hired additional workers increased from 2.0 percent to about 3.0 percent, although recruitment remained limited.

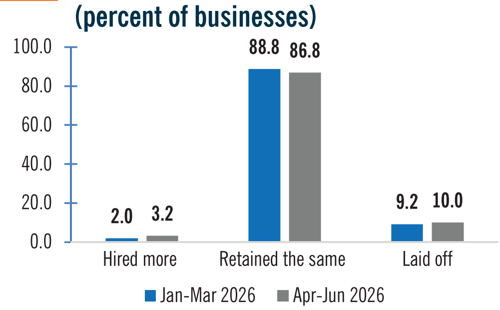
Worker layoffs were highest in the industry sector, particularly among businesses operating in the construction subsector. The relatively high number of layoffs in construction reflects the temporary and project-based nature of employment in the sector, where demand for workers fluctuates depending on the availability and progress of construction projects. Overall, the findings suggest that businesses remained cautious about employment decisions, with most firms maintaining their existing workforce rather than undertaking substantial recruitment.

Question of the Quarter (April-June 2026)

Effect of Ebola outbreak on Ugandan businesses

During the quarter, the survey sought to establish how the Ebola outbreak in May 2026 affected business operations in Uganda. Business executives were therefore asked whether their businesses had been affected by the outbreak and the specific ways in which their operations had been disrupted.

Figure 5 **How has business employment evolved? (percent of businesses)**



Source: Authors' computation using April - June 2026 BCS

The findings show that about 4 in every 10 businesses (40.7 percent) were affected by the Ebola outbreak (Figure 6). Small and medium-sized businesses in the services sector were among the most affected, particularly those engaged in accommodation, transportation and human health and social work activities.

Among the affected businesses, about half (45.4 percent) registered reduced demand for goods and services due to cancellations or delays in business activities. In addition, nearly 2 in every 10 businesses (19 percent) reported increased business costs, resulting from the requirement to put standard operating procedures in place to curtail the spread of the virus. These findings demonstrate how public health emergencies can disrupt business operations, increase operating costs and reduce business activity. They highlight the need to strengthen business preparedness and provide targeted support to businesses that are particularly vulnerable to public health shocks.

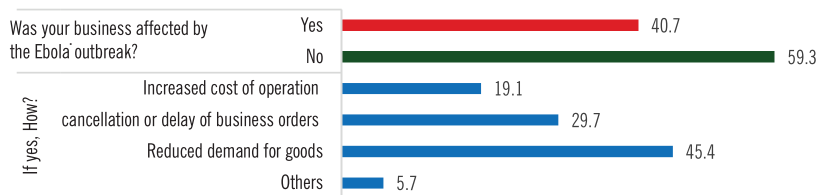
Conclusion

The overall perceptions of business conditions in Uganda improved significantly during the April–June 2026 quarter compared to the January–March 2026 quarter, largely driven by stronger business optimism for the July–September 2026 quarter. Current business conditions also recovered during the quarter, although businesses continued to face elevated operating costs arising from increased fuel prices due to the renewed conflict in the Middle East, contributing to higher transport, shipping and freight costs.

At the sectoral level, a positive business outlook was recorded for the forthcoming July–September 2026 quarter across all sectors. In addition, current business sentiments improved in the services and agriculture sectors, while the industry sector experienced a slight deterioration due to persistent production cost pressures, subdued demand and low-capacity utilisation. Employment remained relatively stable during the quarter, with most businesses retaining their existing workforce.

Regarding business constraints, competition among businesses within the same sector, reduced demand for goods and services, taxation, macroeconomic pressures, electricity-related challenges remained the top five challenges affecting businesses during the April-June 2026 quarter. Overall, the findings underscore the need for policies that reduce the cost of doing business, strengthen business resilience to external shocks, and address persistent structural constraints, particularly those related to energy costs, transport infrastructure, taxation and access to finance.

Figure 6 **The effect of Ebola Outbreak on businesses (percent of businesses)**



Source: Authors' computation using April - June 2026 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.

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

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