MACROECONOMIC VARIABLES AND FOREIGN DIRECT INVESTMENT IN KENYA

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ABSTRACT

Foreign direct investment has emerged as a noteworthy source of capital flow that links the economies of several emerging nations, including Kenya. As a result, it has become a crucial driver of economic progress in these nations. Over time, foreign direct investments in Kenya have changed, notwithstanding their importance to economic progress. When foreign investors decide to invest or infuse capital into various enterprises, macroeconomic considerations play a significant role. Determining whether Kenya's macroeconomic conditions impact Foreign Direct Investment is therefore crucial. The primary objective of the present investigation is to explore the effects of macroeconomic factors on foreign direct investment in Kenya. The research analysed how inflation, the interest rate, the foreign exchange rate, taxation policy, and the rate of gross domestic product growth affect the inflow of foreign direct investment into Kenya. The study is based on the eclectic paradigm, the purchasing power parity theory, the macroeconomic stability theory and neoclassical growth theory. The research was based on a quantitative correlational type of study design, whereby secondary quarterly time-series data collected by the Central Bank of Kenya and the Kenya National Bureau of statistics were used. The study period is the year 1990 to 2024. Sample techniques, investigation approach, data collection strategies, and analysis methods were presented. The information collected was thereafter subjected to different diagnostic tests (heteroscedasticity, multicollinearity, stationarity, serial correlation, and normality tests), which are relevant for panel data regression to ensure the validity of the results to be obtained. The data was analyzed based on inferential as well as descriptive statistics and multiple regression modeling. All ethical considerations were duly followed. Findings disclosed that the interest rate negatively and significantly affected foreign direct investment. Inflation rate positively and significantly determines foreign direct investment. Exchange rate influence is said to have affected foreign direct investments positively. Taxation policy provided a significantly positive effect on foreign direct investment. GDP growth rate has a significantly positive effect on foreign direct investment in Kenya. The study recommends that the Central Bank of Kenya ought to pursue a policy of keeping interest rates at rates that do not promote macroeconomic instability, but rates that are not so high as to cause a rise in the cost of borrowing funds that could push away any foreign investors. This was to make Kenya an attractive place to investors because it was easier to earn money in the stable and predictable interest rate environment, fostering a steady flow of capital in the form of investments towards economic growth and development. Such should be accompanied by sensible coordination of fiscal and exchange rate policy so as to achieve a generally supportive climate within which investment takes place.

Key words: Foreign Direct Investment, Macroeconomic Variables, Interest Rate, Inflation Rate, Exchange Rate, GDP Growth Rate.

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INTRODUCTION

An efficient and open global economic system depends on foreign direct investment (FDI), which is a major growth accelerator (Chete, Olanrele & Angahar, 2024). Therefore, FDI helps meet the economic expectations of development in a number of ways, including serving as the foundation for development finance by funding various investments in the nation's economy, raising the level of technical advancement in the nation that hosts and thereby playing a centralpart in the process of economic growth (EG), improving progress and managerial skills and knowledge, supplying an economy with a assortment of services and products and promoting exports, both of which advance a country's balance of payments (Adebayo, Onyibor & AkinsolA, 2020). International investors are therefore more drawn to countries with sound macroeconomic variable policies, such as steady inflation rates, quick GDP growth, minimal exchange rate volatility, and moderate taxation and interest rates. Only macroeconomic factors are to blame for the consistent growth in FDI (Nwagu, 2023). Macroeconomic variables serve as key markers or indications of the economy's present trends. Because macroeconomic variables are systematic, they directly affect market risk through their effects on the market as a whole. Interest rates, GDP, money exchange, and price rises are all significantly impacted by these factors. Since they affect FDI inflows and growth rates, they are closely monitored by industries, governments, consumers, and PE firms.

Kenya serves as a commercial center for East Africa and is home to many multinational corporations, which means that it depends on FDI for capital inflow, which in turn indicates the creation of jobs and an economy that has been bolstered by foreign investments (Anne, Okello, & Khadidiatou, 2023). FDI is allowed in all industries in Kenya, including banking, telecommunications, and the automotive sector. Various global corporations, such as Coca-Cola, Car and General, and telecom businesses like Airtel, have established operations in Kenya. Goods and services that are used in every part of our lives are subject to FDI. However, because they have created jobs and imparted technical knowledge by training people to maintain standards found in other types of investments around the world, FDIs are not excluded. Over the past 10 years, Kenya has seen an average rise of forty percent in FDI, with the majority of inflows coming from the United States, the United Kingdom, and India, and going mostly into consumer and retail goods, technology, telecommunications, media, minerals, natural gas, and oil sectors (Mose & Kipchirchir, 2024).

Foreign Direct Investment

Foreign Direct Investment is seen as an investment that entails a long-term partnership and conveys a consistent interest and management by a native entity in a particular economy (the parent company or FDI) in a business situated in a different economy than the investor's (FDI company or affiliate company or foreign affiliate). FDI is the term used to describe a stake in a foreign business or initiative created by an international government, business, or investor (Odhiambo, 2022). FDI describes a business resolution to acquire a substantial share of a foreign company or to acquire it completely so as to extend activities to a different

area. FDI implies that the investor controls a significant portion of the company's operations in the other nations. This type of investment covers the initial deal between the two companies as well as all follow-up deals between them and their foreign affiliates, both registered and not. Corporate enterprises and private individuals may participate in FDI.

FDI flows include amounts of money that a foreign direct investor receives from an investing company or gives to an enterprise directly or through other related businesses. Investing to obtain a long-term managerial role (often 10 percent of shares that cast votes) in a company that is situated outside of the investor's place of origin is known as FDI. Greenfield investment, also acknowledged as mortar and brick investment and merger and acquisition (M&A), which refers to buying an existing interest instead of establishing a new venture, are two possible forms of such investments (Mose & Kipchirchir, 2024). Intra-company loans, reinvested earnings, and net equity capital were all regarded as FDI inflows. Investors provide equity funds directly as capital, which are then used in long-term financing with dividends and/or capital gains as the anticipated returns. Reinvested earnings are money that is placed back into the company to finance business endeavor expansion rather than being distributed as dividends to shareholders. Intra-company loans are those given to a business or to affiliated businesses with the purpose of funding new initiatives or assisting in business expansion (Eurostat, 2023).

