

**RELATIONSHIP BETWEEN MACRO ECONOMIC INDICATORS AND ECONOMIC
PERFORMANCE IN UGANDA: 1970-2012.**

BY

MUSOKE EDWARD

B.sc. Economics and Statistics, (KyU), PGD Monitoring and Evaluation (UMI)

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ABSTRACT

The objective of this study was to analyze the relationship between macroeconomic indicators (imports, exports, FDI) and economic growth in Uganda from 1970 to 2012, using the Vector Auto Regression frame work (VAR) and the Granger (1969) approach. Levels and first difference plots were used to assess the behavior of the series thus indicating the series followed a similar pattern i.e. they were not mean reverting in levels but mean reverting in first differences. Results of the unit root test using the Augmented Dickey and Fuller (ADF) test revealed that the series were integrated of order zero after taking their first differences. And there existed a long run equilibrium relationship of one (1) rank between the four series based on the computed number of trace statistic. With an optimum lag length of one (1) In the Short run Based on restrictions imposed by the Cointegration Equation 1, the Cointegrating equation 1 of GDP had the desired significant negative sign with a coefficient value of (-0.251) this implied that in each period, GDP adjusted by about 25.10 percent of the gap between the current level and long run equilibrium level. In the long Run on average a one unit increase in exports and FDI would lead to a 1.184 and 0.561 increase in economic growth where as a one unit increase in Imports would lead to a 2.908 decrease in economic growth.

At 5% level of significance we failed to reject the null hypothesis of macroeconomic indicators not granger causing economic growth, the null hypotheses of ‘‘exports, FDI do not granger cause economic growth’’ before the abolition of export taxes and enactment of the investment ACT of 2000 were not rejected at 5%, though the null hypotheses of ‘‘FDI does not granger cause economic growth’’ and ‘‘ GDP does not granger cause exports’’ were rejected at 5% level of significance. In terms of policy the study called for improvement of the investment climate, diversification of exports and review of the trade policy to regulate the level of imports