

BUSINESS HEALTH INDEX (BHI) Report

Quarter 4, 2024



UDB
Inspiring Development



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Executive Summary:

The Business Health Index (BHI) for Q4 2024 shows a moderate recovery in Uganda's business environment, rising to 50.10 from 46.60 in Q3 2024. This improvement was driven by stronger production, with the Production Index increasing to 46.80 in Q4 2024 from 44.62 in Q3 2024 and increased sales, where the Sales Index rose to 53.81 from 47.96 during the same period. However, the perceived business confidence for Q1 2025 weakened as the Business Health Outlook Index fell to 54.80 in Q4 2024 from 61.55 recorded in Q3 2024, indicating expected declines in raw material availability, production, and profitability. Despite these concerns, job growth remains resilient, with the Job Growth Index improving to 53.14 in Q4 2024 from 50.13 in Q3 2024, providing optimism for employment stability.

Key business health drivers in Q4 2024 showed mixed performance. Raw material availability slightly improved from 45.09 in Q3 2024 to 45.57 in Q4 2024, though costs remained high, with the Cost of Raw Materials Index declining to 30.5 in Q4 2024 from 38.39 in Q3 2024. Profitability increased, with the Profitability Index reaching 51.18. However, production costs worsened, as the Cost of Production Index fell sharply from 39.22 in Q3 2024 to 31.75 in Q4 2024, raising concerns about business sustainability.

The business health outlook index also fell from 61.55 to 54.80, signaling growing uncertainty among business owners.

Sectoral analysis revealed that agriculture, agro-processing, manufacturing, tourism, and health sectors performed well, while education and wholesale trade faced declines. The health sector saw the strongest recovery, with its index rising to 62.35 in Q4 2024 from 39.44 in Q3 2024, while wholesale trade struggled, falling to 41.22 in Q4 2024 from 43.16 in Q3 2024 due to weaker demand.

Despite these improvements, businesses continued to face major constraints. High financing costs affected 48% of enterprises, though slightly improving from 58% in Q3 2024. Other key challenges included expensive utilities, with energy costs impacting 33% of businesses, labor costs affecting 20%, and transport costs a concern for 21%.

The outlook for Q1 2025 remains uncertain, with cost pressures expected to persist. Businesses must implement strategic measures to manage constraints, sustain growth, and maintain profitability amid economic challenges.

1.0 Introduction

This report presents insights from the Q4 2024 Business Health Survey (BHS), capturing Uganda's private sector enterprises' current business health and future expectations. The data collected informs the Business Health Index (BHI), a critical measure of business performance, sentiment, confidence, and resilience across various sectors.

The BHI reflects the views of business owners and managers on critical areas such as inputs/raw materials, production, sales, profitability, and job growth. A higher BHI indicates a robust and vibrant business environment with increased investments and economic stability, while a decline signals challenges such as constrained profitability and limited enterprise growth.

2.0 Data and Methods

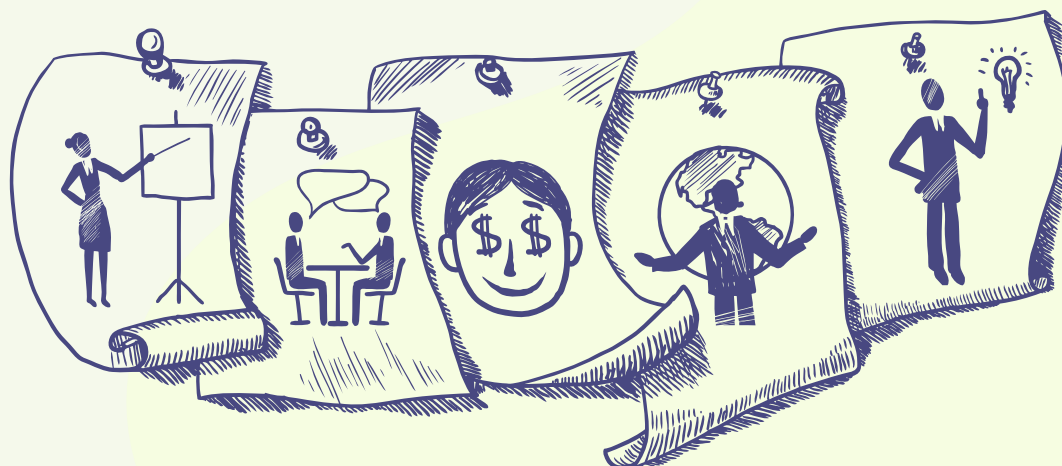
The Uganda Business Health Index (BHI) for Q4 2024 is derived from survey data collected in January 2025. This survey targeted 431 enterprises, including 141 UDB-funded enterprises and 290 non-UDB-funded enterprises, representing small and medium-sized enterprises (SMEs) and large-scale businesses. A stratified random sampling approach was employed to ensure broad representation across Uganda's vital economic sectors and varying company sizes.

The survey captured data from critical sectors such as agriculture, agro-processing, manufacturing, tourism and hospitality, human capital development (encompassing education and health), wholesale trade, and other services, which include creative industries, transport, and financial services.

As part of UDB's quarterly assessments, this survey analyzes perceived business health conditions and future expectations. The Business Health Index (BHI) report for Q4 2024 closely examined the marginal changes in these perceptions relative to Q3 2024, focusing on the direction of change rather than the magnitude. Additionally, the report assessed business health expectations for Q1 2025 compared to Q4 2024.

During the data collection process, respondents (business owners and managers) were asked to evaluate their businesses' performance in the current quarter relative to the previous quarter. This included assessing key indicators such as inputs, production, sales, profitability, and job growth. Additionally, they were requested to provide their expectations for the upcoming quarter, shedding light on anticipated trends in inputs, production, sales, profitability, and enterprise job growth. These questions allowed for a detailed analysis of the business environment's current conditions and future sentiments.