To entice both foreign and indigenous investment, the Kenyan government offers incentives that are both monetary and non-monetary. Moreover, in the 1990s and 2000s, the Kenyan government has unveiled two unique incentives, namely Special Economic Zones (SEZs) or Export Processing Zones (EPZs). Governments create SEZs in an effort to promote trade and investment in certain areas by providing subsidies in the form of reduced tax rates, regulatory incentives, and infrastructure. Similarly, EPZs are intended to attract export oriented companies by offering them investment opportunities in chosen locations (KenInvest, 2020). In 1993, the Ministry of Finance introduced an export-based policy which was a complete reimbursement of the exporters on the payment of import tax on the inputs used in production. The programme was successful as can be seen with increased exports between 1993 and 1998 (Anne, Okello, and Khadidiatou, 2023). In order to support the operations of the business in Kenya, the government grants the foreign investors the right to form and operate business. The government changed regulations that cap foreign businesses listed on the NSE at 25% ownership, increasing it from 75 percent to 100 percent in an effort to encourage even more international investment (KenInvest, 2020).

Kenya has adopted a number of strategies and laws since attaining independence in 1963, with the goal of encouraging investor growth and assistance. In 1964, the Kenyan government passed the Foreign Investment Protection Act (FIPA) to provide basic protections for investors. It was renamed the Investment Advisory and Promotion Center in 1982. The Investment Promotion Centre(IPC), its new name given to it in 1986, in order to encourage private investment from both domestic and foreign companies. The Investment Promotion Act (IPA) of 2004 led to the renaming of the IPC as the Kenya

Investment Authority (KenInvest). The purpose of the IPA is to encourage and facilitate investment by helping investors get the resources they need to carry out their operations. There are significant FDI restrictions in the 2004 Investment Promotion Act (Anne, Okello & Khadidiatou, 2023). Despite these policies, FDI in Kenya has been fluctuating.

Macroeconomic Variables

An economy is impacted by macroeconomic factors, which are broad measures of financial growth or decrease. Macroeconomic factors are events in the economy, geopolitics, or environment that impact the monetary stability of a whole country or region rather than just a portion of its population. The economic impact of a macroeconomic factor establishes whether it is viewed as positive, negative, or neutral (Emenalom, Nwabeke & Sampson, 2022). Any nation's interest in FDI influx would undoubtedly be piqued by the stability of macroeconomic factors, including low inflation, less external debt, a stable currency, and a higher GDP rate. Increased macroeconomic stability indicates lower investment risk, which often impacts the firm's overseas investment costs and revenues (Njenga, Wafula, & Matanda, 2022). Major macroeconomic factors (interest rate, inflation, exchange rate, taxation policy and GDP growth rate) was considered in this study. Interest Rate is seen as the realized or annualized rate of return on a financial investment. According to George, Xie, and Alba (2021), central banks establish interest rates that affect consumer spending trends, investment choices, and borrowing costs. The incentive that lenders receive for postponing consumption and the risk involved in lending are reflected in the real interest rate. It is influenced by things like productivity, the potential for economic expansion, and the supply and demand for investments and savings. Changes in monetary policy and output have the most effect on it. A nation is more attractive to foreign direct investment (FDI) inflows when its home interest rate is higher than the global interest rate, and vice versa.

Inflation is the overall rise in the level of prices. Kenya’s Consumer Price Index (CPI), which tracks fluctuations in the cost of a certain basket of necessities, captures it. Any government's commitment and credibility are communicated to investors by a history of low inflation. Controlling inflation is essential for the overall economic structure and decision-making management (Oluwole, 2020). According to Njenga, Wafula, and Matanda (2022), inflation is the general term for the gradual increment in the goods and services cost. Among other things, it influences interest rates, production costs, and consumer purchasing power. Exchange rate is how much one unit of a country's currency costs in relation to one unit of a foreign currency. The current exchange rate determines a currency's value in relation to another and influences international trade, competitiveness, and cross-border capital flows (Mostafa, 2020). The base currency and the counter currency, which establish the exchange ratio between the two currencies, are among its constituents. Variations in these elements cause the exchange rate to fluctuate. Through monetary policies and interventions in the international currency exchange, governments and central banks have an impact on exchange rates.

Taxation policy is the set of laws and regulations that the government enforces in order to collect and impose taxes. It includes both micro and macroeconomic elements, the former

of which concentrates on the effectiveness and fairness of tax collection, while the latter considers the total amount of taxes that must be collected and how they affect economic activity (International Monetary Fund, 2025). To ensure that governments possess the funds necessary to support their economic and social initiatives, finding a balance between increasing the tax system's contributions to equitable and sustainable economic expansion is the goal of tax policy. GDP growth rate measures the total economic activity within a country. In terms of services and goods generated within a nation, it symbolizes the various economic activity categories that add to the overall value of domestic output (Ouyang, Song & Zheng, 2020). Expenditure by the government on public goods and services is included in consumption, which also includes household expenditure on goods and services; investment, which comprises capital goods investment by businesses and households; Additionally, the components of GDP are net exports, which are the difference between imports and exports (Britannica, 2023).

Statement of the Problem

Foreign direct investment (FDI) has been a major source of funding for many national economies throughout time serving as a central driver for the economic development of various emerging nations, including Kenya. Like most emerging nations, Kenya has struggled to draw in and keep FDI at levels that enable domestic investment to benefit from capital inflows (Odhiambo, 2022). To promote FDI inflows into the nation, the Kenyan government has implemented macroeconomic policies and incentives over the years. Among other things, these policies comprised the establishment of FIPA in 1964 to afford investors the basic protectionary standards and the IPC in 1986 to stimulate private investment by both domestic and foreign investors (Anne, Okello & Khadidiatou, 2023). Notwithstanding these steps, the nation's FDI inflows have remained erratic inflows into Kenya as a proportion of GDP fell from 3.46% to 1.34% in 2014. From 0.97% to 0.98% in 2016, 1.60% in 2017, 1.85% in 2018, 1.40% in 2019, 0.87% in 2020, and 0.35% in 2022. Hence, the present investigation seeks to explore how Kenya’s FDI is influenced by macroeconomic factors.

Several investigations have been conducted on macroeconomic variables and FDI. Ovata, Henryb, Atelhec, Efffionga, Emekad, Ndema, and Aduwoa (2024) investigate how interest rates and FDI affect Nigeria's economic expansion from 1980 to 2022. And discovered that the rate of interest had a favorable and negligible effect on economic expansion in the near term and an unfavorable and negligible effect on growth in the long run. Oluchi and Abel (2024) investigated the impact of taxes on FDI flows to Nigeria and found that FDI flows to Nigeria were significantly and negatively impacted by corporate income tax. A conceptual and contextual gap exists, given that the prior inquiry was based on other countries and on individual macroeconomic variables.

