MAKERERE UNIVERSITY

EFFECT OF BALANCE OF TRADE ON ECONOMIC GROWTH IN UGANDA (1985 -2016)

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ABSTRACT

The major objective of this study was to establish the impact of balance of trade on economic growth in Uganda from 1985 to 2016. The data used was annual secondary time series obtained from World Bank (2016). The study was based on a model consistent with Barro(1995).

Analytically, the study generated one equation error correction models after testing for the unit root using the two tests: Augmented Dickey-Fuller (ADF) and Phillips Perron (PP) unit root tests. The findings of the study indicate that balance of trade has a positive effect on economic growth in Uganda and statistically had a 10 percent level of significance which could be attributed to the fact that Uganda’s imports such as petroleum and delivery trucks are directly used in production of goods and services. Taxes on products were also positive and statistically significant at 10 percent while inflation and government expenditure were negative and not statistically significant.

Uganda needs to maintain import of capital goods and services such as delivery trucks and petroleum that facilitate production since such imports greatly contribute to economic growth as seen in this research study. However, there is need to control import of luxurious goods which waste savings and curtail economic growth. Furthermore the tax base should be widened by tapping into the informal sector since taxes significantly contribute to economic growth.