

Business Health Index (BHI) Report

Quarter 2, 2025



UDB
Inspiring Development

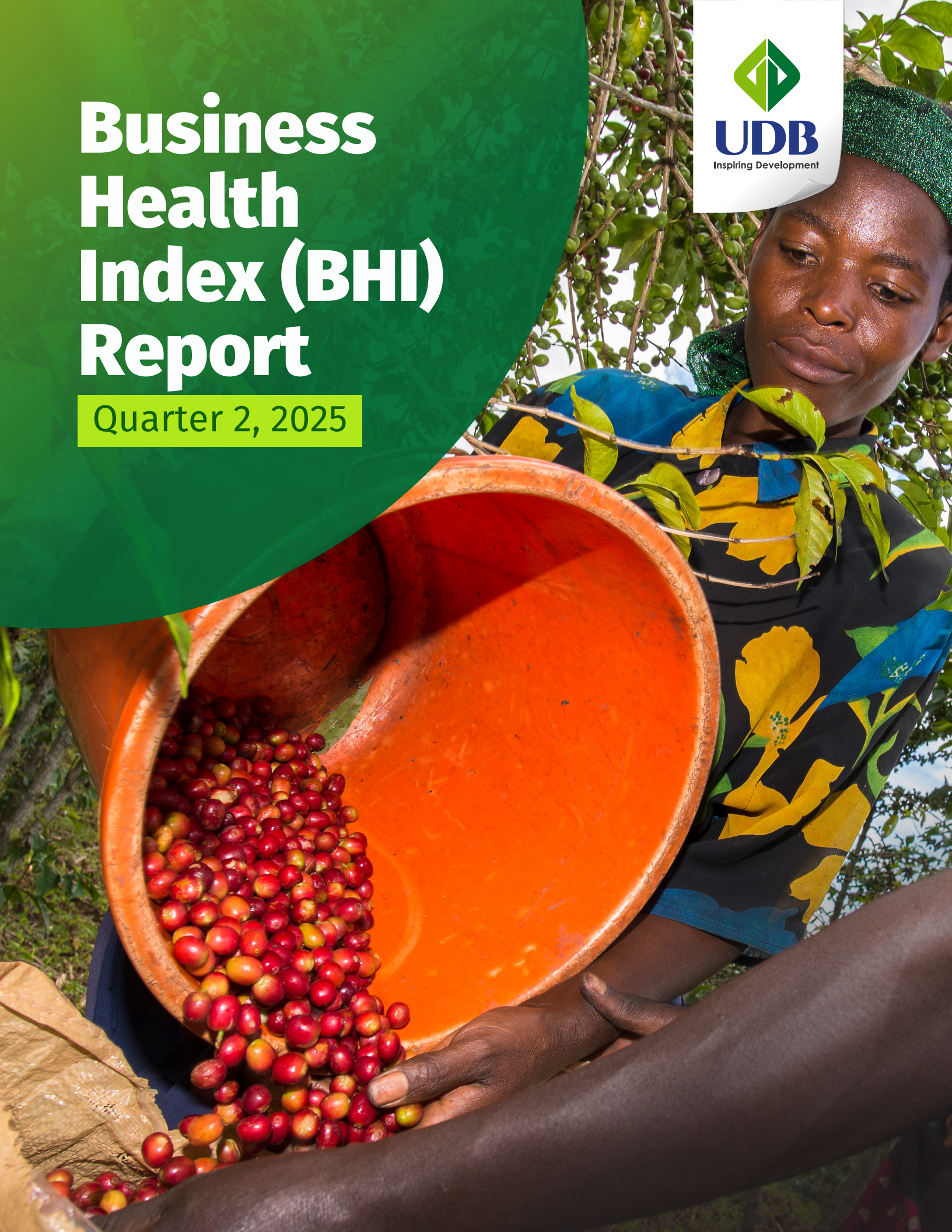


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Executive Summary:

Uganda's business environment improved in the second quarter of 2025 compared to the first quarter, though conditions remained fragile. The overall Business Health Index (BHI) rose to 47.20 in Q2 2025 from 39.63 in Q1 2025, indicating that the pace of deterioration slowed. At the same time, confidence strengthened, with the Business Health Outlook rising to 60.16 in Q2 2025 from 56.24 in Q1 2025, reflecting optimism about future sales, production, and profitability. The improvement in business health was supported by better raw material availability, stronger production, and higher sales, which lifted profitability despite margins remaining constrained by high costs. Outlook also strengthened as enterprises expected continued recovery in sales and production. Job creation, however, stayed below neutral, reflecting weak current hiring, although businesses signaled expectations for renewed employment growth in the next quarter.

Sectoral and regional results confirmed this dual picture of recovery and optimism. Agriculture, tourism, and wholesale trade registered the strongest improvements in business health, while education remained broadly stable, and the health sector experienced a slight weakening. Business outlooks across all the sectors were stronger, with tourism and agro-processing recording the highest expectations. Regionally, Western and Eastern Uganda moved above neutral, while central and Northern Uganda improved but stayed below 50. However, all regions reported rising confidence about the months ahead, led by the East, where the outlook strengthened further.

Enterprises supported by Uganda Development Bank continued to outperform their peers in the business health, with their index higher than that of non-UDB-supported enterprises. However, their outlook was more cautious, easing slightly compared to the first quarter. By contrast, non-UDB-supported entities expressed stronger optimism about the future, suggesting that even firms outside UDB support anticipate better sales and profitability despite weaker current performance.

Despite these improvements, both business health and business outlook were constrained by rising costs and weak demand. Business owners and managers reported that financing, utilities, labour, and transport expenses increasingly affected their enterprises, while insufficient domestic demand was also widely reported as a persistent challenge. These factors explain why recovery remains fragile: businesses showed better performance and stronger confidence, yet the operating environment remained difficult.

Easing cost burdens, improving access to affordable credit, and stimulating consumer demand are critical to strengthening current business performance and ensuring that positive expectations translate into sustainable growth, higher profitability, and job creation across sectors and regions.

1.0 Introduction

This Business Health Index (BHI) report for Quarter 2, 2025, is based on data from the Business Health Survey (BHS) conducted in July 2025. The assessment reflects the business health status in the just-ended quarter (Q2 2025) compared to the previous quarter (Q1 2025), and it provides the outlook for the next quarter (Q3 2025) relative to Q2 2025. The BHI serves as the key measure of business performance, confidence, and resilience in Uganda, while also highlighting the main challenges shaping the business environment.

2.0 Data and Methods

The Business Health Survey (BHS) covered 488 enterprises, i.e. 163 UDB customers and 325 non-UDB customers. The study employed a stratified random sampling approach covering small and medium-sized enterprises (SMEs) and large-scale entities in key growth sectors. The survey captured data from primary agriculture, agro-processing, manufacturing, tourism, human capital development (including education and health), wholesale trade, and other services such as transportation, the creative industry, and financial services, covering all the regions: Central, Eastern, Northern, and Western areas.

This Business Health Survey (BHS) generated perceptions among business owners and managers regarding the current state of their businesses' performance and outlook. The study on present business health captured the perceptions of business owners and managers on the performance of their enterprises during the just-ended quarter (Q2 2025) compared to the previous quarter (Q1 2025), while the business health outlook captured the expectations on the business performance for the next quarter (Q3 2025) compared to the just-ended quarter (Q2 2025). This process involved assessment of business owners' and managers' perceptions on key business health indicators, including raw material and input availability, production, sales, profitability, and job creation, to generate the Business Health Index (BHI) that is sensitive to direction as opposed to the magnitude of the change in business conditions.

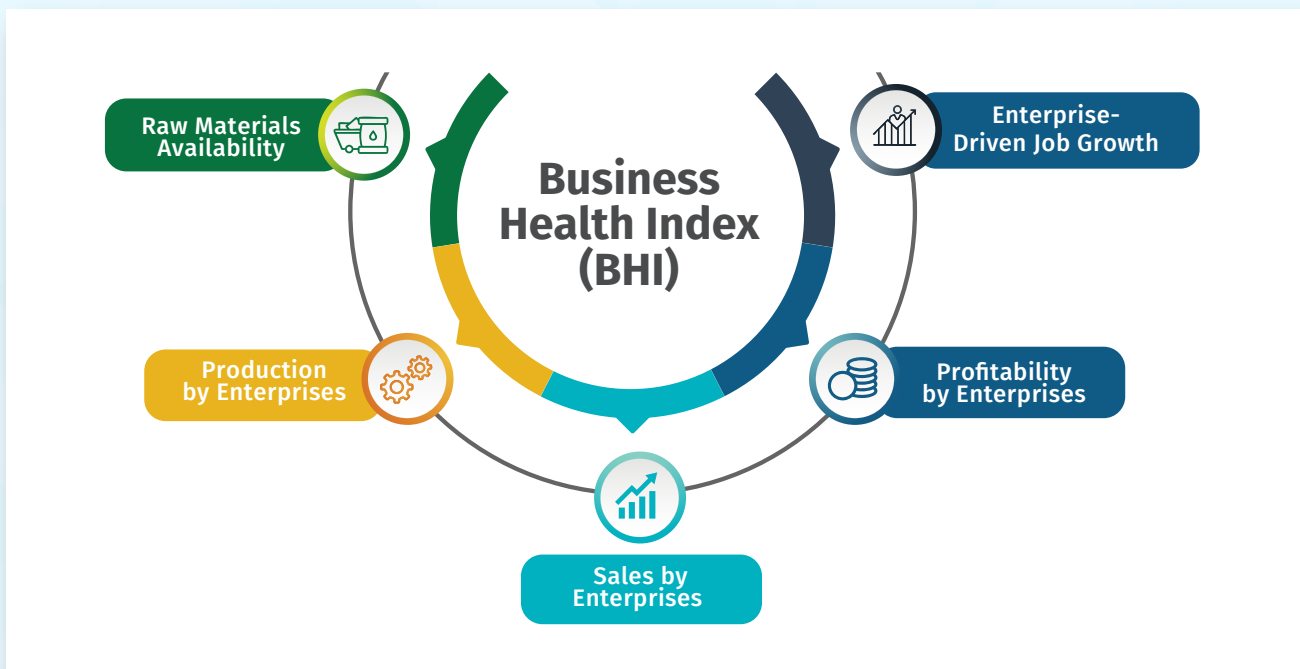
The study also covered the critical challenges that affected businesses during Q2 2025. The survey identified critical business constraints on which respondents confirmed whether they were affected or not, including high costs of financing, high costs of utilities (water and energy), high labor costs, insufficient demand, and high transport expenses. We also asked them to share any other challenges that impacted their business environment during the analyzed quarter.