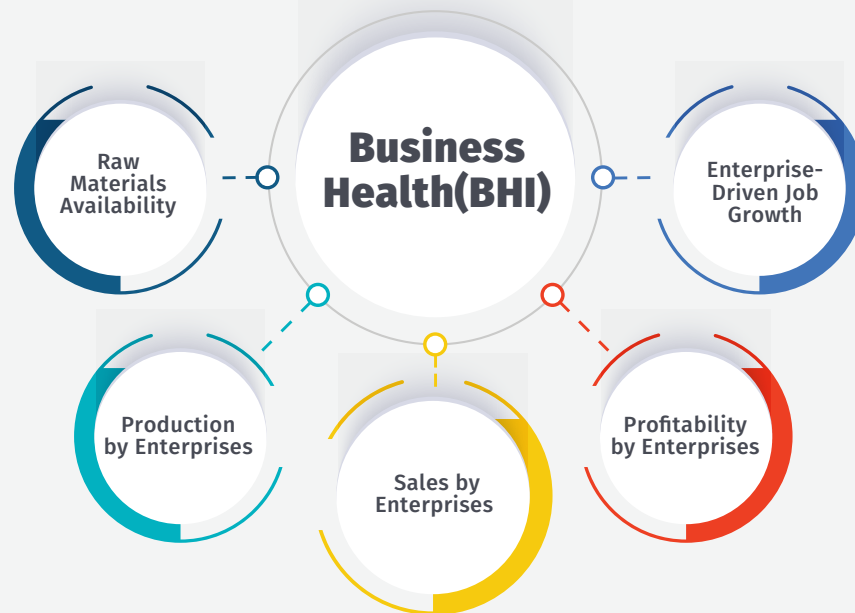
The survey also sought to identify critical constraints affecting business performance. Respondents were asked to report whether specific challenges, such as high financing costs, utility expenses (water and energy), labor costs, transport costs, and insufficient demand, had impacted their operations during Q4 2024. In addition, respondents were encouraged to share any additional constraints they faced, enabling a broader understanding of the challenges influencing Uganda's business landscape.



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.

The five Business Health Index (BHI) components.



Source: Author's construct based on the key 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.

The current business health condition reflects businesses' perceived performance relative to the preceding quarter. An index value above 50 indicates an improvement in performance as perceived by business owners and managers compared to the previous quarter.

A value of 50 signifies no change in performance between quarters, while a value below 50 reflects a decline in perceived performance.

The expected business health performance provides a forward-looking analysis, projecting business outcomes for the upcoming quarter. An index above 50 suggests optimism and positive expectations for the next quarter. The value of 50 indicates a neutral outlook with no anticipated changes, whereas a value below 50 denotes pessimism regarding future business performance. This dual framework offers valuable insights into both current and projected business conditions.

3.0 Key Findings and Insights on Business Health Performance in Uganda

3.1 Overall Business Health Index (BHI)

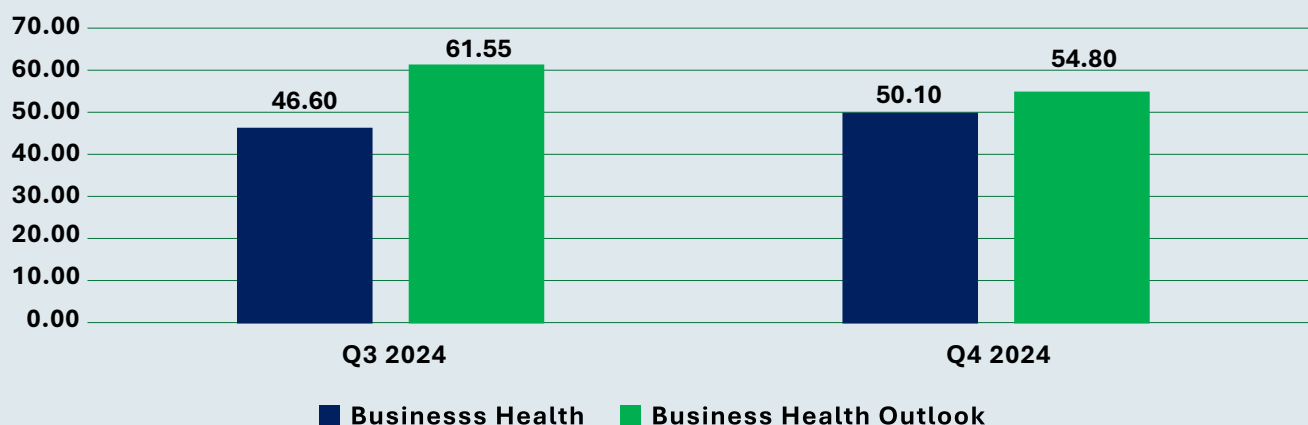
Uganda's business health recovered in Q4 2024, driven by improved production, sales, and profitability. However, despite positive job growth, the outlook weakened due to expected declines in raw material availability, production, sales, and profitability.

In Q4 2024, Uganda's business health improved significantly compared to the previous quarter, as reflected in the Business Health Index (BHI), which rose to 50.10 from 46.60 in Q3 2024, surpassing the neutral threshold of 50. This improvement was driven by improved raw material availability, higher production levels, stronger sales, improved profitability, and job growth. The Raw Materials Availability Index increased from 45.09 to 45.57, while the Production Index increased from 44.62 to 46.80. Similarly, the Sales Index surged from 47.96 to 53.81, and the Profitability Index rose from 45.23 to 51.18.

