EPRC
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Towards Sustainable Development

The Uganda Business Climate Index

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Middle East conflict affects the business environment in Uganda

Executive Summary

Uganda's Business Climate Index (BCI) increased marginally by 4.7 index points to 104.8 during the January-March 2026 quarter, from 100.1 registered in the October-December 2025 quarter. The index captures two issues-the business situation and business outlook sentiments. The marginal improvement in the BCI was largely driven by positive business outlook sentiments for the April-June 2026 quarter. Nonetheless, the business situation declined in the January-March 2026 quarter on account of the ongoing Middle East crisis due to US-Israel war with Iran. Indeed, over 60 percent of the businesses surveyed reported having been affected by the war, mainly through the rising fuel, shipping and freight costs. At the sectoral level, business situation sentiments across all sectors registered a decline in the quarter under review. The agriculture sector registered the highest decline, falling to -43.0 percent in the January-March 2026 quarter from 19.1 percent in October-December 2025 quarter. During the current quarter, the top business challenges in Uganda were increased competition between businesses within the same sector, reduced consumer demand, increased tax enforcement as well as delays in getting new electricity connections.

Photo credit: Daily Monitor

Data and methods

The data used to compute the Business Climate Index (BCI) are drawn from a total of 811 firms that are representative of 12,557 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: (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 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

Perceptions about doing business improved slightly, held back by the ongoing Middle East crisis.

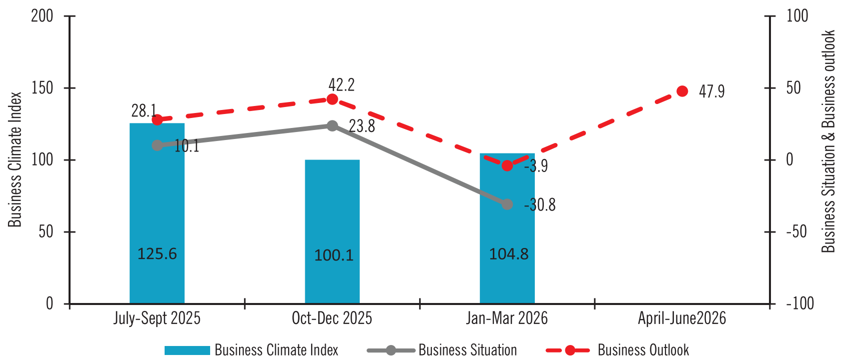
Results indicate that the Business Climate Index marginally improved by 4.7 index points, to 104.8 during the January-March 2026 quarter from 100.1 in the October–December 2025 quarter (Figure 1). The marginal improvement implies that the general conditions for doing business were slightly above potential, largely driven by a positive business outlook (47.9 percentage points) expected during the April-June 2026 quarter (Figure 1). The favourable business outlook is explained by the anticipated positive perceptions across all business sectors, driven by Service (55.7 percent), Agriculture (25.7 percent) and Industry (13.9 percent) sectors (Figure 1). The positive future sentiments anticipated across all sectors are attributed to the favourable product prices and an increase in demand for goods and services owing to activities associated with Easter festivities.

Despite the slight general improvement, perceptions of doing business during the January-March 2026 quarter deteriorated to -30.8 from 23.8 percentage points in the previous quarter (October-December 2025). The deterioration in the current business situation is partly attributed to the onset of the US-Israel war on Iran which increased global fuel prices, shipping and freight costs. Notably, the Performance of the Economy report for March 2026 by the Ministry of Finance, Planning and Economic Development (MoFPED) indicates that annual Energy, Fuels and Utilities (EFU) inflation increased from 2.7 percent in February 2026 to 4.1 percent in March 2026. Regarding the shipping and freight costs, about 4 in every 10 businesses surveyed during the quarter reported an increase in such costs due to the supply chain disruptions caused by the war (Figure 6).

Business Climate Index by Sector

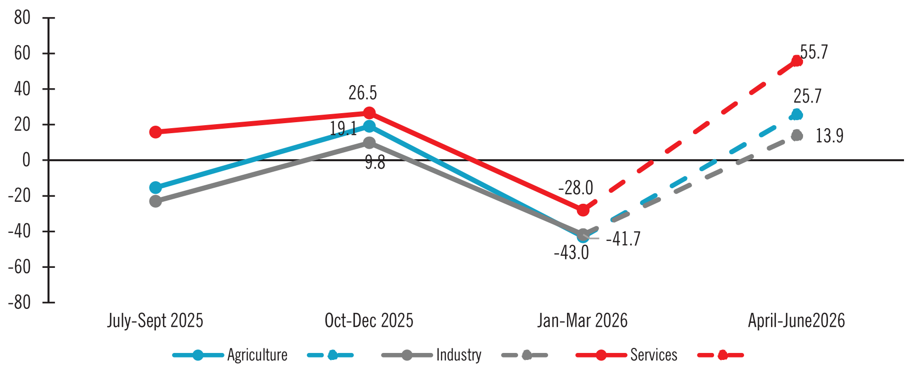
A disaggregation by sector indicates a positive outlook across all sectors for the April-June 2026 quarter. The optimism is highest in the service sector followed by agriculture and industry respectively (Figure 2). The anticipated positive business outlook across all sectors is attributed to the expected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