2.1 Calculation and Interpretation of the Business Health Index (BHI)

The Business Health Index (BHI) is calculated using five core indicators: raw materials availability, production, sales, profitability, and enterprise-driven job growth. These indicators reflect critical aspects of business performance and resilience. Respondents rated their perceptions on a Likert scale: "higher," "same," "lower," or "improve," "same," and "worsen" for each indicator.

Figure 1: The Five Business Health Index (BHI) Components.



Source: author's construction based on the critical components of the Business Health Conditions

Sub-indices are derived from responses to sub-variables within each component. Responses are weighted as follows: 0 for negative performance or outlook, 0.5 for neutral or unchanged perceptions, and 1 for positive performance or outlook. The sub-indices are averaged to calculate the component indices, which are then averaged to derive the overall BHI.

For the current Business Health Index (BHI), a value above 50 signifies an improvement in business health, as perceived by business owners and managers. At the same time, an index below 50 implies a decline in business health as perceived by the respondents. The value of 50 shows no change in business health between the quarters. Looking

ahead, a Business Health Index outlook value above 50 indicates optimism or positive expectations among business owners and managers. On the other hand, the outlook index value below 50 signifies the pessimism perceived by respondents for the next quarter. The outlook index value of 50 implies a neutral outlook with no anticipated changes.

3.0 Key Findings

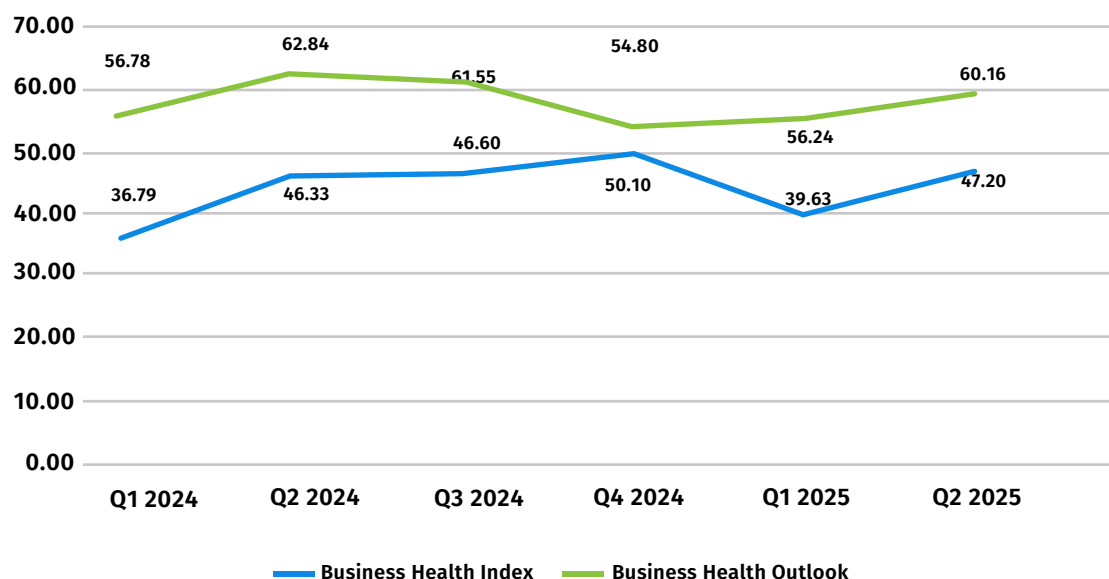
3.1 Overall Business Health Index (BHI) in Uganda

In Q2 2025, Uganda's Business Health Index (BHI) rose to 47.20 from 39.63 in Q1 2025. Although business health remained below the neutral level of 50, the pace of deterioration slowed compared to the previous quarter. The recovery was mainly supported by improved availability of raw materials (45.57 from 39.07), stronger enterprise production (46.99 from 38.97), and a notable rebound in sales performance (52.27 from 39.25). However, cost pressures persisted. While the cost of raw materials (34.64 from 30.24) and production costs (36.72 from 31.44) showed some improvement, they remained at low levels, indicating that businesses were still grappling with expensive inputs and operational expenses. These high costs continued to weigh on

profitability, which, despite rising to 42.81 in Q2 2025 from 31.83 in Q1 2025, was still below the neutral mark.

The Business Health Outlook also strengthened, reaching 60.16 in Q2 2025 from 56.24 in Q1 2025. This indicates growing optimism among managers and business owners about the near-term business environment. Confidence was supported by higher sales volumes (52.10 from 31.69), stronger sales revenues (49.88 from 34.90), and relatively stable selling prices (54.83 from 51.17). Together, these outlook trends suggest expectations of sustained recovery in sales, a boost in production, and gradual improvements in profitability going forward.

Figure 2: Overall Business Health and Outlook Indices, Q1 2024- Q2 2025



Source: Computation Based on Business Health Survey Data, July 2025

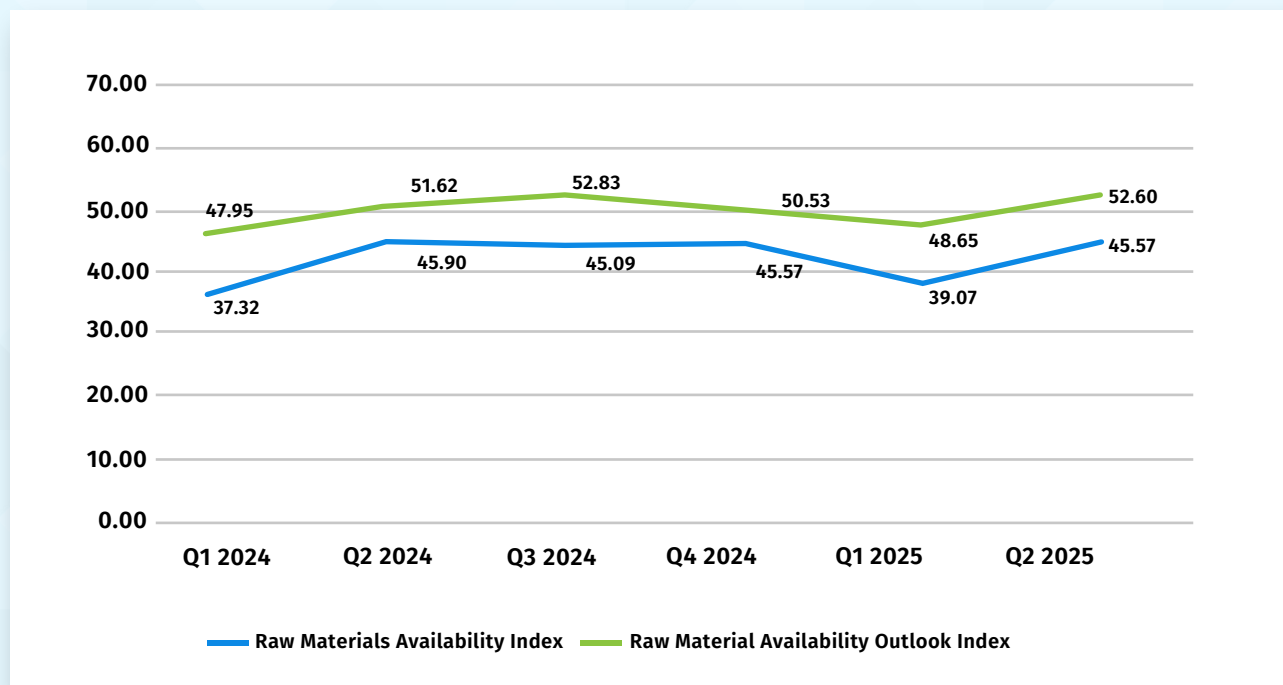
3.2 Key Drivers of Business Health and Outlook in Uganda

3.2.1 Raw Materials

In Q2 2025, the Raw Material Availability Index increased to 45.57 in Q2 2025 from 39.07 in Q1 2025. Although this was an improvement compared to the previous quarter, the index remained below the neutral level of 50, meaning that raw material availability was still in decline, though less severe. Notably, the Cost of Raw Materials Index remained below 50, at 34.64 in Q2 2025 compared to 30.24 in Q1 2025, which still indicated deterioration, though at a slower pace than in the previous quarter.

Looking ahead, the Raw Material Availability Outlook Index strengthened to 52.60 in Q2 2025 from 48.65 in Q1 2025. This shift above 50 indicates that business owners and managers were optimistic about raw materials in the next quarter. The Volume of Raw Materials Outlook Index also rose to 70.05 in Q2 2025 from 65.87 in Q1 2025, reflecting strong expectations of higher supplies. Meanwhile, the Cost of Raw Materials Outlook Index stood at 35.16 in Q2 2025 compared to 31.44 in Q1 2025, still below 50, reflecting continued pessimism about raw material costs, though the anticipated decline was less severe.

Figure 3: Raw Materials Availability and Outlook, Q1 2024 to Q2 2025



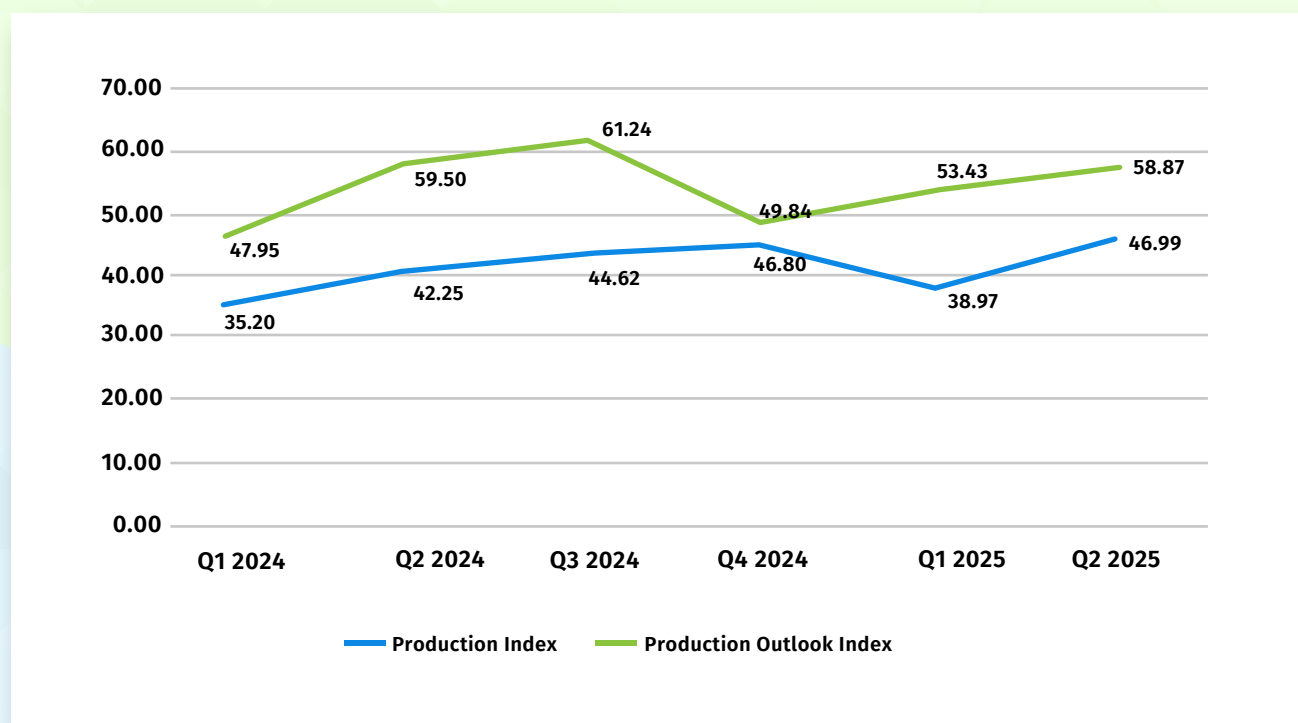
Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

