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# **The long-run impact of monetary policy uncertainty and banking stability on inward FDI in EU countries**

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## **Abstract**

In the present paper, we assess the long-run relationship between FDI inflows and the financial environment in 16 EU countries. For this purpose, we use a cointegration technique for heterogeneous panels and the FMOLS and DOLS estimators, over the period 2001 to 2015. We show that financial conditions are important for FDI inflows. More precisely, the monetary uncertainty, calculated as the difference between the recorded and the forecasted interest rate values, negatively affects the FDI inflows. In addition, the banking stability, measured through different Z-score specifications, positively influences the foreign investment. However, this result is influenced by the way the Z-score is calculated. We further report a positive relationship between the business cycle and the FDI entrance. The robustness analyses based on alternative specifications of monetary uncertainty and banking stability confirm our findings. These results are also supported by a PMG estimation. Therefore, authorities must pay special attention to monetary policy predictability and to banking stability in order to facilitate the investors' access to finance and their investment decision.

**Keywords:** FDI inflows, monetary uncertainty, banking stability, Z-score, cointegration, EU countries

**JEL codes:** F21, E52, E32, C23

## **1. Introduction**

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