

The Ebola Virus outbreak affects business operations, but the business outlook remains optimistic.

Executive summary

The Business Climate Index (BCI) improved but remained below potential for the eleventh consecutive quarter since the first quarter of 2020. The business perceptions in the current quarter (July-September) improved by 16 basis points from 64.1 in the previous quarter (April-June) to 80.1 in the current quarter (July-September). The high input costs primarily drive the below potential performance in business sentiment, high salary demands, labour unavailability, and low business optimism primarily driven by the outbreak of the Ebola virus, geopolitical tensions, the COVID-19-induced effects, and the recent adverse weather conditions, which increased the overall cost of doing business in the current quarter. In particular, the news about the Ebola virus outbreak caused panic in the tourism sector as inbound tourists cancelled their trips and hotel bookings to Uganda, thus affecting the services sector. Meanwhile, business perceptions in the manufacturing sector declined in the current quarter. This was because of the high input costs, high salary demands, high production costs, high labour costs, and low-capacity utilisation.



Source: Health workers in Mubende District prepare to transport the body of an Ebola victim for burial. Photo: Daily Monitor, September 20, 2022

Data and methods

The data used in computing the Business Climate Index (BCI) is a panel of businesses based on the Uganda Bureau of Statistics Census of Business Establishment 2011, first tracked in 2012. This current quarterly bulletin covered 175 business establishments. The panel element has enabled us to track the business environment in Uganda over time.

The BCI is computed based on the following business evaluation indicators: level of business activity, turnover, profitability, incoming new business, capacity utilisation, average costs of inputs, price of produced goods, business optimism, number of employees, and average monthly salary. For each of the evaluation indicators, respondents are asked to express their perceptions on a Likert scale: “improved”, “did not change”, “declined”, or “above normal for the quarter”, “normal for the quarter”, “below average for the quarter” or “more favourable”, “unchanged”, “less favourable”. These responses are coded as 0, 1, and 2, respectively. In this case, if a respondent’s perception of the business environment is that it deteriorated, such a response would be coded 0; it would be coded 1 if the business climate did not change and 2 if the business climate improved.

The index does not consider the magnitude of change in the data, but considers the general direction of movement in the key indicators. As

such, the index is sensitive to the direction as opposed to the magnitude of the change in business conditions. During the data collection process, we ask business managers to assess the general economic environment for the current quarter relative to the previous quarter and their expectations for the next quarter. Based on the business evaluation indicators explained earlier, we compute the business climate index as the weighted arithmetic means of individual business evaluation indicator indices. The indices range from 0 – 200. The interpretation of the BCI is such that it scores above 100, point to an improving business climate. Scores below 100, imply that the general business conditions are getting worse. And a score of 100, points to unchanged business conditions.

Also, the index analyses the evolution of challenges facing businesses during July-September 2022 quarter by identifying which business constraints became more of a problem and less of a problem. We also ask business managers to indicate how each identified business constraint has evolved during the quarter. For each of the business constraints, we asked if it was “more of a problem”, “unchanged”, or “less of a problem”. The resultant weighted indices range from -100 to 100, with positive scores suggesting that a particular constraint is perceived to be more of a problem in the current quarter; negative scores imply that a constraint is less of a problem, and zero scores point to business constraint whose severity has remained unchanged.

Results

The improvement in the conditions for doing business in Uganda during the period under review resulted from the general improvement in most of the sub-indices, namely, the business environment, the opportunities for new businesses, level of business activity, product cost, business profits, turnover, labour among other, that were all below potential in the previous quarter. Figure 1 indicates an improvement in the conditions for doing business in the current quarter (July-September 2022) by 16 percentage points to 80, from 64 in the previous quarter (April-June 2022). This indicates that, like the previous quarter (January-March 2022), the economy is operating at less than its full potential.