3.2.2 Enterprise Production

The Production Index improved to 46.99 in Q2 2025 from 38.97 in Q1 2025, implying that, although production was below the neutral mark of 50, the deterioration was less severe than in the previous quarter. The improvement was mainly supported by a rise in the Production Volume Index, which increased to 57.81 in Q2 2025 from 48.20 in Q1 2025, and in the Capacity Utilization Index, which rose to 46.43 in Q2 2025 from 37.25 in Q1 2025. At the same time, the Cost of Production Index improved slightly to 36.72 in Q2 2025 from 31.44 in Q1 2025, though it remained below 50.

Looking ahead, the Production Outlook Index increased to 58.87 in Q2 2025 from 53.43 in Q1 2025, reflecting the stronger optimism among business owners and managers. Enterprises expected better production results in the coming quarter, with higher capacity utilization and more output. The Capacity Utilization Outlook Index rose from 65.69 in Q1 2025 to 73.21 in Q2 2025, while the Production Volume Outlook Index increased from 67.07 in Q1 2025 to 73.70 in Q2 2025. On the cost side, the Cost of Production Outlook Index edged up from 27.54 in Q1 2025 to 29.69 in Q2 2025, still below 50, meaning businesses continued to anticipate unfavorable cost conditions, though less severe than in the previous quarter.

Figure 4: Production and Outlook, Q1 2024 to Q2 2025



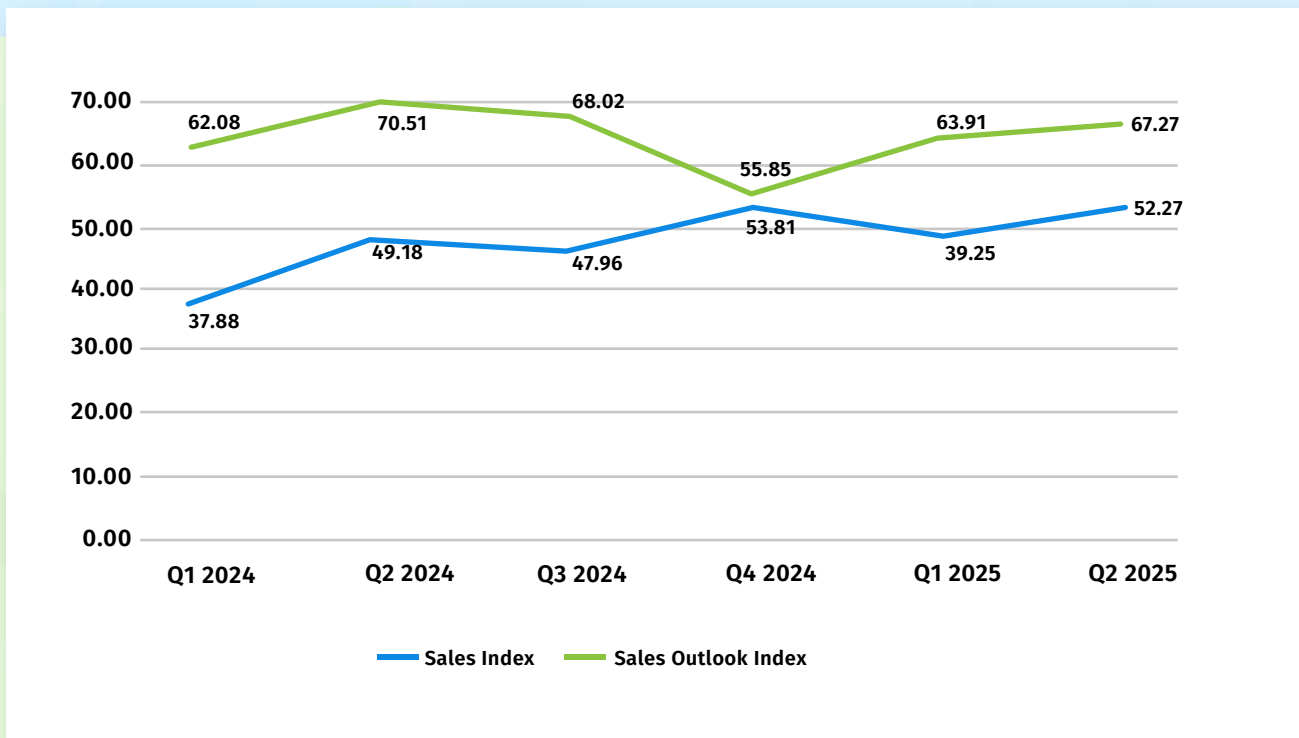
Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

3.2.3 Enterprise Sales

The Sales Index improved to 52.27 in Q2 2025 from 39.25 in Q1 2025, moving above the neutral level of 50 and indicating a recovery in sales performance. This improvement was mainly supported by a rise in the Sales Volume Index, which rose to 52.10 in Q2 2025 from 31.69 in Q1 2025, and an increase in the Sales Revenue Index, which rose to 49.88 in Q2 2025 from 34.90 in Q1 2025. The Average Selling Price Index also strengthened to 54.83 in Q2 2025 from 51.17 in Q1 2025, signaling firmer pricing.

Looking ahead, business owners and managers remained optimistic about future sales, as shown by the Sales Outlook Index, which rose to 67.27 in Q2 2025 from 63.91 in Q1 2025. This outlook was driven by expectations of higher sales volumes, revenues, and relatively stable prices. The Sales Volume Outlook Index increased to 71.11 in Q2 2025 from 65.84 in Q1 2025, while the Sales Revenue Outlook Index improved to 69.93 in Q2 2025 from 66.54 in Q1 2025. Similarly, the Average Selling Price Outlook Index rose to 60.77 in Q2 2025 from 59.35 in Q1 2025, reflecting expectations of continued price stability

Figure 5: Sales and Outlook, Q1 2024 to Q2 2025



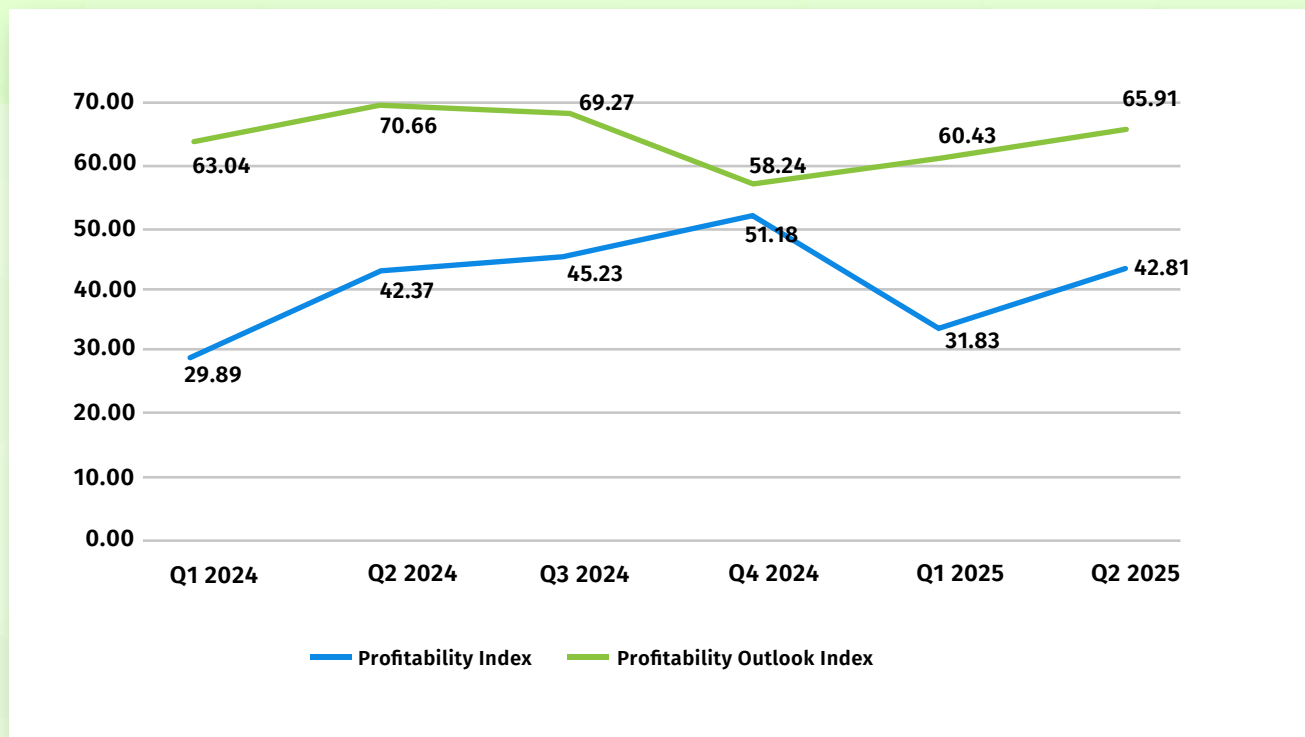
Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

3.2.4 Enterprise Profitability

In Q2 2025, the Profitability Index improved to 42.81 in Q2 2025 from 31.83 in Q1 2025. Although profitability remained below the neutral level of 50, indicating deterioration, the decline was less severe than in the previous quarter. The recovery was supported by better sales performance and higher production levels, which helped ease some of the pressures from production costs.