Using the GNC test and cointegration testing, Elian, Bani-Mustafa, Sawalha, Alsaber, and Pan (2024) investigated how economic expansion affected FDI inflows into the economies of the BRICS countries. The outcome indicated that in the short and long term, economic expansion is a favorable and important driver of FDI inflows. Between 2013 and 2022,

Musembi and Jagongo (2023) evaluated the connection between FDI and currency changes in Kenya. A noteworthy inverse association involving rates of exchange and FDI is established by the correlation study. A methodological gap exists since the prior inquiry utilized the GNC test, OLS, and cointegration technique, the present investigation utilized descriptive statistics and multiple regression. The prior inquiries were carried out in different countries and other studies that have been done in Kenya did not incorporate the combined effect of major macroeconomic variables. Therefore, this investigation was based on macroeconomic variables effect on Kenya's FDI.

Objectives of the Study

The main objective of the study is to evaluate macroeconomic variables effect on foreign direct investment in Kenya. The specific objectives include:

(i) To explore the effect of interest rate on foreign direct investment in Kenya.
(ii) To examine the effect of inflation on foreign direct investment in Kenya.
(iii) To evaluate the effect of exchange rate on foreign direct investment in Kenya.
(iv) To examine the effect of taxation policy on foreign direct investment in Kenya.
(v) To evaluate the effect of GDP growth rate on foreign direct investment in Kenya.

Research Hypotheses

H_{01}: Interest rate has no significant effect on foreign direct investment in Kenya**.**
H_{02}: Inflation rate has no significant effect on foreign direct investment in Kenya.
H_{03}: Exchange rate has no significant effect on foreign direct investment in Kenya.
H_{04}: Taxation policy diversity has no significant effect on foreign direct investment in Kenya.
H_{05}: GDP growth rate diversity has no significant effect on foreign direct investment in Kenya.

Scope of the Study

The present investigation goal looked at how macroeconomic factors affect Kenya's FDI. The inquiry's focus on Kenya's FDI growth rate between 1990 to 2024. For accuracy, this includes previous years as well as the most current policy changes that have affected FDI, such as the economic recovery strategy to Vision 2030. The period covered 1990–2024. The timeframe between 1990 and 2024 was chosen since that is when the nation is seeing an unpredictable increase in foreign direct investments. In this investigation, time series secondary data was used. The study was anchored on an eclectic paradigm, OLI theory, theory of Purchasing parity, macroeconomic stability theory and neoclassical growth theory. A descriptive research approach and multiple estimation techniques was employed.

LITERATURE REVIEW

Theoretical Review

The theories selected for the present investigation are the Eclectic Paradigm OLI, Theory of Macroeconomic Stability, Theory of Purchasing Power Parity, and Neoclassical Growth Theory.

Eclectic Paradigm Theory

The eclectic paradigm theory by Dunning (1979) was used in the present investigation to explain inflation. This paradigm states that institutions will avoid open market transactions if performing the same duties internally, or in-house, would be less expensive. The eclectic paradigm states that if a company can get the commodity or service more cheaply and organically, they are reluctant to move forward with a foreign direct investment. By examining two forms of involvement, the theory examines the character of a nation's engagement in international affairs (Young, 2017). The eclectic paradigm's fundamental premise is that a group of three interconnected factors may account for the returns on FDI and, consequently, FDI itself: Proprietary technology, brand recognition, or distinctive business processes that provide the company with a competitive edge are known as ownership advantages (they reveal how would produce overseas and, in addition, different types of overseas activities. International businesses will choose to produce abroad when it is more advantageous for them to blend domestically produced, geographically transferable intermediate goods with at least a few stationary parts or foreign-specific intermediate goods (Dunning, 1988). A multinational corporation would prefer to avoid or take advantage of certain location advantages, such as availability and endowment, geographical considerations, or government involvement in resource distribution as represented by laws pertaining to technological development and licensing, the patent system, and exchange rate and tax laws (Dunning, 1977). Using this to support the idea that, despite the fact that researchers first focused on factor endowments, particularly labor costs and productivity (Krugman, 1983).

Despite its extensive application in international business, Dunning's eclectic paradigm—also referred to as the OLI model—has drawn criticism for its shortcomings. One significant critique is that it lacks a clear, cohesive theoretical framework, which makes it difficult to justify particular methods or interventions. Furthermore, the paradigm's emphasis on static benefits may not adequately reflect the dynamic character of global business, and it is regarded as descriptive rather than predictive. The internalization advantage component, according to some detractors, overlaps with ownership and location benefits, possibly rendering the concept less frugal. How FDI is influenced by inflation is explained using Dunning's eclectic paradigm. According to the hypothesis, as globalization increases, ownership and geographical advantages would force businesses to integrate entrance strategies, such as joint ventures or foreign direct investment, in opposition to exporting or licensing. But as inflation rises, production costs rise as well, making a nation less attractive for foreign investment. The theory supports the independent variable (inflation rates).

Purchasing Power Parity Theory

Cassel (1918) advanced this theoretical postulation which was utilized in explaining the exchange rate in the present investigation. Regardless of where they are located, similar items should often trade at a similar price when transaction costs are absent, according to the hypothesis. Taylor and Taylor (2004) state that the theory asserts that the nominal

exchange rates be equated to the ratio of the total prices of the 2 currencies. In this approach, even in a foreign economy, 1 unit of 1 nation's currency will eventually have a comparable purchasing value. PPP is based on the idea of international commodities arbitrage, which is linked to the law of 1 price. Internationally traded items should be priced the same everywhere in the world, according to the law of one price (Suranovic, 2012).PPP, often seen as the inflation theory of exchange rates, is where the theory begins (Dutt & Ghosh,2018). According to PPP, differences between countries arise if and when the exchange rate shifts to counteract the pace of inflation (Hyrina & Serletis, 2013).The conversion standard should serve as the link involving the two markets, which will also signal the beginning of the connection involving the variations in the exchange rate and inflation rate. To put it another way, the switching scale adapts to the monetary standards' relative gains of energy as the expansion rate difference between them varies. There will be equality between the two monetary standards if the hypothesis is correct (Madura, 2007). There exist two buying power parity types: relative PPP and absolute PPP. When one unit of a currency has the same purchasing power in the local and overseas markets upon being exchanged for that overseas currency at the current exchange rate, this is known as absolute PPP (Iyke & Odhiambo, 2017).

