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THE IMPACT OF PUBLIC DEBT ON UGANDA'S ECONOMIC GROWTH

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ABSTRACT

The objective of the study was to establish the impact of public debt on economic growth in Uganda by analysing the short run and long run relationships. The study employed secondary quarterly time series for the period 1990Q1 to 2015Q4. The Johansen Co-integration test, Vector error correction model (VECM) and the wald granger causality test were performed. The empirical results suggested the existence of a statistically significant negative short run and long run relationship between economic growth and public debt but no causality between public debt and economic growth in the long run. These findings have strong implications in terms of macroeconomic policy management and likely to have detrimental effects to the economy. In conclusion, the results suggest that both in the short and long run periods, an increase in Uganda's public debt will lead to a decrease in the country's economic growth. Therefore, there is need for the Ugandan government to undertake measures to improve on the revenues collected to reduce debts incurred and adoption of more prudent macroeconomic policies like attraction of foreign direct investment to build a private sector led economy.