PRIVATE SECTOR INVESTMENT AND ECONOMIC GROWTH IN UGANDA (1985-2014)

BY

MOHAMOUD ABDULKADIR DIRIYE

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ABSTRACT

The study aimed at examining the effect of private sector investment on economic growth in Uganda from the period of 1985 to 2014 using time series data. Specifically, the study examined the casuality, the long-run relationship between private sector investment and economic growth and also the impact of private sector investment on GDP growth. The objective was motivated by the fact that the problem statement emphasized that private sector investment has not yielded expected economic growth in Uganda. The study hypothesized that no casualty and long-run relationship between private sector investment and economic growth and that there is no significant effect of private sector investment on economic growth in Uganda. The study followed a multiple linear regression analysis which gives best linear unbiased estimates to establish relationships between GDP and the independent variables. Prior to the regression stationarity among variables was tested using ADF and Phillip Perron tests. The test results showed that all the study variables were stationary at level except trade, population and inflation rate that only became stationary after first difference. The granger causality test showed that in Uganda, private sector investment does not granger cause GDP growth. Johansen Co-integration tests showed existence of co-integration among variables. The regression model showed that there is a significantly positive effect of private sector investment (β_1=1.454) and growth at 5% level, population growth (β_6=-0.874) showed a negatively significant effect on growth. Inflation rate and exchange rate effects were positively insignificant while trade and gross capital formation effects were insignificantly negative at 5% level. The study concluded there is no causality between economic growth and private sector investment and no a long-run equilibrium relationship between private sector investment in Uganda. The further concluded that private sector investment has a significantly positive effect on economic growth whereas population growth has a significantly negative effect on economic growth. Thus sustained economic growth in Uganda can be achieved through expansion of private sector investment combined with good exchange rates and price legislation. This study therefore recommends that government should enabling economic and political environment to promote privatization in the country.