The affiliation between the relative pricing of products and the exchange rate is demonstrated by the PPP theorem. Although PPP was previously mentioned in Spain and England in the early 16th century, Cassel the first to use this notion as the PPP. Furthermore, Cassel once said that without the PPP theory, there might not be a relevant approach to debate currency overvaluation and undervaluation (Morgan, 2012). Although the PPP theory has various drawbacks, it is helpful for comprehending long-term exchange rate movements. Among these are the effects of variables other than price levels. In the on-going inquiry, the link amongst inflation and foreign exchange rates is established using the PPP theory. According to the theory, the relative cost of comparable goods in two countries should be used to evaluate foreign exchange rates (FXR).To maintain equilibrium, a nation's inflation rate should be inversely proportional to its exchange rate.

Theory of Macroeconomic Stability

Robinson (1979) developed theory of Macroeconomic Stability as a departure from the standard use of factor analysis in identifying the different variables that are probably going to affect economic expansion. Some researchers have measured the macroeconomic variables and discovered evidence that adjustments in lending rates and exchange rates are caused by the fair pricing of securities. This is corroborated by a study by Fama (1978), who found that stock prices fully reflect changes in inflation rates. According to this hypothesis, attracting FDI greatly depends on the stability of the economic environment. Investor confidence and uncertainty reduction will result from stable inflation, interest rates, GDP, and taxes. The inquiry evaluates the impact of macroeconomic instability on short and long-term FDI decisions using this hypothesis. (Chen *et al*., 2023).

The low market return volatility brought about by shifts in several macroeconomic factors is examined by the macroeconomist theory. According to this method, shifts in interest

rates and other macroeconomic factors are what drive capital market activity. This method is founded on equilibrium theory, which holds that knowing the relationships between the different sectors is essential to comprehending macroeconomic movements and that everything is dependent on everything else (Fama, 1978). Although the theory offers a thorough understanding of economic events, it contains drawbacks that may compromise the precision and efficacy of economic interventions. The homogeneity of economic agents is a common assumption made by macroeconomic models, which fail to take individual behavior variations and market variances into account. As a result, policies may be implemented incorrectly and may not meet specific demands and objectives (Nandedkar, 2024). Since this theory establishes how various macroeconomic factors impact FDI inflow, its applicability cannot be overstated. The theory supports the link amongst the explanatory variable (macroeconomic factors) and the dependent variable (FDI).

Neoclassical Growth Theory

On the concept of decreasing returns, the neoclassical growth theory is predicated. Accordingly, the law of diminishing returns suggests that increasing the number of data sources relative to other established contributions to a particular state of innovation will increase yield, but that the additional yield resulting from similar options of additional information sources will likely eventually become noticeably and less (Samuelson, 1975). However, if the growth rates of the two information sources are equal, there might be consistent returns to scale rather than decreasing returns, where everything adjusts and all efficiencies of large-scale formation has simply been recognized (Samuelson, 1975). From any perspective, increasing the components of generation will result in increasing returns rather than decreasing returns if economies of scale are recognized (Jon, 2001). Foreign investors should focus if rising returns to scale, rather than declining returns, dominate the economy.

According to the neoclassical model of economic expansion, labor force growth—which is regarded as an exogenous variable in econometrics—is the only way that technical advancement may lead to long-term growth. Since FDI has the prospective of boosting economic expansion if it has a favorable and long-lasting impact on technical advancement, some scholars, such as De Mello (1997) and Solow (1956), have attempted to model its impacts within the neoclassical framework. The neoclassical growth theory states that FDI has greater productivity than domestic investment because the technology spillovers linked with FDI could mitigate the consequences of diminishing returns on capital and enable long-term economic expansion. Building on the aforementioned concepts, FDI promotes the integration of new technologies and inputs into host nations' production systems. This theory emphasizes how macroeconomic stability fosters an atmosphere that allows for the full gains of FDI. To maximize FDI's contributions to long-term economic growth, stable interest rates, inflation, and GDP growth rates are necessary. Since the theory clarifies the investing notion, it is relevant to this investigation. The theory supports the independent variable (economic growth, stable interest rates, inflation, and GDP growth rates.

Empirical Review

Interest Rates and FDI Inflows

How Kenya's FDI was affected by interest rates from 1985 and 2020, assessed by Njenga, Wafula, and Matanda (2022). An explanatory research approach was employed in the inquiry. The secondary time-series data used in this investigation was collected utilizing a data extraction checklist. Inferential and descriptive estimation techniques are utilized to estimate the quantitative data. According to the inquiry, interest rates have a negligible and inverse impact on Kenya's FDI. The investigation came to the conclusion that lower interest rates make borrowing more affordable, which promotes credit and investment spending and consequently increases foreign direct investment. The aforementioned investigation was carried out on Kenyan FDI for the years 1985 and 2020. However, the present study focused on FDI inflows in Kenya from 1990 to 2024.

Emenalom, Nwabeke, and Sampson (2022) studied effects of interest rates on foreign direct investment (FDI) in South Africa and Nigeria. The World Bank database and the Statistical Bulletin of the Central Bank of Nigeria have been the sources of time-series data between 1987 and 2017. The authors were using Vector Error Correction Model (VECM) and ordinary least squares (OLS) methods to obtain the dynamic relationships. The empirical results showed that the interest rates have a positive influence on the FDI inflows in South Africa but negative influence on the FDI importation into the Nigerian economy. Besides, the analysis did not show any statistically significant positive or negative relationship between the exchange rates and inward FDI in both countries. Although the given research focuses on FDI in Nigeria and South Africa, the current study is focused on investigating the FDI inflows into Kenya.

Inflation Rates and FDI Inflows

How inflation affects the amount of FDI in Nigeria between 1995-2020, assessed by Charles, Chilaka, and Ima-Obong (2023). Secondary data was collected from the WB Database, NBS, and the CBN Statistical Bulletin to determine the link amongst inflation and FDI. The study applied the VECM. The outcome demonstrated that the inflation effect on FDI is negligible. The investigation deduced that there exist long-term link amongst FDI and inflation. Although the study only focused on FDI in Nigeria from 1995-2020. The present investigation focused on FDI inflows in Kenya from 1990 to 2024

Tërstena, Deda, Todorova, Mehmeti, and Krasniqi (2023) assessed how inflation affects the financial effectiveness of businesses in Kosovo for the years 2018-2021. The study's research methodology, which also featured a quantitative approach, included the descriptive and inferential methods. The research sample consisted of 120 firms. The outcome stated that inflation has a favorable effect on the profitability of businesses in Kosovo. The outcome of the inquiry clearly shows how inflation affects Kosovo's economic performance. While the previous research centered on the financial effectiveness of companies with operations in Kosovo, the present inquiry centered on Kenyan FDI.

