The impact of interest rates on foreign direct investment: A case study of the Zimbabwean economy (February 2009-June 2011)

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ABSTRACT

Foreign direct investment (FDI) is very low in Zimbabwe and this is resulting in low levels of economic growth and standards of living and has hindered efforts to promote economic prosperity and sustainable development for the country. Hence this research seeks to find the relationship and impact of interest rates on FDI inflows. It also sought to find out other determinants that significantly affected FDI inflows in Zimbabwe in the period February 2009 to June 2011.

The research tested the hypothesis that high interest rates have a positive impact on FDI inflows. Secondary data was collected from various institutions like Reserve Bank of Zimbabwe, International Monetary Fund reports, World Bank reports, Ministry of Finance, Failed Nations. Monthly data was used to make a total of 29 observations. Data was analysed using the classical linear regression model, ordinary least squares approach.

The paper found that interest rates had no significant impact on FDI inflows and hence cannot be used for policy making purposes. The research discovered that risk factors are the major determinant of FDI in Zimbabwe.

Policies that reduce country risk levels and campaigns that promote peace, anti-corruption and transparency should be encouraged if the economy is to realize long term inflows of FDI.

Key Words: Foreign Direct Investment, Interest rates, Investment