The improvement in the index could be attributed to the global fall in commodity prices such as wheat, fertilisers, coconut oil, palm oil, sunflower oil, maize, and metals resulting from the gradual resumption of shipments from Ukraine's seaports and an easing of cooking oil export restrictions in Indonesia (Bank of Uganda, September 2022)¹. In particular, the favourable commodity prices have improved the product cost, business activity, the possibility of starting a new business and input costs. In addition, unfavourable macroeconomic factors, insufficient demand, unfavourable tax policy, and increased corruption and bribery continued to be the binding constraints to business competitiveness. It was reported to be more of a problem in the current period.

Indeed, by August 2022, Uganda's inflationary pressures accelerated to a record high. For instance, headline inflation rose to 9.0 percent in August 2022 from 7.9 percent in July 2022, while core inflation rose to 7.2 percent from the 6.3 percent registered in the previous quarter (April-July 2022). However, the Monetary Policy Committee (MPC) decided to tighten monetary policy in August 2022 by increasing the Central Bank Rate (CBR) by 50 basis points to 9.0 percent and maintained the band on the CBR at ± 2 percentage points (Bank of Uganda, 2022). In particular, the margins on the Central Bank Rate (CBR) for the rediscount and bank rates were maintained at 3 percentage points and 4 percentage points, respectively, to ensure that

inflation reverts to its medium-term target of 5 percent. In addition, the shilling depreciated by 5.6 percent quarter-on-quarter and by 7 percent year-on-year, driven by tightening global financial conditions, which triggered portfolio investors' exits from the domestic debt market, increased dollar demand, especially the oil and manufacturing firms as global commodity prices accelerated. The depreciation trend, however, remains persistent amidst the global strengthening of the US Dollar at the back of the hawkish monetary policy stance by the US Fed, increasing foreign exchange needs for external debt service and the uptick in government imports (Bank of Uganda, 2022).

The business climate index by sector

In the current quarter, the conditions for doing business across all three sectors (agriculture, manufacturing and services) were below full potential. While business sentiments in the agriculture and service sector improved, there was a slight decline in the perceptions of doing business in manufacturing (Figure 2). In this regard, the agriculture sector increased by 3.5 points from 59.8 points registered in the previous quarter to 63.3 in the current quarter. Similarly, conditions for business in the services sector improved by 19.7 points from 61.4 to 81.1 in the current quarter. On the other hand, the manufacturing sector experienced a 7.9 points decline in the conditions for doing business, decreasing from 90.8 in the previous quarter to 82.9 in the current quarter. The improvement in the condition for doing business in the agriculture sector is mainly due to the business environment, level of business activity, business turn over and product cost.

Similarly, the improvement in the condition for doing business in the services sector is mainly because of opportunities for new businesses, business environment, product cost, level of business activity, business turnover, and business profits. On the other hand, the decline in the condition for doing business in the manufacturing sector is mainly due to increased input and salary costs, low product cost, reduced capacity utilisation, and reduced future business optimism, among others.

Figure 1 The Business Climate Assessment

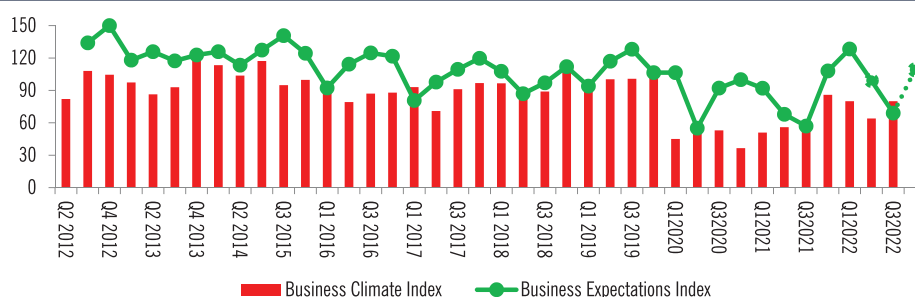
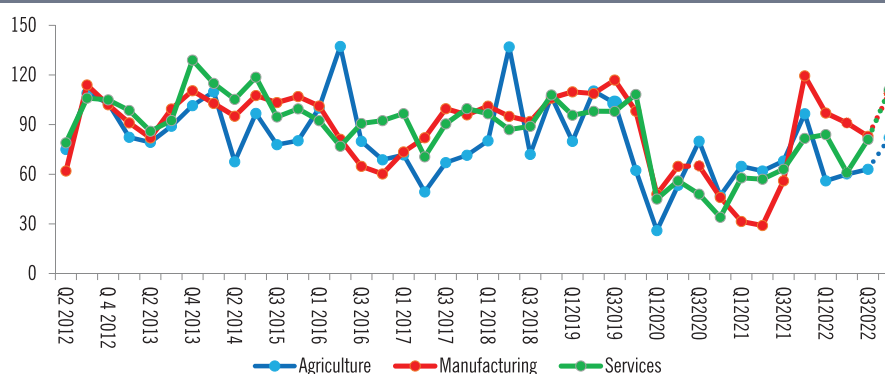


