

Article

Financial Development, Macroeconomic Indicator and FDI Inflow in Spain

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Abstract

The economic growth of a host country is determined by the combination of foreign direct investment (FDI) and other macroeconomic factors. This study examines the impact of FDI inflows, the financial development index and the macroeconomic indicators index on Spain's economic growth. The study analyses historical data from 2001 to 2022 using a moderate linear regression approach. The results highlight the importance of macroeconomic indicators in stimulating FDI inflows. The results of the study provide valuable insights for investors and organisations seeking to understand the complex relationship between economic growth and foreign direct investment (FDI). The results can provide important insights for policy makers in formulating Spain's foreign direct investment (FDI) policy.

Keywords: FDI, Economic Growth, Spain, Human Development, Public Expenditure. JEL: C35, F21, F43, F60

INTRODUCTION

Every country has economic prosperity as a top priority. Foreign direct investment (FDI) is a strategy for achieving economic growth by investing in or acquiring technology and skills from foreign countries. It enhances the resources available in the host country. The rapid urbanisation and economic expansion observed in the current era of globalisation can be largely attributed to the substantial increase in FDI. In addition, it incentivises domestic firms to adopt more advanced technology through the accumulation of financial resources. FDI is believed to improve productivity and enable the discovery of new export opportunities through the transfer of technological know-how. Therefore, there is a clear relationship between increases in FDI and economic growth. However, a decline in domestic investment as a result of FDI and difficulties faced by local firms in competing with global rivals can have a significant impact on gross domestic product (GDP) of the host country.

The Spanish economy is a well-developed social market economy. It is the 15th largest economy in the world in terms of nominal GDP and the sixth largest economy in Europe. Spain is a member of the European Union and the Eurozone, as well as the Organisation for Economic Co-operation and Development and the World Trade Organisation. Spain ranks 27th in the United Nations Human Development Index and 36th in GDP per capita according to the World Bank (World Bank, 2023). The main sectors of the economy are the automotive industry, medical technology, chemicals, shipbuilding, tourism and textiles. After the global financial crisis (GFC) of 2007-2008, the Spanish economy experienced a sharp decline and entered a period of negative economic performance. Compared with the average economic performance of the European Union (EU) and the United States (US), the Spanish economy entered recession later, but remained in it for longer. GDP contracted by more than 9% between 2009

and 2013. The Spanish economy was disproportionately affected by the 2020 pandemic compared to other countries, mainly due to the significant contribution of tourism, which accounts for 5% of the country's GDP.

Spain's economic activity is projected to expand by 2.1% in 2024 and 1.9% in 2025, mainly driven by strong domestic demand and supported by the continued strength of the labour market (World Bank, 2023). However, Spanish foreign direct investment (FDI) declined following the global financial crisis and the 2020 pandemic. They have recovered in recent years due to increased competitiveness and improved investor confidence in Spain. According to UNCTAD's World Investment Report 2023, foreign direct investment (FDI) inflows in Spain has increased significantly in 2022, by 58.5% compared to the previous year, reaching US\$ 34.8 billion. This placed the country 12th in the world in terms of FDI inflows. In the same year, the stock of FDI amounted to US\$ 787.3 billion, accounting for about 56.2% of the country's gross domestic product (GDP). In recent decades, Spain has experienced a significant increase in foreign direct investment (FDI). From 1993 to 2022, Spain experienced rapid growth in FDI and became one of the leading developing countries in terms of FDI inflows. This will undoubtedly give rise to an interesting study on the impact of FDI on Spain's economic growth. Figure 1 shows the foreign direct investment (FDI) inflow in Spain over the last three decades, and FDI as per cent of GDP as well.