Figure 1 **The Business Climate Assessment**



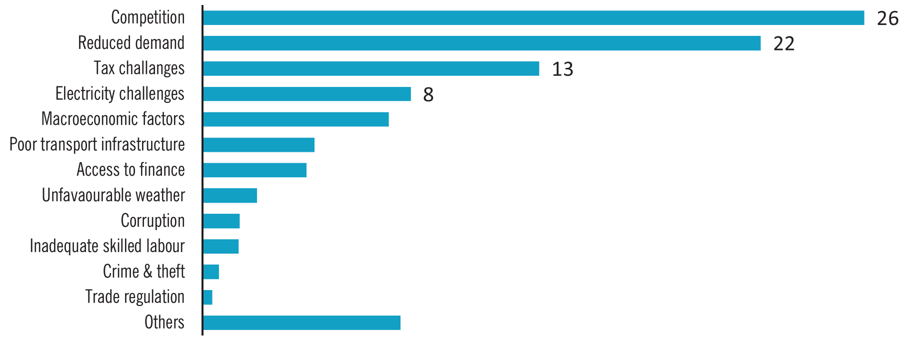
Source: Authors' computation using January-March 2026 BCS

Figure 2 **Business Situation by sector**



Source: Authors' computation using January – March 2026 BCS

Figure 3 Business Constraints (percent of businesses)



Source: Authors' computation using January-March 2026 BCS

In addition, businesses in the agricultural sector attributed the expected positive sentiments to the anticipated favourable weather conditions as the quarter April-June coincides with the harvesting season.

Despite the positive business outlook, the business situation reveals a sharp decline in business sentiments across all sectors with agriculture registering the highest decline followed by service and then industry. Specifically, the agriculture sector declined to -43.0 percentage points in the current quarter from a growth of 19.1 percent registered in the previous quarter; the service sector also experienced a sharp decline from 26.5 to -27.9 percentage points registered in the previous quarter; the industry sector experienced a downturn to -41.7 from 9.8 percentage points registered in the October-December 2025 quarter (Figure 2).

The decline across all sectors in the quarter January-March 2026 is due to reported reduction in business activity, capacity utilization, sales turnover and profitability exacerbated by the heightened tensions in the Middle Eastern countries, that resulted into increased fuel and freight costs.

Challenges of Doing Business

Figure 3 shows that increased competition between businesses within the same sector, reduced customer demand for goods and services, increased tax enforcement as well as delays in getting new electricity connections were the four main constraints to doing business during the January-March 2026 quarter. A further disaggregation reveals that competition within businesses in the same sector was mainly reported by medium-sized businesses (66.7 percent) in the service sector, especially in the education sub-sector. This is expected as the January-March quarter comes with the beginning of the school term.

Likewise, reduced demand for goods and services was largely reported by small-sized businesses (46.5 percent) in the service sector, specifically in the Information and communication sub sector. Indeed, in January 2026, Uganda shut down the internet for one week to manage election-related concerns. Regarding challenges with tax enforcement, small businesses (61.5 percent) in the industry sector, specifically in the construction sub-sector, were the most affected. Lastly, challenges with obtaining new power connections were reported by medium-sized firms (71.4 percent) in the service sector such as those dealing in printing and stationery, radio stations, among others.

How have business constraints evolved during the quarter (January-March 2026)?

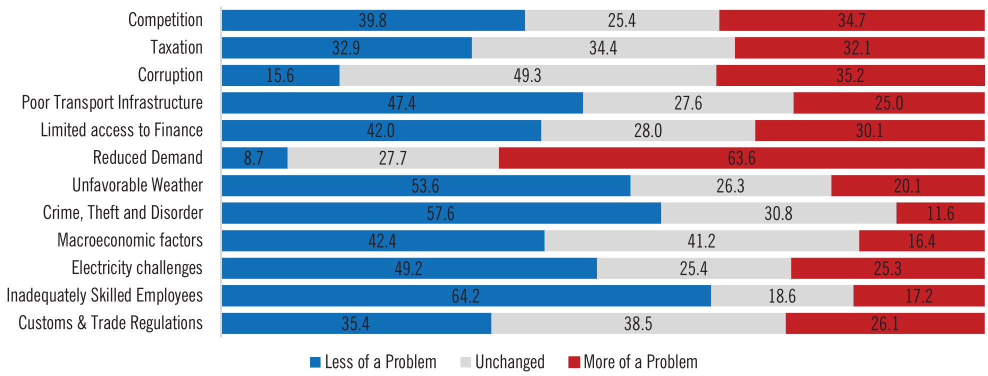
Regarding the evolution of business constraints, Figure 4 shows that the severity of reduced demand increased, with 6 out of 10 business executives reporting it to have become more of a problem during the quarter. As earlier mentioned, the uncertainty around the January 2026 election cycle may partly explain the reported reduction in demand. Similarly, 3 in every 10 business owners reported that the severity of corruption, competition, and challenges with heightened tax enforcement increased during the quarter under review, compared to October-December 2025.

