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FACTORS AFFECTING UGANDA'S ECONOMIC GROWTH: AN AUTOREGRESSIVE DISTRIBUTED LAG APPROACH

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ABSTRACT

This study investigated factors influencing Uganda's economic growth measured by real gross domestic product (RGDP). These factors included foreign direct investment inflows, foreign direct investment volatility, government expenditure, money supply and trade openness. Autoregressive Distributed Lags Model (**ARDL**) was adopted using quarterly data collected from 1985 – 1993.

Trade openness and money supply had a positive and significant effect on economic growth, whereas, foreign direct investment inflows, foreign direct investment volatility and government expenditure had a negative effect.

The elasticity of RGDP to money supply was 0.59 in the short run and 1.59 in long run at the 1% percent level of significance. The findings are similar to Siyasanga (2017) who found a positive relationship of money supply to economic growth. Although the elasticity of RGDP to money supply was smaller at 0.58, the direction was the same.

The elasticities of real gross domestic product to trade openness were 0.38 in the short-run at the 1% level of significance and 0.34 in the long-run, at the 10% level of significance. The positive direction is similar to the findings of Yeboah (2012), and Andersen and Babula (2008), Were (2015), who found a positive effect of trade openness on economic growth.

The elasticity of RGDP to foreign direct investment inflows was -0.14 in the short run and -0.13 in the long run at the 1% level of significance, implying that foreign direct investment inflows deters economic growth in Uganda. The findings are similar to those of Derirhan & Masca (2008) who found a negative elasticity of -1.47 of RGDP to economic growth but contrary to

some studies who found a positive effect of FDI to economic growth (Ngugi, 2013, Muhammad et.al,2012, Lensik and Morrissey, 2000).

The elasticity of RGDP to foreign direct investment volatility was -0.03 in the short run and -4.02 in the long run at the 5% level of significance implying that, a 1% increase in foreign direct investment volatility leads to a 4.02% decline in the long run.

The elasticities of RGDP to government expenditure in the short run and long run are -0.19 at the 5% level of significance and -1.60 at the 1% level of significance, respectively. The findings are contrary to those of other researchers who found a positive relationship of government expenditure to economic growth, (Gisore et. Al, 2014, Hasnul, 2015).

The government should investigate why the effect of foreign direct investment inflows and government expenditure on economic growth was negative. Foreign direct investment volatility had a negative effect on economic growth, making it undesirable for economic growth. It is therefore, critical for the government to address the factors causing the volatility and put in place strategies accordingly. The Central Bank should increase money supply to boost economic growth, but being mindful of the real growth in RGDP to avoid unnecessary inflationary pressures. Although the impact of trade openness on economic growth is minimal, it is positive both in the short run and long run, thus, the government should open the economy further, and make attempts to increase the elasticity of RGDP in relation to trade openness such as signing trade agreements with larger economies with an aim of increasing Uganda's market for exports, increasing the export base and focusing on value addition to increase competitiveness on the world market.

Key Words: Foreign direct investment inflows (FDI), Real gross domestic product (RGDP), Auto Regressive Distributed Lag (ARDL), Generalized Autoregressive Conditional Heteroscedasticity (GARCH)