Figure 2 Business Climate Index by Sector



Challenges in doing business

Like the previous quarter (April-June 2022), the top five most pressing constraints to doing business for the current quarter include macroeconomic factors and insufficient demand (Figure 3). This was alongside the persistent business challenges (unfavourable tax policy, corruption and bribery, electricity unavailability, inadequate transport infrastructure). These have not changed since last quarter. This suggests that Ugandan businesses' primary policy and regulatory constraints are rather persistent. As mentioned above, the observed macroeconomic volatilities could have been amplified by Uganda's strong inflationary pressures in August 2022 owing to the acceleration of the prices of services, Energy and utilities, and food. In addition, the shilling depreciation driven by tightening global financial conditions, which triggered portfolio investors' exits from the domestic debt market, increased dollar demand by especially the oil and manufacturing firms as global commodity prices dampened the conditions for doing business.

Similarly, insufficient demand could have emanated from the rise in commodity prices. According to the BOU Statement of the Economy, for September 2022, headline inflation rose to 9.0 percent in August 2022 from 7.9 percent in July 2022, while core inflation rose to 7.2 percent from the 6.3 percent registered in a similar period. The registered surge in consumer price inflation and production cost was against the backdrop of negative spillovers from geopolitical tensions, COVID-19-induced supply chain disruptions, recent adverse weather conditions, and the Ebola virus outbreak, which further dimmed the prospects for domestic economic growth. In addition, the tightening financial conditions at the back of the recent CBR hikes by the BoU intended to bring down escalating inflation augmented by fiscal tightness caused inevitably negative effects on the country's growth prospects².

The evolution of business constraints

Like the previous quarter (April-June 2022), macroeconomic factors, unfavourable tax policy, and insufficient demand were major challenges to doing business in the current quarter (Figure 4). This points to the persistence of some of these challenges from the previous quarter. In addition, firms reported access to finance to be more of a problem in the current quarter.

As earlier mentioned, the global economy is still struggling to recover from the geopolitical tensions, COVID-19-induced effects, and the recent adverse weather conditions that have resulted in a downward revision of the macroeconomic growth forecasts. The contractionary nature of macroeconomic factors could be explained by the high contribution of the services to overall inflation, which has steadily increased from almost zero in January 2022 to over 60 percent in August 2022, making it the dominant force behind the current inflationary pressures. In addition, non-core inflation rose to 19.1 percent in August 2022 from 17.2 percent in July 2022 because of an increase of both food crops inflation and Energy, Fuel and Utility inflation which rose to 18.8 percent and 19.6 percent from 16.4 percent and 17.2 percent in the previous quarter. The Bank of Uganda indicates that the increase in Energy, fuel and utility inflation reflects the rise in petrol prices owing to the elevated international crude oil price and the lagged impact of the exchange rate depreciation. Inflation is projected to peak in the second quarter of 2023 before gradually declining to stabilise around the medium-term target of 5 percent by mid-2024.