Figure 1: FDI in Spain during 1993-2022

Source: <https://www.macrotrends.net/global-metrics/countries/ESP/spain/foreign-direct-investment>

The impact of foreign direct investment (FDI) on the host economy has received considerable attention in research. Economists and policy makers often emphasise the supposed benefits of FDI. It is widely believed that FDI has a positive impact on economic growth in the host economy. Empirical evidence has yielded conflicting results and there are still areas of research that have not been adequately addressed (Bermejo and Werner, 2018). Also, insufficient attention has been paid to understanding the potential benefits of financial development and macroeconomic indicators for a country such as Spain. This study contributes to the current body of research on European economies and fills a research gap by including variables such as inflation, foreign exchange, liquid liabilities, stock market liquidity and other pertinent aspects. This research uses a methodology that calculates the weighted average of financial development variables and macroeconomic indicator variables to construct two indices. These indices are used to examine the impact of these variables on economic growth. The process of moderated linear regression is used to analyse and separate the impact of Foreign Direct Investment (FDI) on economic growth in Spain. The results of the study support the concept that FDI promotes economic development. Bermejo and Werner (2018) argued for

the importance of conducting single-country studies in order to account for the diverse relationship between foreign direct investment (FDI) and economic growth. Therefore, the sample size is limited to single country- Spain.

REVIEW OF LITERATURE

Stable FDI inflows help emerging economies achieve their goals of sustainable development and economic expansion. However, over time, there have been fluctuations in FDI inflows across the countries and economic bloc groupings in particular such as G8, G20, OECD, EFTA, Big Four CEE, and CEFTA. Shah (2013) found short- and long-term positive relationship between FDI and economic growth in OECD member countries. Meressa (2022) found that infrastructure, financial development, economic growth, effective governance, control of corruption, trade openness, political stability and human capital had a statistically positive impact on immigration to COMESA member countries. A small number of other studies, including those by Metwally (2004), Mohamed and Hammani (2017), Zhang (2001), Sun and Parikh (2001), Bende-Nabende et al. (2001), Hansen and Rand, (2006) have found conflicting results on FDI and its influence on economic development. However, Patra (2019) claimed that the rapid urbanization and economic growth during new round of globalization is largely due to the flows of FDI.

Based on earlier research, Popescu (2014) identifies the relationship between FDI inflows and economic growth in CEE countries. Mehic et al. (2013) examine the impact of foreign direct investment (FDI) on economic growth in the transition economies of Southeast Europe. Seven countries in Southeast Europe are included in the empirical analysis for the years 1998-2007. Their analysis found that FDI has a positive and statistically significant impact on economic growth, using the Prais-Winsten regression. Pegkas (2015) calculated the impact of FDI on the economic growth of the European countries between 2002 and 2012. In order to examine the relationship between the variables, they used estimates based on panel data. According to their empirical analysis, the growth of the Eurozone countries' economies and the stock of foreign direct investments have a positive long-run cointegrating relationship.

Bajo-Rubio et al. (2009) examine the impact of FDI on economic growth in different regions of Spain after its accession to the European Union. The study uses data from all 17 Spanish regions. The results confirm the significant impact of FDI on productivity growth over the period analysed. This relationship remains strong and unaffected by a number of alternative specifications. According to Castellani et al. (2016) regional policies aimed at attracting foreign investors in the business services sector may not be successful if there is no pre-existing local demand. Bermejo and Werner (2018) conducted a study to address the research vacuum on the impact of foreign direct investment (FDI) on economic growth in Spain. They analysed data from 1984 to 2010 and found no evidence to support the idea that FDI promotes economic growth. It was found that Spain's accession to the European Union and the adoption of the euro currency did not have a positive impact on economic growth. The results call for a complete rethink of the approach used in economic research. Cañal-Fernández and Fernández (2020) conducted an analysis of the relationship between foreign direct investment (FDI) and economic growth in Spain. They used annual time series data from 1970 to 2016, and concluded that there is no significant Granger causality between FDI and economic growth in either direction. The study conducted by Gutiérrez-Portilla et al. (2019) examines the impact of foreign direct investment (FDI) on the economic growth of different regions in Spain from 1996 to 2013. The results of the study suggest that FDI does indeed promote economic growth. Miteski and Stefanova (2017) found that total foreign direct investment (FDI) contributed positively to growth in 16 Central, Eastern and Southeastern European (CESEE) countries using data from several time periods during the period 1998 to 2013. In contrast to the theory,

Sağlam (2017) investigated the relationship between foreign direct investment and economic growth using data from fourteen European transition economies for the years 1995 to 2014. She found that while control variables had a positive impact on growth, foreign direct investment had a negative impact in these transition economies. According to Simionescu's (2016) analysis of the EU-28, there are some countries where increased foreign direct investment (FDI) did not lead to economic growth, and some where higher GDP did not attract additional FDI. The main finding was that since the beginning of the crisis, economic development and FDI in the European Union have been positively correlated, with a tendency to reduce differences in FDI attraction between countries. Bajo-Rubio (2022) suggests that foreign capital can have a positive impact on the economic growth of an economy, as long as the inflow of foreign direct investment (FDI) is consistent and sustained.

