INTERSECTORAL LINKAGES, UNEMPLOYMENT AND ECONOMIC GROWTH IN UGANDA

Abstract

This study investigated inter-sectoral linkages, the drivers of rapid services sector growth, and the impact of sectoral growth patterns on the unemployment rate in Uganda. Based on the analysis multiplier model of the Social Accounting Matrices (SAMs) 2009/10 and 2016/17, the study finds that at an aggregate level, the services sector had the highest multiplier effects (i.e., in terms of output, GDP, income, and consumption) across both periods, followed by agriculture and services sectors. That is to say that a 1 million income injection in the services sector led to a 3.13 million and 2.71 million shillings increase in output in 2009/10 and 2016/17, respectively, compared to only 1.61 and 1.87 million in the industrial sector. Investing in the services sector was more beneficial compared to other sectors. Also, the services sector had the largest forward production linkages (1.32 points). Agriculture expansion was self-benefitting, led to excess demand in the industrial sector, and benefited more households in the central region and urban areas. Finally, production technology was time dependent. Secondly, the increasing role of the services sector warranted an investigation; we found that population expansion, human capital index, gross national expenditure, and foreign direct investment are the major drivers of rapid services sector growth. In contrast, GDP inflation hurts services sector growth. In addition, producer and household services had the highest impact on economic growth. However, household services drain the economy, while business and producer services improve growth ceteris paribus. Lastly, a positive shock in the agriculture and services sectors significantly reduced unemployment by 1% and 5.07%, respectively. While a negative shock in the services sector significantly increases unemployment by 3.78%. Also, a positive industrial sector shock lowered unemployment by 12.48%. The labor intensity analysis results showed that both the size and composition of sectoral growth affect unemployment level.

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