Exchange Rate and FDI Inflows

Between 2013 and 2022, Musembi and Jagongo (2023) evaluated the connection amongst FDI and currency changes in Kenya. Using yearly secondary data and a causal explanatory research design, PICOT was used to identify pertinent studies for analysis, and the correlation analysis estimation technique was applied. A statistically notable inverse association amongst exchange rates and FDI is established by the correlation study. The results deduced that currency fluctuations are a major source of uncertainty, which delays investment choices and lowers FDI because of high sunk costs. While the prior conducted on FDI in Kenya for the year 2013- 2022, the present investigation was based on FDI inflows in Kenya from 1990-2024

How currency rates affect FDI influx into Nigeria between 1981 and 2022 is explored by Chete, Olanrele, and Angahar (2024).To demonstrate the enduring links and ever-changing associations amongst FDI and the macroeconomic factors, the ARDL model was utilized. Based on the inquiry's outcome, currency rates have a long-term favorable but irrelevant impact on FDI inflows. The inquiry inferred that FDI flows to Nigeria are notably influenced by the currency rate. Depreciation of the exchange rate encourages FDI influx. Its volatility or instability, however, may limit FDI inflows. The present investigation was centered in Kenya, whereas the prior inquiry centered in Nigeria.

Taxation Policies and FDI Inflows

How tax advantages affect Kenyan FDI entry between 2002-2021 is evaluated by Terence, Ngala, and Mungai (2024).For the study using time series data, descriptive, correlational, and causal research methodologies were employed. The World Bank, IMF, and World Investment Reports provided the statistics for the FDI inflow trend. According to the outcome, tax breaks and ongoing government spending had a noteworthy favourable influence on Kenyan FDI, nonetheless, government external debt had a detrimental effect. The study deduced that strategically utilizing tax incentives, such as Corporate Income Tax (CIT), is key in increasing the inflow of FDI. While the prior conducted on Kenya’s FDI over the time from 2002- 2021, the present investigation will concentrate on FDI inflows in Kenya from 1990-2024.

Using time series data spanning from 2000 to 2020, Oluchi and Abel (2024) investigated the impact of taxes on FDI flows to Nigeria. The inquiry's data was collected from the NBS, the Federal Inland Revenue, and the CBN Statistical Bulletin. OLS is used for multiple regression analysis. The outcome demonstrated that FDI flows to Nigeria were significantly and negatively impacted by corporate income tax. The investigation deduced that taxes collectively have a big impact on FDI in Nigeria. While the prior conducted on FDI in Nigeria over the period from 2000-2020, the present investigation focused on FDI inflows in Kenya from 1990-2024.

GDP Growth Rates and FDI Inflows

Using a panel dataset comprising 159 nations in various geo-economic areas, Ghazalian (2023) explored the immediate and long-term influence of economic growth on the inflows

of FDI for the years 2005–2019.GMM System estimator for dynamic panel models is used to do the empirical analysis. The findings demonstrated that economic growth has a substantial favorable impact on FDI inflows, and they showed that the sizes of these advantages are similar across time and do not decrease with increasing levels of economic expansion. The study came to the conclusion that increased investment levels coincide with economic growth, which benefits the host nation's location and creates chances for MNEs to invest abroad. The prior inquiry was based on FDI inflows in 159 countries and utilized a panel estimation technique. The present investigation was carried out on FDI inflows in Kenya and utilized a time series multiple regression estimation technique.

How the GDP growth rate affects FDI in Nigeria from 1986 to 2020 is examined by (Nwagu,2023). The study design used an ex post facto design. The ARDL method is applied. According to the computed short-run coefficients, the main macroeconomic factor that significantly raised FDI influx into Nigeria was the GDP growth rate. Over time, FDI inflow is positively impacted by the GDP growth rate. The study concluded that rapid GDP growth attracts FDI and that effective foreign exchange policies are necessary to pull in foreign capital. The study focused on FDI flowing into Nigeria between 1986 and 2020. The present study focused on FDI flowing into Kenya between 1990 and 2024.

RESEARCH METHODOLOGY

Research Design

As per Mugenda and Mugenda (2013), a research design refers to a structured plan, structure, or a scheme that is developed to deal with a problem of research. The research in this case is quantitative. In order to understand a phenomenon, it also entails obtaining numerical data and critically examining it (Dawadi, Shrestha & Giri, 2021). Furthermore, the study might be considered to use a correlation design because it aims to compare numerous factors collectively. When examining the link between two or more variables, a correlation design is useful. Additionally, the variables the study plans to use have a linear relationship with one another. Therefore, using a linear regression model, it can be considered a correlation design (Otieno, 2015).

Target Population

Kothari (2017) noted that this is a single phrase that describes the number and type of occurrences under investigation. The aim of the present inquiry is to explore how macroeconomic factors affect Kenya's FDI growth rate. Therefore, its target population will include quarterly Data on FDI and quarterly observations of macroeconomic variables— like inflation, interest rates, currency rates, taxation, and GDP— for the study period (1990–2024). That's thirty-four years. Data on actual macroeconomic factors and the growth rate of FDI is among the data that was mined.

Empirical Model

The investigation deployed multiple regression analysis to examine how the predictor variable affects the outcome; a linear regression model was utilized. The regression model for analysis has the following mathematical representation;

$$FDI_t = \beta_0 + \beta_1 ITR_t + \beta_2 IFR_t + \beta_3 EXR_t + \beta_4 ITXR_t + \beta_5 GDP_t + u_t$$

Where: FDI=Foreign Direct Investment, ITXR = Income Tax Rate, IFR=Inflation Rate GDP=Gross Domestic Product, EXR = Exchange Rate, ITR=Interest Rate, t = Time Scope, β1–β5=Coefficients, u= Error term.

RESULTS AND DISCUSSIONS

Descriptive Analysis

The summary of data that portrays a single coefficient is arrived at via descriptive analysis. This illustrates the trend and pattern in which the variables' information is displayed and distributed. The statistics that result from this analysis cut across mean, standard deviation, minimum and maximum values and the result is contained in Table 4.1.

