



UDB
Inspiring Development

BUSINESS HEALTH INDEX (BHI) REPORT

Quarter 1, 2026



Table of Contents

1.0	Executive Summary	3
2.0	Data and Methods	5
	2.1 Calculation and Interpretation of the Business Health Index (BHI)	6
3.0	Key Findings	7
	3.1 Overall Business Health and Outlook	7
	3.2 Key Drivers of Business Health and Outlook in Uganda	8
	3.2.1 Availability of Raw Materials and Outlook	8
	3.2.2 Enterprise Production Conditions and Outlook	9
	3.2.3 Enterprise Sales Performance and Outlook	10
	3.2.4 Enterprise Profitability Trends and Outlook	11
	3.2.5 Enterprise-Driven Job Growth and Outlook	12
	3.3 Business Health Index (BHI) by Sector in Uganda	12
	3.3.1 Agriculture Business Health and Outlook	12
	3.3.2 Agro-processing Business Health and Outlook	13
	3.3.3 Manufacturing Business Health and Outlook	14
	3.3.4 Tourism Business Health and Outlook	15
	3.3.5 Education Business Performance and Outlook	16
	3.3.6 Health Sector Business Performance and Outlook	17
	3.3.7 Wholesale Trade Performance and Outlook	18
	3.3.8 Other Services Performance and Outlook	19
	3.4 Business Health Index (BHI) by region in Uganda	20
	3.5 Comparative Analysis of Business Health and Outlook Between UDB-funded and non-UDB-funded Entities	21
4.0	Critical Challenges Affecting Business Health in Uganda	22

Figures

Figure 1: Overall Business Health and Outlook Indices, Q1 2025- Q1 2026	7
Figure 2: Raw Materials Availability and Outlook, Q1 2025 to Q1 2026	8
Figure 3: Enterprise Production and Outlook, Q1 2025 to Q1 2026	9
Figure 4: Enterprise Sales Performance and Outlook, Q1 2025 to Q1 2026	10
Figure 5: Profitability and Outlook, Q1 2025 to Q1 2026	11
Figure 6: Job Growth and Outlook, Q1 2025 to Q1 2026	12
Figure 7: Business Health and Outlook for Agriculture Sector, Q1 2025 to Q1 2026	13
Figure 8: Business Health and Outlook for Agro-processing Sector, Q1 2025 to Q1 2026	14
Figure 9: Business Health and Outlook for Manufacturing Sector, Q1 2025 to Q1 2026	15
Figure 10: Business Health and Outlook for Tourism Sector, Q1 2025 to Q1 2026	16
Figure 11: Business Health and Outlook for Education Sector, Q1 2025 to Q1 2026	16
Figure 12: Business Health and Outlook for Health Sector, Q1 2025 to Q1 2026	17
Figure 13: Business Health and Outlook for Wholesale Sector, Q1 2025 to Q1 2026	18
Figure 14: Business Health and Outlook for Other Services, Q1 2025 to Q1 2026	19
Figure 15: Business Health and Outlook by region, Q4 2025 to Q1 2026	20
Figure 16: Business Health and Outlook of UDB-Funded and Non-UDB-Funded Entities, Q3 2025 to Q1 2026	22
Figure 17: Business Constraints Impacting Enterprises in Uganda, Q4 2025-Q1 2026	23



Executive Summary

The Business Health Survey (BHS) for Q1 2026 indicates a notable moderation in enterprise performance across Uganda following the strong expansion observed in Q4 2025. The Business Health Index (BHI) declined sharply to 37.20 in Q1 2026 from 53.38 in Q4 2025, falling below the neutral benchmark of 50 and signaling a broad weakening in current business health conditions as perceived by enterprise owners and managers. This slowdown reflects post festive season normalization, post-election adjustments in economic activity, softer demand conditions, and persistent operational constraints that affected production, sales, and profitability. The moderation in performance was also influenced by external developments, including global geopolitical conflict involving the United States, Israel, and Iran, which contributed to increased uncertainty and upward pressure on energy and transport costs, further weighing on business activity during the quarter.

The decline in business activity was primarily driven by contractions in production and sales. The Production Index fell to 33.56 in Q1 2026 from 51.30 in Q4 2025, indicating that enterprises scaled down operations in response to reduced market activity. Similarly, the Sales Index declined to 40.08 in Q1 2026 from 60.41 in Q4 2025, reflecting a significant drop in sales volumes, which fell to 34.52 from 61.33, and sales revenues, which declined to 34.29 from 62.53, despite relatively stable selling prices at 51.43 in Q1 2026 from 57.35 in Q4 2025. These trends suggest that demand-side pressures, including reduced consumer spending and tighter liquidity conditions, played a central role in weakening overall business health.

Supply-side pressures also intensified during the quarter. The Raw Material Availability Index declined to 36.23 in Q1 2026 from 46.32 in Q4 2025, indicating increased difficulty in accessing inputs due to supply chain

disruptions and rising costs. At the same time, profitability deteriorated significantly, with the Profitability Index falling to 31.23 in Q1 2026 from 56.69 in Q4 2025, reflecting the combined effects of declining revenues and persistent cost pressures, particularly from utilities, labour, and financing. Employment conditions also weakened, with the Job Growth Index declining to 44.92 in Q1 2026 from 52.19 in Q4 2025, indicating reduced hiring as enterprises adjusted to weaker operating conditions.

Despite the decline in current business health, forward-looking sentiment improved considerably, reflecting resilience among enterprises. The Business Health Outlook Index increased to 55.45 in Q1 2026 from 44.39 in Q4 2025, rising above the neutral threshold and signaling renewed optimism for Q2 2026. This improvement was supported by stronger expectations across key indicators. The Production Outlook Index increased to 52.05 in Q1 2026 from 42.69 in Q4 2025, while the Sales Outlook Index rose to 66.27 in Q1 2026 from 44.22 in Q4 2025. Sales volumes are expected to recover to 70.36 in Q1 2026 from 41.60 in Q4 2025, while sales revenues are projected to increase to 67.50 from 41.20, suggesting that businesses anticipate improved demand and a rebound in market activity.

Sectoral business health in Q1 2026 showed a widespread decline across all major sectors. Agro-processing and Manufacturing recorded the sharpest contractions, with the Business Health Index declining to 39.26 in Q1 2026 from 56.40 in Q4 2025 and 32.10 from 54.62, respectively, driven by reduced production, weaker sales, and declining profitability. The agriculture sector declined to 42.99 in Q1 2026 from 49.70 in Q4 2025, reflecting input constraints and seasonal factors. Tourism also fell significantly to 37.09 in Q1 2026 from 50.85 in Q4 2025, reflecting reduced demand following the festive season, as well as the effects of global geopolitical tensions, particularly the US-Israel-Iran conflict, which contributed

to increased uncertainty and higher travel and operational costs. The Education and Health sectors remained relatively more stable but still declined below the neutral threshold to 43.45 from 52.51 and 46.10 from 51.93, respectively. Wholesale Trade and Other Services also recorded declines, with business health indices falling to 45.56 from 52.70 and 40.93 from 57.98, reflecting subdued demand and reduced business activity. However, outlook indices improved across all sectors, indicating expectations of recovery in the next quarter.

Regional performance mirrored the national trend, with all regions recording declines in business health. The Western region remained the best performing despite declining to 45.93 in Q1 2026 from 58.87 in Q4 2025, followed by the Central region, which dropped to 35.37 from 53.60. The Eastern and Northern regions also declined to 35.11 from 52.18 and 35.47 from 45.14, respectively, reflecting broad based weakening in production, sales, and profitability. Despite this, outlook indices improved across all regions, signaling optimism supported by anticipated recovery in demand and business activity.

Comparative analysis shows that both UDB-funded and non-UDB funded enterprises experienced a similar decline in performance.

UDB funded enterprises recorded a BHI of 37.58 in Q1 2026 from 53.28 in Q4 2025, while non-UDB funded enterprises recorded 36.67 from 53.06, indicating a broad-based downturn across both groups. However, outlook indices improved for both categories, rising to 56.51 in Q1 2026 from 47.11 in Q4 2025 for UDB funded entities and to 54.98 from 42.98 for non-UDB funded entities, reflecting expectations of recovery driven by improved demand and business conditions.

Constraints continued to shape business health conditions during the quarter. While some pressures eased, others remained elevated. The proportion of businesses reporting insufficient demand declined to 52 percent in Q1 2026 from 65 percent in Q4 2025, while high cost of financing eased to 54 percent from 59 percent, indicating modest improvements. However, energy costs increased to 45 percent in Q1 2026 from 42 percent in Q4 2025, and transport costs remained unchanged at 35 percent, reflecting persistent cost pressures. Structural constraints remained widespread, with 68 percent of businesses in Q1 2026 compared to 69 percent in Q4 2025 reporting other challenges, including high taxes, delayed payments, regulatory bottlenecks, climate shocks, exchange rate volatility and infrastructure gaps.

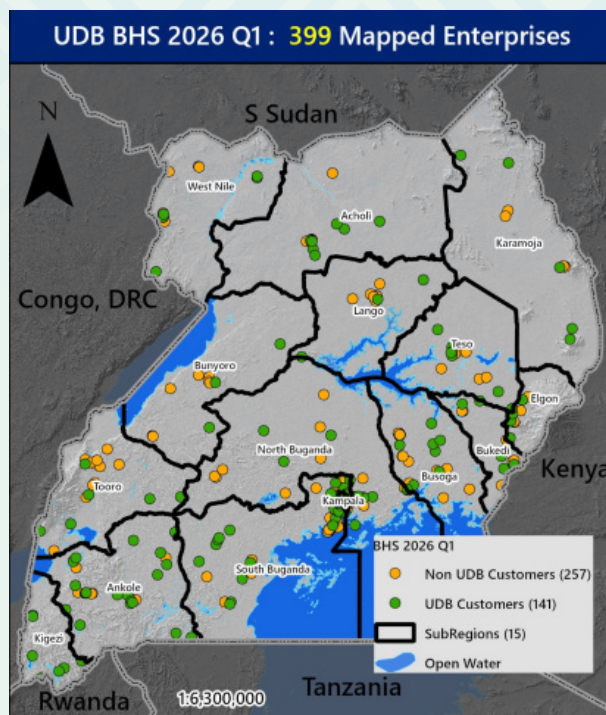
▶ 2.0 Data and Methods

The Business Health Survey (BHS) covered 512 enterprises, i.e., 150 UDB customers and 362 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 transport, the creative industry, and financial services, covering all the regions: central, eastern, northern, and western areas.

