Foreign Direct Investment and Sovereign Debt in The European Monetary Union

Joseph Bakke  
*Illinois Wesleyan University*

Ilaria Ossella-Durbal, Faculty Advisor  
*Illinois Wesleyan University*

Follow this and additional works at: https://digitalcommons.iwu.edu/jwprc

Part of the Economics Commons, and the Education Commons

https://digitalcommons.iwu.edu/jwprc/2016/oralpres2/4

This Event is protected by copyright and/or related rights. It has been brought to you by Digital Commons @ IWU with permission from the rights-holder(s). You are free to use this material in any way that is permitted by the copyright and related rights legislation that applies to your use. For other uses you need to obtain permission from the rights-holder(s) directly, unless additional rights are indicated by a Creative Commons license in the record and/or on the work itself. This material has been accepted for inclusion by faculty at Illinois Wesleyan University. For more information, please contact digitalcommons@iwu.edu.  
©Copyright is owned by the author of this document.
FOREIGN DIRECT INVESTMENT AND SOVEREIGN DEBT IN THE EUROPEAN MONETARY UNION

Joseph Bakke and Ilaria Ossella-Durba*
Economics Department, Illinois Wesleyan University

This paper explores the relationship between sovereign debt accumulation and inflows of Foreign Direct Investment (FDI) across the European Monetary Union (EMU). Using an annual panel data set of the 19 EMU member states during the period 1992 – 2014, OLS panel regressions estimate the correlation between sovereign debt and FDI while controlling for other known determinants of FDI. Nine different explanatory variables are considered controlling for market size, openness, macroeconomic stability, and institutional qualities. Results indicate that sovereign debt growth is consistently negatively correlated with FDI inflows throughout this period. Additionally, debt growth is the only determinant to remain statistically significant across differing OLS methodologies. Considering FDI as a widely accepted contributor to GDP growth, these results support the claim that FDI is one channel by which sovereign debt is a deterrent of economic growth across the EMU.