Recently, major global events such as COVID-19, the US-China trade dispute and the Russia-Ukraine conflict have caused disruption in the international business sector. Organisations are re-evaluating their foreign direct investment (FDI) decisions. Given this situation, the aim of this study is to identify the determinants that will encourage greater FDI in Spain, with the aim of accelerating economic expansion. Given its current national profile, Spain has the capacity to become a major economy in the European region. In addition, FDI in Spain has increased significantly over the last few decades. The purpose of this study is to encourage greater discussion on the subject and to highlight the importance of further research in this area, particularly in the Spanish context. Bermejo and Werner (2018) argue the importance of conducting studies that focus on individual countries. This is because the relationship between foreign direct investment (FDI) and economic growth varies significantly across countries. Moreover, the impact of FDI on growth is believed to be most significant in countries that are open to international trade, have advanced levels of development, have an educated workforce and well-developed financial markets.

RESEARCH METHODOLOGY

Research Variables and Source of Data

After conducting an extensive literature review, it was found that economic growth is influenced by foreign direct investment (FDI), human development index, public expenditure. The economic growth rate is the dependent variable and it is measured using the growth rate of GDP as a proxy (Borensztein et al., 1998; Azman Saini et al., 2010; Aziz, 2020). The explanatory factors in this study include the human development index, FDI inflows, public expenditure and two indices derived from financial development and macroeconomic indicators in Spain. Given that the country's population was impoverished and uneducated in the 19th century, but managed to become a wealthy nation by the end of the 20th century, it is reasonable to use the Human Development Index as an explanatory factor (de la Escosura and Rosés, 2010).

Macroeconomic indicators include factors such as inflation, exchange rate, government stability, corruption and law & order. Financial development is characterised by a large number of features. These factors include the liquid liabilities of the country's central bank, (The Banco de España), bank size, bank credit, the size of the stock market (Madrid Stock Exchange) and the liquidity of the stock market. The dataset, which includes information on the variables studied from 2001 to 2022, is available in the World Bank dataset, which can be obtained from <https://databank.worldbank.org>.

In the current study, two indices, the Financial Development Index and the Macroeconomic Indicators Index, are constructed using variables mentioned above. The logarithmic values of all variables are used to construct the index, as the variables are expressed in different units.

For example, Public expenditure is expressed in euros (the official currency of Spain), inflation is expressed as a percentage and the exchange rate is expressed as a ratio between two currencies. The higher index values are associated with a greater impact on FDI inflows (Vadlamannati and Tamazian, 2009). Each year of the research, from 2001 to 2022, generates a numerical measure called the Spanish Financial Development Index and Spanish Macroeconomic indicator index. The construction of this index involves the assignment of weights to each of its components. The data source for each of the variables is specified in Annexure I.

The study generates two interaction terms: one between FDI inflows and the index of financial development, and another between FDI inflows and the index of macroeconomic indicators. These terms allow researchers to assess the importance of financial development and macroeconomic indicators in predicting the impact of FDI on economic growth in Spain. A positive value for the interaction term indicates that the level of development plays a crucial role in determining the overall impact of FDI inflows on economic growth.

Model Specification

Based on the research variables identified during literature review, initially following model is proposed for the purpose of study.

$$\ln\text{EGRWO} = \beta + \beta_1\ln\text{FDI} + \beta_2\ln\text{HDI} + \beta_3\ln\text{PEX} + e \quad (1)$$

In the second stage two interaction terms, $\text{FDI}*\text{FINDEVE}$ and $\text{FDI}*\text{MACROINDI}$ are used to study the interaction effect. The following two regression models are developed in this stage.

$$\ln\text{EGROW} = \beta + \beta_1\ln\text{FDI} + \beta_2\ln\text{HDI} + \beta_3\ln\text{PEX} + \beta_4\ln\text{FDI}*\text{FINDEVE} + e \quad (2)$$

$$\ln\text{EGROW} = \beta + \beta_1\ln\text{FDI} + \beta_2\ln\text{HDI} + \beta_3\ln\text{PEX} + \beta_4\ln\text{FDI}*\text{MACROINDI} + e \quad (3)$$

Where,

EGROW stands for Annual growth rate of GDP of Spain

Net FDI inflow is represented by FDI,

HDI is for Human Development Index of Spain, PEX is Public expenditure

FINDEVE and MACROINDI is the financial development index and macroeconomic indicator index developed by the author.

e is error term.