The 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 (Q1 2026) compared to the previous quarter (Q4 2025), while the business health outlook captured the expectations on the business performance for the next quarter (Q2 2026) compared to the just-ended quarter (Q1 2026). 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.

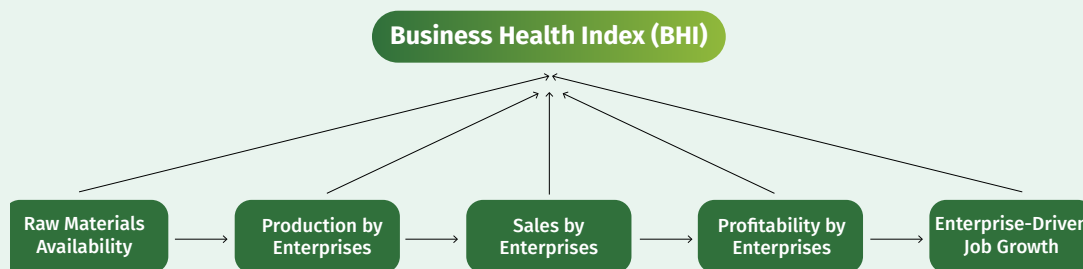
The study also covered the critical challenges that affected businesses during Q1 2026. The survey identified critical business constraints on which respondents confirmed whether they were affected or not, including high costs of financing, high costs of utilities (water and energy), high labor costs, 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: Authors' construction based on the critical components of 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, an outlook index value below 50 indicates respondents' pessimism about the next quarter. The outlook index value of 50 implies a neutral outlook with no anticipated changes.

3.0 Key Findings

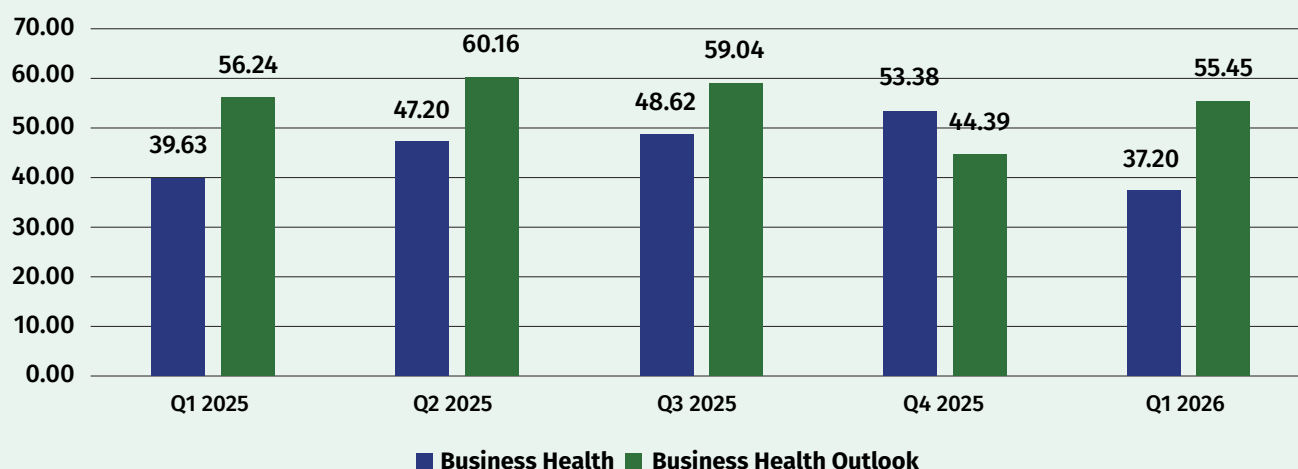
3.1 Overall Business Health and Outlook

In Q1 2026, Uganda's Business Health Index (BHI) declined sharply to 37.20 from 53.38 in Q4 2025, falling below the neutral benchmark of 50 and reflecting a significant deterioration in business conditions. The decline was largely driven by weaker production and sales activities, as enterprises adjusted to reduced demand following the festive season and post-election economic conditions. This was further compounded by global geopolitical tensions, particularly the United States–Israel–Iran conflict, which disrupted energy markets, increased fuel and transport costs, and contributed to supply chain pressures. The Production Index fell to 33.56 in Q1 2026 from 51.30 in Q4 2025, indicating that firms scaled down operations in response to subdued market activity. Similarly, the Sales Index declined markedly to 40.08 from 60.41, driven by a contraction in sales volumes (34.52 from 61.33) and sales revenues (34.29 from 62.53), despite relatively stable selling prices (51.43 from 57.35). In addition, raw material availability weakened to 36.23 in Q1 2026

from 46.32 in Q4 2025, further constraining production processes, while profitability declined significantly to 31.23 from 56.69. Enterprise-driven job growth also moderated to 44.92 from 52.19, reflecting reduced hiring as enterprises adjusted to weaker conditions.

Looking ahead, despite the downturn in current performance, the Business Health Outlook Index improved to 55.45 in Q1 2026 from 44.39 in Q4 2025, signaling resilience and renewed optimism for Q2 2026. This improvement is supported by stronger forward-looking indicators, including an increase in the Production Outlook Index to 52.05 in Q1 2026 from 42.69 in Q4 2025, and a significant rise in the Sales Outlook Index to 66.27 from 44.22. The expected recovery in sales is further driven by projected growth in sales volumes to 70.36 in Q1 2026 from 41.60 in Q4 2025 and sales revenues to 67.50 from 41.20, suggesting that businesses anticipate improved demand conditions and a rebound in overall economic activity.

Figure 1: Overall Business Health and Outlook Indices, Q1 2025- Q1 2026



Source: Computation Based on UDB Business Health Survey Data, April 2026

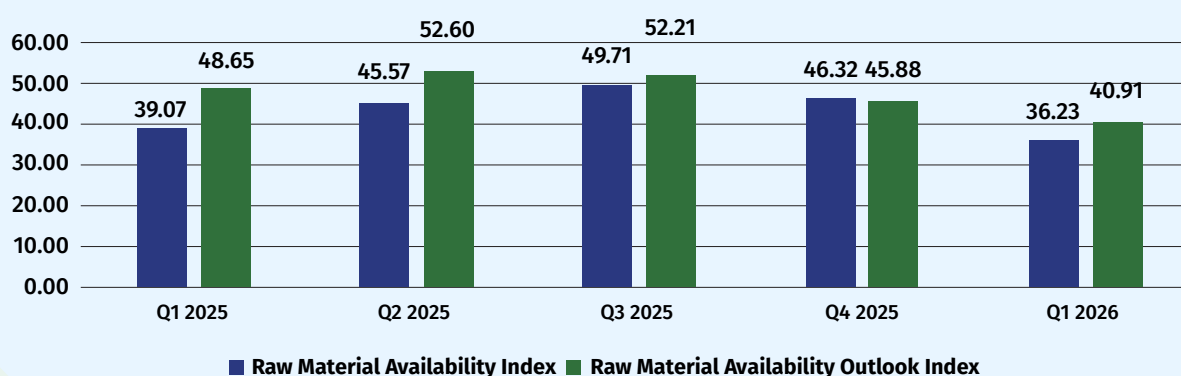
3.2 Key Drivers of Business Health and Outlook in Uganda

3.2.1 Availability of Raw Materials and Outlook

The Raw Material Availability Index declined sharply to 36.23 in Q1 2026 from 46.32 in Q4 2025, indicating a significant deterioration in access to raw materials. The index fell further below the neutral mark of 50, suggesting that shortages became more severe compared to the previous quarter. This decline was largely driven by supply chain disruptions, reduced imports, and rising cost pressures, which constrained enterprises' ability to secure adequate inputs for production.

Looking ahead, optimism among enterprises remained weak, as reflected in the Raw Material Availability Outlook Index, which declined to 40.91 in Q1 2026 from 45.88 in Q4 2025, remaining below the neutral threshold. This indicates that enterprises expect continued challenges in accessing raw materials in the next quarter. The subdued outlook reflects persistent supply constraints, elevated input costs, and uncertainties in supply conditions, which are likely to continue limiting production capacity and overall business operations.

