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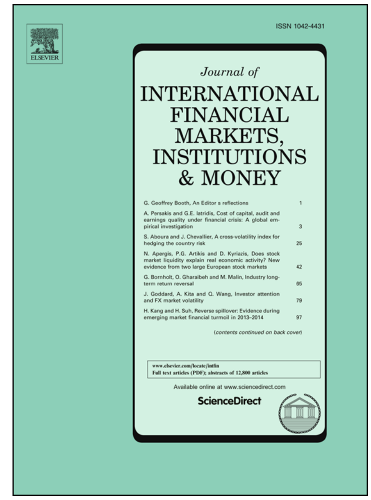

Do Sovereign Credit Ratings Matter for Foreign Direct Investments?

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Do Sovereign Credit Ratings Matter for Foreign Direct Investments?

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Abstract:

This paper examines the relationship between sovereign credit ratings and FDI flows from 31 OECD donor countries to 72 recipient (OECD and non-OECD) countries over the period of 1985 - 2012. There are three main findings in the paper. First, sovereign credit ratings of both donor and recipient are important drivers of bilateral FDI flows. FDIs in general flow from low-rated donor countries to high-rated recipient countries. Second, an OECD recipient receives more FDIs when its credit rating is high, whereas a non-OECD recipient receives more FDIs when its credit rating is low. Third, countries receive more FDI inflows when their geographic region has higher average credit rating compared to other regions.

Keywords: FDI, sovereign credit rating, regional effect

JEL: F30; G15

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