

Abstract

This thesis investigates the relationship between institutional quality and the level of investment inflows into post-communist countries. I attempt to empirically verify the argument that institutional determinants are essential in explaining the variation in investment inflows into transition economies after the demise of socialism in the early 1990s. The role of institutions is assessed using Economic Freedom indices provided by the Heritage Foundation. Consequently, to investigate the progress of institutional quality in transition economies, I further employ indicators developed by the European Bank for Reconstruction and Development. Using a panel data set for 11 transition countries from 1993 to 2013, I conclude that the impact of institutional quality on investment inflows is not negligible, yet much weaker than suggested by the existing theoretical literature. Using a fixed-effects model framework in both regression benchmarks with metrics from the Heritage Foundation and the European Bank for Reconstruction and Development, respectively, I observe that the impact of institutional variables on the level of investment was less significant than expected. Moreover, macroeconomic fundamentals appear to always play a more substantial role than institutional factors.

KEYWORDS: foreign direct investment; institutional determinants; fundamentals; post-communist economies; panel data; Visegrad; Balkans; Baltics

JEL CLASSIFICATION: F21; F23; K20; H11