Figure 2: Raw Materials Availability and Outlook, Q1 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026

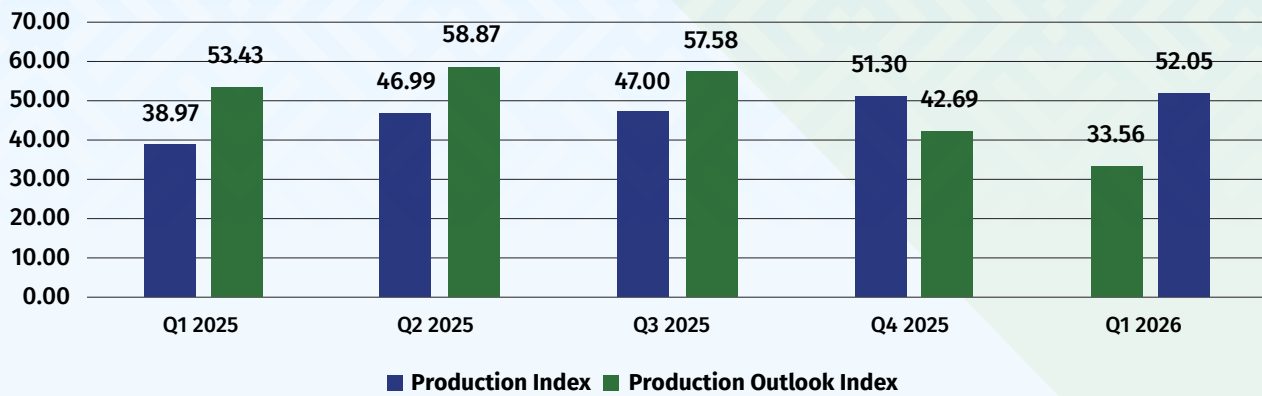
3.2.2 Enterprise Production Conditions and Outlook

In Q1 2026, the Production Index declined sharply to 33.56 from 51.30 in Q4 2025, falling well below the neutral mark of 50 and indicating a significant weakening in production conditions. This suggests that enterprises scaled down operations following the festive season, largely in response to reduced demand and operational constraints. The Capacity Utilization Index dropped to 30.09 in Q1 2026 from 59.79 in Q4 2025, reflecting underutilization of installed capacity, while the Total Production Volume Index declined to 42.25 from 65.29, pointing to a substantial contraction in output levels. Cost pressures persisted, with the Cost of Production Index remaining low at 28.34 in Q1 2026 compared to 28.82 in Q4 2025, suggesting that production costs continued to constrain

enterprise operations. The findings indicate that enterprises faced both demand-side and supply-side challenges, which significantly affected production performance during the quarter.

Looking ahead, the production outlook improved notably. The Production Outlook Index increased to 52.05 in Q1 2026 from 42.69 in Q4 2025, rising above the neutral threshold of 50 and signaling renewed confidence in future production conditions. This improvement suggests that enterprises anticipate a recovery in output, supported by expected improvements in demand, better access to input, and the normalization of business conditions in the subsequent quarter.

Figure 3: Enterprise Production and Outlook, Q1 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026

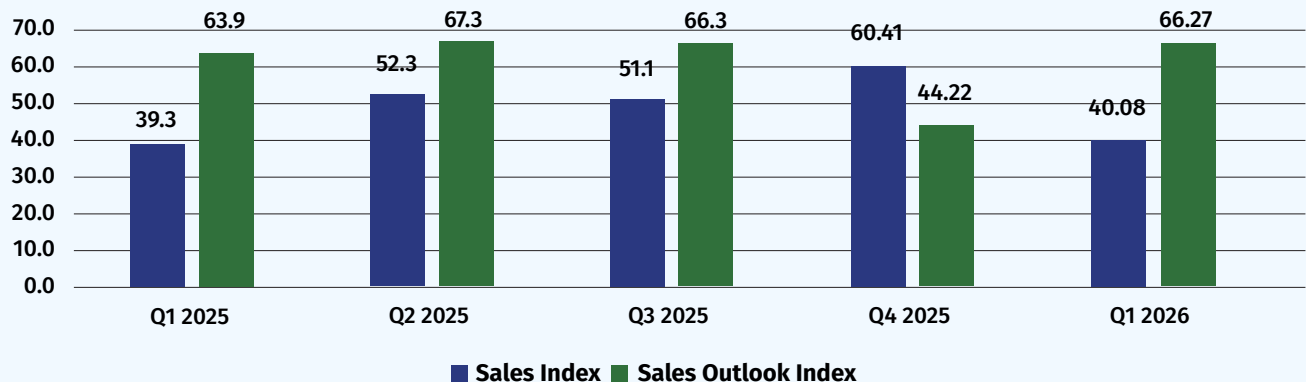
3.2.3 Enterprise Sales Performance and Outlook

In Q1 2026, the Sales Index declined sharply to 40.08 from 60.41 in Q4 2025, falling below the neutral mark of 50 and indicating a significant slowdown in sales performance and overall market activity. This decline reflects weakened demand following the festive season and tighter consumer spending conditions. The Sales Volume Index dropped to 34.52 in Q1 2026 from 61.33 in Q4 2025, highlighting a substantial reduction in quantities sold as enterprises faced subdued demand. The Average Selling Price Index declined modestly to 51.43 from 57.35, suggesting some easing in pricing conditions, although prices remained slightly above the neutral threshold. Meanwhile, the Sales Revenue Index fell sharply to 34.29 in Q1 2026 from 62.53 in Q4 2025, indicating that enterprises experienced a significant reduction in revenues, driven primarily by declining volumes rather than

price effects.

Looking ahead, the sales outlook improved significantly. The Sales Outlook Index increased to 66.27 in Q1 2026 from 44.22 in Q4 2025, rising well above the neutral mark of 50 and signaling strong optimism regarding future sales performance. This improvement is supported by an expected recovery in sales volumes, as reflected in the Sales Volume Outlook Index, which rose to 70.36 in Q1 2026 from 41.60 in Q4 2025, and sales revenues, which increased to 67.50 from 41.20. Pricing expectations also strengthened, with the Average Selling Price Outlook Index rising to 60.95 from 49.87. These trends suggest that enterprises anticipate improved demand conditions and a rebound in market activity in the next quarter.

Figure 4: Enterprise Sales Performance and Outlook, Q1 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026

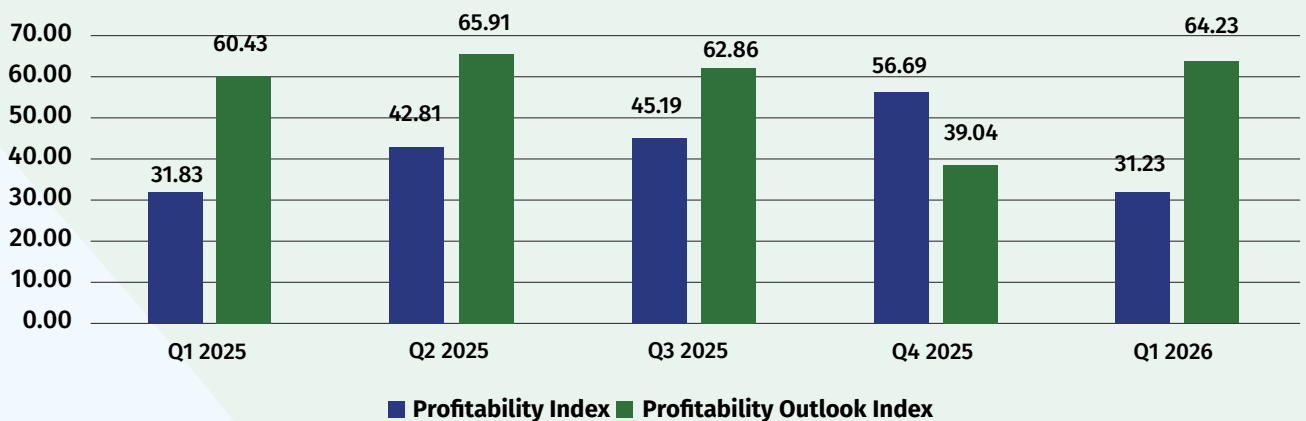
3.2.4 Enterprise Profitability Trends and Outlook

In Q1 2026, the Profitability Index declined sharply to 31.23 from 56.69 in Q4 2025, falling well below the neutral mark of 50 and indicating a significant deterioration in enterprise profitability. This decline was primarily driven by weaker sales and production performance. The Sales Index fell to 40.08 in Q1 2026 from 60.41 in Q4 2025, while the Production Index declined to 33.56 from 51.30, reflecting reduced business activity. As a result, revenues dropped significantly, with the Sales Revenue Index declining to 34.29 from 62.53, further constraining profitability. At the same time, cost pressures persisted, with the Cost of Production Index remaining low at 28.34 in Q1 2026 compared to 28.82 in Q4 2025, indicating that production costs continued to weigh on enterprises even as

revenues declined, thereby eroding profit margins during the quarter.

Looking ahead, the profitability outlook improved. The Profitability Outlook Index increased to 64.23 in Q1 2026 from 39.04 in Q4 2025, rising well above the neutral threshold of 50 and signaling strong optimism regarding future profitability. This improvement is supported by positive expectations for both sales and production, with the Sales Outlook Index increasing to 66.27 in Q1 2026 from 44.22 in Q4 2025 and the Production Outlook Index rising to 52.05 from 42.69, suggesting that enterprises anticipate a recovery in revenues and overall business performance in the next quarter.

Figure 5: Profitability and Outlook, Q1 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026

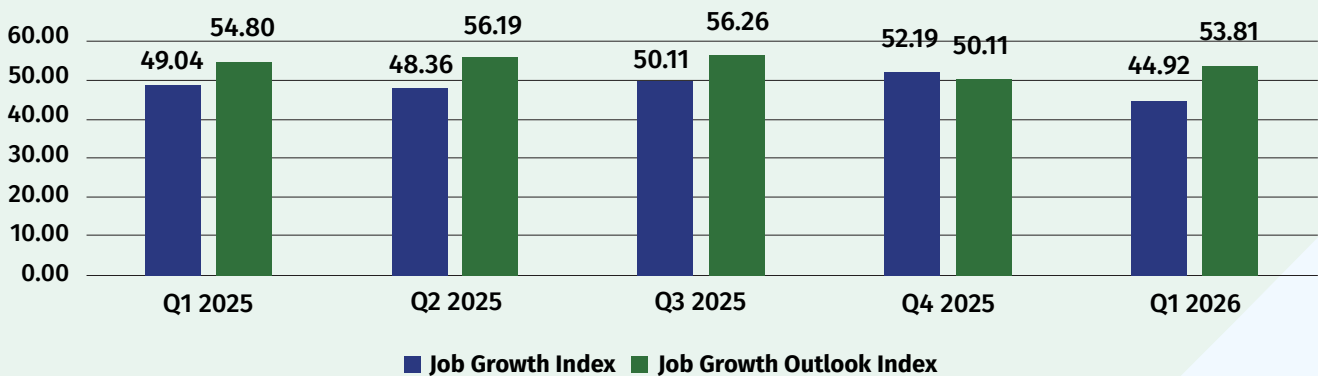


3.2.5 Enterprise-Driven Job Growth and Outlook

In Q1 2026, the Job Growth Index declined to 44.92 from 52.19 in Q4 2025, falling below the neutral mark of 50 and indicating a slowdown in employment creation. This decline reflects weakened business performance across key indicators. The Production Index dropped sharply to 33.56 in Q1 2026 from 51.30 in Q4 2025, limiting firms' ability to sustain or expand employment. Similarly, the Sales Index declined to 40.08 from 60.41, while the Profitability Index fell significantly to 31.23 from 56.69, reducing firms' financial capacity to support hiring. Collectively, these developments contributed to reduced job creation during the quarter.

