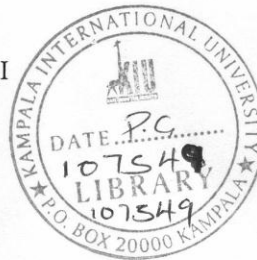


REAL EXCHANGE RATE, INFLATION RATE AND PRIVATE INVESTMENTS IN
UGANDA (1990-2014)

BY

ADAM MOHAMED M. ABDULAH

MSTAT/44939/143/DF



A THESIS SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT
IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD
OF THE DEGREE MASTER OF SCIENCE IN STATISTICS
OF KAMPALA INTERNATIONAL
UNIVERSITY

MAY, 2017

ABSTRACT

The main objective of the study is to examine the impact of real exchange rate and inflation on private investments in Uganda. The two objectives were to determine the effect of real exchange rate on private investment; to determine the effect of inflation rate on private investment. The study used Real exchange rate, Inflation rate, Bank credit, Foreign direct investment, Public investment and trade as the determinants of private investment using secondary data for a period of 1990-2014 gathered from the world bank database. Analysis was carried out using a combination of both correlation and an ordinary least squares multivariate regression model. The data shows that the level of private investment has steadily been increasing for the 24 -year period considered in this study. Furthermore, the rate of inflation in Uganda has been quite irregular though averagely stable in the recent years with some slight movements up and down. Additionally, the real exchange rates have been decreasing though at a rather irregular rate for between 1990 and 2014. The results of the regression analysis show that there exists very significant negative effect of real exchange rate on private investment in Uganda. Further analysis indicates that there exists a negative and significant effect of inflation rate on private investment after log transformation in Uganda. The study concludes that inflation is very insignificant in explaining the observed trend in private investment. Thus, an increase in inflation may lead to a decrease in private investment. The study further concludes that there is a very significant negative effect of overall real exchange rate on the level of private investment in an economy. In other words, an increase in the average value of real exchange rate in the economy is expected to result into a decrease in the average level of private investment in the economy. Since the results reveal that mild changes in the overall rate of inflation have got a stimulatory effect on private investment, the study recommends that it is imperative for the policy makers to adopt structural reforms that will keep the inflation rate in check so as to stimulate the economy. Furthermore, due to the very significant effect of the real exchange rate (price level) on private investment in Uganda, the study recommends that policy makers ought to adopt strategic and systematic that would prevent the exchange rates from escalating through strategies that would bring more foreign currency into the economy since its impact on private investment can easily be felt. The study also recommends that policy makers should formulate competition policies within the Ugandan trade sector as this will not only help reduce fake goods in the market, but also help expand access to finance for private investors as this will bring more money in circulation, offer wider choices of products, and encourage better services hence economic growth of the country.