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Foreign Direct Investment and Sovereign Debt in The European Monetary Union

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**FOREIGN DIRECT INVESTMENT AND SOVEREIGN DEBT
IN THE EUROPEAN MONETARY UNION**

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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.