Despite the decline in current employment conditions, the outlook for job growth improved during the quarter. The Job Growth Outlook Index increased to 53.81 in Q1 2026 from 50.11 in Q4 2025, rising above the neutral threshold and signaling renewed optimism for hiring in the next quarter. This improvement reflects stronger expectations for business recovery, supported by anticipated gains in profitability and sales. The Profitability Outlook Index rose significantly to 64.23 from 39.04, while the Sales Outlook Index increased to 66.27 from 44.22, indicating that enterprises expect improved financial performance and demand conditions.

Figure 6: Job Growth and Outlook, Q1 2025 to Q1 2026



Source: Computation based on UDB Business Health Survey (BHS) data, April 2026



3.3 Business Health Index (BHI) by Sector in Uganda

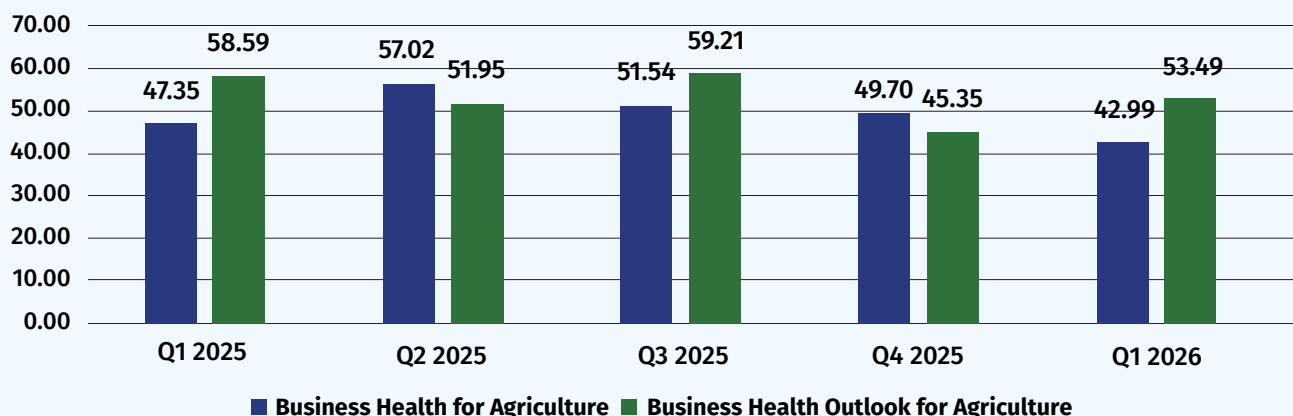
3.3.1 Agriculture Business Health and Outlook

In Q1 2026, the Business Health Index (BHI) for Agriculture declined to 42.99 from 49.70 in Q4 2025, falling further below the neutral mark of 50 and indicating a deterioration in business conditions within the sector. This decline reflects weaker performance across key sub-indices. The Agricultural Inputs Availability Index decreased to 41.42 in Q1 2026 from 44.53 in Q4 2025, indicating growing constraints in access to inputs. Similarly, Total Production Volume Index declined to 47.76 from 60.94, suggesting a significant slowdown in production activity. Sales performance also weakened during the quarter, with the Sales Index declining to 47.97 from 57.41, while Sales Revenue dropped to 43.92 from 56.94, reflecting reduced market activity and demand pressures. Profitability index followed a similar trend, declining to 38.16 in Q1 2026 from 47.26 in Q4 2025, indicating that lower revenues and continued cost pressures

constrained earnings within the sector.

Looking ahead, the Business Health Outlook for Agriculture improved significantly, rising to 53.49 in Q1 2026 from 45.35 in Q4 2025, moving above the neutral threshold of 50 and signaling renewed optimism among agricultural enterprises for Q2 2026. This improvement is supported by stronger forward-looking indicators, including an increase in the Total Production Volume Outlook Index to 67.16 in Q1 2026 from 49.22 in Q4 2025, and a recovery in the Sales Revenue Outlook Index to 57.43 from 45.83, as well as the Sales Volume Outlook Index to 66.22 from 45.83. These trends suggest that, despite current challenges, agricultural enterprises expect improved production conditions, stronger demand, and an overall recovery in sector performance in the next quarter.

Figure 7: Business Health and Outlook for Agriculture Sector, Q1 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026



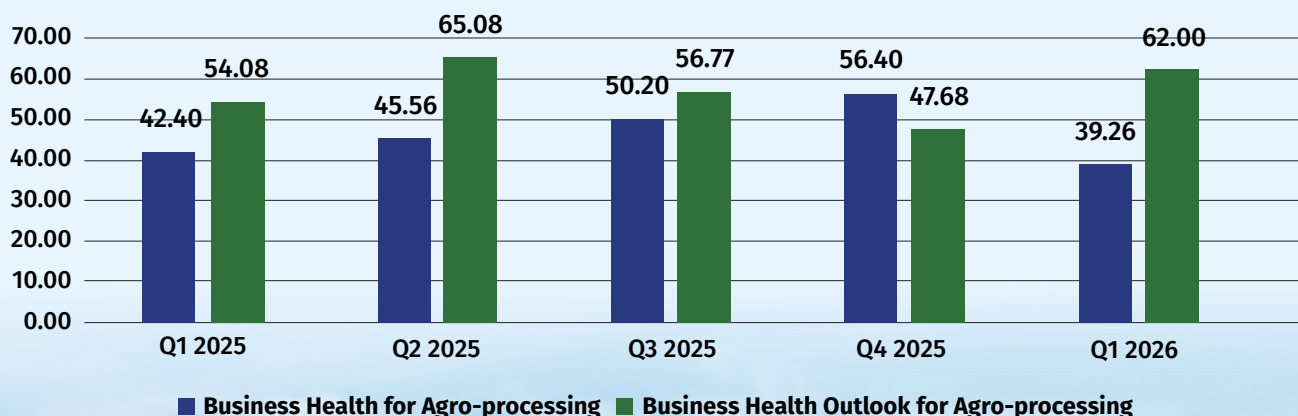
3.3.2 Agro-processing Business Health and Outlook

In Q1 2026, the Business Health Index for the Agro-processing sector declined sharply to 39.26 from 56.40 in Q4 2025, falling below the neutral mark of 50 and indicating a significant deterioration in business conditions. The decline was driven by weaker performance across key sub-indices. The Raw Material Availability Index decreased to 40.18 in Q1 2026 from 46.55 in Q4 2025, reflecting increased constraints in accessing inputs. Production activity also weakened, with the Production by Enterprises Index declining to 31.43 from 52.70, while Total Production Volume dropped significantly to 35.71 from 65.52, indicating reduced output levels. Sales performance also softened, with the Sales by Enterprises Index declining to 45.40 from 67.24, and Sales Revenue falling to 34.48 from 65.52, reflecting reduced volumes and weakening demand. Profitability declined sharply to 37.93 in Q1 2026

from 63.79 in Q4 2025, indicating significant pressure on margins, while enterprise-driven job growth moderated to 41.38 from 51.72, reflecting reduced employment expansion.

Looking ahead, the Business Health Outlook for Agro-processing improved significantly to 62.00 in Q1 2026 from 47.68 in Q4 2025, rising above the neutral threshold and signaling strong optimism among enterprises for Q2 2026. This improvement is supported by expected recovery in key indicators, including the Production Outlook Index increasing to 60.48 in Q1 2026 from 41.55 in Q4 2025, the Sales Outlook Index rising to 66.67 from 49.43, and the Profitability Outlook Index strengthening to 74.14 from 44.83. These trends suggest that, despite the sharp decline in current performance, enterprises anticipate a recovery in production, sales, and profitability in the coming quarter.

Figure 8: Business Health and Outlook for Agro-processing Sector, Q1 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026



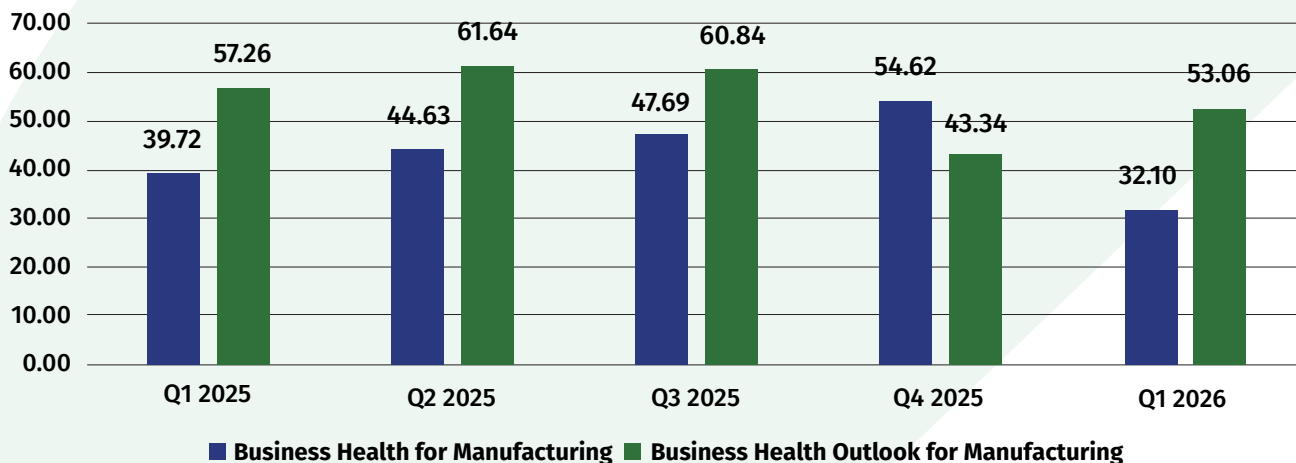
3.3.3 Manufacturing Business Health and Outlook

