Evidence For The Relationship Between Financial Development, Financial Stability and Foreign Direct Investments¹

Gökhan KARHAN⁶, Vehbi AKBULUT⁷

⁶ Batman University, Economy Department, Batman, Turkey. gohankarhan@gmail.com
⁷ Batman University, Graduate Student of Economics Department, Batman, Turkey. vehbiakbulut81@gmail.com

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ABSTRACT

Purpose – In this study, the effect of the financial development and financial stability variables on foreign direct investment were investigated for Turkey.

Design/methodology/approach – The stationarity of the series will be investigated by the ADF unit root test which developed by Dickey and Fuller (1981). And then, series will be examined with Rolling Windows Causality and Parameter Estimation Methods which developed by Balciar et al. (2010).

Findings – Empirical findings suggests that financial stability has a positive effect on the foreign direct investments especially after 2013; coefficient increased over 1 for foreign direct investments in some of the periods.

Discussion – It can be understood from here that a 1% increase in financial stability can affect foreign direct investments by more than 1%. On the other hand, the causality relationship between financial development and direct foreign investments is meaningful only for the 2009-2010 periods.

Keywords: Foreign Direct Investments, Financial Development, Financial Stability, Economic Growth

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