Looking ahead, business owners and managers remained optimistic about profitability, as shown by the Profitability Outlook Index, which rose to 65.91 in Q2 2025 from 60.43 in Q1 2025. This optimism was driven by expectations of stronger production volumes and higher sales revenues. However, the persistence of cost pressures suggests that profitability gains may continue to face risks in the coming quarter.

Figure 6: Profitability and Outlook, Q1 2024 to Q1 2025



Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

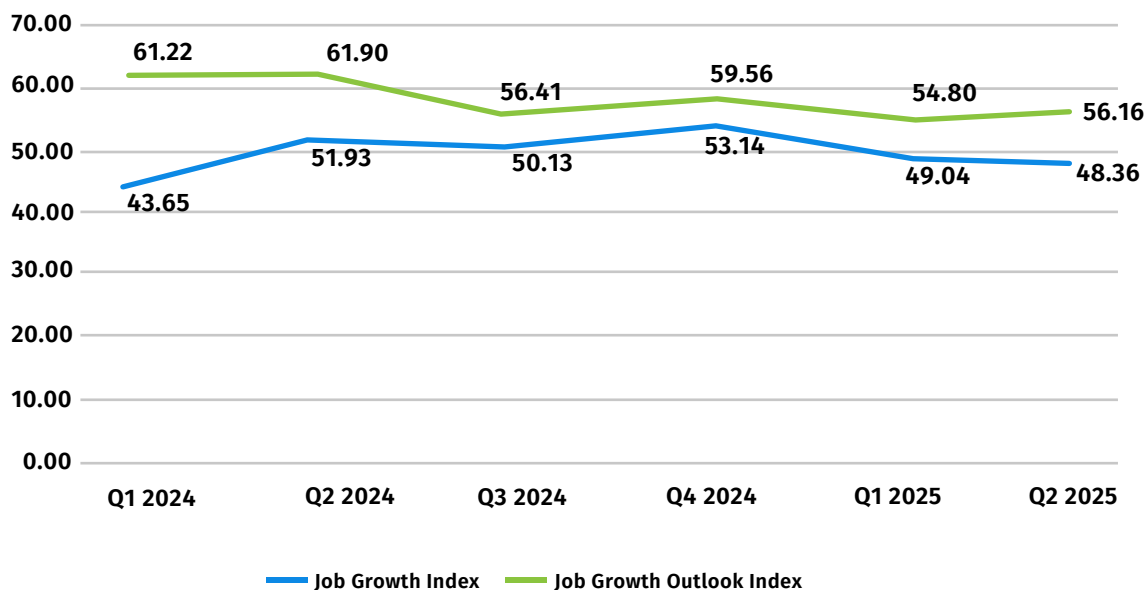


3.2.5 Enterprise-Driven Job Growth

In Q2 2025, the Job Growth Index declined slightly to 48.36 in Q2 2025 from 49.04 in Q1 2025, remaining below the critical mark of 50. This indicates that enterprises continued to experience weak job creation, largely linked to the still-low profitability levels despite some recovery.

Nonetheless, enterprises remained optimistic about job growth in the next quarter. The Job Growth Outlook Index rose to 56.16 in Q2 2025 from 54.80 in Q1 2025, staying above the threshold of 50. This optimism was supported by anticipated improvements in production and sales, which are expected to support hiring in the months ahead.

Figure 7: Job Growth and Outlook, Q1 2024 to Q2 2025



Source: Computation based on Business Health Survey (BHS) data, July 2025



3.3 Business Health Index (BHI) by Sector in Uganda

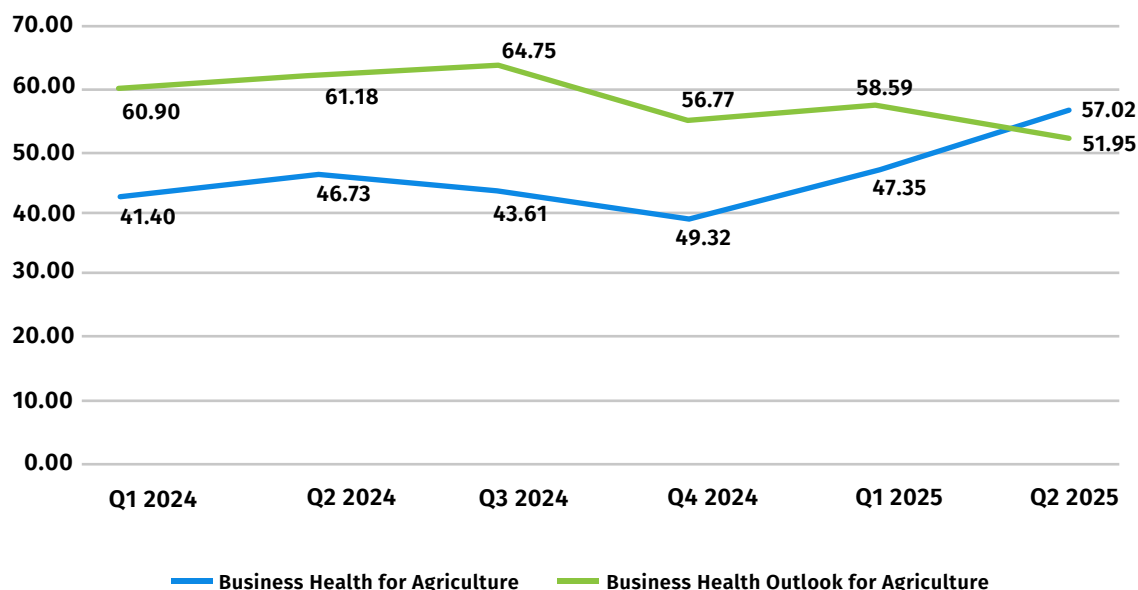
3.3.1 Agriculture

In Q2 2025, the Business Health Index for Agriculture improved to 57.02 in Q2 2025 from 47.35 in Q1 2025, moving above the neutral mark of 50 and signaling recovery in the sector. This was mainly supported by the Agricultural Inputs Availability Index, which rose to 56.16 in Q2 2025 from 47.88 in Q1 2025; the Sales Revenue Index, which increased to 60.94 in Q2 2025 from 51.56 in Q1 2025; and the Profitability Index, which strengthened to 57.81 in Q2 2025 from 41.54 in Q1 2025. At the same time, the Total Production Volume Index rose to 71.01 in Q2 2025 from 55.93 in Q1 2025, further supporting the recovery in agricultural enterprises.

On the other hand, the Business Health Outlook for Agriculture declined to 51.95 in Q2 2025 from 58.59 in Q1 2025, though it remained above 50. This shows that while business owners and managers were still optimistic, their optimism weakened compared to the previous quarter. The moderation was linked to expectations of higher Costs of Agricultural Inputs, as shown by the outlook index that declined to 36.44 in Q2 2025 from 42.37 in Q1 2025, and the perception that profitability may not improve as strongly in the coming months.



Figure 8: Business Health and Outlook for Agriculture Sector, Q1 2024 to Q2 2025



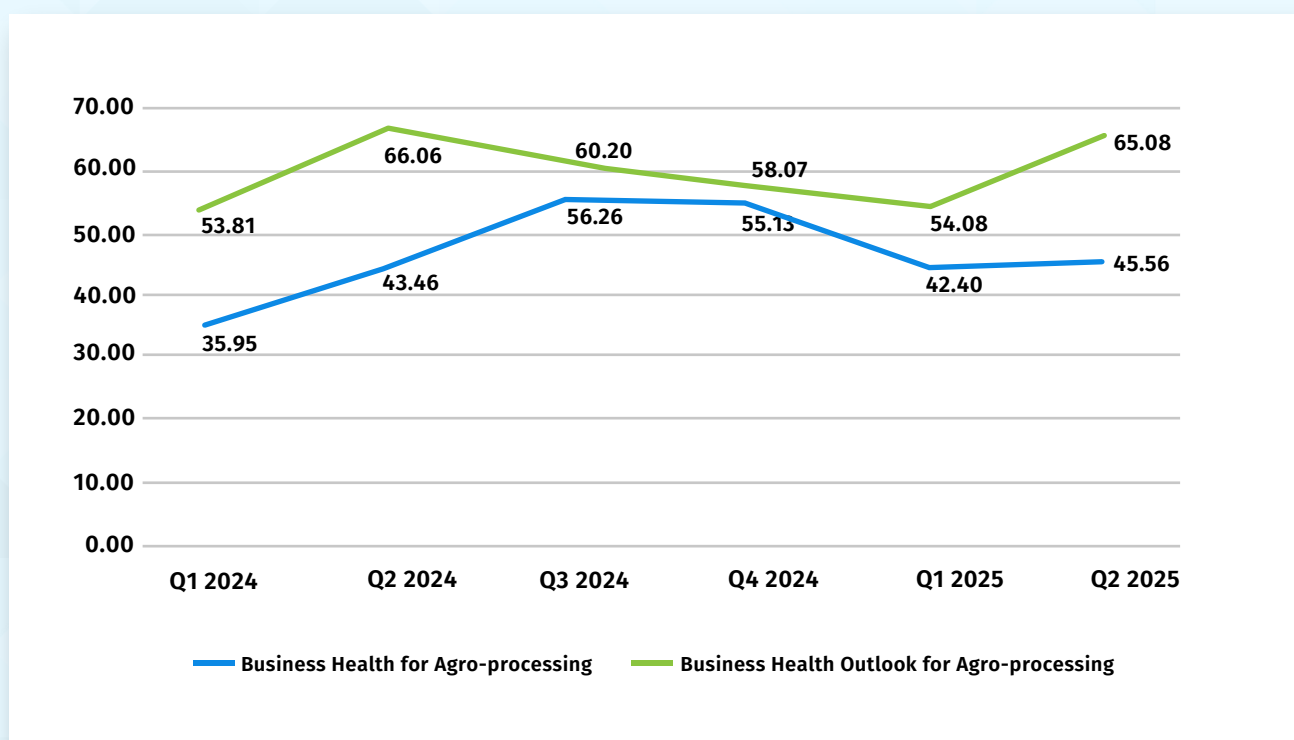
Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

3.3.2 Agro-processing

In Q2 2025, the Business Health Index for the Agro-processing sector rose to 45.56 in Q2 2025 from 42.40 in Q1 2025, remaining below the threshold of 50. This shows that although the sector was still experiencing weak performance, the deterioration was less severe than in the previous quarter. The modest improvement was supported by better Raw Material Availability, which increased to 41.13 in Q2 2025 from 39.42 in Q1 2025; stronger Production by Enterprises, which rose to 46.33 in Q2 2025 from 34.16 in Q1 2025; and higher Sales by Enterprises, which increased to 53.23 in Q2 2025 from 44.67 in Q1 2025. However, the Profitability Index only rose slightly to 40.32 in Q2 2025 from 38.00 in Q1 2025, keeping profitability below the neutral level of 50.