To study the liner relationship, initially Multiple Linear Regressions (Hayes, 2017) is used. Regression analysis relies on several key assumptions, including the presence of outliers, multicollinearity and standardised residuals. These assumptions can be assessed using statistical techniques such as Cook's distance, variance inflation factor (VIF) and examination of the histogram of standardised residuals. The correlation coefficient is used to test the association between variables. The strong correlation between FDI and FINDEVE index, as well as between FDI and MACROINDI, indicates the need to include two interaction factors. The positive association between FDI and financial development (FINDEVE) and between FDI and macroeconomic indicators (MACROINDI) is reduced when an interaction term is introduced. Mean centering is used to mitigate the problem of multicollinearity and improve the interpretability of the coefficients. In order to obtain a more standardised data set, the independent variables are transformed into logarithmic values. Implementing such a modification will allow the researcher to mitigate overfitting of the model and achieve minimal prediction error.

EMPIRICAL RESULTS

Descriptive Statistics

This study examines the correlation between economic growth, which is the dependent variable, and FDI, human development and public expenditure, which are the explanatory variables, as well as two interacting terms. Figure 2 illustrates the descriptive statistics. There are a total of 22 data points for each variable in this study. The growth rate of GDP has a minimum value of -10.80 in 2020 and a maximum value of 6.41 in 2021, with a standard deviation of 3.758. The data illustrate the variability of foreign direct investment (FDI) inflows. The lowest value recorded was US\$ 9.55 bn in 2009, while the highest value was US\$ 74.09 bn in 2007. The standard deviation of these values is 16.07. Spain attracted a total of US\$830.99 billion in foreign direct investment (FDI) between 2001 and 2022. The value of public expenditure fluctuated between a minimum of US\$ 120 billion and a maximum of US\$ 280 billion, with a standard deviation of 4.64. Spain's Human Development Index shows a steady upward trend from 2001 to 2022, starting with a minimum value of 0.833 in 2001 and reaching a maximum value of 0.911 in 2022. The standard deviation for this period is 2.38. According to the histogram, the dependent variable follows a normal distribution (Figure 3). The GDP growth rate during the period of research is given in Figure 4.