Consequently, the Job Growth Index improved, rising from 50.13 to 53.14 during the same period. However, production costs deteriorated, with the Cost of Production Index declining from 39.22 in Q3 2024 to 31.75 in Q4 2024, posing concerns for business sustainability.

Looking ahead, business owners and managers remain cautiously optimistic, though sentiment has weakened. The Business Health Outlook Index fell from 61.55 in Q3 2024 to 54.80 in Q4 2024, largely due to expected declines in raw material availability, production, sales, and profitability. Despite this, job expectations remain positive, with the Job Growth Outlook Index rising from 56.41 to 59.56, signaling resilience in employment trends. However, prolonged profitability declines could impact future job creation.

Figure 1: Business Health Index and Outlook (Q3 and Q4 2024).



Source: Computation Based on Business Health Survey (BHS) Data, (January 2025).

3.2. Key Drivers of Business Health Outlook in Uganda

3.2.1 Key Drivers of Business Health in Q4 2024s

Despite rising production costs, Uganda's business health recovered in Q4 2024, supported by increased production, higher sales, improved profitability, and job growth.

Raw Materials Availability

The Raw Materials Availability Index increased from 45.09 in Q3 2024 to 45.57 in Q4 2024 but remained below the threshold, signaling persistent challenges. The Volume of Raw Materials Index rose from 51.79 to 60.64 over the same period. Despite this increase, businesses faced rising raw material costs due to heightened demand from improved agro-processing and manufacturing activities.

Enterprise Sales

The sales performance improved, as indicated by the Sales Index rising from 47.96 in Q3 2024 to 53.81 in 2024, supported by higher sales volume (45.71 to 55.96) and revenue (46.01 to

55.30). However, the Average Selling Price Index declined from 52.15 in Q3 2024 to 50.17 in Q4 2024 due to increased supply and weakened demand in November, despite festive season-driven demand in December 2024.

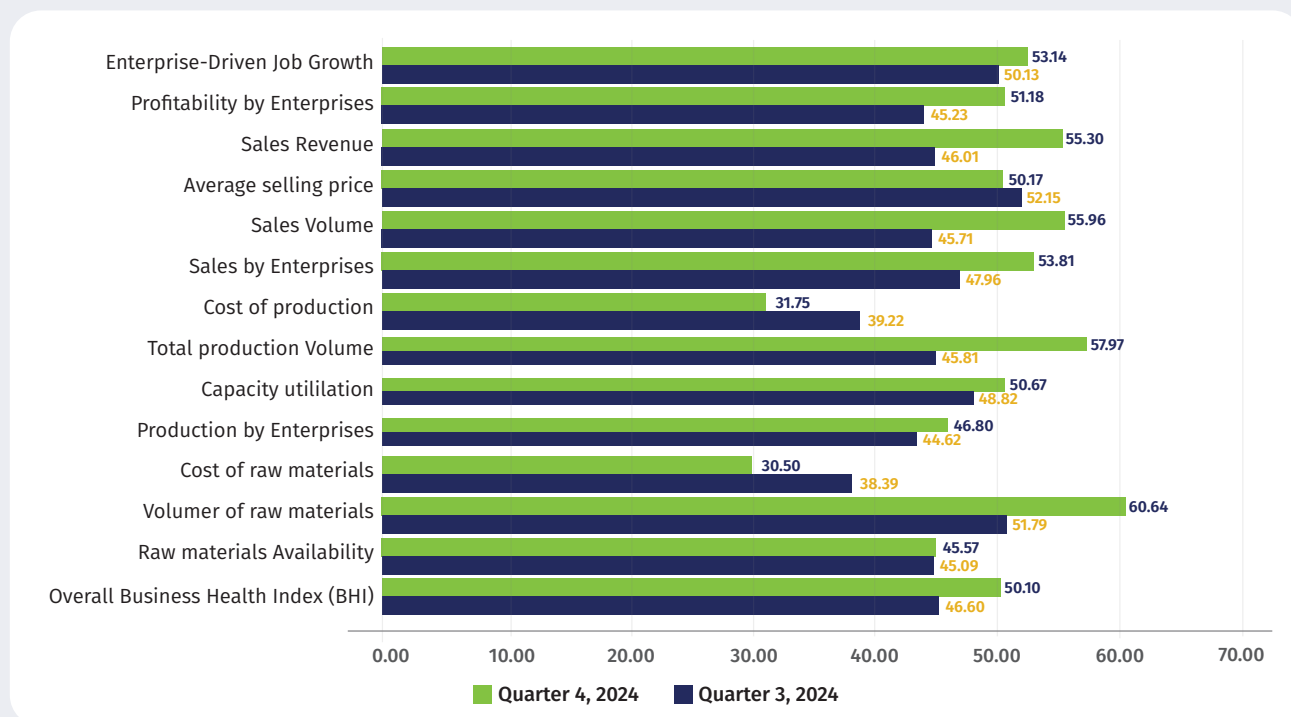
Enterprise Profitability

Profitability strengthened, with its index increasing from 45.23 in Q3 2024 to 51.18 in Q4 2024, largely driven by higher sales revenue. However, rising production costs continued to pressure profit margins, as reflected in the decline of the Cost of Production Index from 39.22 to 31.75 during the same period.

Job Growth

The Enterprise-Driven Job Growth Index rose from 50.13 in Q3 2024 to 53.14 in Q4 2024, supported by increased profitability. However, sustained production cost pressures could impact future employment growth.

Figure 2: Business Health Index (BHI) for Q4 2024: Overall index, Components Indices and Sub-Indices



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

3.2.2 Drivers of Business Health Outlook in Uganda

The future sentiments about business health remain highly optimistic.