In Q1 2026, the Business Health Index for Manufacturing declined sharply to 32.10 from 54.62 in Q4 2025, falling well below the neutral level of 50 and indicating a significant deterioration in overall sector performance. The decline was driven by weaker outcomes across key indicators. The Raw Material Availability Index dropped to 29.12 in Q1 2026 from 47.57 in Q4 2025, indicating tighter access to inputs, while the Volume of Raw Materials Index declined to 38.24 from 68.06, limiting production capacity. Production activity weakened considerably, with the Production by Enterprises Index declining to 30.59 from 50.07, and Capacity Utilization falling to 28.24 from 57.14. The Total Production Volume Index also dropped significantly to 40.00 from 67.36, indicating reduced output levels. Sales performance declined, with the Sales by Enterprises Index falling to 38.58 from 60.74, driven by lower volumes of 33.71 from 62.99, despite relatively stable prices

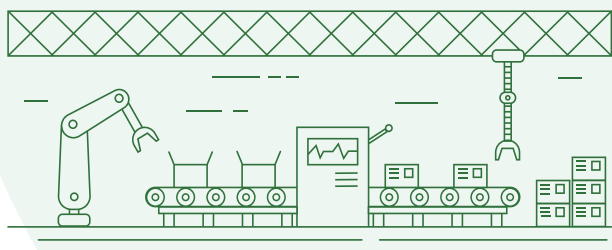
of 52.25 from 55.77. Sales Revenue index declined sharply to 29.78 from 63.46, while Profitability index dropped to 22.22 from 60.90, indicating significant pressure on margins. The Enterprise-Driven Job Growth Index also declined to 40.00 from 53.85, reflecting reduced hiring.

Looking ahead, the Business Health Outlook Index for Manufacturing improved to 53.06 in Q1 2026 from 43.34 in Q4 2025, rising above the neutral threshold and signaling improved expectations. This is supported by stronger outlook indicators, including the Production Outlook Index increasing to 47.84 in Q1 2026 from 42.72 in Q4 2025, the Sales Outlook Index rising to 67.98 in Q1 2026 from 45.47 in Q4 2025, and the Profitability Outlook Index improving to 62.22 in Q1 2026 from 37.18 in Q4 2025, suggesting an anticipated recovery in sector performance.

Figure 9: Business Health and Outlook for Manufacturing Sector, Q1 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026



3.3.4 Tourism Business Health and Outlook

In Q1 2026, the Business Health Index for the Tourism and Hospitality sector declined sharply to 37.09 from 50.85 in Q4 2025, falling below the neutral mark of 50 and indicating a significant deterioration in perceived business performance.

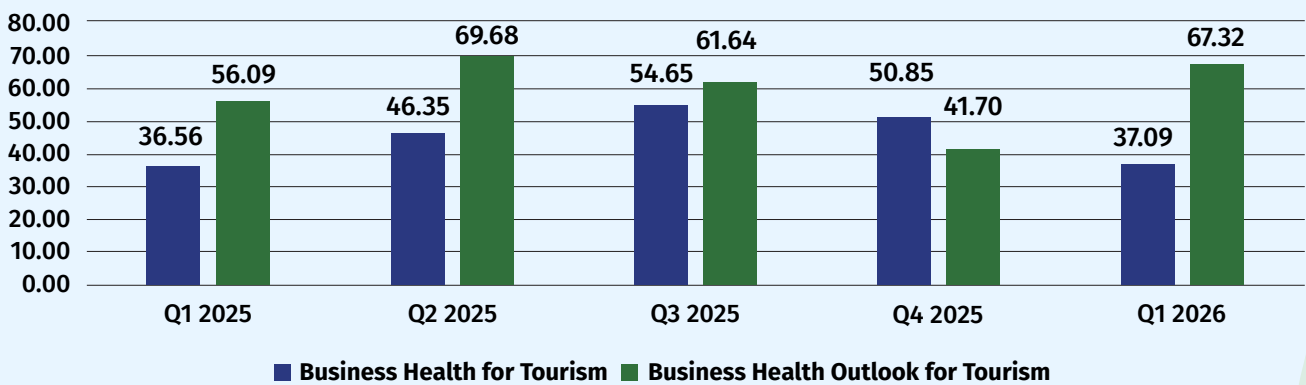
The decline reflects weaker outcomes across key indicators. The Sales Index dropped to 28.92 in Q1 2026 from 55.13 in Q4 2025, while the Sales Volume Index declined to 22.06 from 57.69, indicating a sharp reduction in customer activity and bookings.

Pricing conditions also softened, with the Average Selling Price Index declining to 41.18 from 50.00, while the Sales Revenue Index fell significantly to 23.53 from 57.69, suggesting that lower sales volumes and weaker pricing reduced overall earnings. Profitability declined markedly to 17.65 from 52.56, indicating significant pressure on margins, while the Job Growth Index declined to 41.18 from 48.72, reflecting slower employment expansion in

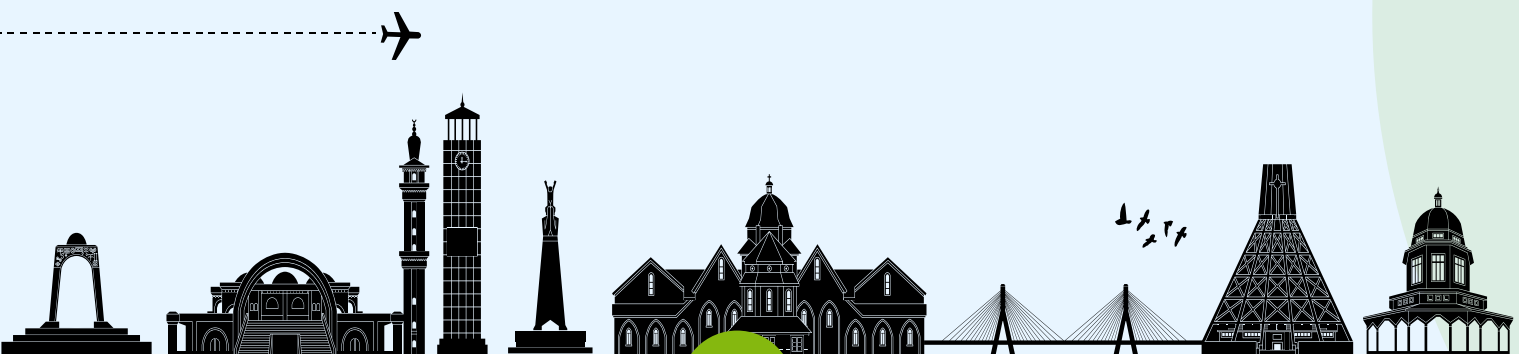
the sector.

Looking ahead, the Business Health Outlook Index for Tourism improved significantly to 67.32 in Q1 2026 from 41.70 in Q4 2025, rising well above the neutral threshold and signaling strong optimism among business owners for the next quarter. Expectations across key indicators improved considerably. The Profitability Outlook Index increased to 76.47 in Q1 2026 from 34.62 in Q4 2025, reflecting anticipated recovery in margins. The Sales Outlook Index rose to 69.61 from 39.22, while the Sales Volume Outlook Index increased to 75.00 from 35.90, indicating expectations of stronger customer activity. The Sales Revenue Outlook Index also improved to 77.94 from 38.16, highlighting anticipated recovery in earnings, while the Job Growth Outlook Index rose to 55.88 from 51.28, indicating improved expectations for hiring as business conditions strengthen.

Figure 10: Business Health and Outlook for Tourism Sector, Q1 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026

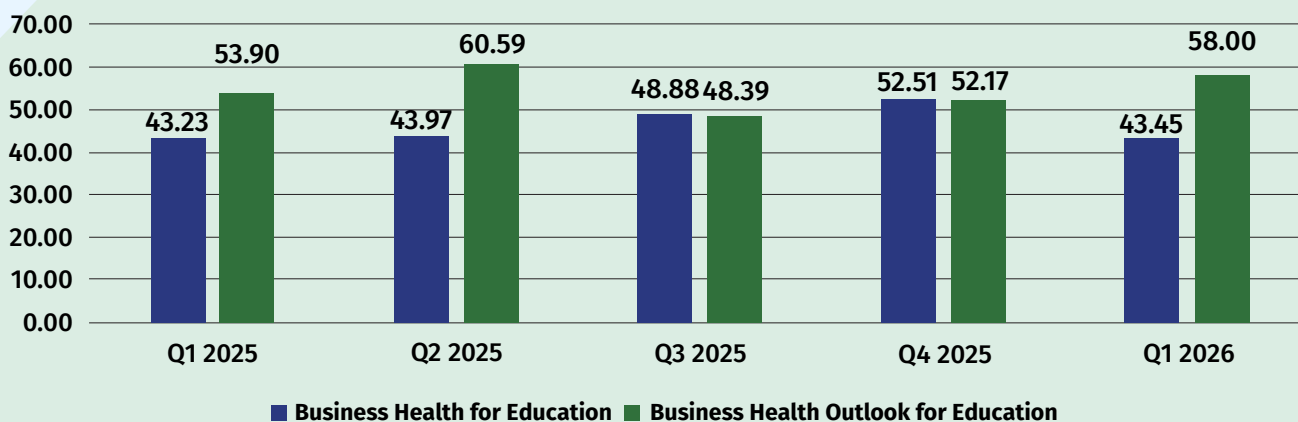


3.3.5 Education Business Performance and Outlook

In Q1 2026, the Business Health Index for the Education sector declined to 43.45 from 52.51 in Q4 2025, falling below the neutral level of 50 and indicating a weakening in sector performance. The decline was driven by reduced activity across key indicators. The Education Services Sales Index decreased to 44.35 in Q1 2026 from 52.16 in Q4 2025, reflecting lower demand for education services. Similarly, the Tuition Fees Index declined to 47.02 from 51.83, while the Tuition Revenue Index dropped to 41.67 from 52.50, indicating reduced income flows within the sector. Profitability also weakened, with the Profitability Index declining to 38.24 from 52.98, reflecting increased cost pressures and reduced revenues, while the Enterprise-Driven Job Growth Index moderated to 47.78 from 52.38, indicating slower employment growth as institutions adjusted to weaker financial conditions.