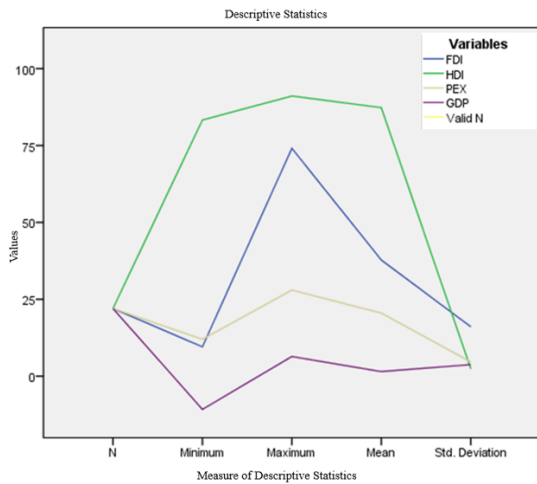


Figure 2: Descriptive Statistics

Source: SPSS Data Analysis

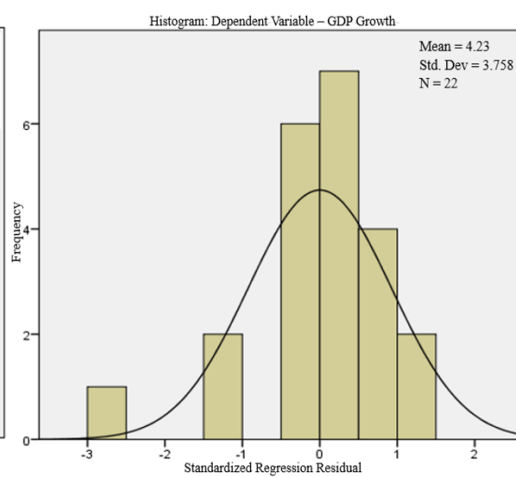


Figure 3: Histogram-DV-GDP Growth

Source: SPSS Data Analysis

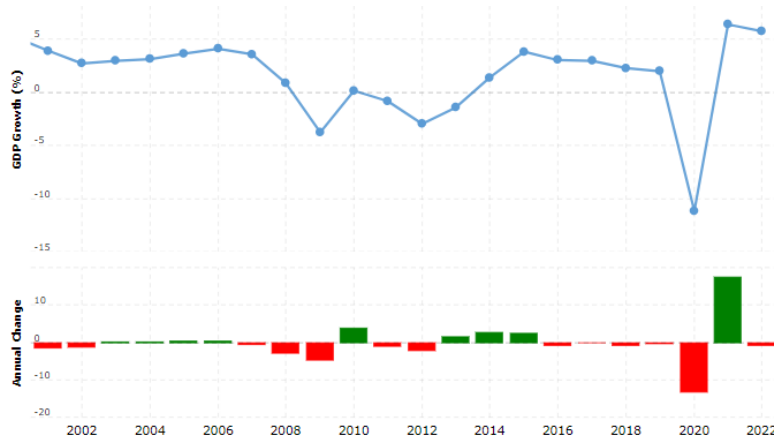


Figure 4: Growth rate in GDP of Spain from 2002-2022

Source: <https://www.macrotrends.net/global-metrics/countries/ESP/spain/gdp-growth-rate>

Result of Regression Model

The moderating liner regression model is framed to investigate how the explanatory variables affect the dependent variable, which is growth rate in GDP in Spain. Cook's distance confirms the absence of outliers in the data set. Maximum VIF value is 1.46, less than acceptable limits indicating data do not have multicollinearity. Three runs through the data analysis tools were necessary to arrive at the final regression model. The results of regression model are reported in Table 1. Main model is for three explanatory variables, Model II and Model III are with interacting terms FINDEVE and MACROINDI respectively.

Table 1: Regression Model

Determinants	Main Model	Model II	Model III
GDP Growth	3.258 (0.040)	3.287(0.043)	3.340 (0.040)
FDI	2.111* (0.004)	2.105* (0.004)	1.998* (0.004)
HDI	1.487** (0.06)	1.478** (0.06)	1.444** (0.06)
PEX	0.369* (0.002)	0.321* (0.004)	0.357* (0.000)
FDI inflow x Financial Development		1.698** (0.032)	
FDI Inflow x Macroeconomic Indicator			1.789** (0.021)
R-Squared	.415	.419	.422
Durbin-Watson	2.05	2.01	2.11

*, **, *** denote significance at the 1, 5 and 10% levels respectively for p-values

Source: Output of Data Analysis Using SPSS

The coefficient for FDI ($\beta = 2.111$, $p = 0.004$) is positive and statistically significant. The main regression model found that a 1% increase in FDI inflows led to a 2.111% improvement in economic growth. Countries with a positive and significant FDI coefficient experience faster growth rates when they have larger domestic markets. This result is consistent with the findings of previous studies by Faisal et al. (2021), Indrajaya (2021), Jiao et al. (2024), Magazzino and Mele (2022) and Triatmanto et al. (2023). These studies indicate that foreign direct investment (FDI) can have a positive and substantial impact on economic growth. The positive and large impact of FDI on Spain's GDP suggests that foreign investment has played a crucial role in the country's economic growth. This conclusion is in direct contrast to the research conducted by Mehic, Silajdzic and Babic-Hodovic (2013), Anwar and Nguyen (2010), Ridha and Budi (2020). It can be inferred that investor sentiment towards the Spanish economy has improved significantly globally. Spain's economic recovery is supported by the favourable coefficient of foreign direct investment (FDI). However, the challenge is to maintain the current pace of progress and maintain competitiveness.