Business outlook weakened in Q4 2024 due to expected rising costs, declining production, sales, and profitability, though job growth expectations remained resilient

Business owners and managers remained optimistic about overall business health, with the index staying above the 50-threshold despite a decline from 61.55 in Q3 2024 to 54.80 in Q4 2024, signaling reduced confidence compared to the previous quarter. This performance is shaped by various components of the business environment, as detailed below:

Raw Materials Availability

Optimism regarding raw material availability weakened, with the outlook index declining from 52.83 in Q3 2024 to 50.53 in Q4 2024. This decline was driven by concerns over rising costs, reflected in the cost of raw materials outlook index dropping from 37.50 to 32.62 during the same period. Despite cost challenges, the volume of raw materials, particularly for agro-processing, is expected to increase, supported by stockpiles from the previous harvest season. This is evidenced by a slight rise in the raw materials volume outlook index from 68.15 in Q3 2024 to 68.44 in Q4 2024.

Production by Enterprises

Confidence in production weakened, as indicated by the decline in the production outlook index from 61.24 in Q3 2024 to 49.84 in Q4 2024. This was driven by an expected reduction in production volumes, with the production volume outlook index falling from 76.05 to 62.68. Investor confidence in capacity utilization also declined, though it remained above the 50-threshold, with the outlook index dropping from 72.94 to 57.33.

Meanwhile, production costs are projected to rise, reflected in the decline in the cost of production outlook index from 34.73 to 29.50.

Sales by Enterprises

While optimism about sales remained, it weakened, as seen in the decline of the sales outlook index from 68.02 in Q3 2024 to 55.85 in Q4 2024. This was largely due to an anticipated drop in sales volumes, selling prices, and overall revenue. The sales volume outlook index fell from 73.77 to 54.64, while the average selling price outlook dropped slightly from 57.85 to 55.96, influenced by concerns over lower purchasing power and subdued demand. The outlook may also reflect seasonal factors, moving from the high-demand festive period in Q4 2024 to the typically slower sales environment in Q1 2025. Consequently, the sales revenue outlook index declined from 72.46 to 56.95 during the same period.

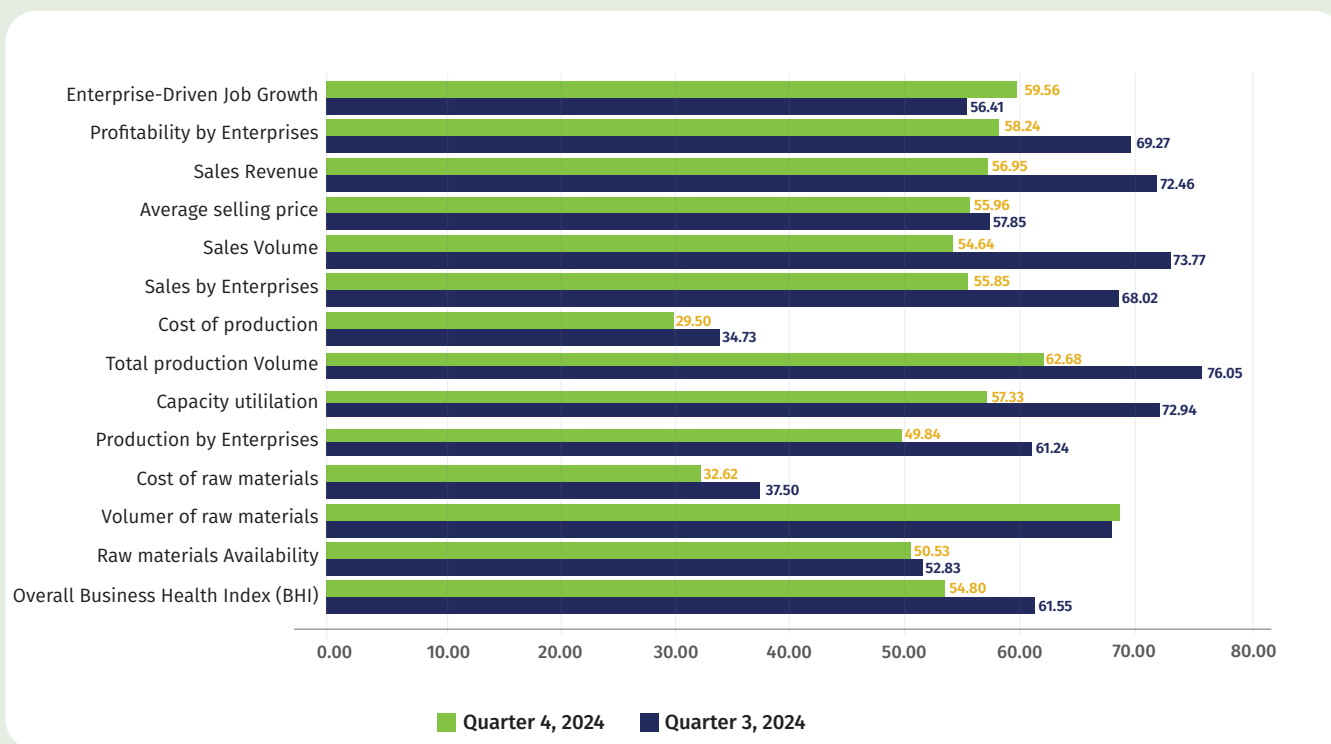
Profitability by Enterprises

Optimism around profitability diminished as the outlook index dropped from 69.27 in Q3 2024 to 58.24 in Q4 2024, largely due to expected production and sales revenue declines. Business owners anticipate reduced profitability across all sectors.

Enterprise-driven Job Growth

Confidence in job creation strengthened, with the job growth outlook index rising from 56.41 in Q3 2024 to 59.56 in Q4 2024. This reflects short-term optimism, as employment trends often lag behind profitability shifts. However, if declining profitability persists, job growth could be negatively affected in the near future.