Looking ahead, the Business Health Outlook for Agro-processing strengthened to 65.08 in Q2 2025 from 54.08 in Q1 2025, indicating stronger optimism among business owners and managers. This positive outlook was driven by expectations of higher Production by Enterprises Outlook, which rose to 65.17 in Q2 2025 from 52.68 in Q1 2025, and stronger Sales Outlook, which improved to 69.89 in Q2 2025 from 64.67 in Q1 2025. The Profitability Outlook Index also climbed to 74.19 in Q2 2025 from 54.00 in Q1 2025, indicating that enterprises expected a significant recovery in margins.

Figure 9: Business Health and Outlook for Agro-processing Sector, Q1 2024 to Q2 2025



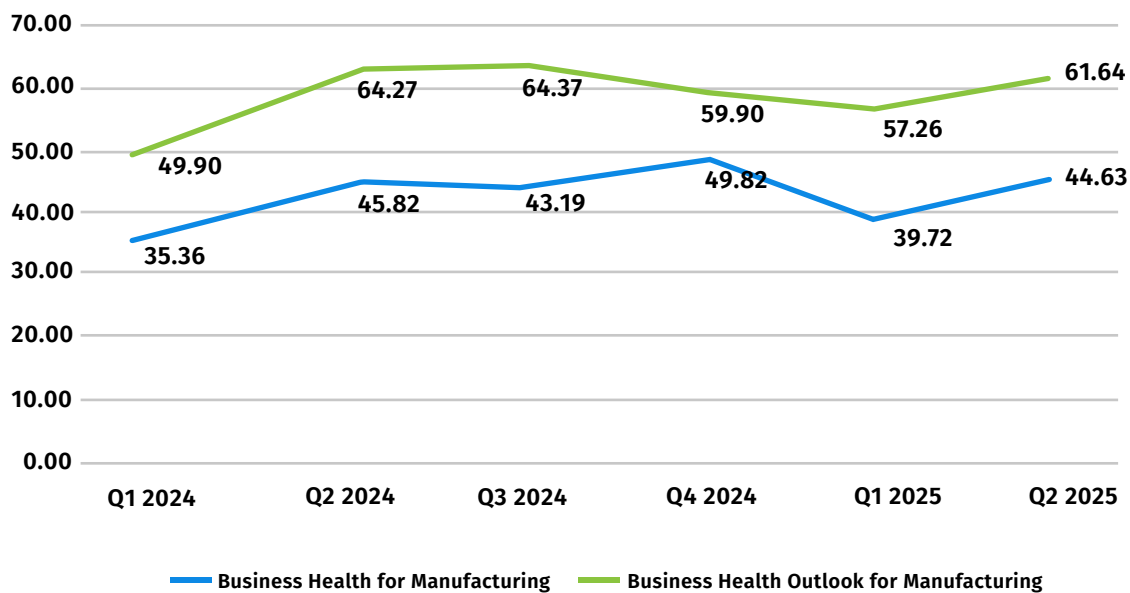
Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

3.3.3 Manufacturing

In Q2 2025, the Business Health Index for the Manufacturing sector improved to 44.63 in Q2 2025 from 39.72 in Q1 2025, but it remained below the threshold of 50, indicating that enterprises continued to face weak conditions. The modest recovery was supported by an increase in Raw Material Availability, which rose to 37.95 in Q2 2025 from 33.33 in Q1 2025; better Production by Enterprises, which rose to 42.74 in Q2 2025 from 38.35 in Q1 2025; and stronger Sales by Enterprises, which improved to 51.61 in Q2 2025 from 41.02 in Q1 2025. However, Profitability remained low at 39.25 in Q2 2025, only slightly higher than 36.47 in Q1 2025, keeping pressure on overall performance.

Looking ahead, the Business Health Outlook for Manufacturing strengthened to 61.64 in Q2 2025 from 57.26 in Q1 2025, reflecting increased optimism among business owners and managers. Expectations for improved sales and production supported this outlook. The Sales Outlook Index rose to 67.56 in Q2 2025 from 66.74 in Q1 2025, while the Production Outlook Index increased to 61.14 in Q2 2025 from 52.36 in Q1 2025. The Profitability Outlook Index also rose to 65.05 in Q2 2025 from 61.18 in Q1 2025, signaling that enterprises anticipate better margins in the next quarter.

Figure 10: Business Health and Outlook for Manufacturing Sector, Q1 2024 to Q2 2025



Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

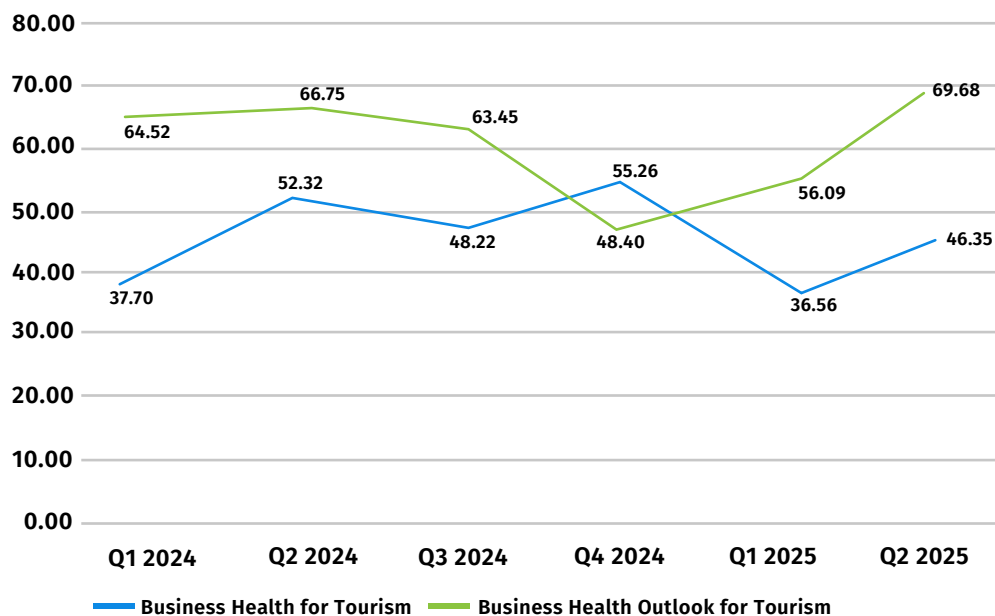
3.3.4 Tourism and Hospitality



In Q2 2025, the Business Health Index for Tourism improved to 46.35 in Q2 2025 from 36.56 in Q1 2025, but it remained below the neutral threshold of 50, showing that the sector was still facing weak conditions. The modest recovery was supported by stronger Sales by Enterprises, which increased to 47.62 in Q2 2025 from 25.81 in Q1 2025, and higher Sales Volume, which rose to 48.57 in Q2 2025 from 16.13 in Q1 2025. The Profitability Index also improved to 42.86 in Q2 2025 from 16.13 in Q1 2025, signaling partial recovery, though performance still lagged behind the neutral level of 50.

Looking ahead, the Business Health Outlook Index for Tourism strengthened significantly to 69.68 in Q2 2025 from 56.09 in Q1 2025, reflecting strong optimism among business owners and managers. This improvement was mainly supported by the Profitability Outlook Index, which increased to 78.57 in Q2 2025 from 58.06 in Q1 2025, as well as the Sales Outlook Index, which rose to 73.33 in Q2 2025 from 55.38 in Q1 2025. In addition, the Tourism Job Growth Outlook Index improved to 57.14 in Q2 2025 from 54.84 in Q1 2025, suggesting expectations of renewed hiring momentum in the sector.

Figure 11: Business Health and Outlook for Tourism Sector, Q1 2024 to Q2 2025



Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

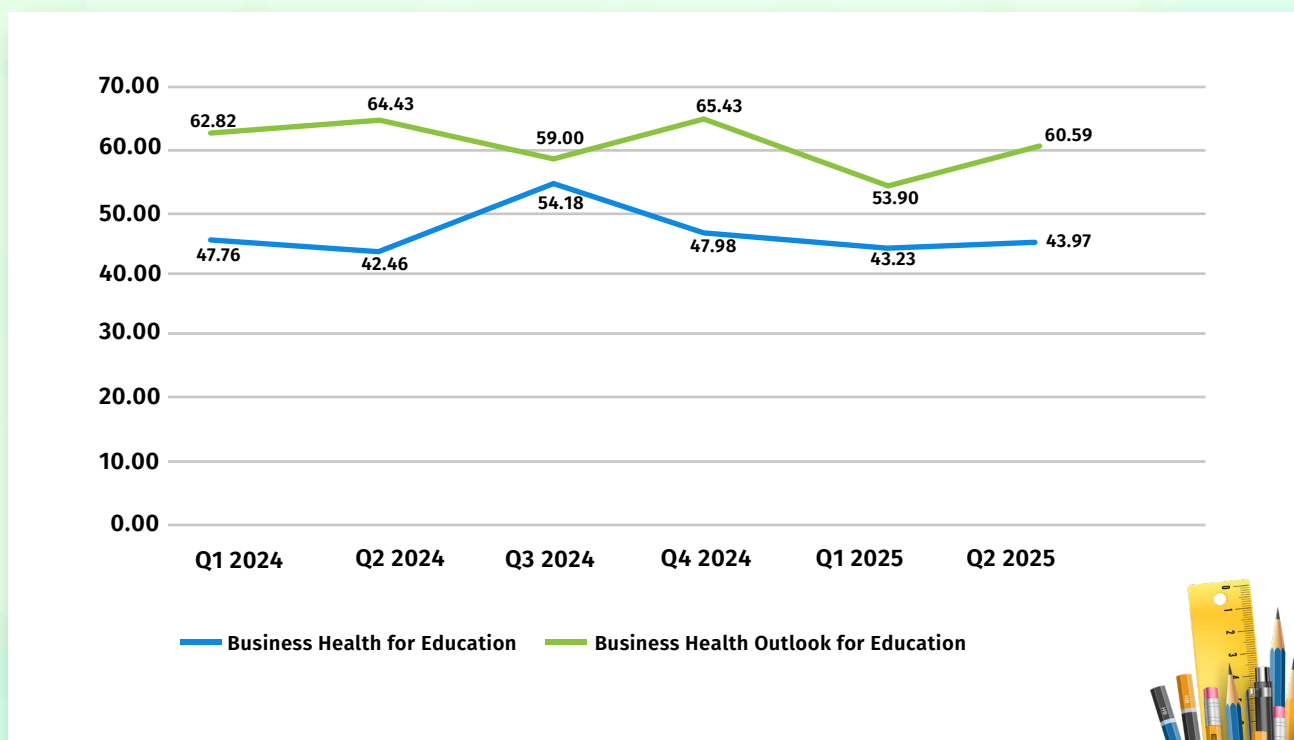


3.3.5 Education

In Q2 2025, the Business Health Index for Education increased slightly to 43.97 in Q2 2025 from 43.23 in Q1 2025, but it remained below the neutral threshold of 50, reflecting continued weakness in the sector. The slow recovery was constrained by persistently low Profitability, which was 38.82 in Q2 2025 compared to 28.72 in Q1 2025, and only modest improvements in Education Services Sales, which declined to 45.99 in Q2 2025 from 49.90 in Q1 2025, indicating that revenues remained subdued.