Figure 3 Business Constraints (%)

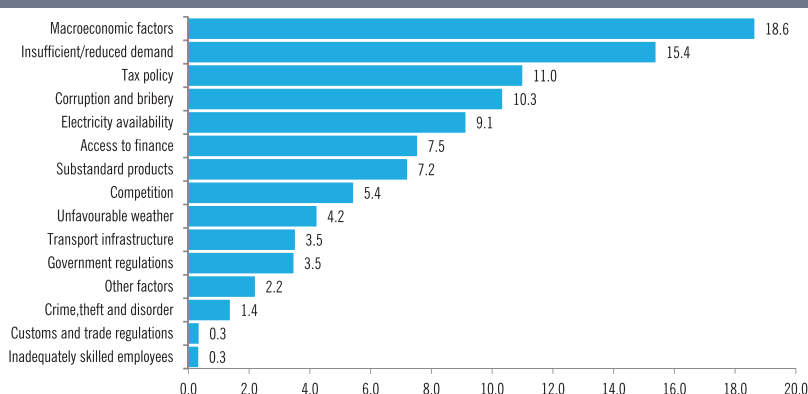
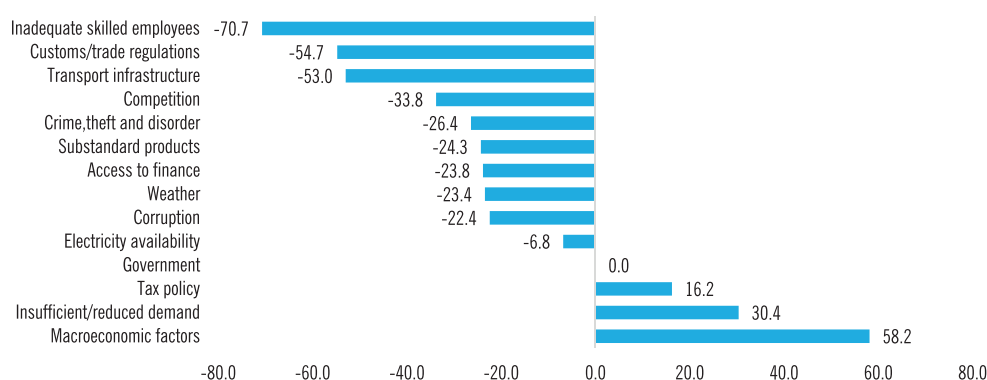


Figure 4 The evolution of business constraints (% of businesses)



Future business outlook: October-December 2022

Overall, businesses are optimistic about near-term developments. The October-December 2022 quarter index is expected to be at 109.0 (Figure 1). This is due to the expected improvement in the conditions of doing business in the next quarter in all sub-indices.

The expected condition for doing business by sector indicates that for the October-December 2022 quarter, the agriculture sector expects a 10.3 percentage point decline in the condition for doing business from the current 91.9 percent in the current quarter to 81.6 percent. The anticipated decline in the condition for doing business in the agriculture sector is because of the expected decline in some sub-indices, i.e. business optimism, activity, turnover, profits, new business opportunities, and capacity utilisation.

Meanwhile, the manufacturing and services sectors expect above full potential conditions for doing business in the next quarter, with all sub-indices expected to improve in both sectors. The manufacturing sector expects a 40.5 percentage point increment to 109.4 relative to the current quarter index of 68.9. Among other sub-indices, the improvement is mainly because of improved product cost, turnover, the activity of new businesses and capacity utilisation. Similarly, the services sector expects a 43.7 index point increment to 110.8 in the next quarter. The anticipated favourable sentiments for doing business are because of improved product cost, new businesses, input costs, activity and labour.

Question of the quarter

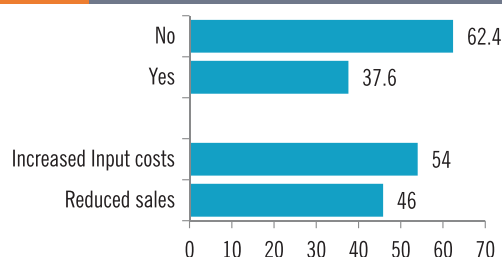
Effect of Ebola Virus Disease on business operations

In this quarter, we sought to understand the impact of the Ebola Virus Disease (EVD) outbreak on business operations and the extent to which business operations were affected.