Figure 3: Business Health Index (BHI), Outlook for Q1 2025: Overall Index, Components Indices and Sub-Indices



Source: Computed based Business Health Survey (BHS) data, January 2024

3.3 Analysis of Business Health Index (BHI) by Sector

3.3.1 The Sector-Specific Analysis of Key Indicators: Business Health Index (BHI) in Q4 2024.

Agriculture

The Agriculture Business Health Index rose from 43.61 in Q3 2024 to 49.32 in Q4 2024, driven by improved access to inputs, higher production, increased sales, and better profitability. The Agricultural Inputs Index increased from 50.00 to 61.90, while the Sales Index climbed from 47.76 to 54.23.

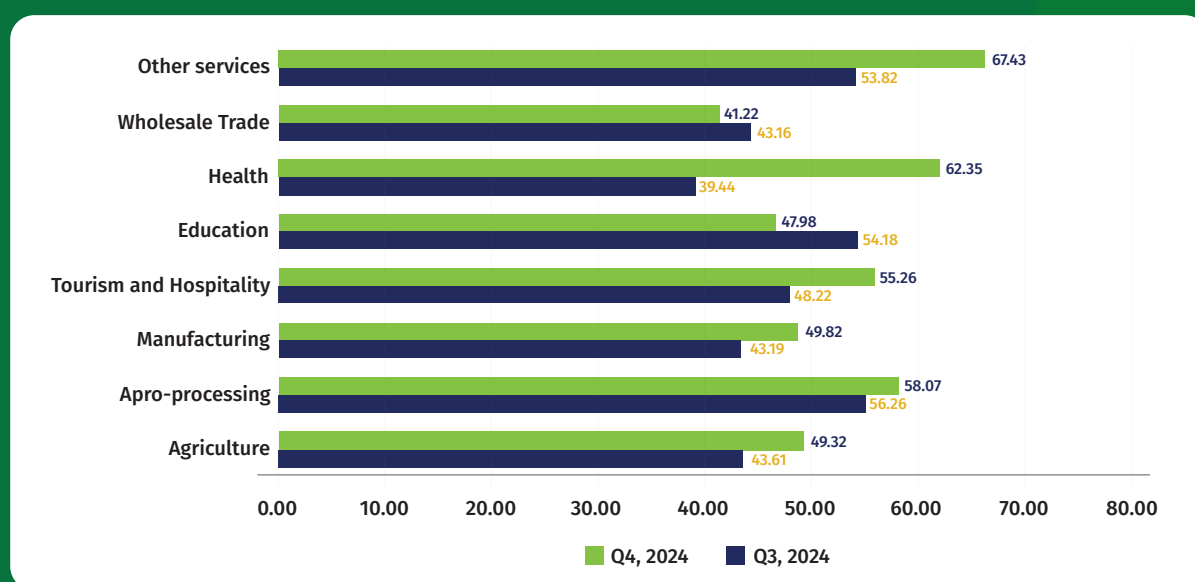
Profitability also improved, with the index rising from 40.85 to 55.97. However, job growth in the sector declined as workers shifted to agro-processing and manufacturing, where employment opportunities expanded. The Agro-Processing Job Growth Index rose from 54.55 in Q3 2024 to 62.50 in Q4 2024, while manufacturing increased from 47.17 to 56.36 during the same period.

Industry (Agro-Processing and Manufacturing)

The Agro-Processing Business Health Index improved from 56.26 in Q3 2024 to 58.07 in Q4 2024, largely due to increased sales and profitability. The Sales Index rose from 56.57 to 59.88, reflecting stronger demand during the festive season, with the Average Selling Price Index increasing from 56.06 to 61.11. As a result, the Profitability Index climbed from 57.58 to 70.37, while the Job Growth Index improved from 54.55 to 62.50.

Manufacturing also showed improvement, with its Business Health Index rising from 43.19 to 49.82, driven by higher production, sales, and profitability. The Production Index increased from 39.86 to 46.23, while the Sales Index grew from 45.91 to 54.24. Profitability strengthened as the index moved from 42.45 to 49.09, contributing to a rise in the Job Growth Index from 47.17 to 56.36 during the same period.

Figure 4: Business Health Index (BHI) by Sector, Q3 2024-Q4 2024



Source: Computation by the author based on Business Health Survey (BHS) data (July 2024).

Services (Tourism and Hospitality, Education, Health, Wholesale Trade, Other Services)

The Tourism Sector saw significant improvement, with its Business Health Index increasing from 48.22 in Q3 2024 to 55.26 in Q4 2024, surpassing the 50-threshold. The Sales Index rose from 49.37 to 54.08, boosting profitability, as reflected in the rise of the Profitability Index from 45.75 to 53.72. The Job Growth Index also improved from 47.64 to 55.85 during the same period.

Conversely, the Education Sector experienced a decline, with its Business Health Index falling from 54.18 in Q3 2024 to 47.98 in Q4 2024, dropping below the threshold. This was primarily due to a decrease in tuition revenue, with the Tuition Revenue Index declining from 51.43 to 46.36 during the same period.

The Health Sector recorded a significant recovery, with its Business Health Index rising from 39.44 in Q3 2024 to 62.35 in Q4 2024. This was driven by strong growth in sales revenue and profitability, with respective indices increasing from 27.78 to 61.11 and from 30.00 to 61.11. Despite an initial decline, the Sales Volume and Average Selling Price Indices

rebounded from 33.33 to 61.11 and 38.89 to 55.56, respectively. The Job Growth Index also improved, rising from 55.00 in Q3 2024 to 66.67 in Q4 2024.

