MAKERERE UNIVERSITY

EFFECT OF EXCHANGE RATES ON FOREIGN DIRECT INVESTMENT IN UGANDA

BY

JOAN KATUSHABE

2016/HD06/978U

A RESEARCH PAPER SUBMITTED TO MAKERERE UNIVERSITY AS A PARTIAL REQUIREMENT IN FULFILMENT FOR THE AWARD OF MASTERS DEGREE IN ECONOMIC POLICY AND PLANNING

November 2018

ABSTRACT

Foreign Direct Investment is important in the world economies in terms of output, employment and trade. However, attracting FDI has been a great concern to many countries especially the emerging countries. This has led to the government adopting policy measures that would be favorable to Foreign Investors. The objective of this paper is to examine the relationship of exchange rate and foreign direct investment in Uganda. The study used ordinary least squares for estimation of a time series data covering the period 1985-2016. The variables under consideration include taxation, gross domestic product, Openness to trade, exchange rates and inflation.

The results of the study revealed that exchange rate is insignificant as far as FDI inflow is concerned. It is only GDP that significantly affects foreign direct investment and the results indicated that it has a positive relationship. Other variables that are population growth, inflation, corporate taxes and openness to trade are also insignificant. The study recommended that the government should come up with a proper exchange rate policy to attract foreign investors. The policy makers should adopt policy measures geared towards improved GDP and openness to trade and mechanisms of controlling inflation. This would promote investment opportunities and bring about macroeconomic stability thus winning investors' confidence in the Ugandan economy.