Table 1: Descriptive Results

Variable	Obs	Mean	Std. Dev.	Min	Max
Foreign Direct Investment	140	9.36e+07	1.11e+08	-1400000	3.60e+08
Interest rate	140	18.54887	6.637468	11.8767	36.24
Inflation rate	140	8.49878	5.183462	.933206	25.6985
Exchange rate	140	79.72743	26.5392	22.9148	153.39
Taxation Policy	140	1.13e+11	5.41e+10	5.75e+10	2.18e+11
GDP Growth rate	140	3.452465	2.483664	-4.04	10.48

Source: Authors' computation (2025)

Table 1 reports a mean Foreign Direct Investment of 93,600,000, followed by a standard deviation of 111,000,000, with observations varying from a low of -1,400,000 to a high of 360,000,000. This high mean FDI reflects high use of foreign capital in the Kenyan economy, but the relatively high standard deviation and the wide range of negative to large positive outflows imply high volatility. The volatility is not only of the periods of high foreign investment attraction but also of the periods of disinvestment or capital flight. These are occasioned by underlying macroeconomic instability, intersectoral differences, or vulnerabilities to uncertainty driven by policy and politics, thus lending support to recent findings made in the study of Mijiyawa (2020), as he argues that variables associated with the political environment and regulatory uncertainty are key determinants of the flow of FDI in several parts of Africa. With regards to the interest rates, the mean found to be 18.54887, followed by a standard deviation of 6.637468, with the rates spanning 11.8767 to the maximum of 36.24. The significantly high mean interest rate highlights the challenges experienced in Kenya's monetary system, most significantly in controlling inflation and sustaining currency stability. The wide range reflects the huge monetary policy shifts or responses to external shocks, as highlighted by Osoro et al. (2022), in the context of the strong interest rate fluctuations effect on investment and capital flows in emerging markets. The lower end reflects periods of monetary easing, while the upper end reflects monetary policy tightening, intended, most likely, in the face of inflation pressures.

With respect to inflation, the mean recorded 8.49878, including a standard deviation of 5.183462, with the values spanning 0.933206 to 25.6985. The fairly moderate, but somewhat high, mean indicates ongoing price pressures, which, as Were and Wambua (2013) explain, tend to reduce real returns for investors and swell risk premia. The wide range, particularly the maximums that are greater than 25, indicates isolated periods of inflationary bouts that significantly hurt the stability of the economy and restrict the flow of FDI via the erosion of

the power of purchase and the certainty of future earnings. Exchange rate mean returned 79.72743, standard deviation 26.5392, and the range 22.9148 to 153.39. These results depict high volatility in the Kenyan shilling, a fact that is also evidenced in recent findings from Ndungu (2011), in that the negative effects of currency risk are emphasized on the psyche of investors alongside the composition of the foreign portfolio. The high maximum indicates periods of steeper depreciation, commonly associated with capital outflows and external disequilibria, of which, both, through heightened conversion risk and uncertainty, significantly restrict the flow of FDI.

The policy of taxation has 1.13e+11 as mean and 5.41e+10 as standard deviation, with values that fall within 5.75e+10 to 2.18e+11. These numbers represent a remarkable fiscal contribution, but the high variability points to prospects of shifts or inconsistencies in policy that could impact investor perceptions of after-tax yields. Recent literature, such as that of Ezenagu (2020), highlights the value of clear and stable tax regimes in shaping the location of FDI in observations that find support in the high variability of the current analysis, with implications for the need for continued reforms and policy clarity. The mean GDP growth rate is 3.452465 with a standard deviation of 2.483664, spanning a range of -4.04 and 10.48. These numbers capture a moderating oscillating economic trajectory marked by periods of contraction and robust upticks. Periods of negative growth highlight the exposure of the Kenyan economy to both cycle and structural disruptions, studied in Were et al. (2012).

Correlational Analysis

The determination of the strength and direction of association involving the factors evaluated using Pairwise correlation analysis. This shows how these variables are linked to each other but does not necessarily depicts a causal relationship involving the factors under consideration. Having evaluated the connection, the outcome of the inquiry is purportedly recorded in Table

Table 2: Correlation Results

	Foreign Direct Investment	Interest rate	Inflation rate	Exchange rate	Taxation policy	GDP Growth rate
Foreign Direct Investment	1.0000					
Interest rate	-0.3520*	1.0000				
Inflation rate	-0.0698	0.4391*	1.0000			
Exchange rate	0.5338*	-0.5395*	-0.4492*	1.0000		
Taxation Policy	0.6500*	-0.6259*	-0.2968*	0.8418*	1.0000	
GDP Growth rate	0.2316*	-0.2989*	-0.3286*	0.2462*	0.2545*	1.0000

Source: Authors computation (2025)

Table 2 shows that FDI has an inverse, but significant, correlation with the interest rate (r = -0.3520*). The negative association indicates that high interest rates would most probably deter foreign investors since the costs of borrowing would go up, as would the capital outlays, thus increasing the basic cost of investment projects. The output is constant with Ovata et al., (2024)

who instituted significant effect of interest rates on the flow of FDI. The inflation rate does not show a statically significant association with FDI (r = -0.0698, not significant), suggesting that, in the time considered in Kenya, inter-period changes in the rates of inflation did not always determine the decisions for the foreign investments.

FDI shows a significantly positive association with the exchange rate (r = 0.5338*). This indicates that periods of appreciation or relative stability in the exchange rate create an environment that allows for the repatriation of capital and profits for the foreign investor, thus enabling investment inflows. This is in line with the findings of Mostafa (2020); Wambua (2023); Musembi and Jagongo (2023); Lajevardi and Chowdhury (2024); and Chete, Olanrele, and Angahar (2024) who unveiled that there possessed a significant link amongst the exchange rate and FDI. Furthermore, the taxation policy shows a strong and significant association with FDI (r = 0.6500*), highlighting the importance of favorable and certain fiscal environments in the attraction of international capital. The high magnitude of the coefficient also supports Asih (2020); Gaya (2021); Terence, Ngala, and Mungai (2024); Oluchi and Abel (2024) argument that clear and stable tax environments are necessary in the successful attraction of FDI since they directly influence net profitability and the decision to invest. The GDP growth rate shows a weak but significantly positive association with FDI (r = 0.2316*), suggesting that strong economic growth encourages foreign investment since it signals expanded market prospects and better business expectations. This is in agreement with the arguments of the results resonated with the findings of Ghazalian (2023); Nwagu (2023); Kanodia, Mohapatra, and Jena (2023); Elian et al. (2024) which establish that economic growth enhances the confidence of investors and creates conditions suitable for capital in-flows.

Autoregressive Distributed Lag Results

Autoregressive Distributed Lag (ARDL) models are an eclectic collection of econometric models that are used to model the dynamic nature of an interdependence between a dependent variable and one or more independent variables, especially when the data is non-stationary at the third difference (I(2)). It is based on the findings of the bounds test and the stationarity tests that the short-run estimates of the ARDL specification are tabled in Table 4.9.