The Wholesale Trade Sector struggled, with its Business Health Index falling from 43.16 in Q3 2024 to 41.22 in Q4 2024, remaining below the 50-threshold due to declining sales revenue and profitability. The Sales Revenue Index decreased from 42.59 to 37.10, while the Profitability Index dropped from 40.00 to 38.71, partly driven by increased operating costs

Other service sectors, including Creative Industries, Transport, and Financial Services, experienced growth, as reflected in the Business Health Index, rising from 53.82 in Q3 2024 to 67.43 in Q4 2024. This was largely driven by an increase in profitability, with the Profitability Index jumping from 35.50 to 64.71. Enterprise sales improved, with the Sales Index rising from 42.71 in Q3 2024 to 57.84 in Q4 2024, while the Job Growth Index saw a notable increase from 59.38 to 72.22 during the same period.



3.3.2 The Sector-Specific Analysis of Key Indicators: Business Health Index (BHI) Outlook for the next three months

All key sectors showed optimism, signalling positive expectations for future business health and growth

Agriculture

The agriculture sector's outlook weakened, with the index dropping from 64.75 in Q3 2024 to 56.77 in Q4 2024, driven by expected declines in production, sales, and profitability. The Production Outlook Index fell from 56.48 to 46.03, while the Sales

Outlook Index declined from 79.79 to 68.33. Profitability expectations also dropped, with the index decreasing from 75.00 to 60.45. Similarly, the Job Growth Outlook Index saw a slight decline from 61.59 in Q3 2024 to 59.85 in Q4 2024.

Industry (Manufacturing and Agro-processing)

Optimism in the agro-processing sector declined, as indicated by a drop in the Business Health Outlook Index from 60.20 in Q3 2024 to 55.13 in Q4 2024. This was largely due to expected raw material shortages, lower production, and reduced sales and profitability.

However, expectations for job growth improved, with the Job Growth Outlook Index rising from 57.58 to 60.71, reflecting short-term confidence despite profitability challenges. If profit declines persist, job creation may be impacted in the long run.

Similarly, the manufacturing sector's outlook weakened, with the index declining from 64.37 in Q3 2024 to 59.59 in Q4 2024 due to anticipated increases in raw material costs and lower production and sales.

However, job growth expectations improved, with the Job Growth Outlook Index rising from 58.49 to 65.45, reflecting the delayed effects of profitability concerns on employment.



Services (Tourism and Hospitality, Education, Health, Wholesale Trade, Other Services)

Tourism sector optimism declined significantly, with the Business Health Outlook Index dropping from 63.45 in Q3 2024 to 48.40 in Q4 2024, primarily due to a sharp decline in profitability, as shown by the drop in the Profitability Outlook Index from 70.75 to 43.62. This led to a slight dip in job growth optimism, with the Job Growth Outlook Index falling from 54.67 to 52.66.

The education sector showed increased optimism, with the Business Health Outlook Index rising from 59.00 to 65.43, driven by an improved Tuition Revenue Outlook Index, which increased from 60.87 to 71.37. Consequently, the Job Growth Outlook Index rose from 50.71 to 62.50.

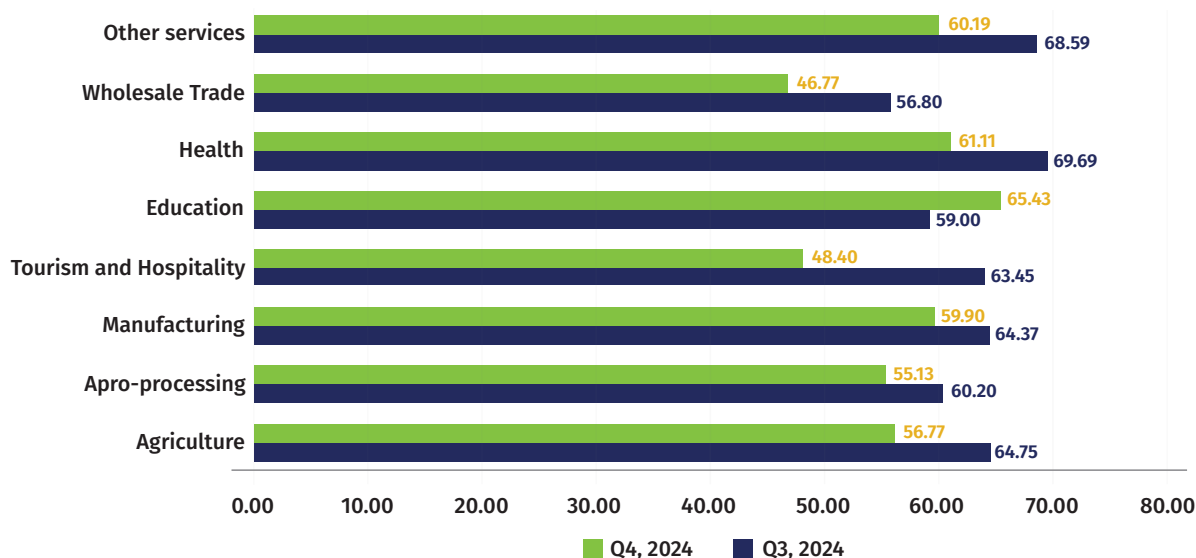
In the health sector, confidence in business health weakened, with the Outlook Index declining from 69.69 in Q3 2024 to 61.11 in Q4 2024 due to expectations of lower sales and

profitability. However, job growth expectations remained positive, with the Job Growth Outlook Index increasing from 50.00 to 55.56 during the same period.

Wholesale Trade optimism declined, with the Business Health Outlook Index falling from 56.80 in Q3 2024 to 46.77 in Q4 2024 due to expected declines in sales and profitability. The Profitability Outlook Index dropped from 56.90 to 41.94, and job growth expectations also dipped slightly, with the Job Growth Outlook Index decreasing from 55.17 to 54.84.