Looking ahead, the Business Health Outlook Index improved to 58.00 in Q1 2026 from 52.17 in Q4 2025, remaining above the neutral threshold and signaling growing optimism among education service providers. Forward-looking indicators strengthened, with the Education Services Sales Outlook Index rising to 61.36 from 54.72, the Tuition Fees Outlook Index increasing to 60.81 from 55.07, and the Tuition Revenue Outlook Index improving to 61.90 from 54.38, indicating higher confidence in future inflows. The Profitability Outlook Index also improved to 57.65 from 51.19, while the Education Job Growth Outlook Index edged up to 55.00 from 50.60, suggesting cautious optimism for employment expansion.

Figure 11: Business Health and Outlook for Education Sector, Q1 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026



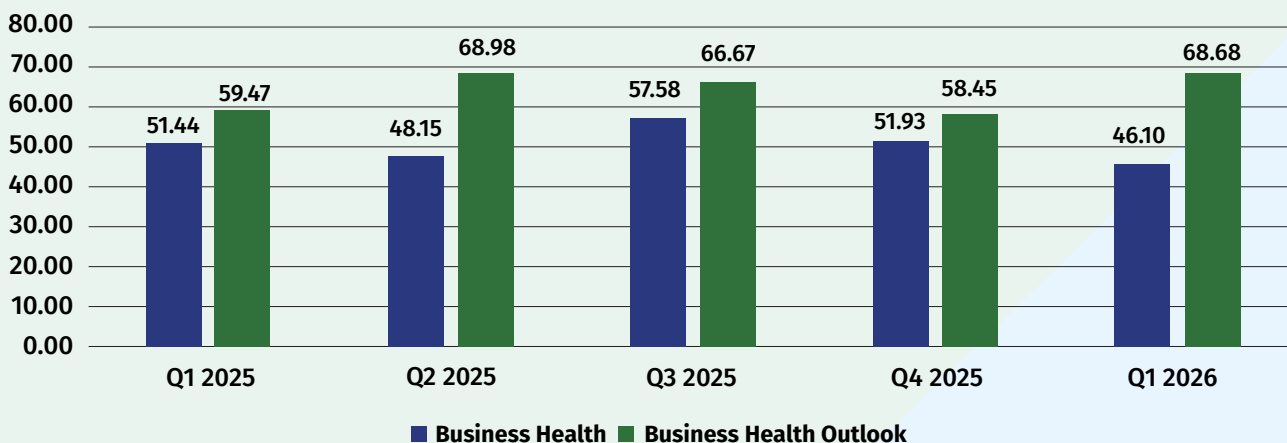
3.3.6 Health Sector Business Performance and Outlook

In Q1 2026, the Business Health Index for the Health sector declined to 46.10 from 51.93 in Q4 2025, falling below the neutral level of 50 and indicating a moderation in sector performance. The decline was driven by weaker outcomes across key indicators. The Sales by Enterprises Index decreased to 46.00 in Q1 2026 from 49.28 in Q4 2025, while the Sales Volume Index declined to 42.00 from 50.00, reflecting reduced service uptake. However, pricing conditions improved, with the Average Selling Price Index rising to 54.00 from 47.83, while the Sales Revenue Index declined to 42.00 from 50.00, indicating that higher prices were not sufficient to offset reduced volumes. Profitability also weakened, with the Profitability Index declining to 42.31 in Q1 2026 from 56.52 in Q4 2025, reflecting pressure on margins, while the Enterprise-Driven Job Growth Index remained stable at 50.00, indicating steady but cautious

employment conditions within the sector.

Looking ahead, the Business Health Outlook Index improved significantly to 68.68 in Q1 2026 from 58.45 in Q4 2025, remaining well above the neutral threshold and signaling strong optimism among health service providers. This improvement is supported by stronger expectations across key indicators, including the Sales Outlook Index increasing to 73.33 from 55.80, the Sales Volume Outlook Index rising to 74.00 from 56.52, and the Sales Revenue Outlook Index improving to 84.00 from 63.04, indicating anticipated growth in service demand and earnings. Profitability expectations also strengthened to 80.77 from 58.70, while the Job Growth Outlook Index remained positive at 51.92, suggesting continued expansion in employment supported by improved business conditions.

Figure 12: Business Health and Outlook for Health Sector, Q1 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026

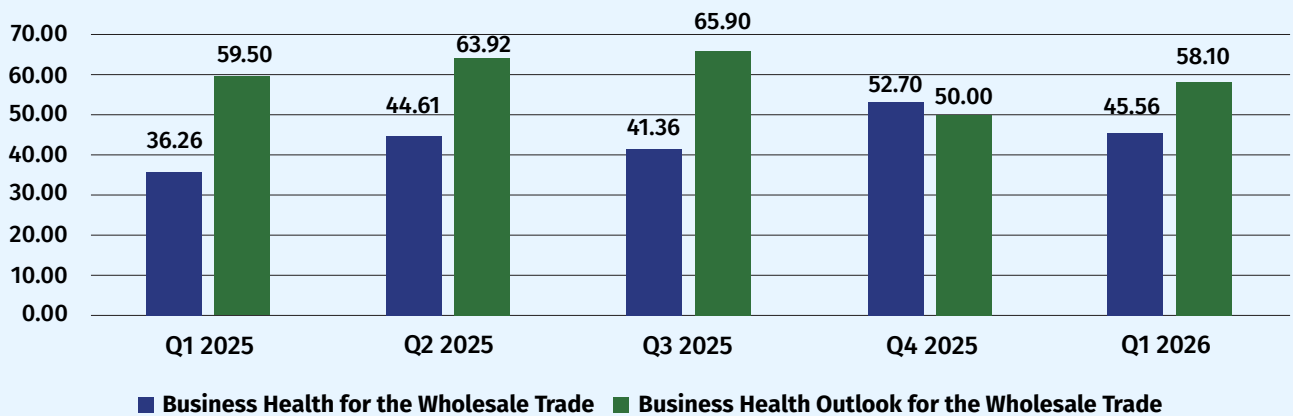


3.3.7 Wholesale Trade Performance and Outlook

In Q1 2026, the Business Health Index for the Wholesale Trade sector declined to 45.56 from 52.70 in Q4 2025, falling below the neutral level of 50 and indicating a moderation in overall performance. The decline was driven by weaker outcomes across key indicators. The Sales by Enterprises Index declined to 50.00 in Q1 2026 from 56.38 in Q4 2025, while the Sales Volume Index decreased to 43.02 from 55.17, reflecting reduced trading activity and weaker demand conditions. The Sales Revenue Index also declined to 44.19 in Q1 2026 from 58.62 in Q4 2025, indicating lower earnings across the sector. Profitability moderated to 40.00 from 50.00, reflecting increased pressure on margins amid declining sales performance, while the Job Growth Index eased to 46.67 from 51.72, suggesting reduced hiring as businesses adjusted to softer market conditions.

Looking ahead, the Business Health Outlook Index for Wholesale Trade improved to 58.10 in Q1 2026 from 50.00 in Q4 2025, rising above the neutral threshold and signaling renewed optimism among traders for the next quarter. This improvement is supported by stronger expectations across key indicators, including the Sales Outlook Index increasing to 63.18 from 55.17, and the Sales Volume Outlook Index rising to 63.95 from 53.45, indicating an anticipated recovery in trading activity. The Sales Revenue Outlook Index stood at 56.98 from 60.34, while the Profitability Outlook Index increased to 58.89 from 48.28, suggesting expectations of improved margins. The Job Growth Outlook Index rose to 52.22 from 46.55, indicating moderate expectations for employment expansion as business conditions strengthen.

Figure 13: Business Health and Outlook for Wholesale Sector, Q1 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026



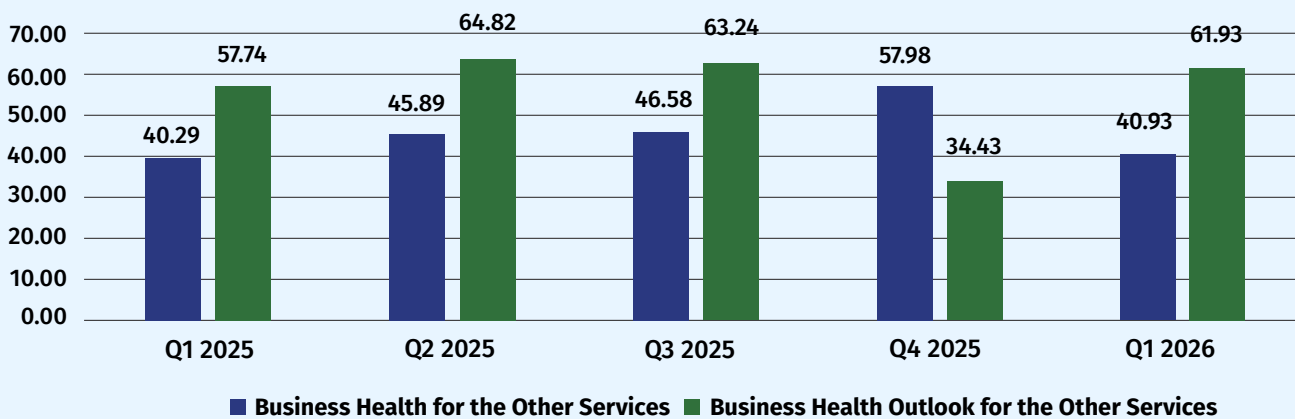
3.3.8 Other Services Performance and Outlook

In Q1 2026, the Business Health Index for Other Services declined sharply to 40.93 from 57.98 in Q4 2025, falling below the neutral level of 50 and indicating a significant weakening in sector performance. The decline was driven by reduced activity across key indicators. The Sales by Enterprises Index dropped to 31.82 in Q1 2026 from 66.01 in Q4 2025, while the Sales Volume Index declined to 23.14 from 68.32, reflecting a sharp contraction in demand across professional, financial, creative industry, and transport services. Pricing conditions also softened, with the Average Selling Price Index declining to 45.45 from 59.41, while the Sales Revenue Index fell significantly to 26.86 from 70.30, indicating a substantial drop in earnings driven by both lower volumes and weaker prices. Profitability index declined markedly to 25.21 in Q1 2026 from 66.83 in Q4 2025, reflecting strong pressure on margins, while the Enterprise-Driven Job Growth Index

moderated to 45.49 from 53.96, indicating reduced hiring as enterprises adjusted to weaker business conditions.