In relation to economic growth in Spain, the coefficient of the HDI ($\beta = 1.487$, $p = 0.06$) is both statistically significant and positive. This study has highlighted the persistent relationship between Spain's economic growth and human capital. The primary regression analysis shows that a one per cent increase in human capital leads to a significant 1.487 per cent increase in GDP growth. The results are consistent with the research conducted by Indrajaya and Driyastutik (2024), Bajo-Rubio, (2021), who found a positive impact of human capital on economic growth in Spain, and support the United Nations Development Programme's (UNDP) objective of using the Human Development Index (HDI) as a more advanced measure of a country's well-being. The components of the HDI, namely life expectancy, knowledge indicator and adequate standard of living, are effectively integrated into the Spanish economy, resulting in a positive contribution to the country's GDP. Human capital accumulation in Spain is likely to have had a positive impact on labour productivity growth and GDP levels by

facilitating technological breakthroughs. This contribution, although small, is beneficial for the economy as a whole (de la Escosura and Rosés, 2010).

The coefficient of public expenditure ($\beta = 0.369$, $p = 0.002$) is positive and significant. This suggests that the higher the level of spending by the government, the more significant the growth in the Spain. This result is consistent with the findings of Omri and Kahouli (2014). Saez et al. (2017) but contradicting with Jin and Ho (2015). The results are in line with Keynesian economic theory, which states that public spending serves as a mechanism to stimulate aggregate spending and correct a sluggish economy. The Spanish government's public spending aims to achieve several objectives, including reducing debt, stimulating wage growth to lower inflation rates and increasing investment from both domestic and foreign sources. With a positive coefficient on the public spending variable, these efforts are expected to result in higher economic growth in the near future.

A statistically significant interaction was observed between FDI (Foreign Direct Investment) and financial development in relation to economic development ($b = 1.698$, $p = .032$). It was found that an increase in the value of the interaction term leads to a higher level of economic prosperity in Spain. The presence of a significant and positive financial development variable indicates that business regulation has a significant impact on economic growth. The interaction term between the financial development index and FDI inflows has a positive and significant impact on growth. Countries with favourable business policies are able to effectively absorb the positive impact of FDI inflows. The Spanish economy benefits from FDI inflows due to its strict regulations that ensure high quality standards. This result confirms the notion that improved business strategies are necessary to facilitate the diffusion of FDI inflows. As a result, economic expansion brings both direct and indirect benefits. Present study agreed to the study conducted by Sokhanvar and Jenkins (2022) who concluded that the pace of economic growth in Spain can be increased by increasing the rate of FDI.

The moderating factor between FDI and the macroeconomic indicator also has a statistically significant positive main effect ($\beta = 1.789$, $p = 0.021$). Greater economic freedom significantly improves economic performance by encouraging more productive investment. Moreover, the interaction term between the macroeconomic index and FDI inflows has a strong and significant impact on growth. Banking is an important component of macroeconomic variables. Empirical evidence has confirmed that macroeconomic indicators show the positive impact of banks that create new money through lending, eliminating the need for previous savings for investment and growth (Werner 2014). This implies that when a country's macroeconomic indicators are more robust, the impact of FDI inflows on economic growth becomes more pronounced. This result is consistent with the findings of Azman-Saini et al. (2010); Vadlamannati and Tamazian (2009); Shah (2013) but contradicting with Baker et al. (2004) who found no relationship between FDI flows and the valuation of the host stock market, as measured by the aggregate market-to-book ratio. However, they found a significant positive relationship between FDI flows and the valuation of the stock market in the source country, as well as a negative relationship with future stock returns in the source country.

Based on these findings, it can be concluded that the impact of economic growth in Spain is somewhat mitigated by FDI, the financial development index and the macroeconomic indicator index as defined by the author. The three models above clearly show that each word has a significant impact. However, FDI and the macroeconomic development index have a greater and more influential impact on distribution. The macroeconomic indicators of inflation, exchange rate, corruption, law and order, government stability and FDI together have a positive and significant impact on Spain's economic growth. FDI has the capacity to increase economic growth in Spain, and this effect increases as the level of financial development and

macroeconomic indicators increase. It can also be argued that FDI has a more significant effect on the growth of Gross Domestic Product (GDP) in Spain when financial development and macroeconomic indicators are present, which is in line with the main focus of the study.