Other services' optimism softened, as indicated by the decline in the Business Health Outlook Index from 68.59 in Q3 2024 to 60.19 in Q4 2024, largely due to a drop in profitability. The Profitability Outlook Index fell from 75.00 to 58.82 during the same period.

Figure 5: Health Index for UDB-funded Enterprises, Quarterly Outlook, Q3 and Q4 2024



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

3.4 Comparative Analysis of Business Health Index (BHI) between UDB Funded and Non-UDB Funded Enterprises

3.4.1 UDB vs. Non-UDB Customers: Business Health Index for Q4 2024

The health of UDB-funded enterprises remained stronger than that of non-UDB-funded enterprises despite fluctuations in key indicators. The Business Health Index (BHI) for UDB-funded enterprises increased from 48.71 in Q3 2024 to 51.14 in Q4 2024, signaling improved business conditions. This was driven by a recovery in production volume and sales, with the total production volume index rising from 48.21 to 60.26 and sales revenue increasing from 48.08 to 53.97. However, while improving from 43.57 to 53.96, profitability levels remain a concern due to continued raw material price volatility. Enterprise-driven job growth also improved from 50.36 in Q3 2024 to 55.32 in Q4 2024, reflecting cautious optimism among business owners.

Non-UDB-funded enterprises saw an improvement in business health, with the BHI rising from 45.03 in Q3 2024 to 49.23 in Q4 2024. This was attributed to increased production and sales, with total production volume growing from 43.37 in Q3 2024 to 55.00 in Q4 2024 and sales revenue increasing from 44.64 to 56.25 during the same period. Profitability improved slightly, from 46.12 to 49.83, but businesses continued to face raw material constraints, as indicated by minimal changes in raw material availability (43.37 in Q3 to 43.85 in Q4). The sentiment of job growth improved marginally from 50.00 to 52.08, suggesting cautious hiring expectations.

Table 1: Business Health Index (BHI) for UDB Clients & Non-UDB Clients, Q3 2024-Q4 2024

Indicators	UDB Customers		Non-UDB Customers	
	Q3, 2024	Q4, 2024	Q3, 2024	Q4, 2024
Overall Business Health Index (BHI)	48.71	51.14	45.03	49.23
Raw Materials Availability	46.76	46.88	43.37	43.85
The volume of raw materials	55.29	63.75	48.19	56.56
The volume of raw materials	38.24	30.00	38.55	31.15
Production by Enterprises	52.59	46.89	39.22	45.76
Capacity utilization	72.06	47.30	33.33	53.95
Total Production Volume	48.21	60.26	43.37	55.00
Cost of production	37.50	33.13	40.96	28.33
Sales by Enterprises	50.26	52.65	46.43	54.64
Sales Volume	48.08	53.17	44.13	57.95
Average selling price	54.62	50.79	50.51	49.72
Sales Revenue	48.08	53.97	44.64	56.25
Profitability by Enterprises	43.57	53.96	46.12	49.83
Enterprise-driven job Growth	50.36	55.32	50.00	52.08

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

3.4.2 UDB vs. Non-UDB Customers: Business Health Index (BHI), Quarterly Outlook for the next three months

Uganda Development Bank (UDB)-funded enterprises maintained a stronger business health outlook than non-UDB-funded enterprises despite a general decline in optimism. The Business Health Index (BHI) for UDB customers dropped from 62.49 to 58.46, reflecting anticipated production, sales, and profitability reductions. Raw material availability declined from 54.12 to 50.63 due to fluctuations in raw material volume and cost. Production slowed significantly, with capacity utilization and total production volume falling in Q4 2024. Sales performance weakened, with the sales index dropping from 68.01 in Q3 2024 to 61.77 in Q4 2024, attributed to lower sales volume and revenue. However, job growth showed improvement, rising from 57.50 to 63.48, suggesting cautious optimism regarding labor market conditions.

Non-UDB-funded enterprises experienced a more pronounced decline in business health, with the business health outlook index decreasing from 60.89 in Q3 2024 to 52.56 in Q4 2024. This was driven by worsening raw material availability, which dropped from an outlook index of 51.51 in Q3 2024 to 50.41 in Q4 2024, coupled with expected sharp reductions in production and sales. The sales outlook index fell drastically from 68.03 in Q3 2024 to 51.61 in Q4 2024 as enterprises struggled with lower sales volumes and declining revenue. The profitability outlook weakened significantly, reflecting financial strain. However, job growth sentiment showed slight resilience, rising from 55.81 in Q3 2024 to 57.64 in Q4 2024, indicating that despite economic challenges, some businesses remain cautiously optimistic about workforce expansion.

Table 2: Business Health Index (BHI) for UDB Clients & Non-UDB Clients, Quarterly Outlook, Q3 2024 and Q4 2024

Indicators	UDB Customers		Non-UDB Customers	
	Quater 3, 2024	Quater 4, 2024	Quater 3, 2024	Quater 4, 2024
Overall Business Health Index (BHI)	62.49	58.46	60.89	52.56
Raw Materials Availability	54.12	50.63	51.51	50.41
The volume of raw materials	67.06	68.75	69.28	68.03
The volume of raw materials	41.18	32.50	33.73	32.79
Production by Enterprises	62.10	51.33	60.60	48.26
Capacity utilization	75.00	60.81	71.57	53.95
Total Production Volume	73.81	60.90	78.31	65.00
Cost of production	37.50	32.28	31.93	25.83
Sales by Enterprises	68.01	61.77	68.03	51.61
Sales Volume	73.64	62.30	73.85	49.15
Average selling price	58.08	55.16	57.69	56.53
Sales Revenue	72.31	67.86	72.56	49.15
Profitability by Enterprises	70.71	65.11	68.48	54.90
Enterprise-Driven job Growth	57.50	63.48	55.81	57.64

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

4.0 Critical Challenges Affecting Business Health in Uganda

This section presents the key constraints impacting Uganda's business environment during the fourth quarter of 2024. These challenges span various operational aspects, from financing to market demand, thereby creating a challenging business environment, as explained below:

High Cost of Financing

In Q4 2024, 48% of businesses reported that the high cost of financing hindered their operations, a modest improvement from 58% in Q3 2024. The Bank of Uganda's statistics¹ indicate a slight reduction in commercial bank lending rates, from 18.6% in Q3 to 18.3% in Q4 2024. Despite this, access to affordable credit remains a significant challenge. Businesses continue to grapple with high interest rates, stringent collateral requirements, and delays in loan disbursements. These issues particularly affect small and medium-sized enterprises (SMEs), impeding their capacity to finance expansions and maintain operations.