Looking ahead, the Business Health Outlook Index for Other Services improved significantly to 61.93 in Q1 2026 from 34.43 in Q4 2025, rising well above the neutral threshold and signaling strong optimism for the next quarter. This improvement is supported by stronger expectations across key indicators, including the Sales Outlook Index increasing to 67.22 from 33.00, the Sales Volume Outlook Index rising to 72.31 from 29.70, and the Sales Revenue Outlook Index improving to 70.66 from 25.25, indicating an anticipated recovery in demand and earnings. Profitability expectations also strengthened to 65.70 from 22.77, while the Job Growth Outlook Index improved to 52.87 from 47.52, suggesting moderate expansion in employment as business conditions recover.

Figure 14: Business Health and Outlook for Other Services, Q1 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026



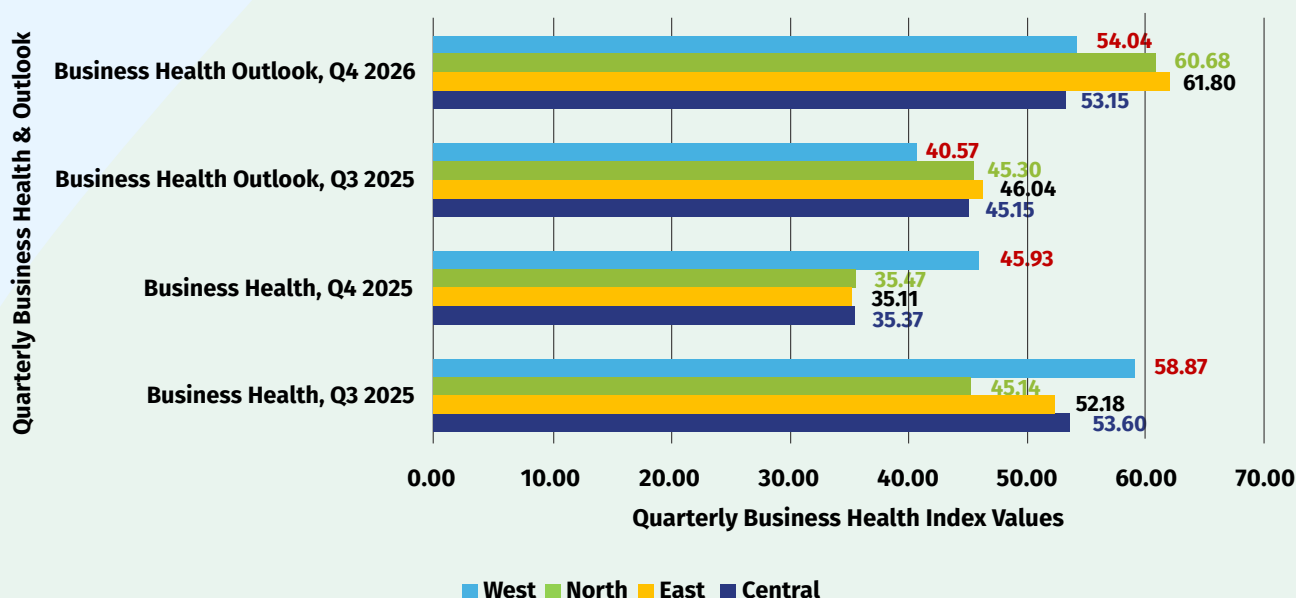
3.4 Business Health Index (BHI) by region in Uganda

In Q1 2026, the Business Health Index declined across all regions compared to Q4 2025, indicating a broad-based weakening in business conditions. The Western region remained the best performing, although it declined to 45.93 in Q1 2026 from 58.87 in Q4 2025, reflecting reduced sales activity, lower production volumes, and declining profitability. The Central region also experienced a sharp decline to 35.37 in Q1 2026 from 53.60 in Q4 2025, driven by weaker sales, reduced production, and falling enterprise profitability. Similarly, the Eastern region declined significantly to 35.11 in Q1 2026 from 52.18 in Q4 2025, reflecting a contraction in production, sales, and revenue despite earlier gains. The Northern region, although relatively more stable, also declined to 35.47 in Q1 2026 from 45.14 in Q4 2025, remaining below the neutral threshold and indicating continued structural challenges, particularly in production capacity, input availability,

and profitability. The decline across regions suggests subdued demand, tighter financial conditions, and operational constraints affecting enterprises nationwide.

Looking ahead, the Business Health Outlook Index improved across all regions, signaling renewed optimism for next quarter (Q2 2026). The Eastern region recorded the strongest outlook, rising to 61.80 in Q1 2026 from 46.04 in Q4 2025, supported by expected recovery in production and sales. The Northern region followed, increasing to 60.68 in Q1 2026 from 45.30 in Q4 2025, reflecting improved expectations for output and profitability. The Western region's outlook improved to 54.04 in Q1 2026 from 40.57 in Q4 2025, while the Central region rose to 53.15 from 45.15, both indicating moderate optimism driven by anticipated recovery in demand, production, and overall business activity despite weak current performance.

Figure 15: Business Health and Outlook by region, Q4 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026

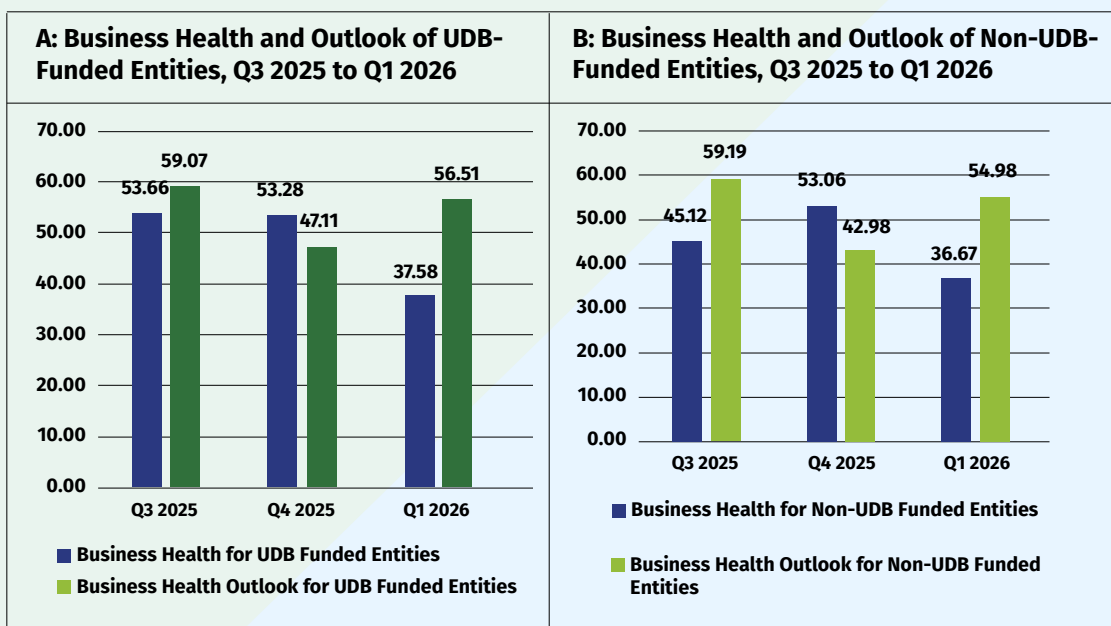
3.5 Comparative Analysis of Business Health and Outlook Between UDB-funded and non-UDB-funded Entities

In Q1 2026, the Business Health Index declined for both UDB-funded and non-UDB-funded enterprises compared to Q4 2025, indicating a broad-based weakening in business conditions. UDB-funded entities declined to 37.58 in Q1 2026 from 53.28 in Q4 2025, driven by sharp contractions across key sub-indices. Production by Enterprises Index fell to 33.84 in Q1 2026 from 53.49 in Q4 2025, while the Sales by Enterprises Index declined to 41.97 in Q1 2026 from 59.84 in Q4 2025, reflecting reduced output and weaker demand. Profitability also dropped significantly to 29.00 in Q1 2026 from 55.25 in Q4 2025, indicating increased cost pressures and reduced margins. Similarly, non-UDB-funded entities declined to 36.67 in Q1 2026 from 53.06 in Q4 2025, reflecting a comparable slowdown in business activity. The Production by Enterprises Index decreased to 33.35 in Q1 2026 from 49.29 in Q4 2025, while the Sales by Enterprises Index fell to 39.16 in Q1 2026 from 60.79 in Q4 2025, indicating weaker trading conditions. Profitability declined sharply to 32.16 in Q1 2026 from 57.48 in Q4 2025, suggesting that enterprises faced rising costs and reduced revenues. These trends highlight that both categories of enterprises

experienced reduced operational performance and tightening business conditions.

