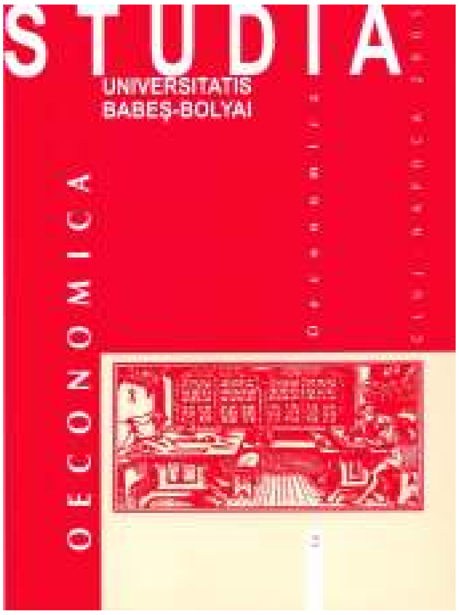

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MACRO LEVEL CAPITAL STRUCTURE IN CENTRAL-EASTERN EUROPE AND THE BALTIC STATES

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ABSTRACT
This study argues that a relationship between foreign direct investment (FDI) flows and total external debt stock (EDT) can be justified in the Central-Eastern European countries (CEEC) and the Baltic States. Three hypotheses from the international literature on external debt, i.e. debt overhang, debt intolerance, and currency mismatch are tested to support this view. This paper finds that from the onset of transition period whenever the share of external debt in percentage of GDP reached or exceeded 35-40 percent, the foreign direct investment flows were, thereafter, increasing substantially. Even though FDI generated additional investment and growth, this global equity flow is unable to offset the negative effect of the total cost of external capital structure on GDP in the long run. Sustainable growth has its financial constraint in the region.

JEL Classification: F21, F34

Keywords: foreign direct investment, external debt, capital structure

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