The Financial Setting for FDI Inflows into The Czech Republic and Slovakia

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Abstract

This study examines the relationship between foreign direct investment in the Czech Republic and Slovakia and such potentially explanatory factors as trade flows, measures of economic and financial stability, and country risk. The authors find that as the Czech and Slovak Republics progress toward market economies, some policy points to consider include: transparency of markets, economic systems, social and political organizations; an increase in commerce and investment, which makes reversals of reforms less likely and the condition of financial factors that contribute to increased investment.

At this time, these transition economies possess many of the resources needed for development, such as educated labor forces, an entrepreneurial orientation among the citizens, and available land. Yet, another key resource, capital, is in short supply in the region. An important precondition to obtaining capital is the demonstration of economic and political stability (see Kyrkilis and Pantelidi 2006). By improving the transparency of their legal, banking, and capital markets sectors, the Czech and Slovak Republics can accelerate their progress toward free markets and democratic societies.

Our research finds that relationships exist among country risk ratings, financial market variables, and expected returns in this region; such relationships can be useful in developing policies to improve capital markets and attract external capital. The importance of building upon other researchers in this field updates that research plus incorporates new aspects of issues now developing. This research topic is fluid and demands continuous review and testing.

Keywords: FDI, Foreign direct investment, Country risk, Transition economies, Czech Republic, Slovakia
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