Table 3: Short-Run ARDL Results: Dependent Variable: FDI

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
D(Interest rate)	-613025.4	2397441.	0.000000	0.0000
D(Inflation rate)	3391693.	1790000.	0.000000	0.0000
D(Exchange rate)	371606.0	1010176.	0.000000	0.0000
D(Taxation policy)	0.001654	0.000577	2.868502	0.0048
D(GDP growth rate)	1638416.	2289387.	0.000000	0.0000
CointEq(-1)*	-0.148249	0.040191	-3.688654	0.0003
R-squared	0.149021	F-statistic		70.31997
Adjusted R-squared	0.117029	Prob(F-statistic)		0.000000

Source: Authors computation (2025)

The short-run coefficients designate that all studied macroeconomic factors possess a significant impact on the change of FDI. As observed in table 3 interest rate change (D(INT)) had a very strong negative coefficient of -613,025.4, (p= 0.0000), implying that when interest rates are driven up immediately FDI inflows would be pushed down, which is in accordance with the theoretical expectations that high interest rates repels foreign investments because it makes it expensive to borrow funds. The inverse value of the coefficient of the interest rate of -613,025.4 means that when interest rates increase in the short run, there is a huge drop in Foreign Direct Investment in Kenya by Ksh 613,025.4. The rate of change of inflation rate (D(INF)) conversely provided a significant positive coefficient that stood at 3,391,693 (p = 0.0000). The positive coefficient 3,391,693 is in favour of the inflation rate that means that in the short run the rising of the inflation rate comes with the growth of FDI inflows in Ksh 3,391,693 which may be related to the change in economic activity. Such implies an anti-intuitive, yet statistically solid brief optimistic relationship, and this can hint subtle investor reactions to inflationary situations or basic economic growth. The difference in exchange rates (D(EXCH)) also contributing positively to FDI (coefficient 371,606.0, p=0.0000). The positive 371,606.0 on exchange rate means that positive movements (appreciation or stability) of the exchange rate improves foreign investment because it reduces the currency risk by Ksh 371, 606. This underscores the need to have an exchange rate stability or appreciation to obtain foreign investments by alleviating currency risk. There a positive and significant coefficient of taxation policy (D(TAX)) (0.001654, p=0.0048). The coefficient signifies that a good or better taxation policy is significantly stimulating FDI within the short term with 0.0016 percentage improvement or better taxation policy, which is in support of the fact that a consistent and favourable fiscal policy has a significant importance in stimulating investment inflow.

The growth rate of GDP (D(GDP)) also portrayed a favorable influence (1,638,416, p=0.0000). The coefficient of 1,638,416 is positive hence the effect on the GDP growth rate fosters FDI inflows to the tune of Ksh1,638,416 increase which is indicative of greater market potential thus, creating a situation that supports the view that short-run economic expansion in an environment favorable to foreign investors. The term on error correction, CointEq(-1) significantly negative (-0.148249, p=0.0003), and itself strong evidence to suggest that there indeed a stable long run link involving FDI and the macroeconomic variables. The level of the coefficient indicates that about 14.8 percent of whatever short- run disequilibrium in existence was rectified in the next one period, which explains the moderate rate of adaptation toward the long-run equilibrium. R-squared of the model is 0.149 which implies that these variables have the ability to explain about 15% of the change in FDI and this is usually modest though it is also representative of the nature of determinants of foreign investment. According to Frost (2012), it is common to find that macroeconomic models have poor explanatory ability because there are a number of influential factors that cannot be measured or taken to measure and are therefore not observed. These could be market sentiments, behavioural bias, structural break and sudden shock- all of these could put a lot of noise and variation in the data that remains unexplained by the incorporated variables. Also, the value of F-statistic 70.320 (p=0.0000) indicates that included predictors are jointly significant.

Hypothesis Testing and Discussion of Findings

The inquiry employed the hypothesis testing techniques in its analyses on the outcomes of the regression analysis on macroeconomic factors impact on the FDI in Kenya. It has investigated the direction and the significance of the connection involving the independent variables (interest rate, inflation rate, exchange rate, taxation policy and GDP growth rate) and dependent variable (foreign direct investment). The aim of hypotheses testing is to provide an answer to the question of whether variables do have a significant influence on FDI or not. The results were compared and contrasted to the available literature to consider the implications of the results and determine whether they agree or not.

Effect of Interest rate on Foreign Direct Investment in Kenya

With regards to the impact of interest rates on FDI inflows in Kenya, the results find a statistically significant and negative coefficient in the short run. The above comment reflects that interest rate increases are associated with a significant decrease in FDI, thus confirming that high borrowing costs and tight monetary conditions are impediments to the flow of foreign capital in the Kenyan case. The implications of the results explain that the monetary policy tightening, the form of increased interest rates, directly impacts the cost of capital, thus making Kenya less attractive as an investment site for external parties in the short term. This result corroborates with the theories and verifies the findings presented by Ovata et al., (2024) which assert that increased interest rates significantly increase the flow of FDI.

Inflation rate has no significant effect on Foreign Direct Investment in Kenya

Regarding the effects of inflation rates on FDI inflows in Kenya, the analysis reveals a positively significant relationship in the short run. This outcome suggests that increases in inflation are associated with heightened FDI inflows, indicating that investors may perceive inflationary periods as coinciding with broader economic activity or potential opportunities for compensatory returns. The implication of this finding is that, contrary to the common assumption that inflation deters foreign investment by eroding real returns and increasing uncertainty, moderate inflation in the Kenyan context may reflect a growing economy that attracts foreign capital. This result aligns with evidence from Tërstena et al. (2023); Ezako (2023) who discovered that inflation rate significantly affect economic expansion. However, this finding contrast with findings of Charles, Chilaka, and Ima-Obong (2023); Davison, Cajetan, and John (2024) outcome demonstrated that the impact of inflation on FDI statistically negligible. These discrepancies underline the importance of Kenya's specific macroeconomic environment, potentially inclusive of monetary policy effectiveness and institutional frameworks, which may moderate the typical adverse effects of inflation on foreign investment flows.

Exchange rate does not significantly impact Foreign Direct Investment in Kenya

The affirmative and statistically significant effect of the exchange rate for FDI in Kenya may be described that an appreciating or favorable exchange rate increases the relative value of return for overseas investors, thus making investment more attractive. A strong Kenyan Shilling offsets the costs for the repatriation of profits, enhances confidence among investors, and is an indicator of the presence of monetary stability—crucial characteristics for the flow of

FDI. This result is correspondent with research proposing that appreciation of the exchange rate is correlated positively with increased inflows of FDI, driven by favorable conditions for investment and reduced currency risk. However, it is imperative to make clear that the favorable impact is also potentially conditional since fluctuations or depreciation of the exchange rate most of the time triggers doubt and risk, thus repelling investment, as supported in other research itself proposing the negative consequences of exchange rate volatility for the flow of FDI.