On the other hand, the Business Health Outlook for Education strengthened to 60.59 in Q2 2025 from 53.90 in Q1 2025, moving further above the threshold of 50. This improvement reflected increased optimism among business owners and managers, supported by expectations of higher Tuition Revenue Outlook, which rose to 64.20 in Q2 2025 from 56.38 in Q1 2025, and stronger Profitability Outlook, which improved to 60.59 in Q2 2025 from 53.19 in Q1 2025. However, the Education Job Growth Outlook Index moderated to 55.23 in Q2 2025 from 55.32 in Q1 2025, showing only marginal optimism for new hiring.

Figure 12: Business Health and Outlook for Education Sector, Q1 2024 to Q2 2025



Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

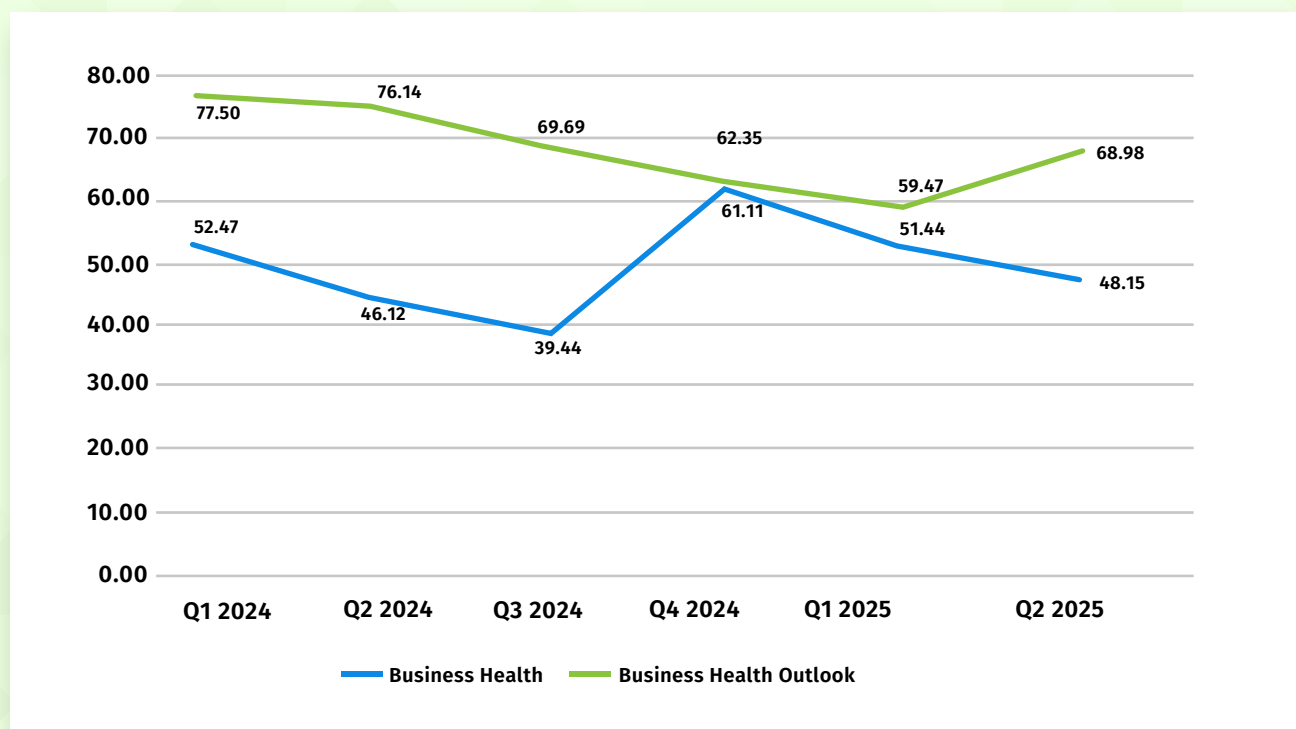


3.3.6 Health Sector

In Q2 2025, the Business Health Index for the Health sector declined to 48.15 in Q2 2025 from 51.44 in Q1 2025, dropping below the neutral threshold of 50. This deterioration was mainly attributed to lower Sales by Enterprises, which fell to 56.94 in Q2 2025 from 58.02 in Q1 2025, and weaker Profitability, which decreased further to 37.50 in Q2 2025 from 46.30 in Q1 2025. As a result, the Job Growth Index for the sector remained at 50.00 in Q2 2025, unchanged from Q1 2025, reflecting restrained hiring activity.

Looking ahead, the Business Health Outlook for Health strengthened significantly to 68.98 in Q2 2025 from 59.47 in Q1 2025, showing rising optimism among business owners and managers. This optimism was supported by expectations of a higher Sales Outlook, which rose to 77.78 in Q2 2025 from 65.43 in Q1 2025, and a stronger Profitability Outlook, which improved to 70.83 in Q2 2025 from 61.11 in Q1 2025. The Health Job Growth Outlook Index also improved to 58.33 in Q2 2025 from 51.85 in Q1 2025, indicating that enterprises anticipated renewed hiring as profitability and sales recovered.

Figure 13: Business Health and Outlook for Health Sector, Q1 2024 to Q2 2025



Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

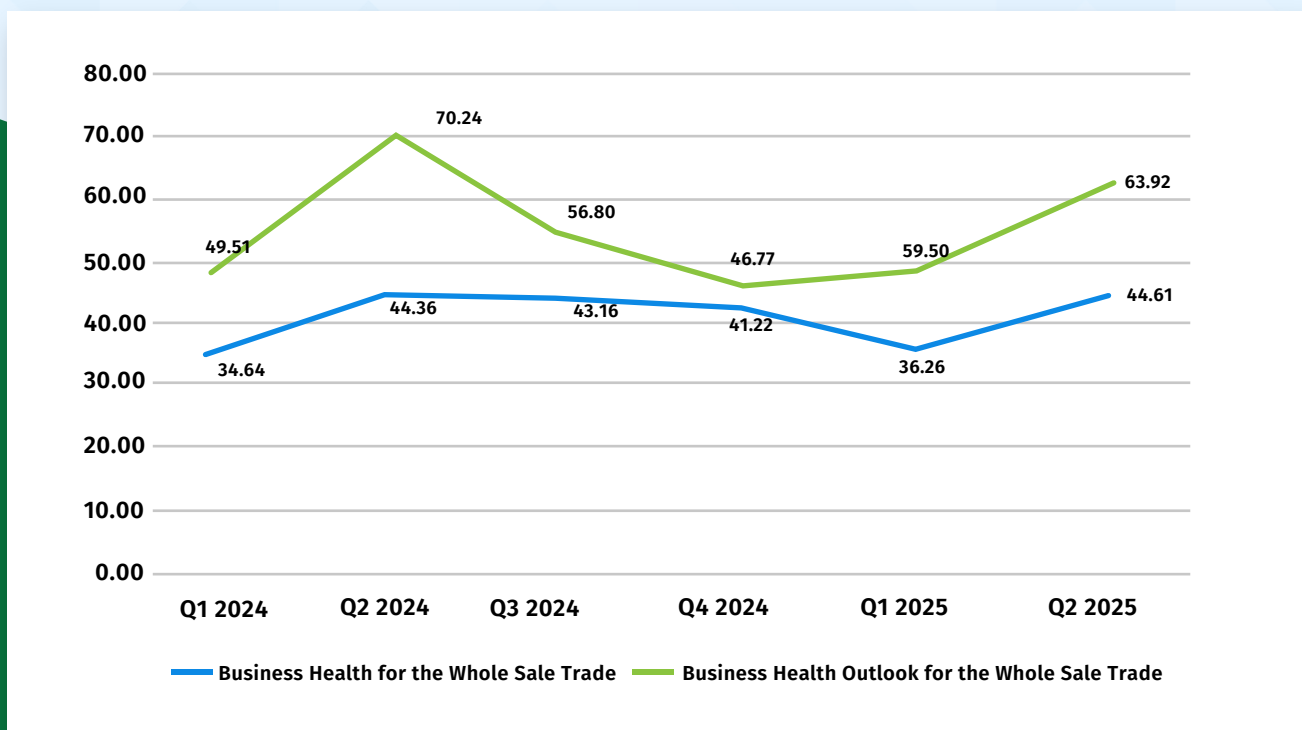


3.3.7 Wholesale Trade

In Q2 2025, the Business Health Index for the Wholesale Trade sector rose to 44.61 in Q2 2025 from 36.26 in Q1 2025, but it still remained below the neutral threshold of 50, reflecting that the sector continued to face weak conditions. The improvement was mainly supported by stronger Sales by Enterprises, which increased to 50.00 in Q2 2025 from 35.09 in Q1 2025, and higher Sales Volume, which rose to 44.12 in Q2 2025 from 23.68 in Q1 2025. Profitability also picked up, improving to 38.24 in Q2 2025 from 27.63 in Q1 2025, although it remained below the critical 50.0 mark.

Looking ahead, the Business Health Outlook for Wholesale Trade strengthened further to 63.92 in Q2 2025 from 59.50 in Q1 2025, above the neutral threshold of 50, reflecting stronger optimism among business owners and managers. This outlook was supported by a rise in the Profitability Outlook Index, which improved to 69.70 in Q2 2025 from 61.84 in Q1 2025, and a stronger Sales Outlook Index, which increased to 69.12 in Q2 2025 from 65.35 in Q1 2025. The Wholesale Trade Job Growth Outlook Index also improved to 52.94 in Q2 2025 from 51.32 in Q1 2025, signaling expectations of renewed hiring momentum in the sector.