CONCLUSION, LIMITATIONS AND FUTURE SCOPE

The objective of this study is to help policymakers formulate more effective policies to promote sustainable economic growth by improving the understanding of the determinants of economic growth in Spain. The study uses moderate linear regression analysis on data from the period 2001-2022. The researchers were attracted by the remarkable inflows of foreign direct investment (FDI) and the robust double-digit economic expansion in Spain. The analysis shows that FDI has a significant and positive impact on the growth of the Spanish economy. In order to increase economic growth and strengthen Spain's competitiveness in the global market, it would be beneficial for the government to closely monitor the positive coefficient. This will ultimately improve the Gross Domestic Product (GDP) and the overall wellbeing of society. Spain's economic expansion is positively influenced by public spending, the Human Development Index (HDI) and Foreign Direct Investment (FDI). According to Barro (1991), government spending increases economic growth by optimising the efficiency of the private sector in the early stages of the economy. However, when the local maximum is reached, the efficiency of the private sector declines due to the escalation of government spending. The authors of the study have confirmed a strong correlation between government spending and economic growth in Spain. However, it is essential that government spending is prudent and judicious. Kim (2020) states that there is an optimal level of government, private and total expenditure ratios that effectively stimulate economic growth in any country. However, once this threshold is exceeded, economic growth starts to decline.

Spain's economic expansion benefits from a good human development index. Petrović-Randelović et al. (2020) note that countries with superior human capital tend to attract greater inflows of foreign direct investment (FDI), thereby stimulating economic growth. This underlines the need to allocate resources to education and skills development. Spain's policymakers have carefully prioritised fiscal support and planning for human capital development, resulting in the creation of a highly skilled workforce in the country. The government should implement a comprehensive strategy to manage the nation's human capital in order to maximise its potential for inclusive economic growth in Spain.

The innovation of the study lies in the creation of an index of Spain's macroeconomic indicators and an index of financial development. The empirical results show that growth is positively and significantly influenced by the interaction effects of the financial development index and FDI, which are factors that determine macroeconomic policy. The conclusions of the study support the policy-making process followed in Spain. Further it is suggested that, in addition to FDI, promoting productive domestic credit, employment, external demand and education will have a more beneficial impact on the growth of the Spanish economy.

The present study has some limitations. The authors have selected and studied only one country. The generalisation of the study's results is subjective. In addition, the authors rely on the literature to determine the sources of the variables, which results in a comprehensive identification of the variables. The validity of the study's findings depends on the reliability of the secondary data used to substantiate them. Furthermore, many variables that affect economic growth are not included in this study, mostly because they are not available in the database. Nevertheless, the results provide opportunities for further research. One of the expected outcomes of this research is to stimulate discussion and strengthen the case for further research in this area, particularly in the Spanish context.

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Annexure I

GDP growth	Annual real GDP growth rate in %	World Bank, World Development Indicators
FDI inflows	Natural Logarithm of annual net inflows in US\$.	World Bank, World Development Indicators
Public Expenditure	General government final expenditure	World Bank, World Development Indicators
Human Development	HDI Index Values	World Bank, World Development Indicators
Exchange rate	Official exchange rate (Euro per US\$, period average).	World Bank, World Development Indicators
Inflation	Annual percentage rate of change in CPI.	World Bank, World Development Indicators
Liquid liabilities (M2)	Average annual growth rate in money and quasi money.	World Bank, World Development Indicators
Bank size	The growth rate of total bank deposits.	World Bank, World Development Indicators
Bank credit	Domestic credit to private sector by banks as percentage of GDP	World Bank, World Development Indicators
Stock market size	Stock market capitalization of listed companies as percentage of GDP.	World Bank, World Development Indicators
Stock market Liquidity	Total value of shares traded divided by the average market capitalization (percentage).	World Bank, World Development Indicators
FDI inflows × Financial Development Index	Interaction term between FDI inflows and Financial Development Index	Author's own calculations based on the two variables
FDI inflows × Macroeconomic Index	Interaction term between FDI inflows and Macroeconomic Indicator Index	Author's own calculations based on the two variables
Government stability		ICRG political risk index
Corruption		ICRG political risk index
Law and order situation		ICRG political risk index