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Determinants of private sector investment in Tanzania: a quantitative Approach

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Tanzania pronounced that private sector is the engine of economic growth. However private sector activities cannot be promoted effectively if the factors affecting private sector investments are not sufficiently known. The study analyzes the main determinants of private sector investment in Tanzania during the period of 1966-2006. The focus of his study is to analyze macroeconomic variables effect to the private sector investments in Tanzania, using Ordinary Least Square (OLS) estimation technique. The choice of this technique was due to its simplicity, convenience and has been successfully used by other studies and gives out the meaningful results Koutsoyiannis, (1973). The econometric results show that the main determinants of the private sector investments in Tanzania includes the percentage change in real GDP, public sector investment as a percent of GDP, private sector investment as a ratio of GDP, changes in credit to the private sector, the percentage change in consumer price index, the change in terms of trade, the index of real exchange rate. Also, the co-integration analysis indicates that there is a long run relationship between different variables used in the study. The main conclusion is that maintaining macroeconomic stability is important for private sector investments in Tanzania. Specifically, the government should intervene in increasing exports for attaining appreciation of the real exchange rate, maintaining of price stability (low inflation) close to those of competitors and put in place strategies for private sector involvement in investment through private public partnership mechanisms