Figure 14: Business Health and Outlook for Wholesale Sector, Q1 2024 to Q2 2025



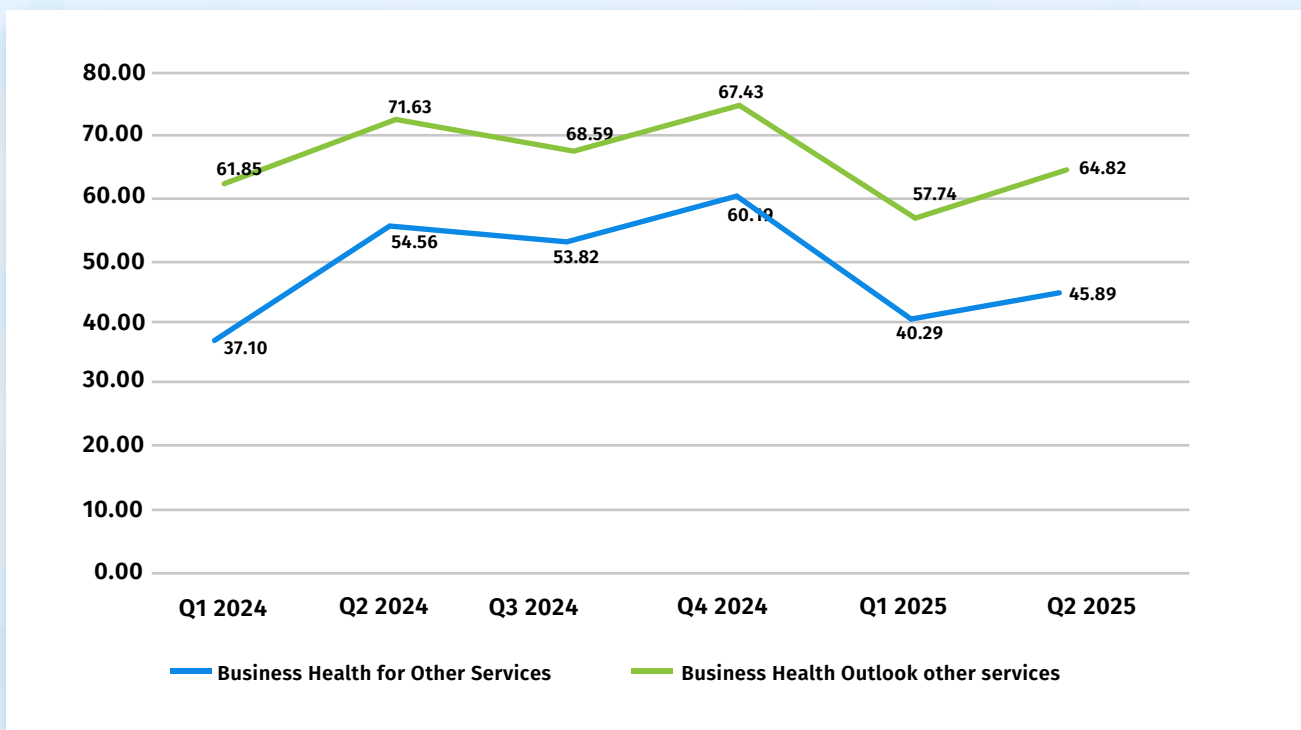
Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

3.3.8 Other services

In Q2 2025, the Business Health Index for Other Services rose to 45.89 from 40.29 in Q1 2025, reflecting a modest improvement but still below the neutral mark of 50, meaning performance remained weak. This rise was mainly supported by a partial recovery in profitability, which improved to 41.67 in Q2 2025 from 22.97 in Q1 2025, and a rebound in sales revenue, which increased to 47.20 in Q2 2025 from 23.64 in Q1 2025.

At the same time, the Business Health Outlook Index strengthened to 64.82 in Q2 2025 from 57.74 in Q1 2025, indicating stronger optimism among business owners and managers. This optimism was supported by the expected rise in profitability outlook to 69.44 in Q2 2025 from 61.26 in Q1 2025, and the sales revenue outlook, which increased to 74.77 in Q2 2025 from 65.91 in Q1 2025. Even the job growth outlook index improved slightly to 55.09 in Q2 2025 from 50.90 in Q1 2025, showing that enterprises anticipated more favorable business conditions in the months ahead.

Figure 15: Business Health and Outlook for Other Services, Q1 2024 to Q2 2025



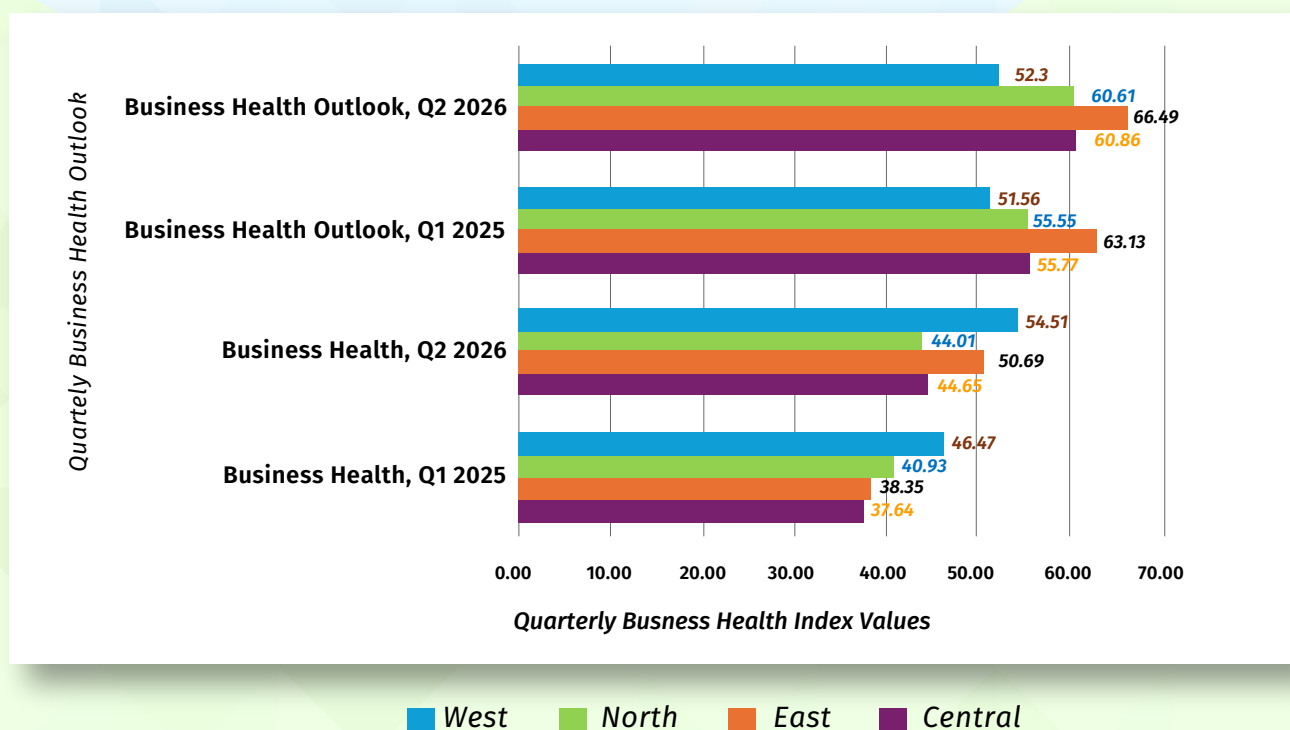
Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

3.4 Business Health Index (BHI) by Region in Uganda

In Q2 2025, business health improved across all regions compared to Q1 2025, though the pace of recovery varied. The western region posted the strongest performance with a business health index of 54.51, up from 46.47 in Q1 2025, supported by increased production volumes and stronger sales. The eastern region followed, crossing the neutral mark with an index of 50.69 in Q2 2025 compared to 38.35 in Q1 2025, driven by improvements in production and profitability. The central region rose modestly from 37.64 in Q1 2025 to 44.65 in Q2 2025, still below the 50 threshold, reflecting persistent challenges in raw material availability and high production costs. Similarly, the northern region inched up from 40.93 in Q1 2025 to 44.01 in Q2 2025, also remaining below 50 due to weak sales growth and constrained profitability. Across all regions, profitability remained a key constraint, with western and eastern enterprises showing relatively stronger resilience compared to central and northern enterprises, where the burden of costs and limited demand continued to weigh down performance.

Looking ahead, the business health outlook for Q2 2025 compared to Q1 2025 was positive across all regions, with indices above the 50 threshold, signaling optimism among investors and business owners. The eastern region recorded the highest outlook index of 66.49, up from 63.13 in Q1 2025, reflecting expectations of stronger sales and higher profitability. The central region also showed optimism, improving from 55.77 in Q1 2025 to 60.86 in Q2 2025, supported by anticipated gains in production and profitability. The northern region outlook rose from 55.55 in Q1 2025 to 60.61 in Q2 2025, pointing to expected recovery in production volumes and sales despite current cost pressures. The western region, while recording the lowest outlook, still showed improvement from 51.56 in Q1 2025 to 52.3 in Q2 2025, reflecting modest optimism largely tied to profitability and sustained job growth. Overall, the favourable outlook across all regions suggests confidence in continued recovery, though high production costs and raw material constraints remain risks that could slow momentum, particularly in central and northern Uganda.