On the contrary, businesses reported reduced severity of transport infrastructure challenges which were reported among the three major challenges in the October-December 2025 quarter. During the October-December 2025 quarter, only 3 in every 10 business executives reported transport infrastructure challenges to have become less of a problem. However, in the January- March 2026 quarter, almost 5 out of 10 business owners reported transport infrastructure challenges to have become less of a problem.

Changes in Business Employment

Regarding employment, business owners largely retained the same number of workers during the January-March 2026 quarter (88.8 percent) as was the case in the previous quarter (89.5 percent) (Figure 5). However, 9.2 percent of businesses laid off workers, a slight increase

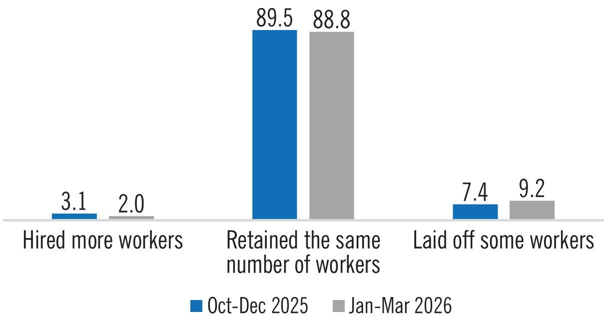
Figure 4 The evolution of business constraints (percent of businesses)



Source: Authors' computation using January-March 2026 BCS from 7.4 percent in October- December 2025 quarter. Nonetheless, only 2.0 percent reported hiring additional workers in January-March 2026 quarter relative to 3.1 percent in the previous quarter.

Like in October-December 2025, worker layoffs were highest in the Industry sector, with 7 out of 10 firms reporting layoffs. The relatively higher layoffs within the Industry sector were mainly reported in the construction sub-sector, reflecting the seasonal dynamics in the demand for workers.

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



Source: Authors' computation using January-March 2026 BCS

Question of the Quarter (January-March 2026)
Effect of Middle East crisis on Ugandan businesses

In this quarter we sought to understand how businesses were affected by the onset of the Middle East conflict as a result of US-Israel war with Iran. We approached this by asking business executives how the ongoing war has affected their business operations.

The findings reveal that about 6 in every 10 businesses were affected by the ongoing tensions in Middle Eastern countries (Figure 6). Particularly small (51.2 percent) and medium (31.1 percent) sized business within the service sector, involved in accommodation and food service activities, manufacturing, human health and social work activities, transport and storage, wholesale, retail trade and education were the most affected.

Among the businesses that were affected, nearly half (48.0 percent) reported increased fuel costs as the major consequence of the war, signaling the direct effect of global tensions on fuel prices on the domestic economy. Relatedly, 35.3 percent of business executives reported increased shipping and freight costs as the second major impact, owing to the supply chain and logistics disruptions, which increased the cost of doing business (Figure 6). This evidence highlights the need for Uganda to adequately prepare the business environment to overcome shocks related to geopolitical events. Similarly, businesses whose operations are heavily reliant on fuel should be prioritised for targeted support.

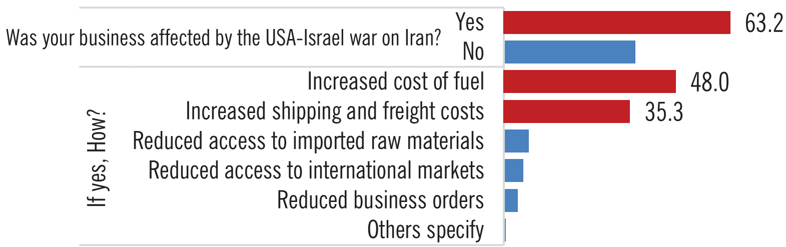
Conclusion

The overall perceptions about conditions of doing business in Uganda were above potential during the January-March 2026 quarter compared to October-December 2025 quarter, largely driven by the positive business outlook expected in April-June 2026. Nonetheless, current business situation in the January-March 2026 quarter declined due to the onset of the US-Israel war on Iran which reportedly affected over 60 percent of the businesses surveyed. The affected businesses cited rising fuel, shipping and freight costs as the main channels of impact.

At sectoral level, a positive business outlook in the April-June 2026 quarter is expected across all sectors. However, business sentiments declined across all sectors during the current quarter. Like in the October-December 2025 quarter, employment by businesses remained stable. During the January-March 2026 quarter, businesses retained the same number of workers with layoffs slightly exceeding new hires.

Considering business challenges, competition between businesses within the same sector, reduced demand, increased tax enforcement as well as challenges in getting new power connections were reported during the January-March 2026 quarter. Overall, the findings underscore the need for policies that strengthen business resilience to global shocks, with priority given to import-dependent and fuel-reliant businesses.

Figure 6 The effect of the US-Israel war on Iran on businesses (percent of businesses)



Source: Authors' computation using January-March 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.

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