Impact of Foreign Direct Investment on the Economic Growth of Cyprus

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Abstract
Cyprus is one of the most attractive locations for foreign investment in the Mediterranean with its extensive network of double tax treaties and the mutual promotion and protection of investments. During the last decade, a number of financial incentives, as well as the Cypriot government’s accession to the European Union (EU), have made the island a magnet for foreign investment. This study examines the relationship between economic growth as measured by GDP per capita and foreign direct investment for Cyprus using the method of Granger causality and vector auto regression (VAR). Evidence shows that there is a unidirectional Granger causation from foreign direct investment to economic growth.

Key words: Granger causality, vector auto regression, economic growth.