# The Impact of Foreign Direct Investment on Economic Growth of Ethiopia: Econometrics Cointegration Analysis

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**Abstract :** This study examines the impact of foreign direct investment on economic growth of Ethiopia using yearly time-series data for 1974 through 2013. Economic growth is proxies by real per capita gross domestic product and foreign direct investment proxies by the inflow of foreign direct investment. Other control variables such as gross domestic saving, trade, government consumption and inflation has been incorporated. In order to fully account for feedbacks, a vector autoregressive model is utilized. The results show that there is a stable, long-run relationship between foreign direct investment and economic growth. The variance decomposition results show that the main sources of Ethiopia economic growth variations are due largely own shocks. The pairwise Granger causality results show that there is a unidirectional causality that runs from FDI to economic growth of Ethiopia. Hence, the researcher therefore recommends that, FDI facilitate economic growth, so the government has to exert much effort in order to attract more FDI into the country.