Figure 16: Business Health and Outlook by region, Q1 2025 to Q2 2025



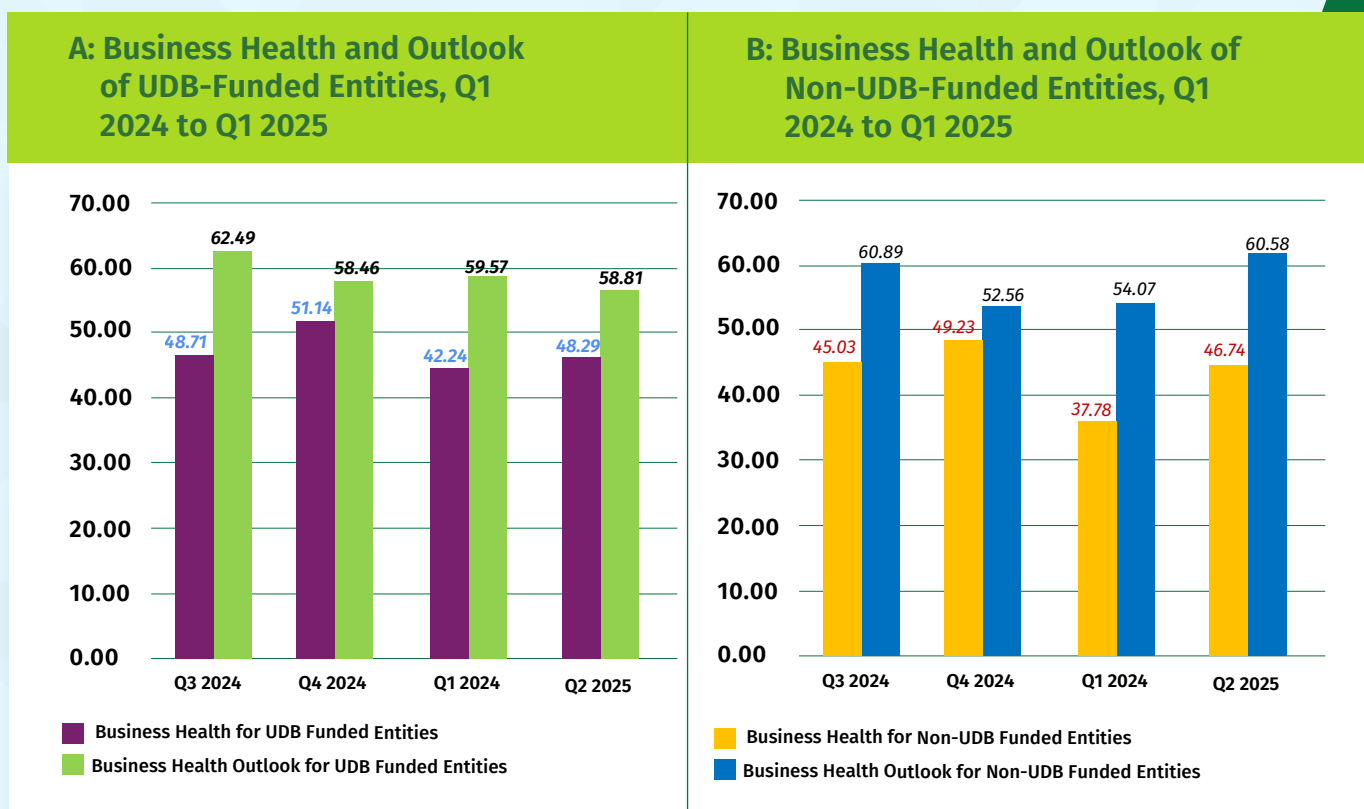
Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

3.5 Comparative Analysis of Business Health and Outlook Between UDB-funded and non-UDB-funded Entities

In Q2 2025, UDB-funded enterprises continued to outperform non-UDB entities, with their Business Health Index rising to 48.29 from 42.24 in Q1 2025. This improvement was supported by stronger production and sales, coupled with moderated input costs that helped sustain profitability. Non-UDB enterprises also registered recovery, with their index increasing to 46.74 from 37.78 over the same period, largely due to improved raw material availability and higher sales volumes, though profitability remained constrained by elevated production costs.

Looking ahead, the Business Health Outlook Index for UDB-funded enterprises stood at 58.81 in Q2 2025, slightly lower than 59.57 in Q1 2025, reflecting sustained confidence in sales and profitability, but constrained by persistent cost pressures. Non-UDB entities, however, reported stronger optimism, with their outlook index rising to 60.58 in Q2 2025 from 54.07 in Q1 2025. The contrast indicates that UDB-funded enterprises, while performing better overall, were more cautious in their expectations—likely reflecting their concentration in sectors such as agro-processing, heavy manufacturing, and infrastructure, which are directly exposed to high import costs for machinery, fuel, and inputs, as well as tighter cost structures. By contrast, many non-UDB-supported entities operate in trade and light manufacturing, where improved supply conditions and anticipated stronger domestic demand supported more immediate optimism. Nonetheless, both groups remained cautious about rising production costs, which could weigh on resilience in subsequent quarters.

Figure 17: Business Health and Outlook of UDB-Funded and Non-UDB-Funded Entities, Q3 2024 to Q2 2025



Source: Computation by the author based on Business Health Survey (BHS) data, July 2025

4.0 Critical Challenges Affecting Business Health in Uganda

The study examined the key obstacles affecting business operations in the second quarter of 2025 compared with the first quarter. Entities themselves revealed during the Q2 2025 survey that they continued to face rising cost pressures and demand-related challenges, despite some improvements in overall business health.

High Cost of Financing

High financing costs rose significantly in the second quarter of 2025, affecting 55 percent of businesses, up from 46 percent in the first quarter. Enterprises reported that elevated lending rates, stringent collateral requirements, and slow loan processing limited their access to timely and affordable credit. This lack of financial flexibility constrained their ability to secure working capital, invest in production, or expand operations. Notably, the commercial Bank's lending rates increased from 16.64 percent in April 2024 to 19.07 percent in June 2025, according to the Bank of Uganda's latest statistics. Manufacturers and agro-traders revealed that they were unable to fulfill purchase orders on time. Many firms highlighted that they resorted to short-term, high-interest financing to keep operations afloat, which increased unit costs and eroded already thin profit margins.

High Cost of Utilities: Water and Energy

Utility costs remained a burden in the second quarter of 2025. Water expenses were reported by 36 percent of businesses, up from 22 percent in the first quarter, while energy costs were cited by 49 percent compared to 37 percent in the same period. Respondents noted that frequent outages and higher tariffs forced reliance on costly backup generators, raising operating expenses and lowering efficiency.

High Cost of Labour

Labour costs also continued to rise, with 39 percent of businesses reporting them as a constraint in the second quarter of 2025, compared to 28 percent in the first quarter. The increase was attributed to higher wage demands, statutory contributions, and the need to retain skilled staff in competitive markets. Manufacturers reported that they cut permanent roles and relied more on temporary workers, while service providers indicated that retaining technical staff, such as chefs and technicians, required higher pay and ongoing training.

Insufficient Demand

Insufficient domestic demand remained a challenge, reported by 55 percent of businesses in the second quarter compared to 50 percent in the first. Many enterprises cited weak household purchasing power as a key factor limiting sales across sectors. Wholesale traders and hospitality businesses reported declining customer spending, as consumers prioritized essentials such as school fees, rent, and food over non-essential purchases.

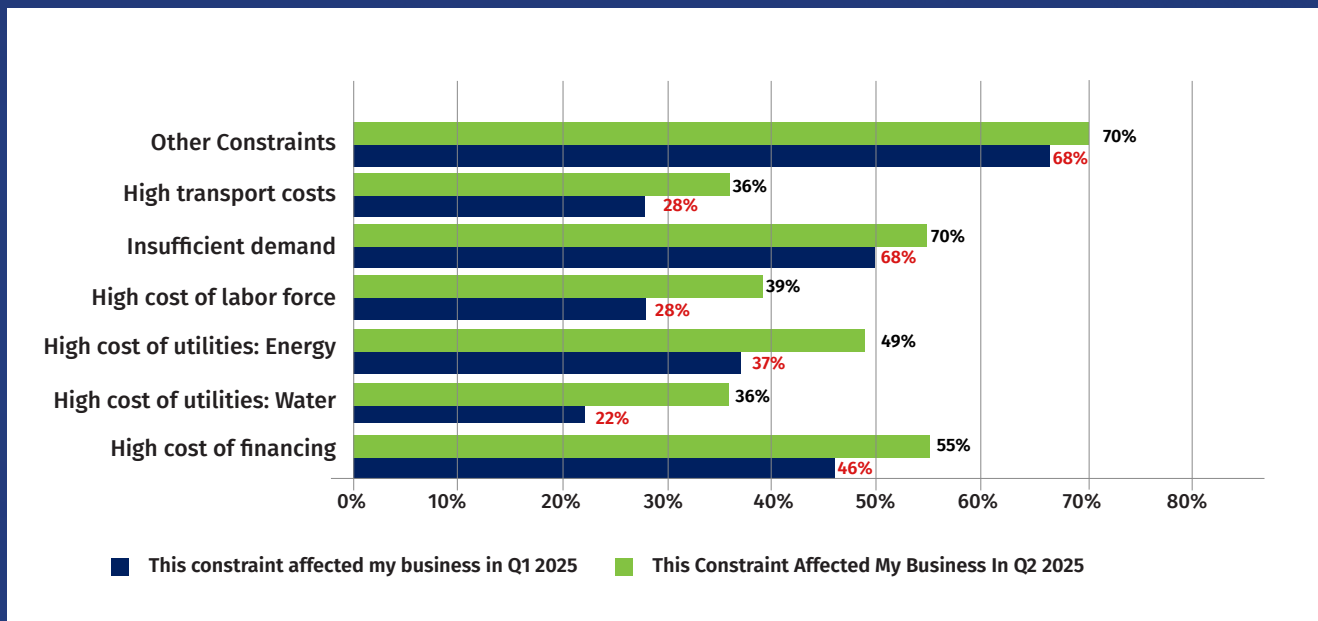
High Transport Costs

Transport costs escalated further, with 36 percent of businesses citing this as a major challenge in the second quarter compared to 28 percent in the first. Respondents highlighted rising fuel prices and deteriorating road infrastructure, particularly in rural and up-country areas. Agro-traders reported increased spoilage of perishable products during transit, while distributors and manufacturers pointed out higher vehicle maintenance costs and longer delivery times. These additional logistics expenses were often passed on to consumers in the form of higher prices, which further weakened demand and reduced profit margins.

Other Constraints

Other structural and operational constraints were reported by 70 percent of businesses in the second quarter, up from 62 percent in the first. Enterprises pointed to high taxation and delayed client payments as key challenges. Service providers in education, health, and hospitality noted that late payments forced them to delay paying suppliers and reduce investment. Businesses also raised concerns about unfair competition from informal operators and cheap imports, which put formal enterprises at a disadvantage since they carry tax and compliance costs. Respondents explained that such competition reduced the willingness to reinvest and threatened long-term business stability.

Figure 18: Business Constraints Impacting Enterprises in Uganda, Q1 2025-Q2 2025



Source: Authors' construction based on Business Health Survey (BHS) data, July 2025





This report draws information from reliable sources such as the BOU, UBOS, MOFPED, IMF, World Bank, EIU, Fitch Solutions etc. Please note that it is for informational purposes only, and feedback and comments can be sent to:

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