RELATIONSHIP BETWEEN EXTERNAL DEBT STOCK AND TOTAL GOVERNMENT EXPENDITURE IN UGANDA (1982-2014)

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Abstract

This study established the relationship between the External Debt (EXDEBT) as well as Government Final Consumption Expenditure (GFCE) and Fixed Capital Formation (FCF) for Uganda. The study employed a Vector Autoregressive model and annual time series data from 1982 to 2014: determined the lag structure, verified the stationarity of all the series and explored the cointegration and causality between the EXDEBT, GFCE and FCF.

A Bivariate Vector Autoregressive Regression of order one was established as the appropriate model. Results of the long run model before the 2006 Multilateral Debt Relief Initiative (MADRI) show that at lag one, a unit increase in past values of the External Debt to GDP causes the External Debt to GDP to increase by 66.7 percent in the long run. In addition, before the 2006 MADRI, current values of GFCE and FCF and past values of EXDEBT at lag one explain 81 percent of the variations in the External Debt in the long run. In the short run, at lag one, GFCE to GDP causes a 57.2 percent significant increase in the External Debt to GDP at lag one. A unidirectional causal relationship running from EXDEBT to GFCE was found.

In conclusion, the positive effect of the GFCE on the External Debt to GDP indicated that there would be need for deliberate expenditure policies and strategies that prioritize curtailing the rise in GFCE that leads to accumulation of external debt. This effort can be coupled with channeling externally borrowed resources into public investments with high economic returns both in the short, medium and long term.