MAKERERE UNIVERSITY

REAL EXCHANGE RATE AND ITS IMPACT ON UGANDA'S ECONOMIC GROWTH (1999-2015)

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ABSTRACT

The study investigated the impact of real exchange rate on economic growth in Uganda for the period 1999-2015 using quarterly time series data. To realize the study objective the study used tests such as Augmented Dickey- Fuller (ADF) for stationarity, Johansen test for co-integration, Vector Error Correction Model (VECM) to check the existence of long run relationship between the variables, the unit root test results revealed that not all the variables were stationary. The co-integration test results revealed that there is co-integration among variables and the VECM results revealed that real exchange rate (RER), Tourism (TOUR) and Labour have positive and significant effect on economic growth in Uganda. The study further revealed that Capital, Foreign Direct Investment (FDI) and Remittance (REMIT) have negative effect on economic growth. Capital and Foreign Direct Investment (FDI) are significant while Remittance is insignificant. The main policy recommendation of the study is that the government ensures prudential management of real exchange rate, Policies to enhance tourism must be put in place if Uganda is to increase on its earning from tourism such infrastructural development, human resource development and reducing taxes on investors in the sector. The policies should be undertaken with caution because unregulated influx of foreign investors kills local infant industries. Policy makers should also review existing policies to control excessive profit repatriation and divestments together with encouraging expansive strategies.