High Cost of Utilities: Water and Energy

The cost of utilities, while slightly reduced in Q4 2024, remained a pressing concern. The proportion of businesses affected by high water costs fell sharply from 42% in Q3 to 23% in Q4 2024. Similarly, high energy costs impacted 33% of businesses in Q4 2024, down from 47% in Q3 2024. While these reductions indicate some relief, energy costs remain a key concern, especially for manufacturers and processing industries that rely heavily on electricity. Businesses continue to advocate for more stable and affordable utility services to sustain production efficiency.

High Cost of Labor

The burden of high labor costs eased in Q4 2024, with only 20% of businesses reporting it as a major constraint compared to 41% in Q3 2024. This decline reflects adjustments in employment strategies, such as shifting to contract-based labor, reducing staff numbers, or optimizing productivity through automation. Sectors such as hospitality and manufacturing reported challenges balancing wage pressures with revenue growth.

For instance, some restaurants in Kampala's central business areas reported to have scaled down their workforce, while some manufacturing firms in Namanve introduced shift-based work schedules to cut costs without compromising production output. However, these adjustments also had trade-offs, as reduced staffing levels negatively impacted on service delivery and production efficiency.

Insufficient Demand

Insufficient demand remained one of the most significant challenges, affecting 44% of businesses in Q4 2024, though this was a slight improvement from 59% in Q3 2024. Many businesses continued to experience weak demand due to declining purchasing power and financial constraints among consumers.

The wholesale and furniture manufacturing sectors were particularly affected, with reports of reduced orders and slower sales. Some businesses responded by offering discounts and promotions to stimulate demand, though the overall market remained subdued.

High Transport Costs

High transport costs were a concern for 21% of businesses in Q4 2024, a significant reduction from 40% in Q3 2024. However, logistics challenges persist, particularly for businesses in the agricultural sector. Poor road networks and high fuel prices continue to limit market access, especially for rural farmers.

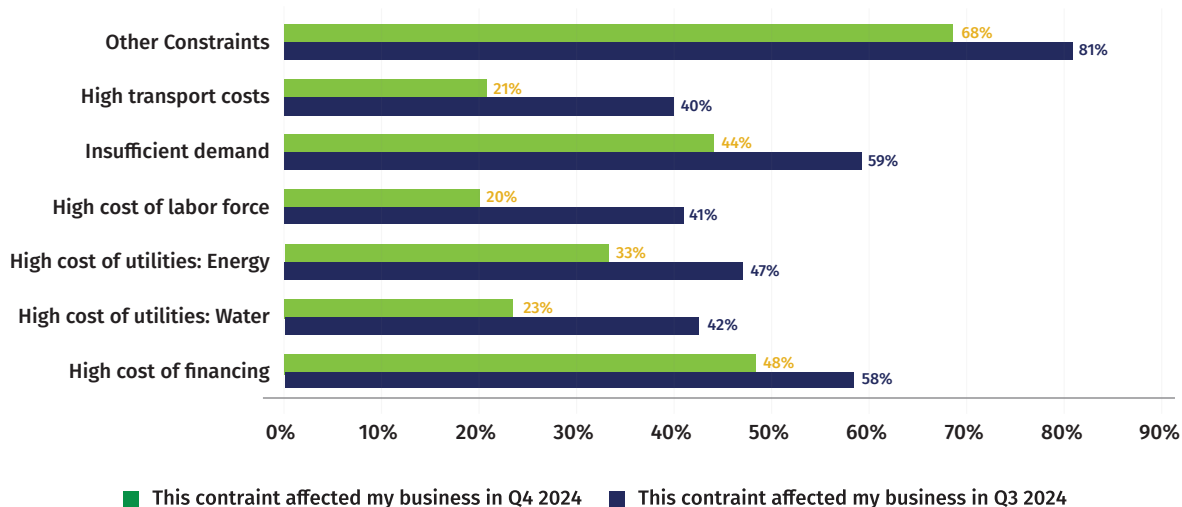
For instance, cassava farmers in Katakwi and maize producers in Mbale and Iganga districts reported difficulties transporting produce to urban centers due to deteriorating feeder roads and high fuel expenses.

1. https://bou.or.ug/bouwebsite/bouwebsitecontent/statistics/MacroeconomicIndicators/Disseminated-Indicators-file_Web-version.xlsx

Other Constraints

In Q4 2024, 68% of businesses faced operational challenges, an improvement from 81% in Q3 2024. Stiff taxes, including the 18% VAT and corporate taxes, strained cash flows, reducing reinvestment capacity, especially for SMEs in manufacturing. Delayed client payments affected cash flows in education and healthcare, disrupting operations. Intensified competition and counterfeit goods hurt the retail, wholesale, electronics, and pharmaceutical sectors. Despite the decline in affected businesses, structural constraints persist.

Figure 6: Business Constraints Impacting Enterprises in Uganda, Q3-Q4 2024



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