

ABSTRACT

Foreign Direct Investment (FDI) by multinational corporations (MNCs) has become a prime source for external financing to developing countries. However, this has become important since countries with small economies have small revenue collection and lack enough saving henceforth FDI's supplements domestic saving efforts and reduce down the resource scarcity. Therefore, FDI's have been seen to be very important to both developed and emerging economies. The objective of the study was to investigate the effect of exchange rate, inflation and competitiveness on FDI in Tanzanian economy for the period of 1990 to 2017. Through the use of OLS the study employed the multiple linear regression analysis as the basis of investigation. In this case FDI's inflows was treated as dependent variable in contrary to number of explanatory variables namely, exchange rates, inflation and competitiveness. The study findings showed a negative relationship between FDI inflows and exchange rates, though insignificant over the period of study. Furthermore, the results highlight the significance of both inflation and competitiveness that they were statistically significant in influencing FDI's inflows to Tanzania with negative and positive effect respectively under the period considered in the study. The study recommends that, the government should put emphasis on liberalizing the economy by undertaking comprehensive programme to trade reforms in regulatory environment, designed to open the economy as well increase its competitiveness in order to attract more FDI and also more emphasis should be taken by the Bank of Tanzania in maintaining moderate rate of inflation which will attract more investors in domestic market leading to increase in FDI inflows to Tanzania.

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