WHAT AFFECTS THE RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENTS (FDI) AND GDP GROWTH: EVIDENCE FROM EASTERN EUROPE

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Context: The relationship between the economic growth and the level of FDI has always been a matter of discussion between economists,Objective: The research aims to test whether each of the variables are correlated with FDI and then establish a model that best explain their influence on FDI for each country. The results are expected to provide a set of common features of the countries that are able to absorb the advantages coming from FDI (and why), which will then reflect in economic growth.Methods: The study analyses the factors that affect the relationship between (FDI) and GDP growth. It takes into consideration different determinants and builds a regression model for each of the 11 countries of Central and Eastern Europe (CEE) which are taken under consideration. The selected determinants are Human Capital, Market Size, Interest Rate, Research and Development Expenditure (R&D), Exports, Tax Revenue, Inflation, Domestic Credit, Unemployment, Economic and Political Freedom. The tested factors were selected from findings and suggestions of previously published materials with the goal of establishing which are determinant in the FDI efficiency within this particular region. The countries under investigations are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, FYR of Macedonia*, Hungary, Romania, Poland, Slovenia and Slovak Republic. Results& Conclusions: The research found that among the countries of our sample there is a strong, significant and positive association between FDI and GDP growth in Bulgaria, Romania and Poland. Evidence shows that the countries that have a greater number of determinants correlated significantly to FDI and that have in addition a high level of FDI inflows are able to take greater advantage from FDI. This finding suggests that investors seem to feel more comfortable investing in countries where other investors seem to be also interested. Market size, GDP per capita, and accessibility to credit were the three variables which were correlated more often with FDI. Market size, openness to trade and R&D were each included twice in the regression models, which led to the conclusion that are the determinants that best explained the variance of FDI. The findings aim to help policy makers and managers of Multinational Companies (MNC) decide where to concentrate efforts and channel the right policies in order to make the FDI`s as efficient as possible.

Keywords*:foreign direct investments (fdi), gdp growth, eastern europe, unemployment,political freedom*