Looking ahead, the Business Health Outlook Index improved for both groups, signaling resilience and renewed optimism in Q1 2026 for the next quarter. UDB-funded enterprises increased to the business health outlook index of 56.51 in Q1 2026 from 47.11 in Q4 2025, supported by improvements in forward-looking indicators. The Production Outlook Index rose to 53.93 in Q1 2026 from 43.25 in Q4 2025, while the Sales Outlook Index increased to 65.55 in Q1 2026 from 47.43 in Q4 2025, and the Profitability Outlook Index improved to 68.00 in Q1 2026 from 44.75 in Q4 2025, indicating expectations of recovery in output, demand, and margins. Similarly, non-UDB-funded entities improved to a business health outlook index of 54.98 in Q1 2026 from 42.98 in Q4 2025, driven by stronger expectations. The Production Outlook Index rose to 50.72 in Q1 2026 from 42.59 in Q4 2025, the Sales Outlook Index increased to 66.55 in Q1 2026 from 42.11 in Q4 2025, and the Profitability Outlook Index improved to 62.64 in Q1 2026 from 35.88 in Q4 2025, reflecting anticipated recovery in business activity.

Figure 16: Business Health and Outlook of UDB-Funded and Non-UDB-Funded Entities, Q3 2025 to Q1 2026



Source: Computation by the author based on UDB Business Health Survey (BHS) data, April 2026



4.0 Critical Challenges Affecting Business Health in Uganda

Survey results for Q1 2026 indicate that businesses continued to face a combination of cost-related and demand-side constraints, although several pressures showed modest improvement compared to Q4 2025. While the general Business Health Index deteriorated during the quarter, the reported easing in some constraints suggests that businesses experienced partial relief in specific operational areas, even as broader economic conditions remained challenging. These findings are based on the proportion of respondents who reported being affected by each constraint.

High Cost of Financing

The high cost of financing remained a major constraint, although it eased slightly, with the share of businesses reporting this challenge declining to 54 percent in Q1 2026 from 59 percent in Q4 2025. This suggests a modest improvement in financing conditions, possibly reflecting slight adjustments in lending terms or improved cash flow management among some enterprises. Despite this improvement, financing constraints remained widespread, as respondents continued to report high interest rates, stringent collateral requirements, and delays in loan processing as key barriers to accessing affordable credit. Many enterprises, particularly in manufacturing, agro-processing, and services, indicated reliance on short-term and often expensive financing to sustain operations. In addition, limited access to timely credit continued to constrain investment decisions, delay expansion plans, and disrupt working capital cycles, with businesses highlighting bureaucratic processes and inadequate financing as ongoing challenges affecting operations and growth prospects.

High Cost of Utilities: Water and Energy

Utility-related costs presented mixed trends in Q1 2026, with the proportion of businesses reporting high water costs increasing slightly to 30 percent in Q1 2026 from 28 percent in Q4 2025, indicating rising pressure in water-related expenses. Similarly, energy costs increased to 45 percent in Q1 2026 from 42 percent in Q4 2025, suggesting a growing burden from electricity and fuel costs. Respondents attributed the increase in energy costs to rising fuel prices, power instability, and reliance on alternative energy sources such as generators, with global factors, including the US–Israel–Iran conflict, contributing to volatility in fuel prices. Frequent outages continued to raise operational costs, particularly in manufacturing, hospitality, and health sectors where uninterrupted power is critical. Water supply challenges also persisted, as some businesses relied on alternative sources such as water trucking, further increasing costs. The survey findings indicate that unreliable utilities not only raise expenses but also disrupt production and service delivery, thereby affecting efficiency and profitability.

High Cost of Labour

The proportion of businesses reporting high labour costs declined slightly to 32 percent in Q1 2026 from 34 percent in Q4 2025, indicating a modest easing in labour-related pressures and suggesting that some enterprises adjusted workforce structures or benefited from relatively stable wage dynamics during the quarter. Despite this improvement, labour costs remain a notable challenge, with respondents highlighting rising wage expectations, staff

turnover, and the cost of retaining skilled workers, particularly in education, health, and hospitality sectors. Businesses also reported adopting cost-management strategies such as maintaining lean staffing levels, outsourcing, and increasing reliance on temporary workers. In addition, some sectors continue to face shortages of skilled labour, which drives up recruitment and training costs, reflecting underlying structural issues in the labour market, including skills mismatches and labour mobility constraints.

Insufficient Demand

Insufficient demand remained one of the most significant constraints, although it improved notably in Q1 2026, with the proportion of businesses reporting this challenge declining to 52 percent in Q1 2026 from 65 percent in Q4 2025, indicating some recovery in demand conditions. This improvement may be partly attributed to seasonal factors such as the back-to-school period, which typically supports spending in sectors like education and retail. However, demand conditions remained below optimal levels, with over half of businesses still affected. Respondents highlighted limited purchasing power, a high cost of living, and delayed payments from clients as persistent constraints on demand. In sectors such as hospitality and wholesale trade, reduced consumer spending and competition from cheaper alternatives were also cited as key challenges. Survey findings further indicate that reduced liquidity among consumers and clients continued to suppress business activity, particularly in service sectors such as hotels and restaurants.

High Transport Costs

Transport costs remained unchanged, with 35 percent of businesses reporting this constraint in both Q4 2025 and Q1 2026, indicating persistent transport-related pressures without notable improvement. Businesses attributed these costs to elevated fuel prices, poor road infrastructure, and logistics inefficiencies. In rural and production areas, poor road conditions continue to increase vehicle maintenance costs, delayed deliveries, and limited market access. For agro-based enterprises, transport challenges contributed to post-harvest losses and reduced profitability due to spoilage and delays in reaching markets. Similarly, enterprises in the service sector reported that high transport costs constrained customer access and reduced demand. The survey findings highlight that poor road infrastructure, and high fuel costs remain key drivers of transport-related challenges, affecting both input supply and the distribution of goods.

Other Constraints

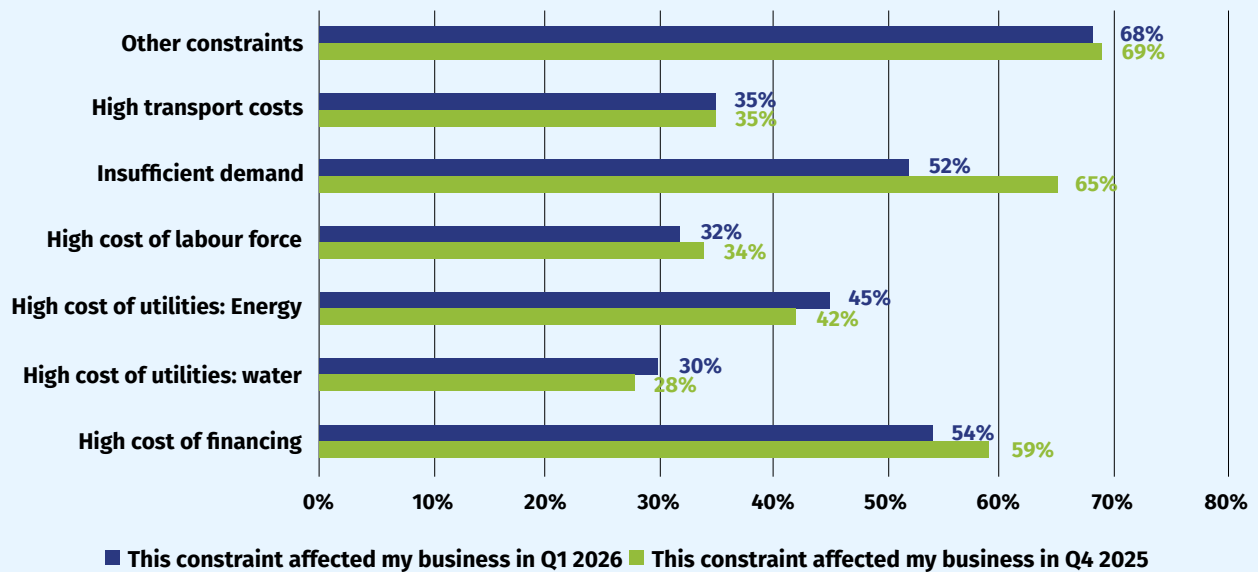
Other constraints remained the most widely reported challenges, affecting 68 percent of businesses in Q1 2026 compared to 69 percent in Q4 2025, indicating only a slight improvement and the continued presence of structural bottlenecks. These challenges include high taxes, delayed payments, regulatory bottlenecks, infrastructure gaps, climate-related shocks, and competition from imports, alongside exchange rate volatility, price fluctuations, and operational inefficiencies. Delayed payments, particularly



from institutional clients, continue to disrupt cash flow and force some firms to rely on costly borrowing. Infrastructure limitations such as unreliable electricity, poor road networks, and inadequate water supply further raise operating costs, while climate-related factors including drought, excessive rainfall, and disease outbreaks disrupt agricultural production and supply chains. In addition,

regulatory challenges remain significant, with compliance costs such as fees for licenses and permits, tax obligations, costs of meeting standards and certifications, and time spent on administrative procedures increasing the burden on businesses, alongside delays in approvals and complex processes that reduce operational efficiency.

Figure 17: Business Constraints Impacting Enterprises in Uganda, Q4 2025–Q1 2026



Source: Authors' construction based on UDB Business Health Survey (BHS) data, April 2026



Disclaimer

The views expressed in this publication are those of the authors and do not necessarily represent the views of Uganda Development Bank Limited or its management.

Copyright © 2026

Feedback and comments can be sent to:

Bob Twinomugisha

Senior Economist –

Macroeconomics and Trade

Email: btwinomugisha@udbl.co.ug

Dr. Francis Mwesigye

Chief Economist

Email: fmwesigye@udbl.co.ug



Head Office

UDB Tower, Plot No. 22,
Hannington Road,
P.O. Box 7210, Kampala, Uganda.

Gulu City

Plot No. 67,
Lower Churchill Drive.

Hoima City

Plot No. 5,
Kyaruhanga Road

Mbale City

Plot 1,
Masaba Road