Particularly, we asked: (i) "Has the outbreak of the Ebola virus affected your business operations?" (ii) "If Yes, by what percentage?"

Results (Figure 5) indicate that while only 37.6 percent of businesses in our sample reported having been affected by the Ebola virus outbreak. Businesses that were affected by the outbreak of the Ebola virus incurred increased cost of input and reduced sales. The effect of the outbreak

Figure 5 The extent to which business operations have been affected by the Ebola virus



was twofold. For instance, most businesses (54 percent) reported an increase in the cost of inputs and 46 percent reported reduced sales because of the virus outbreak. Therefore, the government needs to enforce containment measures to curb the spread of the virus and regulate the media propaganda about the virus (sharing of wrong Ebola information), as this is a threat to inbound tourism, foreign exchange earnings and the service sector at large.

Conclusion

Perceptions about doing business in Uganda in the current quarter (July-September 2022) degenerated compared to the previous quarter (April-June 2022). The decline in the conditions for doing business was because of the relapse of all sub-indices, namely product prices, turnover, business environment, input costs, and labour unavailability, among others, being all below potential (below 100). This reflects poor business environment performance caused by geopolitical tensions, COVID-19-induced effects, recent adverse weather and the Ebola virus outbreak, which increased the overall cost of doing business in the current quarter.

Like the previous quarter, some business constraints persisted. In this regard, macroeconomic factors, insufficient demand, unfavourable tax policy, unreliable electricity, poor transport, corruption, and bribery were critical constraints to business competitiveness in the current quarter (July-September 2022). Considering future expectations, business sentiments for the next quarter (October-December 2022) will deteriorate in the agriculture sector; however, positive sentiments in the manufacturing and services sectors are expected. The next quarter will see below-potential sentiment for the agriculture sector; however, manufacturing and services sectors expect above-full potential conditions for doing business.

The expected unfavourable business perceptions in the agriculture sector are anchored around the anticipated deterioration of reduced business activity, low business optimism, turnover, reductions in profits, high input costs, reduction in capacity utilisation, and high labour costs, possibly signaling business risks associated with the outbreak of the Ebola virus. Considering the effect of the Ebola virus outbreak on business operations, most businesses suffered a decline in business operations because of the high input prices and a decline in sales because of the outbreak of the virus, which increased the cost of doing business during the quarter under review. Therefore, the government needs to enforce containment measures to curb the spread of the virus and regulate the media propaganda about the virus (sharing of wrong Ebola information) as this is a threat to inbound tourism, foreign exchange earnings and consequently the service sector at large.

Endnotes

- <https://www.bou.or.ug/bou/bouwebsite/bouwebsitecontent/publications/QuarterlyStateofEconomy/publications/Quarterly-Economic-Reports/2022/Sep/2022-SEPTEMBER-SOE.pdf>
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The Economic Policy Research Centre (EPRC) has been producing the Business Climate Index (BCI) for Uganda since June 2012. The BCI reflects the perceptions of Ugandan business managers on the current and near-future (expected three months ahead) business conditions. The BCI is a perceptions indicator of economic activity and the general business environment in which businesses operate. The purpose of BCI is to forecast turning points in economic activity and thus provide critical information for policy makers both in Government and the Private Sector.

About EPRC

The Economic Policy Research Centre (EPRC) is an autonomous not-for-profit organization established in 1993 with a mission to foster sustainable growth and development in Uganda through advancement of research – based knowledge and policy analysis.

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Acknowledgement

The Business Climate Survey team appreciates the support received from all participating business establishments across the country, our partners at the Uganda National Chamber of Commerce and Industry, Kampala City Traders Association and all persons who reviewed and edited this publication.

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