Taxation policy does not significantly impact Kenya's foreign direct investment

The inquiry of taxation policy impact on FDI in Kenya found a statistically significant positive association. The necessity, therefore, is to decline the null hypothesis, namely that taxation policy does not significantly impact the flow of FDI. The implication is that constructive tax policies, for example, exemptions from taxation alongside relief for industrial infrastructure and investment deductions, make Kenya more attractive to external investors since they reduce the effective tax burden and the reward for investing. Moreover, such results bring out in sharper relief the importance of a well-formulated tax policy in the promotion of an investment environment favoring sustained FDI inflow. Such results are also in consonance with the study of Asih (2020); Gaya (2021); Terence, Ngala, and Mungai (2024); Oluchi and Abel (2024) who registered the significant impacts of tax incentives toward the flows of FDI.

GDP Growth Rate has no significant effect on Foreign Direct Investment in Kenya

With regard to the linkage involving GDP growth rate and FDI in Kenya, the results show a statistically significant positive association. This therefore demands the null hypothesis rejection, that is, GDP growth does not play a significant role in influencing the FDI inflows. In other words, the results imply that increased GDP growth in Kenya makes the country a more attractive destination for international investors because the indicator of a strong and growing market offers better potential for return on their investment. In addition, the results directly imply that GDP growth-promoting policies are needed for the attraction and retention of foreign capital, the consequence of which gives the momentum to the economy. The results resonated with the findings of Ghazalian (2023); Nwagu (2023); Kanodia, Mohapatra, and Jena (2023); Elian et al. (2024) who identified a significant effect of FDI by GDP.

CONCLUSION AND RECOMMENDATIONS

Conclusions

The study primarily investigated the effect of macroeconomic variables on Kenya’s foreign direct investment. Specifically, the inquiry found that the level of interest rates has been proved to have a significant and negative effect on inflow of FDI in Kenya. This observation reflects on the theoretical basis of the liquidity preference theory that gives rise to the idea that the rate of interest surge the true cost of using capital to invest hence discourages investments. The increased interest rates make borrowing expensive and limits the supply of cheap finance, further weakening Kenya as the destination of the foreign investor. The uniqueness and the importance of this connection highlights the centrality of monetary policy in determining the investment climate with the changes in the interest rates being a key conduit of sending changes in the macroeconomic contexts to the international flows of capital. The adverse effect on FDI

of an increase in interest rates thus emphasizes the need to create an equilibrium and stable monetary situation to promote optimal environment towards the foreign investment and sustainable economic development in Kenya. It has been shown that the value of the levels of inflation rates leads to positive and significant impact on Kenya's FDI inflows. This association supports this idea that a moderate level of inflation shows current dynamism of economies and possible profitability thus drawing foreign investors who need profit gains in the emerging economies. The inflation positively affect FDI demonstrates the decisive nature of investors using macroeconomic environment perceptions in investing with an ability to perceive inflation as an indicator of a growing demand and investment pay offs. This noticeable positive correlation therefore points to the need to have a controlled yet growth enabling inflationary environment as a way of enhancing a good investment climate that would continue to attract foreign funds and Kenya's economic growth.

Kenya has shown the positive and significant effects of the exchange rate levels on the FDI inflows. This conclusion is in line with the idea implied in the theory that currency depreciation may increase the competitiveness of domestic assets which is likely to increase the interest of foreign investors in investing in Kenya in the sense that returns obtained in Kenya would be more attractive when weighing in foreign currency terms. This connection indicates the importance of the exchange rate dynamics in influencing the behavior of investors and the decisions made by them in terms of capital allocation. Taxation policy has been demonstrated to have a positive and a significant impact on the FDI inflows in Kenya. This observation agrees with the explanatory framework that positive tax regimes, incentives will increase the attractiveness of a nation as an investment destination because it improves returns on investment after taxation, and it makes it cheap to spend on capital investment. The strong correlation highlights the importance of tax policy in the determination of investor choice and inflow of capital. Kenya has shown that growth rate of GDP has been shown to have a positive statistical significant impact on inflow of FDI. This result supports the fact that economists argue that expanding economies enjoy better market prospects and better profitability prospects, which means attracting international foreign investors with a long-term aspiration of returns. The close association reinforces the decisive nature of economic fundamentals in investment decisions such that a vibrant economic growth indicates a dynamic and promising business landscape.

Recommendations

Consideration of the outcomes that emerged from the study, the investigation advises that the Kenyan Central bank ought to pursue a policy of keeping interest rates at rates that do not promote macroeconomic instability but rates that are not so high as to cause a rise in the cost of borrowing funds that could push away any foreign investors. This will make Kenya an attractive place to investors because it will be easier to earn money at the stable and predictable interest rate environment fostering steady flow of capital in form of investments towards economic growth and development. Such should be accompanied by sensible coordination of fiscal and exchange rate policy so as to achieve a generally supportive climate within which investment takes place. The policymakers would do well in achieving an environment of stable and moderate inflation that does not indicate any sterile economic activity but does not cause

turmoil either. In particular, governments should have cautious macroeconomic models that retain just the right amount of inflation and encourage expansion to improve confidence of investors in the Kenyan markets.

Policymakers should lay emphasis in the undertaking of sound exchange rate policies that will enhance the stability in the external valuation of the Kenyan shilling as well as its competitive rate. This would help reduce the risks of high volatility thus increasing the confidence of investors, and the attractiveness of that country in terms of investment of foreign capital. The policymakers should strategically streamline their tax regime in order to make it more appealing to foreign investors. This involves smoothing out tax regimes of corporations, introducing specific tax relief in the forms of tax holidays and wavers and also creating investor confidence through transparency and consistency in policy making fiscal decisions. These calibrated fiscal moves are going to ease the actual burden of taxes on the foreign business hence creating a more favorable investment environment take. Policymakers are encouraged to focus more on the adoption of the best economic policies, by adopting holistic economic policies, which will push the GDP on a consistent upward trend via structural adjustments, investment into viable sectors, and creation of conducive business climates. This will not only give impetus to the attraction and maintenance of foreign capital inflows, but will also provide a foundation to encompass Kenya in the larger scales of economic inclusivity and competitiveness within the global representations.

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