

DETERMINANTS OF TRADE BALANCE IN UGANDA

KITYO DAVID

BA. Economics (Mak 2007)

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ABSTRACT

This work aimed at studying the determinants of balance of trade in Uganda while utilizing data on selected determinants for the period 1986-2016. The research was inspired by the paradox of persistent trade deficit experienced in the country in spite of the Government's effort to promote investment in import substitution industries which with time could have produced enough to sustain the domestic market and export the surplus. The aim of the study was to establish the determinants of trade balance in Uganda while utilizing time series data obtainable from World Development indicators published by World Bank on which ordinary least square regressions were administered to obtain the final results. The results obtained from the study indicated that Uganda's balance of trade is mainly influenced by the level domestic private investment and foreign direct investment. While real effective exchange rate showed a reasonable positive influence on the country's balance of trade which agreed with the presumed hypotheses -that real effective exchange rates have a positive and a significant influence on Uganda's balance of trade. The conclusion drawn from the study was that Uganda's balance of trade is mainly influenced by the level of domestic private investment represented by gross fixed capital formation followed by foreign direct investment and real effective exchange rate. The study recommends adopting supply side policies to increase GDP expenditure switching policy in form of devaluation for better terms of trade, improving the investment climate to increase production for export, improvement in Structural Reform Programs, Research and Development for value addition to the exports, implementing direct controls to minimize imports and imposing exchange rate controls to achieve economic stability.